

**AUDITED
FINANCIAL STATEMENTS**

2009/2010

The City of Edinburgh Council

Statement of Accounts

Year to 31 March 2010

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FOREWORD BY THE DIRECTOR OF FINANCE

Introduction

The Audited Statement of Accounts presents the financial position and performance of the Council, together with the financial position of the wider Council Group for the year to 31 March 2010.

The Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice (SORP) and the Best Value Accounting Code of Practice.

The Statement of Accounts comprise the following financial statements and accompanying explanatory notes:

- **Statement of Accounting Policies**
The Statement of Accounting Policies explains the basis for the recognition, measurement and disclosure of transactions and other events shown in the Statement of Accounts.
- **Statement of Responsibilities for the Statement of Accounts**
This statement sets out the respective responsibilities of the Authority and the Director of Finance for the accounts.
- **Annual Governance Statement**
Explains how the Council conducts its business, both internally and in its dealings with others. The statement details the review of effectiveness of the code of governance and outlines any enhancements underway.
- **Income and Expenditure Account**
The Income and Expenditure Account reports the net cost for the year of the services which the Council is responsible for providing and shows how the cost of these services has been financed from general government grants and income from local taxpayers, through Council Tax and Non-Domestic Rates.
- **Statement of Movement on the General Fund Balance**
This statement reconciles the financial position shown in the Income and Expenditure Account to the movement on the Council's General Fund Balance.
- **Statement of Total Recognised Gains and Losses**
The Income and Expenditure Account does not include all the gains and losses experienced by the Council during the year. The most notable exclusions are gains on revaluation of fixed assets and pension actuarial gains and / or losses. This statement brings together all gains and losses recognised during the financial year.
- **Balance Sheet**
This sets out the overall financial position of the Council.
- **Cash Flow Statement**
This statement complements the Income and Expenditure Account and Balance Sheet by disclosing the inflows and outflows of cash to and from the Council in the course of the year.
- **Housing Revenue Account Income and Expenditure Account and Statement of Movement on the Housing Revenue Account Balance**
The Income and Expenditure Account reports the net cost for the year for the provision of Council housing and shows how these costs were funded from rents and other income. The Statement of Movement on the Housing Revenue Account Balance reconciles the financial position shown in the Income and Expenditure Account to the outturn position on the Housing Revenue Account.

FOREWORD BY THE DIRECTOR OF FINANCE

Introduction - continued

- **Council Tax Income Account**

This account shows the gross and net income from Council Tax, together with details of the number of properties on which Council Tax is levied, and the charge per property.

- **Non-Domestic Rates Income Account**

This shows the gross and net income from Non-Domestic Rates and details the amount payable to the national Non-Domestic Rates pool.

- **Pension Fund Accounts**

These present the income and expenditure and statements of net assets held by the Lothian Pension Fund and Lothian Buses Pension Fund. The notes to these accounts disclose information from the actuarial valuations of the funds.

- **Common Good Fund**

This presents the statement of income and expenditure and the balance sheet for the Common Good Fund. Use of the fund must "have regard for all the inhabitants" of the City of Edinburgh.

- **Group Accounts**

The Council has an interest in a number of companies and joint ventures. Where material, the financial results of the Council's subsidiaries, associates and joint ventures are consolidated into Group Accounts. The aim of these accounts is to show the full picture of the Council sphere of control and influence over service provision, resources and exposure to risk that the Council has taken on through its involvement in various entities. The Group Accounts comprise:

- Group Income and Expenditure Account
- Reconciliation of the Council's Income and Expenditure Account to the Group Income and Expenditure Account
- Group Statement of Total Recognised Gains and Losses
- Group Balance Sheet
- Group Cash Flow Statement.

FOREWORD BY THE DIRECTOR OF FINANCE

Financial Performance

Revenue

The Council's financial performance is presented in the Income and Expenditure Account which can be seen on page 21. The Income and Expenditure Account complies with UK GAAP (Generally Accepted Accounting Practices). However, to show the net position of the Council, it is necessary to adjust the Income and Expenditure Account for additional items required by statute or non-statutory proper practice to be taken into account in determining the position on the General Fund for the year. These are shown in note 15 to the Financial Statements.

