

EAST LoTHIAN COUNCIL
STATEMENT OF ACCOUNTS

2011/12

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EXPLANATORY FOREWORD

Welcome to the Council's accounts for 2011/12.

We have tried to make these an understandable guide to the most significant financial matters that have arisen within the Council and its wider group over the past year. Over the past few years this task has been made more difficult by the requirement to produce these accounts under International Financial Reporting Standards (IFRS). Meeting this requirement leads to a high number of 'adjusting' items designed to reconcile between the International Financial Reporting Standards and the statutory basis of local authority accounting.

Satisfying IFRS is important. However, I believe that it is equally important to take responsibility, at a local level, and provide clarity on how taxpayers and council tax payers' money is actually spent.

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

- Comprehensive Income and Expenditure Statement (Page 9) – this outlines the financial performance of the Council during the 2011/12 financial year which ran from 1 April 2011 to 31 March 2012.
- Balance Sheet (Page 10) – this details the net worth of the Council at 31 March 2012 after taking into account the performance for the year shown in the Comprehensive Income and Expenditure Statement.
- Movement in Reserves Statement (Page 12-13) – this shows the movement in the year on the different reserves held by the Council. Most importantly it splits the reserves between 'Usable' and 'Unusable'. The 'Usable' are those which the Council can call upon either to help fund services or to balance future budgets. The 'Unusable' reserves are generally held for accounting purposes.
- Cash Flow Statement (Page 11) – this provides another way of looking at the performance for the year removing the accrual of income and expenditure and showing how the cash in and out of the Council during the year affected the opening and closing cash position.

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

The results for the year

The main figure that catches the eye within the Comprehensive Income and Expenditure Statement is the 'bottom line' deficit figure of £112 million. This is a significant change from the surplus of £64 million produced in 2010/11 and it is therefore worthwhile spending some time to explain how this situation has arrived.

Explanatory Foreword

In particular it is important to understand how this figure has arisen under the IFRS rules and how it is different from the 'statutory' position – which is the way we typically monitor the Council's financial performance.

At the end of last year the Council had Property, Plant and Equipment (PPE) assets valued at approximately £785 million. As part of preparing an accurate set of accounts we aim to have the majority of these assets valued every five years. During 2011/12 a revaluation was carried out for most of our 'operational' assets – these are generally those assets which are used to direct service provision e.g. schools and community centres. The last time a revaluation of these assets was carried out was in 2005 – during the height of the property boom.

Under IFRS rules, where appropriate, the Comprehensive Income and Expenditure Statement (CI&ES) is credited with items arising from the revaluation of assets. Conversely, where any decreases in value are identified, the value of the assets is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

What we have found, as a result of the 2011/12 valuation, is that the value of the land has generally fallen but that the value of the buildings has increased. The net effect of this is to generate the deficit of £112 million seen on Page 9.

Although the Council may feel less well off, it is important to realise that this deficit does not affect the council tax level. These are accounting adjustments made to ensure our accounts are in line with IFRS and are not taken into account when we set the council tax for the year. When these valuation adjustments are stripped out from the accounts – along with other adjustments relating to pensions, depreciation, debt charges etc we arrive at a total use of reserves during the year of almost £7.5 million.

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

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

In the case of General Services the use of reserves during the year was £4.1 million. This really should be the 'headline' figure. Firstly, because it is the first time in recent memory that this Council has ended the year with a revenue deficit. Secondly, because it means that in one year the Council has used over 21% of its available reserves.

Although this was planned, when 'one off' figures, relating to severance payments and repair funds are excluded from this figure it reduces to approximately £2.1 million.

At the time of setting its 2011/12 budget the Council estimated that it would use almost £5.5 million of reserves to balance income and expenditure. The actual result is therefore slightly better than originally planned – but is in line with updated expectations when we set the 2012/13 budget in February 2012.

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

Trading Operations

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

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

Pensions

The pensions Accounting Standard (IAS19) has led to considerable comment about the financial position of public sector pension schemes, and in these accounts you will find extensive information that has been provided by an independent actuary on the Council's pension position.

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

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

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

Capital Investment Plans

In 2011/12, we invested £71.5 million in assets that support service delivery within East Lothian, which is a 25% increase on the previous year (£56.8 million). The past few years have seen significant capital investment across the county. This has included new schools, community centres, refurbished museums. It also included new council homes, the numbers of which increased by 176 over the year.

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

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

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

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

The Year in Summary

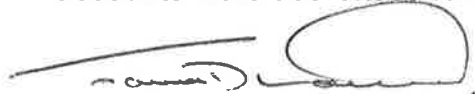
2011/12 has been a financially significant year for the Council in a number of ways. Although it has managed to successfully cope with immediate and significant expenditure pressures it has had to draw from its reserves for the first time. The recovery in the national public finances now looks like it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

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

Balance Sheet as at 31 March 2012

31 March 2011		31 March 2012	
£000s	Notes	£000s	
784,980	Property, Plant & Equipment	13	731,152
	- Heritage Assets	15	547
	- Assets Held for Sale		-
2,314	Long Term Investments	21a	2,976
4,623	Long Term Debtors	21b	7,305
791,917	Long Term Assets		741,980
	47 Short Term Investments		47
983	Assets Held for Sale	16	1,145
496	Inventories		342
31,593	Short Term Debtors	22	36,173
(18,209)	Bad & Doubtful Debt Provision	22	(18,481)
13,072	Cash and Cash Equivalents		-
27,982	Current Assets		19,226
	- Bank Overdrafts	-	(4,716)
(14,937)	Short Term Borrowing	23	(16,580)
(23,944)	Short Term Creditors	24	(23,793)
(38,881)	Current Liabilities		(45,089)
(7,381)	Provisions	25	(5,680)
(238,718)	Long Term Borrowing	23	(275,926)
(131,664)	Other Long Term Liabilities	26	(144,038)
(650)	Capital Grants Receipts in Advance	33	(150)
(378,413)	Long Term Liabilities		(425,794)
402,605	Net Assets		290,323
(28,997)	Usable Reserves	29	(21,478)
(373,608)	Unusable Reserves	30	(268,845)
(402,605)	Total Reserves		(290,323)

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



Jim Lamond
Head of Council Resources
26 June 2012

Comprehensive Income and Expenditure Statement

2010/2011			2011/2012			
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£000s	£000s	£000s		£000s	£000s	£000s
8,196	(3,883)	4,313	Central services	8,228	(4,504)	3,724
21,211	(1,682)	19,529	Cultural and related services	47,249	(3,007)	44,242
96,728	(4,963)	91,765	Education services	280,818	(4,787)	276,031
12,229	(1,073)	11,156	Environmental services	15,736	(1,175)	14,561
31,670	(28,042)	3,628	Housing services (non-HRA)	33,126	(28,524)	4,602
11,159	(340)	10,819	Joint Board requisitions	10,535	(354)	10,181
22,811	(19,433)	3,378	Local authority housing (HRA)	24,446	(20,431)	4,015
4,586	(1,604)	2,982	Planning & development services	4,822	(2,576)	2,246
13,233	(545)	12,688	Roads and transport services	13,216	(875)	12,341
65,949	(8,088)	57,861	Social Work services	71,685	(8,503)	63,182
2,006	-	2,006	Corporate and democratic core	2,846	(93)	2,753
-	-	-	Non-distributed costs	272	-	272
289,778	(69,653)	220,125	Cost of Services	512,979	(74,829)	438,150
		(1,141)	(Gains)/Losses on the disposal of non current assets			(9)
		(25,275)	Financing and investment income and expenditure (Note 6)			13,790
		(227,622)	Taxation and non specific grant income (Note 7)			(232,318)
		(33,913)	(Surplus) or Deficit on Provision of Services			219,613
		(6,469)	(Surplus) or deficit on revaluation of Property, Plant and Equipment			(124,194)
		(1,180)	(Surplus) or deficit on revaluation of available for sale financial instruments			(661)
		(22,477)	Actuarial (gains)/losses on pension assets/liabilities			17,524
		(30,126)	Other Comprehensive Income and Expenditure			(107,331)
		(64,039)	Total Comprehensive Income and Expenditure			112,282

Core Financial Statements

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.

