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East Lothian Council
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Additional information:

Draft 2014/15 unaudited accounts which have been submitted for audit. The draft financial statements were considered by the Audit and Governance Committee on 23 June 2015.

Authorised By	Jim Lamond
Designation	Head of Council Resources
Date	30/06/15

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Rob McDougall Photography

**East Lothian Council  
Annual Accounts (Draft)**

**2014-15**

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**Independent Auditors Report**

To be completed

## Management Commentary

### 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 2015.

They 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 the accounts under International Financial Reporting Standards (IFRS). Satisfying this requirement leads to a high number of 'adjusting' items designed to reconcile between the IFRS and the statutory basis of local authority accounting. Although satisfying IFRS is important, it is equally important to provide clarity at a local level on how taxpayers money is actually spent.

The main statements contained within these accounts are as follows:

- **Movement in Reserves Statement** (Page 19) – this shows the movement in the year on the different reserves held by the Council. Most importantly it classifies the reserves as either 'Usable' or 'Unusable'. 'Usable' reserves are those which the Council can call upon either to help fund services or to balance future budgets. 'Unusable' reserves are held to manage the accounting processes for fixed assets; pension liabilities etc and they do not represent usable resources for the Council.
- **Comprehensive Income and Expenditure Statement** (Page 20) – this outlines the financial performance of the Council during the 2014-15 financial year from 1 April 2014 to 31 March 2015.
- **Balance Sheet** (Page 21) – this details the net worth of the Council at 31 March 2015 after taking into account the performance for the year shown in the Comprehensive Income and Expenditure Statement.
- **Cash Flow Statement** (Page 22) – this provides another way of looking at the performance for the year removing the accrual of income and expenditure and showing how the cash in and out of the Council during the year affected the opening and closing cash position.

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

### The results for the year

Within a very challenging operating environment, we are pleased to announce that in overall terms the Council has delivered stronger than anticipated results for the year, with an overall increase in usable reserves of £9.331m. This is split between the General Services and Housing Revenue Account (HRA) which has an overall increase of £7.347m, and £1.984m respectively.

The Comprehensive Income and Expenditure Statement (CI&ES) reports a 'bottom line' deficit figure of £21.673 million.

This figure is derived after application of the IFRS rules, with the CI&ES charged with a number of accounting adjustments such as actuarial gains or losses relating to pensions assets and liabilities. However, the actual resources which will be available for the Council to support its financial performance are reflected by the surplus or deficit on the provision on services which is reported in the CI&ES. For 2014/15 the Council has delivered a surplus on the provision of services of £6.233m. 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 this will be made reference to within the rest of this Management Commentary.

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

## General Services

With regard to General Services, at the time of setting the 2014/15 budget the Council had planned to deliver a surplus of £0.170m to reserves. During the development of the budget for 2015/16 and beyond, the 2014/15 anticipated outturn was also revised upwards to reflect known movements in both service expenditure and non-recurring gains to the Council which had materialised during the year. Despite the challenging operating environment, the Council has delivered better than anticipated financial results for the year, with an increase in General Services usable reserves of £7.347m. This has been achieved through a combination of recurring and non-recurring savings, efficiencies or additional income including:

- Service reductions and efficiencies including efficient workforce management and a continued reduction in the cost of supplies and services;
- Non-recurring rebate relating to the 2012-13 Business Rate Incentivisation Scheme (BRIS);
- Reduction in the bad debt provision relating to outstanding Council Tax debt;
- Reduction in anticipated debt charges resulting from lower than planned capital expenditure.

In keeping with recent years, the Council has continued to reduce its overall cost base through the delivery of efficiencies, including a significant programme of service reviews which has taken place during 2014/15 and which will continue into 2015/16. In line with the Financial Strategy, the Council has developed a sustainable budget that reduces dependency on reserves to zero by 2017/18. Despite the improved results for 2014/15, the Council, in common with other public bodies, continues to face significant financial challenges with further reductions in public sector funding levels expected to continue until at least 2019/20. It is therefore unlikely that Government Grant levels will be sufficient to support unavoidable cost and demand pressures and therefore further work will be required to identify further costs efficiencies and increased income. The planned use of reserves will need to be carefully considered in line with the Council's Financial Strategy.

Overall, General Service reserves to 31 March 2015 now total £18.054 million although it must be remembered that a proportion of these have already been earmarked or set aside for specific purposes, such as Civil Emergency and Insurance Fund.

## Housing Revenue Account

In the case of the Housing Revenue Account, the transfer from reserves of £0.995 million was in line with plans for the year. Operating costs were less than had been expected, with repairs and staffing costs lower than planned. A further increase in bad debt provision (£0.23m) for the increasing level of council house rent arrears was made during the year however this was lower than had been expected due to improved rent income collection performance. This has been an area of focus for the Council, and will remain so in 2015/16 and beyond.

In total the Housing Revenue Account has increased reserves to £6.629 million and moving forward this will be used to further support the Modernisation and Affordable Homes capital programmes enabling the Council to maintain control of its outstanding debt in accordance with the Financial Strategy.

## 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 regarded to be an important indicator of whether or not Best Value has been achieved in these services.

During 2014/15 all of the established STOs; Facility Services, Property Maintenance and Roads Services delivered a surplus in year, as well as continued to meet the statutory financial target to break even over the cumulative three year period. During 2014/15 the

Council was unable to conduct a review of statutory trading in line with CIPFA guidance as had been planned. This review will now be carried out during 2015/16 financial year, the outcome of which may affect the future scope of those areas classed as STO's.

## Balance Sheet

Overall, the Council is reporting a reduction in net assets for the period ending 31 March 2015 of £21.6m to £230.591m. The net assets show the value of the Council's assets which we would have control of after settling all of our outstanding liabilities.

The main movements during the year which have contributed to the overall net reduction include:

- The Council's non-operational assets were revalued in line with the rolling 5 year valuation programme of all of the Council stock, and this has resulted in an overall increase in the value of assets by £7.5m.
- An £8.7m reduction in the amount the Council set aside for the provision of outstanding bad debt, largely due to the introduction of new legislation to end the collection of outstanding Community Charge debt (£7.75m), and a change to the methodology used to provide for outstanding Council Tax debt based upon improved Council Tax collection rates.
- There has been a £43.2m increase in the Council's pension liability due to the most recent actuarial valuation, and more details of this are set out in the pensions section below.

## Pensions

The Council's pension assets have been measured at £430.6 million – whereas the collective liabilities due to current and future pensioners have been assessed as £602.7 million. This means the net pension liability has increased to £172.0 million at the end of March 2015. As at March 2014 an actuarial valuation of the Local Government Pension Scheme was undertaken, the results of which are reflected within the 2014/15 financial statements. The valuation includes a number of actuarial assumptions in order to assess the funds needed to meet future benefits as they fall due. This includes the setting of a discount rate which takes into account the Fund's current and expected future investment strategy and expected returns and attempts to place a current value on the future benefit payments from the Fund by 'discounting' these back to the valuation date. The 2014 valuation resulted in a reduction in the net discount rate which is applied by actuaries. Although pension fund asset and investment returns have been good over the last year, the positive impact has been more than offset by the negative impact of the discount rate.

Pensions should be considered over the longer term, and despite this increase in the reported pension liability, the underlying position is relatively unchanged but will continue to be closely monitored. The level of contribution the Council makes to the Pension Fund is reviewed as part of a regular assessment made by an independent actuary and the Council continues to operate within an agreed stability mechanism with Lothian Pension Fund, designed to provide greater certainty in the contributions which the Council will make to the Pension Fund over the next 3 years.

## Capital Investment Plans

During the year, we invested £39.2 million in assets that support service delivery across East Lothian, which is a decrease on the previous year (£45.5 million). A large part of this reduction was planned; with specific control action taken to reduce capital spending and reduce the burden of loans charges on the revenue accounts.

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

- A new care home in Tranent.
- A range of enhancements to and expansion of school facilities
- Significant investment in upgrading the Council's roads across the county.
- The upgrading and refurbishment of existing Council Housing stock
- The continued delivery of a programme of new council houses, with a total of 81 new properties completed during the year.



During 2014/15, overall borrowing decreased by around £4 million to £344.090 million. It is important to note that all borrowing is financed from income – including; government grants, developer and third party contributions or Council Tax.

The continued squeeze on public finances has meant that like many other councils, East Lothian has had to review future investment capability and affordability. In line with the Council's financial strategy, we are likely to see continued restraint on capital spending over the next few years. Future capital 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.

Council housing is a growing element of overall capital expenditure and therefore debt. The significant difference in relation to housing investment is that the borrowing is directly repayable from the rents charged to council house tenants. Over the next 5 years, the proposed housing capital programme has been assessed as affordable due to the planned increases in rents.

## The Year in Summary

2014/15 has again been an important year for the Council, with the continued application of a financial strategy focussed on cost reduction and avoidance ensuring that services continue to be delivered in the most efficient way possible. Despite the ever tightening financial environment within which we operate, the Council is in a relatively good position to address the many challenges we face. Strong financial performance during the year has helped provide a timely boost to our reserves, the use of which must be wisely managed. Careful consideration must be given to the delivery and long term sustainability of services, with further reductions in the base operating costs and in the way in which we deliver services such as the formal integration of Health and Social Care Partnership will be necessary in order to provide a platform to manage the implications associated with falling levels of expected Government Grant. Further planned efficiencies are already in place for 2015/16 and beyond, and this will continue to be a critical focus of our attention.

## Acknowledgement

The support and co-operation of staff throughout the Council has been the foundation upon which continued high quality services have been delivered to the people of East Lothian. In addition, the effort and commitment shown by the Finance Team have ensured that the annual accounts have been provided in accordance with the statutory timescale.



26<sup>th</sup>  
Angela Leitch  
Chief Executive  
June 2015



26<sup>th</sup>  
Willie Innes  
Council Leader  
June 2015



26  
Jim Lamond (CPFA)  
Head of Council Resources  
June 2015

## 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 2015 and its income and expenditure for the year ended 31 March 2015.



Jim Lamond (CPFA)  
Head of Council Resources

26 June 2015



Willie Innes  
Council Leader

26 June 2015

## 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 2014/15 review were reported to the Council's Audit & Governance Committee in May 2015.

The group reviewed progress made against the improvement points identified in the 2014 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 2014/15 self-evaluation has found that East Lothian Council continues to have good governance and control arrangements in place across the six principles. The self-evaluation has highlighted the actions and development that have been implemented or begun in 2014/15 to further improve the Council's governance arrangements and has not identified any further actions or improvement points to be implemented in 2015/16.

### Declaration of Assurance

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

The results of these assurances were that;

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

### 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 2015 meeting of the Audit & Governance Committee. For 2014/15, 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 framework of governance, risk management and control for the year to 31 March 2015.

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

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

### Results

It is our opinion that reasonable assurance can be placed on the governance and control arrangements within East Lothian Council and its Group during 2014/15.



Angela Leitch  
Chief Executive  
June 2015



Willie Innes  
Council Leader  
26 June 2015



Jim Lamond (CPFA)  
Head of Council Resources  
26 June 2015

## Remuneration Report

### Introduction

The Remuneration Report has been prepared in accordance with the Local Authority Accounts (Scotland) Regulations 1985 (as amended by the Local Authority (Scotland) Amendment Regulations 2011). These regulations require various disclosures about the remuneration and pension benefits of senior Councillors and senior employees.

### 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 2014-15 the salary for the Leader of East Lothian Council is £27,602. 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 £167,677.

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

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

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

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

## Senior Councillors' Remuneration

Office Held as at 31st March 2015

		Salary (£)	Expenses (£)	Total 2013/14 (£)	Salary (£)	Expenses (£)	Total 2014/15 (£)	Annualised Salary (£)
Willie Innes	Leader of the Council	27,329	1,354	28,683	27,602	0	27,602	27,602
Ludovic Broun-Lindsay	Provost	20,497	1,010	21,507	20,702	989	21,691	20,702
Jim Gillies	Depute Provost	20,497	2,006	22,503	20,702	1,796	22,498	20,702
Michael Veitch	Depute Leader and Cabinet Spokesman Transport and Roads	20,497	1,180	21,677	20,702	830	21,532	20,702
Shamin Akhtar	Cabinet Spokesman for Education and Children's Wellbeing	20,497	0	20,497	20,702	198	20,900	20,702
Tim Day	Cabinet Spokesman for Community Wellbeing	20,497	2,510	23,007	20,702	2,352	23,054	20,702
Donald Grant	Cabinet Spokesman for Health and Social Care	20,497	631	21,128	20,702	593	21,295	20,702
Norman Hampshire	Cabinet Spokesman for Environment	20,497	0	20,497	20,702	0	20,702	20,702
John McMillan	Cabinet Spokesman for Economic Development and Tourism	20,497	0	20,497	20,702	0	20,702	20,702
Stuart Currie	Leader of the Opposition	20,179	3,441	23,620	20,702	2,971	23,673	20,702
Paul McLennan	Leader of the Opposition (to 8/4/13)	466	0	466	0	0	0	0
		211,950	12,132	224,082	213,920	9,729	223,649	213,920

## Total Councillors' Remuneration

The total remuneration in 2014/15 of all of the Council's elected members (including Senior Councillors above) was £463,338 (2013/14, £451,677), of which £429,200 related to salaries and £34,138 related to expenses. The comparative figures for 2013/14 were £424,950 and £26,727 respectively.

