East Lothian Council

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REPORT TO: East Lothian Council

MEETING DATE: 25 June 2019

BY: Depute Chief Executive (Resources & People Services)

SUBJECT: 2018-19 End of Year Financial Review

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1 PURPOSE

1.1 To inform Council of the draft unaudited annual accounts and provide a review of the financial position for the financial year ending 31 March 2019 prior to its submission of the draft accounts to External Audit.

2 RECOMMENDATIONS

2.1 The Council is recommended to:

- Approve the application of proposed variations to Loans Fund Advances following completion of the previously advised Loans Fund Review.
- Note the draft annual accounts for 2018-19, and approve their submission to External Audit prior to the statutory deadline of 30 June 2019.
- Note the draft financial results for 2018-19, including the impact on reserves and the Council's Financial Strategy.
- Authorise me as the Council's Chief Finance Officer to make any required late changes to the unaudited financial statements prior to final submission as referenced in Section 3.5.

3 BACKGROUND

3.1 The Council continues to operate within extremely challenging financial conditions. The regular quarterly financial reviews reported during 2018-19 demonstrated the ongoing challenges faced by services, and reflected that notwithstanding ongoing efforts made to constrain expenditure, and prior to a range of mitigating measures, it was anticipated that the Council would overspend on approved budgets this financial year of between £1 - £2 million. Work has continued with Senior Managers across the Council to mitigate the impact of the overspending, and further options were also being progressed by the Finance Team in terms of a full balance sheet review including Bad Debt Provision and a review of Loans Fund Advances.

3.2 The Council Management Team (CMT) has been actively engaged throughout the year in discussions around and management of the financial position, including the delivery of planning efficiency savings.

3.3 Building upon the previous quarterly reviews, this report sets out the closing financial position for the year 2018-19, also bringing together the draft unaudited annual accounts for the year ending 31 March 2019. Part 1 of this report sets out requirements and key results contained within the draft annual accounts. Part 2 of this report sets out the financial performance of services against approved budgets.

Part 1 - Draft Annual Accounts 2018-19

3.4 The Council's draft annual accounts are included in their entirety as **Appendix 1** to this report. These accounts summarise the financial transactions made during 2018-19, and the Council's overall financial position as at 31 March 2019. They also include the consolidated group accounts for a number of entities where the Council has a controlling interest. The Council must prepare annual accounts in line with the Local Authority (Accounts) Scotland Regulations 2014 and therefore these must be prepared in accordance with proper accounting practice as set out in the CIPFA / LASAAC Code of Practice on Local Authority Accounting.

3.5 Prior to submission for audit by the statutory deadline of 30 June, the draft accounts must be reviewed and considered by those charged with governance within the Council. Although it is hoped there will be no material changes prior to submission to audit, it is recommended that authority for submission of the accounts incorporating any necessary changes, be delegated to the Chief Financial Officer.

3.6 In accordance with statutory requirements, the draft accounts will also be made available for public inspection for a 3-week period commencing 1 July 2019.

3.7 The statutory audit will commence in July 2019 and it should be stressed that the accounts and related financial results remain draft until the audit has concluded, something that statute requires be completed by the end of September. Audit & Governance Committee will consider the final audited accounts on 17 September, alongside the draft External Audit report. Any subsequent changes arising during the remainder of the audit will be reported to Council in October.

Key Financial Results - Accounts

3.8 A summary of the key financial results included within the accounts for the financial year ending 31 March 2019 are set out below.

- After application of key balance sheet and loans fund review detailed below, the Council's reserves have increased by £1.060 million from £24.431 million to £25.491 million (£19.423 million General Services and £6.068 million HRA).

- Spending on General Services continues to be higher than total income receivable by around £1 million.

- Relating to General Services, the Council had planned to utilise £2.884 million of reserves to balance expenditure commitments (budgeted reserve of £2.140m, additional Revenue Support Grant (RSG) of £0.654m paid by Scottish Government in 2017-18, and a further draw down of earmarked reserves amounting to £0.090m). Subject to approval and application of the Loans Fund Review, the actual useable reserves has increased by £0.387 million to £19.423 million, £3.271 million more than planned.

- The key movements arising during the last quarter are set out below:

    - There has been a significant improvement relative to projections on Adult Wellbeing expenditure. Overall, the service delivered a minor underspend against planned budget of £0.217 million (0.4%). In total, the Council related Integrated Joint Board (IJB) activity reflects an underspend against budget of £0.311 million. In accordance with our scheme of integration. This sum has been transferred in full to the IJB.

    - As signposted during the year, there has been a significant review of balance sheet activity, including review of provisions for bad and doubtful debt. The review of bad debt provisions have generated £1.2 million of non-recurring benefit in 2018-19.

    - Also signalled earlier in the year, we have now completed a significant review in relation to the Council's Loans Fund, see Sections 3.9-3.11 below. Application of the outcome of this review has resulted in lower than planned charges from the Loans Fund in 2018-19 of £3.680 (£3.582 million General Services and £0.097 million HRA).

- Overall, the HRA reserves have now increased during the year by £0.673 million.

- Total gross capital spending during 2018-19 totalled £60.138 million, £37.728 million relating to General Services and £22.410 million relating to HRA.

- The Council's pension liabilities has increased overall by £34 million to £167 million. This liability has increased due to lower bond yields, which has, in part, been mitigated by improved investment returns on assets. The Council remains part of a previously agreed stability mechanism and despite the in-year movement in overall liability, no change is required in respect of the employer's contribution rates from those anticipated within the budget.

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

- The Common Good Fund useable reserves increased by £0.320 million to £7.370 million.

Loans Fund Review

3.9 In December, prior to the development of the 2019-22 Budget, the Council had undertaken a significant review of our Loans Fund based on advice provided by the Council's external Treasury Advisors. The work was then effectively put on hold pending efforts at a national level to clarify interpretation of prevailing statutory regulations and guidance. On 6 June, Local Authorities received formal notification from Audit Scotland that the existing regulations allow local authorities to vary the period and the amount of repayment of loans fund advances if they consider it prudent to do so. Given the updated position, it was decided that the initial review work should now be completed and that it should be applied in the financial year 2018-19 as originally intended. The Council is asked to support the approach and methodology taken to review Loans Fund Advances and further details on the review are provided at **Appendix 2.**

3.10 The review of the Council's loans fund has resulted in changes to the period and amount of repayment of historical and current loans fund advances. Importantly, we believe this change is both prudent and that the proposed repayment profile is commensurate with the period and pattern of benefits to the community from capital investment. The outcome of the loans fund review has now been applied in 2018-19 and has resulted in an impact upon the Council's **draft unaudited accounts** as set out below.

3.11 The effect of this change is to improve the level of usable reserve held on both the General Services and HRA accounts.

General Services				HRA			
Approved Budget £m	Charge (Pre-Review) £m	Revised Charge £m	Variance in charge £m	Approved Budget £m	Charge (Pre-Review) £m	Revised Charge £m	Variance in charge £m
19.711	19.582	16.000	3.582	10.045	9.098	9.000	0.098

Part 2 – 2018-19 Financial Review

3.12 The purpose of this part of the report is to summarise the financial performance of services against the approved budget during 2018-19. A summary of the financial position across each of the Business Groups is provided within **Appendix 3**. The appendix also shows the assessment of the delivery of planned efficiencies using a ‘RAG’ rating.

3.13 A number of the budgets have changed relative to the approved budgets. These accounting adjustments are necessary to ensure that the surplus or deficit on service areas reflects only costs that are chargeable direct to the taxpayer. The most significant of these adjustments relate to IAS19 Pension requirements, and depreciation charges.

3.14 In summary, across all services and largely in line with previous projections, the Council delivered an overspend relative to approved budgets of around £1 million. Within this, the IJB delivered an underspend on Council related activity of £0.311 million and this underspend has been transferred in full to the IJB. This service overspend position has been mitigated by a combination of; a review of the Council’s balance sheet, and a significant review loans fund activities which has resulted overall in an improvement of £3.271 million relative to our planned use of reserves. Much of the benefit generated in 2018-19 remains non-recurring, and it is critical that going forward provision of services are delivered within approved budget levels.

3.15 The significant key variables across the service areas are set out below.

3.16 At the end of March 2019, **Resources and People Services** were reporting an overall underspend of £687,000.

3.17 The Education Group reported an overspend of £314,000 against budget and the main reasons for this were:

- The Pre-school budget delivered an underspend of £324,000, (4.4%), a decrease of £130,000 on the Quarter 3 position reflecting the introduction of additional pre-school provision.

- The Additional Support for Learning Budget delivered an overspend of £842,000 (10.7%), an increase of £330,000 on the Quarter 3 position. Most of the variance relates to increased transportation costs and external residential placements. This area remains under review due to both an increase in numbers and the complex needs of children requiring additional support.

- Primary schools collectively delivered an overspend of £282,000 (+0.6%), a movement from the Quarter 3 position which had anticipated an underspend of £226,000. Most of the movement relates to higher than expected spend on supplies and services and increased staffing costs, and the position collectively across Primary Schools reflects an overspend of £264,000. Only five of the 35 primary schools delivered an in-year surplus and overall schools delivered a deficit of £265,000 which when combined with the previous DSM carry forward of £278,000 reduces the overall DSM primary balances to £13,000. Sixteen of the 35 primary schools enter 2019-20 with a negative DSM balance.

- Secondary schools delivered an underspend of £184,000 (0.5%) which was broadly in line with the period 9 position, and most of which was due to an underspend in PPP costs of £160,000. Only two of the six secondary schools delivered an in-year surplus, however combined with previous years DSM balances only one school enters 2019-20 with a deficit balance.

- Support Services delivered an underspend of £302,000 (7.3%), an increase of £100,000 on the Quarter 3 position. This was due to lower than anticipated expenditure on school technology (TIC) budget, period poverty and school clothing grants.

3.18 We will continue to work with Education Management colleagues to ensure that schools budgets going into 2019-20 are managed within available resources.

3.19 Across Council Resources, all service areas operated within approved budgets and delivered an underspend of £1 million which is an improvement of £340,000 on the Quarter 3 position. Most of the underspend is due to lower staff costs due to the non-filling of vacant posts in anticipation of planned 2019-20 service efficiencies.

3.20 The **Health & Social Care Partnership Directorate** (covering Children's, Adults and Older People) reported an overspend of £2.43 million against budget and the main reasons for this were:

- The Children's Services budget delivered an overspend of £2.336 million (15.9%), and an increase of £800,000 on the reported Quarter 3 position. The main reasons for this pressure is an increase in demand and average costs for residential and secure placements. This remains a high-risk area moving into 2019-20 and the service is working on plans to mitigate the use of high cost external packages. The Chief Executive has now established a Project Board, which aims to review the financial performance of Children's Services and identify opportunities to transform service delivery and bring financial efficiencies.

- Within Adults and Older People the service delivered an underspend of £217,000 (0.4%), a significant decrease of £1.59 million on the reported Quarter 3 position. This was mainly due to a combination of lower than anticipated expenditure in relation to the delivery of services, reduction in commissioned service costs due to lower than forecast demand for services and review of care packages, and a number of non-recurring unexpected benefits. Overall, there remains an underlying financial pressure across the service of around £500,000. Despite the improved position, this remains a high-risk area moving into 2019-20 and service continues to work on plans to mitigate this.

- With respect to the East Lothian Integrated Joint Board (IJB), members will be aware that the majority of Adults and Older People Services is devolved to the IJB along with a small number of other council budgets. Overall the council services delegated to the IJB delivered an underspend of £311,000 and in accordance with the approved scheme of integration, this underspend has been used to create a reserve for the IJB. Taking into consideration the Health delegated functions, in total the IJB now has total reserves of £1.782 million of which £695,000 is earmarked.

3.21 The **Partnership and Services for the Communities Services** reported an underspend of £436,000 against budget.

3.22 Development Services delivered an underspend of £798,000 (16.6%), an increase of £140,000 on the Quarter 3 position. This was mainly due to ongoing savings in staff costs, an increased surplus in the Property Maintenance Trading account, and a number of one-off benefits in Economic Development relating to grants from previous years.

3.23 Communities and Partnerships delivered an underspend of £319,000, (2.1%), a decrease of £235,000 on the Quarter 3 position. This is mainly due to the costs associated with the Transformation Team being met by underspends across the directorate rather than being drawn down from the Cost Reduction Fund as planned.

3.24 Infrastructure delivered an overspend of £681,000 (+1.9%), an increase of £240,000 on the Quarter 3 position. This was mainly due to overspends in the following areas:

- Facilities Trading had an overspend of £196,000 when a breakeven position was forecast at Quarter 3. This was largely due to; higher than anticipated costs relating to school cleaning and overspends in overtime and agency costs.

- Facilities Services had an overspend of £71,000 which is in line with the Quarter 3 position. Most of the overspend related to planned savings within Public Conveniences that were not be fully achieved.

- Landscape and Countryside Management had an overspend of £202,000 (+3.2%), largely due to a combination of; increased service costs including waste haulage, under recovery of income and increased vehicle repair costs.

- Roads Network had an overspend of £180,000 which is £95,000 less than the Quarter 3 position. The main areas of pressure remain Decriminalised Parking (DPE) and Coastal Car parking.

- Roads Trading has an overspend of £235,000 which is £176,000 more than the Quarter 3 position, largely due to lower than budgeted trading income.

3.25 With regards to items included in Corporate Management budgets, the key areas of movement reflect the following:

- Review of bad debt provision relating to Council Tax and Housing Benefit, which has generated a one off saving of around £1.2 million.

- Review of the Council's Loans Fund advances which has generated around £3.5 million additional benefit.

- The planned use of reserves included the previously agreed transfer of £2.140m, additional Revenue Support Grant (RSG) of £0.654m paid by Scottish Government in 2017-18, and a further draw down of earmarked reserves amounting to £0.090m. The further costs in relation to reserves reflects the movement on the Council's insurance fund, which remains within the total General Reserves.

Housing Revenue Account

Revenue

3.26 At the end of March 2019, the Housing Revenue Account (HRA) delivered an additional surplus of £673,000, over the planned budgeted underspend of £1.7 million. As noted in the Quarter 3 report, the financial strategy states that the Council should maximise any flexibility arising from revenue balances to minimise the future impact of debt charges, and as such, £3.2 million of CFCR has been applied in year to offset future charges.

3.27 During the year, employee costs were lower than budgeted due to a high number of vacancies whereas income was higher than anticipated.

Benefits also accrued from lower than anticipated increase in the provision for bad and doubtful debt and lower than budgeted debt charges due a combination of the wider review of debt charges, and lower than expected loans fund advances.

Capital Investment and Borrowing

General Services Capital Programme

3.28 The Gross Capital expenditure at the end of the 2018-19, inclusive of year-end fee adjustment was £37.7 million against the approved annual capital budget was £46.5 million. This equates to a £8.8 million (18.9%) under spend on gross capital expenditure, most of which relates to re-phasing of projects in-year.

3.29 Income was £9.3 million lower than budget, most of is matched to the re-profiling of developer contribution income and non-realisation of asset sales.

3.30 The table below provides a narrative of the status of key capital projects, with the financial position as at March 2019 set out in **Appendix 4**.

Project	**Narrative**
Community Projects	**Support for Business / Town Centre Regeneration** – Programme was revised in year and limited spend. Additional funding has been received from Scottish Government in 19/20.
ICT	**Replacement CRM Project –** Anticipated project completion in 19/20.
Open Space	**Cemeteries –** On-going discussions around site negotiations in 18/19. Project has been re-phased with cemetery construction to start at Prestonpans and Dunbar in 19/20. **Coastal/Flood Protection schemes -** Full budgets applied in support of scheme completions. Overall the project is broadly matched by funding. **Coastal Car Parks/Toilets –** Revised scope and work to commence in 19/20. **Mains Farm Sports Pitch & Pavilion -** Project likely to be delivered in full during 19/20. **Old Craighall Play Park –** preliminary works carried out in anticipation of further funding being available in 19/20.

Roads, Lighting and related Assets	**Parking Improvements –** Asbestos uncovered at Forresters Car Park prevented full spend in year, partially offset by accelerated works in March 2019 at Longniddry Station Car Park. **Roads –** Some projects due to complete early in 19/20 **Roads (Externally Funded projects) –** Increase matched in full by external funding relating to Electric Car Charging Points.
Property – Education	**Dunbar Grammar –** Overspend caused by contractual issues delaying start of project and resolution of contractor's final account. **Gullane Primary –** Project re-phased into 19/20. Total project spend increased due to fully funded Early Learning and Childcare inclusion in design. **Law Primary –** Costs increased due to necessary additional works instructed at school. **Letham Primary –** Contractor accelerated site works during Feb/March 2019. **New Musselburgh Additional Secondary Education Provision –** preliminary design works underway. **New Wallyford Primary –** Total project increase due to land costs and delays in site acquisition. **Pinkie St Peters** – Project re-phased. Anticipated spend in 19/20. **Prestonpans Infant School –** Project delays due to abnormals identified - discussions ongoing. **Ross High School -** Project re-phased into 19/20.

Property – Other	**Accelerating Growth – Enabling Infrastructure –** External funding obtained and utilised. **Court Accommodation –** Project underway, anticipated to complete in 19/20. **Haddington Corn Exchange** – Project delayed into 19/20. **Inveresk Mills –** Project re-phased into 19/20. **Port Seton Community Centre** – Project scope revised **Whitecraig Community Centre -** Project re-phased into 19/20.
Income	**Developer Contributions –** Application of available developer contributions matched to expenditure incurred in year. **Asset Sales –** The 18/19 budget included the expectation a number of asset sales would conclude. These sales have not been realised. **Project Income** – 1140 hours application of Scottish Government grant matched to expenditure incurred in year.

Housing Capital

3.31 The HRA capital spend is set out in **Appendix 5** of the report. Overall, the total gross HRA capital spend is £22.410 million, which represents 92% of the available budget, and remains broadly in line with expenditure forecasts set out in Quarter 3 report. The key variables are set out below:

- New Affordable and Council Housing delivered an overspend of £802,000 as noted at Quarter 3 due to the timing of new build completions and completion of land purchase transfers, the most significant of this reflects the supported purchase of Herdmanflat which was completed prior to the year end and secured additional subsidy.

- The Modernisation Programme delivered an underspend of £1.798 million, £298,000 higher than the forecast Quarter 3 position. This was due to underspends in a number of areas including central heating upgrades, kitchen replacements, project works, roofing and roughcasting, bathrooms and asbestos work.

- No valid Mortgage to Rent applications were made leading to an underspend of £769,000 against the budget.
- Higher than anticipated Government grants were received which in total amounted to £7.4 million and which was £3.6 million over planned budget. The most significant of this related to Herdmanflat where the Council received government grant of £2.1 million.

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

4 POLICY IMPLICATIONS

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

5 INTEGRATED IMPACT ASSESSMENT

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

6 RESOURCE IMPLICATIONS

6.1 Financial – as described above

6.2 Personnel - none

6.3 Other – none

7 BACKGROUND PAPERS

7.1 Council 19 December 2017 – Item 4 – Financial Strategy 2018-23

7.2 Council 13 February 2018 – Item 2a – Administration Amendment General Services budget proposals

7.3 Council 13 February 2018 – Item 3 – Rent Proposals

7.4 Council 28 August 2018 – Item 5 – Quarter 1 Financial Review

7.5 Council 11 December 2018 – Item 4 – Quarter 2 Financial Review

7.6 Council 26 February 2018 – Item 4 - Financial Review – Quarter 3

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DATE	**14 June 2019**

DRAFT
ANNUAL ACCOUNTS 2018–19

East Lothian
Council

Sharing achievements
Delivering council priorities
Reporting on our financial position
Plans for the future

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narrative and assurance statements

1

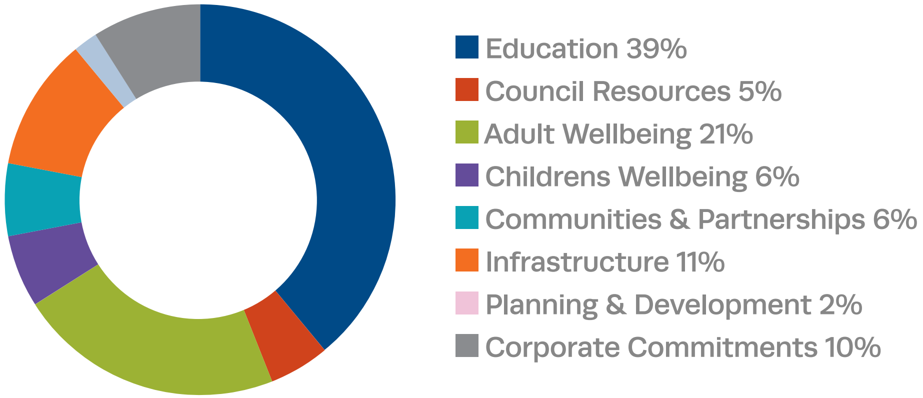
foreword

Welcome to the Annual Accounts for East Lothian Council for the year ended 31 March 2019. These have been produced to provide the public, Elected Members and other stakeholders with information concerning the financial management, administration and performance for the council in the financial year 2018/19.

The management commentary accompanying these outlines:

- **Who we are**
- **How we are organised to deliver priorities**
- **What our strategy and priorities are**
- **Our financial position for 2018/19**
- **Key aspects of our performance during 2018/19**
- **Our plans for the future**

During 2018/19 East Lothian Council had a total budget of £237.337m for the provision of public services, allocated as shown below:



Key Results of 2018/19

The council continues to operate within an extremely challenging financial environment, and regular quarterly financial reviews reported during 2018/19 have demonstrated the ongoing challenges faced by services. Work has continued with senior managers across the council to mitigate the financial pressures and deliver planned efficiency savings. Within this context, the key financial results for the year ending 31 March 2019 are set out below:

- **Improvement in overall reserves relative to approved spending plans;**
- **Delivered capital investment of nearly £60 million in schools, roads and wider assets to support the communities in which we live;**
- **Delivery of an additional £4 million recurring efficiencies; a cumulative total of around £30 million since 2012.**

Despite a positive financial performance during 2018/19 relative to plans, the financial position has been assisted by a number of largely non-recurring benefits secured in year and overall, the council continues to face significant financial challenges going forward. We have already embarked on a journey to find ways to explore how we can maintain high quality service provision through an enhanced approach to transformation designed to deliver service improvements and savings that will help make the council and its services sustainable within the difficult financial operating environment facing the public sector.

Acknowledgements

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

Jim Lamond
Head of Council Resources (CFO)

management commentary

East Lothian Council provides the county's 104,000 residents with a wide range of services including education, adult and children's wellbeing, planning, economic development, roads, housing, transportation, environmental health, refuse collection, street cleaning, recycling, food safety, trading standards, community development, sports, recreation, parks and countryside, libraries, museums, registration of births, deaths and marriages, and burial grounds.

Over 4,800 (3750 full-time equivalent) people work for the council. There are 22 elected councillors.

The **East Lothian Council Plan 2017–22** sets out our vision to create an even more prosperous, safe and sustainable East Lothian with a dynamic and thriving economy that allows our people to flourish.
It has an over-arching priority; '***To reduce inequalities across and within our communities***', and four key objectives:

GROWING OUR **ECONOMY**

To increase sustainable and inclusive economic growth as the basis for a more prosperous East Lothian

GROWING OUR **PEOPLE**

To give our children the best start in life and protect vulnerable and older people

GROWING OUR **COMMUNITIES**

To give people a real say in the decisions that matter most and provide communities with the housing, transport links, community facilities and environment that will allow them to flourish

GROWING OUR **CAPACITY**

To deliver excellent services as effectively and efficiently as possible within our limited resources

Political Structure

There are 22 elected Councillors in total who are responsible for agreeing policies about provision of services and how the council's money is spent. As at 31 March 2019, the Council had one Councillor who had stood down. As such a local election was held in May 2019, the outcome of which did not change the political structure.

East Lothian Council has a minority Labour Administration and the political make-up consists of: nine Scottish Labour, seven Scottish Conservative and six Scottish National Party Councillors.

Management Structure and Decision Making

The Council's Management Team of senior officers and is led by the Chief Executive, structured to cover three Directorates:

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

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

- Full Council meetings take place every two months and are the focus for local democracy and carrying out the Council's statutory requirements, with an additional meeting to set the budget.
- Cabinet meets every two months and makes decisions on areas such as; policy, strategy, financial reporting and partnership working.
- Two other service committees remain within the Council – Education and Planning Committee.

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

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

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

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

Highlights

Construction on the new £19 million **Wallyford Primary school** was completed during 2018/19, providing 28 classrooms as well as a further four nursery classes offering up to 120 pre-school places. The outside space includes all weather pitches, basketball hoops, landscaping and grass areas. The school also includes resources for wider use by the community including a new library.

During the construction of the school, the local economy was positively impacted upon by the provision of work experience, supporting apprenticeships and trainees and employing local businesses.

East Lothian Council achieved a double award win at the **Association for Public Service Excellence (APSE) awards**. Amenity Services received the gold award in the Parks, Grounds and Streets category, recognising partnership working with Friends of Ormiston Park which supports the council to best meet local community needs. A silver award was won in the Fleet category which was in recognition of partnership working with Transport Scotland to adopt the Young Scot Card (NEC) for school students to use instead of a council administered school bus pass.

The council has signed up to the **Edinburgh and South East Scotland City Region Deal**. The deal represents over £1.3 Billion of investment over the next 15 years with the aim of delivering inclusive economic growth, building on the region's strengths and addressing issues and economic barriers currently restraining the region's potential.

As part of the City Deal, the council and Queen Margaret University will develop the Edinburgh Innovation Park on land next to the University campus. An innovation hub will facilitate an expansion of the University's existing Scottish Centre for Food Development & Innovation and will also provide flexible commercial space for small and medium sized businesses in the food and drink sector. The innovation park will form part of a wider development of the land around the campus, which will include a retail, leisure and food and beverage commercial zone. There will also be 1,500 new housing units, of which 375 will be affordable units, and a new primary school. The full development is expected to leverage in almost £400 million of private sector funding over a period of around 20 years.

The council received funding from the Department for Transport (DfT) to install **electric vehicle charge points** in residential areas of five East Lothian towns and villages. An application was made to the DfT's Office of Low Emission Vehicles for funding following approaches from members of the public wishing to invest in electric cars. The funding was topped up with money from Transport Scotland to install new vehicle chargers in Aberlady, Dunbar, Stenton, North Berwick and West Barns. Each charge point will improve access to the charging network within residential areas and will encourage the purchase of electric vehicles which are more environmentally friendly.

GROWING OUR **ECONOMY**

Reducing unemployment
Improving the employability of East Lothian's workforce

GROWING OUR **COMMUNITIES**

Extending community engagement and decision making
Increasing community and individual resilience

GROWING OUR **PEOPLE**

Reducing the attainment gap and raising the achievement of our children and young people
Improving the life chances of the most vulnerable

GROWING OUR **CAPACITY**

Delivering transformational change
Harnessing the opportunities technology offers in the provision of services

Financial Strategy

The council's Financial Strategy forms the platform for the council's stewardship over tax payer's funds. The strategy is refreshed each year to reflect any changes in the financial planning landscape and to ensure that the strategy remains appropriate. The current strategy was approved by Council in December 2018 and covers the 5 year period 2019-2024 and can be found on the council website:

https://www.eastlothian.gov.uk/meetings/meeting/16262/east_lothian_council.