The outturn position for the General Fund, excluding accounting practice adjustments, compared to budget is summarised below. Further details are provided in the report to the Finance and Resources Committee in August 2010, which is available on the Council's website.

| | Revised Budget 2009/10 £000 | Actual 2009/10 £000 | Over / (Under) Spend £000 |
|--|--|------------------------------------|--|
| General Fund services | 882,154 | 875,367 | (6,787) |
| Dividend income (net) | (2,000) | (2,000) | 0 |
| Significant trading operations | (6,499) | (3,157) | 3,342 |
| Loans charges / interest on revenue balances | 95,308 | 88,383 | (6,925) |
| Exceptional expenditure - equal pay claims | 18,636 | 37,519 | 18,883 |
| Budgeted contribution to unallocated general reserve | 2,000 | 2,332 | 332 |
| Total expenditure to be funded | 989,599 | 998,444 | 8,845 |
| Council tax | (225,503) | (238,188) | (12,685) |
| Net cost of council tax benefit | (391) | (335) | 56 |
| Total - council tax income account | (225,894) | (238,523) | (12,629) |
| Community charge income | 0 | (104) | (104) |
| General revenue funding | (562,800) | (562,800) | 0 |
| Distribution from non-domestic rate pool | (197,002) | (197,002) | 0 |
| Contribution from earmarked balances | (3,444) | (3,444) | 0 |
| Contribution from capital fund | (450) | (450) | 0 |
| Contribution from renewal and repairs reserve | (9) | (9) | 0 |
| Funding | (989,599) | (1,002,332) | (12,733) |
| General Fund surplus for the year | 0 | (3,888) | (3,888) |

Fees and charges levied by the Council have been offset against the cost of providing services and are included within the actual cost of General Fund Services shown above.

Budget performance - General Fund

As can be seen from above, the Council budgeted to make a contribution of £2m to the unallocated general reserve. An actual contribution of £2.332m was made, repaying the funds drawn down in 2008/09. At the end of the financial year, having contributed this sum, the Council's outturn resulted in a surplus of £3.888m. Where General Fund departments reported a surplus, Council has approved that these surpluses be carried forward to 2010/11. Thus, £3.667m requires to be set aside to earmarked reserves, meaning that a further £0.221m will be set aside in the unallocated general reserve.

The main variances in the Council's outturn position arose in the following areas:

- An underspend on General Fund Services of £6.786m, partly offset by a reduced contribution of £3.342m from the Council's significant trading operations.
- A reduction of £6.925m on loan charges / interest on revenue balances, primarily resulting from pro-active treasury management leading to a lower pooled interest rate, together with lower debt levels as a result of reduced capital expenditure in previous years.
- A net increase of £12.630m in Council Tax income, mainly arising from a review of the bad debt provision.
- Additional costs of £18.883m relating to equal pay claims - this was funded from the savings in loan charges and increase in Council Tax income.

FOREWORD BY THE DIRECTOR OF FINANCE

Budget performance - General Fund - continued

In addition, £0.450m was drawn down from the capital fund, in line with the approved budget, from monies set aside from the sale of fixed assets, to offset the costs of repaying external debt. This enabled monies provided within the budget for debt repayment costs to be used to offset expenditure, on a one-off basis, within general fund services.

Principal Sources of Funding

| The principal sources of funding used by the Council during the year were: | £000 |
|--|----------------|
| Council tax / community charge income (net of cost of benefits) | 238,627 |
| General revenue funding | 562,800 |
| Distribution from non-domestic rates pool | <u>197,002</u> |
| Total | <u>998,429</u> |

Reserves

The Council's General Fund comprises two elements:

- The unallocated General Fund; and
- Balances earmarked for specific purposes.

