



**MINUTES OF THE MEETING OF THE  
AUDIT AND GOVERNANCE COMMITTEE**

**TUESDAY 20 MAY 2014  
COUNCIL CHAMBER, TOWN HOUSE, HADDINGTON**

**1**

**Committee Members Present:**

Councillor K McLeod (Convener)  
Councillor S Brown  
Councillor J Caldwell  
Councillor S Currie  
Councillor J Goodfellow  
Councillor F McAllister  
Councillor J Williamson

**Council Officials Present:**

Mrs A Leitch, Chief Executive  
Mr A McCrorie, Depute Chief Executive - Resources and People Services  
Ms M Patterson, Depute Chief Executive - Partnerships and Community Services  
Mr R Montgomery, Head of Infrastructure  
Mr T Shearer, Head of Communities & Partnerships  
Mr J Lamond, Head of Council Resources  
Ms S Cormack, Service Manager – HR & Payroll  
Ms M Ferguson, Service Manager – Legal & Procurement  
Mr P Vestri, Service Manager - Corporate Policy  
Ms M Garden, Internal Audit Manager  
Mr S Allan, Senior Auditor  
Ms A Cullen, Senior Review Officer  
Mr A Strickland, Policy Officer

**Clerk:**

Miss F Currie, Committees Assistant

**Visitors Present:**

Mr A Shaw, Engagement Director, KPMG LLP  
Ms S Burden, Assistant Manager, KPMG LLP

**Apologies:**

Councillor A Forrest

**Declarations of Interest:**

None

## **1. MINUTES OF THE MEETING OF THE AUDIT & GOVERNANCE COMMITTEE ON 18 MARCH 2014**

The minutes of the meeting of the Audit & Governance Committee on 18 March 2014 were approved.

## **2. INTERIM MANAGEMENT REPORT (KPMG)**

KPMG submitted a report updating the Committee on progress with their audit of East Lothian Council for the year ended 31 March 2014.

Engagement Director - KPMG, Andrew Shaw, presented the report which gave Members an update on the key business and governance issues identified following KPMG's interim visit. The third quarter results indicated that the use of reserves had been less than budgeted, as had capital spending. Sarah Burden, Assistant Manager - KPMG, summarised the report's findings in relation to the National Fraud Initiative, internal audit and the review of the controls framework. She stated that although some low level recommendations had been identified, controls appeared to be working effectively.

In response to questions from Councillor Currie, Mr Shaw advised that KPMG had looked at budget processes and forward planning arrangements across the Council as a whole rather than looking at individual efficiency saving targets. It was the role of Management to keep these under review and to identify any issues which might prevent their targets from being met.

The Head of Council Resources, Jim Lamond, confirmed that the Council had in place a longer term financial planning horizon that extended beyond the published 3 year budget and financial strategy. The forward planning and budget-setting process involved the Council Management Team and Service Managers from across all business areas.

The Chief Executive, Angela Leitch, added that the recently approved Budget Review Group was in place to review the Council's progress towards achieving its efficiency savings targets.

### **Decision**

The Committee noted the report.

## **3. PROGRESS REPORT ON MANAGING THE WORKFORCE**

A report was submitted by the Depute Chief Executive – Resources and People Services to provide the Committee with updated information in relation to the implementation of the Council's Voluntary Early Release Scheme (VERS) and to provide an update on Efficient Workforce Management Planning during 2013/14.

Mr Lamond presented the report giving Members the background to VERS and Efficient Workforce Management Plans. He explained that almost 300 applications had been received under VERS and of these, 97 had been approved. Although the Council fell just short of its target, with a total saving from VERS of £2.85 million, Management were pleased with the outcome overall.

Mr Lamond indicated that costs associated with VERS amounted to £3.1 million and there would be a recurring annual saving of £2.85 million. Overall, this could be viewed as delivering a payback period of 1.1 years, well within the Audit Scotland guideline of 2 years. He acknowledged that the impact on the Council in terms of workloads and the cumulative loss of experience continued to be challenging. Although the impact on service delivery had been minimised by service redesign and the diligence of remaining staff, it would be some time before the full effect of these changes would be known. However, the results of the recent Staff Engagement Survey suggested that there had been no significant deterioration in staff morale and the Council Complaints officer had confirmed there had been no obvious deterioration in public satisfaction with service delivery. In the meantime, work was continuing on the modification and redesign of services to take account of the reduced staff resource.

In response to questions from Members, the Service Manager – HR & Payroll, Sue Cormack, confirmed that those employees who were not accepted for VERS had received feedback and support from their line managers as necessary. Mr Lamond added that a large number of the applications had been speculative and had subsequently been withdrawn by employees after receiving their estimate. Following on from VERS, he stated that 49 service reviews had been concluded to date with a further 24 currently in progress. These varied in size and included larger business areas such as Children's Wellbeing and Property Services.

Mrs Leitch advised Members that it was important to remember that this programme had been necessary to allow the Council to adapt to the changing demands of the public sector and to achieve its ambitious plans under the Single Outcome Agreement. Management had taken on board the views of staff and were working to improve the way that change is managed within the organisation. Service reviews were only one tool and staff would continue to be engaged in the redevelopment of services through HGIOC and other means.

The Head of Communities & Partnerships, Tom Shearer, stated that despite the challenges there had been some very positive outcomes, such as the enrichment of roles for staff in customer services and library services.

Councillor McAllister asked about the use of agency or casual staff and zero hours contracts and Mr Lamond agreed to provide this information.

### **Decision**

The Committee noted the recent progress made with implementation of the VER Scheme and EWMP during 2013/14.

*[Sederunt – Sue Cormack and Jim Lamond left the Chamber.]*

## **4. 2014 CORPORATE GOVERNANCE SELF-EVALUATION/ANNUAL GOVERNANCE STATEMENT**

A report was submitted by the Chief Executive advising the Committee of the outcome of the 2014 Corporate Governance Self-evaluation and to seek approval for the content of the Annual Governance Statement.

The Service Manager - Corporate Policy, Paolo Vestri, presented the report stating that Cabinet had approved the adoption of the Code of Corporate Good Governance in 2010. The Council's task group had met and reviewed the actions from last year against the six principles and model outlined in CIPFA/SOLACE *Guidance on Delivering Good Governance in Local Government* and had agreed a list of improvement points for this year.

Councillor Currie commented that events such as Elected Members briefings and the Working Together Forum were very helpful. However, there appeared to be no forum in which Elected Members and officers could work together, outwith the Chamber, to address some of the longer term strategic issues facing the Council. He suggested that such a forum might be something to consider for the future.

### **Decision**

The Committee approved the summary for inclusion in the Annual Governance Statement that will form part of the Council's 2013/14 Annual Accounts.

## **5. INTERNAL AUDIT REPORT – CREDITORS**

A report was submitted by the Depute Chief Executive - Resources and People Services informing the Committee of the recently issued audit report on Creditors.

The Internal Audit Manager, Mala Garden, presented the report explaining that this audit, along with the others to be presented at this meeting, had been carried out as part of the 2013/14 audit plan. She summarised the main findings and drew Members attention to the recommendations for action which had been agreed by Management.

In response to questions from Members, Ms Garden indicated that while some guidance was in place it needed to be clearer and the approved signatory list also required updating. Other issues identified included the arrangements in place for the recovery of outstanding unused credit notes – the audit testing identified an outstanding credit note for £72,000, although this money could be recovered from the supplier - and a lack of consistency in approval limits for authorised signatories.

Mrs Leitch responded to Members concerns about timescales for completion of the action plan indicating that these would be reviewed and brought forward as necessary.

### **Decision**

The Committee noted the contents of the Executive Summary and Action Plan for Creditors.

*Sederunt – Angela Leitch left the Chamber.*

## **6. INTERNAL AUDIT REPORT – HOUSING REVENUE ACCOUNT**

A report was submitted by the Depute Chief Executive - Resources and People Services informing the Committee of the recently issued audit report on the Housing Revenue Account.

Ms Garden presented the report indicating that the main objective of the audit was to ensure that the internal controls in place were operating effectively. She summarised

the main findings and confirmed that the recommendations had been accepted by Management.

In response to questions from Members, Ms Garden explained that the actions for completion in 2015 related to annual billing and would be in place before the next billing cycle began. In general, completion dates were agreed with managers in each department depending on the nature of the risk associated with each recommended action, e.g. low, medium or high risk.

#### **Decision**

The Committee noted the contents of the Executive Summary and Action Plan for the Housing Revenue Account.

### **7. INTERNAL AUDIT REPORT – JOURNAL PROCESSING**

A report was submitted by the Depute Chief Executive - Resources and People Services informing the Committee of the recently issued audit report on Journal Processing.

Ms Garden presented the report summarising the main findings including areas where controls were met, areas with scope for improvement and the action plan agreed by Management.

In response to a question from the Convenor, Ms Garden advised that of the 29 manual journal entries reviewed only one had contained an error.

#### **Decision**

The Committee noted the contents of the Executive Summary and Action Plan for Journal Processing.

### **8. INTERNAL AUDIT REPORT – PROCUREMENT SCHEME OF DELEGATION**

A report was submitted by the Depute Chief Executive - Resources and People Services informing the Committee of the recently issued audit report on Procurement – Scheme of Delegation.

Ms Garden presented the report summarising the main findings including areas where controls were met, areas with scope for improvement and the action plan agreed by Management.

#### **Decision**

The Committee noted the contents of the Executive Summary and Action Plan for Procurement – Scheme of Delegation.

### **9. INTERNAL AUDIT REPORT – TRADING OPERATIONS**

A report was submitted by the Depute Chief Executive - Resources and People Services informing the Committee of the recently issued audit report on Trading Operations.

Ms Garden presented the report. She stated that the Council currently operates 3 Statutory Trading Accounts for Significant Trading Operations (STOs): Property Maintenance, Roads Services and Facilities Services. However, recent changes to guidance indicate that STOs should focus only on those services or activities which are external to the local authority. The Council's STOs no longer generate significant levels of income from external clients. Internal Audit had therefore recommended that the Council take the opportunity to review its services and decide whether STOs were still required.

Following questions from Members, Depute Chief Executive, Alex McCrorie, stated that removing STOs would not prevent income from being received from external sources. The potential effect of any change on the rate of return and the impact on budgets such as the Housing Revenue Account would be carefully considered before any decision was taken.

The Head of Infrastructure, Ray Montgomery, indicated that any review would be more about reducing the bureaucracy of the process rather than the actual level of business. He also confirmed that while there was scope to provide some services to external clients, the main focus would always be on the core business of the Council.

Mr McCrorie added that all local authorities were subject to certain rules although it was possible for them to make use of surplus capacity.

#### **Decision**

The Committee noted the contents of the Executive Summary and Action Plan for Trading Operations.

### **10. INTERNAL AUDIT PROGRESS REPORT 2013/14**

A report was submitted by the Depute Chief Executive - Resources and People Services informing the Committee of Internal Audit's progress against the annual audit plan for 2013/14.

Ms Garden presented the report advising Members that all but 3 of the audits had been completed in line with the 2013/14 plan. The remaining audits were underway and would be completed shortly.

Following a question from the Convenor, Ms Garden confirmed that the Housing Allocations audit, although carried out in February, had looked at the potential impact of the new housing policy which took effect from April 2014.

#### **Decision**

The Committee noted the contents of the Internal Audit Progress Report 2013/14.

### **11. CONTROLS ASSURANCE STATEMENT 2013/14**

A report was submitted by the Internal Audit Manager informing the Committee of the Internal Audit Manager's assessment of the control environment and her report on the adequacy and effectiveness of internal controls.

Ms Garden presented the report. She explained that the majority of Internal Audit recommendations made in 2013/14 were categorised as medium risk with a small number of high risk recommendations. However, the implementation by Management of agreed actions to address the weaknesses should provide reasonable assurance that the system of internal control is operating as intended.

**Decision**

The Committee noted that the Controls Assurance Statement as a formal confirmation of Internal Audit's opinion on the Council's control environment for the year ended 31 March 2014.

**SUMMARY OF PROCEEDINGS – EXEMPT INFORMATION**

The Committee agreed to exclude the public from the following business containing exempt information by virtue of Paragraphs 1, 3, 4 and 6 of Schedule 7A of the Local Government (Scotland) Act 1973.

**(a) Whistleblowing Report 2013/14**

A report was submitted by the Depute Chief Executive - Resources and People Services informing the Committee of the concerns raised in 2013/14 under the Council's Whistleblowing Policy. The Committee agreed the recommendation.

**(b) Internal Audit Report: East Lothian Investments Ltd – Progress Update**

The Depute Chief Executive – Partnerships and Community Services submitted a report informing the Committee of the progress made in implementing the recommendations of the recently issued audit report on East Lothian Investments Ltd. The Committee agreed the recommendation.

Signed .....

Councillor Kenny McLeod  
Convener of the Audit and Governance Committee





EAST LoTHIAN COUNCIL  
STATEMENT OF ACCOUNTS

**2**

(DRAFT)  
2013/14

# CONTENTS

	Pages
Explanatory Foreword	1-5
Remuneration Report	6-18
Annual Governance Statement	19-21
Statement of Responsibilities	22
Independent Auditor's Report	23-24
Core Financial Statements	25
Comprehensive Income and Expenditure Statement	27
Balance Sheet	28
Cash Flow Statement	29
Movement in Reserves Statement	30-31
Notes to the Accounts	32-93
Supplementary Financial Statements	
Housing Revenue Account	94-95
Council Tax Income Account	96
Non-domestic Rate Income Account	97
Common Good Account	98-100
Trust Funds Account	101-103
Notes to the Supplementary Financial Statements	104-107
Group Financial Statements	
Comprehensive Income and Expenditure Statement	108
Balance Sheet	110
Movement in Reserves Statement	111
Notes to the Group Financial Statements	113-115

# EXPLANATORY FOREWORD

## Introduction

The accounts for the Council are set out in the form of statements intended to present a true and fair view of the financial transactions of the Council during the year to 31 March 2014.

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

The main statements contained within these accounts are as follows:

- **Comprehensive Income and Expenditure Statement** (Page 27) – this outlines the financial performance of the Council during the 2013/14 financial year from 1 April 2013 to 31 March 2014
- **Balance Sheet** (Page 28) – this details the net worth of the Council at 31 March 2014 after taking into account the performance for the year shown in the Comprehensive Income and Expenditure Statement.
- **Cash Flow Statement** (Page 29) – 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.
- **Movement in Reserves Statement** (Page 30) – 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.

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

Upon first reading, the most notable figure that emerges from the Comprehensive Income and Expenditure Statement (CI&ES) is the 'bottom line' deficit figure of £12,599 million.

## Explanatory Foreword

This figure is derived after application of the IFRS rules, with the CI&ES charged with a number of accounting adjustments such as depreciation and actuarial gains or losses relating to pensions. However, the way we typically monitor and report the Council's financial performance is using the 'statutory' position which excludes these adjustments. The Movement in Reserves Statement (MIRS) is the document which reconciles these two views of the Council's finances and it will be the statutory position and the Movement in Reserves Statement that I will make most reference to over the rest of this Explanatory Foreword.

The results and prospects for the General Services and Housing Revenue Accounts are quite different and are therefore considered separately.

In the case of the Housing Revenue Account, the use of reserves totalling £0.966 million was in line with plans for the year. Costs were in line with expectations, with repairs costs slightly lower than those incurred last year. A further increase in bad debt provision (£0.5m) for the increasing level of council house rent arrears was made during the year. Looking forward into 2014/15 the Housing Revenue Account has reserves of £4.610 million which will be used as part of the ongoing Modernisation and Affordable Homes capital programmes.

With regard to General Services, the use of reserves during the year was £2.64 million – slightly higher than initial plans of £2.24m set aside to help balance income and expenditure for 2013/14. This position also needs to be viewed in the context of a challenging year for the Council, where significant efforts have been made to reduce the cost base through efficiencies and a voluntary redundancy scheme. In financial terms, the effect of this lower cost base has taken effect in 2013/14, with an ongoing programme of service reviews in place to progress these changes further into 2014/15. These cost base improvements have taken place in the same year that the Council incurred significant non-recurrent costs as part of the planned voluntary redundancy scheme (the enclosed Remuneration Report provides further detail of these changes). In line with the Financial Strategy, the dependency on use of reserves is planned to reduce, as the complete effects of the cost base reduction is obtained throughout 2014/15 and beyond, although a requirement for further additional planned reductions in the operating base costs remains. It is clear that the Council, in common with other public bodies, continues to face significant financial challenges.

General Service reserves now total £10.7 million. In accordance with the Council's Financial Strategy, these will need to be used carefully and effectively to help manage the process of change necessary to further manage our costs down.

### 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 2013/14 the established STOs i.e. Facility Services, Property Maintenance and Roads Services met the statutory financial target (assessed within margins of break even). In line with further CIPFA guidance issued in 2013, the Council intends to conduct a review this calendar year of its STOs to assess to what extent they meet the full set of criteria to be categorised as such (predominantly the level of external trading). The outcome of this review may affect the future scope of those areas classed as STO's.