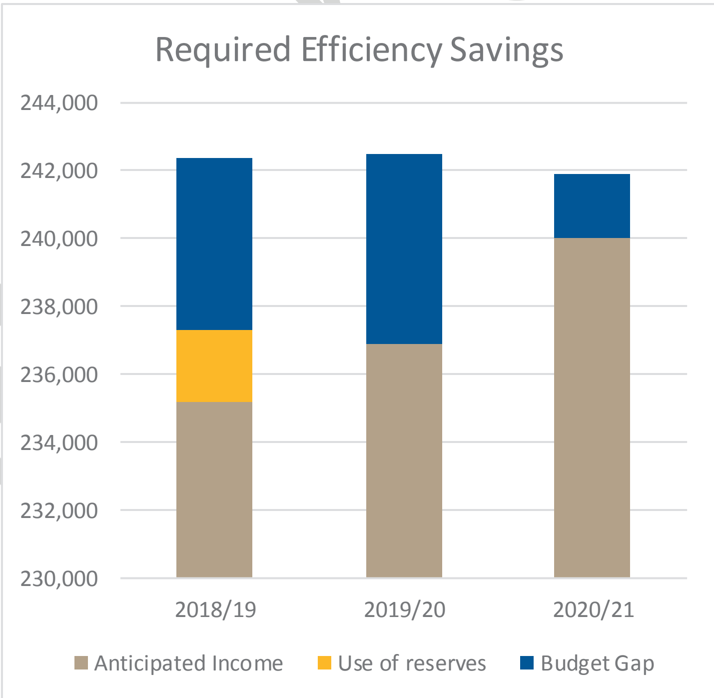
The Strategy is used to inform the development of financial plans, and covers; the General Services and Housing Revenue Account (HRA) financial plans, as well as the strategy for the use of the council's reserves and the Capital Expenditure plan.

General Services

The General Services financial strategy includes delivery of an enhanced Transformational Change Programme that will alter the way we deliver services. We will also maximise income generation available to the council whilst constraining cost growth, through effective demand management, good financial control and effective negotiations with suppliers. The strategy encourages the Council to become more entrepreneurial, through exploring new ways of service provision, and maximising the use of the Council's asset base.

The strategy supports the development of a three year sustainable budget avoiding the use of reserves within its final year.

The current spending plans remain crucially dependent on services being able to both manage existing spending commitments within available budgets as well as delivering already planned efficiency savings. In total the current approved spending plans require that around £12.5 million of additional efficiencies are delivered between 2018/19 and 2020/21.



Whilst substantial progress has been made in the delivery of these new savings proposals, the delivery of this level of savings over the next few years does not come without significant challenges. Any delays regarding the implementation and delivery of these recurring savings will create further problems, and ensuring that the council has resilient plans in place to minimise any potential delays, or accelerate any new efficiency programmes remains critical.

The level of grant funding Council currently receives from the Scottish Government is crucial to identifying the future financial outlook. The level of general Revenue Support Grant (RSG) currently makes up around 71% of the council's total available funding, and is therefore the single most important element of the overall resources that are used to support the delivery of council services.

In October 2018 various financial scenarios were presented to Council covering the 5 year planning period until 2023/24. The estimated 5 year funding gaps ranged from £6.3 million to £32.8 million.

All of the scenarios indicate a clear requirement that the council will require to make large cost savings unless there is a significant improvement in the level of funding provided to Local Government through future financial settlements. While the level of savings identified will undoubtedly change as work progresses on developing the revenue budget, this provides an indication of the scale of financial challenge potentially facing the council over the next five years. Reductions on this scale would have a potentially significant adverse impact upon service delivery and it is imperative that early consideration is given to how best this might be addressed. What does remain clear however is that if these funding reductions materialise, the council will be required to make some difficult choices in order to balance future budgets.

Holding an adequate level of reserves to meet unexpected costs is a key management tool for delivering the financial strategy. It remains the responsibility of the Head of Council Resources in his capacity of the Chief Financial Officer (Section 95 Officer) to advise the council on the level of reserves which it should hold and ensure that there are clear protocols for their establishment and use.

General Services Capital Budget

The council has invested significantly in its infrastructure over recent years and this growth is likely to continue with the current plans designed to support the future infrastructure requirements across the council area. Linked to the growth agenda, the council now has an updated and approved Local Development Plan (LDP). This plan will require the building of an additional 10,050 homes in East Lothian by 2024. Given this, the capital programme includes the additional enabling infrastructure costs that will fall due to the council to support these new additional homes. These additional infrastructure costs are supported by developer's contributions in line with the updated and approved Developer Contribution Framework.

A formal agreement has now been signed in relation to the Edinburgh and South East of Scotland City Deal. The related investments will create significant economic long term benefits for the East Lothian economy, but will place a significant financial burden upon council finances.

A five year General Service capital budget covering the period until 2022/23 was approved in February 2018. The approved budget indicates the commitment for continued growth with plans totalled £263 million due to be invested in the five year period to 2022/23.

HRA

In recent years there has been a significant increase in HRA capital spend as both the modernisation and affordable house building programmes have been expanded – and as a consequence, the share of spending on debt charges has also increased.

The HRA financial strategy continues to focus upon ensuring rental income and any future rental increase remains affordable for tenants, whilst benchmarked against national average.

The HRA must also sustainably support the required housing capital programme associated with building new council houses and modernising existing homes. With the aim of moving towards a position whereby the HRA is self-financing a larger proportion of its capital expenditure, typically by direct funding rather than borrowing.

The HRA must also continue to meet on-going statutory requirements, including; Scottish Housing Quality Standards and EESSH (Energy Efficiency Standard in Social Housing).

The council aims to ensure that the HRA stays within the recommended upper limit for the ratio of debt charges to income of 40%., whilst ensuring that the reserve or balance left on the HRA does not fall below £1.0 million.

Treasury Strategy

The council publishes an annual Treasury Management Strategy. This strategy links the council's capital investment plans to its treasury management activities including borrowing and investment strategies. The report "Treasury Management Strategy 2019/20 – 2023/24" can be found on the council website:

https://www.eastlothian.gov.uk/meetings/meeting/16264/east_lothian_council.

Performance

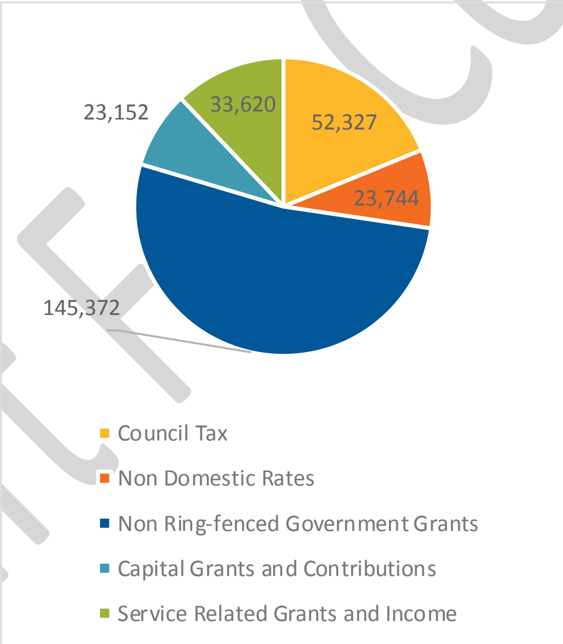
Some key financial performance indicators are shown in the adjacent table. The two charts break down the share of expenditure between different service areas and the different types of income received in year.

Provision of Services

The net cost of service provision in 2018/19 was £242.749 million, £0.458 million higher than 2017/18. Relative to approved budget plans, service expenditure is overspent by around 0.4%, equivalent to around £1.0 million.

In overall terms the cost of service overspend has been mitigated in part by a review of council balance sheet items, with the most notable relating to the provisions for bad and doubtful debt. This has realised a one off benefit of just over £1 million in 2018/19.

Financial Performance Indicator	2018/19 Actual £000s	Increase / (Decrease) from 2017/18 %	Variance from 2018/19 Budget %	2019/20 Budget £000s
General Services Reserves Utilisation	(387)	(125.8%)	(118.1%)	3,000
HRA Reserves Utilisation / (Increase)	(673)	79.5%	60.8%	(2,600)
Taxation and non-specific Grant Income	(244,595)	(0.8%)	4.0%	(245,116)
Council Tax Income	(52,327)	5.9%	1.2%	(55,315)
General Services Capital Expenditure	37,518	12.7%	(16.6%)	52,074
HRA Capital Expenditure	22,410	6.8%	(8.0%)	32,890
(Group) Net Assets	370,731	2.9%		
(Group) Long Term Borrowing	(343,808)	0.7%		



In accordance with the Financial Strategy, the council has also undertaken a significant review of its statutory repayment of debt from the loans fund. This review resulted in the council moving to an asset life method and has resulted in a reprofiling of the principal repayments. This revised method ensures that the charge is spread more equitably across the full life of the assets to which borrowing relates.

Taking into account these balance sheet reviews alongside in year performance, the council's usable reserves have increased by £1.060 million to £25.491 million. The total group usable reserves have increased by £1.283 million to £39.656 million.

Despite this modest increase in reserves, spending on General Services remains higher than the total income received by approximately £1 million. The council had budgeted to utilise £2.884 million of reserves in order to balance expenditure commitments. However after the application of the aforementioned balance sheet reviews the General Services usable reserves increased by £0.387 million.

The HRA reserves have also increased during the year, by £0.673 million, having also benefitted from the balance sheet review.

The council services delivered an overspend relative to approved budgets of around £1 million. Within the key directorates the performance is as follows:

- Resources and People Services: an underspend of £0.687 million (0.6%).
- Health and Social Care Partnership: an overspend of £2.43 million (3.1%).
- Partnership and Services for the Community: an underspend of £0.436 million (0.8%).

The main budgetary pressure for the council remains in the Health and Social Care directorate, with the majority of the overspend being in relation to 'Children's Services'. The main reasons for this are an increase in demand and average costs for residential and secure placements. This remains a high-risk area moving into 2019/20 and the service is working on plans to mitigate the use of high cost external packages. The Chief Executive has now established a Project Board, which aims to review the financial performance of Children's Services and identify opportunities to transform service delivery and bring spending within approved limits.

The majority of 'Adults and Older People Services' is devolved to the IJB along with a small number of other council budgets. Overall the council services delegated to the IJB delivered an underspend of £311,000 and in accordance with the approved scheme of integration, this underspend has been used to create a reserve for the IJB.

Within the wider group results both the Common Good Funds and the Trust Funds saw large increases in their usable reserves due to the introduction of IFRS 9. However as these reserves relate to unrealised gains, it would not be prudent for them to be used until they are realised and instead could be thought of as deferred gains.

In addition to this reclassification, both of these increased their reserves in year, by £0.320 million and £0.233 million respectively.

Musselburgh Racing Associated Committee had an in year deficit and as a result has drawn down all of its reserves. However, East Lothian Land once more operated at a small surplus, as did the associate companies. More detail can be found in the notes to the group accounts from page 102.

During the 2018/19 accounts process, some material errors were found with the numbers stated in the 2017/18 accounts. The full details of which can be found in Note 37 (page 96).

Balance Sheet

The net assets for the council have increased by 2.9%, predominantly due to the revaluation of the council's housing stock which increased in value by around £47 million to £360.5 million.

The council is still pursuing an ambitious capital programme as it looks to improve services for all residents of East Lothian. The detail of which is discussed in the capital section that follows.

This has partially been offset by a £34 million increase in the defined benefit pension liability (more detail in Note 27).

The other significant movement on the council's balance sheet is an increase of around £24 million due to payments received from developers that will be utilised for future capital spending. Funding is retained until the year in which the project is completed.

Capital

Key to delivering our outcomes for our communities and supporting the wider economy is the investment which the council makes in capital infrastructure including our school estate and wider asset base, as well as our housing stock.

In total, during 2018-19 the Council provided capital investment of around £60 million. Some of the significant capital projects delivered in 2018-19 include:

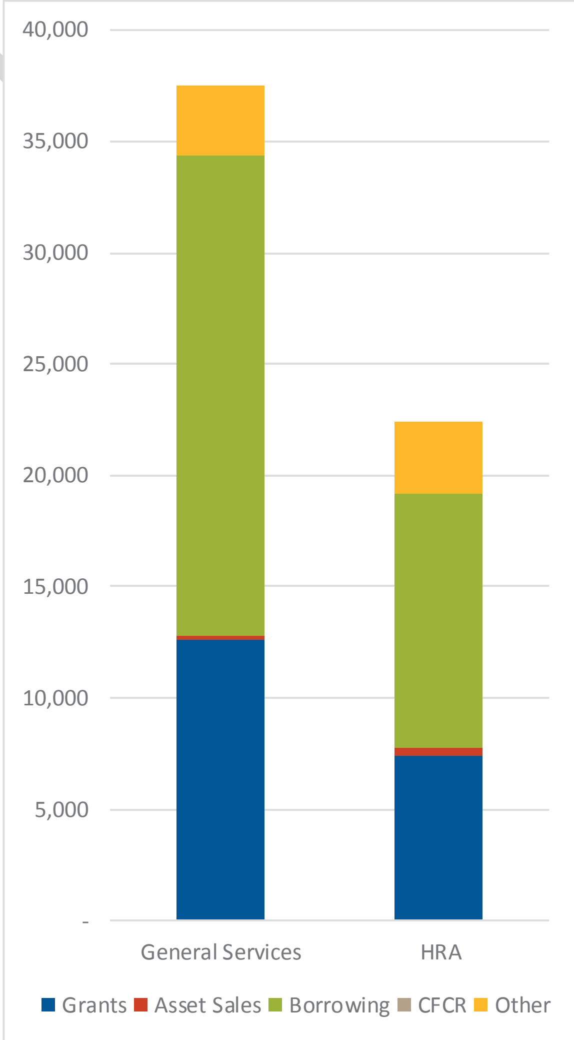
- Extension to Dunbar Grammar School;
- New Primary School at Wallyford;
- Additional investment in the Council's Roads of around £6.7 million;
- Investment in the Council's housing stock of around £9.5 million;
- £11.8 million investment to support the delivery of new affordable housing in East Lothian.

In relation to the General Services most of the reported under spend relates to re-profiling of projects into future years. A significant number of projects were delayed due to additional work being carried out prior to project commencement to ensure that individual projects are aligned with the overall asset / service strategy.

The HRA capital programme delivered an underspend of £1.954 million against planned budget during 2018/19. Most of the underspend relates to delays and rescheduling on a number of projects within the Modernisation Programme as well as lower than anticipated Mortgage to Rent applications. The Council's new affordable housing programme delivered an overspend against the approved budget, all of which has been offset by additional grant income received and applied in year.

The council can borrow to finance capital spend, however, the total gross capital expenditure is first offset by income received during the year. The graph shows the split of financing for capital spend between borrowing, grants, asset sales, capital funded from current revenue (CFCR) and any other.

In general any asset sales need to be used to finance future capital spending, however recent legislation changes allow the council to designate the use of these funds to be used for the next 4 years to fund transformational projects that will result in future cost savings. More details can be found in Note 28 (page 86).



Other Performance Indicators

The council publishes an Annual performance Report in September of each year outlining its performance for the previous financial year. The council also publishes up-to-date performance results via its performance website.

The Financial Indicator table includes various key statistics regarding the council's overall performance.

2017/18 £000s / %	Financial Indicator	2018/19 £000s / %	Commentary
20.04%	Council Tax funding to overall level of taxation and non-specific grant funding	21.39%	Reflects the overall percentage of East Lothian Council funding from local taxation.
96.47%	In year Council Tax collection rate	96.34%	Reflects East Lothian Council's effectiveness in collecting council tax.
98.40%	In year NDR collection rate	99.09%	Reflects East Lothian Council's effectiveness in collecting NDR debt.
431,522	Capital Financing Requirement	451,580	The Council's underlying need to borrow.
(443,693)	External Debt Levels	(461,793)	The Council's actual levels of external debt and long term liabilities.
99.32%	General Fund Outturn compared to budget	101.14%	How closely expenditure compares to the set budget.
2.06%	Uncommitted General Fund Reserve as a % of net budget	10.65%	Reflects the amount of funding available to manage unplanned events.

Best Value Assurance Report

In 2018 Audit Scotland performed a 'Best Value Assurance Report' (BVAR) on East Lothian Council. The report highlights that governance arrangements, decision-making processes, leadership and scrutiny have improved since the previous report in 2007. The full report is available on the council's website:

https://www.eastlothian.gov.uk/info/210603performance_and_spending/file/12405/best_value_audit_report_2018

Other key points of this report are that:

- The council has delivered and planned for further population growth, with a well-supported vision and improvement framework.
- Financial management is effective with a budget-setting process focused on the council's priorities.
- Strong links are in place with partners; the council works well and engages effectively with local communities.
- Most local residents are happy with services provided by the council, with high overall satisfaction.
- The Council is achieving or exceeding its targets for most indicators.

The council has created an Improvement Plan for December 2018 – March 2020 based on recommendations and actions identified by the BVAR and the council's Corporate Governance Self-Evaluation.

The plan includes areas such as: workforce planning; reviewing performance indicators; report formats; implementation of the improvement framework; community engagement; transformational change and focus on children and young people in East Lothian.

Risks

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

The council's Risk Register (available: https://www.eastlothian.gov.uk/meetings/meeting/16250/audit_and_governance_committee) details all of the council's risks, categorising them from Very High to Low risk. The risk table summarises the Very High and High risks and the ways the council are attempting to mitigate the risks.

Medium risk is tolerable with control measures that are cost effective and low risk is broadly acceptable without any further action to reduce the risk.

Risk	Risk Level	Summary Key Mitigation steps
Britain's Exit From the EU	High	The council has established a working group to consider the implications of EU withdrawal. The council is working proactively across the public sector.
Financial Environment	High	The council has developed substantial medium term financial planning arrangements, A Five year Financial Strategy; Three year General Services Revenue Budgets; Five year General Services Capital and HRA budgets; Enhancing in year monitoring, continued scrutiny and challenge of longer term efficiency measures. Exploring new options for enhanced commercial opportunities within the organisation to maximise income generation for the council.
Welfare Reform	High *(2017/18 Very High)*	The council has an established Welfare Reform Task Group and is continuing to manage this risk through a wide range of control measures. The Benefit Service continues to liaise with the DWP Housing Delivery Performance Team. Increased 'Universal Support' funding will be used to fund an additional Welfare Rights post to provide a Personal Budgeting Support, (PBS) capability for new/recent UC claimants.
Information Security and Data Protection	High	The council uses the international standard ISO 27001:2017 as the framework for its ISM system. Upgrade of external facing systems taking place during 2019 to increase security of our internet facing gateways. The council filled the role of Data Protection Officer in March 2018 and now has a dedicated Data Protection inbox.
Limitation (Childhood Abuse) (Scotland) Bill	Medium	Child Abuse Claims Group and SCAI Overview Group – East Lothian co-ordination of responses, reported strategically, managed flow and collaboration. Close monitoring of the work of the Scottish CAI itself and review of any published materials. CACG and SCAIOG reports to CMT – to sustain level of awareness of risk. The council recognises that this could result in a potential liability to the authority, however the likelihood of such a liability which might arise from historic or current cases cannot be quantified.

The Future

The council has ambition and there are a number of projects that will impact the services that we deliver going forward.

Future Projects

An innovative finance model, developed by East Lothian Council and partners, has allowed work to start on the first affordable homes constructed without Government subsidy in East Lothian. The development in Dunbar, will provide 50 homes for rent at mid-market rates. A further 10 homes for social rent will be constructed using funds from the Scottish Government Affordable Housing Supply Programme funding.

East Lothian Council is looking forward to the establishment of a new primary school. Letham Mains Primary School is being constructed to serve the catchment area for the new houses as part of the Letham Mains development in Haddington. The new school building will open for pupils in August 2020.

A new single point of contact will be created in John Muir House, Haddington, allowing customers to access all council services in one location. These services include: Benefits; Community Housing; Council Tax; Scottish Welfare Fund; Payments; Education; Licensing; Planning; Environment and Building Control. The single point of contact will also form a point of access for business and professional visitors and for colleagues attending meetings and conferences.

Summary

Despite the challenging financial operating environment, the council's financial strategy and approved spending plans are set within the wider context of balancing future service delivery and ambition to support the 'Council Plan'.

The council is one of the fastest growing authorities across Scotland, which creates significant opportunities, as well as producing financial challenges as the council looks to best align resources with future aspirations.

The strategy sets the growth and investment opportunities at the heart of spending plans, however in order for this to be delivered, the council must manage its financial resources in the medium to long term to ensure they are used effectively to maintain key objectives.

The financial strategy sits alongside other long-term council plans including the 'Council Plan' which sets the policy direction for East Lothian Council - our vision for an even more prosperous, safe and sustainable East Lothian with a dynamic and thriving economy that enables our people and communities to flourish. The Local Development Plan also sets out a strategy for accommodating more homes to cope with the predicted population increase alongside a strategy for sustainable development of the accompanying infrastructure.

The council will continue to work with the community and wider planning partners to do all that it can to maximise and enhance delivery within the resources that are available. However, it is inevitable that some difficult decisions will need to be made to balance budgets in the future and protect core services.

Angela Leitch
(Chief Executive)
25 June 2019

Willie Innes
(Council leader)
25 June 2019

Jim Lamond (CPFA)
Head of Council Resources
25 June 2019

Statement of Responsibilities for the Statement of Accounts

The Authority's responsibilities

The Authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Head of 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.
- Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003).
- Approve the Annual Accounts for signature.

I confirm that these Draft Annual Accounts were approved for signature by the East Lothian Council at its meeting on 25 June 2019. Signed on behalf of East Lothian Council.

Willie Innes
Council Leader
25 June 2019

The Chief Finance Officer's responsibilities

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

In preparing the Annual 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 legislation.
- Complied with the Accounting Code (in so far as it is compatible with legislation).

The Chief Finance Officer has also:

- Kept adequate 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 financial statements give a true and fair view of the financial position of the council (and its group) at the reporting date and the transactions of the council (and its group) for the year ended 31 March 2019.

Jim Lamond (CPFA)
Head of Council Resources (CFO)
25 June 2019

Annual Governance Statement

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

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

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

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

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

Annual Self-Evaluation of Corporate Governance

In 2018-19 the whole Council Management Team (CMT) has undertaken an annual self-evaluation of corporate governance. The team considers the extent to which the council meets the principles and requirements of the local Code of Corporate Good Governance which was adopted by the council in May 2010, by reviewing the documentary evidence and practice of each of the supporting principals and requirements of the corporate governance code, and updated CIPFA / SOLACE framework which was updated in 2016. The findings of the 2018-19 review were reported to the council's Audit & Governance Committee in June 2019 and is available on the council website:
https://www.eastlothian.gov.uk/meetings/meeting/16250/audit_and_governance_committee

The group reviewed progress made against the improvement points identified in the 2018 self-evaluation, and considered documentary evidence and practice around each of the supporting principles and code requirements as detailed in the local code. Evidence was also obtained from the 2018 Best Value Assurance Review as well as the findings identified from the Recognised for Excellence accreditation that was carried out by Quality Scotland in early 2018.

The 2019 corporate governance self-evaluation has found that East Lothian Council continues to have good governance and control arrangements in place across the seven corporate good practice principles.

It should be noted that the Council was awarded a Four-Star Recognised for

Excellence award by Quality Scotland in March 2018. Also, in October the council received a positive Best Value Assurance Report from Audit Scotland. These external assessments identified several areas for further development and improvement which were incorporated into the Council Improvement Plan 2018-2020 and all these improvement actions are being delivered.

The council's governance self-evaluation has identified seven areas for further development and improvement, which build on existing good practice and improvement actions already being implemented, in order to ensure the Council's progress from continuous improvement through to excellence. These improvement actions are:

- In order to ensure the council continues to have relevant governance policies, guidance, regulations and internal controls that are reviewed and kept up-to-date a register of such documentation will be prepared and reviewed annually.
- Establish formal mechanism for evaluating partnership working and the effectiveness of partnerships based on an agreed partnership self-evaluation framework.
- The council will explore the development of a Community Charter in partnership with civic society and the communities and citizens of East Lothian.
- The Council will need to ensure it meets any additional requirements to further develop community participation in decision-making arising from the Local Governance Review.
- Continue to review reporting and monitoring of expenditure against budgets and recovery plans in order to deliver outcomes within agreed budgets.
- The roll out and adoption of the Staff Charter will be monitored and the Charter will be reviewed.
- The Council should review how the Improvement to Excellence framework and new Council Plan performance reporting is operating in Autumn 2020.

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 to highlight.

All Chief Officers provided assurance that, to the best of their knowledge and understanding, the Internal Financial Controls in their areas operated satisfactorily, although some have raised some areas where controls could be improved and these are currently being explored.

Internal Audit Review

The council's review of governance arrangements is informed by a number of sources including the work of Internal Audit. The council maintains an Internal Audit service which operates in accordance with the Public Sector Internal Audit Standards. The Internal Audit Manager reports annually to the Audit and Governance Committee on the overall adequacy and effectiveness of the council's framework of governance, risk management and control. The agenda and minutes of this meeting can be accessed on the council's website at; http://www.eastlothian.gov.uk/meetings/committee/98/audit_and_governance_committee

All internal audit reports into service areas include recommendations, agreed actions and an implementation date. During 2017/18 areas identified with scope for improvement included the following:

- Adherence to council policies, procedures and guidance.
- Compliance with the council's Corporate Procurement Procedures.
- Internal financial controls including reconciliations, monitoring and checking arrangements, retaining supporting documentation and audit trail.
- Recovery of all amounts due to the council.
- Monitoring and management of overtime working.
- Issues identified from our review of homelessness.

- The arrangements for obtaining assurance on governance, risk management and control processes operating within 'Arm's Length External Organisations'.

Internal Audit follows up on recommendations made in previously issued audit reports to ensure that they have been implemented as agreed by Management. In 2018/19, follow-up reports were submitted to the Audit and Governance Committee on Management actions taken in respect of Non-Residential Charging, Taxicard Scheme, ALEO (Enjoy East Lothian Limited), Training, Gas Servicing and Maintenance, Performance Bonds, Care at Home Payments, Throughcare and Aftercare, Performance Indicators and Non-Domestic Rates. The follow–up work highlighted that the majority of recommendations made had been implemented and that action was being taken towards the outstanding recommendations.

The Internal Audit function also gives an assurance statement on the effectiveness of the system of internal controls within the council. This was reported to the June 2019 meeting of the Audit & Governance Committee. For 2018/19, Internal Audit has concluded that subject to a number of weaknesses which have been outlined during the course of the audit, that reasonable assurance can be placed on the overall adequacy and effectiveness of East Lothian Council's framework of governance, risk management and control for the year ended 31 March 2019.

