East Lothian Council

REPORT TO: East Lothian Council

MEETING DATE: 27 June 2017

BY: Depute Chief Executive (Resources & People Services)

SUBJECT: 2016-17 End of Year Financial Review

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1 PURPOSE

1.1 To inform Council of the draft annual accounts and unaudited financial position for the financial year ending 31 March 2017 prior to its submission to External Audit, and to finalise arrangements for any surplus funds moving into 2017-18.

2 RECOMMENDATIONS

2.1 The Council is recommended:

- to note the draft annual accounts for 2016-17, and approve submission to External Audit prior to 30 June 2017
- to note the draft financial results for 2016-17, including the impact on reserves and the Council's Financial Strategy
- pending the outcome of the final audit, to agree that any surplus General Fund reserves over and above any contribution which will be used to support future budgets be transferred to the Capital Fund, in line with the Council's agreed financial strategy
- to note the budget adjustments relating to 2017-18 approved budget
- to authorise me as the Council's Chief Finance Officer to make any required late changes to the unaudited financial statements prior to final submission as referenced in Section 3.3.

3 BACKGROUND

3.1 This report brings together the draft annual accounts and the financial review for the year ending 31 March 2017.

Draft Annual Accounts 2016-17

3.2 The Council's draft annual accounts, included within **Appendix 1** of this report, summarises the financial transactions made during 2016-17, and the Council's overall financial position as at 31 March 2017. The Council must prepare annual accounts in line with the Local Authority (Accounts) Scotland Regulations 2014, which requires these be prepared in accordance with proper accounting practice as set out in the CIPFA / LASAAC Code of Practice on Local Authority Accounting.

3.3 The draft accounts must be considered by those charged with governance within the Council, prior to submission for audit by the statutory deadline of 30 June 2017. Whilst it is hoped that there will be no material changes prior to submission to audit, it is recommended that the authority for submission of the accounts incorporating any necessary changes be delegated to myself as Chief Financial Officer.

3.4 In accordance with statutory requirements, the draft accounts will also be made available for public inspection for a 3-week period commencing 1 July 2017.

3.5 The statutory audit will commence in July 2017 following receipt of the draft accounts, and it should be noted that the accounts and related financial results are also draft until the audit has concluded. The final audited accounts will be considered by Audit & Governance Committee at the end of September, in line with the draft External Audit report, with any subsequent changes reported to Council in October.

Key Financial Results

3.6 The main outcomes reflected within the financial accounts are set out within this report. These results must be considered alongside the narrative included within the Management Commentary at the front end of the accounts, which provides an explanation of both the wider financial context and the operating environment within which the Council operates, the key deliverables achieved during 2016-17, the main financial statements and associated financial results, and finally, the implications going into 2017-18.

3.7 A summary of the key financial results for the financial year ending 31 March 2017 are as follows:

- Overall, the Council's useable reserves (including General Services and HRA) have decreased by £4.736 million (General Services - £2.535 million, and HRA - £2.202 million), which was less than the planned budget assumptions. Taking into consideration the planned use of reserves, General Services have delivered an operational underspend against approved budget of £1.122 million and HRA have delivered an underspend of £2.016 million.

- Capital spending during the year totalled £41.492 million (£18.149 million relating to General Services and £23.343 million relating to HRA).

- Taking into account capital income and repayment of debt during the year external borrowing in the year has increased by £7.0 million, significantly less than capital spending. This is in line with the Council's financial strategy which aims to minimise any impact on the Council's Loans Fund Balance. The difference between capital spending and borrowing has been funded from capital grants, receipts and external contributions from the Council's cash balances.

- The debt charges in year totalled £27.6 million, (£18.5 million General Fund, and £9.1 million HRA).

- The Council's Pension liabilities are fully reviewed through triennial actuarial reviews and each year are subject to an annual assessment by the Pension Fund actuaries. In 2016-17, the Council's pension fund liabilities have increased by £63 million to £178 million. We continue to work closely with the Pension Fund Managers and take reassurance from the actuarial assessment that supports the continuation of the previously agreed stability mechanism. As a result, no change is required in respect of the employers contribution rates at this time.

- All of the Council's Trading Operations (Roads, Property Maintenance and Facility Services) have delivered an in-year surplus, and have met the statutory requirement to deliver a break even position over a rolling 3 year period.

- The Common Good Funds useable reserves increased by £0.423 million to £5.949 million.

3.8 The Council continues to operate in a very challenging financial environment with reduced levels of funding. These positive results relative to planned budget are therefore welcomed, and are also consistent with the continued delivery of the wider financial strategy. In broad terms, this outcome is a result of stringent monitoring and management of available resources by budget holders, a feature that will continue to be necessary given that financial austerity is likely to continue for some time. The Financial Strategy continues to serve the Council well, and remains on track to lessen the future dependency upon reserves.

3.9 Despite the positive in-year performance, there remain significant financial challenges ahead as financial austerity prevails, directly impacting on the overall grant settlement. At the same time, the Council is hoping to be part of a City Deal for Edinburgh and South East Scotland and will also face additional challenges in supporting unprecedented infrastructure requirements associated with the new Local Development Plan. Developing future sustainable operating budgets within a reduced cost base remains critical in order to accommodate new cost and demand pressures emerging within most service areas.

Financial Review of Services 2016-17

3.10 This report also sets out the financial review of the year, and highlights any key areas of movement following on from Quarter 3 report which was presented to Cabinet in February 2017. The report also highlights any financial implications that may affect 2017-18 financial year.

Budget / Accounting Adjustments

3.11 There are a number of ongoing service reviews, which have resulted in some small budget adjustments between services. In addition, one final budget adjustment was made in relation to the Revenue Support Grant, where additional funding of £100k was confirmed in relation the Council Tax Reduction Scheme to be used to fund an upgrade of the Council Tax system.

3.12 Traditionally as part of the year-end 'closedown' we are required by relevant statutory provisions to process a number of accounting adjustments in order that the statements we submit are in the approved format. For the 2016-17 annual accounts, there is a change to the requirement to report on a full 'cost of service', excluding the requirement to allocate Central support and shared accommodation costs. The accounts have therefore been prepared in line with our assessment of the new requirements, however many of our other reporting requirements including Local Financial Returns (LFR's), still require expenditure to be categorised in line with previous accounting practice. Given this, **Appendix 2** reflecting the financial position across Business Groups continues to reflect full year costs in line with previous year-end reports.

3.13 The most significant 'accounting' adjustments are set out below.

- Central Support Reallocations
- Shared accommodation charges
- Directorate / Service Recharges
- IAS19 Pension Adjustment / Credit
- Depreciation and impairment charges

General Services Summary

3.14 The overall General Services position reflects a combination of factors including a number of favourable movements, some of which are one-off in nature and therefore non-recurring. Additionally, there have been a number of service specific variances during the year relative to approved budget.

3.15 Most of the wider corporate variances have been evident from previous quarterly reviews, and relate to lower than anticipated Council Tax yield, and changes within the Revenue Support Grant largely relating to lower than anticipated funding relating to Teachers Induction Scheme. The main additional changes arising from Q3 report are set out below:

- General Services Debt charges were £0.170 million less than budgeted. As part of the 2017-20 budget development process, officers had undertaken a detailed review of the management of the Council's Loans Fund covering both the General Services and HRA. This lead to revised debt charges projections with the recurring benefit of this already realised through the 2017-20 budget process.

- The Council benefited from additional 'profit' of £0.221million from the sale of a General Services assets.

- Most service areas delivered against their planned efficiencies, which were set within the approved budget. The exception areas are: Adults and Childrens Services; Building Standards, where the level of increase in Building Fees was lower than anticipated; Landscape and Countryside, due to lower than anticipated income in relation to Coastal Car Parking; and also Property Maintenance, which had delivered lower than anticipated surplus levels.

3.16 With regard to General Services, most service revenue budgets (excluding HRA) performed in line with expectations recorded within the Q3 Financial Review. The main movements in service areas are set out below. In total, the General Service delivered an underspend against budget of £1.112 million.

3.17 Overall the most significant cost variances relate to staff savings spread across a range of services amounting to nearly £2 million. These favourable variances are partly offset by significant overspending on service non-staffing budgets, (especially those service areas previously classified as High and Medium risk) as well as lower than anticipated corporate income in relation to Council Tax yield and Revenue Support Grant.

3.18 At the end of March 2017, **Resources and People Services** were reporting an overall underspend prior of £0.913 million. The Education Group covering; Pre-school, ASL, Primary, Secondary and School Support budgets is reporting an underspend against budget of £528k with further details below:

- Additional Support for Learning budget has delivered an overspend in the year of £119k. Most of this overspend relates to pressure relating to transport costs. A wider review of transportation charges for children is currently underway, the outcome of which will be closely monitored during 2017-18.

- In relation to Primary schools, the Primary 'client' budget delivered an overspend of £91k, largely relating to pressures which had been previously been reported relating to the on-going review of Janitorial Services as well as higher than anticipated non domestic rate charges for Primary schools. Individual Primary Schools has moved from the Q3 reported position of £263k underspend, to a collective underspend of £16k. Whilst a number of schools have delivered a deficit in year, previous DSM carry forward balances will offset most of these. Three primary schools go into 2017-18 with a small deficit balance.

- Relative to Q3, the Secondary schools group are reporting an increased underspend at the end of March 2017 from £344k to £419k. Within this, individual schools are now reporting a reduced underspend of £24k. Two of the six Secondary schools have ended the financial year in a deficit position, with only one not able to meet the overspend within carry forward limits. Across both Primary and Secondary schools, we will closely monitor this position during 2017-18 and will work collectively with all schools and the Head of Education to manage commitments within available resources. In line with quarterly reporting during the year, the PPP budget reported an underspend position of £238k, in part caused by vacancies within the team alongside a lower than anticipated insurance premium.

3.19 Within the **Health & Social Care Partnership** Directorate both service areas covering Children's and Adult's services have been categorised as High Risk, and enhanced financial monitoring and controls have been in place for much of 2016-17. As agreed at Quarter 2, in light of the pressures experienced in Adult Wellbeing service, and to support the delivery of a recurring programme of efficiencies, it was agreed to provide an additional non-recurring budget facility during 2016-17 of up to £1 million.

- With respect to Children's Services, the service has delivered an increased overspend from the previously reported Q3 position of £378k to an overspend at end of March 2017 of £505k (3.9%). Most of this increase is due to increased pressure relating to an increased number of children placed in external fostering placements and secure accommodation.

- With respect to Adult Wellbeing, the service reported an underspend against budget of £61k, and significant improvement from the Q3 position which reported an overspend of £690k. The reported position includes a budgeted overspend in relation to MELDAP of £152k, the cost of which will be met from earmarked reserves. As such the adjusted underspend position for the service is £213k. As highlighted above, this position includes an additional £1 million budgetary facility provided during the year; therefore, the actual additional resource required during the year to deliver a break-even budget was £787k.

- By far, the most significant contributory factor to the overall service position within Adult Wellbeing relates to the non-delivery of the planned efficiency programme. In addition, there remains pressure on the ELC care home budgets which collectively delivered an overspend of £291k. The service is currently undertaking a wider review of these budgets and it is hoped that this will deliver some efficiencies during the 2017-18 financial year. Some of these pressures have in part been offset by a number of efficiencies and underspends across other service areas including staffing and supplies and services. In addition, the service has been undertaking a wider review of financial processes and controls. This has delivered some improvements during the year and has allowed an enhanced focus on income collection and billing, which has generated an increase of over £161k in additional income relative to planned budget during the year.

- Clearly, the additional non-recurring investment provided by the Council during the year had a material impact on the year-end position of the Adult Wellbeing service. Additional resource has been secured through the 2017-18 budget for Childrens Wellbeing; however, there remains significant challenges across both service areas relating to demographics and service demand, as well as supporting the costs associated with the provision of the Living Wage within Home Care services. We are working closely with the Health & Social Care Director and Heads of Service as well as the wider Management Team around the delivery of recurring efficiencies to ensure that services can be delivered within available resources going forward. Nevertheless, it remains likely that both service areas will face substantial challenges as we progress through 2017-18 and the financial position will be kept under close monitoring and review.

3.20 The **Partnerships & Services for Communities** services are reporting an underspend against budget of just over £1.257 million, excluding the Housing Revenue Account. More details of service areas are set out below:

- Around £1.6 million of this relates to staffing underspends across most sub-service areas.

- The Community Housing (Non HRA) budget is has delivered an increased underspend to £179k, relative to the Q3 reported position. Most of this variance relates to increased income and reduction in service expenditure during the period.

- The Community and Area Partnership services reported an overspend against planned budget of £20k. Within this, Area Partnerships have delivered an overspend of £160k, most of which is offset by the utilisation of a previous year carry forward amounting to £200k. Some of this pressure is offset by a combination of service underspends and staff savings across the service including a vacant Service Manager post.

- Planning and Environmental Health service has delivered an increased underspend at the end of the financial year to £578k. Most of the underspend relates to a combination of service and staffing underspends across the service, in particular Environmental Health and Trading Standards which delivered an underspend of £190k. In addition planning fee income delivered an increase of £252k above expected budget, in line with Q3 projections.

- Asset Capital Planning & Engineering services is reporting an overspend against planned budget of £176k, a change from the previous Q3 reported position of £16k underspend. There are also savings relating to a combination of staff vacancies, and increased rental income. These savings have in part has been offset by pressures relating to lower than budgeted building warrant income of £71k, as well as significant pressures relating to on-going repairs and maintenance on our wider assets resulting in an overspend at the end of March 2017 of around £450k. We are working with the service to deliver improved financial monitoring reports, which will assist on-going monitoring of repairs across our wider assets, and will continue to work with the service area during 2017-18 to consider any potential recurring impact.

- Facilities Management includes both the Facilities Trading Account and the wider Facilities services. The Trading Account delivered a surplus of £419k largely due to higher than anticipated income relating to primary school meals.

- Landscape & Countryside Service area is reporting an overspend at the end of the financial year of £49k, a reduction from the Q3 reported position of £231k over. Most of the movement relates to increased income relating to the delivery of Grounds Maintenance / Amenity Services. As reported throughout the year, most of the overspend relates to lower than planned income of £159k relating to Coastal Car Parking which has been adversely affected by the delayed implementation of parking decriminalisation and related enforcement measures that are now in place.

- The Roads, Transportation and Waste services area collectively reported an underspend against budget of £508k. The underspend on Roads is largely relating to non-identification of specific efficiencies across the Roads, Transportation and Waste service area, where during the year it was agreed to manage the efficiency through flexibility across the wider service group. The Trading Operation has delivered under the planned budget surplus level, however this has in part been offset against wider savings have been derived across the service relating to staffing, and supplies and services including energy and fuel costs.

- Transport services has delivered an underspend of £207k, largely relating to savings on public transport services.

- Waste services have delivered an underspend of £566k. Around £185k of this relates to increased income largely due to increased charges relating to trade waste. Furthermore, an additional £232k of this relates to reduced costs associated with landfill as more waste is now being recycled.

Housing Revenue Account

Revenue

3.21 Overall, the Housing Revenue Account delivered an operational underspend in year of £2.016 million, an increase of £1.1 million from the previously reported Q3 position. Most of this movement relates to the following:

- Increase in rental income of £58k principally from new Council housing stock;

- The responsive repairs and maintenance and phasing of repair work, has delivered an operational underspend as at March 2017 of £276k. This position has improved significantly from the previous Q3 position which had reported a pressure of £170k. We will continue to work closely with Housing Managers to review the phasing and timing of this work during 2017-18.

- The increase in the bad debt provision relating to Housing Rents was lower than planned during the year by £191k. Despite this, given the roll out of Universal Credit there remains significant pressure on the collection of outstanding income and this position will continue to be closely monitored.

- The service has delivered a collective underspend of £379k on a number of operational expenditure headings including supplies and services, materials and running costs, as well as a reduction in the number of transfer incentive payment amounting to £206k.

- As highlighted in Q3, the wider review of the Council's loans fund, has delivered a reduction in debt charges of £636k. The recurring impact of this has already been realised through the 2017-18 budget.

Capital Investment and Borrowing

General Services Capital Programme

3.22 The Gross Capital expenditure at the end of the 2016-17 inclusive of year-end fee adjustment was £18.149 million against the approved annual capital budget of £25.938 million (70%). This equates to a £7.885 million under spend on gross capital expenditure.

3.23 During the year, there was a reduction in budgeted income of £2.769 million, largely relating to the timing of expenditure and matching of developer contribution income to the relevant spend. This income will be allocated in the following year when the relevant spend is incurred.

3.24 Including capital fees and income the net General Fund capital underspend at the 31 March 2017 is £5.020 million.

3.25 The majority of the under spend relates to slippage and will be carried forward to the next financial year.

3.26 A significant number of projects were delayed due to additional work being carried out prior to project commencement to ensure that individual projects are aligned with the overall asset / service strategy.

3.27 The table below details the main projects where slippage has been identified, with details of the spend against planned budget set out in **Appendix 3** of this report.

Project	**Slippage £'000**	**Narrative**
Port Seton Sports Hall	294	Extended consultation over Brief along with a savings exercise on the Cost Plan and some complex design issues around the interface of the new extension and existing building have resulted in delays to the design programme. Planning submission has been submitted. Construction anticipated to be completed within 2017/18 Financial year with retention released the following year.
Whitecraig Community Centre	409	Extended Brief consultation with the Bowling Club has resulted in delays to the design programme. Planning submission has been made with an anticipated tender period in June/July and approval to appoint a contractor in early August 2017
Red School Prestonpans	560	Change of Brief from Communities Provision to Early Years resulted in delays to the design programme. Now on site with anticipated completion in August 2017
Support for Business – Land acquisition	200	Various opportunities pursued with unsuccessful outcome. A number of opportunities in progress.
Town Centre Regeneration	442	Refreshed, detailed longer term plan being put in place, profiling planned expenditure over the period, reviewing existing commitments. Some expenditure has not been realised due to successful match funding offsetting planned capital contribution Projects relate to regeneration works, detailed feasibility and matching

		external funding streams. Much of this work is subject to a long lead in time.
Dunbar Grammar	142	Due to start on site in June, subject to Lenders signing off Supplemental Agreement
Law Primary	2164	Main contract works now ongoing.
New Ways of Working	198	Costs carried forward to support newly approved Court Accommodation project
Carberry Landfill Gas Management	250	Works due to take place next financial year. 100% funded by Scottish Government.
Cemeteries	887	No land identified / agreements concluded
Pavilions (Ormiston Pavilion)	661	Contractor has been appointed. Works due to start on site in early June
East Saltoun School/Community Hall	400	Requirement brief being reviewed in conjunction with overall School estates strategy
Parking Improvements	842	Three major projects in North Berwick were identified. However due to ongoing planning issues these projects have been delayed. Projects now expected to be complete in 2017/18. Additional project in Tranent at feasibility and pre-planning stages. Spend anticipated 2017/18.

Housing Capital

3.28 The HRA capital spend and financing for the year is set out in **Appendix 4** of this report. Overall, the HRA capital programme delivered gross capital expenditure of £23.343 million, which is £835k over approved budget levels of £22.509 million. This overspend is offset during the year by increased grants of £869k as well as significant receipts from 89 properties amounting to £6.5 million relating to the end of the Right to Buy scheme for Council House owners in July 2016. A summary of the main areas within the HRA capital programme is set out below.

- The modernisation programme delivered an overspend against budget of £339k with expenditure of £11.272 million, with more details around expenditure against specific projects set out within **Appendix 4**. A number of planned programmes had been re-profiled during the year to address any previously identified slippage.

- £11.867 million was spent on Affordable Homes projects such as Hallhill Phase 2 and 3; Pinkie Phase 2 and also Mains Farm North Berwick. In total, an additional 109 houses were delivered during 2016-17.
- During the year, 2 Mortgage to Rent applications were progressed during 2016-17 resulting in an underspend against the approved budget for the year of £491k.

3.29 The Housing Capital Programme will continue to be directed by HRA Programme Board which meets on a regular basis to oversee the operational deliver and strategic direction of the programme.

2017-18 Budget Adjustments

3.30 Since the budget was approved in February 2017, there has been a number of funding announcements from the Scottish Government which will adjust the approved current budget proposals. Details of the main announcements are set out below.

- The Scottish Government has provided confirmation of revenue and capital funding allocations for 2017-18 relating to the delivery of Early Learning and Childcare – 1140 hours expansion. The funding allocations received are: £0.432 million (revenue) and £0.618 million (capital), and funding must be used in line with specific criteria set out within the funding award letter. These additional funding streams will be reflected in both the 2017-18 revenue and capital budgets.
- Furthermore, the Scottish Government has announced an increase to the statutory fee limits for planning applications effective from June 2017. This increase in fee limits coincides with significant uplift in applications overall and in particular with major housing applications, and it is anticipated that an increase in staff will be required to meet the on-going demand. The additional staff costs will be met from the increase in planning fees. We will continue to monitor the net increase in planning fee income during 2017-18, and any necessary budget implications.

4 POLICY IMPLICATIONS

4.1 There are no direct policy implications associated with this report although on-going monitoring and reporting of the Council’s financial performance is a key part of the approved Financial Strategy.

5 INTEGRATED IMPACT ASSESSMENT

5.1 The subject of this report has been considered and given there is no change in policy direction, there is no requirement to undertake any further impact assessment.

6 RESOURCE IMPLICATIONS

6.1 Financial – as described above

6.2 Personnel - none

6.3 Other – none

7 BACKGROUND PAPERS

7.1 Council 9 February 2016 – Item 1 – Council Financial Strategy 2016-19

7.2 Council 9 February 2016 – Item 5a – Budget Proposals – Administration

7.3 Cabinet 13 September 2016 – Item 3 – Financial Review 2016-17 Quarter 1

7.4 Cabinet 20 December 2016 – Item 3 – Financial Review 2016-17 Quarter 2

7.5 Cabinet 14 February 2017 – Item 3 – Financial Review 2016-17 Quarter 3

7.6 Council 21 February 2017 – Item 1 – Council Financial Strategy 2017-20

7.7 Council 21 February 2017 – Item 4a Budget Proposals - Administration

AUTHOR'S NAME	Jim Lamond
DESIGNATION	Head of Council Resources
CONTACT INFO	jlamond@eastlothian.gov.uk
DATE	16 June 2017

Appendix 1

East Lothian Council

Draft Annual Accounts 2016/17

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

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

[I/We] certify that [I/we] have audited the financial statements of East Lothian Council and its group for the year ended 31 March 2017 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise group and council-only Comprehensive Income and Expenditure Statements, Movement in Reserves Statements, Balance Sheets, and Cash Flow Statements, the Council-only Housing Revenue Account Income and Expenditure Statement, the Movement on the HRA Statement, the Council Tax Income Accounts, and the Non-Domestic Rate Income Account and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the 2016/17 Code).

In [my/our] opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2016/17 Code of the state of the affairs of the council and its group as at 31 March 2017 and of the surplus (or deficit) on the provision of services of the council and its group for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016/17 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis of opinion

[I/We] conducted [my/our] audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). [My/Our] responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of [my/our] report. [I am/We are] independent of the council and its group in accordance with the ethical requirements that are relevant to [my/our] audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and [I/we] have fulfilled [my/our] other ethical responsibilities in accordance with these requirements. [I/We] believe that the audit evidence [I/we] have obtained is sufficient and appropriate to provide a basis for [my/our] opinion.

Responsibilities of the [insert job title of proper officer] for the financial statements

As explained more fully in the Statement of Responsibilities, the [insert job title of proper officer] is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the [insert job title of proper officer] determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the financial statements

[My/Our] responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Accounts Commission. Those standards require [me/us] to comply with the Financial Reporting Council's Ethical Standards for Auditors. An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the council and its group and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the [insert job title of proper officer]; and the overall presentation of the financial statements.