### **Pensions**

As at the end of 2013/14, the Council's pension assets have been measured at £370.0 million – whereas the collective liabilities to current and future pensioners have been assessed as £498.8 million. This means the net pension liability is approximately £128.8 million as at 31 March 2014 which is a further deterioration in the position since last year when the liability stood at £110.8 million. Although asset/investment returns have been good over the last year the positive impact has been more than outweighed by the increase in the value of the liabilities. As final pension benefits are linked to price inflation and salary inflation the actuaries who value the scheme must use a proxy to assess the effect of this variable. For the Local Government Scheme they use the yield on gilts or government bonds. These yields have decreased significantly over the last year which has the effect of increasing the overall pension liability.

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 2017.

### **Capital Investment Plans**

In 2013/14, we invested £45.6 million in assets that support service delivery within East Lothian, which is a 13% decrease on the previous year (£52.2 million). A large part of this reduction was planned but as mentioned earlier, specific control action was taken to reduce capital spending to help alleviate the resultant burden of loans charges on the revenue accounts.

Significant capital projects, either started or completed, this year include:

- A medical centre at Gullane.
- Refurbishment of North Berwick Museum
- A range of enhancements and expansion of school facilities

- Significant sport and leisure investment, including extensive 3G pitch development.
- The provision of new council homes, the numbers of which increased by 138 over the year.

We typically 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 2013/14 our borrowing increased to £347.8 million (2012/13: £323.2million) 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, in line with the plans approved by Council on an annual basis. Future projects are only likely to proceed if they are either supported by grant funding from other external sources or if they prove to be self-financing. This is a fundamental element of the Council's approved Financial Strategy.

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 the related planned increases in rents.

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

### **Transfer of Police & Fire Boards**

Following legislation the Responsibility for Police and Fire and Rescue Services transferred from local government to new central government bodies (Scottish Police Authority and Scottish Fire and Rescue Service) on 1 April 2013. This means that these Joint Boards are no longer responsible for service provision and the Council's funding from the Scottish Government has been reduced to reflect the new arrangements. The financial effect of this can be seen on the Income and Expenditure Statement enclosed. Any effect of pension costs for these Boards is also now excluded. The Council and the East Lothian Partnership – Safe and Vibrant Communities – are now responsible for the governance arrangements around local service delivery by the new national bodies.

## The Year in Summary

2013/14 has been a year of change for the Council, with the significant effect of around 90 staff leaving as part of the planned voluntary redundancy scheme. Despite the range of large financial implications of such a scheme, the Council has successfully managed to utilise any reserves in a planned and controlled way, with real reductions in the operating base costs providing a platform to move into future challenging periods in a good financial position. Efficiency challenges are in place for 2014/15 and beyond, and this will continue to be a focus of management and all staff going forward.

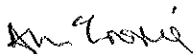
The capacity to make these further efficiency savings is critical given that the UK public finances face a sustained period of financial austerity. Use of reserves is planned to reduce greatly, but is dependent on the success of the efficiency savings.

The 2013/14 financial year saw an investment of £ 45.6 million in capital projects. This was a reduction from the £52.2 million invested in 2012/13 and indicates the future direction of capital spending over the next 3-4 years. The Council operates in an increasingly dynamic and challenging operating environment with both internal and external influences, many of which are beyond our direct control.

The Council continues to face stiff financial challenges and fully anticipates that it will require to make further tough choices in the coming year, with ongoing pressure on public funding, and a change in the fiscal level of control devolved to the Scottish Government. The projected loss in central government funding forecast by independent analysts, along with the anticipated freeze in Council Tax, it is likely that there will be an ongoing expectation of reductions in both revenue and capital budgets and continued control of costs.

## Acknowledgement

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



~~Jim Lamond (CPFA)~~  
~~Head of Council Resources~~  
26 June 2014

ALEX MCCRORIE (CPFA)  
DEPUTY CHIEF EXECUTIVE -  
RESOURCES AND PEOPLE SERVICES

## REMUNERATION REPORT

### Background

The Local Authority Accounts (Scotland) Amendment Regulations 2011 require local authorities in Scotland to prepare a Remuneration Report as part of the annual statutory accounts. The following information in this Remuneration Report has been audited by KPMG LLP.

- Senior Councillor Remuneration at Page 8
- Senior Officer Remuneration at Page 11
- Pay Bandings information on Page 12
- Pension Benefits information for Senior Councillors and Officers at Pages 15-16

The other sections of the Remuneration Report were reviewed by KPMG LLP to ensure that they are consistent with the financial statements.

### Remuneration of Councillors

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

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

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

When determining the level of remuneration 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 2013-14 the salary for the Leader of East Lothian Council is £27,329. 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 £166,017.

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 councillors who elect to become members.

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

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

## Senior Councillor Remuneration

Councillor Name	Responsibility	2013/14			
		Salary, Fees and allowances (£)	Taxable Expenses (£)	Total Remuneration 2013-14 (£)	Total Remuneration 2012-13 (£)
Willie Innes	Leader of the Council and Cabinet Spokesperson for Community Planning	27,329	1,353	28,682	27,572
Ludovic Broun-Lindsay	Provost	20,497	1,010	21,507	18,765
Jim Gillies	Depute Provost	20,497	2,006	22,503	19,646
Michael Veitch	Depute Leader and Cabinet Spokesperson for Transport & Roads	20,497	1,180	21,677	18,961
Shamir Akhtar	Cabinet Spokesperson for Education and Children Services	20,497	-	20,497	17,979
Tim Day	Cabinet Spokesperson for Community Wellbeing	20,497	2,510	23,007	19,855
Donald Grant	Cabinet Spokesperson for Health and Social Care	20,497	631	21,128	18,567
Norman Hampshire	Cabinet Spokesperson for Housing and Environment	20,497	-	20,497	17,868
John McMillan	Cabinet Spokesperson for Economic Development and Tourism	20,497	-	20,497	17,868
Stuart Currie	Leader of the Opposition (from 9/4/13)	20,179	3,441	23,620	2,038
Paul McLennan	Leader of the Opposition (to 8/4/13)	466	-	466	23,430
Ruth Currie	Cabinet Member for Community Wellbeing (to 04/05/2012)	-	-	-	2,200
Sheena Richardson	Provost (to 04/05/12)	-	-	-	2,172
Roger Knox	Depute Provost (to 04/05/2012)	-	-	-	2,357
Peter MacKenzie	Cabinet Member for Education & Children's Services (to 04/05/2012)	-	-	-	2,259
Stuart MacKinnon	Cabinet Member for Economic Development & Tourism (to 04/05/12)	-	-	-	2,424
Barry Turner	Cabinet Member for Environment (to 04/05/12)	-	-	-	2,120
		211,950	12,130	224,080	216,079

The Lothian and Borders Police Board; and the Lothian and Border Fire and Rescue Board ceased to exist on 1 April 2013, with responsibilities transferring to new national organisational structures. No Councillors form part of the new organisations, and therefore no remuneration was paid to Councillors during 2013-14.

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	2013/14(£)	2012/13 (£)
Salaries	424,950	419,539
Allowances	-	-
Expenses	26,657	25,634
<b>Total</b>	<b>451,607</b>	<b>445,173</b>

The annual return of Councillor's salaries and expenses for 2013-14 is available to view on the Council's website at [www.eastlothian.gov.uk](http://www.eastlothian.gov.uk).

### Senior Officer Remuneration

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

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

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

## Remuneration Report

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 25<sup>th</sup> August 2009.

Other benefits received by senior employees included an Essential Car User Allowance (£822 per annum). However, during 2013/14 this Allowance was removed and replaced by a new travel guidance scheme in line with standard HMRC rates.

During 2013/14 the Council paid the following amounts to senior employees.

Name	Post Title	2013/14 Salary, fees and allowances (£)	2013/14 Taxable Compensation for Loss of Office (£)	2013/14 Total Remuneration 2013-14 (£)	2012-13 (£)	Total Remuneration 2012-13 (£)
Angela Leitch	Chief Executive	110,551	-	110,829	108,037	108,037
Monica Patterson	Executive Director - Communities to 31/07/2013 and Depute Chief Executive - Partnerships and Community Services from 01/08/2013	95,974	-	96,070	95,380	95,380
Alex McCrorie	Executive Director - Support Services to 31/07/2013 and Depute Chief Executive - Resources and People Services from 01/08/2013	95,974	-	96,141	95,405	95,405
Murray Leys	Head of Adult Wellbeing	83,821	-	84,092	83,793	83,793
Jim Lamond	Head of Council Resources	83,821	-	84,118	84,153	84,153
Richard Jennings	Head of Development	83,821	-	83,821	83,136	83,136
Raymond Montgomery	Head of Infrastructure	83,821	-	83,821	83,136	83,136
Thomas Shearer	Head of Communities and Partnerships	83,821	-	83,970	83,842	83,842
Sharon Saunders	Head of Children's Wellbeing	83,821	-	83,849	83,068	83,068
Darrin Nightingale	Head of Education	83,821	-	84,309	27,690	27,690
Don Ledingham	Executive Director - People to 31/07/13	32,106	-	32,520	96,391	96,391
David Spilsbury	Head of Finance to 11/04/12	-	-	-	5,648	5,648
Pete Collins	Director of Environment to 31/07/12	-	-	-	31,723	31,723
		921,352	2,190	923,542	961,402	961,402

At its meeting of 17<sup>th</sup> June 2013, the Council agreed to a share of the Director of East Lothian Health and Social Care Partnership post from August 2013. The costs are shared on a 50/50 basis with NHS Lothian. All payroll and pension arrangements for this post are administered by NHS Lothian. During 2013-14, the Council was invoiced a total of £39,575 as a shared cost of this post.

## Remuneration Report

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

### Pay Bands

Band	2013/14	2012/13
£50,000 - £54,999	38	38
£55,000 - £59,999	21	24
£60,000 - £64,999	5	6
£65,000 - £69,999	7	3
£70,000 - £74,999	-	1
£75,000 - £79,999	3	1
£80,000 - £84,999	1	4
£85,000 - £89,999	-	-
£90,000 - £94,999	1	-
Total	76	77

### Subsidiary Bodies

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

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

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

### Pension Benefits

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

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

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

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

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

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

Whole Time Pay	Contribution Rate (%) 2012/13
Earnings up to £19,970	5.50
Earnings between £19,971-£23,990	5.60 -5.80
Earnings between £23,991-£33,710	5.90 - 6.50
Earnings between £33,711-£43,940	6.60 - 7.30
Earnings above £43,941	7.40 - 11.10

Whole Time Pay	Contribution Rate (%) 2013/2014
Earnings up to £20,382	5.50
Earnings between £20,383-£24,490	5.60-5.80
Earnings between £24,491-£33,254	5.90-6.50
Earnings between £33,255-£44,860	6.60-7.30
Earnings above £44,861	7.40-11.10

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

## Remuneration Report

retirement without reduction on account of its payment at that age; without exercising any option to commute pension entitlement into a lump sum; and without any adjustment for the effects of future inflation.

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



**Pension Benefits – Senior Councillors**

The estimated pension entitlements for Senior Councillors for the year to 31 March 2014 are shown in the table below, together with the contribution made by the Council during the year.

Councillor Name	Responsibility	In-Year Pension Contributions (£)		Estimated Accrued Pension Benefits (£000)	
		2013/14	2012/13	At 31 March 2014	from 31 March 2013
Willie Innes	Leader of the Council and Cabinet	5,821	5,456	Pension Lump Sum	2
Ludovic Broun-Lindsay	Spokesperson for Community Planning	4,365	3,806	Pension Lump Sum	2
Jim Gillies	Depute Provost	4,365	3,806	Pension Lump Sum	1
Michael Veitch	Depute Leader and Cabinet Spokesperson for Roads and Transport	4,365	3,806	Pension Lump Sum	2
John McMillan	Cabinet Spokesperson for Economic Development & Tourism	4,365	3,806	Pension Lump Sum	1
Sharmin Akhtar	Cabinet Spokesman for Children's Wellbeing	4,365	3,803	Pension Lump Sum	2
Norman Hampshire	Cabinet Spokesperson for Housing and Environment	4,365	3,806	Pension Lump Sum	2
Donald Grant	Cabinet Spokesperson for Health & Social Care	4,365	3,806	Pension Lump Sum	1
Paul McLennan	Leader of the Opposition (to 08/04/2013)	3,512	4,369	Pension Lump Sum	3
Sheena Richardson	Provost (to 04/05/2012) Retired	-	-	Pension Lump Sum	2
Stuart MacKinnon	Commuted pension for maximum lump sum	-	423	Pension Lump Sum	-
Peter MacKenzie	Cabinet Member for Economic Development & Tourism (to 04/05/2012)	-	423	Pension Lump Sum	-
Roger Knox	Cabinet Member for Education & Children's Services (to 04/05/2012)	-	423	Pension Lump Sum	-
Ruth Currie	Depute Provost (to 04/05/2012)	-	423	Pension Lump Sum	-
	Retired Commuted pension for maximum lump sum	-	-	Pension Lump Sum	-
	Cabinet Member for Community Wellbeing (to 04/05/2012)	-	423	Pension Lump Sum	-
		39,888	38,579		21
					2

### Pension Benefits – Senior Employees

The estimated pension entitlements for Senior Employees for the year to 31 March 2014 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)	
		2013/14	2012/13	At 31 March 2014	Difference from 31 March 2013
Angela Leitch	Chief Executive	23,401	22,514	43	8
Angela Leitch	Returning Officer	-	213	102	4
Monica Patterson	Executive Director - Communities to 31/7/13, Deputy Chief Executive Partnership and Services for Communities from 1/8/13	20,296	20,096	39	2
Alex McCrorie	Executive Director - Support Services to 31/7/13, Deputy Chief Executive - Resources and People Services from 1/8/13	20,296	20,096	53	2
Don Ledingham	Executive Director- Services for People (to 31/7/13)	6,765	20,096	136	1
Pete Collins	Director of Environment (to 31/7/12)	-	6,699	-	-
Murray Leys	Head of Adult Social Care	17,707	17,533	5	1
David Spilsbury	Head of Finance	-	557	-	-
Jim Lamond	Head of Council Resources	17,707	17,533	29	(4)
Sharon Saunders	Head of Children's Wellbeing	17,707	17,533	68	(15)
Darrin Nightingale	Head of Education	17,707	5,844	25	1
Richard Jennings	Head of Development	17,707	17,533	56	1
Ray Montgomery	Head of Infrastructure	17,707	17,533	-	-
Thomas Shearer	Head of Communities and Partnerships	17,707	17,533	11	2
				31	2
				71	1
				39	2
				Lump Sum	1
		194,707	201,313	96	9
				898	

## 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	
	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14
£0 - £20,000	3	2	37	1	40	3	3,210	38			
£20,001 - £40,000	-	-	37	-	37	-	0	0			
£40,001 - £60,000	-	-	12	-	12	-	0	0			
£60,001 - £80,000	-	-	4	-	4	-	0	0			
£80,001 - £100,000	-	-	6	-	6	-	0	0			
£100,001 - £120,000	-	-	1	-	1	-	0	0			
£120,001 - £140,000	-	-	-	-	-	-	0	0			
£140,001 - £160,000	-	-	-	-	-	-	0	0			
£160,001 - £180,000	-	-	1	-	1	-	0	0			
£260,001 - £280,000	-	-	-	-	-	-	0	0			
<b>Total</b>	<b>3</b>	<b>2</b>	<b>98</b>	<b>1</b>	<b>101</b>	<b>3</b>	<b>3,210</b>	<b>38</b>			

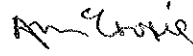
## Remuneration Report



Angela Leitch  
Chief Executive  
26 June 2014



Willie Innes  
Council Leader  
26 June 2014



~~Jim Lamond (CPFA)~~  
~~Head of Council Resources~~  
26 June 2014

ALEX M'CAORIE (CPFA)  
DEPUTE CHIEF EXECUTIVE -  
RESOURCES AND PEOPLE SERVICES

## 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 self-evaluation of Corporate Governance**

An annual self-evaluation of corporate governance is carried out by a task group which comprises: the Monitoring Officer (Depute Chief Executive, Partnerships and Community Services), Section 95 Officer (Head of Council Resources), Chief Social Work Officer (Head of Adult Wellbeing), Head of Communities and Partnerships and the Internal Audit Manager.

The group considers the extent to which the Council meets the principles and requirements of the local Code of Corporate Good Governance which was adopted by the Council in May 2010. The findings of the 2013/14 review were reported to the Council's Audit & Governance Committee in May 2014.

The group reviewed progress made against the improvement points identified in the 2013 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 2013/14 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 small number of areas where improvements are required and action has been agreed. These were:

- Develop and use toolkit of self-evaluation of Partnerships based on Improvement Service model;
- Work with partners to develop and implement Children's Services inspection Improvement Plan;
- Review and develop elected members' training and briefings including briefing on Capital Investment Strategy and development issues arising from Councillors' responses to a survey based Audit Scotland Overview of Scottish Local Government Councillors' Checklist;

- Scrutiny training for Policy and Performance Review Committee members.