The unallocated General Fund is held against the risk of unanticipated expenditure or reduced income arising in any particular year. The level on this reserve is reviewed annually by the Council as part of the revenue budget process. This review considers the level of balances held, the risks inherent in the budget process and the arrangements in place to manage these.

The latest review was in February 2010, as part of the 2010-2013 budget setting process. This forecast an unallocated General Fund balance of £8.472m at 31 March 2010. The actual balance was £9.025m. This includes the planned contribution of £2m, together with £0.332m returned to offset additional funding drawn down in 2008/09 and the balance of the surplus achieved in 2009/10 of £0.221m.

In the review, the Council planned to have £12.8m set aside in the unallocated general fund by March 2012. The Council remains on target to meet its medium term reserves strategy.

In addition, the Council has a further £64.088m of balances earmarked for specific purposes. These are held for a number of reasons:

- Balances set aside for specific financial risks which are likely to arise in the medium term future - examples include monies earmarked for equal pay and the insurance fund. The Council holds £22.996m against these future risks.
- Balances set aside, primarily from grant income, due to timing differences between the receipt of the grant income and the planned expenditure thereof. The Council holds £29.928m of income which has been received in advance of planned expenditure.
- Balances set aside to enable the Council to undertake investment in specific projects which will deliver savings in future years. These savings are used, initially, to reimburse the earmarked balances. The Council holds £4.566m of balances for such projects.
- Balances held under the School Board Delegation Scheme (DSM), which permits balances on individual school budgets to be carried forward to the following financial year. The current balance is £1.000m.
- Balances set aside under the Council's budget flexibility scheme, which permits departments who underspend against budget to carry this forward to the following financial year. A total of £5.598m has been set aside under this scheme, of which £3.165m is earmarked to be returned to departments in 2010/11.

In summary, the level of reserves at 31 March 2010, together with the forward strategy, are considered appropriate in view of the financial liabilities and risks likely to face the Council in the short to medium term.

FOREWORD BY THE DIRECTOR OF FINANCE

Housing Revenue Account

The Council has a statutory obligation to maintain a revenue account for its housing provision in accordance with the Housing (Scotland) Act 1987. The Housing Revenue Account records all expenditure and income relating to the Council's own housing stock. Revenue expenditure on housing management, repairs and maintenance is funded from rent paid by tenants. In addition, the Council is pursuing a major capital investment programme to improve its housing stock to meet the Scottish Housing Quality Standard by 2015. This programme is funded largely by prudential borrowing with the costs of borrowing met from rental income.

The Housing Revenue Account broke even at the end of the financial year, after making a contribution, via the General Fund, of £3.421m to the renewal and repairs fund.

During the year an inspection was carried out by the Scottish Housing Regulator under section 72 of the Housing (Scotland) Act 2001 on behalf of Scottish ministers. Its aim was to provide an independent external assessment of the effectiveness of the Council's housing service delivery and make recommendations to help improvement. Inspections are conducted within a published framework of performance standards and culminate in the award of grades for housing management and asset management and repairs.

The Scottish Housing Regulator published its inspection report on the Council's housing service on 9 July 2010. It awarded the Council an "excellent" rating for its housing management services and a "good" rating for its asset management and repairs services.

Significant Trading Operations

The provisions contained in the Local Government in Scotland Act 2003 require the Council to consider all services provided and determine which are Significant Trading Operations. The Act requires statutory trading accounts to be maintained for Significant Trading Operations and that they should break even over a three-year rolling period. 2009/10 is the eighth year of trading for the areas identified as Significant Trading Operations.

BlindCraft, Direct Cleaning, Edinburgh Catering Services - School and Welfare Catering, Edinburgh Catering Services - Other Catering and Refuse Collection (including Trade Waste) failed to achieve their statutory obligation to break even over the three-year period 2007-08 to 2009-10. Excluding costs relating to equal pay, Direct Cleaning, Edinburgh Catering Services - School and Welfare Catering and Edinburgh Catering Services - Other Catering would have met their statutory targets to break even over a three-year period. BlindCraft and Refuse Collection did not have any equal pay costs. Further details can be seen in note 6 to the Financial Statements.