The annual return of Councillors salaries and expenses for 2014/15 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.

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

During 2014/15 the Council paid the following amounts to senior employees

Name	Post Title	Salary, Fees and Allowances (£)	Taxable Expenses (£)	Total Remuneration 2013/14 (£)	Salary, Fees and Allowances (£)	Taxable Expenses (£)	Compensation for Loss of office (£)	Total Remuneration 2014/15 (£)
Angela Leitch	Chief Executive	110,551	281	110,832	117,427	553	-	117,980
Monica Patterson	Depute Chief Executive- Partnership & Services for Communities	95,974	96	96,070	96,783	337	-	97,120
Alex McCrorie	Depute Chief Executive- Resources & People Services	95,974	167	96,141	96,243	513	-	96,756
Murray Leys	Head of Adult Wellbeing (until 28th February 2015)	83,821	271	84,092	81,730	465	23,942	106,137
David Heaney	Acting Head of Adult Wellbeing (from 18th August to 16th November 2014)	-	-	-	20,825	-	-	20,825
Jim Lamond	Head of Council Resources	83,821	297	84,118	88,432	321	-	88,753
Richard Jennings	Head of Development (until 31st August 2014)	83,821	-	83,821	38,580	-	55,721	94,301
Douglas Proudfoot	Acting Head of Development (from 21st July 2014)	-	-	-	59,241	-	-	59,241
Raymond Montgomery	Head of Infrastructure	83,821	-	83,821	84,242	207	-	84,449
Thomas Shearer	Head of Policy & Partnerships	83,821	149	83,970	84,507	750	-	85,257
Sharon Saunders	Head of Children's Wellbeing	83,821	28	83,849	83,967	1,499	-	85,466
Darrin Nightingale	Head of Education	83,821	488	84,309	84,242	786	-	85,028
Don Ledingham	Executive Director - Services for People (until 31st July 2013)	32,106	415	32,521	-	-	-	-
		921,352	2,192	923,544	936,219	5,431	79,663	1,021,313

At its meeting of 25<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 2014/15, the Council was invoiced a total of £59,800 as a shared cost of this post.

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

	2013/14	2014/15
£50,000 - £54,999	38	46
£55,000 - £59,999	21	20
£60,000 - £64,999	5	2
£65,000 - £69,999	7	8
£70,000 - £74,999	-	1
£75,000 - £79,999	3	1
£80,000 - £84,999	7	5
£85,000 - £89,999	1	1
£90,000 - £94,999	1	1
£95,000 - £99,999	2	2
£100,000 - £104,999	-	-
£105,000 - £109,999	-	1
£110,000 - £114,999	1	1
	86	89

## Subsidiary Bodies

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

The General Manager for Musselburgh racecourse is not a member of the Council's defined benefit pension scheme.

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

Name	Post Title	Total 2013-14 (£)	Salary (£)	Expenses & Allowances (£)	Total 2014-15 (£)
William Farnsworth	General Manager Musselburgh Racecourse	106,728	89,995	23,247	113,242



## 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	Range 2013/14	Rate 2013/14	Range 2014/15	Rate 2014/15
On earnings up to and including	£20,382	5.50%	£20,933	5.50%
On earnings above	£20,383 and up to £24,490	5.60% - 5.80%	£20,934 and up to £25,151	5.60% - 5.80%
On earnings above	£24,491 and up to £33,254	5.90% - 6.50%	£25,152 and up to £34,152	5.90% - 6.50%
On earnings above	£33,255 and up to £44,860	6.60% - 7.30%	£34,153 and up to £46,071	6.60% - 7.30%
On earnings above	£44,861	7.40% - 11.20%	£46,072	7.40% - 11.20%

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

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

The value of the accrued benefits has been calculated on the basis of the age at which the person will first become entitled to receive a full pension on retirement without reduction on account of its payment at that age; without 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 2015 are shown in the table below, together with the contribution made by the Council during the year.

Office Held as at 31st March 2015		Pension Contributions		Accrued Pension Benefits			
		For Year to 31st March 2014	For Year to 31st March 2015	As at 31st March 2015		Difference from 31st March 2014	
		(£)	(£)	Pension (£)	Lump Sum (£)	Pension (£)	Lump Sum (£)
Willie Innes	Leader of the Council	5,821	5,893	3	2	1	-
Ludovic Broun-Lindsay	Provost	4,365	4,410	2	1	-	-
Jim Gillies	Depute Provost	4,365	4,410	2	1	-	-
Michael Veitch	Depute Leader	4,365	4,410	1	-	1	-
John McMillan	Cabinet Spokesman for Economic Development and Tourism	4,365	4,410	1	-	1	-
Sharmin Akhtar	Cabinet Spokesman for Education and Children's Wellbeing	4,365	4,410	1	-	1	-
Norman Hampshire	Cabinet Spokesman for Environment	4,365	4,622	2	1	-	-
Donald Grant	Cabinet Spokesman for Health and Social Care	4,365	4,410	2	1	-	-
Paul McLennan	Leader of the Opposition (to 8/4/13)	3,512	n/a	n/a	n/a	n/a	n/a
<b>Total</b>		<b>39,888</b>	<b>36,975</b>	<b>14</b>	<b>6</b>	<b>4</b>	<b>-</b>

## Pension Benefits – Senior Employees

The estimated pension entitlements for Senior Employees for the year to 31 March 2015 are shown in the table below, together with the contribution made by the Council during the year.

Office Held as at 31st March 2015		Pension Contributions		Accrued Pension Benefits			
		For Year to 31st March 2014	For Year to 31st March 2015	As at 31st March 2015		Difference from 31st March 2014	
		(£)	(£)	Pension (£)	Lump Sum (£)	Pension (£)	Lump Sum (£)
Angela Leitch	Chief Executive	23,401	23,744	46	103	3	1
Angela Leitch	Returning Officer	-	628	-	-	-	-
Monica Patterson	Depute Chief Executive-Partnership & Services for Communities	20,296	20,499	41	95	2	1
Alex McCrorie	Depute Chief Executive-Resources & People Services	20,296	15,375	21	62	(32)	(74)
Murray Leys	Head of Adult Wellbeing (to 28/2/15)	17,707	16,395	6	-	1	-
David Heaney	Acting Head of Adult Wellbeing (from 18/8/14-16/11/14)	-	13,276	34	-	34	-
Sharon Saunders	Head of Children's Wellbeing	17,707	17,885	27	56	2	-
Darrin Nightingale	Head of Education	17,707	17,885	3	-	3	-
Richard Jennings	Head of Development (to 31/08/14)	17,707	7,452	11	-	11	-
Douglas Proudfoot	Acting Head of Development (from 21/7/14)	-	15,965	24	61	24	61
Ray Montgomery	Head of Infrastructure	17,707	17,885	32	72	1	1
Tom Shearer	Head of Policy & Partnerships	17,707	17,885	41	97	2	1
Jim Lamond	Head of Council Resources	17,707	17,885	31	68	2	-
Don Ledingham	Executive Director - Services for People (to 31/07/13)	6,765	n/a	n/a	n/a	n/a	n/a
<b>Total</b>		<b>194,707</b>	<b>202,759</b>	<b>317</b>	<b>614</b>	<b>53</b>	<b>(9)</b>

## Exit Packages

The number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below for 2014/15, with comparative figures for 2013/14.

Cost Banding	Number of Compulsory Redundancies	Number of Other Departures Agreed	Total Number by Cost Band	Total Cost of Exit Packages
				£000s
£0 - £20,000	5	-	5	46
£20,001 - £40,000	1	1	2	55
£40,001 - £60,000	-	1	1	56
£60,001 - £80,000	-	-	-	-
£80,001 - £100,000	-	-	-	-
£100,001 - £150,000	-	-	-	-
£150,001 - £200,000	-	-	-	-
<b>Total</b>	<b>6</b>	<b>2</b>	<b>8</b>	<b>157</b>

### Comparative Exit Packages 2013/14

Cost Banding	Number of Compulsory Redundancies	Number of Other Departures Agreed	Total Number by Cost Band	Total Cost of Exit Packages
				£000s
£0 - £20,000	3	37	40	469
£20,001 - £40,000	-	37	37	1,027
£40,001 - £60,000	-	12	12	602
£60,001 - £80,000	-	4	4	298
£80,001 - £100,000	-	6	6	540
£100,001 - £150,000	-	1	1	107
£150,001 - £200,000	-	1	1	167
<b>Total</b>	<b>3</b>	<b>98</b>	<b>101</b>	<b>3,210</b>



Angela Leitch  
Chief Executive  
June 2015



Willie Innes  
Council Leader  
26<sup>th</sup> June 2015



Jim Lamond (CPFA)  
Head of Council Resources  
26 June 2015

## Movement in Reserves Statement

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

### For the year ended 31 March 2014

	General Fund Balance	Capital Receipts Reserve	Insurance Fund	Housing Revenue Account	Housing Capital Fund	Total Usable Reserves	Unusable Reserves Restated	Total Authority Reserves
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<b>Balance at 31 March 2013 carried forward</b>	<b>(12,240)</b>	-	<b>(1,145)</b>	<b>(2,086)</b>	<b>(3,490)</b>	<b>(18,961)</b>	<b>(245,863)</b>	<b>(264,824)</b>
Movement in reserves during 2013/14								
Deficit on provision of services	4,411	-	-	1,904	-	6,315	-	6,315
Other Comprehensive Expenditure and Income	-	-	-	-	-	-	6,284	6,284
<b>Total Comprehensive Expenditure and Income</b>	<b>4,411</b>	-	-	<b>1,904</b>	-	<b>6,315</b>	<b>6,284</b>	<b>12,599</b>
Adjustments between accounting basis & funding basis under regulations (Note 5)	107	(845)	-	(1,819)	(149)	(2,706)	2,706	-
<b>Net (Increase)/Decrease before Transfers to Other Statutory Reserves</b>	<b>4,518</b>	<b>(845)</b>	-	<b>85</b>	<b>(149)</b>	<b>3,609</b>	<b>8,990</b>	<b>12,599</b>
Transfers to/from Earmarked Reserves	(1,465)	845	(375)	(55)	1,050	-	-	-
Housing Revenue Account	(995)	-	-	995	-	-	-	-
Capital Funds	(845)	845	-	(1,050)	1,050	-	-	-
Insurance Fund	375	-	(375)	-	-	-	-	-
<b>(Increase)/Decrease in Year</b>	<b>3,053</b>	-	<b>(375)</b>	<b>30</b>	<b>901</b>	<b>3,609</b>	<b>8,990</b>	<b>12,599</b>
<b>Balance at 31 March 2014 carried forward</b>	<b>(9,187)</b>	-	<b>(1,520)</b>	<b>(2,056)</b>	<b>(2,589)</b>	<b>(15,352)</b>	<b>(236,873)</b>	<b>(252,225)</b>