Those areas which have been identified with scope for improvement included:

- Non-compliance with the Council's Corporate Procurement Procedures and a failure to demonstrate best value.
- The lack of an overarching framework in place for identifying, monitoring and managing potential conflicts of interest.
- Internal financial controls including reconciliations, monitoring and checking arrangements and the retention of supporting documentation.
- Delays in invoices being raised following the supply of goods and services by the Council.
- The controls in place for the prevention and detection of duplicate payments.

Plans are currently being developed to review these areas and consider appropriate actions for improvement during 2019/20.

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 2018/19.

Angela Leitch
(Chief Executive)
25 June 2019

Willie Innes
(Council leader)
25 June 2019

Jim Lamond (CPFA)
Head of Council Resources
25 June 2019

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

Audit Report Page 2

Audit Report Page 3

remuneration report & trade union activity

2

Remuneration Report

Introduction

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

- Senior Councillor Remuneration at Page 26
- Senior Officer Remuneration at Page 27
- Pay Bandings information on Page 27.
- Pension Benefits information for Senior Councillors and Officers on Pages 29 to 32.

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

Remuneration of Councillors

The remuneration of councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007 (SSI No. 2007/183 and SSI No. 2018/38). 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. The salary that is to be paid to the Leader of the council is set out in the Regulations. For 2018/19 the salary for the Leader of East Lothian Council is £28,326. 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 £172,073.

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

Salary, Fees and Allowances 2017/18 £	Taxable Expenses 2017/18 £	Total 2017/18 £	Annualised Salary 2017/18 £	Name	Office Held as at 31 March 2019	Salary, Fees and Allowances 2018/19 £	Taxable Expenses 2018/19 £	Total 2018/19 £	Annualised Salary 2018/19 £
26,981	-	26,981	28,213	Willie Innes	Leader of the Council and Convener	28,326	-	28,326	28,326
2,066	165	2,231	-	Ludovic Broun-Lindsay	Provost (to 04/05/2017)	-	-	-	-
20,236	-	20,236	21,160	John McMillan	Provost and Cabinet Spokesperson for Economic Development & Tourism (from 23/05/2017)	21,245	-	21,245	21,245
2,066	256	2,322	-	Jim Gillies	Depute Provost (to 04/05/2017)	-	-	-	-
18,170	367	18,537	21,160	Andy Forrest	Depute Provost (from 23/05/2017)	21,245	721	21,966	21,245
2,066	21	2,087	-	Michael Veitch	Depute Leader and Cabinet Spokesperson for Transport and Roads (to 04/05/2017)	-	-	-	-
20,236	246	20,482	21,160	Shamin Akhtar	Cabinet Spokesperson for Education and Children's Services	21,245	-	21,245	21,245
2,066	187	2,253	-	Tim Day	Cabinet Spokesperson for Community Wellbeing (to 04/05/2017)	-	-	-	-
18,170	848	19,018	21,160	Jim Goodfellow	Cabinet Spokesperson for Housing and Community Wellbeing (from 23/05/2017)	21,245	1,987	23,232	21,245
2,066	32	2,098	-	Donald Grant	Cabinet Spokesperson for Health and Social Care (to 04/05/2017)	-	-	-	-
18,170	1,107	19,277	21,160	Fiona O'Donnell	Cabinet Spokesperson for Health and Social Care (from 23/05/2017)	21,245	1,214	22,459	21,245
21,236	-	21,236	21,160	Norman Hampshire	Cabinet Spokesperson for Environment and also Depute Leader of the Council (from 23/05/2017)	22,245	-	22,245	21,245
2,066	638	2,704	-	Stuart Currie	Leader of the Opposition (to 04/05/2017)	-	-	-	-
18,170	640	18,810	21,160	Brian Small	Leader of the Opposition (to 10/09/2018)	9,383	432	9,815	-
-	-	-	-	Jane Henderson	Leader of the Opposition (from 11/09/2018)	11,862	-	11,862	21,245
173,765	**4,507**	**178,272**	**176,333**	**Total**		**178,041**	**4,354**	**182,395**	**177,041**

Total Councillors' Remuneration

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

The annual return of councillors' salaries and expenses for 2018/19 is available to view on the council's website at:

https://www.eastlothian.gov.uk/downloads/file/28497/payments_to_councillors_2018-19

2017/18 £	Type of Remuneration	2018/19 £
413,930	Salaries	413,400
1,000	Allowances	1,000
20,868	Expenses	22,106
435,798	**Total**	**436,506**

Senior Officer Remuneration

The council's employees receiving more than £50,000 remuneration for the year, excluding pension contributions, were paid the amounts shown in the Officers' Salary Brackets table.

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

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

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

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

2017/18	Officers' Salary Brackets	2018/19
44	£50,000 - £54,999	55
21	£55,000 - £59,999	20
20	£60,000 - £64,999	21
1	£65,000 - £69,999	3
4	£70,000 - £74,999	4
3	£75,000 - £79,999	-
1	£80,000 - £84,999	3
4	£85,000 - £89,999	4
1	£90,000 - £94,999	-
2	£100,000 - £104,999	2
1	£115,000 - £119,999	1
102	**Total**	**113**

During 2018/19 the council paid the following amounts to senior employees:

Salary, Fees and Allowances 2017/18 £	Taxable Expenses 2017/18 £	Total 2017/18 £	Name	Post Title	Salary, Fees and Allowances 2018/19 £	Taxable Expenses 2018/19 £	Total 2018/19 £
118,842	272	119,114	Angela Leitch	Chief Executive	116,492	293	116,785
100,240	341	100,581	Monica Patterson	Depute Chief Executive-Partnership & Services for Communities	101,250	155	101,405
100,240	420	100,660	Alex McCrorie	Depute Chief Executive-Resources & People Services	101,250	-	101,250
90,115	193	90,308	Jim Lamond	Head of Council Resources	88,540	46	88,586
87,530	842	88,372	Douglas Proudfoot	Head of Development	88,540	97	88,637
75,765	-	75,765	Raymond Montgomery	Head of Infrastructure (until 04/02/2018)	-	-	-
87,530	365	87,895	Thomas Shearer	Head of Communities & Partnerships (to 02/04/2018) and then Head of Infrastructure (until 31/07/2018)	32,424	296	32,720
-	-	-	Thomas Reid	Head of Infrastructure (from 01/08/2018)	59,027	423	59,450
87,530	-	87,530	Sharon Saunders	Head of Children & Adult Services (to 02/04/2018) and then Head of Communities & Partnerships	88,540	398	88,938
85,905	977	86,882	Fiona Robertson	Head of Education (from 03/04/2017)	88,540	701	89,241
-	-	-	Lesley Brown	Chief Operating Officer - Education (from 28/08/2018)	45,948	16	45,964
833,697	**3,410**	**837,107**	**Total**		**810,551**	**2,425**	**812,976**

The salary, fees and allowances for senior officers include any payments made in respect of election roles. During 2018/19, all Heads of Service were paid £88,540 (full time equivalent).

At its meeting of 25 June 2013, the council agreed to pay a share of the Director of East Lothian Health and Social Care Partnership post from August 2013. The costs are shared on a 50/50 basis with NHS Lothian. All payroll and pension arrangements for this post are administered by NHS Lothian.

During 2018/19 the council accrued £62,077 as our shared cost of this post. Alison MacDonald was appointed to this post on an interim basis from July 2018 to replace David Small who left in June 2018. Alison was previously the Head of Access and Older People and whilst the post is part of the council's corporate management team , this post is fully funded by NHS Lothian.

Judith Tait was appointed Head of Children and Adult Services (with a start date of 3 April 2018) on a year-long secondment from the Care Inspectorate; the cost of which was £112,555 in 2018/19.

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 above. The remuneration arrangements for these respective subsidiaries are determined solely by the subsidiary bodies.

The 2018/19 salary figure for the General Manager of Musselburgh Racecourse includes a salary repayment of £1,782. His overall remuneration package for 2018/19 includes a P11d benefit of £16,703 for car and fuel and £631 for private medical insurance. The General Manager of Musselburgh Racecourse is not a member of the council's defined benefit pension scheme, although he receives employer's pension contributions equivalent to 10% of pensionable salary on an annual basis. For 2018/19 this totalled £11,672 (17/18 - £15,200).

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

2017/18					2018/19			
Salary	Expenses & Allowances	Total	Name	Post Title	Salary	Expenses & Allowances	Non-Cash Benefits	Total
£	£	£			£	£		£
152,870	(28,708)	**124,162**	William Farnsworth	General Manager Musselburgh Racecourse	114,943	-	17,334	**132,277**

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 change in the cost of living, as measured by the appropriate index (or indices) between the end of that year and the last day of the month in which their membership of the scheme ends.

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

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

The scheme's normal retirement age for both councillors and employees is State Pension Age.

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.

If a person works part-time, their contribution rate is based on actual pensionable pay.

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

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

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

2017/18 Range £	Rate	Whole Time Pay	2018/19 Range £	Rate
21,308	5.50%	On earnings up to and including	21,926	5.50%
21,309 - 25,603	5.60% - 5.80%	On earnings above	21,927 - 26,377	5.60% - 5.80%
25,604 - 34,762	5.90% - 6.50%	On earnings above	26,378 - 35,796	5.90% - 6.50%
34,763 - 46,946	6.60% - 7.30%	On earnings above	35,797 - 48,301	6.60% - 7.30%
46,947	7.40% - 11.20%	On earnings above	48,302	7.40% - 11.20%

Pension Benefits - Senior Councillors

The estimated pension entitlements for Senior Councillors for the year to 31 March 2019 are shown in the table below, together with the contribution made by the council during the year.

Name	Office Held as at 31 March 2019	Pension Contributions: For Year to 31 March 2018 £	Pension Contributions: For Year to 31 March 2019 £	Accrued Pension Benefits: As at 31 March 2019 Pension £000s	Accrued Pension Benefits: As at 31 March 2019 Lump Sum £000s	Difference from 31 March 2018 Pension £000s	Difference from 31 March 2018 Lump Sum £000s
Willie Innes	Leader of the Council and Convener	5,747	6,175	6	2	1	-
Ludovic Broun-Lindsay	Provost (to 4/5/17)	440	-	n/a	n/a	n/a	n/a
John McMillan	Cabinet Spokesperson for Economic Development & Tourism and also Provost (from 23/5/17)	4,310	4,631	3	-	1	-
Jim Gillies	Depute Provost (to 4/5/17)	440	-	n/a	n/a	n/a	n/a
Andy Forrest	Depute Provost (from 23/5/17)	3,870	4,631	4	1	1	-
Michael Veitch	Depute Leader and Cabinet Spokesperson for Transport and Roads (to 4/5/17)	440	-	n/a	n/a	n/a	n/a
Shamin Akhtar	Cabinet Spokesperson for Education and Children's Services	4,310	4,631	3	-	1	-
Jim Goodfellow	Cabinet Spokesperson for Housing and Community Wellbeing (from 23/5/17)	3,870	4,631	3	-	1	-
Donald Grant	Cabinet Spokesperson for Health and Social Care (to 4/5/17)	440	-	n/a	n/a	n/a	n/a
Fiona O'Donnell *	Cabinet Spokesperson for Health and Social Care (from 23/5/17)	3,870	4,631	-	-	-	-
Norman Hampshire	Cabinet Spokesperson for Environment and also Depute Leader of the Council (from 23/5/17)	4,523	4,849	5	2	1	1
Brian Small *	Leader of the Opposition (from 23/5/17)	3,870	3,805	-	-	-	-
Jane Henderson *	Leader of the Opposition (from 11/9/18)	-	4,222	-	-	-	-
Total		**36,130**	**42,206**	**24**	**5**	**6**	**1**

** - Less than two years membership so no entitlement to benefits*

Pension Benefits - Senior Employees

The estimated pension entitlements for senior employees for the year to 31 March 2019 are shown in the table below, together with the contribution made by the council during the year.

Name	Post title	Pension Contributions		Accrued Pension Benefits			
				As at 31 March 2019		Difference from 31 March 2018	
		For Year to 31 March 2018	For Year to 31 March 2019	Pension	Lump Sum	Pension	Lump Sum
		£	£	£000s	£000s	£000s	£000s
Angela Leitch	Chief Executive	24,391	25,395	58	108	4	2
Angela Leitch	Returning Officer	841	-	1	-	1	-
Monica Patterson	Depute Chief Executive-Partnership & Services for Communities	21,225	22,073	52	100	3	1
Alex McCrorie ***	Depute Chief Executive-Resources & People Services	-	-	21	64	-	2
Sharon Saunders	Head of Children & Adult Services (to 02/04/2018) and then Head of Communities & Partnerships	18,518	19,302	36	59	2	1
Fiona Robertson*	Head of Education (from 03/04/2017)	18,297	19,302	-	-	-	-
Lesley Brown*	Chief Operating Officer - Education (from 28/08/2018)	-	10,017	-	-	-	-
Douglas Proudfoot	Head of Development	18,518	19,302	37	77	4	6
Ray Montgomery**	Head of Infrastructure (until 04/02/2018)	15,586	-	n/a	n/a	n/a	n/a
Thomas Shearer	Head of Communities & Partnerships (to 02/04/2018) and then Head of Infrastructure (until 31/07/2018)	18,518	6,318	48	100	-	-
Thomas Reid	Head of Infrastructure (from 01/08/2018)	-	17,209	28	45	8	13
Jim Lamond	Head of Council Resources	18,518	19,302	40	72	3	1
Total		**154,412**	**158,220**	**321**	**625**	**25**	**26**

* - *Less than two years membership, so no entitlement to benefits*

** - *Retired from scheme on 04/02/2018, therefore no preserved benefits at 31/03/2019*

*** - *Member no longer active in the pension scheme*

Termination Benefits

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

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

Exit Packages

Exit Packages 2017/18					Exit Packages 2018/19			
Number of Compulsory Redundancies	Number of Other Departures Agreed	Total Number by Cost Band	Total Cost of Exit Packages £000s	Cost Banding	Number of Compulsory Redundancies	Number of Other Departures Agreed	Total Number by Cost Band	Total Cost of Exit Packages £000s
1	1	2	13	£0 - £20,000	1	1	2	10
-	1	1	38	£20,001 - £40,000	-	-	-	-
-	1	1	49	£40,001 - £60,000	-	1	1	42
1	**3**	**4**	**100**	**Total**	**1**	**2**	**3**	**52**

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 above for 2018/19, with comparative figures for 2017/18.

Trade Union Facility Time

From April 2017, the council is now required to publish details of Trade Union facility time incurred during the year. The proportion of salary spent on facility time can be found below. Further information is published on the council website from 31 July 2019. ink will be provided in the final accounts.

Percentage of Pay Bill Spent on Facility Time

2017/18 Non-Education Staff	2017/18 Education Staff	Percentage of pay bill spent on facility time	2018/19 Non-Education Staff	2018/19 Education Staff
£77,159	£36,037	Total cost of facility time	£79,272	£30,337
£88,727,115	£49,485,846	Total pay bill	£91,826,969	£51,161,040
0.08%	0.07%	Percentage of the total pay bill spent on facility time	0.09%	0.06%

Angela Leitch
Chief Executive
25 June 2019

Willie Innes
Council Leader
25 June 2019

Jim Lamond (CPFA)
Head of Council Resources (CFO)
25 June 2019

main statements

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Group Movement in Reserves Statement

The Movement in Reserves Statement (MiRS) shows the movement from the start of the year to the end on the different reserves held by the authority, analysed into ‘usable reserves’ i.e. those that can be applied to fund expenditure or reduce local taxation and other ‘unusable reserves’. The Statement shows how the movements in year of the authority’s reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax (or rents) for the year. The “Deficit on the Provision of Services” line shows the true economic cost of providing the authority's services, more details of which are shown on the Comprehensive Income and Expenditure Statement (CIES). The Net Increase/Decrease line shows the statutory General Fund Balance and Housing Revenue Account Balance movements in the year following those adjustments. This statement also presents the movement in the year in the different reserves held by the combined Group i.e. the council, its associate companies, subsidiaries and joint venture.

Movement in Reserves Statement For the Year Ended 31 March 2019	General Fund Balance £000s	Housing Revenue Account £000s	**Total Usable Reserves £000s**	**Unusable Reserves £000s**	**Total Authority Reserves £000s**	Group Usable Reserves £000s	Group Unusable Reserves £000s	Total Group Reserves £000s
Balance at 31 March 2018	**(19,036)**	**(5,395)**	**(24,431)**	**(316,964)**	**(341,395)**	**(35,308)**	**(324,932)**	**(360,240)**
Opening Balances Adjustments	-	-	-	-	-	(181)	59	**(122)**
Opening Balance Adjustment for IFRS9	-	-	-	78	**78**	(2,884)	2,962	**78**
Restated Opening Balance	**(19,036)**	**(5,395)**	**(24,431)**	**(316,886)**	**(341,317)**	**(38,373)**	**(321,911)**	**(360,284)**
Movement in Reserves During 2018/19								
Total Comprehensive Expenditure and Income	9,432	8,163	**17,595**	(28,269)	**(10,674)**	17,664	(28,111)	**(10,447)**
Adjusted Comprehensive Expenditure and Income	**9,432**	**8,163**	**17,595**	**(28,269)**	**(10,674)**	**17,664**	**(28,111)**	**(10,447)**
Adjustments Between Accounting Basis & Funding Basis Under Regulations (Note 6)	(9,819)	(8,836)	**(18,655)**	18,655	-	**(18,947)**	18,947	-
(Increase)/Decrease in Year	**(387)**	**(673)**	**(1,060)**	**(9,614)**	**(10,674)**	**(1,283)**	**(9,164)**	**(10,447)**
Balance at 31 March 2019 Carried Forward	**(19,423)**	**(6,068)**	**(25,491)**	**(326,500)**	**(351,991)**	**(39,656)**	**(331,075)**	**(370,731)**

The previous year's restated Movement in Reserves Statement is presented below for comparison with the current year's figures.

***Restated** **Movement in Reserves Statement For the Year Ended 31 March 2018**	General Fund Balance £000s	Housing Revenue Account £000s	**Total Usable Reserves £000s**	**Unusable Reserves £000s**	**Total Authority Reserves £000s**	**Group Usable Reserves £000s**	**Group Unusable Reserves £000s**	**Total Group Reserves £000s**
Balance at 31 March 2017	**(20,534)**	**(5,020)**	**(25,554)**	**(280,841)**	**(306,395)**	**(35,905)**	**(287,329)**	**(323,234)**
Opening Balances Adjustments	-	-	-	-	-	**111**	**(56)**	**55**
Restated Opening Balance	**(20,534)**	**(5,020)**	**(25,554)**	**(280,841)**	**(306,395)**	**(35,794)**	**(287,385)**	**(323,179)**
Movement in Reserves During 2017/18								
Total Comprehensive Expenditure and Income	5,779	10,177	**15,956**	(50,956)	**(35,000)**	**15,931**	(52,992)	**(37,061)**
Adjusted Comprehensive Expenditure and Income	**5,779**	**10,177**	**15,956**	**(50,956)**	**(35,000)**	**15,931**	**(52,992)**	**(37,061)**
Adjustments Between Accounting Basis & Funding Basis Under Regulations (Note 6)	(3,286)	(11,547)	**(14,833)**	14,833	-	**(15,445)**	15,445	-
Net (Increase) before Transfers to Other Statutory Reserves	**2,493**	**(1,370)**	**1,123**	**(36,123)**	**(35,000)**	**486**	**(37,547)**	**(37,061)**
Transfers to/from the Earmarked Portion of General Reserves	(995)	995	-	-	-	-	-	-
(Increase)/Decrease in Year	**1,498**	**(375)**	**1,123**	**(36,123)**	**(35,000)**	**486**	**(37,547)**	**(37,061)**
Balance at 31 March 2018 Carried Forward	**(19,036)**	**(5,395)**	**(24,431)**	**(316,964)**	**(341,395)**	**(35,308)**	**(324,932)**	**(360,240)**

**Restated, for more information see Note 37 – Prior Period Adjustment*

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

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

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

Group Comprehensive Income and Expenditure Statement

The Group Comprehensive Income and Expenditure Statement (CIES) 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 (or rents). 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 both the Expenditure and Funding Analysis (EFA) and the MiRS.

* Restated 2017/18 Gross Spend £000s	* Restated 2017/18 Gross Income £000s	* Restated 2017/18 Net Spend £000s	2017/18 Group Net Expenditure £000s	Comprehensive Income and Expenditure Statement	2018/19 Gross Spend £000s	2018/19 Gross Income £000s	2018/19 Net Spend £000s	2018/19 Group Net Expenditure £000s
113,235	(6,724)	106,511	106,525	Resources & People Directorate	121,114	(6,746)	114,368	114,383
120,641	(60,849)	59,792	59,792	Health & Social Care Partnership	125,630	(62,972)	62,658	62,658
79,060	(14,121)	64,939	64,846	Partnership & Community Directorate	72,452	(15,261)	57,191	57,580
22,297	(19,315)	2,982	2,982	Corporate and Central Services	17,538	(18,523)	(985)	(985)
37,396	(28,413)	8,983	8,983	HRA	39,676	(30,159)	9,517	9,517
372,629	**(129,422)**	**243,207**	**243,128**	**Cost of Services**	**376,410**	**(133,661)**	**242,749**	**243,153**
		(1,123)	(1,351)	(Gain)/Losses on the Disposal of Non Current Assets			105	25
		16,313	16,317	Interest Payable and Similar Charges			16,321	16,326
		(596)	(804)	Interest Receivable and Similar Income			(705)	(1,096)
		4,751	4,751	Interest Expense of Pension Defined Benefit Obligation			3,720	3,720
		(246,596)	(246,596)	Taxation and Non Specific Grant Income			(244,595)	(244,595)
		-	486	Share of the Surplus (or Deficit) on the provision of Services by Associates and Joint Venture			-	131
		15,956	**15,931**	**Deficit on Provision of Services**			**17,595**	**17,664**
		10,280	9,299	(Surplus) on Revaluation of Non-Current Assets			(48,535)	(48,535)
		(1,789)	(1,620)	(Surplus) from Investments in Equity Instruments Designated at Fair Value Through Other Comprehensive Income			(15)	(15)
		(59,447)	(59,447)	Actuarial Loss on Pension Assets/Liabilities			20,281	20,281
		-	(1,224)	Share of Other Comprehensive Income and Expenditure of Associates and Joint Venture			-	158
		(50,956)	**(52,992)**	**Other Comprehensive Income and Expenditure**			**(28,269)**	**(28,111)**
		(35,000)	**(37,061)**	**Total Comprehensive (Income)**			**(10,674)**	**(10,447)**

**Restated, for more information see Note 37 – Prior Period Adjustments*

The CIES (Page 38) includes the results for the entire East Lothian Group, including the council, its associates, subsidiaries and joint venture. The impact of this is shown in the Reconciliation below. The Health & Social Care Partnership service segment within the statement includes contribution to/from "The East Lothian Integration Joint Board" (IJB) in line with guidance.

The statement includes a new line "Surplus or Deficit from Investments in Equity Instruments Designated at Fair Value Through Other Comprehensive Income". These are due to the introduction of IFRS 9, more information on which can be found in Notes 1 and 23.

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 Statement reconciles to the deficit for the year for the Group.

2017/18 £000s	Reconciliation of the Council Surplus / Deficit to the Group Surplus / Deficit	2018/19 £000s
15,931	Deficit for the Year on Authority Comprehensive Income & Expenditure Account	17,595
485	Associates and Joint Ventures	131
(510)	Subsidiaries	(62)
15,906	**(Surplus) / Deficit for the Year on the Group Income & Expenditure Account**	**17,664**

Group Balance Sheet

The Balance Sheet shows the value as at 31 March 2019 of the assets and liabilities recognised by the authority. The net assets of the authority are matched by the reserves held by the authority. Reserves are reported in two categories:

- **Usable Reserves** i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use.
- **Unusable Reserves** are those that the authority is not able to use to provide services, including 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 Note 6.

The Balance Sheet also shows the consolidated assets and liabilities of the entire East Lothian Group.

The unaudited accounts were issued on 25 June 2019, the final accounts will be authorised for issue in September 2019.

Jim Lamond (CPFA)
Head of Council Resources (CFO)
25 June 2019

31 March 2018 Authority £000s	31 March 2018 Group £000s	Balance Sheet	Note	31 March 2019 Authority £000s	31 March 2019 Group £000s
871,561	877,205	Property, Plant & Equipment	12	935,400	940,974
1,052	1,052	Heritage Assets	14	1,052	1,052
5,413	11,509	Long Term Investments	20	5,428	11,517
-	1,030	Investments in Associates and Joint Venture	20	-	1,069
10,965	11,914	Long Term Debtors	21	10,209	11,109
888,991	**902,710**	**Long Term Assets**		**952,089**	**965,721**
20	20	Short Term Investments		-	-
981	981	Assets Held for Sale	15	766	766
523	523	Inventories		593	593
19,942	20,783	Short Term Debtors	22	34,435	37,988
14,746	15,250	Cash and Cash Equivalents		15,759	16,254
36,212	**37,557**	**Current Assets**		**51,553**	**55,601**
(19,106)	(14,574)	Short Term Borrowing	23	(19,148)	(17,555)
(34,528)	(35,211)	Short Term Creditors	24	(41,876)	(42,337)
(3,697)	(3,697)	Short Term Provisions	25	(3,645)	(3,645)
(6)	(6)	Capital Grants Receipts in Advance	32	-	-
(57,337)	**(53,488)**	**Current Liabilities**		**(64,669)**	**(63,537)**
(1,188)	(1,188)	Provisions	25	(1,651)	(1,651)
(341,548)	(341,421)	Long Term Borrowing	23	(343,917)	(343,808)
(50,865)	(51,060)	Other Long Term Liabilities	26	(74,484)	(74,665)
(132,870)	(132,870)	Pension Liability	26	(166,930)	(166,930)
(526,471)	**(526,539)**	**Long Term Liabilities**		**(586,982)**	**(587,054)**
341,395	**360,240**	**Net Assets**		**351,991**	**370,731**
(24,431)	(35,308)	Usable Reserves	28	(25,491)	(39,656)
(316,964)	(324,932)	Unusable Reserves	29	(326,500)	(331,075)
(341,395)	**(360,240)**	**Total Reserves**		**(351,991)**	**(370,731)**

**Restated, for more information see Note 37 - Prior Period Restatements*

Group Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority 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 authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority'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 authority.

The cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the authority's cash management.

Group Cash Flow includes the cash flows of the council and its subsidiary companies.