### 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;

- Nine Chief Officers provided assurance that, to the best of their knowledge and understanding, the Internal Financial Controls in their areas operated satisfactorily;
- One Chief Officers provided assurance that, to the best of their knowledge and understanding, the Internal Financial Controls in their areas operated satisfactorily with the exception of the procedures for serving works notices relating to Common Repairs and the subsequent collection of owner-occupier shares. This matter is currently under investigation and it is likely that a number of actions will be taken to enhance the operation of controls.

### Internal Audit Review

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

[http://www.eastlothian.gov.uk/meetings/committee/98/audit\\_and\\_governance\\_committee](http://www.eastlothian.gov.uk/meetings/committee/98/audit_and_governance_committee)

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

The Internal Audit manager also gives an assurance statement on the effectiveness of the system of internal controls within the Council. This was reported to the May 2014 meeting of the Audit & Governance Committee. For 2013/14, 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 2014.

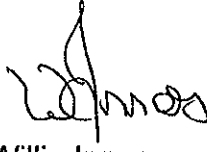
**Statement on the role of the Chief Finance Officer**


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

**Results**

It is our opinion that reasonable assurance can be placed on the governance and control arrangements within East Lothian Council and its Group during 2013/14.

  
Angela Leitch  
Chief Executive  
26 June 2014

  
Willie Innes  
Council Leader  
26 June 2014

  
Jim Lamond (CPEA)  
Head of Council Resources  
26 June 2014

ALEX M'GRODIE (CIPFA)  
DEPUTE CHIEF EXECUTIVE -  
RESOURCES AND PEOPLE SERVICES

## 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.
- Approve the Statement of Accounts and lay the audited accounts to a meeting of the Council within two months of receipt of the audit certificate.

### The Chief Finance Officer's responsibilities

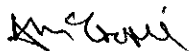
The Chief Finance Officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice').

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

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

### The Chief Finance Officer's Certification

I certify that the Statement of Accounts present a true and fair view of the financial position of the Council at 31 March 2014 and its income and expenditure for the year ended 31 March 2014.



~~Jim Lamond (CPFA)  
Head of Council Resources  
26 June 2014~~

ALEX MCCRORIE (CPFA)

DEPUTY CHIEF EXECUTIVE -

RESOURCES AND PEOPLE SERVICES



## Independent Auditor's Report

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

**[To follow, September 2014]**

## Independent Auditor's Report

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

**[To follow, September 2014]**

The core financial statements comprise the following:

### **Comprehensive Income and Expenditure Statement**

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

### **Balance Sheet**

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

### **Cash Flow Statement**

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

### **Movement in Reserves Statement**

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

## 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.

## Comprehensive Income and Expenditure Statement

2012/13			2013/14		
Gross Expenditure	Gross Income	Net Expenditure	Gross Expenditure	Gross Income	Net Expenditure
£000s	£000s	£000s	£000s	£000s	£000s
7,321	(4,357)	2,964	8,085	(3,959)	4,126
23,127	(1,620)	21,507	21,432	(1,561)	19,871
96,127	(4,028)	92,099	94,271	(3,910)	90,361
11,766	(971)	10,795	12,630	(1,070)	11,560
32,430	(28,289)	4,141	33,226	(29,162)	4,064
10,315	(288)	10,027	200	-	200
26,526	(22,100)	4,426	26,631	(23,281)	3,350
3,802	(1,432)	2,370	5,839	(2,321)	3,518
					services
10,539	(373)	10,166	10,097	(447)	9,650
72,143	(10,675)	61,468	73,121	(10,266)	62,855
1,440	-	1,440	1,326	-	1,326
407	-	407	1,145	-	1,145
<b>295,943</b>	<b>(74,133)</b>	<b>221,810</b>	<b>288,003</b>	<b>(75,977)</b>	<b>212,026</b>
					1,572 (Gains)/Losses on the disposal of non current assets
					16,124 Financing and investment income and expenditure (Note 6)
					(232,797) Taxation and non specific grant income (Note 7)
					<b>6,709 (Surplus) / Deficit on Provision of Services</b>
					494 (Surplus) or deficit on revaluation of Property, Plant and Equipment
					458 (Surplus) or deficit on revaluation of available for sale financial instruments
					17,838 Actuarial Losses on pension assets/liabilities
					<b>18,790 Other Comprehensive Income and Expenditure</b>
					<b>25,499 Total Comprehensive Income and Expenditure</b>

## Balance Sheet as at 31 March 2014

31 March 2013		31 March 2014
£000s	Notes	£000s
747,111	Property, Plant & Equipment 13	769,772
605	Heritage Assets 15	605
2,518	Long Term Investments 21a	3,374
7,435	Long Term Debtors 21b	7,795
<b>757,669</b>	<b>Long Term Assets</b>	<b>781,546</b>
47	Short Term Investments	56
1,660	Assets Held for Sale 16	1,190
517	Inventories	674
37,360	Short Term Debtors 22	39,000
(19,400)	Bad & Doubtful Debt Provision 22	(20,104)
1,665	Cash and Cash Equivalents	4,880
<b>21,849</b>	<b>Current Assets</b>	<b>25,696</b>
-	Bank Overdrafts -	-
(29,796)	Short Term Borrowing 23	(49,788)
(21,503)	Short Term Creditors 24	(22,177)
<b>(51,299)</b>	<b>Current Liabilities</b>	<b>(71,965)</b>
(5,020)	Provisions 25	(3,793)
(293,385)	Long Term Borrowing 23	(298,191)
(160,670)	Other Long Term Liabilities 26	(177,375)
(4,320)	Capital Grants Receipts in Advance 32	(3,692)
<b>(463,395)</b>	<b>Long Term Liabilities</b>	<b>(483,051)</b>
<b>264,824</b>	<b>Net Assets</b>	<b>252,226</b>
(18,961)	Usable Reserves 28	(15,353)
(245,863)	Unusable Reserves 29	(236,873)
<b>(264,824)</b>	<b>Total Reserves</b>	<b>(252,226)</b>

The unaudited accounts were issued on 26 June 2014 and the audited accounts were authorised for issue on xx September 2014.

*Jim Lamond*  
 Jim Lamond (CPFA)  
 Head of Council Resources  
 26 June 2014

*Alex McRorie* (CPFA)  
 DEPUTY CHIEF EXECUTIVE  
 RESOURCES AND PEOPLE SERVICES

## Cash Flow Statement

2012/13		2013/14
£000s		£000s
6,709	Net deficit on the provision of services	1,193
(31,401)	Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 34)	(30,353)
16,311	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 35)	18,391
(8,381)	Net Cash flow from Operating Activities	(10,769)
	<b>Investing Activities</b>	
53,626	Purchase of property, plant and equipment	47,871
-	Dividends from joint ventures and associates	-
(317)	Proceeds from short term investments	(575)
(19,267)	Other receipts from investing activities	(14,472)
(2,105)	Proceeds from the sale of property, plant and equipment	(2,094)
31,937	Net cash flows from investing activities	30,730
	<b>Financing Activities</b>	
(112,673)	Cash receipts of short and long term borrowing	(79,106)
1,322	Cash payments for the reduction of the outstanding liability relating to finance lease and on-Balance Sheet PFI contracts	1,216
81,271	Repayments of short and long term borrowing	54,464
143	New loans made	250
(29,937)	Net cash flow from financing activities	(23,176)
(6,381)	Net decrease or (increase) in cash and cash	(3,215)
4,716	Cash and cash equivalents at the beginning of the reporting period	(1,665)
(1,665)	Cash and cash equivalents at the end of the reporting period	(4,880)

## MOVEMENT IN RESERVES STATEMENT

For the year ended 31 March 2014	General Fund Balance (£000)	Housing Revenue Account (£000)	Capital Receipts Reserve (£000)	Insurance Fund (£000)	Housing Capital Fund (£000)	Total Usable Reserves (£000)	Unusable Reserves (£000) Restated	Total Authority Reserves (£000)
Balance at 31 March 2013 carried forward	(12,240)	(2,086)	-	(1,145)	(3,490)	(18,961)	(245,863)	(264,824)
Movement in reserves during 2013/14								
Deficit on provision of services	(676)	1,869	-	-	-	1,193	-	1,193
Other Comprehensive Expenditure and Income	-	-	-	-	-	-	11,405	11,405
<b>Total Comprehensive Expenditure and Income</b>	<b>(676)</b>	<b>1,869</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,193</b>	<b>11,405</b>	<b>12,598</b>
Adjustments between accounting basis & funding basis under regulations (Note 5)	5,158	(1,748)	(845)	-	(150)	2,415	(2,415)	-
<b>Net (Increase)/Decrease before Transfers to Other Statutory Reserves</b>	<b>4,482</b>	<b>121</b>	<b>(845)</b>	<b>-</b>	<b>(150)</b>	<b>3,608</b>	<b>8,990</b>	<b>12,598</b>
Housing Revenue Account	(995)	995	-	-	-	-	-	-
Capital Funds	(845)	(1,050)	845	-	1,050	-	-	-
Insurance Fund	375	-	-	(375)	-	-	-	-
<b>(Increase)/Decrease in Year</b>	<b>3,017</b>	<b>66</b>	<b>-</b>	<b>(375)</b>	<b>900</b>	<b>3,608</b>	<b>8,990</b>	<b>12,598</b>
<b>Balance at 31 March 2014 carried forward</b>	<b>(9,223)</b>	<b>(2,020)</b>	<b>-</b>	<b>(1,520)</b>	<b>(2,590)</b>	<b>(15,353)</b>	<b>(236,873)</b>	<b>(252,226)</b>



For the year ended 31 March 2013									
	General Fund Balance (£000)	Housing Revenue Account (£000)	Capital Receipts Reserve (£000)	Insurance Fund (£000)	Housing Capital Fund (£000)	Total Usable Reserves (£000)	Unusable Reserves (£000)	Total Authority Reserves (£000)	
<b>Balance at 31 March 2012 carried forward</b>	<b>(13,677)</b>	<b>(2,748)</b>	<b>(95)</b>	<b>(973)</b>	<b>(3,985)</b>	<b>(21,478)</b>	<b>(268,845)</b>	<b>(290,323)</b>	
Movement in reserves during 2012/13									
Deficit on provision of services	1,775	4,934	-	-	-	6,709	-	6,709	
Other Comprehensive Expenditure and Income	-	-	-	-	-	-	18,790	18,790	
<b>Total Comprehensive Expenditure and Income</b>	<b>1,775</b>	<b>4,934</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,709</b>	<b>18,790</b>	<b>25,499</b>	
Adjustments between accounting basis & funding basis under regulations (Note 5)	1,405	(3,491)	(825)	-	(1,281)	(4,192)	4,192	-	
<b>Net (Increase)/Decrease before Transfers to Other Statutory Reserves</b>	<b>3,180</b>	<b>1,443</b>	<b>(825)</b>	<b>-</b>	<b>(1,281)</b>	<b>2,517</b>	<b>22,982</b>	<b>25,499</b>	
Transfers to/from Earmarked Reserves	(1,743)	(781)	920	(172)	1,776	-	-	-	
Housing Revenue Account	(995)	995	-	-	-	-	-	-	
Capital Funds	(920)	(1,776)	920	-	1,776	-	-	-	
Insurance Fund	172	-	-	(172)	-	-	-	-	
<b>(Increase)/Decrease in Year</b>	<b>1,437</b>	<b>662</b>	<b>95</b>	<b>(172)</b>	<b>495</b>	<b>2,517</b>	<b>22,982</b>	<b>25,499</b>	
<b>Balance at 31 March 2013 carried forward</b>	<b>(12,240)</b>	<b>(2,086)</b>	<b>-</b>	<b>(1,145)</b>	<b>(3,490)</b>	<b>(18,961)</b>	<b>(245,863)</b>	<b>(264,824)</b>	

## NOTES TO THE ACCOUNTS

### 1. Accounting Policies

#### i. General Principles

The Statement of Accounts summarises the Council's transactions for the 2013/14 financial year and its position at the year-end of 31 March 2014. The Council is required to prepare an annual Statement of Accounts under the Local Authority Accounts (Scotland) Regulations 1985. These accounts must be prepared in accordance with proper accounting practice. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and the Service Reporting Code of Practice (SeRCOP) 2013/14 supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the Local Government in Scotland Act (2003).

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

#### ii. Accruals of Income and Expenditure

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

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

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

**iii. Cash and Cash Equivalents**

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

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

**iv. Exceptional Items**

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

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

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

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

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

**vi. Charges to Revenue for Non Current Assets**

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

- Depreciation attributable to the assets used by the relevant service

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

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

### **vii. Employee Benefits**

#### **Benefits Payable during Employment**

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

#### **Termination Benefits**

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

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

## Post Employment Benefits

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

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

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

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

## The Local Government Pension Scheme

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

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

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

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

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

The change in the net pensions liability is analysed into the following 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
- Remeasurement Gains and Losses – Any actuarial gains and losses as a result of changes in demographic assumptions. Allowance is also made of any other financial assumptions.
- 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
- Contributions paid to the Lothian Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities not accounted for as an expense.

Statutory provisions limit the Council to raising Council Tax to cover the amounts payable by the Council to the Pension Fund in the year. Within the Movement in Reserves Statement there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end. The negative balance that arises on the Pension Reserve thereby measures the impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

### **Discretionary Benefits**

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

### **viii. Events after the Balance Sheet Date**

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

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

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

### **ix. Financial Liabilities**

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

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

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

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

Comprehensive Income and Expenditure Statement compared to the net charge required against the General Fund Balance. This difference is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

#### **x. Financial Assets**

Financial assets are classified into two types:

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

#### **Loans and Receivables**

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

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

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

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

#### **Available for Sale Financial Assets**

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



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

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

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

#### **xi. Government Grants and Contributions**

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

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

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

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

#### **xii. 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.

### **xiii. Inventories**

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.

### **xiv. Leases**

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

#### **The Council as Lessee**

##### **Finance Leases**

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

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

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

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

### **Operating Leases**

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

### **The Council as Lessor**

#### **Operating Leases**

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

### **xv. Overheads and Support Services**

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

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

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

### **xvi. Property, Plant and Equipment**

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

#### **Recognition**

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

asset's potential to deliver future economic benefits or service potential is charged as an expenses when it is incurred.

### Measurement

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

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

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

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

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

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

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

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

### Impairment

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

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

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

### Depreciation

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

Depreciation is calculated on the following bases:

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

The estimated useful lives are as follows.

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

Assets under Construction are not depreciated.

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

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

### **Disposals and Non-current Assets held for Sale**

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

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

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

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

### **xvii. 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.

### **xviii. 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

### **xviii. Reserves**

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

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

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

### **xviii. VAT**



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

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

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

- Amendments to IFRS 10;12;IAS 27: "Investment Entities: First Impressions:Consolidation relief for investment funds"
- Amendments to IAS 32: "Offsetting Financial Assets and Financial Liabilities"
- Amendments to IAS 36: "Recoverable Amount Disclosures or non-financial assets"

The Council has adopted IAS 19 Revised, *Employee Benefits* in the financial statements for the year ending 31 March 2014.

### **3. Critical Judgements in Applying Accounting Policies**

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

- The inclusion of the PFI contract for the refurbishment and facilities management of the six secondary schools as a finance lease within the Council's accounts. The accounting policies for PFI schemes have been applied to the arrangement and the asset and liability associated with this have been recognised on the Council's Balance Sheet as the Council considers that it has the majority of the risks and rewards of ownership.
- There is a degree of uncertainty about future levels of funding for local government in Scotland. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to reorganise services.

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

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

## Notes to the Accounts

actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2014 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
<b>Pensions Liability</b>	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.
<b>Property, Plant and Equipment</b>	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 were revalued during 2010/11 and 2011/12, with a further tranche of Council properties due for revaluation during 2014/15. Housing stock was revalued as at 31 March 2014.	If there is a significant reduction in value then the carrying amount of the asset on the Balance Sheet would fall.
<b>Debtors</b>	At 31 March 2014 the Council had balances of £7.4 million relating to Council Tax debt and £2.6 million relating to Council House rent debt. The Council believes it has provided for the potential of doubtful debts. However, it is possible that future economic conditions could have a detrimental impact on collection rates.	If collection rates were to deteriorate then there would be a deterioration in cash inflows and the potential that income would not be realisable.