### For the year ended 31 March 2015

	General Fund Balance	Capital Receipts Reserve	Insurance Fund	Housing Revenue Account	Housing Capital Fund	Total Usable Reserves	Unusable Reserves Restated	Total Authority Reserves
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<b>Balance at 31 March 2014 carried forward</b>	<b>(9,187)</b>	-	<b>(1,520)</b>	<b>(2,056)</b>	<b>(2,589)</b>	<b>(15,352)</b>	<b>(236,873)</b>	<b>(252,225)</b>
Opening Adjustment								
Adjusted Opening Balance	(9,187)	-	(1,520)	(2,056)	(2,589)	(15,352)	-	(252,225)
Movement in reserves during 2014/15								
Surplus on provision of services	(2,947)	-	-	(3,286)	-	(6,233)	-	(6,233)
Other Comprehensive Expenditure and Income	(44)	-	-	-	-	(44)	27,912	27,868
<b>Total Comprehensive Expenditure and Income</b>	<b>(2,991)</b>	-	-	<b>(3,286)</b>	-	<b>(6,277)</b>	<b>27,912</b>	<b>21,635</b>
Adjustments between accounting basis & funding basis under regulations (Note 5)	(1,746)	(1,615)	-	2,753	(2,446)	(3,054)	3,054	(0)
<b>Net (Increase)/Decrease before Transfers to Other Statutory Reserves</b>	<b>(4,737)</b>	<b>(1,615)</b>	-	<b>(533)</b>	<b>(2,446)</b>	<b>(9,331)</b>	<b>30,966</b>	<b>21,634</b>
Transfers to/from Earmarked Reserves	(1,120)	-	125	995	-	-	-	-
Housing Revenue Account	(995)	-	-	995	-	-	-	-
Capital Funds	-	-	-	-	-	-	-	-
Insurance Fund	(125)	-	125	-	-	-	-	-
<b>(Increase)/Decrease in Year</b>	<b>(5,857)</b>	<b>(1,615)</b>	<b>125</b>	<b>462</b>	<b>(2,446)</b>	<b>(9,331)</b>	<b>30,966</b>	<b>21,634</b>
<b>Balance at 31 March 2015 carried forward</b>	<b>(15,044)</b>	<b>(1,615)</b>	<b>(1,395)</b>	<b>(1,594)</b>	<b>(5,035)</b>	<b>(24,683)</b>	<b>(205,907)</b>	<b>(230,591)</b>

## Comprehensive Income and Expenditure Statement

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

2013/14			2014/15			
Gross Spend	Gross Income	Net Spend	Note	Gross Spend	Gross Income	Net Spend
£000s	£000s	£000s		£000s	£000s	£000s
8,121	(3,959)	4,162		9,807	(4,474)	5,333
21,432	(1,561)	19,871		22,942	(1,829)	21,113
94,271	(3,910)	90,361		95,528	(4,286)	91,242
12,630	(1,070)	11,560		12,772	(698)	12,074
33,226	(29,162)	4,064		34,047	(29,623)	4,424
200	-	200		674	-	674
26,595	(23,281)	3,314		23,577	(24,359)	(782)
5,839	(2,321)	3,518		5,080	(2,233)	2,847
10,097	(447)	9,650		9,858	(325)	9,533
73,121	(10,266)	62,855		71,285	(9,954)	61,331
1,326	-	1,326		1,439	-	1,439
1,145	-	1,145		197	-	197
<b>288,003</b>	<b>(75,977)</b>	<b>212,026</b>		<b>287,206</b>	<b>(77,781)</b>	<b>209,425</b>
	(995)					(1,425)
		15,806				15,819
	(663)					(462)
		4,993				5,564
	(224,852)		6			(235,154)
		<b>6,315</b>				<b>(6,233)</b>
	(5,580)					(9,009)
	(856)					610
		12,720				36,305
		<b>6,284</b>				<b>27,906</b>
		<b>12,599</b>				<b>21,673</b>

## Balance Sheet

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

31 March 2014		31 March 2015	
£'000	Note	£'000	
769,772	12	785,423	
605	14	605	
3,374	20	2,765	
7,795	21	8,479	
<b>781,546</b>		<b>797,272</b>	
55		5	
1,190	15	2,269	
674		520	
39,000	22	26,858	
(20,104)	22	(11,415)	
4,880		8,650	
<b>25,695</b>		<b>26,887</b>	
(49,788)	23	(16,052)	
(22,177)	24	(23,026)	
<b>(71,965)</b>		<b>(39,078)</b>	
(3,793)	25	(3,957)	
(298,191)	23	(328,038)	
(177,375)	26	(222,376)	
(3,692)	32	(119)	
<b>(483,051)</b>		<b>(554,490)</b>	
<b>252,225</b>		<b>230,591</b>	
(15,352)	28	(24,684)	
(236,873)	29	(205,907)	
<b>(252,225)</b>		<b>(230,591)</b>	

The unaudited accounts were issued on 30 June 2015 and the audited accounts were authorised for issue on 30 September 2015.



Jim Lamond (CPFA)  
Head of Council Resources

26 June 2015

## 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.

2013/14		2014/15
£000s		£000s
	<b>Operating Activities</b>	
6,315	Net deficit/surplus on the provision of services	(6,233)
(35,475)	Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 33)	(42,323)
18,391	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 34)	23,640
(10,769)	<b>Net Cash Flow from Operating Activities</b>	(24,916)
	<b>Investing Activities</b>	
47,871	Purchase of property, plant and equipment	39,189
(575)	Proceeds from short term investments	(359)
(14,472)	Other receipts from investing activities	(20,319)
(2,094)	Proceeds from the sale of property, plant and equipment	(2,962)
30,730	<b>Net Cash Flows from Investing Activities</b>	15,549
	<b>Financing Activities</b>	
(79,106)	Cash receipts of short and long term borrowing	(89,079)
1,216	Cash payments for the reduction of the outstanding liability relating to finance lease and on-Balance Sheet PFI contracts	1,184
54,464	Repayments of short and long term borrowing	93,492
250	New loans made	-
(23,176)	<b>Net Cash Flow from Financing Activities</b>	5,597
(3,215)	<b>Net increase in cash and cash equivalents</b>	(3,770)
(1,665)	Cash and cash equivalents at the beginning of the reporting period	(4,880)
(4,880)	<b>Cash and cash equivalents at the end of the reporting period</b>	(8,650)

## NOTES TO THE ACCOUNTS

### Note 1 General Accounting Policies

#### i. General Principles

The Statement of Accounts summarises the Council's transactions for the 2014/15 financial year and its position at the year-end of 31 March 2015. 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 2014/15 and the Service Reporting Code of Practice (SeRCOP) 2014/15 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. 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.

## **v. 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.

## **vi. 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.

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
- Unlisted securities – average of the bid and offer rates
- Property – market value.

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

Current Service cost comprising:

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

Remeasurements comprising:

- The return on plan assets – excluding amounts included in net interest on the net defined liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

Contributions paid to the Lothian Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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.

## **vii. 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.

## **viii. 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.

## **ix. 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.

### **x. 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.

### **xi. 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.

### **xii. 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.

### **xiii. 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. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg if there is a rent-free period at the start of the lease).

#### **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. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

### **xiv. 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.

## **xv. 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.

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

### **Depreciation**

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

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	10-60 years
Other Land and Buildings	5-70 years
Vehicles, Plant, Furniture & Equipment	1-50 years
Infrastructure	5-35 years
Community Assets	5-60 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.

### **xvi. 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.

## **xvii. 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.

#### **xix. 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.

#### **xx. Heritage Assets**

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

##### **Paintings**

The Council's collection of oil paintings is reported in the Balance Sheet at insurance valuation which is based on market values. Valuations are obtained every five years. The paintings are deemed to have indeterminate lives and a high residual value: hence the Council does not considerate appropriate to charge depreciation.

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

##### **General**

The remainder of the Council's collection relates to generic social history, which is not believed to be of any material value. All of the collections are relatively static and acquisitions are rare. Where they do occur they are initially recognised at cost.

## Note 2 Accounting Standards Not Yet 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:

- IFRS 13 Fair Value Measurement (May 2011);
- Annual improvements to IFRSs 2009-2011 cycle;
- IFRIC 21 Levies

## Note 3 Critical Judgements Applied

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.

## Note 4 Future Assumptions

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

The items in the Council's Balance Sheet at 31 March 2015 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 more detail regarding 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 revalued 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 2015 the Council had balances of £8.9 million relating to Council Tax debt and £2.7 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.

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

This note details the adjustments that are made to the total Comprehensive Income and Expenditure recognised by the 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>2013/14</b>						
Depreciation (charged to the Surplus or Deficit on the Provision of Services) of non-current assets	(17,559)	(10,360)	-	-	-	(27,919)
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	535	-	-	-	-	535
Loss on sale of non-current assets	845	149	(845)	-	(149)	-
Statutory Provision relating to PPP	1,334	-	-	-	-	1,334
Net retirement benefits per IAS19	(19,967)	(90)	-	-	-	(20,057)
Employee - Statutory Adjustments	(226)	-	-	-	-	(226)
Loans Fund principal repayments and statutory premia	9,225	2,095	-	-	-	11,320
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>107</b>	<b>(1,819)</b>	<b>(845)</b>	<b>-</b>	<b>(149)</b>	<b>(2,706)</b>
<b>2014/15</b>						
Depreciation (charged to the Surplus or Deficit on the Provision of Services) of non-current assets	(19,205)	(9,308)	-	-	-	(28,512)
Impairment and revaluation losses (charged to the Surplus or Deficit on the Provision of Services) of non-current assets	(1,409)	-	-	-	-	(1,409)
Capital grant and contributions applied	13,076	7,243	-	-	-	20,319
Differences re finance leases, stepped loans, premiums and discounts	311	-	-	-	-	311
Profit on sale of non-current assets	1,047	377	(1,615)	-	(1,346)	(1,537)
Statutory Provision relating to PPP	1,307	-	-	-	-	1,307
Net retirement benefits per IAS19	(20,890)	(135)	-	-	-	(21,025)
Employee - Statutory Adjustments	(155)	-	-	-	-	(155)
Items not debited or credited to the Comprehensive Income and Expenditure Statement	(36)	-	-	-	(1,100)	(1,136)
Loans Fund principal repayments and statutory premia	10,299	2,432	-	-	-	12,731
Employer's contributions payable to the Lothian Pension Fund	13,743	343	-	-	-	14,086
Capital expenditure charged against the General Fund and HRA balances	166	1,800	-	-	-	1,966
<b>Total Adjustments</b>	<b>(1,746)</b>	<b>2,753</b>	<b>(1,615)</b>	<b>-</b>	<b>(2,446)</b>	<b>(3,054)</b>

## Note 6 Taxation and Non Specific Grant Income

2013/14 £000s	2014/15 £000s
(41,572) Council Tax	(43,476)
(23,134) Non domestic rates	(25,172)
(144,374) Non ringfenced government grants	(146,187)
(15,772) Capital grants and contributions	(20,319)
<u>(224,852) Total</u>	<u>(235,154)</u>

## Note 7 Trading Operations

### Facility Services

The Facility Services trading operation provides catering, janitorial and cleaning services at locations owned or managed by the Council. A catering service is provided at secondary and primary schools and at some other buildings. The cleaning operation provides a regular building cleaning service to all departments of the Council. The cumulative position over the three years is a surplus of £0.214 million.

	£000s	£000s	£000s
Turnover	8,423	8,711	8,480
Surplus/(Deficit)	(211)	65	360
3-year Cumulative Surplus	-	-	<b>214</b>

### 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 seven years. The cumulative position over the last three years is now a surplus of £1.763 million.

	2012/13 £000s	2013/14 £000s	2014/15 £000s
Turnover	10,721	10,066	10,068
Surplus	573	540	650
3-year Cumulative Surplus	-	-	<b>1,763</b>

### 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 £1.999 million and has met the statutory target.

	2012/13 £000s	2013/14 £000s	2014/15 £000s
Turnover	6,948	6,997	6,786
Surplus	673	595	731
3-year Cumulative Surplus	-	-	<b>1,999</b>

## Note 8 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 2014/15 £16.2m (2013/14: £15.4m) was paid over to Scottish Water.

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

## Note 9 Related Parties

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

### Central Government

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

### Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2014/15 is shown in the Remuneration Report.

On 22 April 2014 East Lothian Council approved Partnership Funding for 2014/15 of £1,275,507. Adult Wellbeing payments to Voluntary Organisations of £1,358,914 were approved on 30 July 2014 by East Lothian Council (Summer Recess Arrangements). Of these amounts £443,120 and £186,176 was awarded to organisations in which Members have representation.

Further grants of £458,000 were awarded to organisations in which Members have representation.