The core financial statements comprise the following:

Comprehensive Income and Expenditure Statement

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

Balance Sheet

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

Cash Flow Statement

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

Movement in Reserves Statement

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

Explanatory Foreword

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



Jim Lamond
Head of Council Resources
26 June 2012

Statement of Responsibilities for the Statement of Accounts

Statement of Responsibilities for the Statement of Accounts

The Council's responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Head of Council Resources, who is the designated Chief Finance Officer.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

The Chief Finance Officer's responsibilities

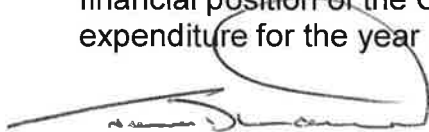
The Chief Finance Officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice').

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

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

The Chief Finance Officer's Certification

I certify that the Statement of Accounts present a true and fair view of the financial position of the Council at 31 March 2012 and its income and expenditure for the year ended 31 March 2012.



Jim Lamond
Head of Council Resources
26 June 2012

Cash Flow Statement

2010/11		2011/12
£000s		£000s
(33,913)	Net (surplus) or deficit on the provision of services	219,613
7,685	Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 34)	(236,882)
12,370	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	14,229
(13,858)	Net Cash flow from Operating Activities (Note 35)	(3,040)
	Investing Activities	
56,169	Purchase of property, plant and equipment	71,275
(69)	Dividends from joint ventures and associates	(103)
(543)	Proceeds from short term investments	(327)
(9,436)	Other receipts from investing activities	(14,095)
(2,865)	Proceeds from the sale of property, plant and equipment	(1,165)
43,256		55,585
	Financing Activities	
(55,328)	Cash received from short and long term borrowing	(89,973)
1,380	Capital element of finance leases and PFI Contracts	1,280
9,523	Repayments of short and long term borrowing	50,959
2,410	New loans made	2,977
(42,015)		(34,757)
(12,617)	Net (Increase) or decrease in cash and cash	17,788
(455)	Cash and cash equivalents at the beginning of the reporting period	(13,072)
(13,072)	Cash and cash equivalents at the end of the reporting period	4,716

MOVEMENT IN RESERVES STATEMENT

For the year ended 31 March 2012		General Fund Balance (£000)	Housing Revenue Account (£000)	Capital Receipts Reserve (£000)	Insurance Fund (£000)	Capital Fund (£000)	Total Usable Reserves (£000)	Unusable Reserves (£000)	Total Authority Reserves (£000)
Balance at 31 March 2011 carried forward		(17,849)	(4,743)	-	(1,006)	(5,399)	(28,997)	(373,608)	(402,605)
Movement in reserves during 2011/12 (Surplus) or deficit on provision of services		215,180	4,433	-	-	-	219,613	-	219,613
Other Comprehensive Expenditure and Income		-	-	-	-	-	-	(107,331)	(107,331)
Total Comprehensive Expenditure and Income		215,180	4,433	-	-	-	219,613	(107,331)	112,282
Adjustments between accounting basis & funding basis under regulations (Note 5)		(210,728)	(192)	(95)	-	(1,079)	(212,094)	212,094	-
Net Increase/Decrease before Transfers to Other Statutory Reserves		4,452	4,241	(95)	-	(1,079)	7,519	104,763	112,282
Housing Revenue Account		(247)	247	-	-	-	-	-	-
Capital Fund		-	(2,493)	-	-	2,493	-	-	-
Insurance Fund		(33)	-	-	33	-	-	-	-
(Increase)/Decrease in Year		4,172	1,995	(95)	33	1,414	7,519	104,763	112,282
Balance at 31 March 2012 carried forward		(13,677)	(2,748)	(95)	(973)	(3,985)	(21,478)	(268,845)	(290,323)

Core Financial Statements

For the year ended 31 March 2011

	General Fund Balance (£000)	Housing Revenue Account (£000)	Capital Receipts Reserve (£000)	Insurance Fund (£000)	Capital Fund (£000)	Total Usable Reserves (£000)	Unusable Reserves (£000)	Total Authority Reserves (£000)
Balance at 31 March 2010	(10,529)	(3,570)	(4,940)	(1,088)	(2,941)	(23,068)	(315,498)	(338,566)
Movement in reserves during 2010/11 (Surplus) or deficit on provision of services	(33,829)	(84)	-	-	-	(33,913)	-	(33,913)
Other Comprehensive Expenditure and Income	-	-	-	-	-	-	(30,126)	(30,126)
Total Comprehensive Expenditure and Income	(33,829)	(84)	-	-	-	(33,913)	(30,126)	(64,039)
Adjustments between accounting basis & funding basis under regulations (Note 5)	31,332	(483)	(2,865)	-	-	27,984	(27,984)	-
Net Increase/Decrease before Transfers to Other Statutory Reserves	(2,497)	(567)	(2,865)	-	-	(5,929)	(58,110)	(64,039)
Housing Revenue Account	(494)	494	-	-	-	-	-	-
Capital Fund	(4,247)	(1,100)	7,805	-	(2,458)	-	-	-
Insurance Fund	(82)	-	-	82	-	-	-	-
Increase/Decrease (movement) in Year	(7,320)	(1,173)	4,940	82	(2,458)	(5,929)	(58,110)	(64,039)
Balance at 31 March 2010 carried forward	(17,849)	(4,743)	-	(1,006)	(5,399)	(28,997)	(373,608)	(402,605)

NOTES TO THE ACCOUNTS

1. Accounting Policies

i. General Principles

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

The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

ii. Accruals of Income and Expenditure

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

- Revenues from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenues from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefit or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when the payments are made.
- Interest receivable on investments and payable on borrowings is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is

recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

iii. Cash and Cash Equivalents

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

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

iv. Exceptional Items

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

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

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

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

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

vi. Charges to Revenue for Non Current Assets

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

- Depreciation attributable to the assets used by the relevant service

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

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

vii. Employee Benefits

Benefits Payable during Employment

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

Termination Benefits

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

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

Post Employment Benefits

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

- The Teachers' Pension Scheme, administered by the Scottish Public Pensions Agency (SPPA)
- The Local Government Pensions Scheme, administered by the Lothian Pension Fund operated by the City of Edinburgh Council.

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

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot be identified to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet and the education service revenue account is charged with the employer's contributions payable to teachers' pensions in the year.

The Local Government Pension Scheme

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

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

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

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

- Quoted securities – bid price
- Unquoted securities – professional estimate
- Unitised securities – average of the bid and offer rates
- Property – market value.

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

- Current service cost – the increase in liabilities as a result of the years of service earned this year – allocated in the Comprehensive Income and

Expenditure Statement to the revenue accounts of services for which the employees worked

- Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Net Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to Net Operating Expenditure in the Comprehensive Income and Expenditure Statement
- Expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to Net Operating Expenditure in the Comprehensive Income and Expenditure Statement
- Gains/losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the Net Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions are charged to Reserves
- Contributions paid to the Lothian Pension Fund – cash paid as employer's contributions to the pension fund.