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

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

	General Fund Balance (£000)	Housing Revenue Account (£000)	Capital Receipts Reserve (£000)	Insurance Fund (£000)	Capital Fund (£000)	Movement in Usable Reserves (£000)
<b>2013/2014</b>						
Depreciation (charged to the Surplus or Deficit on the Provision of Services) of non-current assets	(17,559)	(10,361)				(27,920)
Impairment and revaluation losses (charged to the Surplus or Deficit on the Provision of Services) of non-current assets	-	-				-
Capital grant and contributions applied	10,300	5,472				15,772
Differences re finance leases, stepped loans, premiums and discounts	438					438
Profit / Loss on sale of non-current assets	845	150	(845)		(150)	-
Statutory Provision relating to PPP	1,334					1,334
Net retirement benefits per IAS19	(14,916)	(19)				(14,935)
Employee - Statutory Adjustments	(226)					(226)
Loans Fund principal repayments and statutory premia	9,322	2,095				11,417
Employer's contributions payable to the Lothian Pension Fund	14,544	290				14,834
Capital expenditure charged against the General Fund and HRA balances	1,076	625				1,701
<b>Total Adjustments</b>	<b>5,158</b>	<b>(1,748)</b>	<b>(845)</b>	<b>-</b>	<b>(150)</b>	<b>2,415</b>
<b>2012/2013</b>						
Depreciation (charged to the Surplus or Deficit on the Provision of Services) of non-current assets	(18,297)	(9,930)	-	-	-	(28,227)
Impairment and revaluation losses (charged to the Surplus or Deficit on the Provision of Services) of non-current assets	(2,814)	(469)	-	-	-	(3,283)
Capital grant and contributions applied	11,450	3,864	-	-	-	15,314
Differences re finance leases, stepped loans, premiums and discounts	432	-	-	-	-	432
Loss on sale of non-current assets	(1,273)	(299)	(825)	-	(1,281)	(3,678)
Statutory Provision relating to PPP	1,371	-	-	-	-	1,371
Net retirement benefits per IAS19	(13,203)	(44)	-	-	-	(13,247)
Employee - Statutory Adjustments	354	-	-	-	-	354
Loans Fund principal repayments and statutory premia	8,119	1,776	-	-	-	9,895
Employer's contributions payable to the Lothian Pension Fund	13,947	330	-	-	-	14,277
Capital expenditure charged against the General Fund and HRA balances	1,319	1,281	-	-	-	2,600
<b>Total Adjustments</b>	<b>1,405</b>	<b>(3,491)</b>	<b>(825)</b>	<b>-</b>	<b>(1,281)</b>	<b>(4,192)</b>

## 6. Financing and Investment Income and Expenditure

2012/13 £000s		2013/14 £000s
15,101	Interest payable & similar charges	15,806
1,469	Pensions interest cost & expected return on pension assets	(129)
(446)	Interest receivable & similar	(663)
-	- Other investment income	-
<u>16,124</u>	<b>Total</b>	<u>15,014</u>

## 7. Taxation and Non Specific Grant Income

2012/13 £000s		2013/14 £000s
(46,452)	Council Tax	(41,572)
(21,500)	Non domestic rates	(23,134)
(149,531)	Non ringfenced government grants	(144,374)
(15,314)	Capital grants and contributions	(15,772)
<u>(232,797)</u>	<b>Total</b>	<u>(224,852)</u>

## 8. Trading Operations

During 2013/14 the Council had 3 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.

### Facility Services

The Facility Services trading operation provides catering, janitorial and cleaning services at locations owned or managed by the Council. A catering service is provided at secondary and primary schools and at some other buildings. The cleaning operation provides a regular building cleaning service to all departments of the Council. The cumulative position over the three years is a deficit of £0.057 million, and this is viewed by the Council as being within the margins of a break even position, as indicated above.

	2013/14 £000s	2012/13 £000s	2011/12 £000s
Turnover	8,781	8,423	9,587
Surplus/(Deficit)	106	(211)	48
3-year Cumulative Surplus	(57)	-	-

## 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 six years. The cumulative position over the last three years is now a surplus of £1.81 million.

	2013/14	2012/13	2011/12
	£000s	£000s	£000s
Turnover	10,066	10,721	10,401
Surplus/(Deficit)	540	573	697
3-year Cumulative Surplus	1,810	-	

## 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 £1.46 million and has met the statutory target.

	2013/14	2012/13	2011/12
	£000s	£000s	£000s
Turnover	6,997	6,948	6,912
Surplus/(Deficit)	595	673	187
3-year Cumulative Surplus	1,455	-	

## 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 2013/14 £15.4m (2012/13: £14.8m) was paid over to Scottish Water.

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

## 10. Related parties

The Council is required to disclose material transactions with related parties i.e. bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions helps assessment of the extent to which the Council might have

been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

### Central Government

Central government – which includes the UK and Scottish governments - has 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 2013/14 is shown in the Remuneration Report.

On 9 April 2013 Cabinet approved Partnership Funding for 2013/14 of £969,685 and Adult Wellbeing payments to Voluntary Organisations of £1,571,866. Of these amounts £430,610 and £186,176 was awarded to organisations in which Members have representation.

On 12 March 2013 Cabinet approved funding for Haddington Citizens Advice Bureau, Musselburgh Citizens Advice Bureau and Lothian Mine workers Convalescent Home. Members have representation in these organisations. Further grants of £455,000 were awarded to organisations in which Members have representation.

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

## Notes to the Accounts

Name of Organisation	Partnership Funding (£000s)	Adult Wellbeing (£000s)	Other Grants (£000s)	Total Amount Awarded (£000s)
Dunbar & District Twinning Association			1	1
Dunbar Community Development Company	53			53
Dunbar Day Centre		40		40
East Lothian Voluntary Organisation Network			30	30
First Step	185			185
Fisherrow Trust	30			30
Haddington Citizens Advice Bureau		17	197	214
Haddington Community Development Trust			51	51
Haddington Garden Trust	10		1	11
Haddington Pipe Band			1	1
Haddington Twinning Association			1	1
Harlawhill Day Centre		106	1	107
Hollies Day Centre		23		23
John Muir Birthplace Trust	9			9
Lamp of Lothian Trust	20			20
Lothian Miners Convalescent Home			6	6
Musselburgh Citizens Advice Bureau			144	144
Musselburgh Twinning Association			2	2
Pennypit Trust	74			74
Preston, Seton & Gosford Twinning Assoc			1	1
Scottish Seabird Centre	13		8	21
The Bridge Centre	37		9	46
Tranent Family Fireworks			2	2
<b>Total</b>	<b>431</b>	<b>186</b>	<b>455</b>	<b>1072</b>

Entities Controlled or Significantly Influenced by the Council

Entity	Nature of Related Party Relationship	Payments in the year (£000s)	Nature of transactions	Position at year-end	
				Debtor Balances (£000s)	Creditor Balances (£000s)
Enjoy East Lothian Limited	Charitable organisation registered with Office of Scottish Charity Regulators	2,620	Payment for provision of leisure services	140	-
East Lothian Investments	Company set up under the Companies Act 2006 with aim of encouraging enterprise and commercial activity	30	Loans provided to company	168	-
Brunton Theatre Trust	Charitable organisation registered with Office of Scottish Charity Regulators	485	Payment for provision of arts/cultural services	-	(215)
Common Goods	Council manages assets of historic burghs in line with statute	-	Cash balances relating to normal operations	-	(1,820)
Musselburgh Joint Racing Committee	Unincorporated organisation which organises racing on Musselburgh Links under Minute of Agreement with Council.	-	Cash balances relating to normal operations	-	(230)
Trust Funds	Approximately 48 Trust Funds which are managed by the Council in line with the respective trust deeds	-	Cash balances relating to normal operations	-	(1,051)
Joint Boards	Statutory bodies set up by Scottish Ministers	200	Payments to run police, fire and valuation services	-	-

11. Audit costs

KPMG LLP has been appointed as the Council's external auditor by the Accounts Commission.

Audit Fee	2012/13 £000s	2011/12 £000s
Statutory Audit Fee	266	262
Other services relating to taxation		32



## 12. Amounts reported for Resource Allocation Decisions

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

2013/14	Services for Communities	Support Services	Support Services for People	Corporate Activities	Total
Departmental Income & Expenditure	£000s	£000s	£000s	£000s	£000s
<b>Income</b>					
Fees, charges and other service income	(75,395)	(22,024)	(67,653)	(943)	(166,015)
Grants and contributions	(7,480)	(2,397)	(6,557)	(195,863)	(212,297)
Interest and investment income	(40)	(7)	-	(513)	(560)
Income from council tax	-	-	-	(41,572)	(41,572)
(Gains) on the disposal of non-current assets	(150)	-	-	(845)	(995)
	(83,065)	(24,428)	(74,210)	(239,736)	(421,439)
<b>Expenditure</b>					
Employee Expenses	34,222	19,662	76,377	1,659	131,920
Other service expenses	44,762	14,049	65,009	10,296	134,116
Transfer Payments	644	368	1,130	25,578	27,720
Support service recharges	17,401	5,872	61,281	58	84,612
Depreciation, amortisation and impairment	16,567	3,029	8,293	338	28,227
Interest payments	-	-	-	16,037	16,037
	113,596	42,980	212,090	53,966	422,632
<b>(Surplus) or Deficit on the Provision of Services</b>	<b>30,531</b>	<b>18,552</b>	<b>137,880</b>	<b>(185,770)</b>	<b>1,193</b>

2012/2013	Services for Communities	Support Services for Services	Support Services for People	Corporate Activities	Total
Departmental Income & Expenditure	£000s	£000s	£000s	£000s	£000s
<b>Income</b>					
Fees, charges and other service income	(73,155)	(16,553)	(57,847)	(838)	(148,393)
Grants and contributions	(6,009)	(2,477)	(9,021)	(206,978)	(224,485)
Interest and investment income	(149)	(8)	-	(289)	(446)
Income from council tax	-	-	-	(46,452)	(46,452)
Losses on the disposal of non-current assets	299	-	-	1,273	1,572
	(79,014)	(19,038)	(66,868)	(253,284)	(418,204)
<b>Expenditure</b>					
Employee Expenses	34,986	18,736	76,416	1,832	131,970
Other service expenses	43,508	13,882	65,731	11,383	134,504
Transfer Payments	451	-	1,183	24,562	26,196
Support service recharges	16,164	5,851	63,323	57	85,395
Depreciation, amortisation and impairment	17,724	4,761	8,924	101	31,510
Interest payments	-	-	-	15,338	15,338
	112,833	43,230	215,577	53,273	424,913
<b>(Surplus) or Deficit on the Provision of Services</b>	<b>33,819</b>	<b>24,192</b>	<b>148,709</b>	<b>(200,011)</b>	<b>6,709</b>

## 13. Property, Plant and Equipment

Movements in 2013/14	Council Dwellings £000s	Other land and buildings £000s	Vehicles, Plant, Furniture & Equipment £000s	Infra-structure Assets £000s	Community Assets £000s	Surplus Assets £000s	Assets Under Construction £000s	Total Property, Plant and Equipment £000s	PFI Assets Included in PPE £000s
<b>Cost or Valuation</b>									
At 1 April 2013	352,603	390,135	33,821	69,094	15,974	63	11,183	872,873	89,149
Additions	20,805	4,445	2,506	5,826	159	-	11,888	45,629	-
Revaluation increases recognised in the Revaluation Reserve	5,580	-	-	-	-	-	-	5,580	-
Acc Dep & Imp WO to GCA	(64,130)	-	-	-	-	-	-	-	-
Derecognition - Disposals	(1,250)	-	(73)	-	-	-	-	(1,323)	-
Asset reclassified (to) Held for Sale	-	-	-	-	-	-	-	-	-
Other Movements in cost or valuation	6,552	5,983	-	-	-	-	(11,868)	667	-
<b>At 31 March 2014</b>	<b>320,160</b>	<b>400,563</b>	<b>36,254</b>	<b>74,920</b>	<b>16,133</b>	<b>63</b>	<b>11,203</b>	<b>923,426</b>	<b>89,149</b>
<b>Accumulated Depreciation and Impairment</b>									
At 1 April 2013	(53,797)	(29,015)	(24,536)	(16,225)	(2,134)	(1)	(54)	(125,762)	(5,598)
Depreciation Charge	(10,360)	(11,127)	(2,825)	(3,201)	(406)	-	-	(27,919)	(2,737)
Acc Dep & Imp WO to GCA	64,130	-	-	-	-	-	-	-	-
Depreciation written out to the Surplus/Deficit on the provision of services	-	-	-	-	-	-	-	-	-
Derecognition - Disposals	27	-	-	-	-	-	-	27	-
Impairments	-	-	-	-	-	-	-	-	-
Other movements in depreciation or impairment	-	-	-	-	-	-	-	-	-
<b>At 31 March 2014</b>	<b>-</b>	<b>(40,142)</b>	<b>(27,361)</b>	<b>(19,426)</b>	<b>(2,540)</b>	<b>(1)</b>	<b>(54)</b>	<b>(153,654)</b>	<b>(8,335)</b>
<b>Net Book Value</b>									
At 31 March 2014	320,160	360,421	8,893	55,494	13,593	62	11,149	769,772	80,814
At 1 April 2013	298,806	361,120	9,285	52,869	13,840	62	11,129	747,111	83,551

## Movements in 2012/13

	Council Dwellings	Other land and buildings	Vehicles, Plant, Furniture & Equipment	Infra-structure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in PPE
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<b>Cost or Valuation</b>									
At 1 April 2012	332,672	362,068	30,975	64,501	21,509	63	16,637	828,425	89,149
Additions	17,311	8,815	2,846	5,742	162	-	17,337	52,213	-
Revaluation increases recognised in the Revaluation Reserve	-	220	-	-	-	-	-	220	-
Revaluation decreases recognised in the Surplus/Deficit on the Provision of Services	-	(2,142)	-	-	-	-	-	(2,142)	-
Derecognition - Disposals	(2,006)	(1,857)	-	(1,149)	(176)	-	-	(5,188)	-
Asset reclassified (to) Held for Sale	-	(625)	-	-	-	-	-	(625)	-
Other Movements in cost or valuation	4,626	23,656	-	-	(5,521)	-	(22,791)	(30)	-
<b>At 31 March 2013</b>	<b>352,603</b>	<b>390,135</b>	<b>33,821</b>	<b>69,094</b>	<b>15,974</b>	<b>63</b>	<b>11,183</b>	<b>872,873</b>	<b>89,149</b>
<b>Accumulated Depreciation and Impairment</b>									
At 1 April 2012	(43,322)	(17,397)	(21,093)	(13,277)	(2,169)	(1)	(14)	(97,273)	(2,821)
Depreciation Charge	(9,930)	(11,316)	(3,443)	(3,136)	(402)	-	-	(28,227)	(2,777)
Impairment (reversals) recognised in the Revaluation Reserve	(500)	(242)	-	-	-	-	-	(742)	-
Impairment (reversals) recognised in the Deficit on the Provision of Services	(469)	(562)	-	-	-	-	-	(1,031)	-
Derecognition - Disposals	426	895	-	188	2	-	-	1,511	-
Other movements in depreciation or impairment	(2)	(393)	-	-	435	-	(40)	-	-
<b>At 31 March 2013</b>	<b>(53,797)</b>	<b>(29,015)</b>	<b>(24,536)</b>	<b>(16,225)</b>	<b>(2,134)</b>	<b>(1)</b>	<b>(54)</b>	<b>(125,762)</b>	<b>(5,598)</b>
<b>Net Book Value</b>									
At 31 March 2013	298,806	361,120	9,285	52,869	13,840	62	11,129	747,111	83,551
At 1 April 2012	289,350	344,671	9,882	51,224	19,340	62	16,623	731,152	86,328

## 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 2014, 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 2014/15 and in future budget years. Similar commitments in 2012/13 were £21.0 million. The gross commitments for the Council's major projects are:

	<b>£000s</b>
Joint Care Facility - Tranent	1,929
Pinkie St Peters School extension	2,172
Housing - Jooglie Brig	1,584
Housing - Victoria Park	2,050
Housing - Kellie Road	767
	<u>8,502</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.

Council Dwellings are revalued in one tranche. The most recent revaluation took place during as at 31 March 2014. Other Land and Building assets are split into separate tranches and valued on a staged basis to ensure that each asset is revalued at least once every five years.

Details of previous and future valuation dates are provided below.