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

Name of Organisation	Partnership Funding £000s	Adult Wellbeing £000s	Other Grants £000s	Total Amount Awarded £000s
Dunbar & District Twinning Association	-	-	2	2
Dunbar Community Development Company	53	-	-	53
Dunbar Day Centre	-	40	13	53
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	-	-	27	27
Haddington Garden Trust	10	-	-	10
Harlawhill Day Centre	-	106	4	110
Haddington Twinning Association	-	-	1	1
Hollies Day Centre	-	23	2	25
John Muir Birthplace Trust	9	-	1	10
Lamp of Lothian Trust	20	-	-	20
Lothian Miners Convalescent Home	5	-	-	5
Musselburgh Citizens Advice Bureau	-	-	144	144
Musselburgh Twinning Association	-	-	1	1
Pennypit Trust	74	-	31	105
Preston, Seton & Gosford Twinning Assoc	-	-	1	1
Scottish Seabird Centre	13	-	2	15
The Bridge Centre	45	-	-	45
Tranent Family Fireworks	-	-	2	2
	<b>444</b>	<b>186</b>	<b>458</b>	<b>1,088</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	2,520	Payment for provision of leisure services	151	-
East Lothian Investments	Company set up under the Companies Act 2006 with aim of encouraging enterprise and commercial activity	-	Loans provided to company	48	-
Brunton Theatre Trust	Charitable organisation registered with Office of Scottish Charity Regulators	455	Payment for provision of arts/cultural services	-	(339)
Common Goods	Council manages assets of historic burghs in line with statute	-	Cash balances relating to normal operations	-	(2,150)
Musselburgh Joint Racing Committee	Unincorporated organisation which organises racing on Musselburgh Links under Minute of Agreement with Council.	-	Cash balances relating to normal operations	177	-
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	-	(1,144)
Joint Boards	Statutory bodies set up by Scottish Ministers	674	Payments to run valuation services	-	-

## Note 10 Audit Costs

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

Audit Fee	2013/14 £000s	2014/15 £000s
Statutory Audit Fee	238	241

## Note 11 Amounts Reported for Resource Allocation Decisions

2013/14	Childrens Wellbeing	Education	Council Resources	Adult Wellbeing	Communities & Partnerships	Development	Infrastructure	Housing	Total
Departmental Income & Expenditure	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Employee Costs	6,635	55,245	9,058	14,520	10,111	8,480	24,586	1,800	130,435
Premises Costs	100	7,288	533	1,536	2,088	2,091	4,686	7,847	26,169
Transport Costs	247	154	69	314	117	279	5,769	36	6,985
Supplies & Services Costs	5,869	14,880	1,634	37,863	7,427	840	15,771	4,594	88,878
Third Party Payment Costs	1	240	62	546	-	17	-	-	866
Transfer Payments	471	451	368	209	68	-	-	576	2,143
Support Services	1,009	2,078	(5,301)	1,691	(902)	886	(884)	1,423	-
Capital Charges	51	7,958	502	283	1,484	432	6,761	10,360	27,831
Income	(459)	(2,097)	(2,743)	(8,878)	(4,775)	(5,590)	(28,042)	(25,557)	(78,141)
	13,924	86,197	4,182	48,084	15,618	7,435	28,647	1,079	205,166
2014/15	Childrens Wellbeing	Education	Council Resources	Adult Wellbeing	Communities & Partnerships	Development	Infrastructure	Housing	Total
Departmental Income & Expenditure	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Employee Costs	6,074	56,482	8,215	14,089	9,294	7,620	24,210	1,984	127,968
Premises Costs	98	7,316	560	1,562	1,979	2,202	4,866	6,506	25,089
Transport Costs	198	167	23	220	85	160	5,834	16	6,703
Supplies & Services Costs	3,177	8,655	2,709	18,487	8,248	2,760	18,245	691	62,972
Third Party Payment Costs	2,973	4,239	614	19,561	241	3	1,094	14	28,739
Transfer Payments	486	402	390	17	9	-	-	551	1,855
Support Services	863	5,333	(6,818)	2,793	(1,343)	(3,067)	(5,334)	4,313	(3,260)
Capital Charges	45	8,375	770	537	2,426	586	7,954	9,537	30,230
Income	(383)	(2,383)	(2,210)	(9,663)	(4,857)	(4,044)	(27,803)	(24,359)	(75,702)
	13,531	88,586	4,253	47,603	16,082	6,220	29,066	(747)	204,594

Reconciliation of Council Management Structure Income and Expenditure to the Surplus or Deficit on the Provision of Services in the Group Comprehensive Income and Expenditure Statement.

	2013/14 £000s	2014/15 £000s
<b>Net Expenditure in the Council Management Structure Analysis</b>	205,166	204,594
Amounts in the CIES not reported to Management	4,354	4,831
Amounts reported to Management not included in the CIES	2,506	-
<b>Cost of Services in the CIES</b>	212,026	209,425
Corporate Amounts	(205,711)	(215,658)
<b>(Surplus) / Deficit on Provision of Services</b>	6,315	(6,233)

## Note 12 Property Plant and Equipment Movements

### Movements in 2013/14

	Council Dwellings	Other land and buildings	Vehicles, Plant, Furniture & Equipment	Infra-structure Assets	Comm-unity 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 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)	-	-	-	-	-	-	(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>859,296</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	-	-	-	-	-	-	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>(89,524)</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 2014/15

	Council Dwellings	Other land and buildings	Vehicles, Plant, Furniture & Equipment	Infra-structure Assets	Comm-unity 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 2014	320,160	400,563	36,254	74,920	16,133	63	11,203	859,296	89,149
Additions	20,128	5,857	2,874	6,433	539	-	3,358	39,189	-
Acc Dep & Imp WO to GCA	-	(2,965)	-	-	(184)	(1)	-	(3,150)	-
Revaluation increases recognised in the Revaluation Reserve	-	8,492	-	-	517	-	-	9,009	-
Revaluation decreases recognised in the Surplus/Deficit on the Provision of Services	-	(862)	-	-	(534)	(12)	-	(1,408)	-
Derecognition - Disposals	(984)	(1,248)	(24)	-	-	-	-	(2,256)	-
Asset reclassified (to) Held for Sale	-	(1,420)	-	-	-	-	-	(1,420)	-
Other Movements in cost or valuation	1,223	8,947	-	-	1,788	(3)	(11,456)	499	-
<b>At 31 March 2015</b>	<b>340,527</b>	<b>417,364</b>	<b>39,104</b>	<b>81,353</b>	<b>18,259</b>	<b>47</b>	<b>3,105</b>	<b>899,759</b>	<b>89,149</b>
<b>Accumulated Depreciation and Impairment</b>									
At 1 April 2014	-	(40,142)	(27,361)	(19,426)	(2,540)	(1)	(54)	(89,524)	(8,335)
Depreciation Charge	(9,308)	(11,937)	(3,355)	(3,454)	(461)	-	-	(28,515)	(2,765)
Acc Dep & Imp WO to GCA	-	2,965	-	-	184	1	-	3,150	-
Impairment (reversals) recognised in the Revaluation Reserve	-	(6)	-	-	-	-	-	(6)	-
Impairment (reversals) recognised in the Deficit on the Provision of Services	-	-	-	-	-	-	-	-	-
Derecognition - Disposals	15	995	-	-	-	-	-	1,010	-
Other movements in depreciation or impairment	(477)	45	(25)	-	(42)	-	48	(451)	81
<b>At 31 March 2015</b>	<b>(9,770)</b>	<b>(48,080)</b>	<b>(30,741)</b>	<b>(22,880)</b>	<b>(2,859)</b>	<b>-</b>	<b>(6)</b>	<b>(114,336)</b>	<b>(11,019)</b>
<b>Net Book Value</b>									
At 31 March 2015	330,757	369,284	8,363	58,473	15,400	47	3,099	785,423	78,130
At 1 April 2014	320,160	360,421	8,893	55,494	13,593	62	11,149	769,772	80,814



## Note 13 Property Plant and Equipment

### Depreciation

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

Council Dwellings	10-60 years
Other Land and Buildings	5-70 years
Vehicles, Plant, Furniture & Equipment	1-50 years
Infrastructure	5-35 years
Community Assets	5-60 years

Assets under Construction are not depreciated.

### Capital Commitments

As at 31 March 2015, the Council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2015/16 and future years budgeted to a value of £15.9m. Similar commitments in 2014/15 were £11.9 million. The gross commitments for the Council's major projects are:

	£000s
Pinkie St Peters	4,422
Windygoul Primary	3,291
Mid Road Industrial Estate	1,163
Housing - Kellie Road	1,450
Housing - Pinkie	5,600
<b>TOTAL</b>	<b>15,926</b>

### 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. In 2014/15 the Council's Non Operational stock was valued by DM Hall with an effective date of the 31<sup>st</sup> of March 2015.

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	31/03/2016	31/03/2016	2014-2019

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 buildings are that;

- East Lothian Council has good and clear title to all the subjects under valuation;

- The appropriate planning consents are in place for the subjects to be used for their existing use;
- The subjects under valuation are in a state of repair and condition commensurate with their age;
- Mining operations nor any other environmental matters do not have a material impact on the valuations noted;
- No high alumina cement, asbestos, or other deleterious material was used in the construction of any property and that none has been subsequently incorporated;
- The properties are not subject to any unusual or especially onerous restrictions, encumbrances or 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 assessed would not cause an alteration in value;
- The land and properties are not contaminated nor adversely affected by radon.

## Note 14 Heritage Assets

	2013/14 Art Collection £000s	2014/15 Art Collection £000s
<b>Cost or Valuation</b>		
<b>Net carrying amount at the start of the year</b>	605	605
Revaluations	-	-
<b>Net carrying amount at end of year</b>	<b>605</b>	<b>605</b>

## Note 15 Assets Held for Sale

	2013/14 £000s	2014/15 £000s
<b>Balance outstanding at start of year</b>	<b>1,660</b>	<b>1,190</b>
Assets newly classified as held for sale		1,370
Property, Plant and Equipment	-	-
Other assets	-	-
Additions	-	-
Revaluation losses	-	-
Revaluation gains	-	-
Impairment losses	-	-
Revaluations	-	-
Assets declassified as held for sale	-	-
Property, Plant and Equipment	-	-
Other assets	-	-
Assets sold	(471)	(291)
Transfers from non-current to current	-	-
<b>Balance outstanding at end of the year</b>	<b>1,190</b>	<b>2,269</b>

## Note 16 Assets held under lease

### Council as Lessee

#### Operating leases

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

The amount paid under these arrangements in 2014/15 was £0.37m (2013/14: £0.35m).

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

	<b>Minimum Lease Payments</b>	
	<b>31</b>	<b>31</b>
	<b>March 2014</b>	<b>March 2015</b>
	<b>£000s</b>	<b>£000s</b>
Not later than one year	219	344
Later than one year and not later than five years	24	1,304
	<u>243</u>	<u>1,648</u>

#### 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</b>	<b>31</b>
	<b>March 2014</b>	<b>March 2015</b>
	<b>£000s</b>	<b>£000s</b>
Other Land and Buildings	8,541	11,221
Vehicles, Plant, Furniture and Equipment	241	222
	<u>8,782</u>	<u>11,443</u>

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

	<b>31</b>	<b>31</b>
	<b>March 2014</b>	<b>March 2015</b>
	<b>£000s</b>	<b>£000s</b>
Finance lease liabilities (Net Present Value of Minimum Lease Payments)		
Current	52	53
Non-Current	1,164	1,111
Finance costs payable in future years	6,009	5,793
Minimum Lease Payments	<u>7,225</u>	<u>6,957</u>

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2014	31 March 2015	31 March 2014	31 March 2015
	£000s	£000s	£000s	£000s
Not later than one year	268	268	52	53
Later than one year and not later than five years	1,074	1,074	220	226
Later than five years	5,883	5,615	944	885
	<u>7,225</u>	<u>6,957</u>	<u>1,216</u>	<u>1,164</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 2014/15 £9,700 in contingent rents were payable by the Council.

### Council as Lessor

#### Operating Leases

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

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

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

	Minimum Lease Payments	
	31 March 2014	31 March 2015
	£000s	£000s
Not later than one year	1,365	1,640
Later than one year and not later than five years	2,251	2,326
Later than five years	19,696	20,577
	<u>23,312</u>	<u>24,543</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.

## Note 17 Private Finance Initiatives and Similar Contracts

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

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

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

Under the terms of the contract all facilities should be handed back to the Council in the same condition as at the Service Availability Date i.e. the date the facilities were completed. To achieve this, there will be an increased lifecycle spend over the last five years of

the contract ensuring the facilities are handed back in the appropriate condition. Innovate East Lothian Limited has no right of renewal of the contract.