[My/Our] objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes [my/our] opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK&I) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Other information in the annual accounts

The [insert job title of proper officer] is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements and [my/our] auditor's report thereon. [My/Our] opinion on the financial statements does not cover the other information and [I/we] do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with [my/our] audit of the financial statements in accordance with ISAs (UK&I), [my/our] responsibility is to read all the financial and non-financial information in the annual accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by [me/us] in the course of performing the audit. If [I/we] become aware of any apparent material misstatements or inconsistencies [I/we] consider the implications for [my/our] report.

Report on other requirements

Opinion on other prescribed matters

[I am/We are] required by the Accounts Commission to express an opinion on the following matters.
In [my/our] opinion, the auditable part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

In [my/our] opinion, based on the work undertaken in the course of the audit

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

Matters on which we are required to report by exception
[I am/We are] required by the Accounts Commission to report to you if, in [my/our] opinion:

- adequate accounting records have not been kept; or
- the financial statements and the auditable part of the Remuneration Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- there has been a failure to achieve a prescribed financial objective.

[I/We] have nothing to report in respect of these matters.

[Signature]
[Name of individual auditor], (for and on behalf of [name of firm] - firms only)

[Full postal address]

[Full date]

Foreword by the Head of Council Resources

Welcome to the Annual Accounts for East Lothian Council for the year ended 31 March 2017. These have been produced to provide the public, Elected Members and other stakeholders with information concerning the financial management, administration and performance for the Council in the financial year 2016-17.

The management commentary accompanying the Annual Accounts outlines:

- Who we are;
- How we are organised to deliver priorities;
- What our strategy and priorities are;
- Our financial position for 2016-17;
- Key aspects of our performance during 2016-17;
- Our plans for the future.

Highlights of 2016-17

Against a continuing challenging financial environment, the Council has achieved a great deal during 2016-17 including:

- Delivered an increase to reserves relative to planned budget levels of over £3 million;
- Delivered capital investment of over £41m to support increased investment in schools, roads and community assets;
- Delivery of an additional £3.9 million recurring efficiencies, a cumulative total of just under £24 million since 2012;
- Supported the first full year of the Integration of Health & Social Care Services.

Despite a positive financial performance during 2016-17, the Council continues to face significant financial challenges, and there will be a need for us to continue to find ways to explore how we can maintain high quality service provision through an enhanced approach to transformation designed to deliver service improvements and savings that will help make the Council and its services sustainable within the reducing resource environment facing the Public Sector.

Acknowledgements

I would like to thank all officers involved across the Council for their continued hard work during the year to ensure the continued sound management of the Council's finances and the production of the statutory accounts.

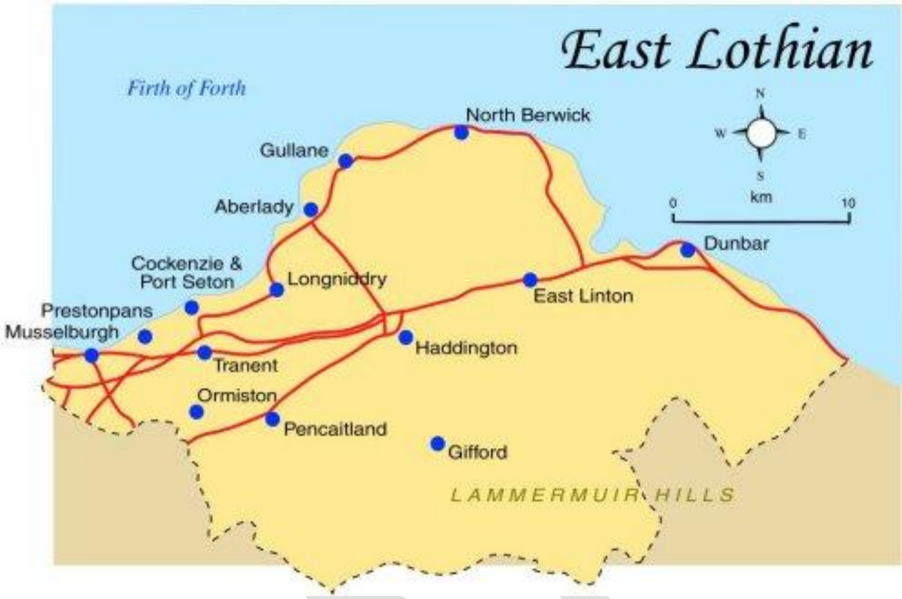
Head of Council Resources (CFO)

East Lothian Council

Management Commentary

Who are we and what do we do?

With a population of just over 100,000, East Lothian covers some 270 square miles and includes some 43 miles of coastline. It extends from Musselburgh, its largest town, eastwards to Dunbar and beyond to its boundary with Scottish Borders. Other principal towns in East Lothian are Haddington, Tranent, North Berwick and Prestonpans.



In 2016-17, East Lothian Council was made up of 23 elected members who were elected in May 2012. The political make up of the Council was: 10 Labour, 8 SNP, 3 Conservative, 1 Independent, 1 Independent Nationalist, with the Council Administration a Coalition of Labour, Conservatives and Independent members.

The Council's Management Team comprises of 11 senior officers and is lead by the Chief Executive, structured to cover 3 Directorates:

- Resources and People covering Education and Council Resources
- Partnership & Communities covering Infrastructure, Development and wider Communities
- Health & Social Care Partnership covering Children and Adult Services

These Directorates a lead by a Deputy Chief Executive / Director and includes a number of Heads of Services.

Decision Making in the Council

The Scheme of Administration sets out the Council's governance arrangements. These include:

- Full Council meetings, which involve all 23 elected members, take place every 2 months and are the focus for local democracy and carrying out the Council's statutory requirements.
- Cabinet meets every month and makes decisions on areas such as; policy; strategy, financial reporting and partnership working.
- Two other service committees remain within the Council – Education and Planning Committee.

Scrutiny of performance, decisions and plans of the Council is carried out by elected members who are not part of the Cabinet through the Council's Audit & Governance Committee and Policy and Performance Review Committee. In addition the Council has a Police, Fire & Rescue and Community Safety Scrutiny Committee which scrutinises the performance of Police Scotland and the Scottish Fire & Rescue Service in East Lothian.

The East Lothian Integration Joint Board (IJB) was formally established on 1 July 2015. This is a partnership between East Lothian Council and NHS Lothian which has been established to integrate how health and social care services are planned, commissioned and delivered from 1 April 2016.

Furthermore, scrutiny and inspection is carried out by external bodies including the Council's External Auditors, Audit Scotland and national inspection agencies such as Education Scotland, the Scottish Housing Regulator, and the Care Inspectorate.

The Council has adopted a Code of Corporate Good Governance based on the six principles of good governance and the self-evaluation model outlined in the CIPFA/ SOLACE *Guidance on Delivering Good Governance in Local Government.* The results of the annual Corporate Governance self-evaluation are reported to the Audit & Governance Committee and form the basis of the Annual Governance Statement.

Strategy & Priorities

Our Vision

Our primary focus is to respond to these challenges to enable East Lothian to continue to move towards achieving the ambition as set out in the 2020 Vision, the Single Outcome Agreement.

The current vision for East Lothian sets out:

In 2020 East Lothian will have an established reputation as having the highest quality of life in the UK and the quality of our environment will be recognised as amongst the best in Europe.

Our Priorities

The East Lothian Council Plan 2012-2017 is an ambitious and aspirational statement setting out what the Council wants to achieve over that period.

The Plan has been influenced by the 2020 Vision for East Lothian, the Single Outcome Agreement 2013-23 (East Lothian Community Planning Partnership's plan for the future of East Lothian), and the Council Administration's manifestos, adopted as Council policy in May 2012. It puts these aspirations and commitments into one strategic document that sets the framework and priorities through which the Council will work towards achieving its ambition for East Lothian.

East Lothian is currently thriving with high levels of public satisfaction, both with our natural environment and with the way in which Council Services are being delivered. Our rapidly growing population provides great opportunity but also poses significant challenge. Having endured a period of prolonged austerity that will most likely continue for the foreseeable future, the Council will continue to work hard to satisfy increased public expectations and meet the growing demand for services that will flow from the rising population.

East Lothian Council is committed to supporting the East Lothian Partnership's Single Outcome Agreement 2013-23.

The Council's aim is to create a prosperous, safe and sustainable East Lothian that will allow our people and communities to flourish. To achieve this, our Council Plan has four objectives:

- *Growing our Economy – to increase sustainable economic growth as the basis for a more prosperous East Lothian*
- *Growing our Communities – to give people a real say in the decisions that matter most and provide communities with the housing, transport links, community facilities and environment that will allow them to flourish*
- *Growing our People – to give our children the best start in life and protect vulnerable and older people*
- *Growing the capacity of our Council – to deliver excellent services as effectively and efficiently as possible within our limited resources.*

The Council Plan provides clear direction for Council services and staff to allow the delivery of these key priorities. The detail about what our services are doing, or plan to do, to support the strategic aims and priorities of the Council Plan and the Single Outcome Agreement outcomes is set out in Service Plans and other strategic documents such as the Integrated Children's Services Plan and the Local Housing Strategy.

A review of the Council Plan was carried out in February 2017. This found that all the commitments made in the 2012-2017 Plan have either been delivered or are at advanced stages of being delivered. Several actions are categorised as being delivered as they relate to delivering long term plans such as the 10-year Economic Development Strategy. Only three actions were categorised as only partly delivered.

The review highlighted the following achievements from the previous year:

Under Growing our People

- The Construction and Technology Academy was established in Musselburgh with capacity for 160 places for pupils from East Lothian schools
- The Council supported the creation of the East Lothian Food and Drink Business Improvement District (BID)

Growing our People

- The Council invested over £1.4m in providing a new communications provision for children with additional support needs at Knox Academy

Growing our Communities

- Tendering exercises for supported bus services resulted in improved services with better and more frequent service in key routes
- The new waste collection service which has made a major contribution to increasing East Lothian's waste recycling rate from just under 43% to over 52%
- The Council adopted a proposed Local Development Plan which identifies preferred sites for over 10,000 new homes and business growth

Growing the Capacity of our Council

- The Council has established a Council-wide approach to transformation supported by a dedicated Programme Manager and Project Managers.

Financial Strategy

The Council's Financial Strategy forms the basis of the Council's stewardship over taxpayer's funds. The Strategy covers both the General Services and Housing Revenue Account (HRA) revenue and capital budgets over a rolling 3 year period and is updated and approved each year by Council as part of the annual budget setting process. The most recent strategy covers the period of 2017-18 to 2019-20 approved by Council on 21 February 2017. The Strategy is developed taking into consideration the main opportunities, risks and constraints facing the Council over the medium to longer term and seeks to enable the Council to deliver a sustainable level of service provision within a structured budgetary framework. The strategy aims to reduce any future reliance on reserves, and takes into consideration forecasts around the financial environment which the Council is currently and is likely to be operating within over the medium to longer term. The approved financial strategy focuses on:

- Delivering an enhanced Change Programme that will achieve significant efficiency savings across all areas and all inputs such as staffing and supplies;

- Constraining cost growth – through a preventative approach and effective management, good financial control by managers and by effective negotiation with suppliers;

- Generating additional income and ensuring that, where the Council has decided to charge, there is full cost recovery;

- Progressing partnership working where there are proven efficiency and or service gains;

- Continuing to manage the General Services Loans Fund balance ensuring affordability across the three years of the Strategy, and sustainability in the longer term. It is important to recognise that capital investment decisions taken now have long term borrowing and revenue implications which have the potential to place undue burden on future tax payers.

Financial Plans

Alongside the Financial Strategy the Council annually considers and approves the General Services and HRA spending plans for the forthcoming year, and following years. The 2016-17 spending plans approved by Council included:

- General services net revenue expenditure of £227.033 million
- Assumed levels of Scottish Government general revenue grant of £169.058 million.
- Planned use of General Services reserves of £3 million
- The requirement to deliver £5.6 million of recurring efficiencies across Business Groups.
- Approved General Services capital spending plans of £24.6 million
- Housing capital spending plans of £22.5 million

The key financial results for the financial year ending 31 March 2017 is set out below:

- Overall the Council's useable reserves (including General Services and HRA) have decreased by £4.736 million (General Services - £2.535 million, and HRA - £2.202 million), which was less than planned budget assumptions. Taking into consideration the planned use of reserves, General Services have delivered an operational underspend against approved budget of £1.122 million and HRA have delivered an operational underspend of £2.016 million.

- Capital spending totalled £41.492 million (£18.149 million relating to General Services and £23.343 million relating to HRA).

- The Council benefited from additional profit of £3.460 million from the sale of assets, most of which relates to the end of the Right to Buy Council House Sales in HRA.

- The Council accounts for its pension fund liabilities in accordance with IAS 19, which means that it accounts for the costs of retirement benefits when entitlement to those benefits has been earned, rather than when they are actually paid to employees, which may be many years into the future. These future liabilities are to be met by fund assets which are acquired from employer and employee contributions and subsequently invested for a return. As at 31st March 2017, fund liabilities exceeded fund assets by £178 million, an increase of £63 million from 2015-16. This leaves a funding gap which has to be made good over time from a combination of improved investment performance, increases in employee and employer contributions and/or changes to scheme benefits. A triennial actuarial review assesses key assumptions and agrees any changes, including any increase to employer contributions, for a subsequent three year period with the aim of having a fully funded scheme over the longer term.

- All of the Council's Trading Operations (Roads, Property Maintenance and Facility Services) have delivered an in-year surplus, and have met the statutory requirement to deliver a break even position over a rolling 3 year period.

Changes adopted during 2016-17 Annual Accounts

There are a number of significant changes which have been adopted during 2016-17. These relate to the introduction of the Expenditure and Funding Analysis statement, changes to the accounting treatment of Housing Capital Expenditure, as well as the introduction of the Integrated Joint Board through the Council's Group Accounts.

- **Expenditure and Funding Analysis**
  - The Expenditure and Funding Analysis is a new statement during 2016-17 and shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by Authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's directorates/services/departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

- **Housing Capital Expenditure**
  - The accounting treatment of recognising Housing Capital expenditure incurred during the year has been reviewed. This has resulted in impairment losses of £10.335 million during 2016-17 relating to a combination of non value adding enhancements of HRA assets and new build properties which have been adopted in the year and have been reduced in line with beacon values from the last valuation. The next full Housing stock valuation is due to be carried out as at 31 December 2018, and the Council will carry out a cycle of on-going valuations as new properties are brought onto the Council's balance sheet.

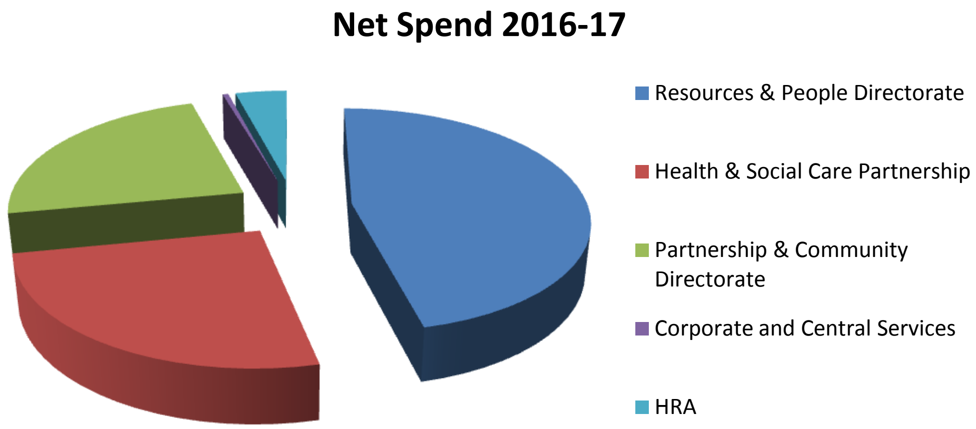
- **Integrated Joint Board (IJB)**
  - The East Lothian IJB was formally established in July 2015, with the adoption of the strategic plan and the associated budgets relating to delegated functions effective from 1 April 2016. Separate financial accounts are prepared for the IJB for the financial year ending March 2017, however the IJB has been formally recognised as a Joint Venture between East Lothian Council and NHS Lothian, and as such is treated within the wider Group accounts.

Comprehensive Income and Expenditure Analysis

The Comprehensive Income and Expenditure Statement shows the accounting cost in the year of providing services rather than the amount to be funded from taxation.

An accounting deficit of £19.306 million has been reported as at March 2017 (£20.052 million in 2015-16). This takes into account the cost of providing services of £231.157 million (£235.944 million in 2015-16) alongside the financing and investing income and expenditure.

The chart below breaks down the net spend in service areas for 2016-17.



The Housing Revenue Account is showing a net expenditure of £9.502 million as opposed to a surplus position of £0.133 million in 2015-16. This is due to the Council recognising impairment losses of £10.335 million relating to non value adding enhancements of HRA assets.

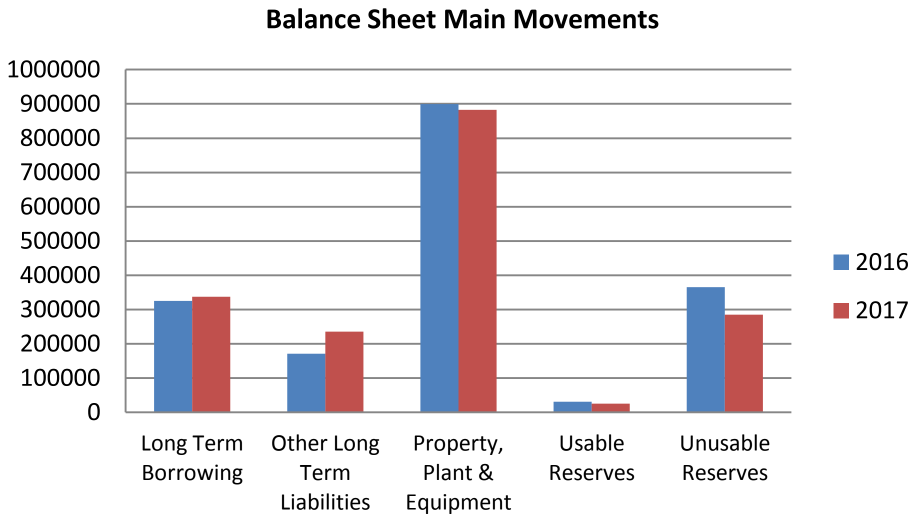
As part of the financing and investment income and expenditure analysis, there has been a large increase in the gains on disposal of assets. In 2016-17 the profit is £3.460 million and the comparative figure for 2015-16 was £0.547 million. This is largely due to the end of the Right to Buy scheme for Council House owners in July 2016 which saw an increased demand in people applying to buy their home.

The taxation and non specific grant income (as detailed in Note 7) has reduced by £8.504 million from £236.907 million in 2015-16 to £228.403 million in 2016-17. The Revenue Support Grant has decreased by £3.250 million during 2016-17, with the actual grant received in year lower than planned budget largely due to lower than anticipated grant relating to Teachers Induction scheme funding. The Council received specific grant funding relating to the Social Care Fund of £4.370 million in 2016-17 which has been shown as part of the Health and Social Care Partnership gross income and is therefore included in the Cost of Services. Despite an increase in Council Tax yield during 2016-17, the actual yield is lower than planned largely due to less than expected property completions. The Non Domestic Rates contribution from the national pool is reduced this year by £1.709 million in line with the financial settlement.

Balance Sheet

The net assets of the Council have decreased by over £85 million from £395.565 million at 31st March 2016 to £310.457 million at 31st March 2017.

The main balance sheet variations are shown below.



The increase in Long Term Borrowing of £12.022 million is largely due to increases in capital borrowing requirements.

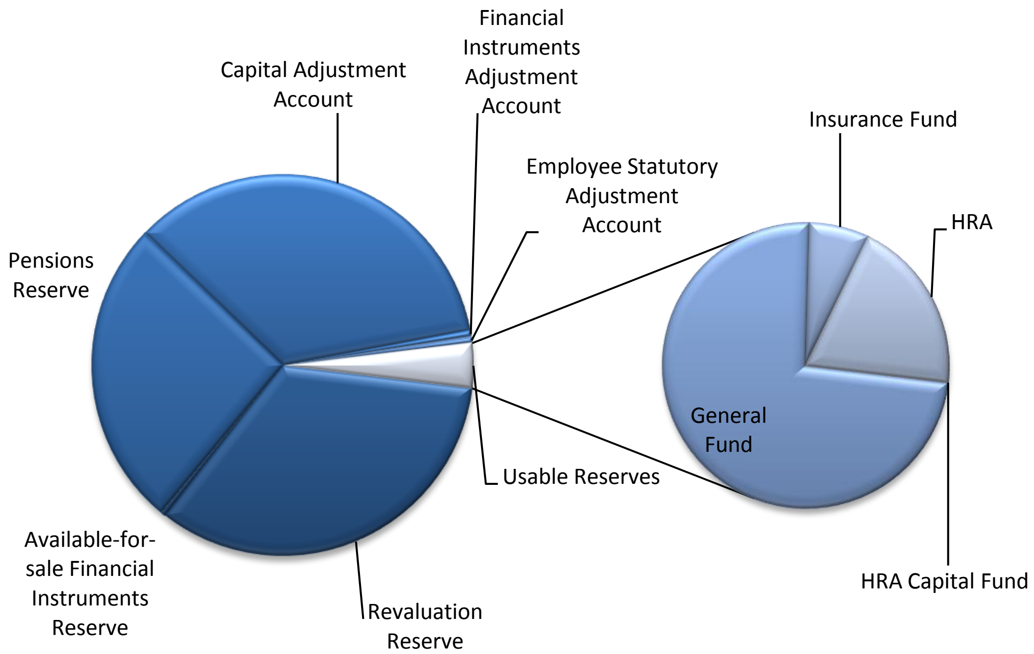
The increase to Other Long Term Liabilities is mostly due to the net Pensions liability increasing by £63.243 million. This liability reflects the underlying commitment that the Council has to pay towards retirement benefits which will be recovered from the Council in future years.

Property Plant & Equipment has decreased by £16.884 million. No major revaluations our asset base was carried out in 2016-17, with the main movements relating to depreciation charges, impairments, additions and disposals.

The Useable Reserves including the General Fund and the HRA Fund of the Council reduced by £4.736 million, which was £3.138 million lower than anticipated. The General Fund balance reduced by £2.535 million, meaning that the General Fund had performed £1.122 million better than expected. Included within the approved budget was a planned use of £3 million of reserves, as well as an additional £0.675 million earmarked reserves. The HRA reserves reduced by £2.202 million during 2016-17. As part of the 2016-17 HRA budget, it had been anticipated that the HRA would deliver a small surplus during the year, with a planned transfer of reserves to both the General Services, as well as utilising £3.2 million of reserves to defray the cost of borrowing. Operationally during the year, the HRA delivered an increase to planned reserves of £2.016 million.

The overall reserves of the Council are shown in the following chart.

Reserves 2016-17



Capital Infrastructure

Key to delivering our outcomes for our communities and supporting the wider economy is the investment which the Council makes in capital infrastructure including our school estate and wider asset base, as well as our housing stock. The budgeted capital programme against the actual expenditure incurred is set out in the table below.