	Council Dwellings Tranche One Council Houses & Garages	Other Land & Buildings Tranche 2 Industrial Lets etc	Tranche 3 Portfolio of schools, community centres etc	Tranche 4 Portfolio of schools, community centres etc	Tranche 5 New Build
Date of last valuation	31/03/2014	01/04/2010	01/04/2011	01/04/2011	n/a
Date of next valuation	31/03/2019	31/03/2015	31/03/2015	31/03/2016	2013-2016

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

The significant assumptions applied in estimating the 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 outgoing 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

	2013/14	2012/13
	Art Collection	Art Collection
	£000s	£000s
<b>Cost or Valuation</b>		
<b>Net carrying amount at the start of the year</b>	605	547
Revaluations	-	58
<b>Net carrying amount at end of year</b>	<b>605</b>	<b>605</b>

## 16. Assets held for sale

	2013/14	2012/13
	£000s	£000s
<b>Balance outstanding at start of year</b>	<b>1,660</b>	<b>1,145</b>
Assets newly classified as held for sale		
Property, Plant and Equipment	-	625
Other assets	-	-
Additions	-	-
Revaluation losses	-	(110)
Revaluation gains	-	-
Impairment losses	-	-
Revaluations	-	-
Assets declassified as held for sale	-	-
Property, Plant and Equipment	-	-
Other assets	-	-
Assets sold	(471)	-
Transfers from non-current to current	-	-
<b>Balance outstanding at end of the year</b>	<b>1,189</b>	<b>1,660</b>

## 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 2013/14 was £0.35m (2012/13: £0.65m).

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

<b>Minimum Lease Payments</b>		
	<b>31 March 2014 £000s</b>	<b>31 March 2013 £000s</b>
Not later than one year	219	392
Later than one year and not later than five years	24	53
	243	445

### **Finance leases**

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

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

	<b>31 March 2014 £000s</b>	<b>31 March 2013 £000s</b>
Other Land and Buildings	8,541	8,405
Vehicles, Plant, Furniture and Equipment	241	259
	8,782	8,664

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 2014 £000s	31 March 2013 £000s
Finance lease liabilities (Net Present Value of Minimum Lease Payments)		
Current	52	173
Non-Current	1,164	1,216
Finance costs payable in future years	6,009	6,231
Minimum Lease Payments	<u>7,225</u>	<u>7,620</u>

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2014 £000s	31 March 2013 £000s	31 March 2014 £000s	31 March 2013 £000s
	Not later than one year	268	395	52
Later than one year and not later than five years	1,074	1,074	220	215
Later than five years	5,883	6,151	944	1,001
	<u>7,225</u>	<u>7,620</u>	<u>1,216</u>	<u>1,389</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 2013/14 £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:

	<b>Minimum Lease</b>	
	<b>31 March 2014</b>	<b>31 March 2013</b>
	<b>£000s</b>	<b>£000s</b>
Not later than one year	1,365	913
Later than one year and not later than five years	2,251	2,009
Later than five years	19,696	21,878
	<u>23,312</u>	<u>24,800</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, a new community centre and swimming pool and the associated facility management of the various sites.

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

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

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

Payments remaining to be made under the PFI contract at 31 March 2014 are as follows:

	Payment for Services	Re - imburse ment of Capital Expendit ure	Interest	Total
	£000s	£000s	£000s	£000s
Payable in 2014/15	3,430	1,130	2,871	7,431
Payable within 2-5 years	13,879	5,112	10,732	29,723
Payable within 6-10 years	18,545	7,245	11,364	37,154
Payable within 11-15 years	19,110	9,279	8,764	37,153
Payable within 16-20 years	15,386	16,981	4,787	37,154
Payable within 21-25 years	2,761	3,788	250	6,799
<b>Total</b>	<b>73,111</b>	<b>43,535</b>	<b>38,768</b>	<b>155,414</b>

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

	31 March 2014	31 March 2013
	£000s	£000s
Balance at start of year	44,696	45,850
Payments	(1,163)	(1,154)
Capital expenditure incurred	-	-
Other Movements	-	-
<b>Balance outstanding at year-end</b>	<b>43,533</b>	<b>44,696</b>

## 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 2014 £000s	31 March 2013 £000s
<b>Opening Capital Financing Requirement</b>	<b>346,075</b>	<b>316,534</b>
<b>Capital Investment</b>		
Property , Plant and Equipment	45,630	52,212
Loans to Housing Associations	250	5,138
<b>Sources of finance</b>		
Government grants	(13,212)	(14,107)
Other Contributions	(2,560)	(1,207)
Direct Revenue Contributions	(1,701)	(2,600)
Loans Fund	(11,320)	(9,895)
<b>Closing Capital Financing Requirement</b>	<b>363,162</b>	<b>346,075</b>

## 20. Impairment Losses

During 2013/14, the Council experienced no material impairment losses.

## 21a. Long Term Investments

Long Term Investments comprise the following:

	31 March 2014 £000s	31 March 2013 £000s	Details
Lothian Buses plc	2,547	1,690	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	222	221	The Council's interest, estimated as 40% was inherited from the former Lothian Investments Board. No dividends are received.
East Lothian Land	606	607	Set up in 2000 for the purpose of managing land to support economic development. The Council is the sole shareholder. No dividends are received.
<b>Total</b>	<b>3,375</b>	<b>2,518</b>	

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

## 21b. Long Term Debtors

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

	31 March 2014 £000s	31 March 2013 £000s	Purpose
PPP - Prepaid lifecycle replacement costs	894	722	Prepaid lifecycle replacement costs
Private property owners - common repairs	903	887	Repairs to private property funded by secured ELC loans
Employees - car/other loans	75	46	Loans to employees repaid over 3-5 years
North Berwick Trust	407	407	Loan secured on land
East Lothian Investments	168	176	Loan to be repaid over 3 years
East Lothian Housing Association	5,333	5,182	Loan secured on land and houses
Other	15	15	
<b>Total</b>	<u>7,795</u>	<u>7,435</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 2014 £000s	31 March 2013 £000s
Central Government Bodies	9,405	6,683
Other local authorities	638	747
NHS bodies	1,621	667
Other entities and individuals	27,336	29,263
<b>Total</b>	<u>39,000</u>	<u>37,360</u>

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

	31 March 2014 £000s	31 March 2013 £000s
Taxpayers - Council Tax	(7,394)	(7,092)
Customers - Goods & Services	(2,581)	(2,492)
Taxpayers - Community Charge	(7,755)	(7,756)
Tenants - Council House Rents	(2,374)	(2,060)
<b>Total</b>	<b>(20,104)</b>	<b>(19,400)</b>

### 23. Financial Instruments

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

	Long- 31 March 2014 £000s	31 March 2013 £000s	Current 31 March 2014 £000s	31 March 2013 £000s
<b>Investments</b>				
Loans and receivables	-	-	-	47
Unquoted equity investment at fair value	3,375	2,518	-	-
<b>Total investments</b>	<b>3,375</b>	<b>2,518</b>	<b>-</b>	<b>47</b>
<b>Debtors</b>				
Loans and receivables	7,795	7,435	39,000	37,360
<b>Borrowing</b>				
Financial liabilities at amortised cost	(298,191)	(293,385)	(49,788)	(29,796)
<b>Creditors</b>				
Financial Liabilities at contract amount	-	-	(22,177)	(21,503)
<b>Other Long Term Liabilities</b>	<b>(177,375)</b>	<b>(160,670)</b>	<b>-</b>	<b>-</b>
PFI and Other long term liabilities				

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

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

	2013/14	2012/13
	£000s	£000s
Interest expense	15,086	15,101
Interest income	(560)	(343)
Dividends	(103)	(103)
Net loss for the year	14,423	14,655

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 2014 of between 1.18% and 4.27% for new loans from the PWLB and between 1.27% and 4.38% for other loans
- No early repayment or impairment is recognised
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

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

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

The fair values calculated are as follows:

	31 March 2014		31 March 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£000s	£000s	£000s	£000s
<b>Investments</b>				
Loans and Receivables	-	-	47	47
Unquoted equity investment at fair value	3,375	3,375	2,518	2,518
<b>Debtors</b>				
Long Term Loans and Receivables	7,795	7,795	7,435	7,435
Short Term Loans and Receivables	39,000	39,000	37,360	37,360
<b>Borrowing</b>				
Financial Liabilities	(347,979)	(395,301)	(323,181)	(350,477)

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 2014 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.

The annual treasury management strategy which incorporates the prudential indicators was approved at the start of 2013 and is available on the Council website. The key issues within the strategy were:

- The Authorised Limit for 2013/14 was set at £484.0m. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was expected to be £444.4m. This is the expected level of debt and other long term liabilities during the year.

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

### **Credit risk**

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

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

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

The full Investment Strategy for 2013/14 was approved at the start of the 2013/14 financial year and is available on the Council's website. The Council's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution.

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

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

### **Liquidity risk**

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

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

### **Refinancing and Maturity risk**

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

The approved treasury indicator limits for the maturity structure of debt are the key parameters used to address this risk. The Council's 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 2014	31 March 2013
	£000s	£000s
<i>Loan Type</i>		
Public Works Loan Board	(261,924)	(262,798)
Finance leases	(1,216)	(1,388)
Intra-group loans	(4,733)	(4,096)
Market loans	(80,107)	(54,899)
	<u>(347,980)</u>	<u>(323,181)</u>
<i>Loan Maturity</i>		
Repayable after more than 10 years	(175,016)	(172,922)
Repayable between 5 and 10 years	(88,889)	(95,225)
Repayable between 2 and 5 years	(26,552)	(19,219)
Repayable between 1 and 2 years	(7,735)	(6,019)
Long-term borrowing	<u>(298,192)</u>	<u>(293,385)</u>
Repayable within 1 year	(49,788)	(29,796)
	<u>(347,980)</u>	<u>(323,181)</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 the Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

To illustrate the impact of changes in interest rates upon the Council, the following table shows the financial effect if variable rates had been 1% higher at 31 March 2014, with all other variables held constant.

	31 March 2014 £000s	31 March 2013 £000s
Increase in interest payable on variable rate borrowing	80	82
Increase in interest receivable on variable rate lending	-	-
Net effect on Comprehensive Income & Expenditure Statement	80	82

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

However, it does have shareholdings to the value of £2.518 million in a number of joint ventures and in local industry. Whilst these holding are generally illiquid and are not held for financial reasons, in principle the Council is exposed to losses arising from movements in the price of the shares.

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

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

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

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

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

#### 24. Short Term Creditors

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

	31 March 2014 £000s	31 March 2013 £000s
Central government bodies	(5,431)	(6,284)
Other local authorities	(2,517)	(2,260)
NHS bodies	(558)	(208)
Public corporations	-	(17)
Other entities and individuals	(13,671)	(12,734)
<b>Total</b>	<b>(22,177)</b>	<b>(21,503)</b>

#### 25. Provisions

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

	Affordable Homes Development Fund £000s	Accumulated Absences Fund £000s	Municipal Mutual Fund £000s	Total £000s
<b>Balance at 31 March 2013</b>	(1,778)	(3,142)	(100)	(5,020)
Provisions made in 2013/2014	(460)	(3,368)	(186)	(4,014)
Amounts used in 2013/14	2,000	3,142	100	5,242
<b>Balance at 31 March 2014</b>	<b>(238)</b>	<b>(3,368)</b>	<b>(186)</b>	<b>(3,792)</b>

### Affordable Homes Development Fund

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

### Accumulated Absences Fund

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

### Municipal Mutual Fund

During the early 1990s, Municipal Mutual Insurance Limited (MMI), which was the main insurer of local authorities across the country, ran into financial difficulties. The MMI business was subsequently acquired by another insurance company with the plan to wind up its activities. Until this year, the expectation was that there would be a solvent run-down of the business and that there would be sufficient funds to meet all the current and future insurance claims. During 2012/13 however, East Lothian Council as one of the company's creditors, was informed that a solvent run-down is now unlikely and a prearranged Scheme of Arrangement would be triggered. Under the Scheme the creditors are required to pay a levy designed to meet the deficit between assets and liabilities. The amount of the levy for East Lothian Council has been assessed as £100,000.

## 26. Long Term Liabilities

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

	Details		
	31 March 2014 £000s	31 March 2013 £000s	
Deferred Liabilities - Developers' Contributions	(3,845)	(4,259)	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	(519)	(554)	Income to be released over the lease period
Other	(694)	(320)	
PPP Liabilities	(43,533)	(44,696)	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	(128,784)	(110,841)	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
<b>Total Long term liabilities</b>	<u>(177,375)</u>	<u>(160,670)</u>	

## 27. Defined Benefit Pension Schemes

### Participation in Pensions schemes

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

The Council participates in the Local Government Pension Scheme, administered by the City of Edinburgh Council as the Lothian Pension Fund.

This is a funded scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

**Transactions relating to retirement benefits**

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

**Assets and liabilities in Relation to Post-Employment Benefits**

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

	2009/10	2010/11	2011/12	2012/13	2013/14
	£000s	£000s	£000s	£000s	£000s
<b>Pensions Assets and Liabilities Recognised in the Balance Sheet</b>					
Present value of the defined benefit obligation	(425,972)	(383,154)	(391,713)	(457,233)	(498,760)
Fair value of plan assets	283,199	303,231	297,679	346,391	369,975
<b>Net liability arising from defined benefit obligation</b>	<b>(142,773)</b>	<b>(79,923)</b>	<b>(94,034)</b>	<b>(110,842)</b>	<b>(128,785)</b>



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

	31 March 2014 £000s	31 March 2013 £000s
<b>Reconciliation of the Movements in the Fair Value of Scheme Assets</b>		
Opening Fair Value of scheme assets	346,391	297,679
Interest Income		
Remeasurement gain/(loss):		
Return on plan assets, excluding the amount included in the net interest expense	20,772	46,539
Contributions from employer	14,834	14,277
Contributions from employees into the scheme	3,688	3,788
Benefits paid	(15,710)	(15,892)
Closing Fair Value of Scheme Assets	369,975	346,391

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

	31 March 2014 £000s	31 March 2013 £000s
<b>Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)</b>		
Opening Balance at 1 April	(457,233)	(391,713)
Current Service Cost	(13,899)	(11,371)
Interest Cost	(20,643)	(18,794)
Contributions from Scheme participants	(3,688)	(3,788)
Remeasurement (gains) and losses:		
Actuarial gains/losses arising from changes in demographic assumptions	-	-
Actuarial gains/losses arising from changes in financial assumptions	(18,010)	(46,946)
Other	168	(106)
Past Service Cost (incl curtailments)	(1,165)	(407)
Benefits Paid	15,710	15,892
Closing Balance at 31 March	(498,760)	(457,233)

## Scheme History

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £128.785 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 2015 is £11.958 million. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2014 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:

	2013/14	2012/13
<b>Mortality assumptions</b>		
Longevity at 65 for current pensioners		
Male	20.4	20.4
Female	22.8	22.8
Longevity at 65 for future pensioners		
Male	22.6	22.6
Female	25.4	25.4
Rate of inflation		
Rate of increase in salaries	5.1%	5.1%
Rate of increase in pensions	2.8%	2.8%
Rate for discounting scheme liabilities	4.3%	4.5%

## Notes to the Accounts

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

<b>Impact on the Defined Benefit Obligation in the Scheme</b>	Approximate	Approximate
Actuarial Assumptions Sensitivity Analysis	%age increase to employer	Monetary Amount (£)
0.5% decrease in Real Discount Rate	10%	48,152
1 year increase in member life expectancy	3%	14,963
0.5% increase in Salary increase rate	3%	14,183
0.5% increase in Pension increase rate	7%	33,144

## Notes to the Accounts

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

	31-Mar-14		31-Mar-13	
	£'000	%	£'000	%
<b>Local Government Pension Scheme Assets comprised:</b>				
Cash and Cash Equivalents	21,196	6%	16,360	5%
Private Equity	44,881	12%	39,823	11%
Derivatives	39	0%	38	0%
Equity Instruments:				
Consumer	56,066	15%	44,390	13%
Manufacturing	50,502	14%	42,734	12%
Energy and Utilities	41,169	11%	25,030	7%
Financial Institutions	25,771	7%	37,711	11%
Health and Care	25,242	7%	18,173	5%
Information Technology	24,068	7%	21,194	6%
Other	16,347	4%	10,398	3%
Sub-total Equity	239,165	65%	199,630	57%
Bonds:				
Corporate	13,760	3%	14,463	4%
Government	12,591	3%	13,160	4%
Other	316	0%	340	0%
Sub-total Bonds	26,667	6%	27,963	8%
Property:				
UK Property	25,777	7%	23,925	7%
Overseas Property	2,998	1%	3,282	1%
Sub-total Property	28,775	8%	27,207	8%
Other Investment Funds:				
Equities	5,214	2%	30,290	9%
Other	4,038	1%	5,080	2%
Sub-total Investment Funds	9,252	3%	35,370	11%
<b>Total Assets</b>	<b>369,975</b>	<b>100%</b>	<b>346,391</b>	<b>100%</b>
<b>Scheme Assets Fair Value</b>				
Quoted Prices in Active Markets	293920		267261	
Prices not Quoted in Active Markets	76055		79130	
<b>Total</b>	<b>369975</b>		<b>346391</b>	

**Total Expense recognised**

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

	2013/14 £000s	2012/13 £000s
<b>Comprehensive Income and Expenditure Statement</b>		
<b>Cost of Services comprising:</b>		
Current service cost	13,899	11,371
Past service costs (including Curtailments)	1,165	407
(Gain)/Loss on Settlements	-	-
<b>Financing and Investment Income and Expenditure</b>		
Net interest expense	4,993	4,456
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	20,057	16,234
<b>Other Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement</b>		
Remeasurement of the net defined benefit liability comprising:		
Return on plan assets (excluding the amount included in the net interest)	5,122	32,201
Actuarial gains and losses arising on changes in demographic assumptions	-	-
Actuarial gains and losses arising on changes in financial assumptions	(18,010)	(46,946)
Other remeasurement experience	168	(106)
Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	7,337	1,383
<b>Movement in Reserves Statement</b>		
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post employment benefits in accordance with the Code.	(101)	1,030
<b>Actual amount charged against the General Fund Balance for pensions in the year</b>		
Employers Contributions Payable	14,834	14,277

**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 2013/14, the Council paid £5.14m (2012/13: £5.36m) to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.9% (2012/13: 14.9%) of pensionable pay.