2017/18 Authority £000s	2017/18 Group £000s	Cash Flow Statement	Note	2018/19 Authority £000s	2018/19 Group £000s
		Operating Activities			
15,956	15,446	Net Deficit on the Provision of Services		17,595	17,665
(59,864)	(60,002)	Adjustments to Net Surplus or Deficit on the Provision of Services for Non-Cash Movements	33	(52,801)	(52,782)
32,134	32,134	Adjustments for Items Included in the Net Surplus or Deficit on the Provision of Services that are Investing and Financing Activities	34	24,445	24,316
(11,774)	**(12,422)**	**Net Cash Flows from Operating Activities**		**(10,761)**	**(10,801)**
		Investing Activities			
49,631	49,631	Purchase of Property, Plant and Equipment		60,978	60,978
(596)	(596)	Proceeds from Short Term Investments		(705)	(705)
(25,332)	(25,332)	Other Receipts from Investing Activities		(49,013)	(49,015)
(2,328)	(2,328)	Proceeds from the Sale of Property, Plant and Equipment		(588)	(588)
21,375	**21,375**	**Net Cash Flows from Investing Activities**		**10,672**	**10,670**
		Financing Activities			
(22,001)	(22,001)	Cash Receipts of Short and Long Term Borrowing		(40,001)	(40,001)
1,595	1,595	Cash Payments for the Reduction of the Outstanding Liability Relating to Finance Lease and On-Balance Sheet PFI Contracts		1,478	1,478
8,234	8,441	Repayments of Short and Long Term Borrowing		37,599	37,650
-	456	New Loans Made		-	-
(12,172)	**(11,509)**	**Net Cash Flows from Financing Activities**		**(924)**	**(873)**
(2,571)	**(2,556)**	Net (Increase) in Cash and Cash Equivalents		**(1,013)**	**(1,004)**
(12,175)	(12,694)	Cash and Cash Equivalents at the Beginning of the Reporting Period		(14,746)	(15,250)
(14,746)	**(15,250)**	**Cash and Cash Equivalents at the End of the Reporting Period**		**(15,759)**	**(16,254)**

notes to the accounts

4

Notes to the East Lothian Council Accounts

Note 1 General Accounting Policies

i. General Principles

The Statement of Accounts summarises the authority's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. The authority is required to prepare an annual Statement of Accounts by the Local Authority Accounts (Scotland) Regulations 2014, which section 12 of the Local Government in Scotland Act 2003 require to be in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. The Statement of Accounts has been prepared on a 'going concern' basis.

Further accounting policies can be found throughout these accounts with the notes to which they relate.

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:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when the payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument, rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

iii. Cash and Cash Equivalents

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

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 authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period, as if the new 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.

For 2018/19 there have been four restatements. For clarity, the details of these are disclosed in Note 38 with all prior year comparatives showing their restated values.

In addition for 2018/19 two new International Financial Reporting Standards (IFRSs) were introduced. IFRS 9 relates to Financial Instruments and IFRS 15 Revenue Contracts. The effect of this introduction is shown by adjustments in the MiRS.

v. Employee Benefits

Short term employee benefits such as wages and salaries, paid annual leave, sick leave and expenses are paid on a monthly basis and charged on an accruals basis to the relevant service line of the CIES.

vi. Financial Instruments

Financial Liabilities

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

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

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

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI).

The authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest i.e. where the cash flows do not take the form of a basic debt instrument. Further information in Note 23.

vii. Interests in Companies and Other Entities

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

viii. Inventories and Long-term Contracts

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

Long-term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the consideration allocated to the performance obligations satisfied based on the goods or services transferred to the service recipient during the financial year.

ix. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the authority's arrangements for accountability and financial performance.

x. Reserves

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

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 CIES. The reserve is then appropriated back into the General Fund Balance in the MiRS, 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 authority – these reserves are explained in the relevant policies.

xi. Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the CIES in the year. Where the authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the MiRS from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged, so that there is no impact on the level of council tax.

xii. VAT

The CIES excludes amounts relating to VAT and will be included as an expense only if it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income within the council's Income and Expenditure statement.

Note 2 Accounting Standards Not Yet Adopted

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

- IFRS 16 – Leases. This standard has an effective date of 1 January 2019 which means that CIPFA/LASAAC's have considered the applicability to local authorities (and EU adoption); as a result it will be adopted in the Code in the 2020/21 financial year. The Standard establishes a new accounting model for lessees in which all leases for substantial assets for more than 12 months will be accounted for by recognising a "right to use" asset on the Balance Sheet, together with a liability for the present value of the unavoidable lease payments. In overall terms, this means that leases currently accounted for as operating leases will be treated similarly to finance leases, but recognising only a proportion of the asset's overall value.

- On 8 March 2017 the decision was taken that the introduction of the Highways Network Asset Code into the Financial Reporting requirements for Local Authorities would not be proceeding. It was noted that further consideration will be given to the implementation of the Code if clear evidence that the benefits outweigh the costs for Local Authorities can be determined.

Note 3 Critical Judgements Applied

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

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

  The inclusion of the Private Finance Initiative (PFI) contract for the refurbishment and facilities management of the six secondary schools as a finance lease within the authority'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 authority's Balance Sheet, as the authority considers that it has the majority of the risks and rewards of ownership.

Note 4 Future Assumptions

The Statement of Accounts contains estimated figures that are based on assumptions made by the authority about the future. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the council's Balance Sheet at 31 March 2019, for which there is a significant risk of material adjustment in the forthcoming year, are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements including the discount rate used, the rate of projected salary increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the authority with expert advice about the assumptions to be applied. The actual figure has proved to be variable over time and more detail regarding this has been referred to in Note 27. The Pensions Reserve balance at 31 March 2019 is £166.930 million.	If actual results are different from assumptions, there is the potential for a significant change – either increasing or decreasing the potential liability. (See Note 27.)
Property, Plant, and Equipment (PPE)	Assets are valued and depreciated over their useful lives in line with advice taken from external and internal valuers. The current economic climate makes it uncertain that the authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. The carrying amount of PPE at 31 March 2019 is £935.400 million with depreciation of £34.680 million.	If the useful life of an asset is reduced, depreciation increases and the carrying amount of the asset falls. (See Notes 12 and 13.)
Arrears	At 31 March 2019 the authority had balances of £9.186 million relating to Council Tax debt and £2.829 million relating to Council House rent debt. The authority 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 requirement to increase the value of the doubtful debt provision. (See Note 22.)
Fair Value Measurements	When the fair value of assets and liabilities cannot be measured based on quoted prices in active markets i.e. Level 1 inputs, their fair value is measured using valuation techniques (e.g. quoted prices for similar assets or liabilities in active markets). Where possible, the inputs to these valuation techniques are based on observable data but where this is not possible, judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the authority's assets and liabilities. Where Level 1 inputs are not available, the authority employs relevant experts to identify the most appropriate valuation techniques to determine fair value (e.g. valuers). Further information on fair value measurement is disclosed in Note 36.	The authority uses quoted prices for similar assets or liabilities in active markets to measure the fair value of some of its non-financial assets. If the authority had to refer to unobservable inputs to measure fair value, any significant changes to these unobservable inputs would result in a significantly lower or higher fair value measurement.

Note 5 Expenditure and Funding Analysis (EFA)

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

*Restated 2017/18				2018/19		
Expenditure Chargeable to Usable Reserves £000s	Adjustments between Funding & Accounting Basis (EFA Note 1) £000s	Net Expenditure in CIES £000s	Expenditure and Funding Analysis	Expenditure Chargeable to Usable Reserves £000s	Adjustments between Funding & Accounting Basis (EFA Note 1) £000s	Net Expenditure in CIES £000s
	GF and HRA combined				GF and HRA combined	
91,007	15,504	106,511	Resources & People Directorate	99,519	14,849	114,368
56,784	3,008	59,792	Health & Social Care Partnership	59,661	2,997	62,658
45,778	19,161	64,939	Partnership & Community Directorate	42,980	14,211	57,191
16,455	(13,473)	2,982	Corporate and Central Services	9,534	(10,519)	(985)
(7,232)	16,215	8,983	HRA	(6,682)	16,199	9,517
202,792	**40,415**	**243,207**	**Net Cost of Service**	**205,012**	**37,737**	**242,749**
(201,669)	(25,582)	(227,251)	Other Income & Expenditure	(206,072)	(19,082)	(225,154)
1,123	**14,833**	**15,956**	**(Surplus)/Deficit on Provision of Services**	**(1,060)**	**18,655**	**17,595**
GF	**HRA**	**Combined**		**GF**	**HRA**	**Combined**
(18,811)	(5,020)	(23,831)	**Opening Fund Balance**	(17,153)	(5,395)	(22,548)
(835)	995	160	Transfer to/from Reserves	183	-	183
2,493	(1,370)	1,123	In Year Use of Reserves	(387)	(673)	(1,060)
(17,153)	**(5,395)**	**(22,548)**	**Closing General Fund Balance**	**(17,357)**	**(6,068)**	**(23,425)**

**Restated, for more information see Note 37*

EFA Note 1 – Adjustments between accounting and funding basis

2017/18 Adjustment for Capital Purposes (EFA Note 2) £000s	2017/18 Net Change for Pension Adjustment (EFA Note 3) £000s	2017/18 Other Statutory Differences £000s	2017/18 Total Adjustments £000s	Adjustments from General Fund to Arrive at the Comprehensive Income and Expenditure Statement 2018/19	2018/19 Adjustment for Capital Purposes (EFA Note 2) £000s	2018/19 Net Change for Pension Adjustment (EFA Note 3) £000s	2018/19 Other Statutory Differences £000s	2018/19 Total Adjustments £000s
12,643	2,499	362	15,504	Resources & People Directorate	11,983	2,918	(52)	14,849
767	2,241	-	3,008	Health & Social Care Partnership	623	2,374	-	2,997
14,932	4,229	-	19,161	Partnership & Community Directorate	9,664	4,547	-	14,211
(11,580)	83	(1,976)	(13,473)	Corporate and Central Services	(10,201)	4	(322)	(10,519)
15,939	276	-	16,215	HRA	15,983	216	-	16,199
32,701	**9,328**	**(1,614)**	**40,415**	**Net Cost of Service**	**28,052**	**10,059**	**(374)**	**37,737**
(30,333)	4,751	-	(25,582)	Other Income & Expenditure from the Expenditure and Funding Analysis	(22,802)	3,720	-	(19,082)
2,368	**14,079**	**(1,614)**	**14,833**	**Difference Between General Fund Deficit and Comprehensive Income and Expenditure Statement Deficit**	**5,250**	**13,779**	**(374)**	**18,655**

EFA Note 2 - Adjustments for capital purposes

There are various changes relating to capital assets, such as:

- Adds in depreciation, impairment and revaluation gains and losses
- Adjusts the capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets
- The statutory charges for capital financing are deducted from other income and expenditure, as these are not chargeable under generally accepted accounting practices.
- Capital grants are adjusted for income not chargeable under generally accepted accounting practices.

EFA Note 3 - Net change for pension adjustment

Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- For services, this represents the removal of the employer pension contributions made by the authority, as allowed by statute, and the replacement with current service costs and past service costs.

- For Financing and investment income and expenditure – the net interest on the defined benefit liability is charged to the CIES.

EFA Note 4 - Other differences

Other differences include:

- The accrual made for the cost of holiday/leave entitlements earned by employees but not taken before the year-end which employees can carry forward into the next financial year. These require to be included with the Net Cost of Services under generally accepted accounting practices but are not chargeable to the General Fund.

- Adjustments to the General Fund for the timing differences for premiums and discounts.

Note to Comprehensive Income & Expenditure Statement

The service lines in the Comprehensive Income & Expenditure Statement exclude recharges.

The income and expenditure for each service, inclusive of internal recharges, are shown below:

Income and Expenditure for Each Service, Inclusive of Internal Recharges	2018/19 Gross Spend £000s	Gross Income £000s	Net Spend £000s
Resources & People Directorate	186,997	(73,862)	113,135
Health & Social Care Partnership	131,748	(67,857)	63,891
Partnership & Community Directorate	92,277	(35,086)	57,191
Corporate and Central Services	20,404	(21,389)	(985)
HRA	40,090	(30,573)	9,517
Cost of Services	**471,516**	**(228,767)**	**242,749**

Expenditure and Income Analysed by Segment and Nature

The council is required to analyse the relevant service segments in the EFA on the basis of the organisational structure adopted. Reportable operating segments are based on the council's internal management reporting used to assess service performance when considering the allocation of financial resources.

The authority's expenditure and income is analysed as follows:

Expenditure and Income Analysed by Segment and Nature 2018/19	Resources & People Directorate £000s	Health & Social Care Partnership £000s	Partnership & Community Directorate £000s	Corporate and Central Services £000s	HRA £000s	Costs not included in a service £000s	Total £000s
Expenditure							
Employee Benefits Expenses	80,840	24,732	48,513	419	2,299	-	156,803
Other Service Expenses	26,805	54,124	22,583	20,014	9,956	-	133,482
Depreciation, Amortisation & Impairment	11,983	623	9,665	(159)	22,015	-	44,127
Reallocation of Internal Costs	1,486	1,093	(8,309)	(2,736)	5,406	-	(3,060)
Loss on Disposal of Assets	-	-	-	-	-	192	192
Interest Payments	-	-	-	-	-	20,041	20,041
Contribution to IJB	-	45,058	-	-	-	-	45,058
Total Expenditure	**121,114**	**125,630**	**72,452**	**17,538**	**39,676**	**20,233**	**396,643**
Income							
Fees, Charges and Other Service Income	(4,136)	(9,149)	(13,151)	(866)	(30,159)	-	(57,461)
Interest and Investment Income	-	-	-	-	-	(705)	(705)
Gain on Disposal of Assets	-	-	-	-	-	(87)	(87)
Income from Council Tax and Non-Domestic Rates	-	-	-	-	-	(76,071)	(76,071)
Contributions from IJB	-	(45,058)	-	-	-	-	(45,058)
Government Grants and Contributions	(2,610)	(8,765)	(2,110)	(17,657)	-	(168,524)	(199,666)
Total Income	**(6,746)**	**(62,972)**	**(15,261)**	**(18,523)**	**(30,159)**	**(245,387)**	**(379,048)**
Deficit on the Provision of Services							**17,595**

Prior year's expenditure and income analysed by segment and nature was analysed as follows:

* Restated Expenditure and Income Analysed by Segment and Nature 2017/18	Resources & People Directorate £000s	Health & Social Care Partnership £000s	Partnership & Community Directorate £000s	Corporate and Central Services £000s	HRA £000s	Costs not included in a service £000s	Total £000s
Expenditure							
Employee Benefits Expenses	76,195	23,851	46,634	498	2,995	-	150,173
Other Service Expenses	25,568	51,434	20,900	21,710	8,385	-	127,997
Depreciation, Amortisation and Impairment	12,642	767	14,932	89	21,440	-	49,870
Reallocation of Internal Costs	(1,170)	-	(3,406)	-	4,576	-	-
Interest Payments	-	-	-	-	-	21,064	21,064
Contribution to IJB	-	44,589	-	-	-	-	44,589
Total Expenditure	**113,235**	**120,641**	**79,060**	**22,297**	**37,396**	**21,064**	**393,693**
Income							
Fees, Charges and Other Service Income	(3,726)	(8,626)	(11,757)	(1,070)	(28,403)	-	(53,582)
Interest and Investment Income	-	-	-	-	-	(596)	(596)
Gain on Disposal of Assets	-	-	-	-	-	(1,123)	(1,123)
Income from Council Tax and Non-Domestic Rates	-	-	-	-	-	(73,956)	(73,956)
Contributions from IJB	-	(44,589)	-	-	-	-	(44,589)
Government Grants and Contributions	(2,998)	(7,634)	(2,364)	(18,245)	(10)	(172,640)	(203,891)
Total Income	**(6,724)**	**(60,849)**	**(14,121)**	**(19,315)**	**(28,413)**	**(248,315)**	**(377,737)**
Deficit on the Provision of Services							**15,956**

**Restated, for more information see Note 38*

Note 6 Adjustments between Accounting and Funding Basis under Regulations

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

2017/18 General Fund Balance £000s	2017/18 Housing Revenue Account £000s	2017/18 Movement in Usable Reserves £000s	Adjustments between Accounting and Funding Basis under Regulations	2018/19 General Fund Balance £000s	2018/19 Housing Revenue Account £000s	2018/19 Movement in Usable Reserves £000s
			Adjustments Primarily Involving the Capital Adjustment Account			
			Reversal of Items Debited or Credited to the Comprehensive Income and Expenditure Statement:			
(25,350)	(21,440)	**(46,790)**	Charges for Depreciation of Non-Current Assets	(22,360)	(12,320)	**(34,680)**
-	-	**-**	Impairment Losses on Property, Plant and Equipment	-	(3,696)	**(3,696)**
(3,081)	-	**(3,081)**	Revaluation Losses on Property, Plant and Equipment	248	(5,999)	**(5,751)**
25,248	3,962	**29,210**	Capital Grant and Contributions Applied	15,768	7,374	**23,142**
257	866	**1,123**	Amounts of Non-Current Assets Written Off on Disposal or Sale as Part of the Gain/Loss on Disposal to the Comprehensive Income and Expenditure Statement	(426)	87	**(339)**
1,651	-	**1,651**	Statutory Provision Relating to PPP	1,645	-	**1,645**
-	-	**-**	Charges for expected credit loss of Non-Current Assets	7	-	**7**
11,669	3,001	**14,670**	Statutory Repayment of Debt	8,390	2,832	**11,222**
			Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:			
-	2,500	**2,500**	Capital Expenditure Charged Against the General Fund and HRA balances	-	3,200	**3,200**
			Adjustments Primarily Involving the Employee Statutory Adjustment Account:			
(362)	-	**(362)**	Employee Statutory Adjustments	52	-	**52**
			Adjustments Primarily Involving the Financial Instruments Adjustment Account:			
325	-	**325**	Differences re Finance Leases, Stepped Loans, Premiums and Discounts	322	-	**322**
			Adjustments Primarily Involving the Pensions Reserve:			
(28,139)	(938)	**(29,077)**	Net Retirement Benefits per IAS 19	(29,069)	(736)	**(29,805)**
14,496	502	**14,998**	Employer's Contributions Payable to the Lothian Pension Fund	15,604	422	**16,026**
(3,286)	**(11,547)**	**(14,833)**	**Total Adjustments**	**(9,819)**	**(8,836)**	**(18,655)**

Note 7 Taxation and Non-Specific Grant Income

Grant Income can take many forms: paid on account; by instalments or in arrears; government grants or third party contributions and donations. This is recognised as due to East Lothian Council when there is an assurance that the authority has complied with the necessary conditions attached to these payments. East Lothian Council credited the following grants, contributions and taxation income to the CIES:

2017/18 £000s	Taxation and Non-Specific Grant Income	2018/19 £000s
(49,406)	Council Tax	(52,327)
(24,550)	Non Domestic Rates	(23,744)
(143,430)	Non Ring-fenced Government Grants	(145,372)
(29,210)	Capital Grants and Contributions	(23,152)
(246,596)	**Total**	**(244,595)**

Note 8 Trading Operations

Facility Services

The Facility Services trading operation provides catering, janitorial and cleaning services at locations owned or managed by the authority. 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 authority. The cumulative position over the last three years is now a surplus of £0.606 million.

Facility Services	2016/17 £000s	2017/18 £000s	2018/19 £000s
Turnover	9,057	9,030	9,285
Surplus/(Deficit)	419	178	9
3-year Cumulative Surplus			**606**

Property Maintenance

Property Maintenance provides property maintenance services. The majority of work is undertaken on the authority's housing stock – including an increasing amount of work on housing improvements. The cumulative position over the last three years is now a surplus of £1.997 million.

Property Maintenance	2016/17 £000s	2017/18 £000s	2018/19 £000s
Turnover	10,880	10,591	11,092
Surplus/(Deficit)	487	688	822
3-year Cumulative Surplus			**1,997**

Roads Services

Roads Services carries out a repair and maintenance service to enable the authority 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 last three-year period, the service has a cumulative surplus of £1.973 million and has met the statutory target.

Road Services	2016/17 £000s	2017/18 £000s	2018/19 £000s
Turnover	6,131	6,494	6,402
Surplus/(Deficit)	631	814	528
3-year Cumulative Surplus			**1,973**

Note 9 Agency Income and Expenditure

The authority provides an agency service to Scottish Water. Associated income and expenditure is not included within the authority's CIES. In 2018/19, £18.3m (2017/18: £17.6m) was paid over to Scottish Water.

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

Note 10 Audit Costs

Auditors are appointed on a five year rolling programme auditor by the Accounts Commission. Audit Scotland has been appointed for a third year as the authority's external auditor in 2018/19 and will continue to perform the external audit function for the council in 2019/20 and 2020/21. No fees were payable in respect of other services provided by the appointed auditor.

The council has been accruing charges in relation to the IJB's audit fee since its inception in 2015/16. However, none had been paid. During 2018/19, it was agreed that the council would pay contributions for this year only and as such, was charged £12.5k. However, the previous contributions were not charged and this has led to a net credit to the council in the year.

2017/18 £000s	Audit Fee	2018/19 £000s
237	Statutory Audit Fee	244
12	ELC Contribution towards IJB Audit Fee	(11)
249	**Total**	**233**

Note 11 Related Parties

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

Government – Including UK and Scottish Government

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

Members

Members of the authority have direct control over the authority's financial and operating policies. The total of members' allowances paid in 2018/19 is shown in the Remuneration Report (page 24).

East Lothian Council approved total Grants of £4,810,826 which is made up of: Community Partnership Funding for 2018/19 of £1,637,051; Area Partnership funding of £1,850,000; Children's Services/Health and Social Care Partnership/East Lothian Council Grants totalling £635,416; and Community Council Administration Grants and Local Priority Scheme Grants totalling £130,048. Adult Wellbeing payments to Voluntary Organisations of £558,311 were also approved. Of these amounts,

Related Parties	Partnership Funding £000s	Adult Wellbeing £000s	Total £000s
Anti-bullying East Lothian	79	-	79
Changes Community Health Project	-	54	54
Coastal Communities Museum Trust	8	-	8
Cockenzie House and Gardens	-	3	3
Dunbar Community Development Company	75	-	75
East Lothian Advice Consortium	209	318	527
First Step	246	-	246
Haddington CAB Management Committee	20	-	20
Lamp of Lothian Management Committee	20	-	20
Lothian Mineworkers' Welfare Convalescent Home Trust	7	-	7
Musselburgh CAB Management Committee	10	-	10
Pennypit Community Development	176	-	176
Preston Lodge Rugby Club	1	-	1
Recharge Youth Facility	24	-	24
Rotary Club of Haddington	4	-	4
Tranent and Elphinstone Community Council	6	-	6
Tranent Gala Committee	2	-	2
Total	**887**	**375**	**1,262**

Partnership funding of £1,262,000 payments were awarded to organisations in which Members have representation.

Included in Grants for 2018/19, Twinning Grants of £4,000 were awarded to Organisations in which Members have representation, which include: £1,000 Dunbar and District Twinning Association; £1,000 Haddington Twinning Association; £1,000 Musselburgh Twinning Association; and £1,000 Preston, Seton & Gosford Twinning Association.

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

Joint Ventures and Entities Controlled or Significantly Influenced by the Authority

Payments in The Year 2017/18 £000s	Position at Year End Debtor Balances 2017/18 £000s	Position at Year End Creditor Balances 2017/18 £000s	Entity	Nature of Related Party Relationship	Payments in The Year 2018/19 £000s	Position at Year End Debtor Balances 2018/19 £000s	Position at Year End Creditor Balances 2018/19 £000s	Nature of Transactions
2,225	50	-	Enjoy East Lothian Limited	Charitable organisation registered with Office of Scottish Charity Regulators.	2,096	41	-	Payment for provision of leisure services
18	-	(127)	East Lothian Land Limited	Company set up for the purpose of managing land to support economic development in East Lothian.	20	-	(108)	Loan from the company
-	-	-	East Lothian Investments Ltd	Granting interest free loans to the businesses of East Lothian with the aim of encouraging commercial activity and enterprise in the area.	43	-	-	Payment for setup costs of EL Gift Card
455	-	(452)	Brunton Theatre Trust	Charitable organisation registered with Office of Scottish Charity Regulators.	455	-	(337)	Payment for provision of arts/cultural services
-	-	(3,116)	Common Goods	Council manages assets of historic burghs in line with statute.	-	-	(3,394)	Cash balances relating to normal operations
-	129	-	Musselburgh Joint Racing Committee	Unincorporated organisation which organises racing on Musselburgh Links under minute of agreement with council.	-	609	-	Cash balances relating to normal operations
-	-	(1,468)	Trust Funds	Approximately 48 trust funds which are managed by the council in line with the respective trust deeds.	-	-	(1,593)	Cash balances relating to normal operations
647	-	-	Joint Boards	Statutory bodies set up by Scottish ministers.	636	-	-	Payments to run valuation services
44,027	934	(332)	East Lothian Integrated Joint Board	Statutory Body Formed During 2015/16 Under the Terms of The Public Bodies (Joint Working) (Scotland) Act 2014.	51,274	-	311	Payments to run health & social care services

The above table illustrates the year-end inter group positions between the council and the entities with which it has significant influence or control. The full figures for these entities are disclosed in the group accounts elements of the Main Statements, as well as further detail provided in the Group Accounts Notes from page 102.

Note 12 Property Plant and Equipment Movements

Movements in 2018/19	Council Dwellings £000s	Other land and buildings £000s	Vehicles, Plant, Furniture & Equipment £000s	Infrastructure Assets £000s	Community Assets £000s	Surplus Assets £000s	Assets Under Construction £000s	Total Property, Plant and Equipment £000s	PFI Assets Included in PPE £000s
Cost or Valuation									
At 1 April 2018	399,410	488,426	49,089	94,299	10,902	3,843	20,871	**1,066,840**	127,347
Additions	13,639	2,424	3,739	7,426	72	83	32,545	**59,928**	5,977
Accumulated Depreciation & Impairment WO to GCA	(90,320)	(30)	-	-	(2)	-	-	**(90,352)**	-
Revaluation increases/(Decreases) Recognised in the Revaluation Reserve	48,209	(20)	-	-	363	-	-	**48,552**	-
Revaluation decreases recognised in the Surplus/Deficit on the Provision of Services	(5,999)	(19)	-	-	-	267	-	**(5,751)**	-
Derecognition - Disposals	(321)	(149)	(1,291)	-	-	-	-	**(1,761)**	-
Asset Reclassified (to)/from Held for Sale	-	(65)	-	-	-	-	-	**(65)**	-
Other Movements in Cost or Valuation	1,644	33,859	-	5,620	-	(69)	(41,085)	**(31)**	(9,695)
At 31 March 2019	**366,262**	**524,426**	**51,537**	**107,345**	**11,335**	**4,124**	**12,331**	**1,077,360**	**123,629**
Accumulated Depreciation and Impairment									
At 1 April 2018	(78,650)	(39,162)	(39,673)	(35,968)	(1,824)	-	(2)	**(195,279)**	(10,587)
Depreciation Charge	(12,314)	(16,887)	(1,862)	(3,547)	(70)	-	-	**(34,680)**	(5,192)
Accumulated Depreciation & Impairment WO to GCA	52,475	30	-	-	2	-	-	**52,507**	-
Accumulated Impairment WO to GCA	37,845	-	-	-	-	-	-	**37,845**	-
Impairment (Reversals) Recognised in the Revaluation Reserve	(19)	-	-	-	-	-	-	**(19)**	-
Impairment (Reversals) Recognised in the Surplus/Deficit on the Provision of Services	(3,696)	-	-	-	-	-	-	**(3,696)**	-
Derecognition - Disposals	55	48	1,246	-	-	-	-	**1,349**	-
Other Movements in Depreciation or Impairment	469	(288)	-	(115)	-	(53)	-	**13**	-
At 31 March 2019	**(3,835)**	**(56,259)**	**(40,289)**	**(39,630)**	**(1,892)**	**(53)**	**(2)**	**(141,960)**	**(15,779)**
Net Book Value At 31 March 2019	362,427	468,167	11,248	67,715	9,443	4,071	12,329	**935,400**	107,850
Net Book Value At 1 April 2018	320,760	449,264	9,416	58,331	9,078	3,843	20,869	**871,561**	116,760

Prior year’s property, plant and equipment movement is presented below for comparison.