Capital Expenditure – Budget v Actual

	Budget	Actual	Variance
	£'m	£'m	£'m
General Services	24.938	18.149	(7.789)
HRA	22.509	23.343	0.834
TOTAL	**48.447**	**41.492**	**(6.955)**

The financing of both programmes is set out in the table below

	General Services £'m	HRA £'m
Grants	2.856	10.616
Asset Sales	6.497	0.410
Other	3.200	2.394
Borrowing	10.790	4.729
TOTAL	**23.343**	**18.149**

In relation to the General Services most of the reported under spend relates to slippage and will be carried forward to the next financial year. A significant number of projects were delayed due to additional work being carried out prior to project commencement to ensure that individual projects are aligned with the overall asset / service strategy.

The HRA capital programme delivered an overspend against planned budget during 2016-17, the cost of which was offset by increased grants of £869k as well as significant receipts from 89 properties amounting to £6.5 million relating to the end of the Right to Buy scheme for Council House owners in July 2016.

During the year, as a result of the continued review of the Council's Loans Fund and treasury management investment decisions, the actual General Services debt charges were £0.170 million lower than budgeted, and HRA £0.636 million lower than planned. In total the debt charges for 2016-17 were £27.6 million, (£18.5 million General Fund, and £9.1 million HRA). The recurring impact of these savings has already been reflected in future year budget implications. The difference between capital spending and borrowing has been funded from capital grants, receipts and external contributions from the Council's cash balances.

Performance

From Improvement to Excellence is the Improvement Framework through which East Lothian Council will continue to strive for best value and move from being an improving Council to an excellent Council.

One of the four focus areas in the Council Plan is *Growing the Capacity of our Council* to ensure it delivers excellent, effective and efficient services. The Council has put delivery of excellent services to the people and communities of East Lothian at the heart of what we do. We recognise that there is always more we could do to improve services, make them more effective and deliver them more efficiently – balancing quality of service with value for money. We are on a journey from delivering improving services to delivering real excellence.

The Council's commitment to continuous improvement and its Improvement Framework are centred on the belief that we have to be self-aware of our strengths and weaknesses, we need to be more proactive about identifying improvement opportunities and managing our performance and be critically honest in our evaluation of our own performance. Inspections, audits and accreditation support the process by providing independent and external assessment of how we are doing and what can be improved.

The Improvement Framework consists of five inter-related elements by which the Council will move from Improvement to Excellence:

- Setting clear outcomes and priorities – what we need to do to achieve our vision and ambitions
- Self-evaluation – measuring how are we doing and what do we need to improve
- Service and improvement planning and management – setting out how are we going deliver and manage services and improvement
- Performance management, monitoring and reporting – monitoring how we are doing
- External assessment and accreditation – how others see us and gaining external validation.

In practice, delivering the Improvement Framework involves four areas of activity: planning, delivering, monitoring and reviewing.

Activity	Council wide	Service/ Business Unit
Planning what we need to do	Council Plan Single Outcome Agreement (SOA) Council Improvement Plan	Service Plans Unit/ Business Plans
Delivering what we have planned	Delivering services	Delivering services
Monitoring or checking how we are delivering	Performance reports: • East Lothian Performs • Your Council Performs • SOA Annual Report	Performance reports, including: • Quarterly Performance Reports • Services Plan Monitoring Reports
Reviewing what we do to make it more successful	Annual review of Council Plan Monitoring of SOA and How Good is Our Partnership? Corporate Governance self-evaluation	How Good is Our Council? Performance improvement tools; for example, Lean Thinking

Employee engagement is a vitally important aspect of the Council's approach to improvement, in particular in relation to the Review element of the improvement framework.

The Council's 2017 Employee Engagement Survey (carried out in February 2017) achieved a 58% response rate across all services. The survey showed an overall positive engagement (Strongly Agree and Agree responses across all 21 questions) of 78.4%, a slight increase on the 76.4% achieved in 2016. The survey results continue to provide evidence that East Lothian Council has a committed workforce. Highlights from this year's survey include:

- 92% of the workforce stated their work is interesting and uses their skills and capabilities
- 91% know how their job/ individual objectives contribute to the Council's objectives
- 89% feel trusted to make decisions in their role.

Council staff at all levels are involved in the annual Self-Evaluation for Improvement to Excellence exercise undertaken using the How Good is our Council framework.

The Council publishes an Annual Performance Report in September of each year outlining its performance for the previous financial year. The Council also publishes up-to-date performance results via its performance website, which draws performance information directly from Aspireview (the Council's management information system).

The following are some of the key performance indicators that show the Council's performance in relation to financial and environmental matters.

- The percentage of income due from Council Tax that was received by the end of the year rose from 96.6% in 2015-16 to 97.51% in 2016-17.
- The in-year Non Domestic Rates collection rate fell from 99% in 2015-16 to 97.8%.
- The percentage of invoices paid within 30 calendar days of receipt fell slightly to 89.5% in 2016-17 from 90% in the previous year.
- The amount owed in rent arrears increased significantly from £1,295,782 at March 2016 to £1,676,047 at March 2017. The rise is predominantly due to the roll out of 'full service' Universal Credit in East Lothian from March 2016.
- The percentage of household waste that is recycled increased slightly from 51.4% in 2015-16 to 51.8% in 2016-17.

Risks

In keeping with the Council's Risk Management Strategy, the Corporate Risk Register is reviewed annually and reported to the Cabinet.

The Council's response in relation to adverse risk or its risk appetite is such that:

- Very High risk is unacceptable and measures should be taken to reduce, transfer or treat the risk to a more tolerable position
- High risk may be tolerable providing the Council is assured that adequate and effective control measures are in place
- Medium risk is tolerable with control measures that are cost effective
- Low risk is broadly acceptable without any further action to prevent or mitigate risk.

In accordance with the Risk Management Strategy 'Very High' and 'High Risks' identified in the Corporate Risk Register will be subject to closer scrutiny by the Council Management Team, the Cabinet and the Audit and Governance Committee.

The 2016 Corporate Risk Register includes one Very High risk, 10 High risks and five Medium risks.

The Very High Risk relates to the 'Financial Pressure' and financial operating environment, as significant uncertainty in the longer term financial projections remain. The current financial strategy covers the medium term planning period of the next three financial years. However this is likely to be extended to ensure that the Council is well placed to meet the future challenges if current forecasts emerge.

The Council is managing this risk through well developed short to medium term financial planning arrangements, including:

- three year General Services revenue budgets
- five year Housing Revenue Account revenue and capital budgets
- longer General Services capital plan budgets

In addition, it has cost control and financial management arrangements for managing in year budget performance; both of which provide mitigating controls in terms of the immediate financial risk and pressures the Council is faced with.

The Council Management Team and senior managers continue to follow the financial strategy i.e. cost control/ cost minimisation to ensure delivery of agreed savings. This is also being monitored closely through the continued operation of the Chief Executive's Budget Review Group.

The Workforce Development Plan is a key part of the Council's response to increasing financial pressures. It aims to support transformational change, build and sustain leadership and management capacity, sustain a skilled, flexible and motivated workforce and develop the workforce for the future.

The 10 High Risks identified in the Corporate Risk Register are:

- Welfare Reform
- Information security and data protection
- Flooding and coastal erosion
- Public sector reform
- Local Development Plan
- Failure to maintain a highly skilled workforce
- Duty of care to public and public protection
- Duty of care to Council staff
- Corporate events management
- Contest (delivering the Government's anti-terrorism strategy)

Each of these high risks is managed through existing mitigating actions and planned additional control measures aimed at mitigating and reducing the risk.

Key Developments for the Next Year

As is highlighted in the Council's Financial Strategy 2017-18 to 2019-20, the Council will need to continue its programme of focussed work to maximise the efficiency and effectiveness of services provided to the public within the financial constraints faced by the Council. In order to ensure that progress is made in the key elements of the drive for further improvement and Best Value a defined Transformation Programme has been put in place with appropriate resources, including a Programme Manager and Project Managers to ensure the capacity to achieve the programme.

The Council adopted a Draft Council Plan in February 2017 which will form the basis of a new Council Plan that is to be adopted following the May 2017 Council Elections. The draft Plan affirmed the Council vision of: 'An even more prosperous, safe and sustainable East Lothian, with a dynamic and thriving economy, that enables our people and communities to flourish."

The new plan will build upon the new administration manifesto commitments and will continue the journey towards realising the East Lothian vision by building on the ambition and achievements of the previous Council Plan, taking account of the challenges and new opportunities faced by the Council.

The Plan outlines the strategy the Council will follow and sets out the objectives and strategic goals it sets itself over the next five years to strive to meet the vision. It then lists the key actions it plans to undertake to achieve these objectives and goals.
The themes set out in the 2012-2017 Council Plan continue to be relevant and will continue to be the themes and objectives of Council Plan 2017-2022:

- Growing our Economy
- Growing our People
- Growing our Communities
- Growing our Capacity

The overarching objective of 'reducing inequalities within and across our communities' that was adopted in 2014 remains the overarching objective of the new Council Plan.

The Plan sets out the following strategic goals which will make the biggest impact in delivering these key themes and objectives.

- Reduce unemployment and improve the employability of East Lothian's workforce.
- Reduce the attainment gap and raise the attainment and achievement of our children and young people.
- Improve the life chances of the most vulnerable people in our society.
- Extend community engagement and decision making and increase community and individual resilience.
- Deliver transformational change and harness the opportunities technology offers in the provision of services.

This Council Plan 2017-2022 is both ambitious and aspirational. It is set within the context of the continuing financial, demographic and policy challenges faced by the Council and the county. It aims to maximise the benefits from the opportunities presented by the positive platform created by previous Council Plans and more recent developments such as the City Region Deal.

The Council is committed to maintaining high quality public services that are used and valued by all residents such as schools, services for vulnerable children, adults and older people, maintaining roads and pavements, street lighting and refuse collection services.

However, the Plan reflects the need to invest in, or re-direct resources to, new priorities through a preventative model of service delivery; investing in prevention and early intervention to avoid more costly crisis intervention. Crucially, the Council will prioritise measures that contribute to inclusive and sustainable growth that reduces inequality and helps to break the cycle of poverty.

This Plan is based on the understanding that East Lothian Council cannot address the diverse needs of our population on its own. At the heart of the Plan is the concept that the Council and the people and communities of East Lothian can best deliver these solutions in partnership – 'working together for a better East Lothian'. Therefore, the Council will increasingly become:

- an enabling and empowering authority that works with its citizens and communities, the business and third sectors and other public sector partners to deliver the solutions that work best for East Lothian.
- a more entrepreneurial authority, developing new ways of ensuring services are provided in the most effective and efficient way possible;
- a 'digital' authority, fully embracing and exploiting opportunities to use technology to deliver services.

Summary

Overall 2016-17 has been an important year for the Council, with the continued application of a financial strategy which has focussed on cost reduction and cost avoidance ensuring that services continue to be delivered in the most efficient way possible. Despite the ever tightening financial environment within which we operate, the Council is in a relatively good position to address the many challenges we face. Strong financial results during the year has helped provide an increase in reserves relative to planned performance, however the financial strategy is designed to ensure the future financial sustainability of the Council whilst reducing the on-going reliance of reserves, and the future use of which must be wisely managed.

Given the future financial prospects with falling levels of expected Government Grant, the Financial Strategy must ensure the delivery and long term sustainability of services by securing further reductions in the base operating costs. This will include reviewing the way in which we transform and deliver services, including the delivery of planned efficiencies which will continue to be a critical focus of our attention.

Angela Leitch	Willie Innes	Jim Lamond (CPFA)
Chief Executive	Council Leader	Head of Council Resources (CFO)
September 2017	September 2017	September 2017

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 Council, that officer is the Head of Council Resources, who is the designated Chief Finance Officer.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts and lay the audited accounts to a meeting of the Council within two months of receipt of the audit certificate.

The Chief Finance Officer's responsibilities

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

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

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

The Chief Finance Officer's Certification

I certify that the Statement of Accounts present a true and fair view of the financial position of the Council at 31 March 2017 and its income and expenditure for the year ended 31 March 2017.

Jim Lamond (CPFA)
Head of Council Resources (CFO)
September 2017

Willie Innes
Council Leader
September 2017

Annual Governance Statement

East Lothian Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

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

The governance framework comprises the systems and processes, culture and values by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

East Lothian Council carries out these duties in a number of ways as set out below.

Annual self-evaluation of Corporate Governance

In 2016-17 the whole Council Management Team has undertaken an annual self-evaluation of corporate governance.

The team considers the extent to which the Council meets the principles and requirements of the local Code of Corporate Good Governance which was adopted by the Council in May 2010, by reviewing the documentary evidence and practice of each of the supporting principals and requirements of the corporate governance code. The findings of the 2016-17 review were reported to the Council's Audit & Governance Committee in June 2017.

The group reviewed progress made against the improvement points identified in the 2016 self-evaluation and considered documentary evidence and practice around each of the supporting principles and code requirements as detailed in the local code.

As with the previous self-evaluations the 2016-17 self-evaluation has found that East Lothian Council continues to have good governance and control arrangements in place across the six principles. The self-evaluation has identified a number of areas of development and improvement, which build on existing good practice and improvement action already being implemented to ensure the Council's progress through continuous improvement.

Declaration of Assurance

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

The results of these assurances were that;

All Chief Officers provided assurance that, to the best of their knowledge and understanding, the Internal Financial Controls in their areas operated satisfactorily, subject to some minor improvements.

Internal Audit Review

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

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

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

The Internal Audit manager also gives an assurance statement on the effectiveness of the system of internal controls within the Council. This was reported to the June 2017 meeting of the Audit & Governance Committee. For 2016-17, the Internal Audit assurance statement concludes:

The 2017 corporate governance self-evaluation has found that East Lothian Council continues to have good governance and control arrangements in place across the six corporate good practice principles.

It should be noted that the Council was confirmed as an ‘Established Investor in People’ organisation in March 2017 and in April 2017 undertook an assessment which resulted in being awarded a Committed to Excellence Award by Quality Scotland.

The Council’s governance self-evaluation and external assessments of governance, performance by Audit Scotland, Investors in People and Quality Scotland have identified several areas for further development and improvement. These actions build on existing good practice and improvement action already being implemented in order to ensure the Council’s progress from continuous improvement through to excellence. These improvement actions are:

- Adopt a 2017-2022 Council Plan
- Support the East Lothian Partnership to prepare and adopt a new East Lothian Plan (meeting its statutory duty to prepare a Local Outcome Improvement Plan) and review the East Lothian Partnership governance structure
- Promote the Council’s consultation and engagement strategy and opportunities for public engagement and participation, which meet the Community Empowerment Act’s statutory requirements relating to ‘Participation Requests’
- Prepare and adopt a Workforce Plan, incorporating a Workforce Development Plan
- Develop a regulatory services charter covering all services that provide regulatory services to business
- Review elected members’ development needs and provide an ongoing training and development programme
- Review the Council’s key performance indicators and targets
- Further develop staff communications and engagement building on positive programmes such as One Council Workshops

Statement on the role of the Chief Finance Officer

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

Results

It is our opinion that reasonable assurance can be placed on the governance and control arrangements within East Lothian Council and its Group during 2015/16.

Angela Leitch	Willie Innes	Jim Lamond (CPFA)
Chief Executive	Council Leader	Head of Council Resources (CFO)
September 2017	September 2017	September 2017

Remuneration Report

Introduction

The Remuneration Report has been prepared in accordance with the Local Authority Accounts (Scotland) Regulations 2014. These regulations require Local Authorities in Scotland to prepare a Remuneration Report as part of the annual statutory accounts. The following information in this Remuneration Report has been audited by Audit Scotland.

- Senior Councillor Remuneration at Page 22
- Senior Officer Remuneration at Page 23
- Pay Bandings information on Page 23
- Pension Benefits information for Senior Councillors and Officers from Page 24

The other sections of the Remuneration Report were reviewed by Audit Scotland to ensure that they were consistent with the financial statements.

Remuneration of Councillors

The remuneration of councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007 (SSI No. 2007/183).

The Regulations provide for the grading of councillors for the purposes of remuneration arrangements, as either the Leader of the Council, the Provost, Senior Councillors or Councillors.

The Leader of the Council and the Provost cannot be the same person for the purposes of payment of remuneration. A senior councillor is a councillor who holds a significant position of responsibility in the Council's political management structure.

When determining the level of remuneration, allowances and expenses afforded to local authority councillors, Scottish Ministers previously looked to the Scottish Local Authority Remuneration Committee (SLARC), for guidance based on its analysis and recommendations. Since 2011, SLARC has not functioned in this role and today the dialogue on this issue is a matter between the Scottish Government and COSLA.

The salary that is to be paid to the Leader of the Council is set out in the Regulations. For 2016/17 the salary for the Leader of East Lothian Council is £28,157. The Regulations also permit the Council to remunerate one Civic Head or Provost. The regulations set out the maximum salary that may be paid to that Civic Head. Council policy is to pay at the national maximum.

The Regulations also set out the remuneration that may be paid to senior councillors and the total number of senior councillors the Council may have.

The maximum yearly amount that may be paid to a Senior Councillor is 75 per cent of the total yearly amount payable to the Leader of the Council. The total yearly amount payable by the Council for remuneration of all of its Senior Councillors (excluding the Leader and Civic Head/Provost) shall not exceed £171,048.

The Council is able to exercise local flexibility in the determination of the precise number of Senior Councillors and their salary within these maximum limits. The Council's policy is to set these within the national maximum limits as set out above.

The Regulations also permit the Council to pay contributions or other payments as required to the Local Government Pension Scheme in respect of those Councillors who elect to become members.

In addition to the Senior Councillors of the Council the Regulations also set out the remuneration payable to councillors with the responsibility of a Convenor or a Vice-Convenor of a Joint Board such as a Police Joint Board. The Regulations require the remuneration to be paid by the Council of which the convenor or vice-convenor (as the case may be) is a member. The Council is also required to pay any pension contributions arising from the convenor or vice-convenor being a member of the Local Government Pension Scheme.

The Council is reimbursed by the Joint Board for any additional remuneration paid to the member from being a convenor or vice convenor of a Joint Board.

Senior Councillor's Remuneration

Office Held as at 31st March 2017		Salary, fees and Allowances 2015/16 (£)	Taxable Expenses 2015/16 (£)	Total 2015/16 (£)	Annualised Salary 2015/16 (£)	Salary, fees and Allowances 2016/17 (£)	Taxable Expenses 2016/17 (£)	Total 2016/17 (£)	Annualised Salary 2016/17 (£)
Willie Innes	Leader of the Council and Cabinet Spokesperson for Community Planning	27,878	1,116	28,994	27,878	28,157	0	28,157	28,157
Ludovic Broun-Lindsay	Provost	20,909	1,045	21,954	20,909	21,118	750	21,868	21,118
Jim Gillies	Depute Provost	20,909	1,719	22,628	20,909	21,118	1,424	22,542	21,118
Michael Veitch	Depute Leader and Cabinet Spokesman Transport and Roads	20,909	613	21,522	20,909	21,118	534	21,652	21,118
Shamin Akhtar	Cabinet Spokesman for Education and Children's Wellbeing	20,909	735	21,644	20,909	21,118	0	21,118	21,118
Tim Day	Cabinet Spokesman for Community Wellbeing	20,909	1,905	22,814	20,909	21,118	1,615	22,733	21,118
Donald Grant	Cabinet Spokesman for Health and Social Care	20,909	286	21,195	20,909	21,118	340	21,458	21,118
Norman Hampshire	Cabinet Spokesman for Housing & Environment	21,909	0	21,909	20,909	22,118	0	22,118	21,118
John McMillan	Cabinet Spokesman for Economic Development and Tourism	20,909	0	20,909	20,909	21,118	0	21,118	21,118
Stuart Currie	Leader of the Opposition	20,909	3,352	24,261	20,909	21,118	2,254	23,372	21,118
		217,059	10,771	227,830	216,059	219,219	6,917	226,136	218,219

Total Councillor's Remuneration

Type of Remuneration	2015/16 (£)	2016/17 (£)
Salaries	433,497	437,828
Allowances	1,000	1,000
Expenses	34,185	30,750
Total	468,682	469,578

An allowance of £1,000 was paid to Norman Hampshire in his capacity as APSE Regional Advisory Group Chair.

The annual return of Councillors salaries and expenses for 2016/17 is available to view on the Council's website at:
http://www.eastlothian.gov.uk/downloads/file/12406/01_april_2016-31_march_2017

Senior Officer Remuneration

The Regulations require disclosure of remuneration information for 'relevant' persons. These include senior officers i.e. those senior employees who meet one or more of the following criteria;

- Has responsibility for the management of the local authority to the extent that the person has power to direct or control the major activities of the authority whether solely or collectively with other persons.
- Holds a post that is politically restricted by reason of section 2(1) (a), (b) or (c) of the Local Government and Housing Act 1989.
- Annual remuneration, including any annual remuneration from a local authority subsidiary body is £150,000 or more.

The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services sets the salaries for the Chief Executives of Scottish local authorities.

A formal review of the Chief Officer structure was last carried out in February 2012, although there have been minor variations approved since then.

During 2016/17 the Council paid the following amounts to senior employees

Name	Post Title	Salary, fees and allowances 2015/16 (£)	Taxable expenses 2015/16 (£)	Total 2015/16 (£)	Salary, fees and allowances 2016/17 (£)	Taxable expenses 2016/17 (£)	Total 2016/17 (£)
Angela Leitch	Chief Executive	115,728	438	116,166	119,721	285	120,006
Monica Patterson	Depute Chief Executive-Partnership & Services for Communities	97,962	339	98,301	99,254	284	99,538
Alex McCrorie	Depute Chief Executive-Resources & People Services	97,962	566	98,528	98,959	710	99,669
Jim Lamond	Head of Council Resources	87,552	-	87,552	90,689	-	90,689
Douglas Proudfoot	Head of Development (Acting Head from 21st July 2014 to 21st June 2015)	85,502	77	85,579	86,669	734	87,403
Raymond Montgomery	Head of Infrastructure	85,502	-	85,502	86,669	-	86,669
Thomas Shearer	Head of Communities & Partnerships	85,502	818	86,320	86,669	560	87,229
Sharon Saunders	Head of Children & Adult Services	85,502	1,028	86,530	86,669	246	86,915
Darrin Nightingale	Head of Education (until 1st November 2015)	48,944	484	49,428	-	-	-
		790,156	3,750	793,906	755,299	2,819	758,118

The salary, fees and allowances for senior officers includes any payments made in respect of election roles. During 2016/17 the Heads of Service were all paid £86,079 (full time equivalent).

At its meeting of 25th June 2013, the Council agreed to pay a share of the Director of East Lothian Health and Social Care Partnership post from August 2013. The costs are shared on a 50/50 basis with NHS Lothian. All payroll and pension arrangements for this post are administered by NHS Lothian. During 2016/17 the Council paid £63,056 as a shared cost of this post. Furthermore Alison MacDonald is the Head of Access and Older People, and whilst the post is part of the Council's Corporate Management Team, this post is fully funded by NHS Lothian.

Fiona Robertson was appointed Head of Education on 29th March 2016 on a 1 year secondment from Education Scotland. During 2016/17 the Council paid secondment costs of £118,824 for this post. Fiona was formally appointed to the Head of Education post with effect from 3rd April 2017.

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

	2015/16	2016/17
£50,000 - £54,999	42	50
£55,000 - £59,999	30	26
£60,000 - £64,999	3	7
£65,000 - £69,999	3	2
£70,000 - £74,999	4	5
£75,000 - £79,999	1	1
£80,000 - £84,999	1	-
£85,000 - £89,999	5	4
£90,000 - £94,999	-	1
£95,000 - £99,999	2	2
£100,000 - £104,999	-	-
£105,000 - £109,999	-	-
£110,000 - £114,999	-	-
£115,000 - £119,999	1	-
£120,000 - £124,999	-	1
	92	99

Subsidiary Bodies

Separate disclosure of the remuneration and pension benefits of senior posts held in the Council subsidiary companies, where appropriate is outlined in the table below. The remuneration arrangements for these respective subsidiaries are determined solely by the subsidiary bodies.