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

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. In 2013/14, the Council paid £1.247m (2012/13: £0.696m) 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 2013/14, the Council paid £0.07m (2012/13: £0.07m) to individuals. The estimated value of future liabilities based on actuarial mortality estimates is £0.861m.

### 28. Usable Reserves

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

### 29. Unusable Reserves

	31 March 2014	31 March 2013
	£000s	£000s
Revaluation Reserve	(89,363)	(85,054)
Available-for-sale Financial Instruments Reserve	(2,375)	(1,518)
Pensions Reserve	128,784	110,841
Capital Adjustment Account	(281,746)	(277,998)
Financial Instruments Adjustment Account	4,459	4,724
Employee Statutory Adjustment Account	3,368	3,142
<b>Total</b>	<b>(236,873)</b>	<b>(245,863)</b>

## 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. In 2013/14, the reserve has been significantly increased, reflecting the outcome of the (five-yearly) valuation carried out on the Council Dwellings, as at 31 March 2014.

31 March 2013		31 March 2014
£000s		£000s
(87,558)	<b>Balance at 1 April</b>	(85,054)
(248)	Upward revaluation of assets	(5,580)
742	Downward revaluation of assets and impairment not charged to the Surplus/Deficit on the Provision of Services	-
494	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(5,580)
1,794	Difference between fair value depreciation and historical cost depreciation	1,271
216	Accumulated gains on assets sold or scrapped	-
-	Amount written off to the Capital Adjustment Account	-
<b>(85,054)</b>	<b>Balance at 31 March</b>	<b>(89,363)</b>

## 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 2013 £000s	31 March 2014 £000s
(1,976) Balance at 1 April	(1,518)
(19) Upward revaluation of investments	(857)
477 Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	-
458	(857)
(1,518) Balance at 31 March	(2,375)

### 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, the statutory arrangements require that 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 2013 £000s		31 March 2014 £000s
94,034	Balance at 1 April	110,841
17,838	Actuarial gains or losses on pensions assets and liabilities	12,720
13,246	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	(9,611)
(14,277)	Employer's pensions contributions and direct payments to pensioners payable in the year	14,834
<u>110,841</u>	<b>Balance at 31 March</b>	<u>128,784</u>

#### Capital Adjustment Account

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

31 March 2013		31 March 2014
£000s		£000s
(281,828)	<b>Balance at 1 April</b>	(277,998)
	<i>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement</i>	
28,227	Charges for depreciation of non-current assets	27,920
3,283	Revaluation and impairment losses on Property, Plant and Equipment	-
3,463	Assets written off on disposal or sale	-
<u>34,973</u>		<u>27,920</u>
(1,794)	Adjusting amounts written out of the Revaluation Reserve	(1,271)
<u>33,179</u>	Net amounts written out of the cost of non-current assets consumed in the year	<u>26,649</u>
	<i>Capital Financing applied in the year</i>	
(15,314)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(15,772)
(11,435)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(12,924)
(2,600)	Capital expenditure charged against the General Fund and HRA balances	(1,701)
<u>(29,349)</u>		<u>(30,397)</u>
<u>(277,998)</u>	<b>Balance at 31 March</b>	<u>(281,746)</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.

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 2014 will be charged to the General Fund over the next 13 years.

31 March 2013 £000s		31 March 2014 £000s
4,988	Balance at 1 April	4,724
	(8) Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	(9)
	(256) Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory provisions	(256)
(264)	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	(265)
<u>4,724</u>	<b>Balance at 31 March</b>	<u>4,459</u>

### 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 2013 £000s		31 March 2014 £000s
3,496	Balance at 1 April	3,142
	(3,496) Settlement or cancellation of accrual made at the end of the preceding year	(3,142)
	3,142 Amount accrued at the end of the current year	3,368
	(354) 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	226
<u>3,142</u>	<b>Balance at 31 March</b>	<u>3,368</u>

### 30. 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.

A Cost Reduction Fund has been set up to help fund the changes necessary to meet future financial challenges.

	Mid and East Lothian Drugs & Alcohol Project (£000s)	Devolved School Management Balances (£000s)	Cost Reduction Fund (£000s)
Balance at 31 March 2012	62	573	3,753
Transfers Out during 2012/2013	-	-	-
Transfers In during 2012/2013	212	28	3,402
Balance at 31 March 2013	274	601	7,155
Transfers Out during 2013/14	(82)	(111)	(3,424)
Transfers In during 2013/14	-	-	-
<b>Balance at 31 March 2014</b>	<b>192</b>	<b>490</b>	<b>3,731</b>

### 31. Events after the Balance Sheet Date

Events after the date of the Balance Sheet of 31 March 2014 up to the date of signing of these financial statements have been considered. There were no events after the date of the Balance Sheet which would require the figures to be adjusted.

### 32. Grant Income

## Notes to the Accounts

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2013/14.

	2013/14 £000s	2012/13 £000s
<b>Credited to Taxation &amp; Non-Specific Grant Income</b>		
General Capital Grant	(7,416)	(6,525)
Sporting Facilities	(600)	(400)
Contributions from developers	(806)	(51)
Mortgage to Rent scheme/Housing Grants	(3,322)	(3,864)
New School - Haddington	-	(2,633)
Other Grants & Contributions	(3,628)	(1,841)
<b>Total</b>	<b>(15,772)</b>	<b>(15,314)</b>
<b>Credited to Services</b>		
Housing Benefit Subsidy/Department for Work & Pensions	(23,189)	(25,448)
Resource Transfer Funds/NHS	(3,025)	(3,041)
Criminal Justice Grant/Criminal Justice Authority	(1,131)	(1,016)
Leader Programme	(988)	(332)
Housing Benefit Administration Subsidy/Department for Work & Pensions	(709)	(680)
Change Funds	(661)	(1,462)
Private Sector Housing Grant/Scottish Government	(619)	(489)
Funding for Drugs & Alcohol Teams/NHS	(564)	(914)
Educational Maintenance Allowance Funding/Scottish Government	(318)	(358)
Active Schools/Sports Scotland	(304)	(288)
Determined to Succeed/Scottish Government	(116)	(134)

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.

	2013/14 £000s	2012/13 £000s
<b>Capital Grants &amp; Contributions Receipts in Advance</b>		
Sport Scotland	-	600
Scottish Government - Housing Projects	3,692	3,720
<b>Total</b>	<b>3,692</b>	<b>4,320</b>

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

## Notes to the Accounts

	2013/14	2012/13
	£000s	£000s
Depreciation	(27,919)	(28,227)
Impairments and downward valuations	-	(3,283)
Carrying amount of non-current assets held for sale, sold or derecognised	(1,296)	(3,677)
Net charges made for retirement benefits in accordance with IAS 19	(17,974)	(13,247)
Employer's contributions payable to the Lothian Pension Fund	14,834	14,277
Increase in revenue long term-debtors & liabilities	360	217
(Increase)/Decrease in provisions	523	(259)
Increase/(Decrease) in inventories	153	169
(Increase)/Decrease in revenue creditors	(674)	860
Increase in revenue debtors	1,640	1,769
<b>Total</b>	<b><u>(30,353)</u></b>	<b><u>(31,401)</u></b>

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

	2013/14	2012/13
	£000s	£000s
Proceeds from capital grants	15,722	13,889
Proceeds from short-term investments	575	317
Proceeds from sale of PPE, Assets Held for Sale and other non-current assets	2,094	2,105
<b>Total</b>	<b><u>18,391</u></b>	<b><u>16,311</u></b>

**35. Material Items of Income and Expense**

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

	2013/14	2012/13
	£000s	£000s
Depreciation charged on assets	27,920	28,227
Impairments and downward valuations	-	3,283
Housing Benefit Paid	24,492	24,567
Unitary Charge/PPP payments to contractor	8,900	8,812

Material items of income credited to service revenue accounts within the CIES largely relate to grants and contributions and these are disclosed in Note 32. Subsidy income in relation to the payments of Housing Benefit and Council Tax Benefit (included in the table above) is also disclosed at Note 32.

## Housing Revenue Account

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

### Income and Expenditure Account

2012/13 £000s	2013/14 £000s	£000s
<b>Income</b>		
(21,070) Dwelling rents	(22,201)	
(396) Non-dwelling rents	(406)	
(477) Service charges	(511)	
(182) Other income	(172)	
<u>(22,125)</u> <b>Total Income</b>		(23,290)
<b>Expenditure</b>		
8,024 Repairs and maintenance	7,894	
5,939 Supervision and management	6,238	
10,399 Depreciation and impairment of fixed assets	10,396	
419 Increase in bad debt provision	515	
1,637 Other expenditure	1,457	
<u>26,418</u> <b>Total Expenditure</b>		<u>26,500</u>
<b>Net cost of HRA services as included in</b>		
4,293 <b>the Comprehensive Income and</b>		3,210
<b>Expenditure Statement</b>		
133 HRA services share of Corporate and		140
Democratic Core		
4,426 <b>Net Cost of HRA Services</b>		3,350
<b>HRA share of the operating income and</b>		
<b>expenditure included in the</b>		
<b>Comprehensive Income and Expenditure</b>		
<b>Statement</b>		
299 (Gains)/Losses on sale of HRA fixed assets	(149)	
4,075 Interest payable and similar charges	4,160	
(46) Interest and investment income	(39)	
44 Pensions interest cost and expected return	19	
on pensions assets		
<u>(3,864)</u> Capital grants and contributions receivable		<u>(5,472)</u>
<u>4,934</u> <b>Deficit for the year on HRA services</b>		<u>1,869</u>



## Housing Revenue Account

### Movement on the HRA Statement

2012/13		2013/14
£000s		£000s
(2,748)	Balance on the HRA at the end of the previous period	(2,086)
4,934	Deficit for the year on the HRA Income and Expenditure Account	1,869
(3,491)	Adjustments between accounting basis and funding basis under statute	(1,750)
1,443	(Increase) or decrease in the Housing Revenue Account Balance before transfers	119
995	HRA Balance transferred to General Services	995
(1,776)	Transfers into HRA from Capital Fund	(1,050)
662	Decrease in year on the HRA	64
<b>(2,086)</b>	<b>Balance on the HRA at the end of the current period</b>	<b>(2,022)</b>

### Note to the Movement of the HRA Statement

2012/13		2013/14
£000s		£000s
	<b>Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year</b>	
(10,399)	Depreciation and impairment of fixed assets	(10,361)
3,864	Capital grant and contributions applied	5,472
(299)	Gain or loss on sale of HRA fixed assets	149
(44)	Net charges made for retirement benefits in accordance with IAS 19	(19)
(6,878)		(4,759)
	<b>Items not included in the HRA Account but included in the movement on HRA Balance for the year</b>	
330	Employer's contributions payable to the Lothian Pension Fund	290
1,776	Loans fund principal	2,094
1,281	Capital expenditure funded by the HRA	625
<b>3,387</b>		<b>3,009</b>
(3,491)	<b>Net additional amount required by statute to be credited to the HRA Balance for the year</b>	<b>(1,750)</b>

## 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.

2012/13 £000s	2013/14 £000s
(51,721) <b>Gross council tax levied and contributions in lieu</b>	(52,122)
(8) Council tax benefits (net of government grant)	5,574
Less :	
22 Discounts for prompt payment	24
4,341 Other discounts and reductions	4,242
853 Provision for bad and doubtful debts	659
<u>(46,513)</u>	<u>(41,623)</u>
61 Adjustments to previous years' council tax	50
<u>(46,452) Transfer to General Fund</u>	<u>(41,572)</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.

2012/13 £000s	2013/14 £000s
<b>Rates contributable to/from National Pool</b>	
(31,580) Gross rates levied & contributions in lieu	(32,093)
8,197 Reliefs and other deductions	8,681
- Provision & bad debts written off	13
(23,383)	(23,399)
137 Adjustments relating to previous years	1,346
(23,246) Net non-domestic rates income	(22,053)
Amounts not reclaimable from the National	
(14) Non-domestic Rate Pool	416
(23,260) Contribution to the National Non-domestic Rate Pool	(21,637)
(21,500) Contribution from the National Non-domestic Rate Pool	(23,134)

## 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

2012/13		2013/14
£000s		£000s
	<b>Income</b>	
(517)	Rents and other income	(459)
<u>(517)</u>		<u>(459)</u>
	<b>Expenditure</b>	
2	Employees	1
96	Premises-related expenditure	58
41	Supplies and services	89
136	Third party payments	136
78	Depreciation	78
<u>353</u>		<u>362</u>
(164)	<b>Cost of Services</b>	(97)
	- (Gains)/Losses on the disposal of non current assets	-
(81)	Financing and investment income and expenditure	(90)
<u>(245)</u>	<b>(Surplus) or Deficit on Provision of Services</b>	<u>(187)</u>
	- (Surplus) or deficit on revaluation of Property, Plant and Equipment	-
(263)	(Surplus) or deficit on revaluation of available for sale financial instruments	(87)
<u>(263)</u>	<b>Other Comprehensive Income and Expenditure</b>	<u>(87)</u>
<u>(508)</u>	<b>Total Comprehensive Income and Expenditure</b>	<u>(274)</u>

## Balance Sheet

31 March 2013 £000s	31 March 2014 £000s
2,806 Property, Plant & Equipment	2,759
2,662 Long Term Investments	2,792
1,370 Long Term Debtors	1,331
<hr/> 6,838 <b>Long Term Assets</b>	<hr/> 6,882
38 Sundry debtors	53
1,541 Short-term loans	1,829
<hr/> 1,579 <b>Current Assets</b>	<hr/> 1,882
(1) Short-term creditors	(1)
<hr/> (1) <b>Current Liabilities</b>	<hr/> (1)
<hr/> <b>8,416 Net Assets</b>	<hr/> <b>8,763</b>
(341) Financial Instruments Adjustment Reserve	(429)
(804) Revaluation Reserve	(792)
(3,219) Capital Adjustment Account	(3,155)
(4,052) Common Good Fund	(4,387)
<hr/> (8,416) <b>Total Reserves</b>	<hr/> (8,763)

## Movement in Reserves Statement

For the year ended 31 March 2014		Common Good Balance (£000)	Total Usable Reserves (£000)	Unusable Reserves (£000)	Financial Instruments Adjustment (£000s)	Total Common Good Reserves (£000)
<b>Balance at 31 March 2013 carried forward</b>		<b>(4,052)</b>	<b>(4,052)</b>	<b>(4,364)</b>	<b>(341)</b>	<b>(8,416)</b>
Movement in reserves during 2013/14						
(Surplus) or deficit on provision of services		(258)	(258)	-	-	(258)
Other Comprehensive Expenditure and Income		-	-	(88)	(88)	(88)
<b>Total Comprehensive Expenditure and Income</b>		<b>(258)</b>	<b>(258)</b>	<b>(88)</b>	<b>(88)</b>	<b>(346)</b>
<b>Adjustments between accounting basis &amp; funding basis under regulations</b>		<b>(78)</b>	<b>(78)</b>	<b>77</b>	<b>-</b>	<b>-</b>
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>		<b>(336)</b>	<b>(336)</b>	<b>(11)</b>	<b>(88)</b>	<b>(347)</b>
Transfers to/from Reserves		-	-	-	-	-
<b>Increase/Decrease in Year</b>		<b>(336)</b>	<b>(336)</b>	<b>(11)</b>	<b>(88)</b>	<b>(347)</b>
<b>Balance at 31 March 2014 carried forward</b>		<b>(4,388)</b>	<b>(4,388)</b>	<b>(4,375)</b>	<b>(429)</b>	<b>(8,763)</b>

## Trust Funds Account

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

## Comprehensive Income and Expenditure Statement

2012-13 £000s	2013-14 £000s
(47) Operating Income	(41)
58 Operating Expenditure	53
<b>11 Cost of Services</b>	<b>12</b>
(34) (Gains)/Losses on the disposal of non current assets	(108)
(83) Financing and investment income and expenditure	(88)
- Taxation and non specific grant income	-
<b>(106) (Surplus) or Deficit on Provision of Services</b>	<b>(184)</b>
(10) (Surplus) or deficit on revaluation of Property, Plant and Equipment	7
(222) (Surplus) or deficit on revaluation of available for sale financial instruments	(40)
<b>(232) Other Comprehensive Income and Expenditure</b>	<b>(33)</b>
<b>(338) Total Comprehensive Income and Expenditure</b>	<b>(217)</b>