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

Discretionary Benefits

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

viii. Events after the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date

when the Statement of Accounts is authorised for issue. Two types of event can be identified:

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

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

ix. Financial Liabilities

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

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

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

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

managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

x. Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables

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

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

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

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

Available for Sale Assets

Unquoted equity investment assets are initially measured and carried at fair value. As the investment is unquoted, the annual revaluation is made based on the net book value of the company. There are no fixed or determinable payments, so any income (e.g. dividends) is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

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

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

xi. Government Grants and Contributions

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

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

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

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

xii. Heritage Assets

The aim of the Authority'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.

Paintings

The Authority's collection of oil paintings is reported in the Balance Sheet at insurance valuation which is based on market values.

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

Civic Regalia and Coins

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

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

The civic regalia and coins will be valued in 2012/13. The amounts are not considered to be material.

Ceramics and Flags/Banners

During 2013/14 the authority's collection of ceramics and flags will be valued. Belfield and Macmerry pottery is represented in the ceramics collection as well as non-local items. Within the banner collection are a Haddington Weavers Flag, an Electoral Reform Banner and a Friendly Society Banner. The amounts involved are not considered to be material.

General

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

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

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

xiii. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are identifiable and controlled by the Council as the result of past events, (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains or losses are not permitted to have an impact on the General Fund Balance. The gains or losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and, for any sale proceeds greater than £10,000 the Capital Receipts Reserve.

xiv. Interests in Companies and Other Entities

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

xv. Inventories and Long Term Contracts

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

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

xvi. Leases

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

The 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. Lease payments are apportioned between:

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

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

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 term of the lease, generally meaning that rentals are charged when they become payable.

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 relevant service line in the Comprehensive Income and Expenditure Statement.

xvii. Overheads and Support Services

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

services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation
- Non-Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

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

xviii. Property, Plant and Equipment

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

Recognition

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

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

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

Notes to the Accounts

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

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

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

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

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

Impairment

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

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

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

Depreciation

Notes to the Accounts

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).

Depreciation is calculated on the following bases:

- Dwellings and other buildings – straight-line allocation over the life of the property as estimated by the valuer
- Vehicles, plant and equipment – straight-line allocation over the life of the asset as advised by a suitably qualified officer
- Infrastructure – straight-line allocation over 5-25 years
- Community assets – straight-line allocation over the life of the asset as advised by a suitably qualified officer.

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. Depreciation is not charged on Assets Held for Sale.

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

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

appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of fixed 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.

ixx. Private Finance Initiative (PFI) and Similar Contracts

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

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

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

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

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

xx. Provisions and Contingent Liabilities

Provisions

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

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

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

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

Contingent Liabilities

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

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

xxi. Reserves

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

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

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

xxii. VAT

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

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

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

3. Critical Judgements in Applying Accounting Policies

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

- The inclusion of various associates and subsidiaries within the Council's Group accounts. There are a range of possible opinions about whether the Council either controls or has significant influence over the various Joint Boards such as Lothian & Borders Police.
- 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.
- The classification of leases as either operating leases or finance leases.

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future. Estimates are made taking into account historical experience, current trends and other relevant

Notes to the Accounts

factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

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

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

Notes to the Accounts

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

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

	General Fund Balance (£000)	Housing Revenue Account (£000)	Capital Receipts Reserve (£000)	Insurance Fund (£000)	Capital Fund (£000)	Movement in Usable Reserves (£000)
2011/2012						
Charges for depreciation & amortisation of non-current assets	(18,074)	(8,638)	-	-	-	(26,712)
Impairment/revaluation losses (charged to I&E)	(220,939)	-	-	-	-	(220,939)
Capital grant and contributions applied	13,324	2,370	-	-	-	15,694
Differences re finance leases, stepped loans, premiums and discounts	421	-	-	-	-	421
Profit/loss on sale of non-current assets	(418)	427	(95)	-	(1,079)	(1,165)
Statutory Provision relating to PPP	1,278	-	-	-	-	1,278
Net retirement benefits per IAS19	(10,613)	(25)	-	-	-	(10,638)
Employee - Statutory Adjustments	2,161	-	-	-	-	2,161
Loans Fund principal repayments and statutory premia	7,402	1,414	-	-	-	8,816
Employer's contributions payable to the Lothian Pension Fund	13,798	254	-	-	-	14,052
Capital expenditure charged against the General Fund and HRA balances	932	4,006	-	-	-	4,938
Total Adjustments	(210,728)	(192)	(95)	-	(1,079)	(212,094)
2010/2011						
Charges for depreciation & amortisation of non-current assets	(16,205)	(8,246)	-	-	-	(24,451)
Impairment/revaluation losses (charged to I&E)	(5,409)	-	-	-	-	(5,409)
Capital grant and contributions applied	5,145	3,868	-	-	-	9,013
Differences re finance leases, stepped loans, premiums and discounts	295	-	-	-	-	295
Profit/loss on sale of non-current assets	(27)	1,169	(2,865)	-	-	(1,723)
Statutory Provision relating to PPP	1,378	-	-	-	-	1,378
Net retirement benefits per IAS19 (FRS17)	25,030	1,194	-	-	-	26,224
Employee - Statutory Adjustments	250	-	-	-	-	250
Loans Fund principal repayments and statutory premia	6,589	1,100	-	-	-	7,689
Employer's contributions payable to the Lothian Pension Fund	13,718	432	-	-	-	14,150
Capital expenditure charged against the General Fund and HRA balances	568	-	-	-	-	568
Total Adjustments	31,332	(483)	(2,865)	-	-	27,984

6. Financing and Investment Income and Expenditure

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

7. Taxation and Non Specific Grant Income

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

8. Trading Operations

The Council has 5 trading operations where the service manager is required to operate in a commercial environment and meet their unit's costs by generating income from other parts of the Council or other organisations. Each operation is obliged under statute to achieve break-even over a rolling three-year period. Following a review of trading operations in 2009 it was agreed to create 2 new trading operations. The Older People Care Homes and Domiciliary Care Services trading activities commenced in April 2009.

Facility Services

The Facility Services trading operation provides catering, janitorial and cleaning services at locations owned or managed by the Council. A catering service is provided at secondary and primary schools and at some other buildings. The cleaning operation provides a regular building cleaning service to all departments of the Council. The cumulative position over the three years is a surplus of £1.2 million.

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

Property Maintenance

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

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

Roads Services

Roads Services carries out a repair and maintenance service to enable the Council to fulfil its statutory obligations. The extent of its work includes roads network repair and maintenance. This includes routine and cyclical maintenance as well as some capital work. Over the three-year period the service has a cumulative surplus of £1.86 million and has met the statutory target.

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

Older People Care Home Services

Older People Care Home Services trading activities commenced in April 2009. Care Home provision is split between residential and nursing care and this activity provides 5 homes. During 2011/12 a surplus of £187, 000 was made.

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

Domiciliary Care Services

This activity commenced in April 2009, and aims to support older people to live independently in their own homes as long as possible. During 2011/12 a surplus of £62,000 was made.

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

9. Agency income and expenditure

The Council provides an agency service to Scottish Water. Associated income and expenditure is not included within the Council Comprehensive Income and Expenditure Statement. In 2011/12 £14.8m (2010/11: £14.5m) was paid over to Scottish Water.