The Chief Executive of Musselburgh Racecourse is not a member of the Council's defined benefit pension scheme although he receives employer's pension contributions equivalent to 10% of pensionable salary on an annual basis. For 16/17 this totalled £9,245 (15/16 - £9,272).

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

Name	Post Title	Salary 2015/16	Bonuses 2015/16	Expenses & Allowances 2015/16	Total 2015/16	Salary 2016/17	Bonuses 2016/17	Expenses & Allowances 2016/17	Total 2016/17
		(£)	(£)	(£)	(£)	(£)	(£)	(£)	(£)
William Farnsworth	Chief Executive Musselburgh Racecourse	92,723	200	14,000	106,923	93,488	200	14,000	107,688

Pension Benefits

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

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

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

From 1 April 2015 the LGPS for local government employees transferred to a career average scheme. This means that pension benefits are built up each year based on your pensionable pay for that year. This is then added to your pension account. At the end of each year the amount in your pension account will be adjusted in line with the cost of living - currently the rate of the Consumer Price Index - to ensure it keeps its value.

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

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

Whole Time Pay	Range 2015/16	Rate 2015/16	Range 2016/17	Rate 2016/17
On earnings up to and including	£21,102	5.50%	£21,102	5.50%
On earnings above	£21,103 and up to £25,330	5.60%-5.80%	£21,103 and up to £25,330	5.60%-5.80%
On earnings above	£25,331 and up to £34,415	5.90%-6.50%	£25,331 and up to £34,415	5.90%-6.50%
On earnings above	£34,416 and up to £46,456	6.60%-7.30%	£34,416 and up to £46,456	6.60%-7.30%
On earnings above	£46,457	7.40%-11.20%	£46,457	7.40%-11.20%

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

There is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for lump sum up to the limit set by the Finance Act 2009. Between 1 April 2009 and 31 March 2015 the accrual rate guaranteed a pension based on 1/60th of final pensionable salary and years of pensionable service. Prior to this the accrual rate guaranteed a pension based on 1/80th and a lump sum based on 3/80ths of final pensionable salary and years of pensionable service. From 1 April 2015 the accrual rate guarantees a pension based on 1/49th of a final pensionable salary and years of pensionable service.

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

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

Pension Benefits -Senior Councillors

The estimated pension entitlements for Senior Councillors for the year to 31 March 2017 are shown in the table below, together with the contribution made by the Council during the year.

		Pension Contributions		**Accrued Pension Benefits**			
	Office Held as at 31st March 2017	**For Year to 31st March 2016**	**For Year to 31st March 2017**	**As at 31st March 2017**		**Difference from 31st March 2016**	
		(£)	**(£)**	**Pension £000's**	**Lump Sum £000's**	**Pension £000's**	**Lump Sum £000's**
Willie Innes	Leader of the Council and Cabinet Spokesperson for Community Planning	5,938	5,997	4	2	-	-
Ludovic Broun-Lindsay	Provost	4,454	4,498	3	1	-	-
Jim Gillies (*)	Depute Provost	4,454	4,498	3	1	-	(1)
Michael Veitch	Depute Leader and Cabinet Spokesman Transport and Roads	4,454	4,498	2	-	1	-
John McMillan	Cabinet Spokesman for Economic Development and Tourism	4,454	4,498	2	-	1	-
Shamin Akhtar	Cabinet Spokesman for Education and Children's Wellbeing	4,454	4,498	2	-	1	-
Norman Hampshire	Cabinet Spokesman for Housing & Environment	4,667	4,711	3	1	-	-
Donald Grant (*)	Cabinet Spokesman for Health and Social Care	4,454	4,498	3	1	-	(1)
Total		37,329	37,696	22	6	3	(2)

(*) The accrued lump sum pension benefits for both councillors were overstated by £1k as at 31/3/16.

Pension Benefits -Senior Employees

The estimated pension entitlements for senior employees for the year to 31 March 2017 are shown in the table below, together with the contribution made by the Council during the year.

		Pension Contributions		**Accrued Pension Benefits**			
Office Held as at 31st March 2017		**For Year to 31st March 2016**	**For Year to 31st March 2017**	**As at 31st March 2017**		**Difference from 31st March 2016**	
		(£)	**(£)**	**Pension £000's**	**Lump Sum £000's**	**Pension £000's**	**Lump Sum £000's**
Angela Leitch	Chief Executive	23,990	24,230	51	106	3	1
Angela Leitch	Returning Officer	660	699	-	-	-	-
Monica Patterson	Depute Chief Executive-Partnership & Services for Communities	20,807	21,015	47	98	3	1
Alex McCrorie (*)	Depute Chief Executive-Resources & People Services	-	-	-	-	-	-
Sharon Saunders	Head of Children & Adult Services	18,153	18,335	31	57	2	-
Darrin Nightingale	Head of Education (until 1/11/15)	10,589	-	-	-	-	-
Douglas Proudfoot	Head of Development (Acting head from 21/7/14 to 21/6/15)	18,153	18,335	31	71	2	1
Ray Montgomery	Head of Infrastructure	18,153	18,335	37	73	3	-
Thomas Shearer	Head of Communities & Partnerships	18,153	18,335	45	98	2	1
Jim Lamond	Head of Council Resources	18,153	18,335	35	70	2	1
Total		146,811	137,619	277	573	17	5

(*) This member has transferred out of the Pension scheme

Exit Packages

The number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below for 2016/17, with comparative figures for 2015/16.

Comparative Exit Packages 2015/16

Cost Banding	**Number of Compulsory Redundancies**	**Number of Other Departures Agreed**	**Total Number by Cost Band**	**Total Cost of Exit Packages**
				£000's
£0 - £20,000	4	2	6	48
£20,001 - £40,000	-	-	-	-
£40,001 - £60,000	-	-	-	-
£60,001 - £80,000	-	-	-	-
£80,001 - £100,000	-	-	-	-
£100,001 - £150,000	-	-	-	-
£150,001-£200,000	-	-	-	-
Total	4	2	6	48

Exit Packages 2016/17

Cost Banding	**Number of Compulsory Redundancies**	**Number of Other Departures Agreed**	**Total Number by Cost Band**	**Total Cost of Exit Packages**
				£000's
£0 - £20,000	5	1	6	27
£20,001 - £40,000	-	-	-	-
£40,001 - £60,000	-	-	-	-
£60,001 - £80,000	-	-	-	-
£80,001 - £100,000	-	-	-	-
£100,001 - £150,000	-	-	-	-
£150,001-£200,000	-	-	-	-
Total	5	1	6	27

Angela Leitch	Willie Innes	Jim Lamond (CPFA)
Chief Executive	Council Leader	Head of Council Resources (CFO)
September 2017	September 2017	September 2017

Movement in Reserves Statement

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

For the year ended 31 March 2016

	General Fund Balance	Capital Receipts Reserve	Insurance Fund	Housing Revenue Account	Housing Capital Fund	**Total Usable Reserves**	**Unusable Reserves**	**Total Authority Reserves**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Balance at 31 March 2015 carried forward	**(16,653)**	**-**	**(1,395)**	**(4,041)**	**(2,589)**	**(24,678)**	**(205,913)**	**(230,591)**
Movement in reserves during 2015/16								
Deficit on provision of services	17,798	-	-	2,254	-	**20,052**	-	20,052
Other Comprehensive Expenditure and Income	-	-	-	-	-	-	(185,026)	(185,026)
Total Comprehensive Expenditure and Income	**17,798**	**-**	**-**	**2,254**	**-**	**20,052**	**(185,026)**	**(164,974)**
Adjustments between accounting basis & funding basis under regulations (Note 6)	(21,929)	-	-	(3,872)	-	(25,801)	25,801	-
Net (Increase)/Decrease before Transfers to Other Statutory Reserves	**(4,131)**	**-**	**-**	**(1,618)**	**-**	**(5,749)**	**(159,225)**	**(164,974)**
Transfers to/from Earmarked Reserves	(667)	-	(328)	995	-	-	-	-
Housing Revenue Account	(995)	-	-	995	-	-	-	-
Capital Funds	-	-	-	-	-	-	-	-
Insurance Fund	328	-	(328)	-	-	-	-	-
(Increase)/Decrease in Year	**(4,798)**	**-**	**(328)**	**(623)**	**-**	**(5,749)**	**(159,225)**	**(164,974)**
Balance at 31 March 2016 carried forward	**(21,451)**	**-**	**(1,723)**	**(4,664)**	**(2,589)**	**(30,427)**	**(365,138)**	**(395,565)**

For the year ended 31 March 2017

	General Fund Balance	Capital Receipts Reserve	Insurance Fund	Housing Revenue Account	Housing Capital Fund	**Total Usable Reserves**	**Unusable Reserves**	**Total Authority Reserves**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Balance at 31 March 2016 carried forward	**(21,451)**	**-**	**(1,723)**	**(4,664)**	**(2,589)**	**(30,427)**	**(365,138) -**	**(395,565)**
Movement in reserves during 2016/17								
Deficit on provision of services	9,784	-	-	9,522	-	**19,306**	-	19,306
Other Comprehensive Expenditure and Income	-	-	-	-	-	-	65,802	65,802
Total Comprehensive Expenditure and Income	**9,784**	**-**	**-**	**9,522**	**-**	**19,306**	**65,802**	**85,108**
Adjustments between accounting basis & funding basis under regulations (Note 6)	(5,754)	-	-	(11,404)	2,589	(14,569)	14,569	-
Net (Increase)/Decrease before Transfers to Other Statutory Reserves	**4,030**	**-**	**-**	**(1,882)**	**2,589**	**4,737**	**80,371**	**85,108**
Transfers to/from Earmarked Reserves	(1,495)	-	-	1,495	-	-	-	-
Housing Revenue Account	(1,495)	-	-	1,495	-	-	-	-
(Increase)/Decrease in Year	**2,535**	**-**	**-**	**(387)**	**2,589**	**4,737**	**80,371**	**85,108**
Balance at 31 March 2017 carried forward	**(18,916)**	**-**	**(1,723)**	**(5,051)**	**-**	**(25,690)**	**(284,767)**	**(310,457)**

Comprehensive Income and Expenditure Statement

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

2015/16				2016/17		
Gross Spend £000's	Gross Income £000's	Net Spend £000's		Gross Spend £000's	Gross Income £000's	Net Spend £000's
111,963	(4,628)	107,335	Resources & People Directorate	111,884	(4,801)	107,083
79,293	(10,010)	69,283	Health & Social Care Partnership	73,150	(13,874)	59,276
71,914	(13,198)	58,716	Partnership & Community Directorate	68,107	(13,875)	54,232
27,352	(26,609)	743	Corporate and Central Services	24,522	(23,458)	1,064
25,461	(25,594)	(133)	HRA	36,519	(27,017)	9,502
315,983	**(80,039)**	**235,944**	**Cost of Services**	**314,182**	**(83,025)**	**231,157**
		(547)	(Gains)/Losses on the Disposal of Non Current Assets			(3,460)
		16,487	Interest Payable and Similar charges			16,477
		(507)	Interest Receivable and Similar Income			(531)
		5,582	Interest Expense on Pension Defined Benefit Obligation			4,066
		(236,907)	Taxation and Non Specific Grant Income (Note 7)			(228,403)
		20,052	**(Surplus) / Deficit on Provision of Services**			**19,306**
		(116,543)	(Surplus) or Deficit on Revaluation of Non-Current Assets			9,020
		(1,005)	(Surplus) or Deficit on Revaluation of Available for Sale Financial Instruments			146
		(67,478)	Actuarial (Gain) or Loss on Pension Assets/Liabilities			56,636
		(185,026)	**Other Comprehensive Income and Expenditure**			**65,802**
		(164,974)	**Total Comprehensive Income and Expenditure**			**85,108**

Balance Sheet

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

31 March 2016 £000's		Note	31 March 2017 £000's
899,749	Property, Plant & Equipment	12	882,865
801	Heritage Assets	14	1,052
3,770	Long Term Investments	20	3,625
11,454	Long Term Debtors	21	11,224
915,774	**Long Term Assets**		**898,766**
2	Short Term Investments		20
898	Assets Held for Sale	15	770
622	Inventories		897
27,434	Short Term Debtors	22	25,555
(12,026)	Bad & Doubtful Debt Provision	22	(11,885)
5,881	Cash and Cash Equivalents		12,175
22,811	**Current Assets**		**27,532**
(14,658)	Short Term Borrowing	23	(9,734)
(28,200)	Short Term Creditors	24	(28,237)
(42,858)	**Current Liabilities**		**(37,971)**
(4,306)	Provisions	25	(4,726)
(325,119)	Long Term Borrowing	23	(337,141)
(170,657)	Other Long Term Liabilities	26	(235,855)
(80)	Capital Grants Receipts in Advance	32	(148)
(500,162)	**Long Term Liabilities**		**(577,870)**
395,565	**Net Assets**		**310,457**
(30,427)	Usable Reserves	28	(25,690)
(365,138)	Unusable Reserves	29	(284,767)
(395,565)	**Total Reserves**		**(310,457)**

The unaudited accounts were issued on 30th June 2017 and were authorised for issue on September 2017.

Jim Lamond (CPFA)
Head of Council Resources (CFO)
September 2017

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council.

2015/16 £000's		2016/17 £000's
20,052	Net deficit/surplus on the provision of services	19,306
(63,129)	Adjustments to net surplus or deficit on the provison of services for non-cash movements (Note 33)	(58,713)
24,539	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 34)	23,104
(18,538)	Net Cash flow from Operating Activities	(16,303)
	Investing Activities	
50,486	Purchase of property, plant and equipment	41,905
(439)	Proceeds from short term investments	(472)
(26,912)	Other receipts from investing activities	(17,973)
(3,682)	Proceeds from the sale of property, plant and equipment	(6,906)
19,453	Net cash flows from investing activities	16,554
	Financing Activities	
(21,916)	Cash receipts of short and long term borrowing	(20,684)
1,060	Cash payments for the reduction of the outstanding liability relating to finance lease and on-Balance Sheet PFI contracts	1,187
19,310	Repayments of short and long term borrowing	12,919
3,400	New loans made	33
1,854	Net cash flow from financing activities	(6,545)
2,769	Net decrease or (increase) in cash and cash equivalents	(6,294)
(8,650)	Cash and cash equivalents at the beginning of the reporting period	(5,881)
(5,881)	Cash and cash equivalents at the end of the reporting period	(12,175)

Notes to the Accounts

Note 1 General Accounting Policies

i. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2016/17 financial year and its position at the year-end of 31 March 2017. The Authority is required to prepare an annual Statement of Accounts by the Local Authority Accounts (Scotland) Regulations 2014, which section 12 of the Local Government in Scotland Act 2003 require to be in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

ii. Accruals of Income and Expenditure

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

In particular:

- Revenues from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenues from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefit or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when the payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure 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 revenue 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 debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

iii. Cash and Cash Equivalents

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

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

iv. Charges to Revenue for Non Current Assets

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

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses attributable on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.

The Authority is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue to contribute towards the reduction in its overall borrowing requirement equal to either an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance or the Statutory Repayment of Loans Fund Advances (Scotland). Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

v. Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits such as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service or, where applicable, to a corporate service segment at the earlier of when the Authority can no longer withdraw the offer of those benefits or when the Authority recognises costs for a restructuring.

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

Post Employment Benefits

Employees of the Authority 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 provided defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Authority.

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The scheme is therefore accounted for as if it were a defined contributions scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The People Directorate line in the Comprehensive Income and Expenditure 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 Authority 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 of 2.6%
- The assets of the Lothian Pension Fund attributable to the Authority are included in the Balance Sheet at their fair value :
  - Quoted securities - current bid price
  - Unquoted securities - professional estimate
  - Unitised securities - current bid price
  - Property - market value.

The change in the net pension liability is analysed into the following components:

- Service cost comprising:
  - Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
  - Past service cost – the increase in liabilities is a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

  - Net Interest on the net defined benefit liability (asset), i.e. net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments

- Remeasurements comprising:
  - The return on plan assets – excluding amounts included in the net interest on the net defined liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
  - 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 – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
  - Contributions paid to the Lothian Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Authority to the Pension Fund or directly to pensioners in the year, not the amount calculated according to the relevant Accounting Standards. In the Movement in Reserves Statement, this means that there are transfers 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 pensioners and any such amounts payable but unpaid at the year end. The negative balance that arises on the Pension Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Authority 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 Local Government Pension Scheme.

vi. Financial Instruments

Financial Liabilities

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

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

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

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

vii. 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 assets -assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

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

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

Available for Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial Instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income e.g. dividends is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Authority.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following techniques:

- Instruments with quoted market prices – market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis
- Equity shares with no quoted market prices – multiple valuation techniques (which include market approach, income approach and cost approach).

The inputs to the measurements techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the Authority can access at the measurement date
- Level 2 inputs – inputs other than quoted prices included within level 1 that are observable for the asset, either directly or indirectly
- Level 3 inputs – unobservable inputs for the asset

Changes in fair value are balanced by an entry in the Available for Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-For-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available For Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment amortisation).

Any gains and losses that arise on derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available For Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost less any impairment losses.

viii. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is a reasonable assurance that:

- the Authority will comply with the conditions attached to the payments, and
- grants or contributions will be received.

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

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

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

Business Improvement Districts

A business Improvement District (BID) scheme applies across the whole of the Authority. The scheme is funded by a BID levy paid by non-domestic ratepayers. The Authority acts as principal under the scheme, and accounts for income received and expenditure incurred (including contributions to the BID project) within the relevant services within the Comprehensive Income and Expenditure Statement.

ix. Interests in Companies and Other Entities

The Authority 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 Authority's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

x. Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the (FIFO/weight average costing formula.

xi. Joint Operations

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Authority in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest a joint operation, the Authority as a joint operator recognises:

- its assets, including its share of any assets held jointly
- its liabilities, including its share of any liabilities incurred jointly
- its revenue from the sale of its share of the output arising from the joint operation
- its share of the revenue from the sale of the output by the joint operation
- its expenses, including its share of any expenses incurred jointly.

xii. Leases

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

The Authority as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised in the Balance Sheet at the commencement of the lease at its fair value measured at the lease inception or the present value of the minimum lease payments if lower. The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

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

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

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

Operating leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant and equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. if there is a rent-free period at the commencement of the lease).

The Authority as lessor

Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

xiii. 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 Authority's arrangements for accountability and financial performance.

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

Non-Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any impairment losses chargeable on Assets Held For Sale.

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

xiv. Property, Plant and Equipment

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

Recognition

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

Measurement

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

The Authority does not capitalise borrowing costs incurred whilst assets are under construction.

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

- Infrastructure assets and community assets – depreciated historical cost.
- Council Dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH)
- Other Land & Buildings – current value, determined as the amount that would be paid for the asset in existing use (Existing Use Value – EUV)
- Vehicles, Plant, Furniture and Equipment – depreciated historical cost.
- Surplus Assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective.

Where there is no market based evidence of current value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate of current value.

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

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from the current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Surplus or Deficit on the Provision of Services where they arise from the reversal of a loss previously charged to a service revenue account.

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

- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement
- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance up to the amount of the accumulated gains

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

Impairment

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

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance up to the amount of the accumulated gain.
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed it is credited to the relevant service line in the Comprehensive Income & Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

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

Deprecation is calculated on the following bases:

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

The estimated useful lives are as follows.

Council Dwellings	25-26 years
Council Garages	12 years
Other Land and Buildings	10-60 years
Vehicles, Plant, Furniture & Equipment	1-25 years
Infrastructure	1-25 years
Community Assets	12-50 years

Assets under Construction are not depreciated.

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

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

Disposals and Non-current Assets held for Sale

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

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

All capital receipts are credited to the Capital Receipts Reserve. They can then be used for new capital investment or to meet the cost of debt repayments. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

xv. Private Finance Initiative (PFI) and Similar Contracts

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

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

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

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

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

xvi. Provisions

Provisions

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

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

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

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

xvii. Reserves

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

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

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

xviii. VAT

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

xix. Heritage Assets

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

The Council's collection of oil paintings is reported in the Balance Sheet at insurance valuation which is based on market values. Valuations are obtained every five years. The paintings are deemed to have indeterminate lives and a high residual value: hence the Council does not considerate appropriate to charge depreciation. The remainder of the Council's collection relates to generic social history, which is not believed to be of any material value. All of the collections are relatively static and acquisitions are rare. Where they do occur they are initially recognised at cost.

xx. Fair Value Measurement

The authority measures some of its non financial assets such as surplus assets at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

a) In the principal market for the asset or liability, or;
b) In the absence of a principal market, in the most advantageous market for the asset or liability

The authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the authority takes into account a market participant's ability to generate economic benefit by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of observable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the authority's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability

Note 2 Accounting Standards Not Yet Adopted

The following IFRSs have been issued but have not yet been applied in these Financial Statements. Their adoption is not expected to have a material effect on the Financial Statements unless otherwise indicated:

- IFRS 9 – Financial Instruments. This standard has been issued by the IASB with an effective date of 1st January 2018. It is therefore currently anticipated to be adopted in the 2018/19 code subject to EU adoption of the Standard by the effective date for that Code. This Standard is unlikely to have a financial impact on the Council as we do not hold investments which would fall within the available-for-sale class of financial assets.
- IFRS 15 – Revenue from Contracts with Customers. This Standard is effective from 1st January 2018 and is therefore expected to apply to Local Authorities from 2018/19 (subject to EU adoption in time for the 2018/19 Code). This Standard is unlikely to have a financial impact on the Council as for many contracts the accounting for revenue will remain unchanged. IFRS 15 will however introduce substantial new disclosure requirements for material transactions.
- IFRS 16 – Leases. This standard has an effective date of 1st January 2019 which means that, subject to CIPFA/LASAAC's considerations of the applicability to local authorities (and EU adoption), it will be adopted in the Code in the 2019/20 financial year. The Standard establishes a new accounting model for lessees in which all leases for substantial assets for more than 12 months will be accounted for by recognising a "right to use" asset on the Balance Sheet, together with a liability for the present value of the unavoidable lease payments. In overall terms, this means that leases currently accounted for as operating leases would be treated similarly to finance leases, but recognising only a proportion of the asset's overall value.
- The decision was taken on the 8th of March 2017 that the introduction of the Highways Network Asset Code into the Financial Reporting requirements for Local Authorities would not be proceeding. It was noted that further consideration will be given to the implementation of the Code if clear evidence that the benefits outweigh the costs for Local Authorities can be determined.

Note 3 Critical Judgements Applied

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

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

- There is a degree of uncertainty about future levels of funding for local government in Scotland. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.

- The implementation of the Expenditure and Finding Analysis has required the Comprehensive Income and Expenditure Statement to be based on the Council's organisational structure. The previous year's Comprehensive Income and Expenditure Statement has been restated for comparator purposes. This change has not been deemed as a prior year adjustment as there is no impact on the amount reported last year.