## Balance Sheet

31 March 2013 £000s	Trust Funds	31 March 2014 £000s
586	Property Plant & Equipment	578
	- Intangible Assets	-
	- Assets Held for Sale	-
2,637	Long Term Investments	2,767
	- Investments in Associates	-
108	Long Term Debtors	104
<b>3,331</b>	<b>Long Term Assets</b>	<b>3,449</b>
964	Short Term Investments	1,051
	- Assets Held for Sale	-
	- Inventories	-
1	Short Term Debtors	-
	- Bad & Doubtful Debt Provision	-
	- Cash and Cash Equivalents	-
<b>965</b>	<b>Current Assets</b>	<b>1,051</b>
	- Bank Overdraft	-
	- Short Term Borrowing	-
	- Short Term Creditors	(1)
	- <b>Current Liabilities</b>	<b>(1)</b>
	- Long Term Creditors	-
	- Provisions	-
	- Long Term Borrowing	-
(261)	Other Long Term Liabilities	(248)
	- Capital Grants Receipts in Advance	-
<b>(261)</b>	<b>Long Term Liabilities</b>	<b>(248)</b>
<b>4,035</b>	<b>Net Assets</b>	<b>4,251</b>
	Called Up Share Capital	-
(1,920)	Usable Reserves	(2,103)
(2,115)	Unusable Reserves	(2,148)
<b>(4,035)</b>	<b>Total Reserves</b>	<b>(4,251)</b>



## Movement in Reserves Statement

For the year ended 31 March 2014

	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 2013 carried forward	(1,920)	(1,920)	(2,115)	(1,622)	(493)	(4,035)
Movement in reserves during 2012/13						
Surplus or (deficit) on provision of services	(183)	(183)	-	-	-	(183)
Other Comprehensive Expenditure and Income	-	-	(33)	(40)	7	(232)
<b>Total Comprehensive Expenditure and Income</b>	<b>(183)</b>	<b>(183)</b>	<b>(33)</b>	<b>(40)</b>	<b>7</b>	<b>(216)</b>
Adjustments between accounting basis & funding basis under regulations	-	-	-	-	-	-
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>(183)</b>	<b>(183)</b>	<b>(33)</b>	<b>(40)</b>	<b>7</b>	<b>(216)</b>
Transfers to/from Earmarked Reserves	-	-	-	-	-	-
<b>Increase/Decrease in Year</b>	<b>(183)</b>	<b>(183)</b>	<b>(33)</b>	<b>(40)</b>	<b>7</b>	<b>(216)</b>
<b>Balance at 31 March 2013 carried forward</b>	<b>(2,103)</b>	<b>(2,103)</b>	<b>(2,148)</b>	<b>(1,662)</b>	<b>(486)</b>	<b>(4,251)</b>

## 1. Housing Revenue Account

### Number and type of dwellings

	Stock at 31 March 2013	Sold in year	New Bought Build in year	Other Adjust- ments	Stock at 31 March 2014
2 Apartment	1,703	(1)	40	8	1,750
3 Apartment	4,331	(13)	83	-	4,401
4 Apartment	2,155	(6)	21	-	2,172
5 Apartment	216	(1)	-	-	220
	<u>8,405</u>	<u>(21)</u>	<u>144</u>	<u>8</u>	<u>8,543</u>

### Bad or Doubtful Debts

At the year-end, outstanding arrears totalled £2.69m (2012/13: £2.63m) or 11.6% (2012/13: 12.2%) of the rent collectable. A provision of £2.37m (2012/13: £2.06m) 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	958	7,689	12,880	5,121	5,295	4,306	3,408	588	40,245
Ratio to Band D	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	
Band D Equivalents	639	5,980	11,449	5,121	6,472	6,220	5,680	1,176	42,737
Provision for non- payment (2%)									(855)
<b>Council Tax Base</b>									<b>41,882</b>

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

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

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

### 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	1,622	27,943
Industrial and Freight Transport	847	12,675
Miscellaneous (Schools etc)	837	28,665
	<u>3,306</u>	<u>69,283</u>

#### Rate Level

Occupiers of non-domestic property pay rates based on the valuation of the property within the valuation roll for East Lothian. The non-domestic rate poundage is determined by the First Minister, and was 47.1p (2012/13: 45.8p) per pound for properties with rateable value of £35,000 or more and 46.2p (2012/13: 45.0p) for those with a rateable value of less than £35,000 (2012/13:£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:

	<b>Community Assets £000s</b>
Net book value of assets at 31 March 2013	2,806
Movement in 2013/14	
Additions	-
Revaluations	-
Depreciation	(47)
<b>Net book value of assets at 31 March 2014</b>	<b><u>2,759</u></b>

#### 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:

	<b>£000s</b>
Income receivable in 2014/15	208
Income receivable between 2015/15 and 2019/20	832
Income receivable after 2020/21	<u>5,405</u>
	<b><u>6,445</u></b>

## Fund Analysis

The four separate funds are valued at 31 March 2014 as:

	Dunbar £000	Hadding- ton £000	Mussel- burgh £000	North Berwick £000	Total £000
Balance brought forward on 1 April 2013	(81)	(336)	(3,406)	(229)	(4,052)
Change for the the year	(13)	55	(359)	(18)	(336)
Fund balance as at 31 March 2014	(94)	(281)	(3,765)	(247)	(4,388)
<b>Net Assets</b>	<b>1,500</b>	<b>510</b>	<b>6,220</b>	<b>533</b>	<b>8,763</b>

## 5. Trusts

### In-year Financial Performance

During the year 2013/14, the Trust Funds operated at a surplus of £184,000 (2012/13: surplus of £106,000). The overall asset book value increased from £4.0 million to £4.3 million by 31 March 2014.

### 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 2014 were:

2012/13 £000	Investment	2013/14 £000
99	UK Treasury 5% Stk July 14	94
98	JP Morgan IT Ordinary	94
87	Shell Ord Shares Euro 0.07	94
82	UBS Global Assets Mgt US Equity	91
	- Vanguard Inv Serv 500 Ucits	77
	- The European Inv Ord 0.25	70
77	HSBC Ordinary Shares Eur 0.07	67
2,194	Other stocks, shares and cash	2,180
<u>2,637</u>	<b>Total</b>	<u>2,767</u>

## Group Comprehensive Income and Expenditure Statement

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

2012/13 Net Expend- iture £000s	Gross Expend- iture £000s	2013/14 Gross Income £000s	Net Expend- iture £000s
2,964	8,085	(3,959)	4,126
21,703	23,388	(3,685)	19,703
92,110	94,324	(3,951)	90,373
10,795	12,630	(1,070)	11,560
4,141	33,226	(29,162)	4,064
10,027	200	-	200
4,426	26,631	(23,281)	3,350
2,373	5,841	(2,321)	3,520
10,166	10,097	(447)	9,650
61,468	73,121	(10,266)	62,855
1,440	1,326	-	1,326
407	1,145	-	1,145
<b>222,020</b>	<b>290,014</b>	<b>(78,142)</b>	<b>211,872</b>
1,538			(1,103)
15,951			14,834
			-
(232,797)			(224,852)
<b>6,712</b>			<b>751</b>
9,343			19
1			-
<b>16,056</b>			<b>769</b>
484			(5,660)
(27)			(896)
17,838			17,842
25,992			386
<b>44,288</b>			<b>11,672</b>
<b>60,344</b>			<b>12,441</b>

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

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

2012/13		2013/14
£000s		£000s
6,709	Deficit for the year on the Authority Comprehensive Income & Expenditure Account	1,193
	Deficit for the year in the Group Income & Expenditure Account attributable to group entities	
9,343	Associates	19
4	Subsidiaries	(442)
<u>16,056</u>	<b>Deficit for the year on the Group Income &amp; Expenditure Account</b>	<u>769</u>

## Group Balance Sheet as at 31 March 2014

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

31-Mar-13	31-Mar-14
£000s	£000s
750,503 Property Plant & Equipment	773,109
605 Heritage Assets	605
- Assets Held for Sale	-
7,017 Long Term Investments	8,327
(210,263) Investments in Associates	1,084
8,913 Long Term Debtors	9,230
<b>556,775 Long Term Assets</b>	<b>792,355</b>
47 Short Term Investments	56
1,660 Assets Held for Sale	1,190
517 Inventories	674
37,893 Short Term Debtors	39,766
(19,400) Bad & Doubtful Debt Provision	(20,104)
2,513 Cash and Cash Equivalents	5,725
<b>23,230 Current Assets</b>	<b>27,307</b>
- Bank Overdraft	-
(27,290) Short Term Borrowing	(46,917)
(22,027) Short Term Creditors	(22,839)
<b>(49,317) Current Liabilities</b>	<b>(69,756)</b>
- Long Term Creditors	-
(5,020) Provisions	(3,793)
(293,385) Long Term Borrowing	(298,191)
(160,931) Other Long Term Liabilities	(177,623)
(4,320) Capital Grants Receipts in Advance	(3,692)
<b>(463,656) Long Term Liabilities</b>	<b>(483,299)</b>
<b>67,032 Net Assets</b>	<b>266,607</b>
- Called Up Share Capital	-
(26,503) Usable Reserves	(23,633)
(40,529) Unusable Reserves	(242,974)
<b>(67,032) Total Reserves</b>	<b>(266,607)</b>



## Group Movement in Reserves Statement

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

For the year ended 31 March 2014	Authority's Own Usable Reserves (£000) Page 12	Authority's Share of Usable Reserves of Subsidiaries and Associates (£000)	Total Usable Reserves (£000)	Authority's Own Unusable Reserves (£000) Note 30	Authority's Share of Unusable Reserves of Subsidiaries and Associates (£000)	Total Reserves (£000)
Balance at 31 March 2013	(18,961)	(7,542)	(26,503)	(40,529)	(245,863)	205,334 (67,032)
Movement in reserves during 2013/14 (Surplus) or deficit on provision of services	1,193	(423)	769	-	-	769
Other Comprehensive Expenditure and Income	-	0	0	11,671	11,405	266
<b>Total Comprehensive Expenditure and Income</b>	<b>1,193</b>	<b>(423)</b>	<b>770</b>	<b>11,671</b>	<b>11,405</b>	<b>266</b>
Adjustments between Group Accounts and Authority Accounts	-	-	-	-	-	-
<b>Net Increase/Decrease before Transfers</b>	<b>1,193</b>	<b>(423)</b>	<b>770</b>	<b>11,671</b>	<b>11,405</b>	<b>266</b>
Adjustments between accounting basis & funding basis under regulations	2,415	(311)	2,104	(214,115)	(2,415)	(212,012)
<b>Net Increase/Decrease before Transfers to Other Statutory Reserves</b>	<b>3,608</b>	<b>(733)</b>	<b>2,874</b>	<b>(202,445)</b>	<b>8,990</b>	<b>(211,435)</b>
<b>(Increase)/Decrease in Year</b>	<b>3,608</b>	<b>(733)</b>	<b>2,874</b>	<b>(202,445)</b>	<b>8,990</b>	<b>(211,435)</b>
Balance at 31 March 2014 carried forward	(15,353)	(8,275)	(23,629)	(242,974)	(236,873)	(6,101) (266,603)

## Group Cash Flow Statement

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

2012/13		2013/14
£000s		£000s
6,712	Net deficit on the provision of services	751
(31,619)	Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 5)	(30,479)
16,059	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	18,566
(8,848)	Net Cash flow from Operating Activities	(11,162)
	<b>Investing Activities</b>	
54,057	Purchase of property, plant and equipment	47,871
27	Purchase of investments	569
-	Dividends from joint ventures and associates	-
(317)	Proceeds from short term investments	(575)
(19,445)	Other Receipts from investing activities	(14,645)
(2,105)	Proceeds from the sale of property, plant and equipment	(2,094)
32,217	Net cash flow from investing activity	31,126
	<b>Financing Activities</b>	
(112,673)	Cash received from short and long term borrowing	(79,106)
1,322	Capital element of finance leases and PFI Contracts	1,216
81,271	Repayments of short and long term borrowing	54,464
143	New loans made	250
(29,937)	Net cash flow from financing activity	(23,176)
(6,568)	Net increase or decrease in cash and cash equivalents	(3,212)
4,055	Cash and cash equivalents at the beginning of the reporting period	(2,513)
(2,513)	Cash and cash equivalents at the end of the reporting period	(5,725)

## Notes to the Group Financial Statements

### 1. Combining Entities

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

### 2. Associates

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

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

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

	Percentage Share 2012/13	Percentage Share 2013/14	Carrying Value at 31 March 2014 (£000s)	Share of (Surplus) or Deficit on Provision of Services for 2013/14 (£000s)	Other CI&ES Items for 2013/14 (£000s)
East Lothian Investments	40.00%	40.00%	222	(1)	0
Enjoy East Lothian Limited	33.33%	33.33%	1,570	(53)	237
Brunton Theatre Trust	40.00%	40.00%	127	28	-
Lothian Valuation Joint Board	10.99%	11.02%	(835)	45	149
Lothian & Borders Police Board	8.25%	8.25%	-	-	-
Lothian & Borders Fire & Rescue Board	7.77%	7.77%	-	-	-
<b>Total</b>			<b>1,083</b>	<b>19</b>	<b>386</b>

The summarised financial information of the various associates for the financial year 2013/14 has been presented below;

	Assets at the end of the year (£000s)	Liabilities at the end of the year (£000s)	Net Assets at the end of the year (£000s)	Revenues during year (£000s)	(Surplus) or Deficit for the year (£000s)
East Lothian Investments	603	(49)	554	(41)	(2)
Enjoy East Lothian Limited	6,041	(1,330)	4,711	(6,257)	(159)
Brunton Theatre Trust	-	-	-	-	-
Lothian Valuation Joint Board	1,123	(8,702)	(7,579)	(7,595)	404

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

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

### 3. Subsidiaries

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

No subsidiaries have been excluded.

The Council is sole shareholder, at a cost of £800,000, in East Lothian Land Limited, set up in 2000 for the purpose of managing land to support economic development in East Lothian. The accounts for the last period of trading to 31 March 2014 show net current assets of £606,000 (2012: £601,000), and a loss before taxation of £1,000 (31 March 2013: Profit of £6,000). 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 98 to 103.

The net value of the Trusts included within the Group Accounts is £4.25 million. The nature of the assets is explained in a note to the Supplementary Financial Statements attached. Although included as a subsidiary the Council does not expect a dividend as a result of its involvement.

In 2011 East Lothian Council, along with the Lothian's Racing Syndicate Limited agreed a revised Minute of Agreement relating to the operation of the Musselburgh Joint Racing Committee. The remit of the Committee is to organise and develop horse racing at Musselburgh Links. No shares are issued. The Council nominates four of the seven Committee members with the other three nominated by the Syndicate. East Lothian Council inherited an interest in this subsidiary company as a result of local government re-organisation in 1996.

A financial interest exists since the Council may be required to bear any financial losses of the Committee. As no consideration was given for this

interest, there is no goodwill arising from this interest. No dividends will be received. This subsidiary has been incorporated in line with the financial statements made available to East Lothian Council.

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

#### 4. Financial Impact of Consolidation

The effect of inclusion of the associate and subsidiary companies on the Group Balance Sheet is to increase Net Assets and Reserves by £14 million. This is largely due to the value of Common Good and Trust Funds property and investment values.

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

2012/13 £000s	2013/14 £000s
(28,307) Depreciation	(27,999)
(3,283) Impairments and downward revaluations	-
(3,677) Net gains on sale of fixed assets	(1,296)
(13,247) Net charges made for retirement benefits in accordance with IAS 19	(17,974)
14,277 Employer's contributions payable to the Lothian Pension Fund	14,834
217 (Increase)/decrease in revenue long term-debtors & liabilities	(246)
(259) Change in Provisions	523
169 Change in stock	153
602 Change in revenue debtors	(115)
1,889 Change in revenue creditors	1,641
<b><u>(31,619) Total</u></b>	<b><u>(30,479)</u></b>



**REPORT TO:** Audit and Governance Committee  
**MEETING DATE:** 15 July 2014  
**BY:** Depute Chief Executive (Resources & People Services)  
**SUBJECT:** Annual Treasury Management Review 2013/14

---

**3**

**1 PURPOSE**

- 1.1 To update the Committee on Treasury Management activity during 2013/14

**2 RECOMMENDATIONS**

- 2.1 Members are asked to note the contents of this report.

**3 BACKGROUND**

- 3.1 The Council is required by regulations issued under the Local Government Scotland Act 2003 to produce an annual treasury management review.
- 3.2 The attached review updates members on treasury management activity during 2013/14.

**4 POLICY IMPLICATIONS**

- 4.1 There are no direct policy implications associated with this report however the Council's treasury management activity is determined by the policy framework set out in the approved Treasury Management Strategy.

**5 EQUALITIES IMPACT ASSESSMENT**

- 5.1 This report is not applicable to the well being of equalities groups and an Equalities Impact Assessment is not required.

## 6 RESOURCE IMPLICATIONS

- 6.1 Financial – There are no direct financial implications associated with this report however the Council's Treasury Management activity clearly has a significant impact on the management of the Council's financial resources.
- 6.2 Personnel - None
- 6.3 Other - None

## 7 BACKGROUND PAPERS

- 7.1 Treasury Management Strategy 2013/14 to 2015/16 – East Lothian Council 26 February 2013.