Restated Movements in 2017/18 *	Council Dwellings £000s	Other land and buildings £000s	Vehicles, Plant, Furniture & Equipment £000s	Infrastructure Assets £000s	Community Assets £000s	Surplus Assets £000s	Assets Under Construction £000s	Total Property, Plant and Equipment £000s	PFI Assets Included in PPE £000s
Cost or Valuation									
At 1 April 2017	379,114	489,204	46,311	88,464	11,996	3,522	2,786	**1,021,397**	123,316
Additions	20,977	9,400	3,137	5,835	698	2	14,208	**54,257**	4,031
Accumulated Depreciation & Impairment WO to GCA	-	(1,246)	-	-	(68)	(13)	-	**(1,327)**	-
Revaluation increases/(Decreases) Recognised in the Revaluation Reserve	-	(2,319)	-	-	-	200	-	**(2,119)**	-
Revaluation decreases recognised in the Surplus/Deficit on the Provision of Services	-	(1,846)	-	-	(250)	(5)	-	**(2,101)**	-
Derecognition - Disposals	(1,389)	(100)	(359)	-	(21)	-	-	**(1,869)**	-
Asset Reclassified (to)/from Held for Sale	-	-	-	-	-	(281)	-	**(281)**	-
Other Movements in Cost or Valuation	708	(4,667)	-	-	(1,453)	418	3,877	**(1,117)**	-
At 31 March 2018	**399,410**	**488,426**	**49,089**	**94,299**	**10,902**	**3,843**	**20,871**	**1,066,840**	**127,347**
Accumulated Depreciation and Impairment									
At 1 April 2017	(49,393)	(22,647)	(37,467)	(30,834)	(2,114)	-	-	**(142,455)**	(5,268)
Depreciation Charge	(11,126)	(17,378)	(2,564)	(4,112)	(80)	-	-	**(35,260)**	(5,319)
Accumulated Depreciation & Impairment WO to GCA	-	1,246	-	-	68	13	-	**1,327**	-
Impairment (Reversals) Recognised in the Revaluation Reserve	(8,018)	(144)	-	-	-	-	-	**(8,162)**	-
Impairment (Reversals) Recognised in the Surplus/Deficit on the Provision of Services	(10,314)	(194)	-	(1,022)	-	-	-	**(11,530)**	-
Derecognition - Disposals	201	101	358	-	4	-	-	**664**	-
Other Movements in Depreciation or Impairment	-	(146)	-	-	298	(13)	(2)	**137**	-
At 31 March 2018	**(78,650)**	**(39,162)**	**(39,673)**	**(35,968)**	**(1,824)**	**-**	**(2)**	**(195,279)**	**(10,587)**
Net Book Value At 31 March 2018	320,760	449,264	9,416	58,331	9,078	3,843	20,869	**871,561**	116,760
Net Book Value At 1 April 2017	329,721	466,557	8,844	57,630	9,882	3,522	2,786	**878,942**	118,048

Restated – for further detail, please refer to Note 38 – Prior Period Adjustment

Note 13 Property Plant and Equipment

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

Recognition

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

Measurement

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

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

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

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

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

Assets included in the Balance Sheet at current value are revalued regularly, as described in the Revaluations section on page 61.

Where decreases in value are identified and 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. However, 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 CIES.

Impairment

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

Where impairment losses are identified and 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. However 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 CIES.

Where an impairment loss is reversed it is credited to the relevant service line in the CIES, 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 PPE assets by systematic allocation of depreciable amount over their useful lives. No depreciation is charged in the year of acquisition but an entire years charge is made in the year of disposal. 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 basis:

- Council dwellings and other buildings – straight-line allocation over the life of the property as estimated by the valuer.
- Vehicles, plant & equipment and community assets – straight-line allocation over the life of the asset as advised by a suitably qualified officer.
- Infrastructure – straight-line allocation.

The estimated useful lives of assets depreciating on a straight-line basis are disclosed in the Depreciation table. Where an item of PPE asset has major components and the cost is significant in relation to the total cost of the item and over £4.5m, the components are depreciated separately.

Depreciation	
Council Dwellings	25-50 years
Council Garages	9-10 years
Other Land and Buildings	10-60 years
Vehicles, Plant Furniture & Equipment	1-50 years
Infrastructure	1-50 years
Community Assets	12-50 years
Assets Under Construction are not Depreciated	

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.

Revaluations

The authority carries out a rolling programme that ensures that all PPE required to be measured at current value, are revalued at least every five years.

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 dates for valuation are shown in the following table:

Revaluations	Date of Last Valuation	Date of Next Valuation
Council Dwellings - Council Houses & Garages	31/03/2019	31/03/2024
Other Land & Buildings - Non Operational Industrial Lets etc.	31/03/2015	31/03/2020
Other Land & Buildings - Operational Portfolio of Schools, Community Centres etc.	31/03/2016	31/03/2021

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

- East Lothian Council has good and clear title to all the subjects under valuation.
- The appropriate planning consents are in place for the subjects to be used for their existing use.
- The subjects under valuation are in a state of repair and condition commensurate with their age.
- Mining operations, nor any other environmental matters, do not have a material impact on the valuations noted.

Capital Commitments

As at 31 March 2019 the council entered into a number of contracts for the construction or enhancement of PPE in 2019/20 and future years budgeted to a value of £28.124 million. Similar commitments at 31 March 2018 were £25.416 million. The gross commitments for the council's major projects are shown in the Capital Commitments table.

Capital Commitments	General Fund 2018/19 £000s	HRA 2018/19 £000s
Haddington Flood Protection Scheme	50	-
Musselburgh Flood Protection Scheme	91	-
Court Accommodation incl. SPOC	117	-
Whitecraig Community Centre	906	-
Letham Primary School	9,214	-
Dolphinstone Prestonpans - New Housing Site	-	4,900
Letham Mains Haddington - New Housing Site	-	7,856
Herdmanflatt Haddington - New Housing Site	-	300
Bowmont Terrace Dunbar - New Housing Site	-	301
Roofing, Rendering & Insulated Render Framework	-	1,930
Bathroom and Shower Room Adaptations Framework	-	1,471
Provision of Access Ramps	-	200
Open Market Acquisitions	-	788
Total	**10,378**	**17,746**

Note 14 Heritage Assets

The aim of the authority's museums service is to preserve and present the authority'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 authority's accounting policies on PPE. However, some of the measurement rules are relaxed in relation to heritage assets.

The authority'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 authority does not consider it appropriate to charge depreciation. The remainder of the authority'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.

2017/18 £000s	Heritage Assets (Cost or Valuation)	2018/19 £000s
1,052	**Net Carrying amount at the start of the year**	1,052
-	Additions	-
-	Revaluation increases recognised in the Revaluation Reserve	-
1,052	**Net carrying amount at the end of year**	**1,052**

Note 15 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 CIES. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on the Provision of Services. Depreciation is not charged on assets held for sale.

Where an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the CIES as part of the gain or loss on disposal.

Receipts from disposals are credited to the same line in the CIES 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.

2017/18 £000s	Assets Held for Sale	2018/19 £000s
770	**Balance Outstanding at Start of Year**	**981**
281	Assets Newly Classified as Held for Sale	66
(70)	Assets Sold	(281)
981	**Balance outstanding at end of the year**	**766**

All capital receipts are either credited to the Capital Receipts Reserve or designated to the Capital Grants Unapplied Account. They can then be used for new capital investment or to meet the cost of debt repayments, or to fund transformational projects that are anticipated to result in long term revenue savings for the council.

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

In 2018/19, Primrose Day Centre was newly classified as an asset held for sale and the council sold an office based at 33 Sidegate, Haddington which was an HRA property.

Note 16 Assets Held Under Lease

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

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy, where fulfilment of the arrangement is dependent on the use of specific assets.

Council as Lessee

Finance Leases

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

PPE 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 (where ownership of the asset does not transfer to the council at the end of the lease period).

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

The council has acquired a number of buildings, street lights and vehicles under finance leases. The assets acquired under these leases are included within PPE at the following net amounts:

31 March 2018 £000s	Finance Leases - Minimum Lease Payments	31 March 2019 £000s
(13,002)	Other Land and Buildings	(12,539)
(167)	Vehicles, Plant, Furniture and Equipment	(148)
(13,169)	**Total**	**(12,687)**

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

31 March 2018 £000s	Finance Lease Liabilities (NPV of Minimum Lease Payments)	31 March 2019 £000s
(58)	Current	(60)
(957)	Non-Current	(897)
(5,471)	Finance Costs Payable in Future Years	(5,273)
(6,486)	**Minimum Lease Payments**	**(6,230)**

Minimum Lease Payments 31 March 2018 £000s	Finance Lease Liabilities 31 March 2018 £000s	Finance Lease Liabilities	Minimum Lease Payments 31 March 2019 £000s	Finance Lease Liabilities 31 March 2019 £000s
(283)	(58)	Not Later Than One Year	(285)	(61)
(1,132)	(250)	Later Than One Year and Not Later Than Five Years	(1,140)	(257)
(5,071)	(707)	Later Than Five Years	(4,804)	(640)
(6,486)	**(1,015)**	**Total**	**(6,229)**	**(958)**

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 2018/19 £16,700 (2017/18: £14,700) in contingent rents were payable by the council.

Operating Leases

Rentals paid under operating leases are charged to CIES as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. if there is a rent-free period at the commencement of the lease). The amount paid under these arrangements in 2018/19 was £0.25m (2017/18: £0.25m).

The future minimum lease payments due under non-cancellable leases in future years are shown in the Operating Leases table.

31 March 2018 £000s	Operating Leases - Minimum Lease Payments	31 March 2019 £000s
(254)	Not Later Than One Year	(695)
(103)	Later Than One Year and Not Later Than Five Years	(2,734)
-	Later Than Five Years	-
(357)	**Total**	**(3,429)**

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 recognised in the CIES on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease).

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:

Reported Minimum Lease Payments 31 March 2018 £000s	Restated Minimum Lease Payments 31 March 2018 £000s	Council as Lessor	Minimum Lease Payments 31 March 2019 £000s
2,277	1,603	Not Later Than One Year	1,626
3,023	2,548	Later Than One Year and Not Later Than Five Years	3,003
25,424	25,344	Later Than Five Years	31,217
30,724	**29,495**	**Total**	**35,846**

Note 17 Private Finance Initiatives and Similar Contracts

Private Finance Initiative (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 PFI contractor. As the authority 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 authority at the end of the contract for no additional charge, the authority 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 authority.

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 CIES.

- Finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the CIES.
- 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 CIES.
- 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.

During 2002/03 the council entered into a 32 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 PPE 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 PFI 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 transfer back to the council.

Under the terms of the contract, all facilities will 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 2019 are as follows:

Private Finance Initiatives and Similar Contracts	Payment for Services £000s	Reimbursement of Capital Expenditure £000s	Interest £000s	Total £000s
Payable in 2019/20	3,685	1,286	2,460	**7,431**
Payable Within 2-5 Years	14,861	5,957	8,906	**29,724**
Payable Within 6-10 Years	19,110	9,278	8,765	**37,153**
Payable Within 11-15 Years	15,386	16,980	4,788	**37,154**
Payable Within 16-20 Years	2,761	3,787	251	**6,799**
Total	**55,803**	**37,288**	**25,170**	**118,261**

Outstanding Liability to the Contractor

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 2018 £000s	Outstanding Liability to the Contractor	31 March 2019 £000s
(40,247)	Balance at Start of Year	(38,709)
1,538	Payments	1,421
(38,709)	**Balance Outstanding at Year-End**	**(37,288)**

Note 18 Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the Capital Expenditure and Capital Financing table, 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 at the time 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.

*Restated 31 March 2018 £000s	Capital Expenditure and Capital Financing	31 March 2019 £000s
427,973	**Opening Capital Financing Requirement**	**431,522**
	Capital Investment	
54,257	Property, Plant and Equipment	59,928
213	Revenue Expenditure Funded through Capital	433
	Sources of finance	
(2,621)	Capital receipts	(603)
(15,895)	Government grants	(19,964)
(13,315)	Other Contributions	(3,178)
(2,613)	Direct Revenue Contributions	(3,424)
(213)	Grants (Revenue Expenditure Funded through Capital)	(433)
(16,264)	Loans Fund	(12,701)
431,522	**Closing Capital Financing Requirement**	**451,580**

**Restated – for further detail, please refer to Note 38 – Prior Period Adjustment*

Note 19 Impairment Losses

An impairment loss is a reduction in the value of a non-current asset to below its carrying amount on the Balance Sheet.

During 2018/19, the council recognised impairment losses totalling £3.696 million, the majority of which relates to non-value adding enhancement of HRA assets. These impairment losses have been charged as appropriate within the CIES.

During 2017/18, the council recognised impairment losses totalling £11.530 million.

Note 20 Long Term Investments

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

31 March 2018 £000s	Long Term Investments	31 March 2019 £000s	Details
4,609	Lothian Buses plc	4,624	East Lothian Council holds 200,000 ordinary shares representing 3.1% of the share capital. A dividend is received each year.
205	East Lothian Investments Limited	207	The council's interest, estimated as 40%, was inherited from the former Lothian Investments Board. No dividends are received.
599	East Lothian Land	597	Set up in 2000 for the purpose of managing land to support economic development. The Council is the sole shareholder. No dividends are received.
5,413	**Total**	**5,428**	

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 one year.

31 March 2018 £000s	Long Term Debtors	31 March 2019 £000s	Purpose
767	Public Private Partnerships - Prepaid Lifecycle Replacement Costs	737	Prepaid lifecycle replacement costs - over 30 years
759	Private Property Owners - Common Repairs	575	Repairs to private property funded by secured ELC loans
1	Employees - Car/Other Loans	1	Loans to employees repaid over 3-5 years
9,429	East Lothian Housing Association	8,959	Loans secured on land and houses
-	Expected Credit Loss ELHA	(72)	Lifetime expected credit loss on East Lothian Housing Association loan (above)
9	Other	9	Loans secured on houses
10,965	**Total**	**10,209**	

Note 22 Short Term Debtors

A debtor is an 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 the accounting period. The amount owed to the council as at 31 March 2019 is:

31 March 2018 £000s	Short Term Debtors	31 March 2019 £000s
6,056	Central Government Bodies	5,851
1,161	Other Local Authorities	690
1,834	NHS Bodies	299
6	Public Corporations and Trading Funds	2
22,512	Other Entities and Individuals	37,829
31,569	**Total**	**44,671**

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

31 March 2018 £000s	Short Term Debtors Provision Against Non-Payment	31 March 2019 £000s
(5,466)	Taxpayers - Council Tax	(4,892)
(3,498)	Customers - Goods and Services	(2,783)
(2,663)	Tenants - Council House Rents	(2,561)
(11,627)	**Total**	**(10,236)**
19,942	**Short Term Debtors Total**	**34,435**

Note 23 Financial Instruments

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

31 March 2018 Short Term £000s	31 March 2018 Short Term £000s	31 March 2018 Long Term £000s	31 March 2018 Long Term £000s	Financial Instruments	31 March 2019 Short Term £000s	31 March 2019 Short Term £000s	31 March 2019 Long Term £000s	31 March 2019 Long Term £000s	Total £000s
Investments	**Debtors**	**Investments**	**Debtors**	**Financial Assets**	**Investments**	**Debtors**	**Investments**	**Debtors**	**Total**
14,766	14,510	-	9,889	Held at Amortised Cost	15,759	27,300	-	9,472	**52,531**
-	-	5,413	-	Designated Equity Instruments held at Fair Value Through Other Comprehensive Income (FVOCI)	-	-	5,428	-	**5,428**
-	5,664	-	767	Non-Financial Instruments	-	7,135	-	737	**7,872**
14,766	**20,174**	**5,413**	**10,656**	**Total Financial Assets**	**15,759**	**34,435**	**5,428**	**10,209**	**65,831**
Borrowings	**Creditors**	**Borrowings**	**Creditors**	**Financial Liabilities**	**Borrowings**	**Creditors**	**Borrowings**	**Creditors**	**Total**
(19,119)	(21,179)	(341,535)	(11,484)	Held at Amortised Cost	(19,148)	(23,862)	(343,917)	(36,620)	**(423,547)**
-	(13,349)	-	(173,447)	Non-Financial Instruments	-	(21,659)	-	(206,445)	**(228,104)**
(19,119)	**(34,528)**	**(341,535)**	**(184,931)**	**Total Financial Liabilities**	**(19,148)**	**(45,521)**	**(343,917)**	**(243,065)**	**(651,651)**

**Restated, for more information see Note 37 – Prior Period Adjustment*

These have changed in 2018/19 due to the introduction of IFRS 9. The difference in classifications is shown in the following table:

Previous Classification	Carrying amount b/f £000s	Amortised Cost £000s	FVOCI - Designated £000s	Non-Financial Assets £000s
Loans and Receivables	20	20	-	-
Available-For-Sale Financial Assets	5,413	-	5,413	-
Financial Assets Carried at Contract Amounts Less Statutory Debt	42,535	25,841	-	16,693
Reclassified Amounts	**47,968**	**25,861**	**5,413**	**16,693**
Bad & Doubtful Debt Provision		(1,364)	-	(10,262)
Remeasurement at 1 April 2018		(78)	-	-
Re-measured Carrying Amounts at 1 April 2018		**24,419**	**5,413**	**6,431**
Impact on General Fund Balance	-	(78)	-	-
Impact on Financial Instruments Revaluation Reserve	-	-	4,414	-

Loans and Receivables

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

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

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 CIES.

Investments in Equity Instruments Designated at Fair Value through Other Comprehensive Income

With the introduction of IFRS 9, an equity instrument can be elected into a 'Fair Value Through Other Comprehensive Income' treatment rather than 'fair value through profit or loss', if it is not held for trading. The impact of an election in relation to an equity instrument to post gains/losses to other comprehensive income, is that movements in fair value will not be debited/credited to the Surplus or Deficit on the Provision of Services as they arise. Instead, movements will be accumulated in the Financial Instruments Revaluation Reserve until the asset is derecognised, at which point the net gain or loss would be transferred to the General Fund Balance, and the gain/loss is recognised in the 'Surplus or Deficit from Investments in Equity Instruments Designated at Fair Value Through Other Comprehensive Income'.

The council has designated all of its Long Term Investments (Note 20 page 69) as Fair Value through Other Comprehensive Income, as they are not held for trading or income generation, rather, longer term policy initiatives. The council has no current intention to dispose of these shareholdings.

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

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

The inputs to the measurements techniques are categorised in accordance with the fair value hierarchy detailed in Note 36 (page 95).

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

Financial Instruments Gains and Losses

The gains and losses recognised in the CIES in relation to financial instruments are made up as follows:

2017/18			2018/19	
Surplus or Deficit on the Provision of Services £000s	Other Comprehensive Income and Expenditure £000s	Financial Instruments Income, Expenses, Gains & Losses	Surplus or Deficit on the Provision of Services £000s	Other Comprehensive Income and Expenditure £000s
		Net Gains/Losses on:		
-	(1,788)	Investments in Equity Instruments designated at FVOCI	-	(15)
-	**(1,788)**	**Total Net Gains/Losses**	**-**	**(15)**
		Interest Revenue:		
(384)	-	Financial Assets measured at Amortised Cost	(465)	-
(212)	-	Other Financial Assets measured at FVOCI	(240)	-
(596)	**-**	**Total Interest Revenue**	**(705)**	**-**
16,305	**-**	**Interest Expense**	**16,321**	**-**
7	**-**	**Fee Expense**	**7**	**-**

Financial Liabilities and Financial Assets – Fair Value

As at 31 March 2019, the council held £42.2m financial assets and £461.79m financial liabilities. The financial liabilities are held with PWLB, PFI and Market lenders. All of these borrowings were not quoted on an active market and a market valuation is not available. To provide a fair value which provides a comparison to the carrying amount, we have used a financial model valuation provided by Link Asset Services. This valuation applies the Net Present Value approach, which provides an estimate of the value of payments in the future in today's terms as at the Balance Sheet date. This is a widely accepted valuation technique commonly used by the private sector. Our accounting policy uses New Borrowing Rates to discount the future cash flows.

The fair values are shown in the Financial Liabilities and Financial Asset tables.

The fair value of the liabilities is greater than the carrying amount because the council's portfolio of loans includes a number of fixed rate loans, where the interest rate payable is higher than the rates available for similar loans in the market at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2019) arising from a commitment to pay interest to lenders above current market rates.

The fair value of Public Works Loan Board (PWLB) loans of £391.14m measures the economic effect of the terms agreed with the PWLB, compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. The difference between the carrying amount and the fair value, measures the additional interest that the authority will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates.

31 March 2018 Carrying Amount £000s	31 March 2018 Fair Value £000s	Financial Liabilities	31 March 2019 Carrying Amount £000s	31 March 2019 Fair Value at Level 2 £000s
(318,575)	(383,962)	PWLB Debt	(322,304)	(391,142)
(40,877)	(60,399)	Non-PWLB Debt	(40,761)	(61,110)
(33,034)	(33,050)	Short Term Creditors	(23,862)	(23,863)
(1,478)	(1,478)	Short Term Finance Lease Liability	(1,347)	(1,347)
(11,484)	(11,484)	Long Term Creditors	(36,620)	(36,620)
(38,245)	(38,244)	Long Term Finance Lease Liability	(36,899)	(36,899)
(443,693)	**(528,617)**	**Total Liabilities**	**(461,793)**	**(550,981)**

31 March 2018 Carrying Amount £000s	31 March 2018 Fair Value £000s	Financial Assets	31 March 2019 Carrying Amount £000s	31 March 2019 Fair Value at Level 2 £000s
20	20	Short Term Investments	-	-
5,413	5,413	Long Term Investments	5,428	5,428
31,553	31,569	Short Term Debtors	27,300	27,300
10,965	10,965	Long Term Debtors	9,472	9,472
47,951	**47,967**	**Total Assets**	**42,200**	**42,200**

Short-term debtors and creditors are carried at cost as this is a fair approximation of their value.

Key risks

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

- Credit risk - the possibility that other parties might fail to pay amounts due to the council,
- Market risk - the possibility that financial loss might arise for the council as a result of changes in such measures as interest rates or stock market movements,

- 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 required to renew a financial instrument on maturity at disadvantageous interest rates or terms.

The council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by the council in the annual treasury management strategy. The council provides written principles for overall risk management, as well as written policies (covering specific areas such as interest rate risk, credit risk and the investment of surplus cash).

Expected Credit Losses / Credit Risk

The changes in the loss allowance for investments and trade receivables during the year are shown in the Expected Credit Loss table.

During the year the authority wrote off financial assets with a contractual amount outstanding of £285k (£45k in 2017/18).

The Expected Credit Loss (ECL) for East Lothian Housing Association (ELHA) is a new requirement due to the introduction of IFRS 9. The 2018 figure has been calculated on the basis of IFRS 9 being in place during 2017/18. This 12 month ECL is based on advice from a professional rating agency, applying a 0.78% failure probability to the gross carrying amount of the loan which was £9.2 million.

31 March 2018 12 Month ELHA £000s	31 March 2018 Lifetime Sundry Accounts £000s	Expected Credit Loss (ECL)	31 March 2019 12 Month ELHA £000s	31 March 2019 Lifetime Sundry Accounts £000s
-	3,143	Opening Balance	78	2,134
78	-	Individual Financial Assets Transferred to 12 Month ECL	-	-
-	(1,009)	Changes in Models/Risk Parameters	(7)	(893)
78	**2,134**	**Closing Balance**	**71**	**1,241**

Also due to the introduction of IFRS 9, the ECL calculation of the Sundry Accounts was revised to provide for the lifetime expected losses. This was calculated using the simplified approach based on the type and age of the debt. The age of the debt is shown in the Credit Risk table.

31 March 2018 £000s	Credit Risk	31 March 2019 £000s
2,322	Less Than Three Months (90 days)	3,054
289	Three to Six Months (91 - 182 days)	175
268	Six Months to One Year (183 - 365 days)	287
2,911	Greater Than One Year (greater than 365 days)	2,877
5,790	**Total**	**6,393**

Market Risks

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 CIES 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 CIES will rise; and
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

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

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 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 rate borrowing would be postponed.

According to this assessment strategy, at 31 March 2019, if all interest rates had been 1% higher (with all other variables held constant) the financial effect is shown in the Interest Rate Risk table:

31 March 2018 £000s	Interest Rate Risk	31 March 2019 £000s
165	Increase in Interest Payable on Variable Rate Borrowings	-
-	Increase in Interest Receivable on Variable Rate Borrowings	(35)
165	**Impact on Surplus or Deficit on the Provision of Services**	**(35)**
(19)	Share of overall impact debited to the HRA	(19)
49,946	*Decrease in Fair Value of Fixed Rate Borrowings Liabilities	63,841

**No impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure*

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

Price Risk

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

However, it does have shareholdings to the value of £5.428m in a number of joint ventures and in local industry. Whilst these holdings are generally illiquid, the council is exposed to losses arising from movements in the price of the shares. The shares are all classified as Equity Instruments Designated as Fair Value through Other Comprehensive Income, meaning that all movements in price will impact on gains and losses recognised in the Financial Instruments Revaluation reserve.

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 value of the funds.

Foreign Exchange Risk

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

Liquidity Risk

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

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

All sums owing (£20.174m) are due to be paid in less than one year.