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

10. Related parties

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

Central Government

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

Members

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

Notes to the Accounts

Entities Controlled or Significantly Influenced by the Authority

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

11. Audit costs

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

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

12. Amounts reported for Resource Allocation Decisions

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

2011/2012	Chief Executive's Office	Community Services	Corporate Resources	Education & Children's Services	Environment	Corporate Activities	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Departmental Income & Expenditure							
Income							
Fees, charges and other service income	(166)	(51,328)	(1,636)	(365)	(9,035)	(525)	(63,055)
Grants and contributions	(175)	(11,651)	(711)	(1,949)	(1,117)	(207,926)	(223,529)
Interest and investment income	-	(370)	(20)	-	(103)	(318)	(811)
Income from council tax	-	-	-	-	-	(45,941)	(45,941)
(Gains) on the disposal of non-current assets	-	(427)	-	-	-	418	(9)
	(341)	(63,776)	(2,367)	(2,314)	(10,255)	(254,292)	(333,345)
Expenditure							
Employee Expenses	2,410	45,653	10,489	59,585	11,365	8	129,510
Other service expenses	1,527	79,752	2,824	25,832	19,323	11,482	140,740
Transfer Payments	-	909	-	-	-	23,574	24,483
Support service recharges	(246)	1,638	(9,539)	6,517	(3,564)	147	(5,047)
Depreciation, amortisation and impairment	7	42,186	2,108	194,101	9,200	49	247,651
Interest payments	-	-	-	756	-	14,865	15,621
	3,698	170,138	5,882	286,791	36,324	50,125	552,958
(Surplus) or Deficit on the Provision of Services	3,357	106,362	3,515	284,477	26,069	(204,167)	219,613

Notes to the Accounts

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

13. Property, Plant and Equipment

Movements in 2011/12

	Council Dwellings £000s	Other land and buildings £000s	Vehicles, Plant, Furniture & Equipment £000s	Infrastructure Assets £000s	Community Assets £000s	Surplus Assets £000s	Assets Under Construction £000s	Total Property, Plant and Equipment £000s	Total PFI Assets Included in PPE £000s
Cost or Valuation									
At 1 April 2011	293,130	466,943	27,022	57,441	19,297	82	18,291	882,206	109,902
Additions	29,704	7,357	4,662	7,060	2,198	-	20,517	71,498	364
Depreciation & Impairment Written Out	-	(27,303)	-	-	(3)	-	(12)	(27,318)	(6,696)
Revaluation increases/(decreases) recognised in the Revaluation Reserve	-	123,627	-	-	95	-	15	123,737	69,008
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	-	(219,067)	-	-	(88)	(5)	(160)	(219,320)	(83,428)
Derecognition - Disposals	(742)	(512)	(710)	-	-	-	-	(1,964)	-
Asset Reclassified	-	(325)	-	-	-	-	-	(325)	-
Other Movements in cost or valuation	10,580	11,348	-	-	10	(14)	(22,014)	(90)	-
At 31 March 2012	332,672	362,068	30,974	64,501	21,509	63	16,637	828,424	89,150
Accumulated Depreciation and Impairment									
At 1 April 2011	(34,462)	(32,932)	(17,901)	(10,236)	(1,663)	(1)	(31)	(97,226)	(6,696)
Depreciation Charge	(8,638)	(10,675)	(3,849)	(3,041)	(509)	-	-	(26,712)	(2,821)
Depreciation & Impairment Written Out	-	27,303	-	-	3	-	12	27,318	6,696
Revaluation increases/(decreases) recognised in the Revaluation Reserve	-	-	-	-	-	-	-	-	-
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	-	(1,450)	-	-	-	-	-	(1,450)	-
Derecognition - Disposals	90	50	658	-	-	-	-	798	-
Impairments	-	-	-	-	-	-	-	-	-
Other movements in depreciation or impairment	(312)	307	-	-	-	-	5	-	-
At 31 March 2012	(43,322)	(17,397)	(21,092)	(13,277)	(2,169)	(1)	(14)	(97,272)	(2,821)
Net Book Value									
At 31 March 2012	289,350	344,671	9,882	51,224	19,340	62	16,623	731,152	86,329
At 1 April 2011	258,668	434,011	9,121	47,205	17,634	81	18,260	784,980	103,206

14. Property, Plant and Equipment

Depreciation

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

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

Assets under Construction are not depreciated.

Capital Commitments

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

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

Revaluations

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

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

Council Dwellings were last re-valued on 1 April 2009. A selection of the Land & Building assets were re-valued on 1 April 2010. The remaining Land & Building assets have been re-valued as at 1 April 2011.

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

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

15. Heritage Assets

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

The Council has instituted a rolling programme of valuation for the most material heritage assets. Previously, heritage assets were either recognised as community assets in the Property, Plant and Equipment (PPE) classification in the Balance Sheet or were not recognised as it was not possible to obtain cost information on the assets

Notes to the Accounts

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

The Council commissioned a full valuation of the collection of paintings as at 01 April 2011. The valuations were based upon commercial markets including recent transaction information from auctions where similar types of paintings are regularly being purchased.

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

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

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

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

<http://www.elmscollections.org/>

	2010/11	2011/12
	Art Collection	Art Collection
	£000s	£000s
Cost or Valuation		
Net carrying amount at the start of the year	-	-
Additions	-	-
Disposals	-	-
Revaluations	-	547
Impairment Losses/(Reversals) recognised in the Revaluation	-	-
Impairment Losses/(Reversals) recognised in the Surplus or Deficit on the Provision of Services	-	-
Depreciation for the period	-	-
Net carrying amount at end of year	-	547

16. Assets held for sale

	2011/12	2010/11
	£000s	£000s
Balance outstanding at start of year	983	519
Assets newly classified as held for sale		
Property, Plant and Equipment	325	986
Other assets	-	-
Additions	-	-
Revaluation losses	(163)	-
Revaluation gains	-	-
Impairment losses	-	-
Revaluations	-	-
Assets declassified as held for sale	-	(2)
Property, Plant and Equipment	-	-
Other assets	-	-
Assets sold	-	(520)
Transfers from non-current to current	-	-
Balance outstanding at end of the year	1,145	983

17. Assets held under lease**Council as Lessee****Operating leases**

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

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

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

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

Finance leases

Notes to the Accounts

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

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

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

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

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

Notes to the Accounts

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2012	31 March 2011	31 March 2012	31 March 2011
	£000s	£000s	£000s	£000s
Not later than one year	395	395	168	163
Later than one year and not later than five years	1,200	1,326	332	445
Later than five years	6,420	6,688	1,056	1,111
	<u>8,014</u>	<u>8,409</u>	<u>1,556</u>	<u>1,719</u>

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

Council as Lessor

Operating Leases

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

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

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

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

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

18. Private Finance Initiatives and Similar Contracts

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

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

The Council makes an agreed payment each year which is increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but is otherwise fixed. Payments remaining to be made under the PFI contract at 31 March 2012 are as follows:

	Payment for Services	Re - imburse ment of Capital Expendit ure	Interest	Total
	£000s	£000s	£000s	£000s
Payable in 2012/13	3,254	1,154	3,023	7,431
Payable within 2-5 years	13,933	4,447	11,343	29,723
Payable within 6-10 years	17,594	7,243	12,316	37,154
Payable within 11-15 years	18,989	8,284	9,881	37,154
Payable within 16-20 years	17,141	13,346	6,666	37,154
Payable within 21-25 years	8,774	11,377	1,508	21,659
Total	79,685	45,851	44,737	170,274

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

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

19. Capital Expenditure and Capital Financing

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

	31 March 2012	31 March 2011
	£000s	£000s
Opening Capital Financing Requirement	274,484	234,907
Capital Investment		
Property , Plant and Equipment	71,499	56,813
Intangible Assets	-	-
Revenue Expenditure Funded from Capital	-	-
Sources of finance		
Capital receipts	-	-
Government grants	(14,537)	(8,658)
Other Contributions	(1,157)	(354)
Direct Revenue Contributions	(4,939)	(535)
Loans Fund	(8,816)	(7,689)
Closing Capital Financing Requirement	316,534	274,484

20. Impairment Losses

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

21a. Long Term Investments

Long Term Investments comprise the following:

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

21b. Long Term Debtors

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

Notes to the Accounts

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

22. Short-term Debtors

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

	31 March 2012	31 March 2011
	£000s	£000s
Central Government Bodies	8,962	5,590
Other local authorities	435	302
NHS bodies	25	164
Public corporations and trading funds	-	-
Other entities and individuals	26,751	25,537
Total	<u>36,173</u>	<u>31,593</u>

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

Notes to the Accounts

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

23. Financial Instruments

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

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

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

Notes to the Accounts

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

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

- Estimated interest rates at 31 March 2012 of between 1.41% and 4.39% for new loans from the PWLB and 4.25% for other loans
- No early repayment or impairment is recognised
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

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

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

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

Disclosure of nature and extent of risk arising from Financial Instruments

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

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

Overall procedures for managing risk

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

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

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

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

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

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

Credit risk

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

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

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

The full Investment Strategy for 2011/12 was approved by the Council on 8 February 2011 and is available on the Council's website. The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Authority's deposits, but the Council had no such deposits at 31 March 2012.