Payments remaining to be made under the PFI contract at 31 March 2015 are as follows:

	Payment for Services	Reimbursement of Capital Expenditure	Interest	Total
	£000s	£000s	£000s	£000s
Payable in 2015/16	3,612	1,023	2,796	7,431
Payable within 2-5 years	13,952	5,377	10,395	29,724
Payable within 6-10 years	18,796	7,471	10,886	37,153
Payable within 11-15 years	18,411	10,590	8,152	37,153
Payable within 16-20 years	14,910	17,941	3,667	36,518
Payable within 21-25 years	-	-	-	-
<b>Total</b>	<b>69,681</b>	<b>42,402</b>	<b>35,896</b>	<b>147,979</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 £000s	31 March 2015 £000s
Balance at start of year	44,696	43,533
Payments	(1,163)	(1,131)
Capital expenditure incurred	-	-
Other Movements	-	-
<b>Balance outstanding at year-end</b>	<b>43,533</b>	<b>42,402</b>

## Note 18 Capital Expenditure and Capital Financing

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

	£000s	£000s
<b>Opening Capital Financing Requirement</b>	<b>346,075</b>	<b>362,843</b>
<b>Capital Investment</b>		
Property, Plant and Equipment	46,296	39,189
Intangible Assets	-	-
Loans to Housing Associations	250	6,723
<b>Sources of finance</b>		
Capital receipts	-	(2,961)
Government grants	(13,212)	(18,153)
Other Contributions	(2,560)	(2,177)
Direct Revenue Contributions	(1,701)	(1,966)
Loans Fund	(12,305)	(12,731)
<b>Closing Capital Financing Requirement</b>	<b>362,843</b>	<b>370,767</b>

## Note 19 Impairment Losses

During 14/15 the Council recognised impairment losses totalling £1.4 million. These included;

- £6,000 linked to the ending of use of a Council Building (110a Church Street, Tranent is an Industrial Unit which is to be demolished.)
- The remainder of the £1.4 million relates to updated building valuations.

The recoverable amount of the assets have been reduced to their value in use and the impairment losses have been charged to the relevant service lines in the Comprehensive Income and Expenditure Statement.

## Note 20 Long Term Investments

	31 March 2014 £000s	31 March 2015 £000s	Details
Lothian Buses plc	2,546	1,946	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	214	The Council's interest, estimated as 40% was inherited from the former Lothian Investments Board. No dividends are received.
East Lothian Land	606	605	Set up in 2000 for the purpose of managing land to support economic development. The Council is the sole shareholder. No dividends are received.
Total	<u>3,374</u>	<u>2,765</u>	

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

## Note 21 Long Term Debtors

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

	31 March 2014 £000s	31 March 2015 £000s	Purpose
PPP - Prepaid lifecycle replacement costs	894	1,070	Prepaid lifecycle replacement costs
PPP - Insurance	-	81	
Private property owners - common repairs	903	883	Repairs to private property funded by secured ELC loans
Employees - car/other loans	75	17	Loans to employees repaid over 3-5 years
North Berwick Trust	407	-	Loan secured on land
East Lothian Investments	168	48	Loan to be repaid over 3 years
East Lothian Housing Association	5,333	6,364	Loan secured on land and houses
Other	15	16	Loans secured on houses
Total	<u>7,795</u>	<u>8,479</u>	

## Note 22 Short Term Debtors

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

	31 March 2014	31 March 2015
	£000s	£000s
Central Government Bodies	9,405	6,098
Other local authorities	638	495
NHS bodies	1,621	245
Public corporations and trading funds	-	46
Other entities and individuals	27,336	19,974
<b>Total</b>	<b>39,000</b>	<b>26,858</b>

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	31 March 2015
	£000s	£000s
Taxpayers - Council Tax	(7,394)	(6,338)
Customers - Goods & Services	(2,581)	(2,726)
Taxpayers - Community Charge	(7,755)	-
Tenants - Council House Rents	(2,374)	(2,351)
<b>Total</b>	<b>(20,104)</b>	<b>(11,415)</b>

## Note 23 Financial Instruments

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

	Long-Term		Current	
	31 March 2014	31 March 2015	31 March 2014	31 March 2015
	£000s	£000s	£000s	£000s
<b>Investments</b>				
Loans and receivables	-	-	55	5
Unquoted equity investment at fair value	3,374	2,765	-	-
<b>Total investments</b>	<b>3,374</b>	<b>2,765</b>	<b>55</b>	<b>5</b>
<b>Debtors</b>				
Loans and receivables	7,795	8,479	39,000	26,858
<b>Borrowing</b>				
Financial liabilities at amortised cost	(298,191)	(328,038)	(49,788)	(16,052)
<b>Creditors</b>				
Financial Liabilities at contract amount	-	-	(22,177)	(23,026)
<b>Other Long Term Liabilities</b>				
PFI and Other long term liabilities	(48,590)	(50,348)	-	-

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	2014/15
	£000s	£000s
Interest expense	15,806	15,819
Interest income	(560)	(290)
Dividends	(103)	(172)
<b>Net loss for the year</b>	<b>15,143</b>	<b>15,357</b>

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 2015 of between 1.11% and 3.13% for new loans from the PWLB and between 0.5% and 3.74% 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 2015	
	Carrying Amount £000s	Fair Value £000s	Carrying Amount £000s	Fair Value £000s
<b>Investments</b>				
Loans and Receivables	55	55	5	5
Unquoted equity investment at fair value	3,374	3,374	2,765	2,765
<b>Debtors</b>				
Long Term Loans and Receivables	7,795	7,795	8,479	8,479
Short Term Loans and Receivables	39,000	39,000	26,858	26,858
<b>Borrowing</b>				
Financial Liabilities	(347,979)	(395,301)	(344,090)	(401,405)

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 2015 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 2014 and is available on the Council website. The key issues within the strategy were:

The Authorised Limit for 2014/15 was set at £470.0m. This is the maximum limit of external borrowings or other long term liabilities. The Operational Boundary was expected to be £430.0m. 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 party 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 2014/15 was approved at the start of the 2014/15 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 2015
	£000s	£000s
<i>Loan Type</i>		
Public Works Loan Board	(261,924)	(293,847)
Finance leases	(1,216)	(1,164)
Intra-group loans	(4,733)	(5,307)
Market loans	(80,106)	(43,772)
	<u>(347,979)</u>	<u>(344,090)</u>
<i>Loan Maturity</i>		
Repayable after more than 10 years	(175,015)	(206,921)
Repayable between 5 and 10 years	(88,889)	(79,437)
Repayable between 2 and 5 years	(26,552)	(35,942)
Repayable between 1 and 2 years	(7,735)	(5,738)
Long-term borrowing	(298,191)	(328,038)
Repayable within 1 year	(49,788)	(16,052)
	<u>(347,979)</u>	<u>(344,090)</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 2015, with all other variables held constant.

	31 March 2014	31 March 2015
	£000s	£000s
Increase in interest payable on variable rate borrowing	80	80
Increase in interest receivable on variable rate lending	-	-
Net effect on Comprehensive Income & Expenditure Statement	80	80

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

However, it does have shareholdings to the value of £2.765 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.

## Note 24 Short Term Creditors

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

	31 March 2014	31 March 2015
	£000s	£000s
Central government bodies	(5,431)	(5,315)
Other local authorities	(2,517)	(2,301)
NHS bodies	(558)	(636)
Public corporations	-	(8)
Other entities and individuals	(13,671)	(14,766)
Total	(22,177)	(23,026)

## Note 25 Provisions

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

	<b>Affordable Homes Development Fund</b>	<b>Accumulated Absences Fund</b>	<b>Municipal Mutual Fund</b>	<b>Total</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
<b>Balance at 31 March 2014</b>	(238)	(3,369)	(186)	(3,793)
Provisions made in 2014/15	(460)	(3,523)	-	(3,983)
Amounts used in 2014/15	450	3,369	-	3,819
<b>Balance at 31 March 2015</b>	<u>(248)</u>	<u>(3,523)</u>	<u>(186)</u>	<u>(3,957)</u>

### **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.

## Note 26 Long Term Liabilities

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

	31 March 2014 £000s	31 March 2015 £000s	Details
Deferred Liabilities - Developers' Contributions	(3,845)	(6,829)	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)	(485)	Income to be released over the lease period
Other	(693)	(632)	
PPP Liabilities	(43,533)	(42,402)	This amount represents the outstanding obligations the Council has to make payments under finance leases. More details are provided at Note 17
Net Pensions Liability	(128,785)	(172,028)	The underlying commitment that the Council has to pay retirement benefits. Recovered from the Council over future years. More details are provided at Note 27
<b>Total Long term liabilities</b>	<b>(177,375)</b>	<b>(222,376)</b>	

## Note 27 Defined Benefit Pension Schemes

### Participation in Pensions schemes

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

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

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

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

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

### Discretionary Post-retirement Benefits

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

### Transactions relating to retirement benefits

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

	2013/14 £000s	2014/15 £000s
<b>Comprehensive Income and Expenditure Statement</b>		
<b>Cost of Services comprising:</b>		
Current service cost	13,899	15,294
Past service costs (including Curtailments)	1,165	166
(Gain)/Loss on Settlements	-	-
<b>Financing and Investment Income and Expenditure</b>		
Net interest expense	4,993	5,564
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	20,057	21,024
<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 expense)	5,122	43,478
Actuarial gains and losses arising on changes in demographic assumptions	-	(21,928)
Actuarial gains and losses arising on changes in financial assumptions	(18,010)	(59,394)
Other remeasurement experience	168	1,539
Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	(12,720)	(36,305)
<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.	5,223	6,938
<b>Actual amount charged against the General Fund Balance for pensions in the year</b>		
Employers Contributions Payable	14,834	14,086

### Pension assets and liabilities recognised in the Balance Sheet

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

	2013/14 £000s	2014/15 £000s
<b>Pensions Assets and Liabilities Recognised in the Balance Sheet</b>		
Present value of the defined benefit obligation	(498,760)	(602,659)
Fair value of plan assets	369,975	430,631
<b>Net liability arising from defined benefit obligation</b>	<b>(128,785)</b>	<b>(172,028)</b>

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

	31 March 2014	31 March 2015
	£000s	£000s
Opening Fair Value of scheme assets	346,391	369,975
Interest Income	15,650	15,924
Remeasurement gain/(loss):		
Return on plan assets, excluding the amount included in the net interest expense	5,122	43,478
Contributions from employer	14,834	14,086
Contributions from employees into the scheme	3,688	3,607
Benefits paid	(15,710)	(16,439)
Closing Fair Value of Scheme Assets	<u>369,975</u>	<u>430,631</u>

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

	31 March 2014	31 March 2015
	£000s	£000s
<b>Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)</b>		
Opening Balance at 1 April	(457,233)	(498,760)
Current Service Cost	(13,899)	(15,294)
Interest Cost	(20,643)	(21,488)
Contributions from Scheme participants	(3,688)	(3,607)
Remeasurement (gains) and losses:		
Actuarial gains/losses arising from changes in demographic assumptions	-	(21,928)
Actuarial gains/losses arising from changes in financial assumptions	(18,010)	(59,394)
Other	168	1,539
Past Service Cost (incl curtailments)	(1,165)	(166)
Benefits Paid	15,710	16,439
Closing Balance at 31 March	<u>(498,760)</u>	<u>(602,659)</u>

### Scheme History

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £172.028 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 2016 is £12.172 million.

### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc.

The Local Government Pension Scheme liabilities have been estimated by Hymans Robertson, an independent firm of actuaries, estimates for the Lothian Pension Fund being based on the latest full valuation of the scheme as at 31<sup>st</sup> March 2015.