Refinancing and Maturity Risk

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

The maturity analysis of financial liabilities is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period (approved council in the Treasury Management Strategy, section 5.1.3):

Actual 31 March 2018 £000s	Refinancing and Maturity Risk	Approved Minimum Limits	Approved Minimum Limits	Approved maximum £000s	Actual 31 March 2019 £000s
17,572	Less Than 1 Year	0%	20%	72,088	17,597
17,598	Between 1 and 2 Years	0%	30%	108,132	17,271
51,286	Between 2 and 5 Years	0%	40%	144,176	45,296
35,236	Between 5 and 10 Years	0%	40%	144,176	31,002
236,332	More than 10 Years	0%	75%	270,330	249,274
358,024	**Total**				**360,440**

Note 24 Short Term Creditors

A Creditor is an amount 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. The amounts owed by the council as at 31 March 2019 were:

31 March 2018 £000s	Short Term Creditors	31 March 2019 £000s
(5,954)	Central Government Bodies	(5,445)
(2,706)	Other Local Authorities	(2,620)
(340)	NHS Bodies	(252)
(15)	Public Corporations	(8)
(25,513)	Other Entities and Individuals	(33,551)
(34,528)	Total	(41,876)

**Restated – for further detail, please refer to Note 37 – Prior Period Adjustment*

Note 25 Provisions

Cost or Valuation	Affordable Homes Development Fund £000s	Accumulated Absences Fund £000s	Municipal Mutual Fund £000s	Other Provision £000s	Total £000s
Balance at 1 April 2017	(731)	(3,335)	(109)	(551)	(4,726)
Provisions Made in 2017/18	(460)	(3,697)	-	-	(4,157)
Provision Reversed in 2017/18	-	-	-	551	551
Amounts Used in 2017/18	112	3,335	-	-	3,447
Balance at 31 March 2018	**(1,079)**	**(3,697)**	**(109)**	**-**	**(4,885)**
Balance at 1 April 2018	(1,079)	(3,697)	(109)	-	(4,885)
Provisions Made in 2018/19	(463)	(3,645)	-	-	(4,108)
Provision Reversed in 2018/19	-	3,697	-	-	3,697
Amounts Used in 2018/19	-	-	-	-	-
Balance at 31 March 2019	**(1,542)**	**(3,645)**	**(109)**	**-**	**(5,296)**

Provisions are made where an event has taken place that gives the authority 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 authority 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 CIES in the year that the authority 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 recognised as income in the relevant service revenue account only if it is virtually certain that reimbursement will be received.

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 directly, disburse funds to other organisations or 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 of which 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 31 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. Previously, 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 pre-arranged 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.

Note 26 Long Term Liabilities

31 March 2018 £000s	Long Term Liabilities	31 March 2019 £000s	Funds Held at 31 March for Agreements that will be Implemented after 2019/20
(11,484)	Deferred Liabilities - Developers Contributions	(36,620)	These amounts represent the payments received from developers and are linked to future capital spending. Funding is retained until project is completed.
(382)	Deferred Liabilities - Rental Income in Advance	(360)	Income to be released over the lease period.
(755)	Other	(607)	Other long term commitments including lifetime replacement of 3G pitches and tennis courts.
(38,244)	PPP and Finance Lease Liabilities	(36,897)	This amount represents the outstanding obligations that the council has in relation to finance and PFI leases. More details are provided in Notes 16 and 17.
(132,870)	Net Pension Liabilities	(166,930)	The liabilities are the underlying commitments that the council has to pay retirement benefits. Recovered from the council over future years. More details are provided in Note 27.
(183,735)	**Total Long Term Liabilities**	**(241,414)**	

Note 27 Defined Benefit Pension Schemes

Participation in Pension 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 two post-employment schemes:

- The Local Government Pension Scheme, administered by the Lothian Pension Fund operated by the City of Edinburgh Council – this is a funded defined benefit final salary 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 – this is an unfunded defined benefit arrangement under which liabilities are recognised when awards are made. However, 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 principal 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 later in this 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

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

- Service cost comprising:
  - Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the CIES to the services for which the employees worked.
  - Past service cost – the increase in liabilities is a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the CIES as part of Corporate and Central Services.
  - Net Interest on the net defined benefit liability i.e. net interest expense for the authority – the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the CIES – 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 at the beginning of the period – taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

- Re-measurements comprising:
  - The return on plan assets – excluding amounts included in the net interest on the net defined liability; charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
  - Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions; charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
  - Contributions paid to the Lothian Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

31 March 2018 £000s	Defined Benefit Pension Schemes	31 March 2019 £000s
	Comprehensive Income and Expenditure Statement	
	Cost of Service Comprising:	
24,240	Current Service Cost	26,081
86	Past Service Costs (Including Curtailments)	4
	Financing and Investment Income and Expenditure	
4,751	Net Interest Expense	3,720
29,077	**Total Post Employment Benefit Charged to the Surplus or Deficit**	**29,805**
	Other Post-Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	
	Remeasurement of the Net Defined Benefit Liability Comprising:	
10,717	Return on Plan Assets (Excluding the Amount Included in the Net Interest Expense)	(37,805)
164	Actuarial Gains and Losses Arising on Changes in Demographic Assumptions	-
(21,622)	Actuarial Gains and Losses Arising on Changes in Financial Assumptions	57,659
(48,706)	Other Remeasurement Experiences	427
(59,447)	Total Post-Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	20,281
	Movement in Reserves Statement	
(14,079)	Reversal of Net Charges Made to the Surplus or Deficit on the Provision of Services for Post-Employment Benefits in Accordance with the Code.	(13,779)
	Actual Amount Charged Against the General Fund Balance for Pensions in the Year	
14,498	Employers Contributions Payable	15,604

Statutory provisions require the General Fund Balance to be charged with the amount payable by the authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the MiRS, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the Pension Fund and pensioners and any such amounts payable but unpaid at the year-end. The balance that arises on the Pension Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows, rather than as benefits are earned by employees.

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 MiRS. The Defined Benefit Pension Schemes table shows transactions have been made in the CIES and the General Fund Balance via the MiRS during the year.

Pension assets and liabilities recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the council's obligation in respect of its defined benefit plan is as follows:

2017/18 £000s	Pension Assets and Liabilities Recognised in the Balance Sheet	2018/19 £000s
	Pension Assets and Liabilities Recognised in the Balance Sheet	
(691,685)	Present Value of the Defined Benefit Obligation	(781,114)
558,815	Fair Value of Plan Assets	614,184
(132,870)	**Net Liability Arising from Defined Benefit Obligation**	**(166,930)**

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

31 March 2018 £000s	Reconciliation of the Movements in the Fair Value of the Scheme Assets	31 March 2019 £000s
554,156	**Opening Fair Value of Scheme Assets**	558,815
14,411	Interest Income	15,110
	Remeasurement Gain/(Loss):	
(10,717)	Return on Plan Assets, Excluding the Amount Included in the Net Interest Expense	37,805
14,998	Contributions from Employer	16,026
3,931	Contributions from Employees into the Scheme	4,131
(17,964)	Benefits Paid	(17,703)
558,815	**Closing Fair Value of Scheme Assets**	**614,184**

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

31 March 2018 £000s	Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)	31 March 2019 £000s
(732,394)	Opening Balance at 1 April	(691,685)
(24,240)	Current Service Cost	(26,081)
(19,162)	Interest Cost	(18,830)
(3,931)	Contributions from Scheme participants	(4,131)
	Remeasurement (Gains) and Losses:	
(164)	Actuarial Gains/Losses Arising from Changes in Demographic Assumptions	-
21,622	Actuarial Gains/Losses Arising from Changes in Financial Assumptions	(57,659)
48,706	Other	(427)
(86)	Past Service Cost	(4)
17,964	Benefits Paid	17,703
(691,685)	**Closing Balance at 31 March**	**(781,114)**

The maturity profile of the scheme liabilities is as follows:

Maturity Profile of Defined Benefit Obligation	Liability Split £000s	Liability Split %	Weighted Average Duration (Years)
Active Members	(460,230)	60.3%	24.1
Deferred Members	(79,918)	10.5%	24.3
Pensioner Members	(222,568)	29.2%	12.5
Total for Funded Obligations	**(762,716)**	**100.0%**	**19.8**
Unfunded Pensioner Liabilities	(18,398)		
Total Pension Liability	**(781,114)**		

Basis for Estimating Assets and Liabilities

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

The Local Government Pension Scheme liabilities have been estimated by Hymans Robertson, an independent firm of actuaries. The liabilities for the Lothian Pension Fund at 31 March 2019 have been assessed by rolling forward the value of the liability calculated at the latest formal valuation date (31 March 2017), allowing for the different financial assumptions required under the Accounting Standard at the reporting date.

The main financial assumptions in the actuaries' calculations were:

Male 2017/18	Female 2017/18	Mortality Assumptions Longevity at Age 65	Male 2018/19	Female 2018/19
21.7	24.3	Current Pensioners	21.7	24.3
24.7	27.5	Future Pensioners	24.7	27.5
	2017/18	**Rate Of Inflation**	**2018/19**	
	4.1%	Rate of Increase in Salaries	4.2%	
	2.4%	Rate of Increase in Pensions	2.5%	
	2.7%	Rate for Discounting Scheme Liabilities	2.4%	

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

Impact on the Defined Benefit Obligation in the Scheme Actuarial Assumptions Sensitivity Analysis	Approximate % Increase to Defined Benefit Obligation %	Approximate Monetary Amount £000s
0.5% decrease in Real Discount Rate	10%	79,555
0.5% increase in the Salary Increase Rate	2%	15,518
0.5% increase in the Pension Increase Rate	8%	62,192

Lothian Government Pension Scheme Assets comprised:

31 March 2018 £000s	31 March 2018 %	Local Government Pension Scheme Asset comprised:	31 March 2019 £000s	31 March 2019 %
33,018	6%	**Cash and Cash Equivalents**	51,576	9%
10,203	2%	**Private Equity**	8,329	1%
257	0%	**Derivatives**	155	0%
		Equity Securities:		
76,566	14%	Consumer	65,349	11%
83,195	15%	Manufacturing	75,568	12%
34,958	6%	Energy and Utilities	46,398	8%
49,646	9%	Financial Institutions	51,669	8%
27,397	5%	Health and Care	33,369	5%
34,068	6%	Information Technology	20,005	3%
35,067	6%	Other	59,887	10%
340,897	61%	**Sub-total Equity Securities**	352,245	57%
		Debt Securities:		
-	0%	Corporate Bonds (investment grade)	-	0%
10,888	2%	Corporate Bonds (non-investment grade)	-	0%
54,176	10%	UK Government	62,404	10%
-	0%	Other	-	0%
65,064	12%	**Sub-total Debt Securities**	62,404	10%
		Real Estate:		
35,917	6%	UK Property	41,600	7%
584	0%	Overseas Property	-	0%
36,501	6%	**Sub-total Real Estate**	41,600	7%
		Investment Funds and Unit Trusts		
5,371	1%	Equities	6,067	1%
-	0%	Bonds	15,570	3%
-	0%	Commodities	-	0%
66,228	12%	Infrastructure	76,238	12%
1,276	0%	Other	-	0%
72,875	13%	**Sub-total Investment Funds and Unit Trusts**	97,875	16%
558,815	**100%**	**Total Assets**	**614,184**	**100%**

31 March 2018 £000s	Scheme Assets Fair Value	31 March 2019 £000s
435,500	Quoted Prices in Active Markets	472,447
123,315	Quoted Prices not in Active Markets	141,737
558,815	**Total**	**614,184**

Impact on Council's Cash Flows

The liabilities show the underlying commitments that the council has in the long run to pay retirement benefits. The total liability of £166.93 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 is balanced by a pension reserve, giving a neutral net position relating to the pension liability. 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 2020 is £16.362 million.

Pension schemes accounted for as defined contribution schemes

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

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

In 2018/19, the council paid £6.41m (2017/18: £6.33m) to the Scottish Teachers Superannuation Scheme in respect of teachers' retirement benefits, representing 17.2% of pensionable pay (2017/18: 17.2%). An additional £0.19m relating to 2018/19 is expected to be paid in 2019/20, relating to the pay award backdated to 1 April 2018 that remained unpaid at 31 March 2019. The additional £0.19m is included in the balance sheet in short term creditors. The estimated contribution for 2019/20 is £8.42m.

The council is responsible for the costs of any additional benefits awarded upon early retirement, outside of the terms of the TPS. In 2018/19, the council paid £0.509m (2017/18: £0.590m) 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 2018/19, the council paid £0.06m (2017/18: £0.06m) to individuals. The estimated value of future liabilities based on actuarial mortality estimates is £0.498m.

Note 28 Usable Reserves

Usable Reserve	General Fund £000s	Capital Grant & Receipts Unapplied £000s	Capital Fund £000s	Insurance Fund £000s	Housing Revenue Account £000s	Total £000s
Opening Balance	(12,553)	-	(4,600)	(1,883)	(5,395)	(24,431)
(Surplus) / Deficit on Provision of Service	9,432	-	-	-	8,163	17,596
Adjustments Between Accounting and Funding Basis	(9,819)	-	-	-	(8,836)	(18,655)
Transfers Between Reserves	183	(245)	-	62	-	(0)
Closing Balance	**(12,757)**	**(245)**	**(4,600)**	**(1,821)**	**(6,068)**	**(25,491)**

Movements in the council's Usable Reserves are detailed in the MiRS within the Main Financial Statements.

General Fund Balance

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

Capital Grants & Receipts Unapplied Balance

The Capital Grants and Receipts Unapplied is a new reserve created to allow capital receipts to be used to transform service delivery to reduce costs and/or reduce demand. This ability is available to councils from 2018/19 until 2021/22.

Capital Fund

The council has statutory powers to hold a Capital Fund to meet future capital investment costs, either reducing loans fund advances or providing funds to cover the principal repayments of the loans fund.

Insurance Fund Balance

The Insurance Fund is used where the authority could insure against a risk but has chosen not to do so, defraying any loss or damage suffered or expenses incurred by the authority as a consequence of that risk. It can also be used to pay premiums on a policy to insure against a risk.

Housing Revenue Account Balance

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

Note 29 Unusable Reserves

Unusable reserves cannot be used to support services. They include gains and losses which can only become available to support services if the assets are sold, these gains and losses are referred to as unrealised. The authority has several different unusable reserves, the balances of which are shown in this table, with expanded explanations below.

31 March 2018 £000s	Unusable Reserve	31 March 2019 £000s
(206,910)	Revaluation Reserve	(245,982)
132,870	Pensions Reserve	166,930
3,697	Employee Statutory Adjustment Account	3,645
(245,603)	Capital Adjustment Account	(249,796)
(4,414)	Available-for-sale Financial Instruments Reserve	-
-	Financial Instruments Revaluation Reserve	(4,429)
3,396	Financial Instruments Adjustment Account	3,132
(316,964)	**Total**	**(326,500)**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the council arising from increases in the value of its PPE. 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
- Disposed of and the gains are realised.

The reserve contains revaluation gains only 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 2018 £000s	Revaluation Reserve	31 March 2019 £000s
(227,705)	**Balance at 1 April**	**(206,910)**
(630)	Upward Revaluation of Assets	(48,596)
10,910	Downward Revaluation of Assets and Impairment Losses Not Charged to the Surplus/Deficit on the Provision of Services	63
10,280	Surplus of Deficit on Revaluation of Non-Current Assets not Posted to the Surplus or Deficit on the Provision of Services	(48,533)
9,835	Difference Between Fair Value Depreciation and Historical Cost Depreciation	9,155
188	Accumulated Gains on Assets Sold or Scrapped	306
492	Asset Transfer	-
(206,910)	**Balance at 31 March**	**(245,982)**

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 CIES as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs.

However, statutory arrangements require benefits earned to be financed as the council makes employer's contributions to pension funds or eventually pays any pension for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

31 March 2018 £000s	Pension Reserve	31 March 2019 £000s
178,238	**Balance at 1 April**	**132,870**
(59,447)	Actuarial Gains or Losses on Pensions Assets and Liabilities	20,281
29,077	Reversal of Items Relating to Retirement Benefits Debited or Credited to the Surplus or Deficit on the Provision of Services in the CIES	29,805
(14,998)	Employer's Pension Contributions and Direct Payments to Pensioners Payable in the Year	(16,026)
132,870	**Balance at 31 March**	**166,930**

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 2018 £000s	Employee Statutory Adjustment Account	31 March 2019 £000s
3,335	**Balance at 1 April**	**3,697**
(3,335)	Settlement or Cancellation of Accrual Made at End of the Preceding Year	(3,697)
3,697	Amount Accrued at the End of the Current Year	3,645
362	Amount by Which Office Remuneration Charged to the CIES on an Accruals Basis is Different from Remuneration Chargeable in the Year in Accordance with Statutory Requirements	(52)
3,697	**Balance at 31 March**	**3,645**

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 CIES (with reconciling postings from the Revaluation Reserve to convert current and fair value figures to a historical cost basis). The account is credited with the amounts set aside by the council as finance for the costs of acquisition, construction and enhancements. The Account also contains revaluation gains accumulated on PPE before 1 April 2007, the date the Revaluation Reserve was created to hold such gains.

Note 6 provides details of the source of all of the transactions posted to the account, apart from those involving the Revaluation Reserve.

31 March 2018 £000s	Capital Adjustment Account	31 March 2019 £000s
(235,748)	**Balance at 1 April**	**(245,603)**
35,260	Charges for Depreciation of Non-Current Assets	34,680
11,038	Revaluation Gains / Losses on Property, Plant and Equipment	5,751
3,081	Impairment Losses on Property, Plant and Equipment	3,696
(1,311)	Assets Written Off on Disposal or Sale	31
(9,835)	Adjusting Amounts Written Out of the Revaluation Reserve	(9,155)
38,233	Net Amounts Written Out of the Cost of Non-Current Assets Consumed in the Year	35,003
	Capital Financing applied in the year	
-	Use of Capital Receipts Reserve to Finance New Capital Expenditure	-
(29,210)	Capital Grants and Contributions Credited to the CIES that Have Been Applied to Capital Financing	(23,142)
-	Charges for expected credit loss of Non-Current assets	71
(16,378)	Statutory Provision for the Financing of Capital Investment Charged Against the General Fund and HRA Balances	(12,925)
(2,500)	Capital Expenditure Charged Against the General Fund and HRA Balances	(3,200)
(48,088)		(39,196)
(245,603)	**Balance at 31 March**	**(249,796)**

Available For Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Revaluation Reserve has been removed due to the introduction of IFRS 9. It has been replaced by the Financial Instruments Revaluation Reserve (below).

31 March 2018 £000s	Available for Sale Financial Instruments Reserve	31 March 2019 £000s
(2,625)	**Balance at 1 April**	(4,414)
(1,789)	Revaluation of Investments not Charged to the Surplus/Deficit on the Provision of Services	-
-	Downward Revaluation of Investments not Charged to the Surplus/Deficit on the Provision of Services	-
-	Balance Transferred to Financial Instruments Revaluation Reserve	4,414
(1,789)		4,414
(4,414)	**Balance at 31 March**	-

Financial Instruments Revaluation Reserve

The Financial Instrument Revaluation Reserve contains the gains made by the council arising from increases in the value of its investments that are designated as measured at fair value through other comprehensive income. The balance is reduced when investments with accumulated gains are:

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

31 March 2018 £000s	Financial Instruments Revaluation Reserve	31 March 2019 £000s
-	**Balance at 1 April**	-
-	Balance Transferred from Available for Sale Financial Instruments Reserve	(4,414)
-	Upward Revaluation of Investments	(17)
-	Downward Revaluation of Investments	2
-	Change in Impairment Loss Allowances	-
-		(15)
-	**Balance at 31 March**	(4,429)

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 CIES when they are incurred, but reversed out of the General Fund Balance to the Account in the MiRS. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the council's case this period is the unexpired term that was outstanding on the loans when they were redeemed.

31 March 2018 £000s	Financial Instruments Adjustment Account	31 March 2019 £000s
3,664	**Balance at 1 April**	**3,396**
(12)	Premiums Incurred in the Year and Charged to the CIES	(8)
(256)	Proportion of Premiums Incurred in Previous Financial Years to be Charged Against the General Fund Balance in Accordance with Statutory Provisions	(256)
(268)	Amount by Which Finance Costs Charged to the CIES are Different from Finance Costs Chargeable in the Year in Accordance with Statutory Provisions	(264)
3,396	**Balance at 31 March**	**3,132**

Note 30 Movements in Earmarked Reserves

The amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2018/19 are:

Transfers to and from the Earmarked Portion of the General Reserve	Mid and East Lothian Drugs & Alcohol Project £000s	Devolved School Management Balances £000s	Cost Reduction Fund £000s	Civil Emergency Fund £000s	General Services Capital £000s	Other Balances £000s	Total £000s
Balance At 1 April 2017	**(303)**	**(258)**	**(2,767)**	**(2,000)**	**(2,282)**	**(431)**	**(8,041)**
Transfers Out during 2017/18	-	-	500	-	-	431	931
Transfers In during 2017/18	-	(133)	(1,500)	-	-	(575)	(2,208)
Balance at 31 March 2018	**(303)**	**(391)**	**(3,767)**	**(2,000)**	**(2,282)**	**(575)**	**(9,318)**
Transfers Out during 2018/19	-	230	-	-	-	90	320
Transfers In during 2018/19	-	(76)	-	-	-	-	(76)
Balance at 31 March 2019	**(303)**	**(237)**	**(3,767)**	**(2,000)**	**(2,282)**	**(485)**	**(9,074)**

Note 31 Grant Income

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

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

Amounts recognised as due to the authority are not credited to the CIES until conditions attached to the grant or contribution have been satisfied. It is stipulated that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-specific Grant Income and Expenditure (non-ring-fenced revenue grants and all capital grants) in the CIES. Where capital grants are credited to the CIES, they are reversed out in the General Fund Balance in the MiRS.

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.

2017/18 £000s	Grant Income	2018/19 £000s
	Credited to Taxation & Non-Specific Grant Income	
(11,372)	General Capital Grant	(10,996)
(8,184)	Contributions From Developers	(3,183)
(3,962)	Mortgage to Rent Scheme/Housing Grants	(7,374)
(5,692)	Other Grants & Contributions	(1,599)
(29,210)	**Total**	**(23,152)**
	Credited to Services	
(19,380)	Housing Benefit Subsidy / Admin Grant & Housing Payments	(18,645)
(6,628)	Resource Transfer Funds	(9,442)
(1,298)	Criminal Justice Grant	(1,299)
(475)	Change Funds / Contributions from NHS	(889)
(628)	Private Sector Housing Grant	(628)
(366)	Funding for Drugs & Alcohol Teams	(508)
(89)	Home Energy Efficiency Programmes Scotland (HEEPS)	(435)
(331)	Educational Maintenance Allowance Funding	(249)
(284)	Active Schools	(295)
(312)	Employability Projects	(245)
(251)	Home Office contribution to Syrian Refugee costs	(208)
(432)	1140 Hours	(1,353)
(1,570)	PEF Funding	(1,565)
(109)	Youth Music Initiative	(134)
-	Transport Scotland Paths for All	(87)
-	Conservation Area Regeneration scheme	(321)
-	Electric Vehicles	(73)
(32,153)	**Total**	**(36,376)**

Note 32 Capital Grant Receipts in Advance

Previously the council had received a number of grants and contributions that were not recognised as income immediately as the conditions attached to them had not been met.

2017/18 £000s	Capital Grants & Contributions Receipts in Advance	2018/19 £000s
(6)	National Health Service	-
(6)	**Total**	**-**

Note 33 Cash Flow Statement – Non Cash Movements

The surplus or deficit on the provision of services (in the Operating Activities section of the Cash Flow Statement) has been adjusted for the following non-cash movements.

Authority 2017/18 £000s	Group 2017/18 £000s	Adjustment to Net Deficit on the Provision of Services for Non-Cash Movements	Authority 2018/19 £000s	Group 2018/19 £000s
(46,790)	(46,790)	Depreciation	(34,680)	(34,680)
(3,081)	(3,081)	Impairments and Downward Valuations	(9,447)	(9,447)
(1,205)	(1,205)	Carrying Amount of Non-Current Assets Held for Sale, Sold or Derecognised	(412)	(412)
(29,077)	(29,077)	Net Charges Made for Retirement Benefits in Accordance with IAS 19	(29,805)	(29,805)
14,998	14,998	Employer's Contributions Payable to the Lothian Pension Fund	16,026	16,026
(259)	(259)	(Increase) in Revenue Long Term Debtors & Liabilities	(516)	(516)
(159)	(159)	(Increase) in Provisions	(411)	(411)
(374)	(374)	Increase/(Decrease) in Inventories	70	70
(249)	(356)	(Increase) in Revenue Creditors	(7,719)	(7,738)
6,332	6,301	Increase in Revenue Debtors	14,093	14,131
(59,864)	**(60,002)**	**Total**	**(52,801)**	**(52,782)**

Note 34 Cash Flow Statement - Investing and Financing Activities

The surplus or deficit on the provision of services (in the Operating Activities section of the Cash Flow Statement) has been adjusted for the following investing and financing activities:

2017/18 £000s	Adjustments for Items Included in the Net Surplus or Deficit on the Provision of Services that are Investing and Financing Activities	2018/19 £000s
29,210	Proceeds from Capital Grants	23,152
596	Proceeds from Short-Term Investments	705
2,328	Proceeds from Sale of PPE, Assets Held for Sale and Other Non-Current Assets	588
32,134	**Total**	**24,445**

Note 35 Material Items of Income and Expense

Where items are not disclosed on the face of the CIES, 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.

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 in Note 31.

2017/18 £000s	Material Items of Income and Expense	2018/19 £000s
35,260	Depreciation Charged on Assets	34,680
11,530	Impairments and Downward Valuations	3,696
19,479	Housing Benefit Paid	18,739
9,062	Unitary Charge/PPP Payments to Contractor	9,420

Note 36 Fair Value Hierarchy

Fair Value Measurement

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

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

The authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. When measuring the fair value of a non-financial asset, the authority takes into account a market participant's ability to generate economic benefit by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Inputs to the valuation techniques in respect of assets and liabilities, for which fair value is measured or disclosed in the council's financial statements, are categorised within the fair value hierarchy as follows:

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

Details of the authority's surplus assets and information about the fair value hierarchy as at 31 March 2019, are as follows:

31 March 2018 Total Fair Value £000s	Fair Value Hierarchy	31 March 2019 Total Fair Value £000s
	Recurring fair value measurements using:	
5,413	Equity Instruments	5,428
3,843	Non-Financial Assets	4,836
9,256	**Total**	10,264

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

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

Note 37 Prior Period Restatements

A review of the council's contracts (undertaken due to the implementation of IFRS 15) and the council's policies towards internal recharges has identified the following three issues that required restatement of prior periods:

i. Title for Wallyford Primary School was received in 2017, however the land purchase was linked to receipt of Section 75 income and had not been recognised. As a result, the balance sheet was understated by £3.080m.

ii. The full cost of capital spend was not being captured, as retentions due on projects were not taken into account. This has resulted in the balance sheet being understated by £0.339m.

iii. In 2017/18 the council removed internally generated income from the CIES, but did not remove these transactions between the HRA and the General Fund. The total of these transactions was £4.576m.

The amounts involved are significant and as a result would affect comparison with prior year figures in this year's accounts. Prior year figures have therefore been restated in the main statements and related notes.