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

Liquidity risk

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

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

Refinancing and Maturity risk

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

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

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

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

Market risk

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

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

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

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

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

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

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

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

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

The most significant investments held that are denominated in foreign currency are listed in note 5 to the Supplementary Financial Statements.

24. Short Term Creditors

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

Notes to the Accounts

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

25. Provisions

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

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

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

26. Long Term Liabilities

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

Notes to the Accounts

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

27. Contingent liabilities and contingent assets

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

28. Defined Benefit Pension Schemes

Participation in Pensions schemes

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

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

Transactions relating to retirement benefits

Notes to the Accounts

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

Assets and liabilities in Relation to Post-Employment Benefits

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

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

Reconciliation of fair value of the scheme assets:

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

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

Notes to the Accounts

The actual return on scheme assets for the period 1 April 2011 to 31 December 2011 was -0.9%. The estimated return for the full year is 2.1%.

Scheme History

	2007/08	2008/09	2009/10	2010/11	2011/12
	£000s	£000s	£000s	£000s	£000s
Present value of liabilities	(277,654)	(265,191)	(425,972)	(383,154)	(391,713)
Fair value of employer assets	254,932	205,909	283,199	303,231	297,679
Surplus / (deficit)	(22,722)	(59,282)	(142,773)	(79,923)	(94,034)

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £94.03 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 2013 is £12.472 million. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2012 are £0.07 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 main financial assumptions in the actuaries' calculations were:

	2011/12	2010/11
Long-term expected rate of return on assets in the scheme		
Equities	6.2%	7.5%
Bonds	4.0%	4.9%
Property	4.4%	5.5%
Cash	3.5%	4.6%
Mortality assumptions		
Longevity at 65 for current pensioners		
Male	20.4	20.8
Female	22.8	24.1
Longevity at 65 for future pensioners		
Male	22.6	22.3
Female	25.4	25.7
Rate of inflation		2.8%
Rate of increase in salaries	4.8%	5.1%
Rate of increase in pensions	2.5%	2.8%
Rate for discounting scheme liabilities	4.8%	5.5%
Take-up of option to convert annual pension into retirement grant (Pre-April 2009 Service)	50.0%	50.0%
Take-up of option to convert annual pension into retirement grant (Post-April 2009 Service)	75.0%	75.0%

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

	31-Mar-12	31-Mar-11
	%	%
Equities	79.0	79.0
Bonds	8.0	8.0
Property	11.0	10.0
Cash	2.0	3.0
	<u>100.0</u>	<u>100.0</u>

History of experience gains and losses

The actuarial loss identified as movements on the Pensions Reserve in 2011/12 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2012.

Notes to the Accounts

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

Defined contribution scheme

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

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

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

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

Ex-Gratia Scheme

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

In 2011/12, the Council paid £0.07m (2010/11: £0.07m) to individuals. The estimated value of future liabilities based on actuarial mortality estimates is £0.89m.

29. Usable Reserves

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

30. Unusable Reserves

31 March 2011	31 March 2012
£000s	£000s
(18,314) Revaluation Reserve	(136,989)
(1,315) Available-for-sale Financial Instruments Reserve	(1,976)
79,924 Pensions Reserve	94,034
(444,805) Capital Adjustment Account	(232,396)
5,246 Financial Instruments Adjustment Account	4,988
5,657 Employee Statutory Adjustment Account	3,496
(373,607) Total	(268,843)

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.

Notes to the Accounts

31 March 2011	31 March 2012
£000s	£000s
(13,537) Balance at 1 April	(18,314)
(6,469) Upward revaluation of assets	(128,186)
- Downward revaluation of assets and impairment not charged to the Surplus/Deficit on the Provision of Services	3,992
(6,469) Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(124,194)
1,570 Difference between fair value depreciation and historical cost depreciation	5,490
122 Accumulated gains on assets sold or scrapped	29
- Amount written off to the Capital Adjustment Account	-
(18,314) Balance at 31 March	(136,989)

Available for Sale Financial Instruments Reserve

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

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

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

Pensions Reserve

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

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

Capital Adjustment Account

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

Notes to the Accounts

also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date the Revaluation Reserve was created to hold such gains.

31 March 2011		31 March 2012
£000s		£000s
(455,890)	Balance at 1 April	(444,805)
	<i>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement</i>	
24,451	Charges for depreciation of non-current assets	26,712
5,409	Revaluation and impairment losses on Property, Plant and Equipment	220,939
1,723	Assets written off on disposal or sale	1,137
<u>31,583</u>		<u>248,788</u>
(1,692)	Adjusting amounts written out of the Revaluation Reserve	(5,490)
<u>29,891</u>	Net amounts written out of the cost of non-current assets consumed in the year	<u>243,298</u>
	<i>Capital Financing applied in the year</i>	
(9,013)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(15,694)
(9,225)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(10,257)
(568)	Capital expenditure charged against the General Fund and HRA balances	(4,938)
<u>(18,806)</u>		<u>(30,889)</u>
<u>(444,805)</u>	Balance at 31 March	<u>(232,396)</u>

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.

Notes to the Accounts

The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the general Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 2012 will be charged to the General Fund over the next 15 years.

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

Employee Statutory Adjustment Account

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

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

31. Transfers to/From Earmarked Reserves

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

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

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

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

32. Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Head of Council Resources on 26 June 2012. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2012, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Section awaiting audit

33. Grant Income

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

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

The Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that

may require the monies or property to be returned to the giver. The balances at the year-end are as follows.

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

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

	2010/11	2011/12
	£000s	£000s
Depreciation	(24,451)	(26,712)
Impairments and downward depreciations	(5,409)	(220,939)
Net gains on sale of fixed assets	(1,723)	(29)
Net charges made for retirement benefits in accordance with IAS 19	26,224	(10,638)
Employer's contributions payable to the Lothian Pension Fund	14,150	14,052
(Increase)/decrease in revenue long term-debtors & liabilities	146	-
Change in Provisions	(565)	1,429
Change in stock	66	(145)
Change in revenue debtors	1,083	4,580
Increase in revenue creditors	(1,836)	1,520
Total	7,685	(236,882)

35. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items;

Notes to the Accounts

	2011/12	Restated 2010/11
	£000s	£000s
Cash Outflows		
Cash paid to and on behalf of employees	131,636	133,222
Other operating cash payments	117,617	109,192
Housing Benefit paid out	13,997	12,889
Requisitions paid	10,535	11,159
Cash Inflows	-	-
Rents (after rebates)	(12,377)	(12,060)
Council Tax receipts	(46,194)	(45,923)
Non-domestic rate receipts	(17,678)	(39,046)
Revenue Support Grant	(151,365)	(134,110)
DSS grants for benefits	(23,470)	(24,029)
Grants & contributions	(14,642)	(15,685)
Cash received for goods and services	(11,099)	(9,467)
Total	(3,040)	(13,858)