Note 4 Future Assumptions

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

The items in the Council's Balance Sheet at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming year are as follows;

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements including the discount rate chosen, the rate of salary increase, changes in retirement ages and mortality rates and expected returns on pension fund assets. The actual figure has proved to be variable over time and more detail regarding this has been referred to in Note 27.	If actual results are different from assumptions there is the potential for a significant change – either increasing or decreasing the potential liability.
Property, Plant and Equipment	Assets are valued and depreciated over their useful lives in line with advice taken from external and internal valuers. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of an asset is reduced, depreciation increases and the carrying amount of the asset falls.
Debtors	At 31 March 2017 the Council had balances of £8.5 million relating to Council Tax debt and £3.2 million relating to Council House rent debt. The Council believes it has provided for the potential of doubtful debts. However, it is possible that future economic conditions could have a detrimental impact on collection rates.	If collection rates were to deteriorate then there would be deterioration in cash inflows and the potential that income would not be realisable.
Fair Value Measurements	When the fair value of assets and liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using valuation techniques (e.g. quoted prices for similar assets or liabilities in active markets). Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the authority's assets and liabilities. Where Level 1 inputs are not available, the authority employs relevant experts to identify the most appropriate valuation techniques to determine fair value (e.g. valuers). Further information on fair value measurement is disclosed in Note 1.	The authority uses quoted prices for similar assets or liabilities in active markets to measure the fair value of some of its non-financial assets. If the authority had to refer to unobservable inputs to measure fair value, any significant changes to these unobservable inputs would result in a significantly lower or higher fair value measurement.

Note 5 Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by Authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's directorates/services/departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2015-16	Expenditure chargeable to Usable Reserves		Adjustments between Funding & Accounting Basis		Net Expenditure in the CIES		Expenditure chargeable to Usable Reserves	Adjustments between Funding & Accounting Basis	Net Expenditure in the CIES
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
	GF	HRA	GF	HRA	GF	HRA	GF and HRA combined		
Resources & People Directorate	89,594	-	17,741	-	107,335	-	-	-	-
Health & Social Care Partnership	60,134	-	9,149	-	69,283	-	-	-	-
Partnership & Community Directorate	41,041	-	17,675	-	58,716	-	-	-	-
Corporate and Central Services	11,321	-	(10,578)	-	743	-	-	-	-
HRA	-	(7,331)	-	7,198	-	(133)	-	-	-
Net Cost of Service	**202,090**	**(7,331)**	**33,987**	**7,198**	**236,077**	**(133)**	194,759	41,185	235,944
Other Income & Expenditure	(206,221)	5,713	(12,058)	(3,326)	(218,279)	2,387	(200,508)	(15,384)	(215,892)
Surplus/Deficit on Provision of Services	**(4,131)**	**(1,618)**	**21,929**	**3,872**	**17,798**	**2,254**	(5,749)	25,801	20,052
Opening General Fund and HRA Balance at 1 April 2015	(16,653)	(6,630)					(23,283)		
Transfer to/from reserves	(667)	995					328		
In year use of reserves	(4,131)	(1,618)					(5,749)		
Closing General Fund and HRA Balance at 31 March 2016	**(21,451)**	**(7,253)**					(28,704)		

2016-17	Expenditure chargeable to Usable Reserves		Adjustments between Funding & Accounting Basis		Net Expenditure in the CIES		Expenditure chargeable to Usable Reserves	Adjustments between Funding & Accounting Basis	Net Expenditure in the CIES
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
	GF	HRA	GF	HRA	GF	HRA	GF and HRA combined		
Resources & People Directorate	94,562	-	12,521	-	107,083	-	-	-	-
Health & Social Care Partnership	57,989	-	1,287	-	59,276	-	-	-	-
Partnership & Community Directorate	41,895	-	12,337	-	54,232	-	-	-	-
Corporate and Central Services	12,297	-	(11,233)	-	1,064	-	-	-	-
HRA	-	(5,274)	-	14,776		9,502	-	-	-
Net Cost of Service	**206,743**	**(5,274)**	**14,912**	**14,776**	**221,655**	**9,502**	201,469	29,688	231,157
Other Income & Expenditure	(202,713)	5,981	(9,158)	(5,961)	(211,871)	20	(196,732)	(15,119)	(211,851)
Surplus/Deficit on Provision of Services	**4,030**	**707**	**5,754**	**8,815**	**9,784**	**9,522**	4,737	14,569	19,306
Opening General Fund and HRA Balance at 1 April 2016	(21,451)	(7,253)					(28,704)		
Transfer to/from reserves	(1,495)	1,495					-		
In year use of reserves	4,030	707					4,737		
Closing General Fund and HRA Balance at 31 March 2017	**(18,916)**	**(5,051)**					(23,967)		

2015-16

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement	**Adjustments between accounting basis and funding basis**			
	Adjustment for capital purposes £000's	**Net change for pension adjustment £000's**	**Other differences £000's**	**Total Adjustments £000's**
Resources & People Directorate	16,622	1,248	(129)	17,741
Health & Social Care Partnership	7,961	1,188	-	9,149
Partnership & Community Directorate	15,395	2,280	-	17,675
Corporate and Central Services	(10,584)	6	-	(10,578)
HRA	7,057	141	-	7,198
Net Cost of Service	36,451	4,863	(129)	41,185
Other Income & Expenditure from the Expenditure and Funding Analysis	(20,966)	5,582	-	(15,384)
Comprehensive Income and Exenditure Statement surplus/deficit	15,485	10,445	(129)	25,801

2016-17

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement	**Adjustments between accounting basis and funding basis**			
	Adjustment for capital purposes £000's	**Net change for pension adjustment £000's**	**Other differences £000's**	**Total Adjustments £000's**
Resources & People Directorate	11,913	667	(59)	12,521
Health & Social Care Partnership	667	620	-	1,287
Partnership & Community Directorate	11,167	1,170	-	12,337
Corporate and Central Services	(11,239)	6	-	(11,233)
HRA	14,698	78	-	14,776
Net Cost of Service	27,206	2,541	(59)	29,688
Other Income & Expenditure from the Expenditure and Funding Analysis	(19,185)	4,066	-	(15,119)
Comprehensive Income and Exenditure Statement surplus/deficit	8,021	6,607	(59)	14,569

Note 6 Adjustments between Accounting and Funding Basis under Regulations

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

2015/16	General Fund Balance **£000's**	Housing Revenue Account **£000's**	Capital Receipts Reserve **£000's**	Insurance Fund **£000's**	Capital Fund **£000's**	**Movement in Usable Reserves £000's**
Depreciation (charged to the Surplus or Deficit on the Provision of Services) of non-current assets	(22,388)	(9,723)	-	-	-	**(32,111)**
Impairment and revaluation losses (charged to the Surplus or Deficit on the Provision of Services) of non-current assets	(18,137)	-	-	-	-	**(18,137)**
Capital grant and contributions applied	16,658	3,760	-	-	-	**20,418**
Differences re finance leases,stepped loans, premiums and discounts	309	-	-	-	-	**309**
Profit on sale of non-current assets	821	(274)	-	-	-	**547**
Statutory Provision relating to PPP	457	-	-	-	-	**457**
Net retirement benefits per IAS19	(23,811)	(770)	-	-	-	**(24,581)**
Employee - Statutory Adjustments	129	-	-	-	-	**129**
Items not debited or credited to the Comprehensive Income & Expenditure Statement	-	-	-	-	-	**-**
Loans Fund principal repayments and statutory premia	10,276	2,666	-	-	-	**12,942**
Employer's contributions payable to the Lothian Pension Fund	13,667	469	-	-	-	**14,136**
Capital expenditure charged against the General Fund and HRA balances	90	-	-	-	-	**90**
Total Adjustments	(21,929)	(3,872)	-	-	-	**(25,801)**

2016/17	General Fund Balance **£000's**	Housing Revenue Account **£000's**	Capital Receipts Reserve **£000's**	Insurance Fund **£000's**	Capital Fund **£000's**	**Movement in Usable Reserves £000's**
Depreciation (charged to the Surplus or Deficit on the Provision of Services) of non-current assets	(25,234)	(10,626)	-	-	-	**(35,860)**
Impairment and revaluation losses (charged to the Surplus or Deficit on the Provision of Services) of non-current assets	-	(10,335)	-	-	-	**(10,335)**
Capital grant and contributions applied	12,870	2,856	-	-	-	**15,726**
Differences re finance leases,stepped loans, premiums and discounts	319	-	-	-	-	**319**
Profit on sale of non-current assets	211	3,249	-	-	-	**3,460**
Statutory Provision relating to PPP	1,398	-	-	-	-	**1,398**
Net retirement benefits per IAS19	(20,337)	(732)	-	-	-	**(21,069)**
Employee - Statutory Adjustments	59	-	-	-	-	**59**
Items not debited or credited to the Comprehensive Income and Expenditure Statement	-	-	-	-	-	**-**
Loans Fund principal repayments and statutory premia	11,008	3,063	-	-	-	**14,071**
Employer's contributions payable to the Lothian Pension Fund	13,952	510	-	-	-	**14,462**
Capital expenditure charged against the General Fund and HRA balances	-	3,200	-	-	-	**3,200**
Total Adjustments	(5,754)	(8,815)	-	-	-	**(14,569)**

Note 7 Taxation and Non-Specific Grant Income

Grant Income can take many forms paid on account, by instalments or in arrears, government grants, third party contributions and donations are recognised as due to East Lothian Council when there is an assurance that the council will comply with the necessary conditions attached to these payments. East Lothian Council credited the following grants, contributions and taxation income to the Comprehensive Income & Expenditure Statement:-

2015/16 £000's		2016/17 £000's
(42,790)	Council Tax	(43,937)
(26,079)	Non domestic rates	(24,370)
(147,620)	Non ringfenced government grants	(144,370)
(20,418)	Capital grants and contributions	(15,726)
(236,907)	Total	(228,403)

Note 8 Trading Operations

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 £0.906 million.

	2014/15 £000's	2015/16 £000's	2016/17 £000's
Turnover	8,480	8,749	9,057
Surplus/(Deficit)	360	127	419
3-year Cumulative Surplus			**906**

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. The cumulative position over the last three years is now a surplus of £1.253 million.

	2014/15 £000's	2015/16 £000's	2016/17 £000's
Turnover	10,068	10,614	10,880
Surplus/(Deficit)	650	116	487
3-year Cumulative Surplus			**1,253**

Roads Services

Roads Services carries out a repair and maintenance service to enable the Council to fulfil its statutory obligations. The extent of its work includes roads network repair and maintenance. This includes routine and cyclical maintenance as well as some capital work. Over the three-year period the service has a cumulative surplus of £1.923 million and has met the statutory target.

	2014/15 £000's	2015/16 £000's	2016/17 £000's
Turnover	6,786	7,221	6,131
Surplus/(Deficit)	731	529	663
3-year Cumulative Surplus			**1,923**

Note 9 Agency Income and Expenditure

The Council provides an agency service to Scottish Water. Associated income and expenditure is not included within the Council Comprehensive Income and Expenditure Statement. In 2016/17 £17m (2015/16: £16.9m) was paid over to Scottish Water.

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

Note 10 Related Parties

The Authority 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 assessment of the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government

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

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2016/17 is shown in the Remuneration Report.

East Lothian Council approved Community Partnership Funding for 2016/17 of £2,195,556 and Area Partnership funding of £950,000. Adult Wellbeing payments to Voluntary Organisations of £659,798 were also approved. Of these amounts Partnership funding of £1,204,000 and £257,000 of Adult wellbeing payments were awarded to organisations in which Members have representation.

Further grants of £20,000 were awarded to organisations in which Members have representation.

In all instances the grants were made with proper consideration of declarations of interest. A register of Members' interests is available on the Council's website. Details of all grants and awards to organisations in which Members have representation are listed below

Name of Organisation	Partnership Funding £000's	Adult Wellbeing £000's	Other Grants £000's	Total Amount Awarded £000's
Anti-bullying East Lothian	79	-	-	79
Coastal Communities Museum Trust	8	-	-	8
Dunbar & District Twinning Association	-	-	1	1
Dunbar Community Development Company	58	-	-	58
Dunbar Day Centre	1	52	-	53
East Lothian Advice Consortium (note 1)	527	-	-	527
East Lothian Voluntary Organisation Network (now STRiVE) (note 2)	14	28	-	42
First Step	226	-	-	226
Fisherrow Trust	30	-	-	30
Haddington Garden Trust	10	-	-	10
Harlawhill Day Centre	-	106	-	106
Haddington Twinning Association	-	-	1	1
Hollies Day Centre	-	71	-	71
Lamp of Lothian Trust	20	-	14	34
Lothian Miners Convalescent Home	7	-	-	7
Musselburgh Twinning Association	-	-	2	2
Pennypit Trust	168	-	-	168
The Bridge Centre	56	-	-	56
Tranent Family Fireworks	-	-	2	2
	1,204	257	20	1,481

Note 1 - Haddington Citizens Advice Bureau & Musslbrugh Citizens Advice Bureau were previously listed seperately, these now come under East Lothian Advice Consortium

Note 2 -East Lothian Voluntary Organisation Network changed its name to STRiVE and no longer requires elected member representation, this organisation will not be included for 2017-18

Entities Controlled or Significantly Influenced by the Council

Entity	Nature of Related Party Relationship	Payments in the year 2015/16 £000's	Payments in the year 2016/17 £000's	Nature of transactions	Position at year-end 2015/16 Debtor Balances £000's	Position at year-end 2015/16 Creditor Balances £000's	Position at year-end 2016/17 Debtor Balances £000's	Position at year-end 2016/17 Creditor Balances £000's
Enjoy East Lothian Limited	Charitable organisation registered with Office of Scottish Charity Regulators	2420	2,320	Payment for provision of leisure services	63	-	48	-
East Lothian Investments	Company set up under the Companies Act 2006 with aim of encouraging enterprise and commercial activity	-	-	Loans provided to company	4	-	-	-
Brunton Theatre Trust	Charitable organisation registered with Office of Scottish Charity Regulators	455	455	Payment for provision of arts/cultural services	-	(295)	-	(433)
Common Goods	Council manages assets of historic burghs in line with statute	-	-	Cash balances relating to normal operations	-	(2,410)	-	(2,811)
Musselburgh Joint Racing Committee	Unincorporated organisation which organises racing on Musselburgh Links under Minute of Agreement with Council.	-	-	Cash balances relating to normal operations	317	-	309	-
Trust Funds	Approximately 48 Trust Funds which are managed by the Council in line with the respective trust deeds	-	-	Cash balances relating to normal operations	-	(1,245)	-	(1,355)
Joint Boards	Statutory bodies set up by Scottish Ministers	669	669	Payments to run valuation services	-	-	-	-

Integration Joint Board

In line with statutory requirements, during 2015/16 the East Lothian Integration Joint Board (IJB) was established.

During 2016/17 the Council incurred Chief Officer costs of £31,528 and audit fees of £9,000 relating to the operation of the IJB.

The Chief Officer costs are included in the remuneration report cost for the Director of East Lothian Health and Social Care Partnership post. The audit costs are part of the note 11 figure below.

Note 11 Audit Costs

Audit Scotland has been appointed as the Council's external auditor by the Accounts Commission.

Audit Fee	**2015/16**	**2016/17**
	£000's	**£000's**
Statutory Audit Fee	245	245

Note 12 Property Plant and Equipment Movements

Movements in 2015/16	Council Dwellings £000's	Other land and buildings £000's	Vehicles, Plant, Furniture & Equipment £000's	Infra-structure Assets £000's	Comm-unity Assets £000's	Surplus Assets £000's	Assets Under Con-struction £000's	Total Property, Plant and Equipment £000's	PFI Assets Included in PPE £000's
Cost or Valuation									
At 1 April 2015	340,527	417,363	39,103	81,352	18,260	47	3,105	**899,757**	95,871
Additions	19,612	16,566	3,773	7,010	370	-	2,408	**49,739**	478
Acc Dep & Imp WO to GCA	-	(53,950)	-	-	(106)	-	-	**(54,056)**	(14,775)
Revaluation increases recognised in the Revaluation Reserve	106	116,031	-	-	114	125	-	**116,376**	44,701
Revaluation decreases recognised in the Surplus/Deficit on the Provision of Services	-	(16,259)	-	-	-	-	(1,377)	**(17,636)**	(4,505)
Derecognition - Disposals	(2,460)	-	(92)	-	-	(37)	-	**(2,589)**	-
Asset reclassified (to) Held for Sale	-	(112)	-	-	-	1,220	-	**1,108**	-
Other Movements in cost or valuation	(512)	926	-	-	(1,301)	887	-	-	-
At 31 March 2016	**357,273**	**480,565**	**42,784**	**88,362**	**17,337**	**2,242**	**4,136**	**992,699**	**121,770**
Accumulated Depreciation and Impairment									
At 1 April 2015	(9,770)	(48,080)	(30,741)	(22,879)	(2,858)	-	(6)	**(114,334)**	(11,750)
Depreciation Charge	(9,723)	(14,822)	(3,434)	(3,845)	(287)	-	-	**(32,111)**	(3,025)
Acc Dep & Imp WO to GCA	-	53,949	-	-	106	-	-	**54,055**	14,775
Impairment (reversals) recognised in the Revaluation Reserve	(6)	(186)	-	-	-	-	-	**(192)**	-
Depreciation written out to the Surplus/Deficit on the provision of services	(22)	-	-	-	-	-	-	**(22)**	-
Impairment (reversals) recognised in the Deficit on the Provision of Services	-	(500)	-	-	-	-	-	**(500)**	-
Derecognition - Disposals	49	-	82	-	-	-	1	**132**	-
Impairments	-	-	-	-	-	-	-	-	-
Other movements in depreciation or	-	22						**22**	-
Other movements in depreciation or	(5)	(151)	-	-	151	-	5	-	-
At 31 March 2016	**(19,477)**	**(9,768)**	**(34,093)**	**(26,724)**	**(2,888)**	**-**	**-**	**(92,950)**	**-**
Net Book Value									
At 31 March 2016	337,796	470,797	8,691	61,638	14,449	2,242	4,136	**899,749**	121,770
At 1 April 2015	330,757	369,283	8,362	58,473	15,402	47	3,099	**785,423**	84,121

Movements in 2016/17	Council Dwellings £000's	Other land and buildings £000's	Vehicles, Plant, Furniture & Equipment £000's	Infra-structure Assets £000's	Comm-unity Assets £000's	Surplus Assets £000's	Assets Under Con-struction £000's	Total Property, Plant and Equipment £000's	PFI Assets Included in PPE £000's
Cost or Valuation									
At 1 April 2016	357,273	480,565	42,784	88,362	17,337	2,242	4,136	**992,699**	121,770
Additions	22,716	13,335	3,647	102	712	-	1,391	**41,903**	1,546
Acc Dep & Imp WO to GCA	-	-	-	-	-	-	-	-	-
Revaluation increases recognised in the Revaluation Reserve	-	-	-	-	-	-	-	-	-
Revaluation decreases recognised in the Surplus/Deficit on the Provision of Services	-	-	-	-	-	-	-	-	-
Derecognition - Disposals	(3,616)	-	(120)	-	-	-	-	**(3,736)**	-
Asset reclassified (to)/from Held for Sale	-	-	-	-	-	-	-	-	-
Other Movements in cost or valuation	2,737	-	-	-	-	-	(2,737)	-	-
At 31 March 2017	**379,110**	**493,900**	**46,311**	**88,464**	**18,049**	**2,242**	**2,790**	**1,030,866**	**123,316**
Accumulated Depreciation and Impairment									
At 1 April 2016	(19,477)	(9,768)	(34,093)	(26,724)	(2,888)	-	-	**(92,950)**	-
Depreciation Charge	(10,626)	(17,352)	(3,473)	(4,110)	(299)	-	-	**(35,860)**	(5,268)
Acc Dep & Imp WO to GCA	-	-	-	-	-	-	-	-	-
Impairment (reversals) recognised in the Revaluation Reserve	(9,108)	-	-	-	-	-	-	**(9,108)**	-
Depreciation written out to the Surplus/Deficit on the provision of services	-	-	-	-	-	-	-	-	-
Impairment (reversals) recognised in the Surplus/Deficit on the Provision of Services	(10,504)	-	-	-	-	-	-	**(10,504)**	-
Derecognition - Disposals	322	-	99	-	-	-	-	**421**	-
Impairments	-	-	-	-	-	-	-	-	-
Asset reclassified (to)/from Held for Sale	-	-	-	-	-	-	-	-	-
Other movements in depreciation or	4	-	-	-	-	-	(4)	-	-
At 31 March 2017	**(49,389)**	**(27,120)**	**(37,467)**	**(30,834)**	**(3,187)**	**-**	**(4)**	**(148,001)**	**(5,268)**
Net Book Value									
At 31 March 2017	329,721	466,780	8,844	57,630	14,862	2,242	2,786	**882,865**	118,048
At 1 April 2016	337,796	470,797	8,691	61,638	14,449	2,242	4,136	**899,749**	121,770
Asset Manager Opening NBV 2016	**337,796**	**470,797**	**8,691**	**61,638**	**14,449**	**2,242**	**4,136**	**899,749**	**121,770**

Note 13 Property Plant and Equipment

Depreciation

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

Council Dwellings	25-26 years
Council Garages	12 years
Other Land and Buildings	10-60 years
Vehicles, Plant, Furniture & Equipment	1-25 years
Infrastructure	1-25 years
Community Assets	12-50 years

Assets under Construction are not depreciated.

Capital Commitments

As at 31 March 2017, the Council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2017/18 and future years budgeted to a value of £23.7m. Similar commitments in 2016/17 were £11.7 million. The gross commitments for the Council's major projects are:

	2016/17 £000's
Red School	656
Russell Walk Housing - HRA	2,882
Ormiston Pavilion	679
Wallyford Primary (HUB)	19,490
TOTAL	**23,707**

Revaluations

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

Details of previous and future valuation dates are provided below

	Council Dwellings Council Houses & Garages	Other Land & Buildings Non Operational Industrial Lets etc	Other Land & Buildings Operational Portfolio of schools, community centres etc
Date of last valuation	31/03/2014	31/03/2015	31/03/2016
Date of next valuation	31/12/2018	31/12/2019	31/12/2020

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

The significant assumptions applied in estimating the current values for buildings are that;

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

Note 14 Heritage Assets

	2015/16 Art Collection £000's	2016/17 Art Collection £000's
Cost or Valuation		
Net carrying amount at the start of the year	605	801
Additions	196	164
Revaluation increases recognised in the Revaluation Reserve	-	87
Net carrying amount at end of year	**801**	**1,052**

Note 15 Assets Held for Sale

	2015/16 £000's	2016/17 £000's
Balance outstanding at start of year	**2,269**	**898**
Assets newly classified as held for sale	89	71
Assets declassified as held for sale	(1,220)	-
Assets sold	(240)	(199)
Balance outstanding at end of the year	**898**	**770**

Note 16 Assets Held Under Lease

Council as Lessee

Operating leases

The Council uses certain items of plant and equipment financed under the terms of operating leases. The amount paid under these arrangements in 2016/17 was £0.18m (2015/16: £0.40m).

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

	Minimum Lease Payments	
	31 March 2016 £000's	31 March 2017 £000's
Not later than one year	358	253
Later than one year and not later than five years	800	133
	1,158	386

Finance Leases

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

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

	31 March 2016 £000's	31 March 2017 £000's
Other Land and Buildings	14,007	13,533
Vehicles, Plant, Furniture and Equipment	204	185
	14,211	13,718

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

	31 March 2016	31 March 2017
	£000's	£000's
Finance lease liabilities (Net Present Value of Minimum Lease Payments)		
Current	55	57
Non-Current	1,108	1,014
Finance costs payable in future years	5,925	5,697
Minimum Lease Payments	7,088	6,768

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2016 £000's	31 March 2017 £000's	31 March 2016 £000's	31 March 2017 £000's
Not later than one year	283	283	55	57
Later than one year and not later than five years	1,132	1,132	236	243
Later than five years	5,879	5,353	835	772
	7,294	6,768	1,126	1,072

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2016/17 £14,700 in contingent rents were payable by the Council.