These restatements are summarised in the following tables, only showing the lines which may have changed:

Effect on the MiRS

Restated Movement in Reserves Statement For the Year Ended 31 March 2018	Published		Adjustments - General Fund Element			Restated	
	General Fund Balance £000s	Housing Revenue Account £000s	Wallyford Primary £000s	Capital Retentions £000s	HRA Recharge £000s	General Fund Balance £000s	Housing Revenue Account £000s
Total Comprehensive Expenditure and Income	10,355	5,601	-	-	(4,576)	5,779	10,177
Adjusted Comprehensive Expenditure and Income	**10,355**	**5,601**	-	-	**(4,576)**	**5,779**	**10,177**
Net (Increase) before Transfers to Other Statutory Reserves	**7,069**	**(5,946)**	-	-	**(4,576)**	**2,493**	**(1,370)**
Transfers to/from the Earmarked Portion of General Reserves	(5,571)	5,571	-	-	**4,576**	(995)	995
(Increase)/Decrease in Year	**1,498**	**(375)**	-	-	-	**1,498**	**(375)**
Balance at 31 March 2018 Carried Forward	**(19,036)**	**(5,395)**	-	-	-	**(19,036)**	**(5,395)**

Effect on the CIES

Comprehensive Income And Expenditure Statement	Published		Adjustments			Restated	
	Authority Net Spend	Group Net Spend	Wallyford Primary	Capital Retentions	HRA Recharge	Authority Net Spend	Group Net Spend
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Resources & People Directorate	107,681	107,695	-	-	(1,170)	106,511	106,525
Partnership & Community Directorate	68,345	68,252	-	-	(3,406)	64,939	64,846
HRA	4,407	4,407	-	-	4,576	8,983	8,983
Cost of Services	**243,207**	**243,128**	**-**	**-**	**-**	**243,207**	**243,128**

Effect on the Balance Sheet

Balance Sheet	Published		Adjustments			Restated	
	Authority	Group	Wallyford Primary	Capital Retentions	HRA Recharge	Authority	Group
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Property, Plant & Equipment	868,142	873,786	3,080	339	-	871,561	877,205
Long Term Assets	**885,572**	**899,291**	**3,080**	**339**	**-**	**888,991**	**902,710**
Short Term Creditors	(31,109)	(31,792)	(3,080)	(339)	-	(34,528)	(35,211)
Current Liabilities	**(53,918)**	**(50,069)**	**(3,080)**	**(339)**	**-**	**(57,337)**	**(53,488)**
Net Assets	**341,395**	**360,240**	**-**	**-**	**-**	**341,395**	**360,240**
Usable Reserves	(24,431)	(35,308)	-	-	-	(24,431)	(35,308)
Unusable Reserves	(316,964)	(324,932)	-	-	-	(316,964)	(324,932)
Total Reserves	**(341,395)**	**(360,240)**	**-**	**-**	**-**	**(341,395)**	**(360,240)**

Effect on Note 5 EFA

Expenditure and Funding Analysis	Published: Expenditure Chargeable to Usable Reserves £000s	Published: Net Expenditure in CIES £000s	Adjustments: Wallyford Primary £000s	Adjustments: Capital Retentions £000s	Adjustments: HRA Recharge £000s	Restated: Expenditure Chargeable to Usable Reserves £000s	Restated: Net Expenditure in CIES £000s
	GF and HRA combined					GF and HRA combined	
Resources & People Directorate	92,177	107,681	-	-	(1,170)	91,007	106,511
Partnership & Community Directorate	49,184	68,345	-	-	(3,406)	45,778	64,939
HRA	(11,808)	4,407	-	-	4,576	(7,232)	8,983
Net Cost of Service	**202,792**	**243,207**	**-**	**-**	**-**	**202,792**	**243,207**
	GF	**Combined**	**General Fund Element**			**GF**	**Combined**
Transfer to/from Reserves	(5,411)	160	-	-	4,576	(835)	160
In Year Use of Reserves	7,069	1,123	-	-	(4,576)	2,493	1,123
Closing General Fund Balance	**(17,153)**	**(22,548)**	**-**	**-**	**-**	**(17,153)**	**(22,548)**

Effect on Note 5 EFA Segment and Nature

Expenditure Analysed by Segment and Nature 2017/18	Published: Resources & People Directorate £000s	Published: Partnership & Community Directorate £000s	Published: HRA £000s	Published: Total £000s	Adjustments: Wallyford Primary £000s	Adjustments: Capital Retentions £000s	Adjustments: HRA Recharge* £000s	Restatement: Resources & People Directorate £000s	Restatement: Partnership & Community Directorate £000s	Restatement: HRA £000s	Restatement: Total £000s
Reallocation of Internal Costs	-	-	-	-	-	-	4,576	(1,170)	(3,406)	4,576	-
Total Expenditure	**114,405**	**82,466**	**32,820**	**393,693**	**-**	**-**	**4,576**	**113,235**	**79,060**	**37,396**	**393,693**
Deficit on the Provision of Services				**15,956**							**15,956**

**Adjustment is £0 net effect but split between the columns*

Effect on Note 12 Property, Plant and Equipment

Movements in 2017/18- Cost or Valuation	Published: Other land and buildings £000s	Published: Assets Under Construction £000s	Published: Total Property, Plant and Equipment £000s	Adjustments: Wallyford Primary £000s	Adjustments: Capital Retentions £000s	Adjustments: HRA Recharge £000s	Restated: Other land and buildings £000s	Restated: Assets Under Construction £000s	Restated: Total Property, Plant and Equipment £000s
Additions	9,380	10,809	**50,838**	3,080	339	-	9,400	14,208	**54,257**
At 31 March 2018	**488,406**	**17,472**	**1,063,421**	**3,080**	**339**	**-**	**488,426**	**20,871**	**1,066,840**
Net Book Value At 31 March 2018	449,244	17,470	**868,142**	3,080	339	-	449,264	20,869	**871,561**
Net Book Value At 1 April 2017	466,557	2,786	**878,942**	-	-	-	466,557	2,786	**878,942**

Effect on the Note 18 Capital Expenditure and Capital Financing

Capital Expenditure and Capital Financing - Capital Investment	Published 2017/18 £000s	Adjustments: Wallyford Primary £000s	Adjustments: Capital Retentions £000s	Adjustments: HRA Recharge £000s	Restated 2017/18 £000s
Property, Plant and Equipment	50,838	**3,080**	**339**	-	54,257
Closing Capital Financing Requirement	**428,103**	**3,080**	**339**	**-**	**431,522**

Effect on the Note 23 Financial Instruments Financial Liabilities

Financial Instruments Financial Liabilities	Published Short Term £000s Creditors	Adjustments Wallyford Primary £000s	Capital Retentions £000s	HRA Recharge £000s	Restated Short Term £000s Creditors
Held at Amortised Cost	(17,760)	(3,080)	(339)	-	(21,179)
Total Financial Liabilities	**(31,109)**	**(3,080)**	**(339)**	**-**	**(34,528)**

Financial Liabilities	31 March 2019 Carrying Amount £000s	Fair Value at Level 2 £000s	Adjustments Wallyford Primary £000s	Capital Retentions £000s	HRA Recharge £000s	31 March 2019 Carrying Amount £000s	Fair Value at Level 2 £000s
Short Term Creditors	(29,615)	(29,631)	(3,080)	(339)	-	(33,034)	(33,050)
Total Liabilities	**(440,274)**	**(525,198)**	**(3,080)**	**(339)**	**-**	**(443,693)**	**(528,617)**

Effect on the Note 24 Short Term Creditors

Short Term Creditors	Published 2017/18 £000s	Adjustments Wallyford Primary £000s	Capital Retentions £000s	HRA Recharge £000s	Restated 2017/18 £000s
Other Entities and Individuals	(22,094)	(3,080)	(339)	-	(25,513)
Total	**(31,109)**	**(3,080)**	**(339)**	**-**	**(34,528)**

Effect on the Housing Revenue Account

Housing Revenue Account	Published 2017/18 £000s	Adjustments Wallyford Primary £000s	Retentions £000s	HRA Recharge £000s	Restated 2017/18 £000s
HRA Share of Other Amounts included in the Whole Authority Net Cost of Services but not allocated to Specific Services	(4,576)	-	-	4,576	-
Net Expenditure of HRA Services	**4,407**	**-**	**-**	**4,576**	**8,983**
Deficit for the year on HRA Services	**5,601**	**-**	**-**	**4,576**	**10,177**

Effect on the Movement on the Housing Revenue Account Statement

Movement on the HRA Statement	Published 2017/18 £000s	Adjustments Wallyford Primary £000s	Retentions £000s	HRA Recharge £000s	Restated 2017/18 £000s
Deficit for the year on the HRA Income and Expenditure Statement	5,601			4,576	10,177
Net Decrease in the Balance before Transfer to or from Reserves	**(5,946)**	**-**	**-**	**4,576**	**(1,370)**
Adjustment for the Elimination of Internal Recharges	4,576			(4,576)	-
Decrease in year on the HRA	**(375)**	**-**	**-**	**-**	**(375)**
Balance on the HRA at the End of the Current Period	**(5,395)**	**-**	**-**	**-**	**(5,395)**

Notes to the Group Financial Statements

The council undertakes a broad range of activities, often in conjunction with external organisations. In some cases, the council has an interest in these organisations demonstrated through ownership or control/significant influence.

The CIPFA Code of Practice requires that, where the council has material financial interests and a significant level of control over one or more entities, it should prepare group accounts. The aim of these statements is to give an overall picture of the council's financial activities and the resources employed in carrying out those activities.

In order to give these group statements their due prominence they have been displayed alongside the council's own statements. The following notes provide further information regarding these entities and the transactions included in the group accounts.

Note G1 Combining Entities

The extent of the council's interest in these entities has been reviewed in determining those that should be consolidated and incorporated within the Group Accounts. Under accounting standards, the council is required to fully consolidate the results of all subsidiary companies into the Group Accounts using the acquisition method of accounting. Associates and Joint Ventures have been accounted for using the equity method of accounting, where the original investment in the council's accounts are adjusted for post-acquisition changes and the council's share of surplus or deficits are recognised through the CIES. Where applicable, consolidation adjustments have been made to eliminate inter-group transactions.

Note G2 Associates

Associates	Percentage Share 2017/18	Percentage Share 2018/19	Carrying Value at 31 March 2019 £000s	Share of (Surplus) or Deficit 2018/19 £000s	Other CIES Items 2018/19 £000s
East Lothian Investments	40.00%	40.00%	207	(3)	-
Enjoy East Lothian Ltd	36.36%	33.33%	1,352	77	-
Brunton Theatre Trust	25.00%	25.00%	123	(10)	-
Lothian Valuation Joint Board	12.50%	12.50%	(820)	67	158
Total			**862**	**131**	**158**

Associate entities are those over which the council has been deemed to exercise significant influence. The entities, along with the relative share shown in the table, have been treated as associate companies within the terms of the Code of Practice on Local Authority Accounting.

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

East Lothian Investments Ltd

East Lothian Investments (ELI) principal activity is granting interest free loans to businesses in East Lothian, with the aim of encouraging commercial activity and enterprise in the area. The company also started a new activity in the year, with the setting up and management of a gift card scheme for small businesses in the area. Two of the five directors of ELI are councillors of East Lothian Council.

Enjoy East Lothian Ltd

Enjoy East Lothian Limited (Enjoy) was established to manage, under contract, sports and leisure facilities and services on behalf of East Lothian Council. The current contract between Enjoy and the council runs until 31 September 2021. All of the facilities are owned by the council, with the exception of Dunbar Leisure Pool, which is wholly owned by Enjoy. Four of the 11 directors are councillors of East Lothian Council.

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.

Brunton Theatre Trust

Brunton Theatre Trust aims to provide a widely accessible programme for the enrichment and enjoyment of audiences and participants. Projects are undertaken that encourage harder to reach groups to engage with the work presented and the associated creative learning and arts development programmes, to enable participants to learn new skills whilst exploring a range of themes and issues. The aim of the Theatre programme is to provide the highest quality drama; dance; music; theatre for children and young people; film and comedy nights for the enjoyment and enrichment of the communities that the theatre serves. The council appoints two of the eight trustees of the Theatre.

Lothian Valuation Joint Board

The Lothian Valuation Joint Board (LVJB) was established under the Valuation Joint Boards (Scotland) Order 1995 and provides Valuation Appeals, Lands Valuation, Electoral Registration and Council Tax Valuation Services. The Board comprises 16 members appointed from the constituency authorities, of which two are from East Lothian Council.

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.

The summarised financial information of the various associates for the financial year 2018/19 has been presented below:

Associates	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 the Year £000s	(Surplus) or Deficit for the Year £000s
East Lothian Investments	532	(15)	517	(42)	(7)
Enjoy East Lothian Ltd	7,601	(3,883)	3,718	(6,705)	211
Brunton Theatre Trust	669	(176)	494	(1,467)	(40)
Lothian Valuation Joint Board	2,275	(8,838)	(6,563)	(6,105)	534
Total	**11,077**	**(12,912)**	**(1,834)**	**(14,319)**	**698**

Note G3 Subsidiaries

Subsidiary entities are those in which the council has a controlling share.

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

No subsidiaries have been excluded.

East Lothian Land Ltd

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 2019 show net current assets of £597,000 (31 March 2018: £599,000), and a loss before taxation of £2,000 (31 March 2018: Loss of £2,000). The company retains all accumulated profits and losses. No dividend was received. The value of East Lothian Land is included within the council accounts at the net asset value noted above.

Trust Funds and Common Goods

The council acts as a majority or sole Trustee for 47 trusts, bequests and other funds as well as four separate Common Good Funds. The net value of the Trusts included within the Group Accounts is £5.61 million (2017/18: £5.39m). 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. The total value of the Common Good funds within the Group Accounts is £12.42million (2017/18: £12.24m).

Musselburgh Racing Associated Committee

In 2018 Musselburgh Joint Racing Committee was reconstituted as the Musselburgh Racing Associated Committee, comprising four councillors (with cross party representation) and two members representing the racecourse interests. The remit of the committee is to organise and develop horse racing at Musselburgh Links. No shares are issued. 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. 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.

The annual accounts for the Common Good Funds and Trust Funds are included from page 110.

Note G4 Joint Venture

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

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

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

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

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

During 2018/19 East Lothian Council contributed £45.058 million to the annual running costs. The council currently has a creditor for the IJB totalling £311k, this has been removed from the balance sheet on consolidation.

Note G5 Financial Impact of Consolidation

The effect of inclusion of the associate and subsidiary companies and the joint venture on the Group Balance Sheet is to increase Net Assets and Reserves by £18.7 million. This is largely due to the value of Common Good and Trust Funds property and investment values.

Note G6 Non Material Interest

East Lothian Council has two members on the committee of Scotland Excel. **Scotland Excel** is a joint committee established to replace the Authorities Buying Consortium and other similar bodies across Scotland. It is the largest non-profit purchasing agency in Scotland and serves the buying needs of 32 local authorities and similar public sector bodies in Scotland. During the year the council made a contribution of £75,458 (2017/18: £74,806) towards the organisation's estimated running costs.

East Lothian Council is also a participating authority in **SEEMIS Group LLP**. The principal activity of the group is the provision of information technology solutions to Education services and is funded by the 32 participating authorities. During the year the council made a contribution of £91,021 (2017/18: £77,611) towards the LLP's estimated running costs.

other accounts

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Housing Revenue Account

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

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

*Restated 2017/18 £000s	Housing Revenue Account	2018/19 £000s
	Income	
(26,999)	Dwelling Rents	(28,618)
(635)	Non-Dwelling Rents	(665)
(578)	Service Charges	(608)
(322)	Other Income	(268)
(28,534)	**Total Income**	**(30,159)**
	Expenditure	
6,634	Repairs and Maintenance	8,174
7,106	Supervision and Management	7,408
21,440	Depreciation, Impairment and Revaluation Losses of Non-Current Assets	22,015
498	Impairment of Debtors	229
1,735	Other Expenditure	1,738
37,413	**Total Expenditure**	**39,564**
8,879	**Net Expenditure of HRA Services as Included in the Whole Authority Comprehensive income and Expenditure Statement**	**9,405**
104	HRA Services Share of Corporate and Democratic Core	112
8,983	**Net Expenditure of HRA Services**	**9,517**
-	**HRA Share of the Operating Income and Expenditure Included in the Comprehensive Income and Expenditure Statement**	
(866)	(Gains) on Sale of HRA Non-Current Assets	(87)
5,899	Interest Payable and Similar Charges	6,091
(37)	HRA Interest and Investment Income	(82)
160	Pensions Interest Cost and Expected Return on Pension Assets	98
(3,962)	Capital Grants and Contributions Receivable	(7,374)
10,177	**Deficit for the year on HRA Services**	**8,163**

**Restated, for more information see Note 37 - Prior Period Restatements*

Movement on the HRA Statement

The Movement in Reserves Statement shows the movement from the start of the year to the end on the HRA reserve balance.

*Restated 2017/18 £000s	Movement on the HRA Statement	2018/19 £000s
(5,020)	Balance on the HRA at the End of the Previous Period	(5,395)
10,177	Deficit for the year on the HRA Income and Expenditure Statement	8,163
(11,547)	Adjustments between Accounting Basis and Funding Basis under Legislative Framework	(8,836)
(1,370)	Net Decrease in the Balance before Transfer to or from Reserves	**(673)**
995	HRA Balance Transferred to General Services	-
(375)	Decrease in year on the HRA	**(673)**
(5,395)	**Balance on the HRA at the End of the Current Period**	**(6,068)**

**Restated, for more information see Note 37 - Prior Period Restatements*

Note to the Movement of the HRA Statement

This note details the adjustments that are made to the HRA deficit, recognised in the year, in accordance with proper accounting practice.

2017/18 £000s	Note to the Movement on the HRA Statement	2018/19 £000s
(21,440)	Depreciation, Revaluation and Impairment of Fixed Assets	(22,015)
3,962	Capital Grant and Contributions Applied	7,374
866	Gain on sale of HRA Non-Current Assets	87
(160)	Net Charges Made for the Retirement Benefits in Accordance with IAS 19	(98)
(16,772)	Adjustments between Accounting and Funding Basis under Regulations	**(14,652)**
(276)	Employer's Contributions Payable to the Lothian Pension Fund	(216)
3,001	Loans Fund Principal	2,832
2,500	Capital Expenditure Funded by the HRA	3,200
5,225	Items not Included in the HRA Account but Included in the Movement on HRA Balance for the Year	**5,816**
(11,547)	**Net Additional Amount Required By Statute to be Credited to the HRA Balance for the Year**	**(8,836)**

Number of HRA Houses

The council is currently going through an expansion programme which is reflected in the increase in housing provision in the year.

Number Of HRA Houses	1 Apt	2 Apt	3 Apt	4 Apt	5 Apt	6 Apt	8 Apt	Total
As at 31 March 2018	43	1,769	4,446	2,217	222	-	1	8,698
As at 31 March 2019	43	1,790	4,458	2,224	221	3	1	8,740
Increase/(Decrease) in Year	**-**	**21**	**12**	**7**	**(1)**	**3**	**-**	**42**

Common Good Account

There are four separate Common Good Funds that were inherited from the former Burghs of Dunbar, Haddington, Musselburgh and North Berwick 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.

Common Good Movement in Reserves Statement

Usable Reserves 2017/18 £000s	Unusable Reserves 2017/18 £000s	Total Fund Reserves 2017/18 £000s	Movement in the Common Good Reserves	Usable Reserves 2018/19 £000s	Unusable Reserves 2018/19 £000s	Total Fund Reserves 2018/19 £000s
(5,789)	**(5,366)**	**(11,155)**	**Opening Balance**	(6,167)	(6,068)	**(12,235)**
4	-	4	Opening Balance Adjustment	-	-	-
-	-	-	Adjustment due to IFRS 9	(883)	883	-
(5,785)	**(5,366)**	**(11,151)**	**Adjusted Balance at 31 March 2018 carried forward**	**(7,050)**	**(5,185)**	**(12,235)**
			Movement in reserves during 2017/18			
(177)	-	(177)	(Surplus) or deficit on provision of services	(186)	-	**(186)**
-	(907)	(907)	Other Comprehensive Expenditure and Income	-	-	-
(177)	**(907)**	**(1,084)**	Total Comprehensive Expenditure and Income	**(186)**	**-**	**(186)**
			Adjustments between accounting basis & funding basis under regulations			
(205)	205	-	Adjustments between accounting basis & funding basis under regulations	(134)	134	-
(382)	**(702)**	**(1,084)**	**Increase/Decrease in Year**	**(320)**	**134**	**(186)**
(6,167)	**(6,068)**	**(12,235)**	**Balance at 31 March 2019 carried forward**	**(7,370)**	**(5,051)**	**(12,421)**

This statement shows the movement in the year on the different reserves held by the Common Good funds, analysed between usable reserves i.e. those that can be applied to fund expenditure, and other reserves. Due to the introduction of IFRS 9, £883,000 of reserves were reclassified as usable reserves, however as these reserves are unrealised, it would not be prudent for them to be used until they are realised and instead, could be thought of as deferred gains; this all relates to the Financial Instruments Adjustment Reserve.

Common Good Comprehensive Income and Expenditure Statement

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.

The Surplus or Deficit on Revaluation of Available of for Sale Financial Instruments is only shown as a comparative. All movements in the new Financial Instruments Adjustments Reserve are now shown through Financing and Investment Income and Expenditure as per IFRS9.

2017/18 £000s	Common Good Comprehensive Income and Expenditure Statement	2018/19 £000s
	Income	
(484)	Rents and Other Income	(493)
(484)	**Total Income**	**(493)**
	Expenditure	
120	Premises-related Expenditure	228
64	Supplies and Services	49
199	Third Party Grants and Payments	130
135	Depreciation	134
518	**Total Expenditure**	**541**
34	**Cost Of Services**	**48**
(107)	(Gains) on the disposal of Non-Current assets	(47)
(104)	Financing and investment income and expenditure	(187)
(177)	**(Surplus) or Deficit on Provision of Services**	**(186)**
(980)	(Surplus) on Revaluation of Property, Plant & Equipment	-
73	Deficit on Revaluation of Available for Sale Financial	-
(907)	**Other Comprehensive Income and Expenditure**	**-**
(1,084)	**Total Comprehensive Income and Expenditure**	**(186)**

Common Good Balance Sheet

The Common Good Balance Sheet shows the consolidated position of all four Common Good Funds. Included within this is a debtor of £3,394,000 that is East Lothian Council. This is due to the Common Good Funds not having banking facilities of their own, instead the council releases the monies as required.

The Financial Instruments Adjustment Reserve has been removed due to IFRS 9. As mentioned in the Common Good Movement in Reserves Statement, these have been reclassified as usable reserves.

Jim Lamond (CPFA)
Head of Council Resources (CFO)
25 June 2019

2017/18 £000s	Common Good Balance Sheet	2018/19 £000s
4,906	Property Plant & Equipment	4,856
3,325	Long Term Investments	3,425
862	Long Term Debtors	817
9,093	**Long Term Assets**	**9,098**
52	Short Term Investments	40
3,132	Short Term Debtors	3,393
3,184	**Current Assets**	**3,433**
(42)	Short Term Creditors	(110)
(42)	**Current Liabilities**	**(110)**
12,235	**Net Assets**	**12,421**
(883)	Financial Instruments Adjustment Reserve	-
(2,110)	Property Revaluation Reserve	(2,058)
(3,075)	Capital Adjustment Account	(2,993)
(6,167)	Usable Reserves	(7,370)
(12,235)	**Total Reserves**	**(12,421)**

Notes to the Common Good Account

Non-Current Assets

The value of the Common Good owned assets changed in the following way:

2017/18 £000s	Finance Leases	2018/19 £000s
4,072	Opening Net Book Value	4,906
1,080	Transfer of Assets from ELC	-
64	Additions	85
(175)	Disposals	-
(135)	Depreciation	(135)
4,906	**Closing Net Book Value**	**4,856**

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:

2017/18 £000s	Finance Leases	2018/19 £000s
243	Income Receivable in 2019/20	243
972	Income Receivable Between 2020/21 and 2023/24	972
4,910	Income Receivable after 2023/24	4,667
6,125	**Total Receivable**	**5,882**

Fund Analysis

The four separate funds are valued at 31 March 2019 as:

Finance Leases	Dunbar £000s	Haddington £000s	Musselburgh £000s	North Berwick £000s	Total £000s
Balance Brought forward at 1 April 2018	(45)	(516)	(5,221)	(385)	**(6,167)**
Adjustment for IFRS9	(7)	(21)	(809)	(46)	**(883)**
(Surplus) in the Year	-	(38)	(240)	(42)	**(320)**
Fund Balance at 31 March 2019	**(52)**	**(575)**	**(6,270)**	**(473)**	**(7,370)**
Total Reserves	**(1,027)**	**(639)**	**(9,606)**	**(1,149)**	**(12,421)**

The adjustment for IFRS 9 relates to the unwinding of the Financial Instruments Adjustment Reserves, these reserves are now classified as usable, though should be considered as deferred.

Trust Funds Account

The council acts as a majority or sole Trustee for 47 trusts, bequests and other funds, which are administered in accordance with the individual terms.

Trust Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Trust funds, analysed between usable reserves i.e. those that can be applied to fund expenditure, and other reserves. Due to the introduction of IFRS 9, £2,001,000 of reserves were reclassified as usable reserves, however as these reserves are unrealised, it would not be prudent for them to be used until they are realised and instead, could be thought of as deferred gains. This all relates to the Financial Instruments Adjustment Reserve.

Usable Reserves 2017/18 £000s	Unusable Reserves 2017/18 £000s	Total Fund Reserves 2017/18 £000s	Movement in the Trust Reserves	Usable Reserves 2018/19 £000s	Unusable Reserves 2018/19 £000s	Total Fund Reserves 2018/19 £000s
(2,517)	(2,766)	(5,283)	**Opening Balance at 31 March 2018 carried forward**	(2,741)	(2,652)	**(5,393)**
-	-	-	Adjustment due to IFRS 9	(2,001)	2,001	-
(2,517)	(2,766)	(5,283)	**Adjusted Balance at 31 March 2018 carried forward**	(4,742)	(651)	**(5,393)**
			Movement in reserves during 2017/18			
(205)	-	(205)	(Surplus) on provision of services	(214)	-	**(214)**
-	95	95	Other Comprehensive Expenditure and Income	-	-	-
(205)	**95**	**(110)**	Total Comprehensive Expenditure and Income	**(214)**	**-**	**(214)**
(19)	19	-	Adjustments between accounting basis & funding basis under regulations	(19)	19	-
(224)	**114**	**(110)**	**Increase/Decrease in Year**	**(233)**	**19**	**(214)**
(2,741)	**(2,652)**	**(5,393)**	**Balance at 31 March 2019 carried forward**	**(4,975)**	**(632)**	**(5,607)**

Trust Comprehensive Income and Expenditure Statement

During the year 2018/19, the Trust Funds operated at a surplus of £214,000 (2017/18: surplus of £205,000).