Housing Revenue Account

Income and Expenditure Account

2010/11		2011/12	
£000s		£000s	£000s
	Income		
(18,513)	Dwelling rents	(19,613)	
(333)	Non-dwelling rents	(395)	
(415)	Service charges	(437)	
(13)	Other income	(200)	
<u>(19,274)</u>	Total Income		(20,645)
	Expenditure		
7,197	Repairs and maintenance	6,951	
5,693	Supervision and management	6,059	
8,246	Depreciation and impairment of fixed assets	8,638	
321	Increase in bad debt provision	393	
1,054	Other expenditure	2,471	
<u>22,511</u>	Total Expenditure		<u>24,512</u>
	Net cost of HRA services as included in the Comprehensive Income and Expenditure Statement		
3,237			3,867
141	HRA services share of Corporate and Democratic Core		148
	HRA share of other amounts included in the - whole authority Net Cost of Services but not allocated to specific services		-
<u>3,378</u>	Net Cost of HRA Services		<u>4,015</u>
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement		
(1,169)	(Gains)/Losses on sale of HRA fixed assets		(427)
2,801	Interest payable and similar charges		3,478
(32)	Interest and investment income		(370)
(1,194)	Pensions interest cost and expected return on pensions assets		107
<u>(3,868)</u>	Capital grants and contributions receivable		<u>(2,370)</u>
<u>(84)</u>	(Surplus)/Deficit for the year on HRA services		<u>4,433</u>

Housing Revenue Account

Movement on the HRA Statement

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

Note to the Movement of the HRA Statement

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

Council Tax Income Account

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

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

Non-domestic Rate Income Account

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

2010/11		2011/12
£000s		£000s
	Rates contributable to/from National Pool	
(27,242)	Gross rates levied & contributions in lieu	(28,898)
7,479	Reliefs and other deductions	7,939
	- Payment of interest	-
6	Provision & bad debts written off	39
<u>(19,757)</u>		<u>(20,919)</u>
220	Adjustments relating to previous years	524
<u>(19,537)</u>	Net non-domestic rates income	<u>(20,396)</u>
<u>(39,748)</u>	Contribution from the National Non-domestic Rate Pool	<u>(19,319)</u>

Common Good Account

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

Comprehensive Income and Expenditure Statement

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

Balance Sheet

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

Movement in Reserves Statement

For the year ended 31 March 2012

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

Trust Funds Account

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

Comprehensive Income and Expenditure Statement

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

Balance Sheet

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

Movement in Reserves Statement

For the year ended 31 March 2012

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

Supplementary Financial Statements

1. Housing Revenue Account

Number and type of dwellings

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

Bad or Doubtful Debts

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

2. Council Tax Income

The Council Tax base is calculated as follows;

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

3. Non-domestic rate account

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

	Number	Rateable Value £000
Shops, Offices and other Commercial Subjects	1,609	28,031
Industrial and Freight Transport	840	12,491
Miscellaneous (Schools etc)	830	26,958
	3,279	67,480

Rate Level

Occupiers of non-domestic property pay rates based on the valuation of the property within the valuation roll for East Lothian. The non-domestic rate poundage is determined by the First Minister, and was 43.3p (2010/11: 41.4p) per pound for properties with rateable value of £35,000 or more and 42.6p (2010/11: 40.7p) for those with a rateable value of less than £35,000(2010/11:£35,000).

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

4. Common Good Fund

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

Non-current Assets

The value of assets changed in the following way:

	Community Assets £000s
Net book value of assets at 31 March 2011	2,913
Movement in 2011/12	
Additions	49
Disposals	-
Revaluations	(1)
Depreciation	(77)
Impairments	-
Internal Transfers	-
Net book value of assets at 31 March 2012	<u>2,884</u>

Finance Leases

Details of Common Good Finance Leases

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

Supplementary Financial Statements

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

Fund Analysis

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

	Dunbar £000	Hadding- ton £000	Mussel- burgh £000	North Berwick £000	Total £000
Balance brought forward on 1 April 2011	(23)	(438)	(2,924)	(162)	(3,546)
(Surplus)/Deficit for the year	(12)	(23)	(348)	(30)	(414)
Fund balance as at 31 March 2012	(35)	(461)	(3,272)	(192)	(3,960)
Net Assets	1,533	527	5,364	485	7,910

5. Trusts

In-year Financial Performance

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

Property Asset Valuation

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

Market Investment Valuation

Investments are valued each year by the Trusts' investment managers based on the listed market value of each investment on 31 March. The largest investments held by the Trusts on 31 March 2012 were:

Supplementary Financial Statements

2010/11	2011/12
£000 Investment	£000
102 UK Treasury Sep 07	103
114 Shell Ordinary Shares Eur 0.07	88
64 HSBC Holdings Ordinary Shares US \$0.50	-
82 JP Morgan IT Ordinary	87
73 Vodaphone Group Ordinary Shares US \$0.11	72
66 UBS Global Assets Mgt US Equity	71
58 Threadneedle Inv American Select	64
1,826 Other stocks, shares and cash	1,853
<u>2,385</u> Total	<u>2,338</u>

Group Comprehensive Income and Expenditure Statement

The Council has a range of interests in related companies. Details can be found in the accompanying Notes.

2010/2011		2011/2012		
Net Expenditure £000s	Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s	
4,313	Central services	8,228	(4,504)	3,724
19,371	Cultural and related services	49,157	(4,957)	44,200
91,737	Education services	280,860	(4,834)	276,026
11,156	Environmental services	15,736	(1,175)	14,561
3,628	Housing services (non-HRA)	33,126	(28,524)	4,602
10,819	Joint Board requisitions	10,535	(354)	10,181
3,378	Local authority housing (HRA)	24,446	(20,431)	4,015
3,002	Planning & development services	4,841	(2,576)	2,265
12,688	Roads and transport services	13,216	(875)	12,341
57,860	Social Work services	71,685	(8,503)	63,182
2,006	Corporate and democratic core	2,846	(93)	2,753
-	Non-distributed costs	272	-	272
219,958	Cost of Services	514,948	(76,826)	438,122
(1,472)	(Gains)/Losses on the disposal of non current assets			(23)
(25,309)	Financing and investment income and expenditure			13,614
-	(Surplus) or deficit of discontinued operations			-
(227,622)	Taxation and non specific grant income			(232,318)
(34,445)	(Surplus) or Deficit on Provision of Services			219,395
(12,171)	Share of the (surplus) or deficit on the provision of services by Associates			8,493
1	Tax expenses of subsidiaries and associates			-
(46,615)	Group (Surplus)/Deficit			227,888
(7,264)	(Surplus) or deficit on revaluation of Property, Plant and Equipment			(124,227)
(1,414)	(Surplus) or deficit on revaluation of available for sale financial instruments			(573)
(22,477)	Actuarial (gains)/losses on pension assets/liabilities			17,524
(8,240)	Share of other comprehensive income and expenditure of associates.			18,247
(39,395)	Other Comprehensive Income and Expenditure			(89,029)
(86,011)	Total Comprehensive Income and Expenditure			138,859

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

2010/2011		2011/2012
£000s		£000s
218,984	(Surplus)/deficit for the year on the Authority Comprehensive Income & Expenditure Account	219,613
	(Surplus) deficit for the year in the Group Income & Expenditure Account attributable to group entities	
(12,170)	Associates	8,493
(532)	Subsidiaries	(218)
206,282	(Surplus)/Deficit for the year on the Group Income & Expenditure Account	227,888