The main financial assumptions in the actuaries' calculations were:

	2013/14	2014/15
<b>Mortality assumptions</b>		
<b>Longevity at 65 for current pensioners</b>		
Male	20.4	22.1
Female	22.8	23.7
<b>Longevity at 65 for future pensioners</b>		
Male	22.6	24.2
Female	25.4	26.3
<b>Rate of inflation</b>		
Rate of increase in salaries	5.1%	4.3%
Rate of increase in pensions	2.8%	2.4%
Rate for discounting scheme liabilities	4.3%	3.2%
 <b>Long- term expected rate of return on assets in the scheme</b>		
Equity Investments	64.6%	61.6%
Bonds	7.2%	8.3%
Other	28.1%	30.2%

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%	60,564
1 year increase in member life expectancy	3%	18,080
0.5% increase in Salary increase rate	3%	21,801
0.5% increase in Pension increase rate	7%	37,210

Lothian Government Pension Scheme Assets comprised:



	31 March 2014		31 March 2015	
	£000s	%	£000s	%
<b>Local Government Pension Scheme Assets comprised:</b>				
Cash and Cash Equivalents	21,196	6%	34,022	8%
Private Equity	44,881	12%	49,934	12%
Derivatives	39	0%	660	0%
Equity Instruments:				
Consumer	56,066	15%	60,397	14%
Manufacturing	50,502	14%	50,654	12%
Energy and Utilities	41,169	11%	43,028	10%
Financial Institutions	25,771	7%	35,479	8%
Health and Care	25,242	7%	29,344	7%
Information Technology	24,068	7%	26,932	6%
Other	16,347	4%	19,287	4%
Sub-total Equity	239,165	65%	265,121	61%
Bonds:				
Corporate	13,760	3%	-	0%
Government	12,591	3%	24,936	6%
Other	316	0%	10,620	2%
Sub-total Bonds	26,667	6%	35,555	8%
Property:				
UK Property	25,777	7%	28,167	7%
Overseas Property	2,998	1%	4,367	1%
Sub-total Property	28,775	8%	32,534	8%
Other Investment Funds:				
Equities	5,214	2%	4,672	1%
Other	4,038	1%	8,133	2%
Sub-total Investment Funds	9,252	3%	12,805	3%
<b>Total Assets</b>	<b>369,975</b>	<b>100%</b>	<b>430,631</b>	<b>100%</b>
<b>Scheme Assets Fair Value</b>				
Quoted Prices in Active Markets	293,920		346,625	
Prices not Quoted in Active Markets	76,055		84,006	
<b>Total</b>	<b>369,975</b>		<b>430,631</b>	

#### Pension schemes accounted for as defined contribution schemes

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

In 2014/15, the Council paid £5.32m (2013/14: £5.14m) to the Scottish Teachers Superannuation Scheme in respect of teachers' retirement benefits, representing 14.9% (2013/14: 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 2014/15, the Council paid £0.671m (2013/14: £1.247m) to Teachers' Pensions in respect of these retirement benefits.

#### Ex-Gratia Scheme

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

In 2014/15, the Council paid £0.07m (2013/14: £0.07m) to individuals. The estimated value of future liabilities based on actuarial mortality estimates is £0.799m.

#### Note 28 Usable Reserves

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

#### Note 29 Unusable Reserves

	<b>31 March 2014</b>	<b>31 March 2015</b>
	<b>£000s</b>	<b>£000s</b>
Revaluation Reserve	(89,363)	(93,021)
Available-for-sale Financial Instruments Reserve	(2,376)	(1,766)
Pensions Reserve	128,785	172,028
Capital Adjustment Account	(281,746)	(290,871)
Financial Instruments Adjustment Account	4,459	4,200
Employee Statutory Adjustment Account	3,368	3,523
<b>Total</b>	<b>(236,873)</b>	<b>(205,907)</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.

31 March 2014 £000s	31 March 2015 £000s
<b>(85,054)</b> Balance at 1 April	<b>(89,363)</b>
(5,580) Upward revaluation of assets	(9,715)
- Downward revaluation of assets and impairment not charged to the Surplus/Deficit on the Provision of Services	1,848
<b>(5,580)</b> Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	<b>(7,867)</b>
1,271 Difference between fair value depreciation and historical cost depreciation	3,809
- Accumulated gains on assets sold or scrapped	400
<b>(89,363)</b> Balance at 31 March	<b>(93,021)</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 2014 £000s	31 March 2015 £000s
<b>(1,520)</b> Balance at 1 April	<b>(2,376)</b>
(856) Upward revaluation of investments	-
- Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	610
<b>(856)</b>	<b>610</b>
- Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income	-
<b>(2,376)</b> Balance at 31 March	<b>(1,766)</b>

## Pensions Reserve

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

<b>31 March 2014 £000s</b>	<b>31 March 2015 £000s</b>
<b>110,842 Balance at 1 April</b>	<b>128,785</b>
12,720 Actuarial gains or losses on pensions assets and liabilities	36,305
(9,611) 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	21,024
14,834 Employer's pensions contributions and direct payments to pensioners payable in the year	(14,086)
<b><u>128,785</u> Balance at 31 March</b>	<b><u>172,028</u></b>

## 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 2014	31 March 2015
£000s	£000s
<b>(277,998)</b> Balance at 1 April	<b>(281,746)</b>
<i>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement</i>	
27,919 Charges for depreciation of non-current assets	28,512
- Revaluation and impairment losses on Property, Plant and Equipment	1,409
- Assets written off on disposal or sale	1,137
<u>27,919</u>	<u>31,058</u>
<b>(1,271)</b> Adjusting amounts written out of the Revaluation Reserve	<b>(3,809)</b>
26,648 Net amounts written out of the cost of non-current assets consumed in the year	27,250
<i>Capital Financing applied in the year</i>	
<b>(15,772)</b> Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	<b>(20,319)</b>
<b>(12,923)</b> Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	<b>(14,090)</b>
<b>(1,701)</b> Capital expenditure charged against the General Fund and HRA balances	<b>(1,966)</b>
<u><b>(30,396)</b></u>	<u><b>(36,375)</b></u>
<b>(281,746)</b> Balance at 31 March	<b>(290,871)</b>

## 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 2015 will be charged to the General Fund over the next 13 years.

31 March 2014 £000s	31 March 2015 £000s
<b>4,725</b> Balance at 1 April	<b>4,459</b>
(10) Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	(3)
(256) Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory provisions	(256)
(266) 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	(259)
<b>4,459</b> Balance at 31 March	<b>4,200</b>

### 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 2014 £000s	31 March 2015 £000s
<b>3,142</b> Balance at 1 April	<b>3,368</b>
(3,142) Settlement or cancellation of accrual made at the end of the preceding year	(3,368)
3,368 Amount accrued at the end of the current year	3,523
226 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	155
<b>3,368</b> Balance at 31 March	<b>3,523</b>

## Note 30 Transfer to and from Earmarked Reserves

	Mid and East Lothian Drugs & Alcohol Project	Workforce Development	Devolved School Management Balances	Cost Reduction Fund
	£000s	£000s	£000s	£000s
<b>Balance at 31 March 2013</b>	<b>274</b>	-	<b>601</b>	<b>7,155</b>
Transfers Out during 2013/2014	(82)	-	(111)	(3,613)
Transfers In during 2013/2014	-	-	-	-
<b>Balance at 31 March 2014</b>	<b>192</b>	-	<b>490</b>	<b>3,542</b>
Transfers Out during 2014/15	-	-	(228)	(460)
Transfers In during 2014/15	171	181	-	-
<b>Balance at 31 March 2015</b>	<b>363</b>	<b>181</b>	<b>262</b>	<b>3,082</b>

## Note 31 Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2014/15.

	2013/14 £000s	2014/15 £000s
<b>Credited to Taxation &amp; Non-Specific Grant Income</b>		
General Capital Grant	(7,416)	(11,297)
Sporting Facilities	(600)	(5)
Contributions from developers	(806)	(1,466)
Mortgage to Rent scheme/Housing Grants	(3,322)	(7,502)
Other Grants & Contributions	(3,628)	(49)
<b>Total</b>	<b>(15,772)</b>	<b>(20,319)</b>
<b>Credited to Services</b>		
Housing Benefit Subsidy/Department for Work & Pensions	(26,174)	(26,565)
Resource Transfer Funds/NHS	(3,101)	(3,163)
Criminal Justice Grant/Criminal Justice Authority Leader Programme	(1,185)	(1,354)
Housing Benefit Administration Subsidy/Department for Work & Pensions	(347)	(134)
Change Funds	(609)	(463)
Private Sector Housing Grant/Scottish Government	(316)	(654)
Funding for Drugs & Alcohol Teams/NHS	(436)	(628)
HEEPS	(679)	(746)
Educational Maintenance Allowance Funding/Scottish Government	-	(455)
Active Schools/Sports Scotland	(402)	(359)
Determined to Succeed	(261)	(261)
<b>Total</b>	<b>(33,562)</b>	<b>(34,923)</b>

## Note 32 Capital Grants Receipts in Advance

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

	2013/14 £000s	2014/15 £000s
<b>Capital Grants &amp; Contributions Receipts in Advance</b>		
Sport Scotland	-	(119)
Scottish Government - Housing Projects	(3,692)	-
<b>Total</b>	<u>(3,692)</u>	<u>(119)</u>

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

	2013/14 £000s	2014/15 £000s
Depreciation	(27,919)	(28,512)
Impairments and downward valuations	-	(1,409)
Carrying amount of non-current assets held for sale, sold or derecognised	(1,296)	(1,537)
Net charges made for retirement benefits in accordance with IAS 19	(23,096)	(21,024)
Employer's contributions payable to the Lothian Pension Fund	14,834	14,086
Increase in revenue long term-debtors & liabilities	360	684
Decrease in provisions	523	8,570
Decrease in inventories	153	(154)
Increase in revenue creditors	(674)	(849)
Decrease in revenue debtors	1,640	(12,178)
<b>Total</b>	<u>(35,475)</u>	<u>(42,323)</u>

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

	2013/14 £000s	2014/15 £000s
Proceeds from capital grants	15,722	20,319
Proceeds from short-term investments	575	359
Proceeds from sale of PPE, Assets Held for Sale and other non-current assets	2,094	2,962
<b>Total</b>	<u>18,391</u>	<u>23,640</u>



## Note 35 Material Items of Income and Expense

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

	<b>2013/14</b>	<b>2014/15</b>
Depreciation charged on assets	27,919	28,512
Impairments and downward valuations	-	1,409
Housing Benefit Paid	25,246	25,753
Unitary Charge/PPP payments to contractor	8,900	9,077

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

## 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

2013/14 £000s	2014/15 £000s
<b>Income</b>	
(22,201) Dwelling rents	(23,285)
(406) Non-dwelling rents	(412)
(511) Service charges	(527)
(172) Other Income	(104)
(23,290) <b>Total Income</b>	(24,328)
<b>Expenditure</b>	
7,894 Repairs and Maintenance	7,528
6,238 Supervision and Management	4,992
10,360 Depreciation and Impairments of Non-Current Assets	9,308
515 Increase in the Allowance for Bad Debts/Debt Write-offs	229
1,457 Other expenditure	1,416
26,464 <b>Total Expenditure</b>	23,473
3,174 <b>Net Expenditure/Income of HRA Services as Included in the Whole Authority Comprehensive Income and Expenditure Statement</b>	(855)
140 HRA Services Share of Corporate and Democratic Core	104
3,314 <b>Net Expenditure/Income of HRA Services</b>	(751)
<b>HRA share of the Operating Income and Expenditure Included in the Comprehensive Income and Expenditure Statement:</b>	
(149) Gain on sale of HRA Non-Current Assets	(378)
4,160 Interest Payable and Similar Charges	4,982
(39) HRA Interest and Investment Income	(35)
90 Pensions Interest Cost and Expected Return on Pensions Assets	139
(5,472) Capital Grants and Contributions	(7,243)
1,904 <b>Surplus/Deficit for the year on HRA Services</b>	(3,286)

## Movement on the HRA Statement

2013/14 £000s	2014/15 £000s
(2,086) Balance on the HRA at the End of the Previous Year	(2,056)
1,904 Surplus/Deficit for the Year on the HRA Income and Expenditure Statement	(3,286)
(1,819) Adjustments between Accounting Basis and Funding Basis under the Legislative Framework	2,753
85 Net (Increase)/Decrease in the Balance before Transfers to or from Reserves	(533)
995 HRA Balance Transferred to General Services	995
(1,050) Transfers into HRA from Capital Fund	
30 Decrease in year on the HRA	462
<b>(2,056) Balance on the HRA at the End of the Current Reporting Period</b>	<b>(1,594)</b>

## Note to the Movement of the HRA Statement

2013/14 £000s	2014/15 £000s
<b>Adjustments between Accounting Basis and Funding Basis under Regulations</b>	
(10,360) Depreciation and impairment of fixed assets	(9,308)
5,472 Capital Grant and Contributions Applied	7,243
149 Gain or loss on sale of HRA fixed assets	378
(90) Net charges made for retirement benefits in accordance with IAS 19	(139)
(4,829)	(1,826)
<b>Items not included in the HRA Account but included in the movement on HRA Balance for the year</b>	
290 Employer's contributions payable to the Lothian Pension Fund	343
2,095 Loans fund principal	2,436
625 Capital expenditure funded by the HRA	1,800
<b>(1,819) Net additional amount required by statute to be credited to the HRA Balance for the year</b>	<b>2,753</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.