<b>AUTHOR'S NAME</b>	Kirsten Maguire
<b>DESIGNATION</b>	Service Manager - Corporate Finance
<b>CONTACT INFO</b>	<a href="mailto:kmaguire@eastlothian.gov.uk">kmaguire@eastlothian.gov.uk</a>
<b>DATE</b>	3 <sup>rd</sup> July 2014



# **Annual Treasury Management Review 2013/14 – East Lothian Council**

# Annual Treasury Management Review 2013/14

---

## 1. Introduction

This Council is required by regulations issued under the Local Government in Scotland Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2013/14. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2013/14 the council's Treasury Management activities were supported by the following reports:

- The annual Treasury Strategy which was approved by East Lothian Council on 26<sup>th</sup> February 2013
- A 2013/14 Mid-Year review which was presented to Audit & Governance Committee on 19<sup>th</sup> November 2013
- An annual review following the end of the year describing the activity compared to the strategy (this report)

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is therefore important in that respect, as it provides details of the unaudited outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

As part of its Treasury Management activity, the Council takes advice from Capita Asset Services (formerly Sector). Capita have provided the economic information and commentary in this review.

## 2. The Economy and Interest Rates

The financial year 2013/14 continued the challenging investment environment of previous years, namely low investment returns, although levels of counterparty risk had subsided somewhat. The original expectation for 2013/14 was that Bank Rate would not rise during the year and for it only to start gently rising from quarter 1 2015. In recent weeks there has been much commentary regarding Bank Rate and Capita's latest advice remains that it will start to rise from Q1 2015. Economic growth (GDP) in the UK was virtually flat during 2012/13 but surged strongly during the year. Consequently there was no additional quantitative easing during 2013/14 and Bank Rate ended the year unchanged at 0.5% for the fifth successive year. While CPI inflation had remained stubbornly high and substantially above the 2% target during 2012, by January 2014 it had, at last, fallen below the target rate to 1.9% and then fell further to 1.7% in February. It is also expected to remain slightly below the target rate for most of the two years ahead.

Gilt yields were on a sharply rising trend during 2013 but volatility returned in the first quarter of 2014 as various fears sparked a flight to quality (see paragraph 4.) The Funding for Lending Scheme, announced in July 2012, resulted in a flood of cheap credit being made available to banks which then resulted in money market investment rates falling drastically in the second half of that year and continuing into 2013/14. That part of the Scheme which supported the provision of credit for mortgages was terminated in the first quarter of 2014 as concerns rose over resurging house prices.

The UK coalition Government maintained its tight fiscal policy stance but recent strong economic growth has led to a cumulative, (in the Autumn Statement and the March Budget), reduction in the forecasts for total borrowing, of £97bn over the next five years, culminating in a £5bn surplus in 2018-19.

The EU sovereign debt crisis subsided during the year and confidence in the ability of the Eurozone to remain intact increased substantially. Perceptions of counterparty risk improved after the ECB statement in July 2012 that it would do “whatever it takes” to support struggling Eurozone countries; this led to a return of confidence in its banking system which has continued into 2013/14 and led to a move away from only very short term investing. However, this is not to say that the problems of the Eurozone, or its banks, have ended as the zone faces the likelihood of weak growth over the next few years at a time when the total size of government debt for some nations is likely to continue rising. Upcoming stress tests of Eurozone banks could also reveal some areas of concern.

### 3. Overall Treasury Position as at 31 March 2014

At the beginning and the end of 2013/14 the Council's treasury position was as follows:

TABLE 1	31 March 2013	31 March 2014
	Principal	Principal
	£m	£m
<b>Total debt:</b>		
<b>PWLB/Market loans</b>	<b>315</b>	<b>339</b>
<b>PPP/Finance Leases</b>	<b><u>46</u></b>	<b><u>45</u></b>
	<b>361</b>	<b>384</b>
<b>CFR</b>	<b>412</b>	<b>427</b>
<b>Over / (under) borrowing</b>	<b>(51)</b>	<b>(43)</b>
<b>Total investments</b>	<b>0</b>	<b>0</b>
<b>Net debt</b>	<b>361</b>	<b>384</b>

## 4. The Strategy for 2013/14

The expectation for interest rates within the strategy for 2013/14 anticipated low but rising Bank Rate (starting in quarter 1 of 2015), and gradual rises in medium and longer term fixed borrowing rates during 2013/14. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

In this scenario, ELC's strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk. When borrowing was required for cash flow purposes, advantage was taken of cheap short term borrowing from other public bodies.

The actual movement in gilt yields meant that PWLB rates were on a sharply rising trend during 2013 as markets anticipated the start of tapering of asset purchases by the Fed. This duly started in December 2013 and the US FOMC (the Fed.), adopted a future course of monthly reductions of \$10bn (from a starting position of \$85bn), meaning that asset purchases were likely to stop by the end of 2014. However, volatility set in during the first quarter of 2014 as fears around emerging markets, various vulnerabilities in the Chinese economy, the increasing danger for the Eurozone to drop into a deflationary spiral, and the situation in the Ukraine, caused rates to dip down, reflecting a flight to quality into UK gilts.

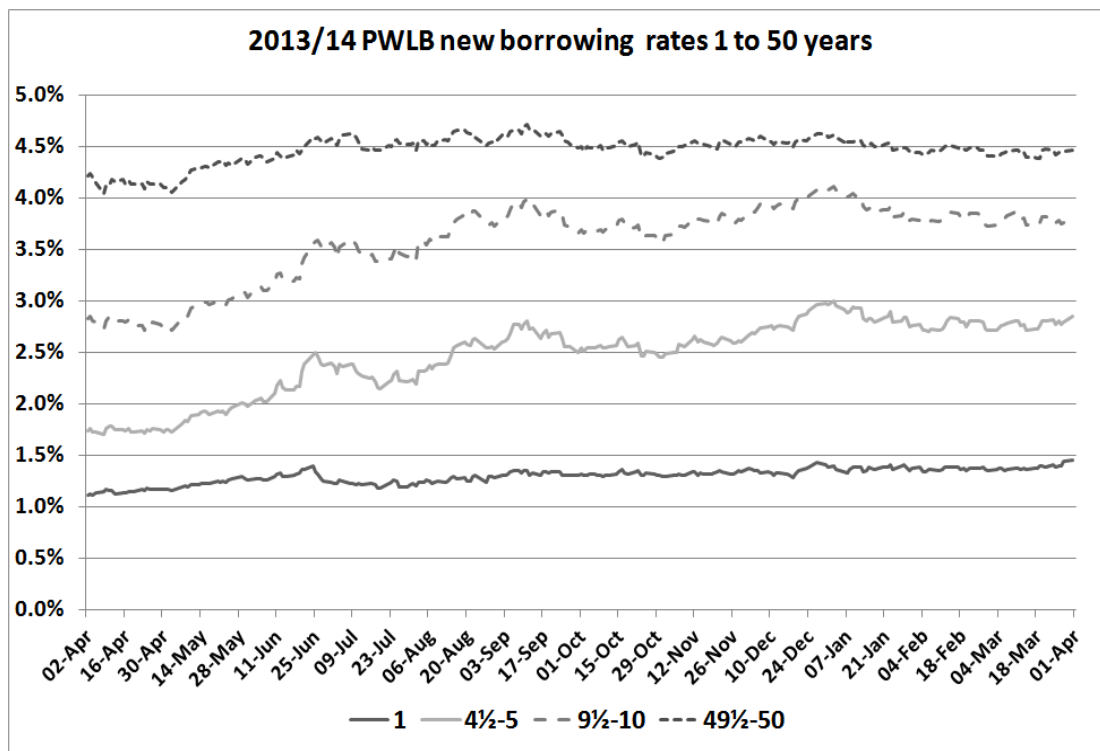
## 5. The Borrowing Requirement and Debt

The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

	31 March 2013 Actual £'000	31 March 2014 Budget £'000	31 March 2014 Unaudited Actual £'000
CFR General Fund (£m)	288,430	298,607	291,379
CFR HRA (£m)	123,597	145,802	135,914
Total CFR	412,027	444,409	427,293

## 6. Borrowing Rates in 2013/14

**PWLB borrowing rates** - the graph below shows how PWLB certainty rates have risen from historically very low levels during the year.



## 7. Borrowing Outturn for 2013/14

**PWLB Borrowing** – the following new PWLB fixed interest rate loans were taken during the year:

Date of borrowing	Principal	Maturity	Interest rate
24 April 2013	£1m	49 years	3.96%
24 April 2013	£2m	19 years	3.60%
31 October 2013	£5m	16 years	3.94%
31 October 2013	£5m	17 years	3.99%
<b>Total</b>	<b>£13m</b>		

**PWLB Repayment** – the following PWLB fixed interest rate loans matured and were repaid:

Date of borrowing	Principal	Maturity	Interest rate
8 Dec 2008	£10m	5 years	3.09%
1 April 1986	£1.5m	28 years	9.125%
14 March 1986	£0.2m	28 years	9.5%
<b>Total</b>	<b>£11.7m</b>		

**Temporary borrowing** – the following temporary loans were taken from other local authorities during 2013/14:

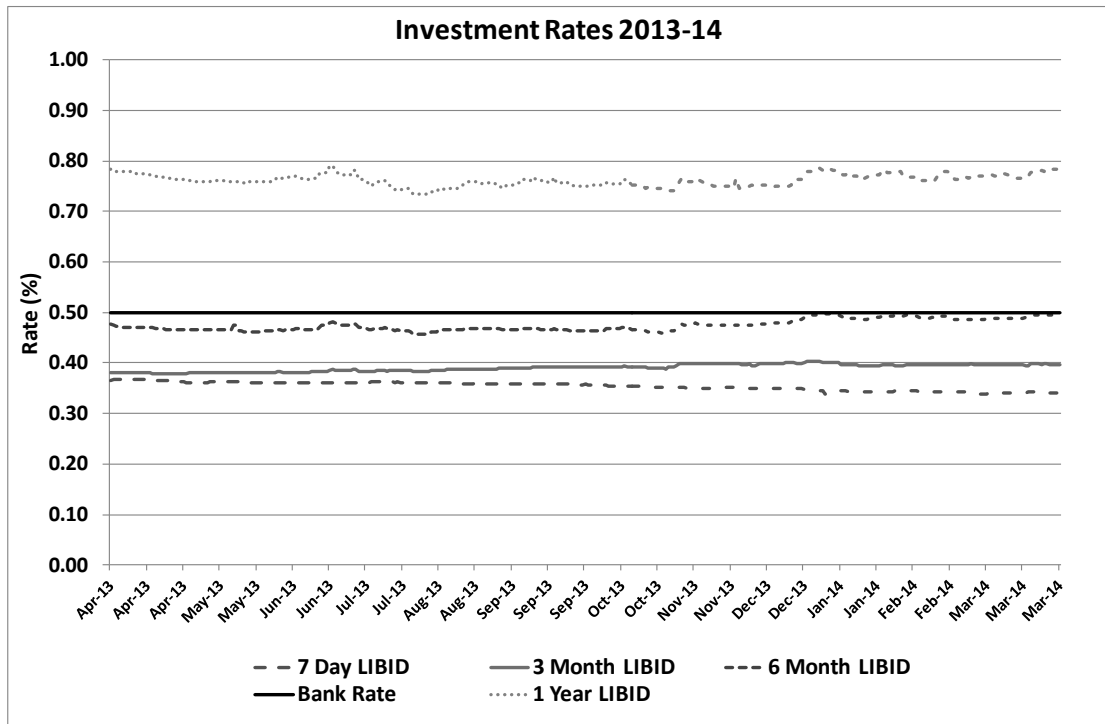
Date of borrowing	Lender	Principal	Interest rate	Date repaid
5 August 2013	Derbyshire CC	£5m	0.4%	5 February 2014
5 August 2013	Worcestershire CC	£5m	0.3%	5 November 2013
5 August 2013	Merseyside ITA	£5m	0.4%	5 February 2014
24 Sept 2013	City of Edinburgh	£10m	0.5%	24 December 2014
30 Sept 2013	Kensington & Chelsea	£5m	0.38%	28 Feb 2014
9 Oct 2013	Leicestershire CC	£2m	0.47%	9 April 2014
15 Oct 2013	Derbyshire CC	£5m	0.47%	15 April 2014
16 Dec 2013	Kensington & Chelsea	£5m	0.47%	30 April 2014
20 Dec 2013	Devon & Cornwall Police	£3m	0.48%	30 April 2014
22 Jan 2014	Hackney	£3m	0.45%	22 April 2014
5 Feb 2014	Merseyside ITA	£5m	0.45%	5 Aug 2014
24 Feb 2014	Redcar & Cleveland	£1m	0.42%	24 June 2014
28 Feb 2014	Kensington & Chelsea	£5m	0.41%	30 June 2014
10 March 2014	Derbyshire CC	£5m	0.45%	10 Sept 2014
31 March 2014	Hertfordshire Police	£5m	0.45%	30 Sept 2014
	Total	£69m		

The following loans taken out in 2012/13 were repaid during 2013/14

Date of borrowing	Lender	Principal	Interest rate	Date repaid
30 Oct 2012	Ealing	£2m	0.4%	30 July 2013
1 Nov 2012	Oxfordshire CC	£5m	0.5%	24 Oct 2013
14 Dec 2012	Surrey Heath BC	£1.5m	0.4%	14 June 2013
22 Jan 2013	Swansea City & County	£3m	0.32%	22 April 2013
28 Jan 2013	Northumberland CC	£2m	0.32%	29 April 2013
	Total	£13.5m		

## 8. Investment Rates in 2013/14

Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for five years. Market expectations as to the timing of the start of monetary tightening ended up unchanged at early 2015. The Funding for Lending Scheme resulted in deposit rates remaining depressed during the whole of the year, although the part of the scheme supporting provision of credit for mortgages came to an end in the first quarter of 2014.



## 9. Investment Outturn for 2013/14

**Investment Policy** – the Council's investment policy is governed by Scottish Government investment regulations, which have been implemented in the annual investment strategy approved by the Council on 26<sup>th</sup> February 2013. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

**Investments held by the Council** - the Council did not hold any internally managed investment funds during 2013/14. It did however have the following loans to third parties which fall within the scope of the Council's approved Investment strategy:

Loan	Balance at 31/3/14
East Lothian Housing Association	£5.333m
East Lothian Investments	£0.168m
Musselburgh Old Course Golf Club	£0.047m
Haddington Golf Club	£0.009m

**Investments held by fund managers** – the Council uses Investec external fund managers to invest cash balances held on behalf of the 4 Common Good funds and ELC Charitable Trusts. The performance of the fund against the benchmark return was:

Fund	Value of Investments Held @ 31/3/13	Value of Investments Held @ 31/3/14	Return	Benchmark
Common Good funds	£2.685m	£2.827m	8.9%	6.7%
Charitable Trusts	£2.637m	£2.767m	8.6%	7.2 %
Total	£5.322m	£5.594m		



## Appendix 1: Prudential and treasury indicators

1. PRUDENTIAL INDICATORS	2012/13	2013/14	2013/14
<b>Extract from budget and rent setting report</b>	<b>Actual</b>	<b>Estimate</b>	<b>Unaudited Actual</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Capital Expenditure</b>			
General Services	£28,526	£28,446	£24,825
HRA	£23,690	£25,630	£20,805
TOTAL	£52,216	£54,076	£45,630
<b>Ratio of financing costs to net revenue stream</b>			
General Services	7.73%	8.84%	8.34%
HRA	26.58%	32.05%	26.98%
<b>Net borrowing requirement General Fund</b>			
brought forward 1 April	£282,112	£291,826	£288,430
carried forward 31 March	£288,430	£298,607	£291,379
in year borrowing requirement	£ 6,318	£ 6,781	£ 2,949
<b>Net borrowing requirement HRA (where relevant)</b>			
brought forward 1 April	£106,827	£129,126	£123,597
carried forward 31 March	£123,597	£145,802	£135,914
in year borrowing requirement	£ 16,770	£ 16,676	£ 12,317
<b>Annual change in Cap. Financing Requirement</b>			
Non – HRA	£6,318	£6,781	£ 2,949
HRA (applies only to housing authorities)	£16,770	£16,676	£12,317
TOTAL	£23,088	£23,457	£15,266
<b>Incremental impact of capital investment decisions</b>	<b>£</b>	<b>£</b>	<b>£</b>
Increase in council tax (band D) per annum	£37.66	£36.01	£25.33
Increase in average housing rent per week (housing authorities only)	£2.27	£2.75	£0.91
<b>2. TREASURY MANAGEMENT INDICATORS</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2013/14</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Unaudited Actual</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Authorised Limit for external debt -</b>			
borrowing	£450,000	£427,000	£427,000
other long term liabilities	£ 55,000	£ 57,000	£ 57,000
TOTAL	£505,000	£484,000	£484,000
<b>Operational Boundary for external debt -</b>			
borrowing	£420,195	£397,003	£397,003
other long term liabilities	£ 44,697	£ 47,406	£47,406

TOTAL	£464,892	£444,409	£444,409
<b>External debt</b>	£361,251	£390,667	£384,049

## Appendix 2: Graphs