Group Balance Sheet as at 31 March 2012

31-Mar-11	31-Mar-12
£000s	£000s
788,438 Property Plant & Equipment	734,614
- Heritage Assets	547
- Assets Held for Sale	-
6,360 Long Term Investments	6,908
(148,721) Investments in Associates	(175,344)
6,131 Long Term Debtors	8,795
652,208 Long Term Assets	575,520
47 Short Term Investments	(183)
986 Assets Held for Sale	1,145
496 Inventories	342
32,133 Short Term Debtors	36,787
(18,209) Bad & Doubtful Debt Provision	(18,481)
13,706 Cash and Cash Equivalents	662
29,159 Current Assets	20,272
- Bank Overdraft	(4,716)
(12,503) Short Term Borrowing	(16,580)
(24,529) Short Term Creditors	(21,543)
(37,032) Current Liabilities	(42,839)
- Long Term Creditors	-
(7,381) Provisions	(5,680)
(238,718) Long Term Borrowing	(275,926)
(131,959) Other Long Term Liabilities	(144,311)
(650) Capital Grants Receipts in Advance	(150)
(378,708) Long Term Liabilities	(426,067)
265,627 Net Assets	126,885
- Called Up Share Capital	-
(37,473) Usable Reserves	(29,893)
(228,154) Unusable Reserves	(96,992)
(265,627) Total Reserves	(126,885)

Group Movement in Reserves Statement

For the year ended 31 March 2012		Authority's Share of Usable Reserves of Subsidiaries and Associates (£000)	Total Usable Reserves (£000)	Total Unusable Reserves (£000)	Authority's Own Unusable Reserves (£000)	Authority's Share of Unusable Reserves of Subsidiaries and Associates (£000)	Total Reserves (£000)
Balance at 31 March 2011		(28,997)	(8,480)	(37,477)	(228,184)	(373,608)	145,424
Movement in reserves during 2010/11							
(Surplus) or deficit on provision of services		219,613	8,275	227,888	-	-	227,888
Other Comprehensive Expenditure and Income		-	(20)	(20)	(89,009)	(107,331)	18,322
Total Comprehensive Expenditure and Income		219,613	8,255	227,868	(89,009)	(107,331)	138,859
Adjustments between Group Accounts and Authority Accounts		-	-	-	-	-	-
Net Increase/Decrease before Transfers		219,613	8,255	227,868	(89,009)	(107,331)	138,859
Adjustments between accounting basis & funding basis under regulations		(212,094)	(8,190)	(220,284)	220,201	212,094	(84)
Net Increase/Decrease before Transfers to Other Statutory Reserves		7,519	65	7,584	131,192	104,763	138,775
(Increase)/Decrease in Year		7,519	65	7,584	131,192	104,763	138,775
Balance at 31 March 2012 carried forward		(21,478)	(8,415)	(29,893)	(96,992)	(268,845)	171,863
							(126,885)

Group Cash Flow Statement

2010/11		2011/12
£000s		£000s
(34,445)	Net (surplus) or deficit on the provision of services	219,395
8,319	Adjustments to net surplus or deficit on the provision of services for non-cash movements	(237,201)
12,340	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	14,414
(13,786)	Net Cash flow from Operating Activities	(3,392)
	Investing Activities	
56,169	Purchase of property, plant and equipment	71,325
-	Purchase of investments	95
(69)	Dividends from joint ventures and associates	(103)
(615)	Proceeds from short term investments	(540)
(9,468)	Other Receipts from investing activities	(14,095)
(2,865)	Proceeds from the sale of property, plant and equipment	(1,165)
43,152		55,517
	Financing Activities	
(55,328)	Cash received from short and long term borrowing	(89,973)
1,380	Capital element of finance leases and PFI Contracts	1,280
9,523	Repayments of short and long term borrowing	50,959
2,499	New loans made	3,369
(41,926)		(34,365)
(12,560)	Net increase or decrease in cash and cash equivalents	17,760
(1,146)	Cash and cash equivalents at the beginning of the reporting period	(13,706)
(13,706)	Cash and cash equivalents at the end of the reporting period	4,054

Notes to the Group Financial Statements

Combining Entities

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

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

	2010/11	2011/12
East Lothian Investments	40.00%	40.00%
Enjoy East Lothian Limited	33.33%	33.33%
Brunton Theatre Trust	40.00%	40.00%
Lothian Valuation Joint Board	10.99%	10.99%
Lothian & Borders Police Board	8.25%	8.25%
Lothian & Borders Fire & Rescue Board	7.77%	7.77%

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

	(Surplus) or Deficit for the year (£000s)	Other Income & Expenditure Items (£000s)	Net Assets at the end of the year (£000s)
East Lothian Investments	(50)	-	518
Enjoy East Lothian Limited	(17)	176	5,732
Brunton Theatre Trust	59	-	154
Lothian Valuation Joint Board	(228)	(177)	(4,121)
Lothian & Borders Police Board	82,146	207,353	(1,831,281)
Lothian & Borders Fire & Rescue Board	22,579	12,663	(336,351)

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.

Subsidiaries

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

No subsidiaries have been excluded.

The Council is sole shareholder, at a cost of £800,000, in East Lothian Land Limited, set up in 2000 for the purpose of managing land to support economic development in East Lothian. The accounts for the last period of trading to 31 March 2012 show net assets of £601,000 (2011: £618,000), and a loss before taxation of £16,000 (31 March 2011: Loss of £20,000). The company retains all accumulated profits and losses. No dividend was received. The value of East Lothian Land is included within the Council accounts at the net asset value noted above.

The annual accounts for the Common Good Funds and Trusts are included at pages 74 to 76.

The net value of the Trusts included within the Group Accounts is £3.62 million. The nature of the assets is explained in a note to the Supplementary Financial Statements on page 82. Although included as a subsidiary the Council does not expect a dividend as a result of its involvement.

In 2010 East Lothian Council, along with the Lothian's Racing Syndicate Limited agreed a revised Minute of Agreement relating to the operation of the Musselburgh Joint Racing Committee. The remit of the Committee is to organise and develop horse racing at Musselburgh Links. No shares are issued. The Council nominates four of the seven Committee members with the other three nominated by the Syndicate. East Lothian Council inherited an interest in this subsidiary company as a result of local government re-organisation in 1996.

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

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

Financial Impact of Consolidation

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

ANNUAL GOVERNANCE STATEMENT

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

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

Annual Review of Corporate Good Governance

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

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

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

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

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

- Promotion of the Council Plan, Vision, Mission and Focus to staff and East Lothian citizens;
- Completion of the review of Community Planning Partnership governance arrangements and structures;
- Roll out of elected members' CPD which will allow all members to participate;
- Completion of a review of Scheme of Administration and Scheme of Delegation, including the roles and responsibilities of the Council's Statutory Officers. These will be detailed into revised Standing Orders and Scheme of Administration;

Annual Governance Statement

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

Declaration of Assurance

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

The results of these assurances were that;

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

Specific tendering and procurement issues relating to property costs;

Budgetary control within the Children & Families Group.

Internal Audit Review

ELC's Internal Audit team carry out reviews of service areas throughout the year and report their findings to the Council's Audit and Governance Committee. The Internal Audit manager also gives an assurance statement on the effectiveness of the system of internal controls within the Council.

For 2011/12 the Internal Audit Manager concluded that, subject to some weaknesses outlined in the report, reasonable assurance can be placed on the adequacy and effectiveness of East Lothian Council's internal control systems for the year to 31 March 2012.

Results

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



Angela Leitch
Chief Executive
26 June 2012



Willie Innes
Council Leader
26 June 2012



Jim Lamond
Head of Council Resources
26 June 2012

REMUNERATION REPORT

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 for councillors the Scottish Ministers consider the recommendations of the Scottish Local Authority Remuneration Committee (SLARC). SLARC is an advisory Non-Departmental Public Body set up in 2005 to advise Scottish Ministers on the remuneration, allowances and expenses incurred by local authority councillors.