<b>2013/14</b> <b>£000s</b>	<b>2014/15</b> <b>£000s</b>
(52,122) <b>Gross Council Tax Levied and Contributions in Lieu</b>	(52,598)
Adjusted For:	
5,574 Council Tax Reduction Scheme	5,420
24 Discounts for Prompt Payment	29
4,242 Other Discounts and Reductions	4,294
659 Provision for Non Collection	(703)
<u>(41,623)</u>	<u>(43,558)</u>
51 Adjustments to Previous Years' Community Charge/Council Tax	82
<u>(41,572) Transfer to General Fund</u>	<u>(43,476)</u>

The Council Tax base is calculated as follows;

Charge for Each Band (£)	COUNCIL TAX BAND								Total
	A	B	C	D	E	F	G	H	
	<b>745.08</b>	<b>869.26</b>	<b>993.44</b>	<b>1117.62</b>	<b>1365.98</b>	<b>1614.34</b>	<b>1862.70</b>	<b>2235.24</b>	
Effective Properties	948	7,704	12,930	5,182	5,313	4,367	3,448	591	40,483
Ratio to Band D	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	
Band D Equivalents	632	5,992	11,493	5,182	6,494	6,308	5,747	1,182	43,030
Provision for non-payment (2%)									(861)
<b>Council Tax Base</b>									<b>42,169</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.

## 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.

2013/14 £'000	2014/15 £'000
(32,093) Gross Rates Levied & Contributions in Lieu	(33,515)
8,681 Reliefs and Other Deductions	9,164
13 Write Offs of Un-collectable Debts & Allowance for Impairment	2
<b>(23,399) Net Non-Domestic Rate Income</b>	<b>(24,350)</b>
1,346 Adjustments to Previous Year National Non-Domestic Rates	644
416 Amounts not Reclaimable from the National Non-domestic Rate Pool	35
<b>(21,637) Total Non-Domestic Rate Income (before authority retentions)</b>	<b>(23,671)</b>
- Non-Domestic Rate Income Retained by Authority (BRIS)	<b>544</b>
<b>Contribution to the National Non-domestic Rate Pool</b>	<b>(23,127)</b>
<b>(23,134) Contribution from the National Non-domestic Rate Pool</b>	<b>(25,172)</b>

## Business Rate Incentivisation Scheme (BRIS)

The Business Rate Incentivisation Scheme permits the authority to retain half of the NDR income which exceeds the income target set by the Scottish Government. The £544,000 above relates to targets achieved for the financial year 2012/13. This scheme has been revised and will be reinstated during financial year 2015/16.

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

	Number	£000s
Shops, Offices and other Commercial Subjects	1,638	28,271
Industrial and Freight Transport	855	12,391
Miscellaneous (Schools etc)	845	28,399
	<u>3,338</u>	<u>69,061</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 48p (2013/14: 47.1p) per pound for properties with rateable value of £35,000 or more and 47.1p (2013/14: 46.2p) for those with a rateable value of less than £35,000 (2013/14:£35,000).

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

## Common Good Account

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

### Movements in Reserves Statement

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

	Common Good Balance (£000)	Total Usable Reserves (£000)	Unusable Reserves (£000)	Financial Instruments Adjustment (£000s)	Revaluation Reserve (£000)	Capital Adjustment Account (£000s)	Total Common Good Reserves (£000)
<b>Balance at 31 March 2014 carried forward</b>	<b>(4,616)</b>	<b>(4,616)</b>	<b>(4,146)</b>	<b>(429)</b>	<b>(791)</b>	<b>(2,926)</b>	<b>(8,762)</b>
Movement in reserves during 2014/15							
(Surplus) or deficit on provision of services	(251)	(251)	-	-	-	-	(251)
Other Comprehensive Expenditure and Income	-	-	(164)	(52)	(110)	(2)	(164)
<b>Total Comprehensive Expenditure and Income</b>	<b>(251)</b>	<b>(251)</b>	<b>(164)</b>	<b>(52)</b>	<b>(110)</b>	<b>(2)</b>	<b>(415)</b>
<b>Adjustments between accounting basis &amp; funding basis under regulations</b>	<b>(92)</b>	<b>(92)</b>	<b>92</b>	<b>(4)</b>	<b>14</b>	<b>82</b>	<b>-</b>
Charges for depreciation of non-current assets	(81)	(81)	81	-	14	67	-
Impairment/revaluation losses (charged to CI&ES)	(15)	(15)	15	-	-	15	-
Profit/loss on sale of non current assets	4	4	(4)	(4)	-	-	-
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>(343)</b>	<b>(343)</b>	<b>(72)</b>	<b>(56)</b>	<b>(96)</b>	<b>80</b>	<b>(415)</b>
Transfers to/from Reserves	-	-	-	-	-	-	-
<b>Increase/Decrease in Year</b>	<b>(343)</b>	<b>(343)</b>	<b>(72)</b>	<b>(56)</b>	<b>(96)</b>	<b>80</b>	<b>(415)</b>
<b>Balance at 31 March 2015 carried forward</b>	<b>(4,959)</b>	<b>(4,959)</b>	<b>(4,219)</b>	<b>(485)</b>	<b>(888)</b>	<b>(2,846)</b>	<b>(9,178)</b>

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

## Comprehensive Income and Expenditure Statement

2013/14 £000s	2014/15 £000s
<b>Income</b>	
(459) Rents and other income	(449)
<u>(459)</u>	<u>(449)</u>
<b>Expenditure</b>	
1 Employees	1
58 Premises-related expenditure	57
89 Supplies and services	42
136 Third party payments	132
78 Depreciation	95
<u>362</u>	<u>326</u>
(97) <b>Cost of Services</b>	(123)
(70) (Gains)/Losses on the disposal of non current assets	(37)
(90) Financing and investment income and expenditure	(90)
<u>(257)</u> <b>(Surplus) or Deficit on Provision of Services</b>	<u>(251)</u>
Surplus or deficit on revaluation of Property, Plant and - Equipment	(111)
(Surplus) or deficit on revaluation of available for sale financial instruments	(53)
(90) <b>Other Comprehensive Income and Expenditure</b>	(164)
<u>(347)</u> <b>Total Comprehensive Income and Expenditure</b>	<u>(415)</u>

## Balance Sheet

31 March 2014 £000s	31 March 2015 £000s
2,757 Property, Plant & Equipment	2,773
2,792 Long Term Investments	2,873
1,333 Long Term Debtors	1,323
<u>6,883</u> <b>Long Term Assets</b>	<u>6,969</u>
52 Sundry debtors	59
1,828 Short-term loans	2,152
<u>1,880</u> <b>Current Assets</b>	<u>2,210</u>
(1) Short-term creditors	(2)
<u>(1)</u> <b>Current Liabilities</b>	<u>(2)</u>
<u><b>8,762</b></u> <b>Net Assets</b>	<u><b>9,178</b></u>
(429) Financial Instruments Adjustment Reserve	(486)
(791) Revaluation Reserve	(887)
(2,926) Capital Adjustment Account	(2,846)
(4,616) Common Good Fund	(4,959)
<u>(8,762)</u> <b>Total Reserves</b>	<u>(9,178)</u>

## Non-current Assets

The value of assets changed in the following way:

	£000s
Net book value of assets at 31 March 2014	2,757
Movement in 2014/15	
Additions	-
Revaluations	110
Depreciation	(80)
Impairments	(15)
Internal Transfers	-
<b>Net book value of assets at 31 March 2015</b>	<b><u>2,772</u></b>

## Finance Lease

Details of Common Good Finance Leases

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

	£000s
Income receivable in 2015/16	228
Income receivable between 2015/16 and 2020/21	913
Income receivable after 2021/22	5,334 *
	<b><u>6,476</u></b>

## Fund Analysis

The four separate funds are valued at 31 March 2015 as:

	Dunbar £000s	Haddington £000s	Musselburgh £000s	North Berwick £000s	Total £000s
Balance brought forward on 1 April 2014	(51)	(436)	(3,894)	(235)	(4,616)
(Surplus) / Deficit for the the year	(7)	(29)	(272)	(35)	(343)
Fund balance as at 31 March 2015	<u>(58)</u>	<u>(465)</u>	<u>(4,166)</u>	<u>(270)</u>	<u>(4,959)</u>
<b>Net Assets</b>	<b><u>1,035</u></b>	<b><u>540</u></b>	<b><u>6,883</u></b>	<b><u>718</u></b>	<b><u>9,178</u></b>



## Trust Funds Account

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

## Movement in Reserves Statement

For the year ended 31 March 2015

	Accumulated Funds £000s	Total Usable Reserves £000s	Unusable Reserves £000s	Total Fund Reserves £000s
<b>Balance at 31 March 2014 carried forward</b>	<b>(2,103)</b>	<b>(2,103)</b>	<b>(2,148)</b>	<b>(4,251)</b>
Movement in reserves during 2014/15				
Surplus or (deficit) on provision of services	(135)	(135)	-	(135)
Other Comprehensive Expenditure and Income	-	-	(358)	(358)
<b>Total Comprehensive Expenditure and Income</b>	<b>(135)</b>	<b>(135)</b>	<b>(358)</b>	<b>(493)</b>
<b>Adjustments between accounting basis &amp; funding basis under regulations</b>	-	-	-	-
Charges for depreciation of non-current assets	-	-	-	-
Impairment/revaluation losses (charged to CI&ES)	-	-	-	-
Profit/loss on sale of non current assets	-	-	-	-
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>(135)</b>	<b>(135)</b>	<b>(358)</b>	<b>(493)</b>
Transfers to/from Earmarked Reserves	-	-	-	-
<b>Increase/Decrease in Year</b>	<b>(135)</b>	<b>(135)</b>	<b>(358)</b>	<b>(493)</b>
<b>Balance at 31 March 2015 carried forward</b>	<b>(2,238)</b>	<b>(2,238)</b>	<b>(2,506)</b>	<b>(4,744)</b>

## Comprehensive Income and Expenditure Statement

2013/14 £000s	2014/15 £000s
(41) Operating Income	(53)
53 Operating Expenditure	51
<b>12 Cost of Services</b>	<b>(2)</b>
(108) (Gains)/Losses on the disposal of non current assets	(49)
(88) Financing and investment income and expenditure	(84)
<b>(184) (Surplus) or Deficit on Provision of Services</b>	<b>(135)</b>
7 (Surplus) or deficit on revaluation of Property, Plant and Equipment	(174)
(39) (Surplus) or deficit on revaluation of available for sale financial instruments	(184)
<b>(32) Other Comprehensive Income and Expenditure</b>	<b>(358)</b>
<b>(216) Total Comprehensive Income and Expenditure</b>	<b>(493)</b>

## Balance Sheet

31 March 2014	31 March 2015
£000s	£000s
578 Property Plant & Equipment	750
2,767 Long Term Investments	2,985
104 Long Term Debtors	100
<b>3,449 Long Term Assets</b>	<b>3,835</b>
1,051 Short Term Investments	1,144
- Short Term Debtors	-
<b>1,051 Current Assets</b>	<b>1,144</b>
(1) Short Term Creditors	-
<b>(1) Current Liabilities</b>	<b>-</b>
(248) Other Long Term Liabilities	(235)
<b>(248) Long Term Liabilities</b>	<b>(235)</b>
<b>4,251 Net Assets</b>	<b>4,744</b>
(2,104) Usable Reserves	(2,238)
(2,147) Unusable Reserves	(2,506)
<b>(4,251) Total Reserves</b>	<b>(4,744)</b>

### In-year Financial Performance

During the year 2014/15, the Trust Funds operated at a surplus of £135,000 (2013/14: surplus of £184,000). The overall asset book value increased from £4.3 million to £4.7 million by 31 March 2015.