The Surplus or Deficit on Revaluation of Available for Sale Financial Instruments is only shown as a comparative, all movements in the new Financial Instruments Adjustments Reserve are now shown through Financing and Investment Income and Expenditure as per IFRS 9.

2017/18 £000s	Trusts Comprehensive Income and Expenditure Statement	2018/19 £000s
	Income	
(50)	Rents and Other Income	(51)
(50)	**Total Income**	**(51)**
	Expenditure	
3	Premises-related expenditure	1
23	Supplies and Services	23
19	Third Party Grants and Payments	22
19	Depreciation	19
64	**Total Expenditure**	**65**
14	**Cost Of Services**	**14**
(121)	(Gains) on the disposal of Non-Current assets	(32)
(98)	Financing and investment income and expenditure	(196)
(205)	**(Surplus) or Deficit on Provision of Services**	**(214)**
(1)	(Surplus) on Revaluation of Property, Plant & Equipment	-
96	Deficit on Revaluation of Available for Sale Financial Instruments	-
95	**Other Comprehensive Income and Expenditure**	**-**
(110)	**Total Comprehensive Income and Expenditure**	**(214)**

Trust Fund Balance Sheet

The overall asset book value increased from £5.393 million to £5.607 million by 31 March 2019.

The Financial Instruments Adjustment Reserve has been removed as per IFRS 9, these reserves have been reclassified as Usable Reserves, though they are better thought of as deferred reserves.

2017/18 £000s	Trusts Balance Sheet	2018/19 £000s
738	Property Plant & Equipment	719
3,296	Long Term Investments	3,393
87	Long Term Debtors	82
4,121	**Long Term Assets**	**4,194**
1,468	Short Term Investments	1,593
-	Short Term Debtors	2
1,468	**Current Assets**	**1,595**
(1)	Short Term Creditors	(1)
(1)	**Current Liabilities**	**(1)**
(195)	Other Long Term Liabilities	(181)
(195)	**Long Term Liabilities**	**(181)**
5,393	**Net Assets**	**5,607**
(656)	Property Revaluation Reserve	(640)
5	Capital Adjustment Account	8
(2,001)	Financial Instruments Adjustment Reserve	-
(2,741)	Usable Reserves	(4,975)
(5,393)	**Total Reserves**	**(5,607)**

Jim Lamond (CPFA)
Head of Council Resources (CFO)
25 June 2019

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 2019 are shown in the Trust Investments table.

2017/18 £000s	Trust Investments	2018/19 £000s
128	Vanguard Inv Serv 500 Ucits	181
121	US Global Assets Mgt US Equity	133
-	Goldman Sachs Am Stlg Lqd Reserves	120
104	Mercantile Investment Ord 0.25	100
96	Shell Ord Shares Euro 0.07	101
81	Blackrock Ord 0.25	81
80	HSBC Holdings Ord USD	74
77	Findlay Park Fds American USD	92
-	Ishares Trust Core S&P 500 Etf	76
75	National Grid 1.25%	76
2,534	Other Stocks, Shares and Cash	2,359
3,296	**Total Investments**	**3,393**

Council Tax Income Account

The Council Tax Income Account (Scotland) shows the gross income raised from the council taxes levied and deductions made under the Local Government Finance Act 1992. The resultant net income is transferred to the CIES of the authority.

The tax level depends on the value of the property. Certain prescribed dwellings are exempt and discounts are given to eligible taxpayers (e.g. single occupants). A council tax reduction scheme is available to assist taxpayers on a low income.

2017/18 £000s	Council Tax Income Account	2018/19 £000s
(59,418)	Gross Council Tax Levied and Contributions in Lieu	(62,306)
	Adjusted For:	
4,942	Council Tax Reduction Scheme	4,959
4629	Other Discounts and Reductions	4,875
374	Provision for Non Collection	45
(49,473)	Council Tax Income in Year	**(52,427)**
67	Adjustments to Previous Years' Council Tax	100
(49,406)	**Transfer to General Fund**	**(52,327)**

Council Tax Base

The Council Tax base is calculated as follows:

Council Tax Base	A	B	C	D	E	F	G	H	Total
Charge for Each Band (£)	790.45	922.2	1053.94	1185.68	1557.85	1926.73	2321.96	2904.92	
Effective Properties	936	7,789	13,269	5,590	5,583	4,600	3,906	621	**42,294**
Ratio to Band D	240/360	280/360	320/360	360/360	473/360	585/360	705/360	882/360	
Band D Equivalents	624	6,058	11,795	5,590	7,335	7,475	7,649	1,521	**48,047**
Provision for non-payment (2%)									**(961)**
Council Tax Base									**47,086**

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. These payments are calculated on a pre-determined formula.

Non Domestic Rate (NDR) 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.

2017/18 £000s	Non Domestic Rate Income Account	2018/19 £000s
(35,997)	Gross Rates Levied and Contributions in Lieu	(38,013)
10,821	Relief and Other Deductions	11,692
52	Write Offs of Un-Collectable Debts & Allowance for Impairment	102
(25,124)	**Net Non-Domestic Rate Income**	**(26,219)**
444	Adjustments to Previous Year National Non-Domestic Rates	346
(24,680)	**Total Non-Domestic Rate Income (Before Authority Retentions)**	**(25,873)**
638	Amounts Not Reclaimable from the National Non-Domestic Rate Pool	158
(24,042)	**Contribution to the National Non-Domestic Rate Pool**	**(25,715)**
(24,550)	**Transfer to General Fund**	**(23,744)**

Business Rate Incentivisation Scheme (BRIS)

The Business Rate Incentivisation Scheme permits the authority to retain half of the NDR income which exceeds the income target set by the Scottish Government. This scheme has been revised and the authority has had no financial benefit from the scheme in 2018/19.

Rateable Values

An analysis of the rateable values at the end of the financial year is detailed in the Rateable Values table.

Rateable Values	Number	Rateable Value £000s
Shops, Offices and other Commercial Subjects	1,726	31,067
Industrial and Freight Transport	890	12,602
Miscellaneous (Schools etc.)	963	31,663
Total	**3,579**	**75,332**

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 50.6p (2017/18: 49.2p) per pound for properties with a rateable value of £51,000 (2017/18: £51,000) or more and 48.0p (2017/18: 46.6p) for those with a rateable value of less than £51,000 (2017/18: £51,000).

From 1 April 2018 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 £15,000 and 25% for those with a combined RV between £15,001 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.

glossary of terms

6

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 1st of April.

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

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

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

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

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

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

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

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

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

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

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

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

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

service in the current period.

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

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

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

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

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

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

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

22. 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.

23. 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.

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

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

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

27. 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.

28. 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.

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

30. Net Book Value (NBV) - 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.

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

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 Lothian Pension Fund and the change in the council's share of the Pension Fund net liability chargeable to the CIES.

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 used 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 monetary 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 within one financial year.

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.

East Lothian Council
Business Finance
John Muir House
Haddington EH41 3HA

Appendix 2 – Loans Fund Review

Background

1.1 The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 (the 2016 Regulations) came into force on 1 April 2016. These Regulations replaced the statutory provisions for local authority borrowing, lending and loans fund as set out in Schedule 3 of the Local Authority (Scotland) Act 1975.

1.2 The 2016 Regulations require the statutory loans fund to be administered in accordance with the Regulations, proper accounting practice and prudent financial management.

1.3 Loans fund is an accounting arrangement used by local authorities to record all its borrowing and repayments of this borrowing in one place. The Council's Loans Fund is a complex set of calculations which enable us to determine the amount of principal repayments that are charged to the Taxpayer or Rent Payer to support the cost of borrowing to fund capital expenditure. The statutory purpose of the loans fund is:

- to make a charge to revenue to reflect the annual repayment to General Fund and HRA which shows the amount which a local authority has determined is to be financed by borrowing. This will provide an authority with a profile of annual charges representing the amount of statutory repayment of debt to be charged to the General Fund/Housing Revenue Account in any financial year.

- to record transactions – opening balances each year, new advances, repayments charged to revenue (statutory repayment of debt), and a closing position balance at each financial year end, being the value of the loans fund advances still to be repaid/ charged to revenue.

1.4 Section 14 of the 2016 Regulations stipulates that: a local authority may subsequently vary either the period or the amount of repayment (or both), if it considers it prudent to do so. Given the outcome of the review above it is appropriate to revise the prior year repayment methodologies to ensure consistency and prudence going forward.

Review

1.5 Following the introduction of the new regulations and on advice from the Council's treasury consultants, a comprehensive review of both the General Service and the Housing Revenue Account Loans Fund advances (or debt) repayments has been undertaken.

1.6 This review was undertaken in order to ensure that the Council sets aside a 'prudent' provision to repay its loans fund advances. A prudent repayment of a loans fund advance is one which is reasonably commensurate with the period and pattern of benefits provided to the community from the capital expenditure.

1.7 When considering prudence it may be the case that providing for debt repayment over too short a period is equally as imprudent as providing over too long a period.

1.8 A review of the Council's historical loans fund and repayment methodologies has identified that there has been an inconsistent approach taken over the years when determining the period over which loans fund advances are repaid. This has resulted in a range of different repayment periods having been used within both the General Services and HRA to determine the period for loans fund advance.

1.9 It is important to note that there has been no change to the overall advances charged to the loans fund in any year. The review has centred on the asset life of the capital expenditure charged within each year. Ultimately, the same amount of loan advance is repaid over the whole period, however, the revised profile now being proposed is considered more consistent and prudent, resulting in a more even repayment profile.

1.10 The following methodology has been applied during the review:

- Any income/receipts applied in year are where possible aligned to shorter life assets. Any loans fund advances in year is matched to assets with longer economic lives.

- **For General Services**
    - o All capital expenditure incurred between 2001 and 2018-19 has now been reflected within the loans fund on an individual asset basis, rather than an overall pooled approach.
    - o All capital expenditure incurred between 2001 and 2016 has been aligned to the asset life which was given at the time capital expenditure had been incurred (i.e. in line with depreciation charged through the Council's statutory accounts). These have been aligned to the asset lives provided for the rolling valuation programme as required by the Council's statutory accounting process.
    - o From 2016, in line with the statutory guidance, all asset lives have been reviewed and aligned to the estimated economic life of the asset.

- **For HRA**
    - o All capital expenditure incurred between 2001 and 2018-19 has been reflected within the loans fund and categorised as new affordable housing, modernisation expenditure on existing properties and open market acquisitions.
    - o All capital expenditure incurred between 2001 and 2012-13 has been aligned to the asset life which was given at the time capital expenditure has been incurred (i.e in line with depreciation charged through the Council's statutory accounts).

- From 2013-14, there was a change to the approach required to value Council dwellings through the statutory accounts. As a result, all of the Council dwellings have been depreciated using a pooled approach and given the same life, regardless of each asset's age.
- It is not considered prudent and commensurate with the economic benefit of the asset life to match loans fund advances in such a way. As such, from 2013-14, all of the asset lives have been reviewed, and all HRA loans fund advances are now aligned to the estimated economic life of the asset.

Impact of Review

In summary the main impact arising from the review is as follows:

- More prudent profile of loans fund advance charges
- A retrospective realignment that will have a short term positive impact on reserves, will provide some flexibility across the approved budget period and will enable some smoothing of future loans fund advance liabilities arising from the significant investment decisions across the current financial strategy period.

REVENUE BUDGET PERFORMANCE AS AT 31 MARCH 2019

Service	Head of Service	Business Unit	2018/19 Full Year Budget £'000	2018/19 Full Year Actual £'000	2018/19 (Surplus) / Deficit £'000	2018/19 (Surplus) / Deficit %	2018/19 Progress with Efficiency Saving
Resources & People	Education	Pre-school Education & Childcare	7,427	7,103	-324	-4.4%	
Resources & People	Education	Additional Support for Learning	7,859	8,701	842	10.7%	
Resources & People	Education	Schools - Primary	44,394	44,676	282	0.6%	
Resources & People	Education	Schools - Secondary	40,360	40,176	-184	-0.5%	
Resources & People	Education	Schools - Support Services	4,118	3,816	-302	-7.3%	
RESOURCES & PEOPLE	**EDUCATION TOTAL**		**104,158**	**104,472**	**314**	**0.3%**	
Resources & People	Council Resources	Financial Services	2,116	1,872	-244	-11.5%	
Resources & People	Council Resources	Revenues & Benfits	2,169	1,860	-309	-14.2%	
Resources & People	Council Resources	IT Services	2,426	2,165	-261	-10.8%	
Resources & People	Council Resources	Legal & Procurement	606	597	-9	-1.5%	
Resources & People	Council Resources	Human Resources & Payroll	1,653	1,614	-39	-2.4%	
Resources & People	Council Resources	Licensing, Admin & Democratic Services	3,589	3,450	-139	-3.9%	
RESOURCES & PEOPLE	**COUNCIL RESOURCES TOTAL**		**12,559**	**11,558**	**-1,001**	**-8.0%**	
RESOURCES & PEOPLE TOTAL			**116,717**	**116,030**	**-687**	**-0.6%**	
Health & Social Care Partnership	Childrens & Adults	Childrens	14,658	16,994	2,336	15.9%	
Health & Social Care Partnership	Childrens & Adults	Adults	28,408	28,570	162	0.6%	
Health & Social Care Partnership	Access & Older People	Older People	24,611	24,232	-379	-1.5%	
HEALTH & SOCIAL CARE PARTNERSHIP TOTAL			**67,677**	**69,796**	**2,119**	**3.1%**	
Partnerships & Community Services	Development	Planning	1,484	1,359	-125	-8.4%	
Partnerships & Community Services	Development	Economic Development & Strategic Investment	2,003	1,804	-199	-9.9%	
Partnerships & Community Services	Development	Property Maintenance Trading Account	-763	-822	-59	7.7%	
Partnerships & Community Services	Development	Community Housing	2,075	1,660	-415	-20.0%	
PARTNERSHIPS & COMMUNITIES SERVICES	**DEVELOPMENT TOTAL**		**4,799**	**4,001**	**-798**	**-16.6%**	
Partnerships & Community Services	Infrastructure	Facility Support Services	4,382	4,453	71	1.6%	
Partnerships & Community Services	Infrastructure	Facility Trading Activity	-205	-9	196	-95.6%	
Partnerships & Community Services	Infrastructure	Asset Planning & Engineering	3,146	3,160	14	0.4%	
Partnerships & Community Services	Infrastructure	Landscape & Countryside Management	6,264	6,466	202	3.2%	
Partnerships & Community Services	Infrastructure	Roads Network	8,424	8,604	180	2.1%	
Partnerships & Community Services	Infrastructure	Roads Trading Activity	-763	-528	235	-30.8%	
Partnerships & Community Services	Infrastructure	Transportation	1,286	1,113	-173	-13.5%	
Partnerships & Community Services	Infrastructure	Waste Services	7,849	7,781	-68	-0.9%	
Partnerships & Community Services	Infrastructure	Healthy Living	5,097	5,121	24	0.5%	
PARTNERSHIPS & COMMUNITIES SERVICES	**INFRASTRUCTURE TOTAL**		**35,480**	**36,161**	**681**	**1.9%**	
Partnerships & Community Services	Communities & Partnerships	Corporate Policy & Improvement	1,089	1,261	172	15.8%	
Partnerships & Community Services	Communities & Partnerships	Community & Area Partnerships	7,886	7,872	-14	-0.2%	
Partnerships & Community Services	Communities & Partnerships	Protective Services	1,216	1,188	-28	-2.3%	

Partnerships & Community Services	Communities & Partnerships	Trading Standards	162	125	-37	-22.8%	
Partnerships & Community Services	Communities & Partnerships	Arts Development	758	693	-65	-8.6%	
Partnerships & Community Services	Communities & Partnerships	Customer Services Group	4,271	3,924	-347	-8.1%	
PARTNERSHIPS & COMMUNITIES SERVICES	**COMMUNITIES & PARTNERSHIPS TOTAL**		**15,382**	**15,063**	**-319**	**-2.1%**	
PARTNERSHIPS & COMMUNITY SERVICES TOTAL			**55,661**	**55,225**	**-436**	**-0.8%**	
SERVICE TOTAL			**240,055**	**241,051**	**996**	**0.4%**	

Corporate Management		Revenue Support Grant (inc. NNDR)	-169,772	-169,116	656	-0.4%
Corporate Management		Specific Grants	-2,918	-2,918	0	0.0%
Corporate Management		Council Tax	-56,690	-57,285	-595	1.0%
Corporate Management		Social Care Fund	-6,240	-6,216	24	-0.4%
Corporate Management		Council Tax Reduction	5,000	4,959	-41	-0.8%
Corporate Management		Other	-7,841	-11,871	-4,030	51.4%
Corporate Management		Joint Board Requisitions	636	636	0	0.0%
Corporate Management		HRA Transfer	0	0	0	0.0%
Corporate Management		Transfer to Reserves	-2,230	-2,168	62	-2.8%
CORPORATE MANAGEMENT TOTAL			**-240,055**	**-243,979**	**-3,924**	1.6%

TOTAL GENERAL SERVICES (SURPLUS) / DEFICIT AGAINST PLANNED BUDGET	**0**	**-2,928**	**-2,928**

18-19 Council Contribution to the Integrated Joint Board	**311**
TOTAL General Services	**(2,617)**
HRA (Surplus)/Deficit against planned budget	(2,392)
(SURPLUS) / DEFICIT TOTAL COUNCIL	**(5,009)**

<u>MOVEMENT IN RESERVES</u>

(SURPLUS) / DEFICIT TOTAL COUNCIL	(5,009)
Planned use General Fund Reserves (excluding RSG received in 17/18)	2,230
Planned use HRA Reserves	1,719
TOTAL MOVEMENT IN COUNCIL RESERVES (PER DRAFT ACCOUNTS)	**(1,060)**
Represented by:	
General Fund Planned use of reserves	(387)
HRA Movement	(673)
TOTAL MOVEMENT IN RESERVES RELATIVE TO APPROVED BUDGET	**(1,060)**

Key - project lifecycle indication
1 - Feasibility
2 - Design
3 - Out to tender
4 - Tender Accepted
5 - Under Construction
6 - Operational/Retention
7 - Annual Budget allocation

Key - project status	
Project proceeding as planned	✓
Additional information - please refer to narrative	*
Project not yet started	–

	Annual (In-Year)			Cumulative (Totals)					
	Budget 2018 /19 £'000	Actual 2018 /19 £'000	Budget/ Actual variance 2018 /19 £'000	Total Project Budget £'000	Total Project Spend £'000	Projected Project Outturn £'000	Lifetime Budget-Projection Variance £'000	Project lifecycle indication	Project Status
Expenditure									
Community Projects									
Community Intervention	200	194	(6)	-	-	-	-	7	✓
Support for Business / Town Centre Regeneration	905	12	(893)	3,301	236	3,301	-	1	*
Synthetic pitches	181	180	(1)	200	180	200	-	6	✓
Total Community Projects	**1,285**	**386**	**(901)**	**3,502**	**416**	**3,502**	**-**		
ICT									
IT Program	2,000	1,967	(33)	-	-	-	-	7	✓
Replacement - Corporate booking system	32	-	(32)	32	5	5	(27)	-	–
Replacement - CRM Project (Customer Services)	225	122	(103)	225	122	225	-	5	*
Social Care - IT - Retention	9	9	0	84	84	84	-	6	✓
Total ICT	**2,266**	**2,098**	**(168)**	**341**	**210**	**313**	**(27)**		
Fleet									
Amenties - Machinery & Equipment - replacement	100	133	33	-	-	-	-	7	✓
Vehicles	1,365	1,330	(35)	-	-	-	-	7	✓
Total Fleet	**1,465**	**1,463**	**(2)**	**-**	**-**	**-**	**-**		
Open Space									
Cemeteries	440	-	(440)	927	-	927	-	2	*
Coastal / Flood Protection schemes	1,308	568	(740)	17,700	882	17,700	-	2	*
Coastal Car Park Toilets	434	1	(433)	600	1	600	-	2	*
Core Path Plan	50	68	18	-	-	-	-	7	✓
Dunbar War Memorial	-	21	21	-	21	21	-	6	✓
Mains Farm Sports Pitch & Pavilion	376	147	(229)	712	147	712	-	4	*
Old Craighall Play Park	-	28	28	-	-	-	-	6	*
Pavilions - Ormiston - Retention	53	37	(17)	766	738	755	(11)	6	✓
Polson Park	12	13	1	162	26	162	-	1	✓
Waste - New Bins	90	135	45	-	-	-	-	7	✓
Waste - Machinery & Equipment - replacement	40	-	(40)	-	-	-	-	7	✓
Total Open Space	**2,804**	**1,017**	**(1,786)**	**20,867**	**1,815**	**20,877**	**(11)**		

Roads, Lighting and related assets									
Cycling Walking Safer Streets	142	142	-	-	-	-	-	**7**	✓
Parking Improvements	689	499	(190)	1,592	499	1,278	(315)	**4**	*
Roads	6,009	5,777	(232)	-	-	-	-	**7**	*
Roads - externally funded projects	297	928	631	-	-	-	-	**7**	*
Total Roads, Lighting and related assets	**7,137**	**7,346**	**209**	**1,592**	**499**	**1,278**	**(315)**		

Property - Education									
Aberlady Primary - outdoor facility incl 1140	116	42	(74)	118	42	60	(59)	**2**	✓
Campie Primary - 1140	4	1	(3)	77	1	77	-	**2**	✓
Dunbar Grammar - extension	5,374	5,606	232	10,331	10,476	10,570	239	**6**	*
Dunbar Primary - John Muir Campus - 1140	-	1	1	1,410	1	1,410	-	**1**	✓
East Linton Primary - extension	-	24	24	1,169	24	1,517	348	**1**	✓
East Saltoun Primary - 1140	8	1	(7)	247	1	147	(100)	**1**	✓
Gullane Primary - 1140	-	5	5	-	5	5	-	**1**	✓
Gullane Primary - extension	100	-	(100)	2,505	-	3,650	1,145	**2**	*
Haddington Infant School - upgrades	264	254	(10)	270	254	270	-	**5**	✓
Kings Meadow Primary - hosting	3	18	14	131	137	131	-	**6**	✓
Law Primary - extension	1,117	1,222	105	8,460	8,592	8,592	132	**6**	*
Letham Primary - New School	230	318	88	9,705	318	9,705	-	**3**	*
Loretto Primary - 1140	2	25	23	36	25	36	-	**2**	✓
Meadowpark Communications Provision - upgrades	293	203	(89)	300	203	300	-	**6**	✓
Musselburgh Primary - 1140 upgrades	2	0	(1)	34	0	34	-	**2**	✓
New Musselburgh Additional Secondary Education Provision	3,703	-	(3,703)	41,603	16	41,603	-	**2**	*
North Berwick High School - Extension	50	20	(30)	7,880	20	7,880	-	**2**	✓
North Berwick Nursery - 1140	-	2	2	968	2	968	-	**1**	✓
Ormiston Primary - extension	2	9	7	1,231	9	1,231	-	**2**	✓
Pinkie St Peter's Primary - extension incl. 1140	130	-	(130)	4,637	5	4,844	208	**2**	*
Pinkie St Peter's Primary - Retention	3	73	69	5,167	5,237	5,237	70	**6**	✓
Prestonpans Early Learning and Childcare Centre - Retention	10	-	(10)	10	-	10	-	**6**	✓
Prestonpans Infant School - extension incl. 1140	699	145	(555)	1,274	145	1,472	198	**2**	*
Ross High School - extension	150	34	(116)	8,830	34	8,830	-	**2**	*
St Gabriels Primary - 1140	-	2	2	476	2	476	-	**1**	✓
St Gabriels Primary - extension	5	-	(5)	125	-	125	-	**2**	✓
Tranent Early Learning Centre 1140	-	46	46	4,149	46	3,990	- 159	**1**	–
Wallyford Primary - New School	13,140	13,299	159	19,202	22,576	22,576	3,374	**5**	*
West Barns Primary - 1140	-	17	17	935	17	935	-	**1**	–
Total Property - Education	**25,404**	**21,366**	**(4,038)**	**123,342**	**48,115**	**128,897**	**5,555**		

Property - Other									
Accelerating Growth - Enabling Infrastructure	270	464	194	50,800	1,793	50,800	-	**1**	*
Alderston House - Capitalised Selling Costs	-	1	1	-	-	-	-	**6**	✓
Brunton Hall - Improved Community Access	230	-	(230)	1,450	19	1,450	-	**1**	–
Court Accommodation - upgrades	294	123	(172)	1,822	123	1,835	13	**3**	*
Fisherrow Harbour Showers-Retention	-	0	0	-	-	-	-	**6**	✓
Haddington Corn Exchange - upgrades	299	42	(257)	849	42	849	-	**3**	*
Herdman Flat	200	-	(200)	200	-	200	-	**2**	✓
Inveresk Mills - upgrades	150	-	(150)	150	-	150	-	**4**	*
Meadowmill - New Depot	170	75	(95)	1,000	75	1,000	-	**2**	✓

New ways of working Programme	13	-	(13)	608	-	595	(13)	**2**	✓
Port Seton - Community Centre Extension	600	21	(579)	1,150	21	1,150	-	**3**	*
Prestongrange Museum - Retention	4	3	(1)	1,140	3	1,140	-	**2**	✓
Property Renewals	1,000	1,045	45	-	-	-	-	**7**	✓
Residential Care Homes Provision, subject to Older People Review	5	5	0	1,005	5	1,005	-	**1**	✓
Sports Centres	200	220	20	-	-	-	-	**7**	✓
Torness Strategic Coordination Centre - Retention	-	8	8	-	8	8	8	**6**	✓
Whitecraig Community Centre	1,162	479	(683)	1,508	653	1,508	-	**5**	*
Winterfield Welfare - Retention	-	1	1	-	1	1	1	**6**	✓
Total Property - Other	**4,597**	**2,487**	**(2,111)**	**61,682**	**2,743**	**61,691**	**9**		
Total Property - Education and Other	**30,002**	**23,853**	**(6,149)**	**185,024**	**50,858**	**190,588**	**5,564**		
Capital Plan Fees	1,604	1,566	(38)	-	-	-	-	**7**	✓
Total Gross Expenditure	**46,563**	**37,728**	**(8,835)**	**211,326**	**53,798**	**216,558**	**5,211**		
Income									
Total Income	**(25,591)**	**(16,202)**	**9,390**	**(181,276)**	**(27,951)**	**(180,673)**	**603**		
Borrowing Requirement	**20,972**	**21,526**	**555**	**30,049**	**25,847**	**35,885**	**5,814**		

HOUSING CAPITAL SPEND & FINANCING AS AT 31 MARCH 2019

	Budgeted (£000s)	Actual (£000s)	Over/(Under) (£000s)
Modernisation	11,297	9,499	(1,798)
New Affordable Homes	11,010	11,812	802
Mortgage to Rent	769	0	(769)
Fees	1,288	1,099	(189)
Gross Total Housing Capital Spend	24,364	22,410	(1,954)