The salary that is to be paid to the Leader of the Council is set out in the Regulations. For 2011-12 the salary for the Leader of East Lothian Council is £27,058. 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 £164,374.

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 Regulations also permit the Council to pay contributions or other payments as required to the Local Government Pension Scheme in respect of those councilors 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

Remuneration Report

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.

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

Councillor Name	Responsibility	2011/2012			
		Salary, Fees and allowances (£)	Taxable Expenses (£)	Total Remuneration 2011-12 (£)	Total Remuneration 2010-11 (£)
Jacqui Bell	Cabinet Member for Health & Social Care (from 8 June 2010 to 16 June 2011)	4,305	553	4,858	20,994
David Berry	Leader of the Council (until 8 June 2010)	-	-	-	6,115
Ruth Currie	Cabinet Member for Community Wellbeing	20,294	1,782	22,076	21,747
Stuart Currie	Cabinet Member for Housing & Community Safety	27,396	1,606	29,002	22,194
Willie Innes	Leader of the Opposition	18,335	1,396	19,731	20,453
Roger Knox	Depute Provost	20,294	1,070	21,364	21,322
Peter MacKenzie	Cabinet Member for Education & Children's Services	27,396	2,043	29,439	21,665
Stuart MacKinnon	Cabinet Member for Economic Development & Tourism (From 25 August 2009)	20,294	284	20,578	22,632
Paul McLennan	Leader of the Council (from 8 June 2010) and Cabinet Member of Health & Social Care (from 23/08/2011)	27,058	2,884	29,942	25,803
Sheena Richardson	Provost	21,294	1,468	22,762	22,332
Barry Turner	Cabinet Member for Environment	20,294	1,243	21,537	21,751
		206,960	14,329	221,289	227,007

Remuneration Report

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

The remuneration figures supplied above are net of any amounts paid by the various Joint Boards. Details of these payments can be found in the Remuneration Reports of the Joint Boards.

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

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

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

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

Senior Officer Remuneration

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

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

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

Remuneration Report

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

Name	Post Title	2011/2012			Total Remuneration 2010-11 (£)
		Salary, fees and allowances (£)	Taxable Expenses (£)	Total Remuneration 2011-12 (£)	
Alan Blackie	Chief Executive (to 31/08/2011)	50,235	662	50,897	113,795
Angela Leitch	Chief Executive (from 14/09/2011)	56,750	43	56,793	-
Monica Patterson	Director of Community Services (from 01/02/2010)	95,469	437	95,906	95,927
Alex McCrorie	Director of Corporate Services	97,673	-	97,673	101,001
Don Ledingham	Director of Education & Childrens Services	95,169	692	95,861	95,880
Pete Collins	Director of Environment	97,673	-	97,673	101,001
Alan Ross	Head of Children's Services (to 17/01/2011)	-	-	-	71,722
Murray Leys	Head of Adult Social Care (from 19/07/2010)	83,136	1,365	84,501	58,992
David Spilsbury	Head of Finance	83,486	288	83,774	84,217
Jim Lamond	Head of Governance & Performance	83,364	-	83,364	85,813
		742,955	3,487	746,442	808,348

Remuneration Report

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

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

Subsidiary Bodies

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

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

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

Pension Benefits

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

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

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

Remuneration Report

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

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

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

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

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

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

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

The value of the accrued benefits has been calculated on the basis of the age at which the person will first become entitled to receive a full pension on retirement without reduction on account of its payment at that age; without

Remuneration Report

exercising any option to commute pension entitlement into a lump sum; and without any adjustment for the effects of future inflation.

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

Pension Benefits – Senior Councillors

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

Councillor Name	Responsibility	In-Year Pension Contributions (£)		Pension Lump Sum	Estimated Accrued Pension Benefits (£000)	
		2011/2012	2010/2011		At 31 March 2012	31 March 2011
Paul McLennan	Leader of the Council (from 8 June 2010) and Cabinet Member of Health & Social Care (from 23/08/2011)	5,763	5,574	Pension Lump Sum	2	-
Sheena Richardson	Provost	4,536	4,387	Pension Lump Sum	3	1
Stuart MacKinnon	Cabinet Member for Economic Development & Tourism	4,323	4,181	Pension Lump Sum	2	-
Barry Turner	Cabinet Member for Environment	-	-	Pension Lump Sum	1	-
Peter MacKenzie	Cabinet Member for Education & Children's Services	5,835	5,644	Pension Lump Sum	-	-
Roger Knox	Depute Provost	4,323	4,181	Pension Lump Sum	2	1
David Berry	Leader of the Council (until 8 June 2010)	-	3,344	Pension Lump Sum	-	-
Stuart Currie	Cabinet Member for Housing & Community Safety	-	-	Pension Lump Sum	-	-
Ruth Currie	Cabinet Member for Community Wellbeing	4,323	4,181	Pension Lump Sum	2	-
Jacqui Bell	Cabinet Member for Health & Social Care (from 8 June 2010 to 16 June 2011)	3,642	4,181	Pension Lump Sum	2	-
Willie Innes	Leader of the Opposition	4,118	3,777	Pension Lump Sum	1	1
		36,863	39,450		27	3

Pension Benefits – Senior Employees

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

Name	Post Title	In-Year Pension Contributions (£)		Estimated Accrued Pension Benefits (£000)		Difference from 31 March 2011
		2011/2012	2010/2011	At 31 March 2012	from 31 March 2011	
Alan Blackie	Chief Executive (to 31/08/2011)	23,170	22,408	Pension Lump Sum	55	1
Alan Blackie	Returning Officer	852	612	Pension Lump Sum	153	-
Angela Leitch	Chief Executive (from 14/09/2011)	12,008	-	Pension Lump Sum	-	-
Monica Patterson	Director of Community Services (from 01/02/2010)	20,096	19,435	Pension Lump Sum	33	-
Alex McCrorie	Director of Corporate Services	20,096	19,435	Pension Lump Sum	95	-
Don Ledingham	Director of Education & Childrens Services	14,058	14,058	Pension Lump Sum	36	2
Pete Collins	Director of Environment	20,096	19,435	Pension Lump Sum	94	-
Alan Ross	Head of Children's Services (to 17/01/2011)	-	13,458	Pension Lump Sum	50	2
Murray Leys	Head of Adult Social Care (from 19/07/2010)	17,533	11,947	Pension Lump Sum	135	-
David Spilsbury	Head of Finance	17,533	16,957	Pension Lump Sum	37	-
Jim Lamond	Head of Governance & Performance	16,436	15,896	Pension Lump Sum	112	11
				Pension Lump Sum	43	2
				Pension Lump Sum	116	-
				Pension Lump Sum	-	-
				Pension Lump Sum	2	1
				Pension Lump Sum	-	-
				Pension Lump Sum	27	1
				Pension Lump Sum	69	-
				Pension Lump Sum	30	1
				Pension Lump Sum	78	-
		161,878	153,641		1,165	21

Exit Packages

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

Cost Band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11
£0 - £20,000	12	52	1	-	13	52	92	193
£20,001 - £40,000	-	-	3	-	3	-	71	0
£40,001 - £60,000	-	-	1	-	1	-	52	0
£60,001 - £80,000	-	-	1	-	1	-	66	0
£80,000 - £100,000	1	-	-	-	1	-	90	0
£100,001 - £120,000	-	-	-	-	-	-	0	0
£120,001 - £140,000	1	-	1	-	2	-	271	0
£260,001 - £280,000	-	-	1	-	1	-	265	-
Total	14	52	8	-	22	52	907	193

Remuneration Report



Angela Leitch
Chief Executive
26 June 2012

Willie Innes
Council Leader
26 June 2012



Jim Lamond
Head of Council Resources
26 June 2012