### 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 2015 were:

2013/14 £000s	2014/15 £000s
91 UBS Global Assets Mgt US Equity	118
94 JP Morgan IT Ordinary	103
77 Vanguard Inv Serv 500 Ucits	96
94 Shell Ord Shares Euro 0.07	76
70 The European Inv Ord 0.25	73
- Findlay Park Fds US	68
67 HSBC Ordinary Shares Eur 0.07	63
94 UK Treasury 5% Stk July 14	-
2,180 Other stocks, shares and cash	2,388
<b>2,767</b>	<b>2,985</b>

## Group Accounts

### Group Movement in Reserves Statement

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

For the year ended 31 March 2015	Authority's Share of Usable	Authority's Share of Unusable					
	Reserves of	Reserves of	Total	Authority's Own	Reserves of	Total Reserves	
	Subsidiaries and	Subsidiaries and	Unusable	Unusable	Subsidiaries and	Associates	Total Reserves
	Associates	Associates	Reserves	Reserves (£000)	Associates	Associates	Total Reserves
	Reserves	Reserves	Reserves	Reserves (£000)	Associates	Associates	Total Reserves
	(£000)	(£000)	(£000)	Note 29	(£000)	(£000)	(£000)
	Page 12						
<b>Balance at 31 March 2014</b>	<b>(15,352)</b>	<b>(8,282)</b>	<b>(23,634)</b>	<b>(242,972)</b>	<b>(236,873)</b>	<b>(6,100)</b>	<b>(266,606)</b>
<b>Movement in reserves during 2014/15</b>							
(Surplus) or deficit on provision of services	(6,233)	(127)	(6,360)	-	-	-	(6,360)
Other Comprehensive Expenditure and Income	(44)	-	(44)	27,991	27,912	79	27,947
<b>Total Comprehensive Expenditure and Income</b>	<b>(6,277)</b>	<b>(127)</b>	<b>(6,404)</b>	<b>27,991</b>	<b>27,912</b>	<b>79</b>	<b>21,587</b>
Adjustments between Group Accounts and Authority Accounts	-	-	-	-	-	-	-
<b>Net Increase/Decrease before Transfers</b>	<b>(6,277)</b>	<b>(127)</b>	<b>(6,404)</b>	<b>27,991</b>	<b>27,912</b>	<b>79</b>	<b>21,587</b>
Adjustment for Opening Balances	-	(322)	-	-	-	163	-
Adjustments between accounting basis & funding basis under regulations	(3,054)	(147)	(3,201)	3,201	3,054	147	-
<b>Net Increase/Decrease before Transfers to Other Statutory Reserves</b>	<b>(9,331)</b>	<b>(596)</b>	<b>(9,605)</b>	<b>31,192</b>	<b>30,966</b>	<b>389</b>	<b>21,587</b>
<b>(Increase)/Decrease in Year</b>	<b>(9,331)</b>	<b>(596)</b>	<b>(9,927)</b>	<b>31,355</b>	<b>30,966</b>	<b>389</b>	<b>21,587</b>
<b>Balance at 31 March 2015 carried forward</b>	<b>(24,684)</b>	<b>(8,879)</b>	<b>(33,562)</b>	<b>(211,617)</b>	<b>(205,907)</b>	<b>(5,711)</b>	<b>(245,179)</b>

## 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.

2013/14	2014/15		
Net Expenditure	Gross Expenditure	Gross Income	Net Expenditure
£000s	£000s	£000s	£000s
4,162 Central services	9,807	(4,474)	5,333
19,703 Cultural and related services	25,125	(3,890)	21,235
90,373 Education services	95,579	(4,339)	91,240
11,560 Environmental services	12,772	(698)	12,074
4,064 Housing services (non-HRA)	34,047	(29,623)	4,424
200 Joint Board requisitions	674	-	674
3,314 Local authority housing (HRA)	23,577	(24,359)	(782)
3,520 Planning & development services	5,082	(2,233)	2,849
9,650 Roads and transport services	9,858	(325)	9,533
62,855 Social Work services	71,285	(9,954)	61,331
1,326 Corporate and democratic core	1,439	-	1,439
1,145 Non-distributed costs	197	-	197
<b>211,872 Cost of Services</b>	<b>289,442</b>	<b>(79,895)</b>	<b>209,547</b>
(1,173) (Gains)/Losses on the disposal of non current assets			(1,511)
19,956 Financing and investment income and expenditure			20,746
- (Surplus) or deficit of discontinued operations			-
(224,852) Taxation and non specific grant income			(235,154)
<b>5,803 Deficit on Provision of Services</b>			<b>(6,372)</b>
19 Share of the (surplus) or deficit on the provision of services by Associates			12
- Tax expenses of subsidiaries and associates			-
<b>5,822 Group (Surplus) / Deficit</b>			<b>(6,360)</b>
(5,660) (Surplus) or deficit on revaluation of Property, Plant and Equipment			(9,293)
(896) (Surplus) on revaluation of available for sale financial instruments			374
12,720 Actuarial losses on pension			36,305
386			599
Share of other comprehensive income and expenditure of associates.			-
<b>6,550 Other Comprehensive Income and Expenditure</b>			<b>27,985</b>
<b>12,372 Total Comprehensive Income and Expenditure</b>			<b>21,625</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.

2013/14		2014/15
£000s		£000s
6,315	Deficit for the year on the Authority Comprehensive Income & Expenditure Account	(6,233)
	Deficit for the year in the Group Income & Expenditure Account attributable to group entities	
19	Associates	12
(512)	Subsidiaries	(139)
<b>5,822</b>	<b>(Surplus) for the year on the Group Income &amp; Expenditure Account</b>	<b>(6,360)</b>

## Group Balance Sheet

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

31 March 14		31 March 15
£000s		£000s
773,109	Property Plant & Equipment	788,948
605	Heritage Assets	605
	- Assets Held for Sale	-
8,327	Long Term Investments	8,018
1,084	Investments in Associates	626
9,230	Long Term Debtors	9,902
<b>792,355</b>	<b>Long Term Assets</b>	<b>808,099</b>
	55 Short Term Investments	5
1,190	Assets Held for Sale	2,269
674	Inventories	520
39,766	Short Term Debtors	27,642
(20,104)	Bad & Doubtful Debt Provision	(11,415)
5,726	Cash and Cash Equivalents	9,270
<b>27,307</b>	<b>Current Assets</b>	<b>28,291</b>
	- Bank Overdraft	-
(46,917)	Short Term Borrowing	(12,758)
(22,840)	Short Term Creditors	(23,728)
(69,757)	<b>Current Liabilities</b>	<b>(36,486)</b>
	- Long Term Creditors	
(3,793)	Provisions	(3,957)
(298,191)	Long Term Borrowing	(328,038)
(177,623)	Other Long Term Liabilities	(222,611)
(3,692)	Capital Grants Receipts in Advance	(119)
<b>(483,299)</b>	<b>Long Term Liabilities</b>	<b>(554,725)</b>
<b>266,606</b>	<b>Net Assets</b>	<b>245,179</b>
	- Called Up Share Capital	-
(23,634)	Usable Reserves	(33,561)
(242,972)	Unusable Reserves	(211,618)
<b>(266,606)</b>	<b>Total Reserves</b>	<b>(245,179)</b>

## 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.

2013/14		2014/15
£000s		£000s
5,803	Net deficit on the provision of services	(6,372)
(35,346)	Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 5)	(42,026)
18,490	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	23,640
<u>(11,053)</u>	<b>Net Cash flow from Operating Activities</b>	<u>(24,758)</u>
	<b>Investing Activities</b>	
47,871	Purchase of property, plant and equipment	39,191
89	Purchase of investments	478
-	Dividends from joint ventures and associates	-
(575)	Proceeds from short term investments	(359)
(14,659)	Other Receipts from investing activities	(20,319)
(2,094)	Proceeds from the sale of property, plant and equipment	(2,962)
<u>30,632</u>	<b>Net cash flow from investing activity</b>	<u>16,029</u>
	<b>Financing Activities</b>	
(79,106)	Cash received from short and long term borrowing	(89,079)
1,216	Capital element of finance leases and PFI Contracts	1,184
54,473	Repayments of short and long term borrowing	93,492
625	New loans made	-
<u>(22,792)</u>	<b>Net cash flow from financing activity</b>	<u>5,597</u>
<u>(3,213)</u>	<b>Net increase or decrease in cash and cash equivalents</b>	<u>(3,132)</u>
<u>(2,513)</u>	Cash and cash equivalents at the beginning of the reporting period	<u>(6,138)</u>
<u>(5,726)</u>	Cash and cash equivalents at the end of the reporting period	<u>(9,270)</u>

## 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 the Lothian Valuation Joint Board but has assessed that it has significant influence of this organisation requiring inclusion in the Council's Group Accounts. This is on the basis of representation on the Joint Board by East Lothian councillors and material transactions between East Lothian Council and the Joint Board.

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

	Percentage Share 2013/14	Percentage Share 2014/15	Carrying Value at 31 March 2015 £000s	Share of (Surplus) or Deficit on Provision of Services for 2014/15 £000s	Other CI&ES items for 2014/15 £000s
East Lothian Investments	40.00%	40.00%	214	7	-
Enjoy East Lothian Limited	33.33%	33.33%	1,523	6	241
Brunton Theatre Trust	40.00%	28.57%	138	(57)	-
Lothian Valuation Joint Board	11.02%	11.02%	(1,249)	55	358
<b>Total</b>			<b>626</b>	<b>12</b>	<b>599</b>

The summarised financial information of the various associates for the financial year 2014/15 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	588	(52)	536	(2)	18
Enjoy East Lothian Limited	7,509	(2,941)	4,568	(6,646)	19
Brunton Theatre Trust	456	(111)	345	(1,300)	142
Lothian Valuation Joint Board	2,122	(13,459)	(11,337)	(8,220)	501

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 2015 show net current assets of £605,000 (2014: £606,000), and a loss before taxation of £1,000 (31 March 2014: Loss of £1,000). 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 69-73.

The net value of the Trusts included within the Group Accounts is £4.74 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 £14.6 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

Total	Total
2013/14 £000s	2014/15 £000s
(27,969) Depreciation	(28,600)
- Impairments and downward revaluations	(1,424)
(1,296) Net gains on sale of fixed assets	(1,537)
(23,096) Net charges made for retirement benefits in accordance with IAS 19	(21,024)
14,834 Employer's contributions payable to the Lothian Pension Fund	14,086
451 (Increase)/decrease in revenue long term-debtors & liabilities	698
523 Change in Provisions	8,570
153 Change in stock	(154)
(811) Change in revenue debtors	(645)
1,865 Change in revenue creditors	(11,996)
<b>(35,346) Total</b>	<b>(42,026)</b>



## Glossary of Terms

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

### 1. Accounting Period

The period of time covered by the Accounts – this is a period of 12 months commencing on the first of April.

### 2. Actuarial Gains and Losses (Pensions)

Changes in actuarial deficits or surpluses that arise because events have not coincided with previous actuarial assumptions or actuarial assumptions have changed.

### 3. Asset

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

### 4. Associate

An entity in which the council has a participating interest, or over whose operating and financial policies the Council is able to exercise significant influence.

### 5. Capital Adjustment Account

This account relates to amounts set aside from capital resources to meet past expenditure.

### 6. Capital Expenditure

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

### 7. Capital Financing

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

### 8. Capital Grants Unapplied

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

### 9. Capital Receipt

Proceeds from the sale of land or other non-current assets.

### 10. Capital Receipts Reserve

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

### 11. Creditor

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

### 12. Current Service Costs (Pensions)

The increase in the present value of a defined benefit scheme's liabilities, expected to arise from employee service in the current period.

### 13. Debtor

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

### 14. Defined Benefit Pension Scheme

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

**15. Depreciation**

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

**16. Discretionary Benefits (Pensions)**

Retirement awards, which the employer has no legal, contractual or constructive obligation to award and are awarded under the council's discretionary powers.

**17. Employee Statutory Adjustment Account**

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

**18. Fair Value**

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

**19. Financial Instruments Adjustment Account**

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

**20. Finance Lease**

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

**21. Government Grants**

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

**22. Heritage Asset**

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

**23. Impairment**

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

**24. Insurance Fund**

This covers the main classes of insurance and is earmarked for insurance purposes

**25. Interest Cost (Pensions)**

For a defined benefit scheme, the expected increase during the period of the scheme of liabilities because the benefits are one period closer to settlement.

**26. Inventories**

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

**27. Liability**

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

**28. National Non-Domestic Rates Pool**

All Non domestic Rates collected by local authorities are remitted to the national pool and thereafter distributed to Councils by the Scottish Government.

**29. Net Book value**

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

**30. Non-Current Assets**

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

**31. Non-Distributed Costs**

Costs that cannot be allocated to specific services and are, therefore, excluded from the total cost relating to Service activity in accordance with the Service Reporting Code of Practice. Charges for added pension years and early retirement are examples of these costs.

**32. Operating Lease**

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

**33. Past Service Cost (Pensions)**

For a defined benefit scheme, the increase in the present value of the scheme liabilities relating to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to retirement benefits.

**34. Pension Reserve**

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

**35. Pension Scheme Liabilities**

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

**36. Post Employment Benefits**

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

**37. Provision**

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

**38. Public Works Loan Board (PWLB)**

A Central Government Agency, which provides loans for one year and above to Councils at interest rates only based on those at which the Government can borrow itself.

**39. Rateable Value**

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

**40. Related Parties**

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

**41. Remuneration**

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

**42. Reserves**

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

**43. Revaluation Reserve**

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

**44. Revenue Expenditure**

The day-to-day running costs associated with the provision of services.

**45. Subsidiary**

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