Council as lessor

Operating Leases

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

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

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

	Minimum Lease Payments	
	31 March 2016 £000's	31 March 2017 £000's
Not later than one year	1,785	1,963
Later than one year and not later than five years	2,676	2,602
Later than five years	23,609	24,631
	28,070	29,196

Note 17 Private Finance Initiatives and Similar Contracts

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

The assets used to provide services are recognised on the Council's Balance Sheet. Movements in their value over the year are detailed in the analysis of the movement on the Property, Plant and Equipment balance in Note 12.

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

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

Payments remaining to be made under the PFI contract at 31 March 2017 are as follows:

	Payment for Services	Reimbursement of Capital Expenditure	Interest	Total
	£000's	£000's	£000's	£000's
Payable in 2017/18	3,239	1,538	2,654	7,431
Payable within 2-5 years	14,356	5,705	9,662	29,723
Payable within 6-10 years	18,989	8,284	9,881	37,154
Payable within 11-15 years	17,141	13,346	6,666	37,153
Payable within 16-20 years	8,774	11,374	1,511	21,659
Total	62,499	40,247	30,374	133,120

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

	31 March 2016	31 March 2017
	£000's	£000's
Balance at start of year	42,402	41,379
Payments	(1,023)	(1,132)
Balance outstanding at year-end	41,379	40,247

Note 18 Capital Expenditure and Capital Financing

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

	31 March 2016 £000's	Re-stated 31 March 2016 £000's	31 March 2017 £000's
Opening Capital Financing Requirement	**411,761**	**411,761**	**427,566**
Capital Investment			
Property , Plant and Equipment	49,738	49,738	41,903
Loans to Housing Associations	3,550	3,550	-
Sources of finance			
Capital receipts	(3,605)	(3,614)	(6,907)
Government grants	(16,801)	(16,801)	(13,472)
Other Contributions	(4,196)	(4,215)	(2,660)
Direct Revenue Contributions	(90)	(90)	(3,200)
Loans Fund	(14,017)	(12,763)	(15,258)
Closing Capital Financing Requirement	426,340	427,566	427,972

Note 19 Impairment Losses

During 2016/17 the Council recognised impairment losses totalling £10.335 million relating to non value adding enhancement of HRA assets. These impairment losses have been charged to as appropriate to within the Comprehensive Income and Expenditure Statement.

During 15/16 the Council recognised impairment losses totalling £18.137 million. The majority of this related to updated building valuations.

Note 20 Long Term Investments

	31 March 2016 £000's	31 March 2017 £000's	Details
Lothian Buses plc	2,965	2,820	East Lothian Council holds 200,000 ordinary shares representing 3.1% of the share capital. A dividend is received each year.
East Lothian Investments Limited	204	204	The Council's interest, estimated as 40% was inherited from the former Lothian Investments Board. No dividends are received.
East Lothian Land	601	601	Set up in 2000 for the purpose of managing land to support economic development. The Council is the sole shareholder. No dividends are received.
Total	3,770	3,625	

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

Note 21 Long Term Debtors

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

	31 March 2016 £000's	31 March 2017 £000's	Purpose
Public Private Partnerships - Prepaid lifecycle replacement costs	772	691	Prepaid lifecycle replacement costs - over 30 years
Private property owners - common repairs	852	867	Repairs to private property funded by secured ELC loans
Employees - car/other loans	11	1	Loans to employees repaid over 3-5 years
North Berwick Trust	-	-	Loan secured on land/Repaid 2015/16
East Lothian Investments	4	-	Loan to be repaid over 3 years
East Lothian Housing Association	9,801	9,651	Loan secured on land and houses
Other	14	14	Loans secured on houses
Total	11,454	11,224	

Note 22 Short Term Debtors

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

	31 March 2016 £000's	31 March 2017 £000's
Central Government Bodies	6,269	3,970
Other local authorities	765	1,030
NHS bodies	354	412
Public corporations and trading funds	-	6
Other entities and individuals	20,046	20,137
Total	27,434	25,555

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

	31 March 2016 £000's	31 March 2017 £000's
Taxpayers - Council Tax	(6,359)	(5,829)
Customers - Goods & Services	(3,025)	(3,142)
Tenants - Council House Rents	(2,642)	(2,914)
Total	(12,026)	(11,885)

Note 23 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 2016	31 March 2017	31 March 2016	31 March 2017
	£000's	£000's	£000's	£000's
Borrowings				
Financial liabilities (principal amount)	(324,005)	(336,034)	(13,158)	(8,211)
Accrued Interest	-	-	(1,500)	(1,523)
EIR & Finance Leases	(1,114)	(1,107)	-	-
Total included in borrowings	**(325,119)**	**(337,141)**	**(14,658)**	**(9,734)**
Other Long term Liabilities				
PFI and finance lease liabilities	(41,319)	(39,724)	(1,186)	(1,595)
Total other long term liabilities	**(41,319)**	**(39,724)**	**(1,186)**	**(1,595)**
Creditors				
Financial liabilities carried at contract amount	-	-	(28,200)	(28,237)
Total creditors	**-**	**-**	**(28,200)**	**(28,237)**
Investments				
Available-for-sale financial assets	3,771	3,625	-	-
Total investments	**3,771**	**3,625**	**-**	**-**
Debtors				
Loans and receivables	-	-	2	20
Financial assets carried at contract amounts	11,454	11,224	27,434	25,555
Total debtors	**11,454**	**11,224**	**27,436**	**25,575**

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

Financial Instruments Gains and Losses

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

Financial Instruments Gains and Losses 2016/17

	Financial Liabilities	Financial Assets		
	Liabilities measured at amortised cost	Loans and receivables	Available-for-sale assets	Total
	£000's	£000's	£000's	£000's
Interest expense	2,729	13,748	-	**16,477**
Fee expense	-	7	-	**7**
Total expense in Surplus or Deficit on the Provision of Services	**2,729**	**13,755**	**-**	**16,484**
Interest income	-	(531)	-	**(531)**
Total income in Surplus or Deficit on the Provision of Services	**-**	**(531)**	**-**	**(531)**
				-
Net (Gains) / losses on revaluation	-	-	146	**146**
Surplus arising on revaluation of financial assets in Other Comprehensive Income and Expenditure	**-**	**-**	**146**	**146**
Net gain/(loss) for the year	**2,729**	**13,224**	**146**	**16,099**

Financial Instruments Gains and Losses 2015/16

	Financial Liabilities	Financial Assets		
	Liabilities measured at amortised cost	Loans and receivables	Available-for-sale assets	Total
	£000's	£000's	£000's	£000's
Interest expense	2,797	13,690	-	**16,487**
Fee expense	-	4	-	**4**
Total expense in Surplus or Deficit on the Provision of Services	**2,797**	**13,694**	**-**	**16,491**
				-
Interest income	-	(507)	-	**(507)**
Total income in Surplus or Deficit on the Provision of Services	**-**	**(507)**	**-**	**(507)**
				-
Net (Gains) / losses on revaluation	-	-	(1,005)	**(1,005)**
Surplus arising on revaluation of financial assets in Other Comprehensive Income and Expenditure	-	-	(1,005)	(1,005)
Net gain/(loss) for the year	**2,797**	**13,187**	**(1,005)**	**14,979**

Financial Liabilities and Financial Assets – Fair Value

As at 31st March 2017 the Council held £40.424m financial assets and £416.372m financial liabilities. The financial liabilities are held with PWLB, PFI and Market lenders. All of these borrowings were not quoted on an active market and a market valuation is not available. To provide a fair value which provides a comparison to the carrying amount, we have used a financial model valuation provided by Capita Asset Services. This valuation applies the Net Present Value approach, which provides an estimate of the value of payments in the future in todays terms as at the balance sheet date. This is a widely accepted valuation technique commonly used by the private sector. Our accounting policy uses New Borrowing Rates to discount the future cash flows.

The fair values calculated are as follows:

Financial Liabilities	31 March 2016		31 March 2017	
	Carrying amount £000's	Fair value £000's	Carrying amount £000's	Fair value £000's
PWLB debt	293,952	345,629	305,882	375,910
Non-PWLB debt	40,823	51,528	40,993	61,434
Short term Borrowing	5,000	5,001	-	-
Short term creditors	28,200	28,200	28,237	28,237
Short term finance lease liability	1,186	1,186	1,595	1,595
Long term finance lease liability	41,319	41,319	39,727	39,727
Total Liabilities	**410,480**	**472,863**	**416,434**	**506,903**

Financial Assets	31 March 2016		31 March 2017	
	Carrying amount £000's	Fair value £000's	Carrying amount £000's	Fair value £000's
Short term investments	2	2	20	20
Long term investments	3,771	3,771	3,625	3,625
Fair Value through the I&E	(1,005)	(1,005)	-	-
Short term debtors	27,434	27,434	25,555	25,555
Long term debtors	11,454	11,454	11,224	11,224
Total Assets	**41,656**	**41,656**	**40,424**	**40,424**

The fair value of the liabilities is greater than the carrying amount because the Council'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 in the market at the balance sheet date. This shows a notional future loss (based on economic conditions at 31 March 2017) arising from a commitment to pay interest to lenders above current market rates.

The fair value of Public Works Loan Board (PWLB) loans of £375.91m measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. The difference between the carrying amount and the fair value measures the additional interest that the authority will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates.

Key risks

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

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

The Council'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 treasury management strategy. The Council provides written principles for overall risk management, as well as written policies (covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash.

Credit risk

The Council does not generally allow credit for its customers, such that £4.934m of the £20.137m balance is past its due date for payment. The past due amount can be analysed by age as follows:

	31 March 2016 £000's	31 March 2017 £000's
Less Than Three Months (90 days)	1,563	1,713
Three To Six Months (91 - 182 days)	351	177
Six Months To One Year (183 - 365 days)	315	113
Greater Than One Year (greater than 365 days)	2,506	2,931
Total	**4,735**	**4,934**

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

The Council initiates a legal charge on property where, for instance, clients require the assistance of social services but cannot afford to pay immediately. The total collateral at 31 March 2017 was £758k.

Liquidity risk

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

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

All sums owing (£25.555m) are due to be paid in less than one year.

Refinancing and Maturity risk

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

The maturity analysis of financial liabilities is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period (approved Council in the Treasury Management Strategy, section 3.4):

	Approved minimum limits	Approved maximum limits	Approved maximum limits 2017 £000s	Actual 31 March 2016 £000s	Actual 31 March 2017 £000s
Less than 1 year	0%	20%	70,430	13,158	8,211
Between 1 and 2 years	0%	30%	103,306	8,180	17,573
Between 2 and 5 years	0%	40%	137,742	52,409	55,644
Between 5 and 10 years	0%	40%	137,742	54,443	44,352
More than 10 years	0%	75%	258,266	208,971	218,467
Total				**337,161**	**344,247**

Market risk

Interest Rate risk

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

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

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Other Comprehensive Income and Expenditure Statement.

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

According to this assessment strategy, at 31 March 2017, if all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

	March 2017
	£000s
Increase in interest payable on variable rate borrowings	132
Impact on Surplus or Deficit on the Provision of Services	**132**
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	**48,076**

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed. These assumptions are based on the same methodology as used in the Note – Fair value of Assets and Liabilities carried at Amortised Cost

Price risk

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

However, it does have shareholdings to the value of £3.625m in a number of joint ventures and in local industry. Whilst these holdings are generally illiquid, the Council is exposed to losses arising from movements in the price of the shares.

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

The shares are all classified as Available-for-Sale, meaning that all movements in price will impact on gains and losses recognised in the Available for Sale Reserve.

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

Foreign exchange risk

The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

Note 24 Short Term Creditors

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

	31 March 2016 £000's	31 March 2017 £000's
Central government bodies	(6,126)	(7,723)
Other local authorities	(2,595)	(2,414)
NHS bodies	(293)	(147)
Public corporations	(2)	(7)
Other entities and individuals	(19,184)	(17,946)
Total	(28,200)	(28,237)

Note 25 Provisions

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

	Affordable Homes Development Fund £000's	Accumulated Absences Fund £000's	Municipal Mutual Fund £000's	Other Provision £000's	Total £000's
Balance at 1 April 2015	(248)	(3,523)	(186)	-	(3,957)
Provisions made in 2015/16	(390)	(3,394)	-	(484)	(4,268)
Amounts used in 2015/16	319	3,523	77	-	3,919
Balance at 31 March 2016	(319)	(3,394)	(109)	(484)	(4,306)
Balance at 1 April 2016	(319)	(3,394)	(109)	(484)	(4,306)
Provisions made in 2016/17	(412)	-	-	(67)	(479)
Amounts used in 2016/17	-	59	-	-	59
Balance at 31 March 2017	(731)	(3,335)	(109)	(551)	(4,726)

Affordable Homes Development Fund

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

Accumulated Absences Fund

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

Municipal Mutual Fund

During the early 1990s, Municipal Mutual Insurance Limited (MMI), which was the main insurer of local authorities across the country, ran into financial difficulties. The MMI business was subsequently acquired by another insurance company with the plan to wind up its activities. Until this year, the expectation was that there would be a solvent run–down of the business and that there would be sufficient funds to meet all the current and future insurance claims. During 2012/13 however, East Lothian Council as one of the company's creditors, was informed that a solvent run-down is now unlikely and a prearranged Scheme of Arrangement would be triggered. Under the Scheme the creditors are required to pay a levy designed to meet the deficit between assets and liabilities.

Other Provision

A case has been lodged against the Authority. A provision of £551,000 has been made for the possible settlement that the Authority will have to pay.

Note 26 Long Term Liabilities

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

	31 March 2016 £000's	31 March 2017 £000's	Details
Deferred Liabilities - Developers' Contributions	(13,281)	(15,229)	These amounts represent the payments received from developers and are linked to future capital spending. Funding is retained until project is completed
Deferred Liabilities - Rental Income in advance	(450)	(416)	Income to be released over the lease period
Other	(612)	(711)	
PPP and Finance Lease Liabilities	(41,319)	(41,261)	This amount represents the outstanding obligations the Council has to make payments under finance and PFI leases. More details are provided at Note 16 and Note 17.
Net Pensions Liability	(114,995)	(178,238)	The underlying commitment that the Council has to pay retirement benefits. Recovered from the Council over future years. More details are provided at Note 27
Total Long term liabilities	(170,657)	(235,855)	

Note 27 Defined Benefit Pension Schemes

Participation in Pensions schemes

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

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

Arrangements for the award of discretionary post retirement benefits upon early retirement is an unfunded defined benefit arrangement under which liabilities are recognised when awards are made. No investment assets are built up to meet these pension liabilities and cash has to be generated to meet actual payments as they fall due.

The Lothian Pension Fund is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the pensions committee of City of Edinburgh Council. Policy is determined in accordance with the pension fund regulations.

The principle risks to the authority of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme, changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge the General Fund and Housing Revenue Account the amounts required by statute as described in the policies note.

Discretionary Post-retirement Benefits

Discretionary post-retirement benefits on early retirements are an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. There are no assets built up to meet these pension liabilities.

Transactions relating to retirement benefits

We recognise the cost of retirement benefits in the reported cost of *services* when employees earn them, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against Council Tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund and Housing Revenue Account via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund via the Movement in Reserves Statement during the year:

	2015/16 £000's	2016/17 £000's
Comprehensive Income and Expenditure Statement		
Cost of Services comprising:		
Current service cost	18,993	16,997
Past service costs (including Curtailments)	6	6
(Gain)/Loss on Settlements	-	-
Financing and Investment Income and Expenditure		
Net interest expense	5,582	4,066
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	24,581	21,069
Other Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement		
Remeasurement of the net defined benefit liability comprising:		
Return on plan assets (excluding the amount included in the net interest expense)	7,474	86,283
Actuarial gains and losses arising on changes in demographic assumptions	-	-
Actuarial gains and losses arising on changes in financial assumptions	53,573	(143,719)
Other remeasurement experience	6,431	800
Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	67,478	(56,636)
Movement in Reserves Statement		
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post employment benefits in accordance with the Code.	10,445	6,607
Actual amount charged against the General Fund Balance for pensions in the year		
Employers Contributions Payable	13,667	13,952

Pension assets and liabilities recognised in the Balance Sheet

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

	2015/16 £000's	2016/17 £000's
Pensions Assets and Liabilities Recognised in the Balance Sheet		
Present value of the defined benefit obligation	(566,444)	(732,394)
Fair value of plan assets	451,449	554,156
Net liability arising from defined benefit obligation	(114,995)	(178,238)

The Reconciliation of the Movements in the Fair Value of the scheme assets is as follows:

	31 March 2016 £000's	31 March 2017 £000's
Opening Fair Value of scheme assets	430,631	451,449
Interest Income	13,773	15,801
Remeasurement gain/(loss):		
Return on plan assets, excluding the amount included in the net interest expense	7,474	86,283
Contributions from employer	14,136	14,462
Contributions from employees into the scheme	3,705	3,827
Benefits paid	(18,270)	(17,666)
Closing Fair Value of Scheme Assets	451,449	554,156

The reconciliation of the present value of the scheme liabilities is as follows:

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)	31 March 2016 £000's	31 March 2017 £000's
Opening Balance at 1 April	(602,659)	(566,444)
Current Service Cost	(18,993)	(16,997)
Interest Cost	(19,355)	(19,867)
Contributions from Scheme participants	(3,705)	(3,827)
Remeasurement (gains) and losses:		
Actuarial gains/losses arising from changes in demographic assumptions	-	-
Actuarial gains/losses arising from changes in financial assumptions	53,573	(143,719)
Other	6,431	800
Past Service Cost	(6)	(6)
Benefits Paid	18,270	17,666
Closing Balance at 31 March	(566,444)	(732,394)

Scheme History

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £178.238 million has a substantial impact on the net worth of the Council 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 result in increased contributions in future years, as assessed by the scheme actuary.
The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2018 is £13.251 million

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 Local Government Pension Scheme liabilities have been estimated by Hymans Robertson, an independent firm of actuaries. The liabilities for the Lothian Pension Fund at 31st March 2017 have been assessed by rolling forward the value of the liability calculated at the latest formal valuation date (31st March 2014), allowing for the different financial assumptions required under the Accounting Standard at the reporting date.

The main financial assumptions in the actuaries' calculations were:

	2015/16	2016/17
Mortality assumptions		
Longevity at 65 for current pensioners		
Male	22.1	22.1
Female	23.7	23.7
Longevity at 65 for future pensioners		
Male	24.2	24.2
Female	26.3	26.3
Rate of inflation		
Rate of increase in salaries	4.2%	4.4%
Rate of increase in pensions	2.2%	2.4%
Rate for discounting scheme liabilities	3.5%	2.6%

The following sensitivity analysis demonstrates the potential effect on the defined obligation in the scheme as a result of changes in the underlying assumptions:

Impact on the Defined Benefit Obligation in the Actuarial Assumptions Sensitivity Analysis	Approximate % increase to Defined Benefit Obligation	Approximate Monetary Amount (£000)
0.5% decrease in Real Discount Rate	11%	78,213
0.5% increase in Salary increase rate	4%	26,347
0.5% increase in Pension increase rate	7%	49,505

Lothian Government Pension Scheme Assets comprised:

	31 March 2016 £000's	%	31 March 2017 £000's	%
Local Government Pension Scheme Assets comprised:				
Cash and Cash Equivalents	27,899	6%	25,703	5%
Private Equity	19,743	4%	17,900	3%
Derivatives	(26)	0%	-	0%
Equity Securities:				
Consumer	68,753	15%	83,195	15%
Manufacturing	53,245	12%	84,008	15%
Energy and Utilities	35,860	8%	41,120	7%
Financial Institutions	38,237	8%	38,695	7%
Health and Care	30,010	7%	32,483	6%
Information Technology	27,048	6%	27,426	5%
Other	25,840	6%	38,186	7%
Sub-total Equity Securities	278,993	62%	345,113	62%
Debt Securities:				
Corporate Bonds (investment grade)	-	0%	-	0%
UK Government	29,052	6%	55,645	10%
Other	11,420	3%	1,151	0%
Sub-total Debt Securities	40,472	9%	56,796	10%
Real Estate:				
UK Property	38,617	9%	37,390	7%
Overseas Property	-	0%	-	0%
Sub-total Real Estate	38,617	9%	37,390	7%
Investment Funds and Unit Trusts:				
Equities	-	0%	-	0%
Bonds	3,658	1%	8,218	1%
Commodities	1,251	0%	1,625	1%
Infrastructure	30,026	7%	49,589	9%
Other	10,816	2%	11,822	2%
Sub-total Investment Funds and Unit Trusts	45,751	10%	71,254	13%
Total Assets	451,449	100%	554,156	100%

	31 March 2016 £000's	31 March 2017 £000's
Scheme Assets Fair Value		
Quoted Prices in Active Markets	357,380	440,443
Quoted Prices not in Active Markets	94,069	113,713
Total	451,449	554,156

Pension schemes accounted for as defined contribution schemes

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

In 2016/17, the Council paid £6.28m (2015/16: £5.92m) to the Scottish Teachers Superannuation Scheme in respect of teachers' retirement benefits, representing 17.2% of pensionable pay (2015/16: 14.9% from 1 April 2015 increasing to 17.2% from 1 September 2015).

The scheme is a defined benefit scheme. Although the scheme is unfunded, Teachers' Pensions use a notional fund as the basis for calculating the employers' contribution rate paid by local education authorities. However, it is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees. This means it is not possible to identify the extent to which a surplus or deficit in the scheme may affect the amount of future contributions. For the purposes of the Annual Accounts, it is therefore accounted for on the same basis as a defined contribution scheme. The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. In 2016/17, the Council paid £0.654m (2015/16: £0.628m) to Teachers' Pensions in respect of these retirement benefits.

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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 2016/17, the Council paid £0.06m (2015/16: £0.07m) to individuals. The estimated value of future liabilities based on actuarial mortality estimates is £0.632m.

Note 28 Usable Reserves

Movements in the Council's Usable Reserves are detailed in the Movement in Reserves Statement within the Core Financial Statements.

General Fund Balance

The General Fund is the statutory fund into which all of the receipts of an Authority are required to be received and which all of the liabilities are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund balance, which is not necessarily in accordance with proper accounting practice. The General Fund balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment at the end of the financial year.

Housing Revenue Account balance

The Housing Revenue Account reflects a statutory obligation to maintain a revenue account for local authority housing provision in line with the Housing (Scotland) Act 1987. It contains the balance of income and expenditure as defined by the 1987 Act that is available to fund future expenditure in connection with the Council's landlord function.

Note 29 Unusable Reserves

	31 March 2016 £000's	31 March 2017 £000's
Revaluation Reserve	(249,337)	(229,561)
Available-for-sale Financial Instruments Reserve	(2,771)	(2,625)
Pensions Reserve	114,995	178,238
Capital Adjustment Account	(235,347)	(237,818)
Financial Instruments Adjustment Account	3,928	3,664
Employee Statutory Adjustment Account	3,394	3,335
Total	**(365,138)**	**(284,767)**

Revaluation Reserve

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

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

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

31 March 2016 £000's		31 March 2017 £000's
(138,504)	**Balance at 1 April**	**(249,337)**
(121,184)	Upward revaluation of assets	(90)
4,641	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	9,110
(116,543)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	9,020
5,457	Difference between fair value depreciation and historical cost depreciation	10,104
253	Accumulated gains on assets sold or scrapped	652
(249,337)	**Balance at 31 March**	**(229,561)**

Available for Sale Financial Instruments Reserve

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

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

31 March 2016 £000's		31 March 2017 £000's
(1,766)	**Balance at 1 April**	**(2,771)**
(1,005)	Upward revaluation of investments	-
-	Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	146
(1,005)		146
-	Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income	-
(2,771)	**Balance at 31 March**	**(2,625)**

Pensions Reserve

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

31 March 2016 £000's		31 March 2017 £000's
172,028	**Balance at 1 April**	**114,995**
(67,478)	Actuarial gains or losses on pensions assets and liabilities	56,636
24,581	Reversal of items relating to retirement benefits debited or credited to the Surplus or Defict on the Provision of Services in the Comprehensive Income and Expenditure Statement	21,069
(14,136)	Employer's pensions contributions and direct payments to pensioners payable in the year	(14,462)
114,995	**Balance at 31 March**	**178,238**

Capital Adjustment Account

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

31 March 2016 £000's		31 March 2017 £000's
(245,394)	**Balance at 1 April**	**(235,347)**
32,111	Charges for depreciation of non-current assets	35,860
18,137	Revaluation and impairment losses on Property, Plant and Equipment	10,335
(800)	Assets written off on disposal or sale	(4,112)
49,448		42,083
(5,457)	Adjusting amounts written out of the Revaluation Reserve	(10,104)
43,991	Net amounts written out of the cost of non-current assets consumed in the year	31,979
	Capital Financing applied in the year	
-	Use of the Capital Receipts Reserve to finance new capital expenditure	-
(20,418)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(15,726)
(13,436)	Statutory provison for the financing of capital investment charged against the General Fund and HRA balances	(15,524)
(90)	Capital expenditure charged against the General Fund and HRA balances	(3,200)
(33,944)		**(34,450)**
(235,347)	**Balance at 31 March**	**(237,818)**

Financial Instruments Adjustment Account

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

The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case this period is the unexpired term that was outstanding on the loans when they were redeemed.

31 March 2016 £000's		31 March 2017 £000's
4,200	**Balance at 1 April**	**3,928**
(16)	Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	(8)
(256)	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory provisions	(256)
(272)	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory provisions	(264)
3,928	**Balance at 31 March**	**3,664**

Employee Statutory Adjustment Account

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

31 March 2016 £000's		31 March 2017 £000's
3,523	**Balance at 1 April**	**3,394**
(3,523)	Settlement or cancellation of accrual made at the end of the preceding year	(3,394)
3,394	Amount accrued at the end of the current year	3,335
(129)	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(59)
3,394	**Balance at 31 March**	**3,335**

Note 30 Transfer to and from Earmarked Reserves

	Mid and East Lothian Drugs & Alchohol Project £000's	Other Balances £000's	Devolved School Management Balances £000's	Cost Reduction Fund £000's	TOTAL £000's
Balance at 1 April 2015	**363**	**181**	**262**	**3,082**	**3,888**
Transfers Out during 2015/16	-	(56)	(42)	(85)	(183)
Transfers In during 2015/16	92	350	-	-	442
Balance at 31 March 2016	**455**	**475**	**220**	**2,997**	**4,147**
Transfers Out during 2016/17	(152)	(275)	-	(230)	(657)
Transfers In during 2016/17	-	231	38	-	269
Balance at 31 March 2017	**303**	**431**	**258**	**2,767**	**3,759**

Note 31 Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2016/17.

	2015/16 £000's	2016/17 £000's
Credited to Taxation & Non-Specific Grant Income		
General Capital Grant	(11,484)	(8,886)
Contributions from developers	(3,498)	(2,206)
Mortgage to Rent scheme/Housing Grants	(3,760)	(2,856)
Other Grants & Contributions	(1,676)	(1,778)
Total	**(20,418)**	**(15,726)**
Credited to Services		
Housing Benefit Subsidy/Admin Grant & Housing Payments/Department for Work & Pensions	(25,783)	(22,888)
Resource Transfer Funds/NHS Integration	(3,226)	(7,596)
Criminal Justice Grant/Criminal Justice Authority	(1,213)	(1,301)
Leader Programme/ European Union	(160)	-
Change Funds	(723)	(150)
Private Sector Housing Grant/Scottish Government	(628)	(628)
Funding for Drugs & Alcohol Teams/NHS	(818)	(601)
HEEPS	(978)	(978)
Educational Maintenance Allowance Funding/Scottish Government	(335)	(350)
Active Schools/Sports Scotland	(233)	(233)
Developing Youth Scotland	(460)	(383)
Youth Music Initiative	(339)	(146)
Total	**(34,896)**	**(35,254)**

Note 32 Capital Grant Receipts in Advance

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

	2015/16 £000's	2016/17 £000's
Capital Grants & Contributions Receipts in Advance		
Scottish Government - Housing Projects	-	(68)
National Health Service	(80)	(80)
Total	**(80)**	**(148)**

Note 33 Cash Flow Statement - Adjustments to net surplus or deficit on the provision of services for non-cash movements

	2015/16 £000's	2016/7 £000's
Depreciation	(32,111)	(35,860)
Impairments and downward valuations	(18,137)	(10,335)
Carrying amount of non-current assets held for sale, sold or derecognised	(2,904)	(3,447)
Net charges made for retirement benefits in accordance with IAS 19	(24,581)	(21,069)
Employer's contributions payable to the Lothian Pension Fund	14,136	14,462
Increase in revenue long term-debtors & liabilities	(296)	(78)
(Increase)/Decrease in provisions	(960)	(279)
Increase/(Decrease) in inventories	108	273
(Increase)/Decrease in revenue creditors	1,039	(501)
Increase in revenue debtors	577	(1,879)
Total	**(63,129)**	**(58,713)**

Note 34 Cash Flow Statement - Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities

	2015/16 £000's	2016/17 £000's
Proceeds from capital grants	20,418	15,726
Proceeds from short-term investments	439	472
Proceeds from sale of PPE, Assets Held for Sale and other non-current assets	3,682	6,906
Total	**24,539**	**23,104**

Note 35 Material Items of Income and Expense

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

	2015/16	2016/17
Depreciation charged on assets	32,111	35,860
Impairments and downward valuations	18,137	10,335
Housing Benefit Paid	25,634	23,284
Unitary Charge/PPP payments to contractor	9,079	8,918

Material items of income credited to service revenue accounts within the CIES largely relate to grants and contributions and these are disclosed in Note 31. Subsidy income in relation to the payments of Housing Benefit (included in the table above) is also disclosed at Note 31.

Note 36 Fair Value Hierarchy

Details of the authority's surplus assets and information about the fair value hierarchy as at 31st March 2017 are as follows:

Recurring fair value measurements using:	Quoted prices in active markets for identical assets (Level 1) £000's	Other significant observable inputs (Level 2) £000's	Significant unobservable inputs(Level 3) £000's	Fair value as at 31 March 2017 £000's
Non-Financial Assets		2,242		
Total		2,242		

Valuation Techniques used to Determine Level 2 Fair Values for Non Financial Assets

Significant Observable Inputs – Level 2

The fair value for the properties has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

Housing Revenue Account

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

The HRA Income and Expenditure statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with the legislative framework; this may be different from the accounting cost. The increase or decrease in the year, on the basis upon which rents are raised, is shown in the Movement on the Housing Revenue Account Statement.

HRA Income and Expenditure Account

2015/16 £000's		2016/17 £000's
	Income	
(24,569)	Dwelling rents	(25,820)
(428)	Non-dwelling rents	(479)
(435)	Service charges	(481)
(108)	Other income	(176)
(25,540)	**Total Income**	(26,956)
	Expenditure	
7,447	Repairs and Maintenance	7,167
5,786	Supervision and Management	5,833
9,723	Depreciation, impairment and revaluation losses of Non-Current Assets	20,961
512	Impairment of Debtors	419
1,791	Other expenditure	1,920
25,259	**Total Expenditure**	36,300
(281)	**Net Expenditure/Income of HRA Services as included in the Whole Authority Comprehensive Income and Expenditure Statement**	9,344
148	HRA services share of Corporate and Democratic Core	158
0	HRA share of other amounts included in the whole authority Net Cost of Services but not allocated to specific services	0
(133)	**Net Income/Expenditure of HRA Services**	9,502
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement	
274	(Gains)/Losses on sale of HRA Non-Current assets	(3,249)
5,739	Interest Payable and Similar Charges	6,003
(25)	HRA Interest and Investment income	(22)
160	Pensions Interest Cost and Expected Return on Pensions Assets	144
(3,761)	Capital Grants and Contributions receivable	(2,856)
2,254	**(Surplus)/Deficit for the year on HRA services**	9,522

Movement on the HRA Statement

2015/16 £000's		2016/17 £000's
(4,041)	Balance on the HRA at the end of the previous period	(4,664)
2,254	(Surplus)/Deficit for the year on the HRA Income and Expenditure Statement	9,522
(3,872)	Adjustments between Accounting Basis and Funding Basis under Legislative Framework	(8,815)
(1,618)	Net (Increase)/Decrease in the Balance before Transfer to or from Reserves	707
995	HRA Balance Transferred to General Services	1,495
-	Transfers into HRA from Capital Fund	(2,589)
(623)	Increase/Decrease in year on the HRA	(387)
(4,664)	**Balance on the HRA at the end of the current period**	(5,051)

Note to the Movement of the HRA Statement

2015/16 £000's		2016/17 £000's
	Adjustments between Accounting Basis and Funding Basis under Regulations	
(9,723)	Depreciation and impairment of fixed assets	(20,961)
3,760	Capital grant and contributions applied	2,856
(274)	Gain or (loss) on sale of HRA Non-Current assets	3,249
(160)	Net charges made for retirement benefits in accordance with IAS 19	(144)
(6,397)		(15,000)
	Items not included in the HRA Account but included in the movement on HRA Balance for the year	
(141)	Employer's contributions payable to the Lothian Pension Fund	(78)
2,666	Loans fund principal	3,063
-	Capital expenditure funded by the HRA	3,200
2,525		6,185
(3,872)	**Net additional amount required by statute to be debited/credited to the HRA Balance for the year**	(8,815)

Housing Stock

	2 Apt	3 Apt	4 Apt	5 Apt	8 Apt	Total
Property	1803	4437	2188	220	1	8649
	1803	4437	2188	220	1	8649

Council Tax Income Account

The Council Tax Income Account (Scotland) shows the gross income raised from the Council taxes levied and deductions made under the Local Government Finance Act 1992. The Resultant net income is transfer to the Comprehensive Income and Expenditure Statement of the Authority.

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.

2015/16 £000's		2016/17 £000's
(53,112)	**Gross Council Tax Levied and Contributions in Lieu**	(53,717)
	Adjusted For:	
5,156	Council Tax Reduction Scheme	4,810
4,333	Other Discounts and Reductions	4,371
772	Provision for Non Collection	532
(42,851)		(44,004)
61	Adjustments to Previous Years' Council Tax	67
(42,790)	Transfer to General Fund	(43,937)

The Council Tax base is calculated as follows;

	COUNCIL TAX BAND								
	A	B	C	D	E	F	G	H	Total
Charge for Each Band (£)	**745.08**	**869.26**	**993.44**	**1117.62**	**1365.98**	**1614.34**	**1862.70**	**2235.24**	
Effective Properties	938	7,747	13,077	5,288	5,415	4,487	3,599	609	41,160
Ratio to Band D	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	
Band D Equivalents	625	6,025	11,624	5,288	6,618	6,481	5,998	1,218	43,877
Provision for non-payment (2%)									(878)
Council Tax Base									**42,999**

Council Tax Base

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

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

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

Non Domestic Rate Income Account

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

2015/16 £000's		2016/17 £000's
(33,325)	Gross Rates Levied & Contributions in Lieu	(34,580)
9,361	Reliefs and Other Deductions	9,243
5	Write Offs of Un-collectable Debts & Allowance for Impairment	7
(23,959)	**Net Non-Domestic Rate Income**	(25,330)
1,410	Adjustments to Previous Year National Non-Domestic Rates	(29)
(22,549)	**Total Non-Domestic Rate Income (before authority retentions)**	(25,359)
(22,549)	**Contribution to the National Non-domestic Rate Pool**	(25,359)
(26,079)	**Contribution from the National Non-domestic Rate Pool**	(24,370)

Business Rate Incentivisation Scheme (BRIS)

The Business Rate Incentivisation Scheme permits the authority to retain half of the NDR income which exceeds the income target set by the Scottish Government. This scheme has been revised and the Authority has had no financial benefit from this scheme in 2016/17

Rateable Values

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

	Number	Rateable Value £000's
Shops, Offices and other Commercial Subjects	1,724	32,374
Industrial and Freight Transport	875	12,666
Miscellaneous (Schools etc)	891	30,105
	3,490	75,145

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 51p (2015/16: 49.1p) per pound for properties with rateable value of £35,000 or more and 48.4p (2015/16: 48p) for those with a rateable value of less than £35,000.

From 1 April 2011 levels of rates relief under the Small Business Bonus Scheme have been set at 100% for eligible properties with a combined Rateable Value (RV) of up to £10,000, 50% for those with a combined RV between £10,001 and £12,000 and 25% for those with a combined RV between £12,001 and £18,000. Additionally, businesses with multiple properties whose cumulative RV is £35,000 or less will be eligible for relief of 25% for each property with a rateable value less than £18,000.

Common Good, Trust Funds and Group Accounts

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.

Movements in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Common Good, analysed between usable reserves i.e. those that can be applied to fund expenditure and other reserves.

	Common Good Balance £000's	**Total Usable Reserves £000's**	Financial Instruments Adjustment £000's	Revaluation Reserve £000's	Capital Adjustment Account £000's	**Unusable Reserves £000's**	**Total Authority Reserves £000's**
Balance at 31 March 2016 brought forward	**(5,526)**	**(5,526)**	**(463)**	**(929)**	**(2,774)**	**(4,166)**	**(9,692)**
Movement in reserves during 2016/17							
Surplus or (deficit) on provision of services	(329)	**(329)**	-	-	-	**-**	**(329)**
Other Comprehensive Expenditure and Income	-	**-**	(493)	3	-	**(490)**	**(490)**
Total Comprehensive Expenditure and Income	**(329)**	**(329)**	**(493)**	**3**	**-**	**(490)**	**(819)**
Adjustments between accounting basis & funding basis under regulations	(94)	**(94)**	-	19	75	**94**	**-**
Charges for depreciation of non-current assets	(94)	**(94)**	-	19	75	**94**	**-**
Impairment/revaluation losses (charged to CI&ES)	-	**-**	-	-	-	**-**	**-**
Profit/loss on sale of non current assets	-	**-**	-	-	-	**-**	**-**
Net Increase/Decrease before Transfers to Earmarked Reserves	**(423)**	**(423)**	**(493)**	**22**	**75**	**(396)**	**(819)**
Transfers to/from Reserves	-	**-**	-	-	-	**-**	-
Increase/Decrease in Year	**(423)**	**(423)**	**(493)**	**22**	**75**	**(396)**	**(819)**
Balance at 31 March 2017 carried forward	**(5,949)**	**(5,949)**	**(956)**	**(907)**	**(2,699)**	**(4,562)**	**(10,511)**

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

Comprehensive Income and Expenditure Statement

2015/16 £000's		2016/17 £000's
	Income	
(821)	Rents and other income	(503)
(821)		(503)
	Expenditure	
2	Employees	2
62	Premises-related expenditure	84
62	Supplies and services	54
205	Third party payments	68
91	Depreciation	94
422		302
(399)	**Cost of Services**	**(201)**
17	Gains/Losses on the disposal of non current assets	(36)
(92)	Financing and investment income and expenditure	(92)
(474)	(Surplus) or Deficit on Provision of Services	(329)
(63)	Surplus or deficit on revaluation of Property, Plant and Equipment	3
23	Surplus or deficit on revaluation of available for sale financial instruments	(493)
(40)	Other Comprehensive Income and Expenditure	(490)
(514)	**Total Comprehensive Income and Expenditure**	**(819)**

Balance Sheet

2015/16 £000's		2016/17 £000's
3,295	Property, Plant & Equipment	3,267
2,806	Long Term Investments	3,340
1,113	Long Term Debtors	1,068
7,214	Long Term Assets	7,675
71	Sundry debtors	53
2,410	Short-term loans	2,810
2,481	Current Assets	2,863
(3)	Short-term creditors	(28)
	Long-term Liabilities	
-	Grants Deferred	-
(3)	Current Liabilities	(28)
9,692	**Net Assets**	**10,511**
(463)	Financial Instruments Adjustment Reserve	(956)
(929)	Revaluation Reserve	(907)
(2,774)	Capital Adjustment Account	(2,703)
(5,526)	Common Good Fund	(5,946)
(9,692)	**Total Reserves**	**(10,511)**

Non-current Assets

The value of assets changed in the following way:

Community Assets	**£000's**
Net book value of assets at 31 March 2016	3,295
Movement in 2016/17	-
Additions	-
Disposals	-
Revaluations	67
Depreciation	(94)
Impairments	-
Internal Transfers	-
Net book value of assets at 31 March 2017	**3,268**

Finance Lease

Details of Common Good Finance Leases

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

	£000's
Income receivable in 2017/18	243
Income receivable between 2018/19 and 2021/22	972
Income receivable after 2021/22	5,153
	6,368

Fund Analysis

The four separate funds are valued at 31 March 2017 as:

	Dunbar £000's	**Haddington £000's**	**Musselburgh £000's**	**North Berwick £000's**	**Total £000's**
Balance brought Forward on 1 April 2016	(94)	(539)	(4,582)	(311)	**(5,526)**
(Surplus) / deficit in the year	8	(32)	(355)	(44)	**(423)**
Fund Balance as at 31 March 2017	(86)	(571)	(4,937)	(355)	**(5,949)**
Net assets	1,029	657	7,985	840	**10,511**

Trust Funds Account

The Council acts as a majority or sale Trustee for 48 trusts, bequests and other funds, which are administered in accordance with the individual terms.

Movement in Reserves Statement

	Accumulated Funds £000's	Total Usable Reserves £000's	Unusable Reserves £000's	Total Fund Reserves £000's
Balance at 31 March 2016 carried forward	**(2,364)**	**(2,364)**	**(2,298)**	**(4,662)**
Movement in reserves during 2016/17				
(Surplus) or deficit on provision of services	(141)	**(141)**	-	**(141)**
Other Comprehensive Expenditure and Income	-	-	(448)	**(448)**
Total Comprehensive Expenditure and Income	**(141)**	**(141)**	**(448)**	(589)
Adjustments between accounting basis & funding basis under regulations	(12)	(12)	12	-
Charges for depreciation of non-current assets	(12)	**(12)**	12	-
Impairment/revaluation losses (charged to CI&ES)	-	-	-	-
Profit/loss on sale of non current assets	-	-	-	-
Net Increase/Decrease before Transfers to Earmarked Reserves	**(153)**	**(153)**	**(436)**	**(589)**
Transfers to/from Earmarked Reserves	-	-	-	-
Increase/Decrease in Year	**(153)**	**(153)**	**(436)**	**(589)**
Balance at 31 March 2017 carried forward	**(2,517)**	**(2,517)**	**(2,734)**	**(5,251)**

Comprehensive Income and Expenditure Statement

2015/16 £000's		2016/17 £000's
	Income	
(48)	Rents and Other Income	(49)
(48)		**(49)**
	Expenditure	
1	Premises-related expenditure	1
21	Supplies and Services	21
18	Third Party Grants and Payments	17
2	Depreciation	12
42		**51**
(6)	**Cost Of Services**	2
(33)	(Gains)/Losses on the disposal of non-current assets	(46)
(87)	Financing and investment income and expenditure	(97)
(126)	**(Surplus) or Deficit on Provision of Services**	**(141)**
11	(Surplus) or Deficit on Revaluation of Property,Plant & Equipment	-
197	(Surplus) or Deficit on Revaluation of Available for Sale Financial Instruments	(448)
208	**Other Comprehensive Income and Expenditure**	**(448)**
82	**Total Comprehensive Income and Expenditure**	**(589)**

Balance Sheet

31 March 2016		31 March 2017
£000's		£000's
737	Property Plant & Equipment	725
2,807	Long Term Investments	3,289
96	Long Term Debtors	92
3,640	**Long Term Assets**	4,106
1,245	Short Term Investments	1,355
-	Short Term Debtors	-
1,245	**Current Assets**	1,355
(1)	Short Term Creditors	(1)
(1)	**Current Liabilities**	(1)
(222)	Other Long Term Liabilities	(209)
(222)	**Long Term Liabilities**	(209)
4,662	**Net Assets**	**5,251**
(1,649)	Financial Instruments Adjustment Reserve	(2,097)
(649)	Property Revaluation Reserve	(639)
-	Capital Adjustment Account	2
(2,364)	Usable Reserves	(2,517)
(4,662)	**Total Reserves**	**(5,251)**

Financial Performance

During the year 2016/17, the Trust Funds operated at a surplus of £141,000 (2015/16: surplus of £126,000). The overall asset book value increased from £4.66 million to £5.25 million by 31 March 2017.

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 2017 were:

2015/16 £000's	Investment	2016/17 £000's
111	UBS Global Assets Mgt US Equity	159
98	Vanguard Inv Serv 500 Ucits	129
85	Shell Ord Shares Euro 0.07	92
66	Mercantile Investment Ord 0.25	91
87	JP Morgan IT Ordinary	90
57	Findlay Park Fds American USD	74
34	National Grid 1.25%	74
59	HSBC Holdings Ord USD	72
2,210	Other stocks, shares and cash	2,508
2,807		3,289

Group Accounts

Group Movement in Reserves Statement

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

For the year ended 31 March 2017

	Authority's Own Usable Reserves Page 12	Authority's Share of Usable Reserves of Subsidiaries, Associates and Joint Venture	Total Usable Reserves	Total Unusable Reserves	Authority's Own Unusable Reserves Note 29	Authority's Share of Unusable Reserves of Subsidiaries, Associates and Joint Venture	Total Reserves
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Balance at 31 March 2016	**(30,427)**	**(9,550)**	**(39,977)**	**(371,867)**	**(365,138)**	**(6,729)**	**(411,844)**
Movement in reserves during 2016/17							
(Surplus) or deficit on provision of services	19,306	(411)	**18,895**	-	-	-	**18,895**
Other Comprehensive Expenditure and Income		-	-	66,314	65,802	512	**66,314**
Total Comprehensive Expenditure and Income	**19,306**	**(411)**	**18,895**	**66,314**	**65,802**	**512**	**85,209**
Adjustments between Group Accounts and Authority Accounts	-	-	-	-	-	-	-
Net Increase/Decrease before Transfers	**19,306**	**(411)**	**18,895**	**66,314**	**65,802**	**512**	**85,209**
Adjustment for Opening Balances	-	**(222)**	(222)	225	-	**225**	3
Adjustments between accounting basis & funding basis under regulations	(14,569)	(339)	(14,908)	14,908	14,569	339	(0)
Net Increase/Decrease before Transfers to Other Statutory Reserves	**4,737**	**(972)**	**3,765**	**81,447**	**80,371**	**1,076**	**85,212**
(Increase)/Decrease in Year	**4,737**	**(972)**	**3,765**	**81,447**	**80,371**	**1,076**	**85,212**
Balance at 31 March 2017 carried forward	**(25,690)**	**(10,522)**	**(36,212)**	**(290,420)**	**(284,767)**	**(5,653)**	**(326,632)**

Group Comprehensive Income and Expenditure Statement

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

2015/16		2016/17		
Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£000's		£000's	£000's	£000's
107,339	Resources & People Directorate	111,935	(4,849)	107,086
69,283	Health & Social Care Partnership	73,150	(13,874)	59,276
58,352	Partnership & Community Directorate	70,249	(16,238)	54,011
743	Corporate and Central Services	24,522	(23,458)	1,064
(133)	HRA	36,519	(27,017)	9,502
235,584	**Cost of Services**	**316,375**	**(85,436)**	**230,939**
(563)	(Gains)/Losses on the disposal of non current assets			(3,542)
21,382	Financing and investment income and expenditure			19,822
-	(Surplus) or deficit of discontinued operations			-
(236,907)	Taxation and non specific grant income			(228,403)
19,496	**Deficit on Provision of Services**			18,816
229	Share of the (surplus) or deficit on the provision of services by Associates and Joint Venture			79
-	Tax expenses of Subsidiaries, Associates and Joint Venture			-
19,725	**Group (Surplus) / Deficit**			**18,895**
(116,606)	(Surplus) or deficit on revaluation of Property, Plant and Equipment			9,023
(785)	(Surplus) on revaluation of available for sale financial instruments			(795)
(67,478)	Actuarial losses on pension assets/liabilities			56,636
(1,654)	Share of other comprehensive income and expenditure of Associates and Joint Venture			1,450
(186,523)	**Other Comprehensive Income and Expenditure**			**66,314**
(166,798)	**Total Comprehensive Income and Expenditure**			**85,209**

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

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

2015/16 £000's		2016/17 £000's
20,052	Deficit for the year on the Authority Comprehensive Income & Expenditure Account	19,306
229	Associates and Joint Venture	79
(556)	Subsidiaries	(490)
19,725	**(Surplus) / Deficit for the year on the Group Income & Expenditure Account**	**18,895**

Group Balance Sheet

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

31 March 16 £000's		31 March 17 £000's
903,797	Property Plant & Equipment	886,858
801	Heritage Assets	1,052
-	Assets Held for Sale	-
8,799	Long Term Investments	9,653
1,897	Investments in Associates and Joint Venture	349
12,663	Long Term Debtors	12,384
927,957	**Long Term Assets**	910,296
2	Short Term Investments	20
898	Assets Held for Sale	770
622	Inventories	897
28,033	Short Term Debtors	26,238
(12,026)	Bad & Doubtful Debt Provision	(11,885)
6,670	Cash and Cash Equivalents	12,694
24,199	**Current Assets**	28,734
-	Bank Overdraft	-
(11,108)	Short Term Borrowing	(5,646)
(28,820)	Short Term Creditors	(28,818)
(39,928)	**Current Liabilities**	(34,464)
-	Long Term Creditors	-
(4,306)	Provisions	(4,726)
(325,119)	Long Term Borrowing	(336,997)
(170,879)	Other Long Term Liabilities	(236,064)
(80)	Capital Grants Receipts in Advance	(148)
(500,384)	**Long Term Liabilities**	(577,935)
411,844	**Net Assets**	**326,631**
-	Called Up Share Capital	-
(39,977)	Usable Reserves	(36,211)
(371,867)	Unusable Reserves	(290,420)
(411,844)	**Total Reserves**	**(326,631)**

Group Cash Flow Statement

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

2015/16 £000's		2016/17 £000's
19,496	Net deficit on the provision of services	18,816
(63,368)	Adjustments to net surplus or deficit on the provison of services for non-cash movements (Note 5)	(58,728)
24,539	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	23,104
(19,333)	Net Cash flow from Operating Activities	(16,808)
	Investing Activities	
50,880	Purchase of property, plant and equipment	41,905
17	Purchase of investments	-
-	Dividends from joint ventures and associates	-
(487)	Proceeds from short term investments	(472)
(26,913)	Other Receipts from investing activities	(17,973)
(3,682)	Proceeds from the sale of property, plant and equipment	(6,906)
19,815	Net cash flow from investing activity	16,554
	Financing Activities	
(22,021)	Cash received from short and long term borrowing	(20,684)
1,060	Capital element of finance leases and PFI Contracts	1,187
19,319	Repayments of short and long term borrowing	13,224
3,760	New loans made	502
2,118	Net cash flow from financing activity	(5,771)
2,600	Net increase or decrease in cash and cash equivalents	(6,025)
(9,270)	Cash and cash equivalents at the beginning of the reporting period	(6,669)
(6,670)	Cash and cash equivalents at the end of the reporting period	(12,694)

Notes to the Group Financial Statements

1. Combining Entities

Alongside its investments, East Lothian Council has an interest in a number of associate and subsidiary companies and a joint venture. For the purposes of consolidation and incorporation within the Group Accounts recognition of these interests has been made as follows.

2. Associates

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

The Council has less than 20% of the voting or potential voting power in the Lothian Valuation Joint Board but has assessed that it has significant influence of this organisation requiring inclusion in the Council's Group Accounts. This is on the basis of representation on the Joint Board by East Lothian councillors and material transactions between East Lothian Council and the Joint Board.

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

	Percentage Share 2015/16	Percentage Share 2016/17	Carrying Value at 31 March 2017 £000's	Share of (Surplus) or Deficit on Provision of Services for 2016/17 £000's	Other CI&ES items for 2016/17 £000's
East Lothian Investments	40.00%	40.00%	204	0	-
Enjoy East Lothian Limited	33.33%	33.33%	1,388	99	726
Brunton Theatre Trust	28.57%	28.57%	125	(38)	-
Lothian Valuation Joint Board	12.50%	12.50%	(1,368)	18	723
Total			**349**	**79**	**1,449**

The summarised financial information of the various associates for the financial year 2016/17 has been presented below;

	Assets at the end of the year £000's	Liabilities at the end of the year £000's	Net Assets at the end of the year £000's	Revenues during year £000's	(Surplus) or Deficit for the year £000's
East Lothian Investments	514	(4)	510	(4)	1
Enjoy East Lothian Limited	8,332	(4,169)	4,163	(6,661)	297
Brunton Theatre Trust	564	(126)	438	(1,411)	(131)
Lothian Valuation Joint Board	2,409	(13,349)	(10,940)	(8,276)	145

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

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

3. Subsidiaries

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

No subsidiaries have been excluded.

The Council is sole shareholder, at a cost of £800,000, in East Lothian Land Limited, set up in 2000 for the purpose of managing land to support economic development in East Lothian. The accounts for the last period of trading to 31 March 2017 show net current assets of £601,000 (2016: £602,000), and a loss before taxation of £2,000 (31 March 2016: Loss of £2,000). The company retains all accumulated profits and losses. No dividend was received. The value of East Lothian Land is included within the Council accounts at the net asset value noted above.

The annual accounts for the Common Good Funds and Trusts are included at pages 77-81.

The net value of the Trusts included within the Group Accounts is £5.21 million. The nature of the assets is explained in a note to the Supplementary Financial Statements attached. Although included as a subsidiary the Council does not expect a dividend as a result of its involvement.

In 2015 East Lothian Council, along with the Lothian's Racing Syndicate Limited agreed a revised Minute of Agreement relating to the operation of the Musselburgh Joint Racing Committee. The remit of the Committee is to organise and develop horse racing at Musselburgh Links. No shares are issued. The Council nominates four of the seven Committee members with the other three nominated by the Syndicate. East Lothian Council inherited an interest in this subsidiary company as a result of local government re-organisation in 1996.

A financial interest exists since the Council may be required to bear any financial losses of the Committee. As no consideration was given for this interest, there is no goodwill arising from this interest. No dividends will be received. This subsidiary has been incorporated in line with the financial statements made available to East Lothian Council.

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

4. Joint Venture

The East Lothian Integration Joint Board (IJB) was formed under the terms of The Public Bodies (Joint working) (Scotland) Act 2014. This is a Joint Venture between East Lothian Council and NHS Lothian.

The IJB is governed by The Local Government (Scotland) Act 1973 along with the 2014 regulations and is required to prepare financial statements in compliance with the Code of Practice on Local Authority Accounting in the United Kingdom.

The IJB received financial allocations for the first time in 2016/17 from both partners to the Joint Venture (East Lothian Council and NHS Lothian). Expenditure was incurred by both partners to the Joint Venture by way of directions from the IJB.

During 2016/17 East Lothian Council contributed £49.0 million to the annual running costs. No assets or liabilities were held at 31 March 2017 meaning no change to Council's Group Balance Sheet as a result of the Joint Venture.

5. Financial Impact of Consolidation

The effect of inclusion of the associate and subsidiary companies and the joint venture on the Group Balance Sheet is to increase Net Assets and Reserves by £16.2 million. This is largely due to the value of Common Good and Trust Funds property and investment values.

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

2015/16 £000's		2016/17 £000's
(32,214)	Depreciation	(35,860)
(18,137)	Impairments and downward revaluations	(10,335)
(2,904)	Net gains on sale of fixed assets	(3,447)
(24,581)	Net charges made for retirement benefits in accordance with IAS 19	(21,069)
14,136	Employer's contributions payable to the Lothian Pension Fund	14,462
(341)	(Increase)/decrease in revenue long term-debtors & liabilities	(78)
(960)	Change in Provisions	(279)
108	Change in stock	273
1,200	Change in revenue debtors	(629)
325	Change in revenue creditors	(1,766)
(63,368)	**Total**	**(58,728)**

Glossary of Terms

While much of the terminology used in this document is intended to be self explanatory, the following additional definitions and interpretation of terms may be of assistance to the reader.

1. Accounting Period - The period of time covered by the Accounts -this is a period of 12 months commencing on the first of April.

2. Accruals – The accruals concept requires that the cost or benefit of a transaction is shown in the period to which the goods or services are received or provided, rather than when the cash is paid or received.

3. Actuarial Gains and Losses (Pensions) - Changes in actuarial deficits or surpluses that arise because events have not coincided with previous actuarial assumptions or actuarial assumptions have changed.

4. Asset - An asset is categorised as either current or non-current. A current asset will be consumed or cease to have material value within the next financial year. A non-current asset will provide benefit to the Council and to the services it provides for a period of more than one year.

5. Associate - An entity, which is not a subsidiary or joint-venture, in which the council has a participating interest, or over whose operating and financial policies the Council is able to exercise significant influence.

6. Capital Adjustment Account - This reserve account relates to amounts set aside from capital resources to meet past expenditure.

7. Capital Expenditure - Expenditure on the acquisition of a non-current asset which will be used in providing services beyond the current accounting period, or expenditure which adds to the value of an existing non-current asset.

8. Capital Financing - The various methods used to finance capital expenditure. This includes borrowing, leasing, capital receipts, capital grants and use of revenue funding.

9. Capital Grants Unapplied - This account holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure.

10. Capital Receipt - Proceeds from the sale of land, buildings or other non-current assets.

11. Capital Receipts Reserve - This reserve represents the proceeds from non-current asset disposals not yet used and which are available to meet future capital investment.

12. The Code of Practice on Local Authority Accounting – The Code specifies the principles and practices of accounting required to prepare a Statement of Accounts which gives a true and fair view of the financial position and transactions of a local authority. It is based on International Financial Reporting Standards (IFRS), and has been developed by CIPFA/LASAAC under the oversight of Financial Reporting Advisory Board.

13. Creditor - Amounts owed by the Council for work done, goods received or services rendered within the accounting period, but for which payment has not been made by the end of that accounting period.

14. Current Service Costs (Pensions) - The increase in the present value of a defined benefit scheme's liabilities, expected to arise from employee service in the current period.

15. Debtor - Amount owed to the Council for works done, goods received or services rendered within the accounting period, but for which payment has not been received by the end of that accounting period.

16. Defined Benefit Pension Scheme - Pension schemes in which the benefits received by the participants are independent of the contributions paid and are not directly related to the investments of the scheme.

17. Depreciation – A charge measuring the cost of wearing out, consumption or other reduction in the useful economic life of the Council's non-current assets during the accounting period, whether from use, the passage of time or obsolescence through technical or other changes.

18. Discretionary Benefits (Pensions) - Retirement awards, which the employer has no legal, contractual or constructive obligation to award and are awarded under the council's discretionary powers.

19. Employee Statutory Adjustment Account - This account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in year. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

20. Fair Value - The fair value of an asset is the price at which it could be exchanged in an arm's length transaction, less any grants receivable towards the purchase of use of the asset.

21. Finance lease - A lease that transfers substantially all of the risks and rewards of ownership of a non-current asset to the lessee.

22. Financial Instruments Adjustment Account - This is a balancing Account to allow for differences in statutory requirements and proper accounting practices for lending and borrowing by the Council.

23. Government Grants - Grants made by the Government towards either revenue of capital expenditure in return for past or future compliance with certain conditions relating to the activities of the Council. These grants may be for a specific scheme or may support the revenue or capital spend of the Council in general.

24. Heritage Asset - An asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

25. Impairment - A reduction in the value of a non-current asset to below its carrying amount on the Balance Sheet.

26. Insurance Fund - This covers the main classes of insurance and is earmarked for insurance purposes.

27. Interest Cost (Pensions) - For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

28. Inventories - Items of raw materials and stock the Council has procured and holds in expectation of future use. Examples are consumable stores, raw materials and products and services in intermediate stages of completion.

29. Liability - A liability is where the Council owes payment to an individual or another organisation. A current liability is an amount which will become payable or could be called in within the next accounting period e.g. creditors or cash overdrawn. A long-term liability is an amount which by arrangement is payable beyond the next year at some point in the future or to be paid off by an annual sum over a period of time.

30. National Non-Domestic Rates Pool - All rates paid by businesses based on the rateable value of the premises they occupy collected by local authorities are remitted to the national pool and thereafter distributed to Councils by the Scottish Government.

31. Net Book Value - The amount at which non-current assets are included in the Balance Sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

32. Non-Current Assets - These are created by capital expenditure incurred by the Council. They include property, vehicles, plant, machinery, roads, computer equipment, etc.

33. Operating Lease - A lease where the ownership of a non-current asset remains with the lessor.

34. Past Service Cost (Pensions) - For a defined benefit scheme, the increase in the present value of the scheme liabilities relating to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to retirement benefits.

35. Pension Reserve - The Pension Reserve arises from the IAS19 accounting disclosures for retirement benefits and recognises the Council's share of actuarial gains and losses in the Lothian Pension Fund and the change in the Councils share of the Pension Fund net liability chargeable to the Comprehensive Income and Expenditure Statement.

36. Pension Scheme Liabilities - The liabilities of a defined benefit pension scheme for outgoings due after the valuation date. The scheme liabilities, measured using the "project unit method" reflect the benefits that the employer is committed to provide for service up to the valuation date.

37. Post Employment Benefits - All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment (e.g. pensions in retirement).

38. Provision - An amount put aside in the accounts for future liabilities or losses which are certain or very likely to occur but the amounts or dates of when they will arise are uncertain.

39. Public Works Loan Board (PWLB) - A Central Government Agency, which provides loans for one year and above to Councils at interest rates only based on those at which the Government can borrow itself.

40. Rateable Value - The annual assumed rental of a non-housing property, which is used for national Non Domestic Rates purposes.

41. Related Parties - Entities or individuals that have the potential to control or influence the Council, or to be controlled or influenced by the

Council.

42. Remuneration - All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as these sums are chargeable to UK income tax) and the monetary value of any other benefits received other than cash.

43. Reserves - The accumulation of surpluses, deficits and appropriation over the past years. Reserves of a revenue nature are available and can be spent or earmarked at the discretion of the Council. Some capital reserves such as the Revaluation Reserve cannot be used to meet current expenditure.

44. Revaluation Reserve - The Revaluation Reserve represents the store of gains on revaluation of fixed assets not yet realised through sale.

45. Revenue Expenditure - The day-to-day running costs associated with the provision of services within one financial year.

46. Subsidiary - An entity over which the Council has overall control through the power to govern its financial and operating policies so as to obtain benefits from the entity's activities.

REVENUE BUDGET PERFORMANCE at 31 MARCH 2017

	Budget for the year	Actual for the period	Budget for the period	(Surplus) / Deficit for period	(Surplus) / Deficit
Resources & People Services					
Pre-school Education & Childcare	6,604	6,395	6,604	-209	-3.2%
Additional Support for Learning	8,162	8,281	8,162	119	1.5%
Schools - Primary	42,227	42,285	42,227	58	0.1%
Schools - Secondary	39,361	38,942	39,361	-419	-1.1%
Schools Support Services	3,375	3,298	3,375	-77	-2.3%
Financial Services	0	0	0	0	0.0%
Revenues & Benefits	2,288	2,136	2,288	-152	-6.6%
Human Resources & Payroll	0	0	0	0	0.0%
IT Services	0	0	0	0	0.0%
Legal & Procurement	0	0	0	0	0.0%
Licensing, Admin and Democratic Services	2,756	2,523	2,756	-233	-8.5%
	104,773	**103,860**	**104,773**	**-913**	**-0.9%**
Health & Social Care Partnership					
Children's Wellbeing	14,071	14,576	14,071	505	3.6%
Adult Wellbeing	52,046	51,985	52,046	-61	-0.1%
	66,117	**66,561**	**66,117**	**444**	**0.7%**
Partnerships & Services for Communities					
Community Housing	1,996	1,817	1,996	-179	-9.0%
Housing Revenue Account (HRA)	0	2,202	0	2,202	0.0%
Customer Services	3,408	3,353	3,408	-55	-1.6%
Commuity & Area Partnerships	8,572	8,592	8,572	20	0.2%
Arts	847	795	847	-52	-6.1%
Corporate Policy & Improvement	119	329	119	210	176.5%
Planning & Environmental Services	2,543	1,963	2,543	-580	-22.8%
Asset Planning & Engineering	2,880	3,056	2,880	176	6.1%
Economic Development & Strategic Development	3,680	3,500	3,680	-180	-4.9%
Facility Trading	-97	-419	-97	-322	332.0%
Facility Services	492	509	492	17	3.5%
Landscape & Countryside Management	5,717	5,766	5,717	49	0.9%
Healthy Living	5,826	5,795	5,826	-31	-0.5%
Property Maintenance	-663	-487	-663	176	-26.5%
Roads, Transportation & Waste Services	18,598	18,089	18,598	-509	-2.7%

	53,918	**54,860**	**53,918**	**942**	**1.7%**
Total of all departments	**224,808**	**225,281**	**224,808**	**473**	**0.2%**
Corporate Management					
Revenue Support Grant (inc. NNDR)	-169,113	-168,740	-169,113	373	-0.2%
Council Tax	-49,039	-48,747	-49,039	292	-0.6%
Social Care Fund	-4,370	-4,370	-4,370	0	0.0%
Debt Charges/Asset Management / Other	1,540	2,139	1,540	599	38.9%
Joint Board Requisitions	669	669	669	0	0.0%
HRA Transfer	-1,495	-1,495	-1,495	0	0.0%
Transfer to Reserves	-3,000	0	-3,000	3,000	-100.0%
	-224,808	**-220,544**	**-224,808**	**4,264**	**-1.9%**
Total All Council	**0**	**4,737**	**0**	**4,737**	**0.0%**

General Services	2,535
HRA	2,202
TOTAL	**4,737**
Funded from Reserves	
General Services	
- General	-3,000
- Earmarked	-657
TOTAL SURPLUS - GENERAL SERVICES	**-1,122**
HRA	
- General	-3,200
- Other Transfer	-1,495
- Planned Surplus	478
TOTAL SURPLUS - HRA	-2,015

GENERAL SERVICES CAPITAL SPEND AS AT 31 MARCH 2017

Name of Project	Budget for the year £000	Actual for the period £000	Over/(Under) (£000s) £000
Crookston Care Home	80	134	**54**
Haddington Town House - Steeple Work	13	15	**2**
Torness Strategic Coordination Centre	15	53	**38**
Property Renewals	900	948	**48**
Port Seton Sports Hall	300	6	**(294)**
Whitecraig Community Centre	440	31	**(409)**
Community Intervention	200	-	**(200)**
Prestonpans IS	377	385	**8**
Red School Prestonpans	574	14	**(560)**
Support for Business - Land Acquisition/Infrastructure/Broadband	200	-	**(200)**
Support for Business - Mid Road Industrial Estate	22	26	**4**
Town Centre Re-Generation/Growing our Economy	481	39	**(442)**
Acquisition of St. Josephs	-	-	**-**
Dunbar - Lochend Campus/Additional Classrooms	570	525	**(45)**
Dunbar Grammar	1,126	984	**(142)**
Secondary School Communication Provision	78	321	**243**
Letham Primary (temp prov'n Knox Academy)	131	-	**(131)**
Letham Primary	100	-	**(100)**
Pinkie St Peter's PS Extension	214	206	**(8)**
Law Primary School	3,845	1,681	**(2,164)**
Windygoul PS - Permanent Additional Classrooms	352	-	**(352)**
Wallyford PS - Temp Units	30	-	**(30)**
Wallyford PS	500	557	**57**
Replacement Vehicles	1,850	1,976	**126**
Synthetic pitches	98	73	**(25)**
Pavilions	679	18	**(661)**
Sports Centres - refurbishment & equipment	200	201	**1**

IT Program (corporate and schools)	1,375	1,351	**(24)**
Core Path Plan Implementation	50	136	**86**
Polson Park restoration	40	-	**(40)**
Cemeteries - Extensions/Allotments	887	-	**(887)**
Coastal Car Parks/Toilets	150	-	**(150)**
Peppercraig Depot Haddington	-	18	**18**
Coastal Protection/Flood	197	63	**(134)**
Promenade Improvements - Fisherrow	23	-	**(23)**
Pencaitland Footpaths	60	483	**423**
Cycling Walking Safer Streets	112	112	**-**
East Linton Rail Stop/Infrastructure	25	-	**(25)**
Roads	5,400	5,754	**354**
Parking Improvements / North Berwick phase 1	842	-	**(842)**
Purchase of New Bins/Food Waste Collection	141	137	**(4)**
Early years provision	339	-	**(339)**
Construction Academy	295	252	**(43)**
New ways of working	414	184	**(230)**
Prestonpans Shared Facility	93	-	**(93)**
Carberry Landfill Gas management	250	-	**(250)**
Town Centre Toilets re-furbishment/New Provision	100	-	**(100)**
East Saltoun School/Community Hall	400	-	**(400)**
sub-total before year end allocations	**24,568**	**16,683**	**(7,885)**
Capital Plan Fees/Internal Recharges	**1,370**	**1,466**	**96**
TOTAL	**25,938**	**18,149**	**(7,789)**

HOUSING CAPITAL SPEND & FINANCING AS AT 31 MARCH 2017

Appendix 4

	Budgeted (£000s)	Actual (£000s)	Over/(Under) (£000s)
Mortgage to Rent	695	204	(491)
Modernisation Spend (also see below)	10,933	11,272	339
Gross Affordable Homes spend	10,881	11,867	986
Gross Total Housing Capital Spend	**22,509**	**23,343**	**834**

	Budgeted (£000s)	Actual (£000s)	Over/(Under) (£000s)
Modernisation Programme - Detailed			
Disabled Adaptations	600	480	(120)
Central Heating	2,100	1,971	(129)
Electrical Re-wiring	1,180	1,727	547
Structural surveys	60	87	27
Fencing Programme	100	284	184
Energy Efficiency	350	7	(343)
Kitchen Replacement Prog.	1,600	1,860	260
Project Works	350	327	(23)
Roofing / Roughcasting / external fabric	400	501	101
Stair Improvement Programme	50	12	(38)
Sheltered Housing	100	134	34
Roads / Walkway pre-adoption works	100	103	3
Dispersed Alarms	-		-
Local Initiatives:Projects	200	42	(158)
Window & Door Replacement Prog.	100	349	249
Bathroom Replacement	2,020	2,115	95
Extensions	250	81	(169)
Lead Water Pipes	-	22	22
Asbestos Works	500	326	(174)
IT Projects	-	-	-
Open Market Acquisition Remedial Works	-	51	51
Service Improvements	200	85	(115)
Sub Total	10,260	10,564	304
Internal Fees	673	708	35
TOTAL	**10,933**	**11,272**	**339**