The surplus of £3.157m in the table on page 4 represents the overall outturn from all the Significant Trading Operations, excluding FRS 17 and other adjustments. In the Income and Expenditure Account (page 21), the results are included in 'Net Surplus from Trading Undertakings', Exceptional Expenditure or within the relevant service as stated in note 6 to the Financial Statements.

| | £000 |
|---|--------------|
| Surplus | 3,157 |
| FRS 17 Charges | 2,724 |
| Included in exceptional items | (1,373) |
| Other adjustments, including non distributed costs and impairment of fixed assets | 136 |
| Total cost included in Income and Expenditure Account | <u>4,644</u> |
| | |
| Included in individual services in Income and Expenditure Account | 196 |
| Included in net surplus from trading accounts | 5,821 |
| Included in exceptional items | (1,373) |
| Total cost included in Income and Expenditure Account | <u>4,644</u> |

FOREWORD BY THE DIRECTOR OF FINANCE

Modernising Pay

There are a number of significant financial issues surrounding modernising pay, having implications for the Council's financial strategy. As at 31 March 2010, £71.2m has either been paid or provided for to meet equal pay claims. The Council expects to introduce its modernising pay scheme in October 2010. Funding has been identified in future years' budgets to meet the anticipated additional costs arising from implementing the new pay structure. Following implementation of the new pay structure, employees whose new salaries will be lower than their current salaries will have their pay protected for up to three years. This may result in the Council being exposed to another significant liability arising from further claims.

Capital Expenditure

The outturn position for capital expenditure is summarised below:

| | Revised Budget 2009/10 £000 | Actual 2009/10 £000 | (Slippage) / Acceleration £000 |
|--|--------------------------------------|---------------------------|--------------------------------------|
| Capital expenditure | | | |
| General Fund services | 434,707 | 342,783 | (91,924) |
| Housing Revenue Account | 35,500 | 33,864 | (1,636) |
| Total capital expenditure | <u>470,207</u> | <u>376,647</u> | <u>(93,560)</u> |
| Capital receipts and other contributions | | | |
| - General Fund services | (44,021) | (7,685) | 36,336 |
| - Housing Revenue Account | (4,800) | (4,295) | 505 |
| Government and other grants | | | |
| - General Fund services | (244,458) | (209,359) | 35,099 |
| Total capital income | <u>(293,279)</u> | <u>(221,339)</u> | <u>71,940</u> |
| Balance to be funded through borrowing | | | |
| - General Fund services | 146,228 | 125,739 | (20,489) |
| - Housing Revenue Account | 30,700 | 29,569 | (1,131) |
| Total advances from loans fund | <u>176,928</u> | <u>155,308</u> | <u>(21,620)</u> |

Expenditure on General Fund services slipped by £93.560m. Of this £43.599m related to the tram project. During the year, Directors were asked to maintain slippage on other projects to offset the delays in realising capital receipts, thus ensuring the overall affordability of the capital programme.

The Council received £46.565m of general capital grant, of which £2.370m was transferred to revenue, for third party payments. This sum was passed to Lothian and Borders Police Board. In previous years, Councils were allocated grants for specific purposes, for example, schools funds, transport projects and flood prevention. The introduction of general capital grant enables Councils to direct resources to their own priorities.

Capital Expenditure for the year totalled £376.647m, as shown on page 40 of the Statement of Accounts. Of this amount, £33.864m was spent on Council housing through the Housing Revenue Account programme (of which £2.135m related to the acquisition of social housing from EDI Group Limited) and £46.500m through the Housing Development Fund. £163.165m was spent on tram works, roads and other infrastructure, £22.719m on recreational venues and £15.882m on educational properties. In addition, a further £70.441m was spent through general services on the acquisition of properties from companies within its group, with the loan charges being fully met from rental income receivable from the acquired assets.

Funding of capital expenditure included £209.359m from government and other grants and £11.980m from the sale of assets and other receipts. The remaining £155.308m was funded through borrowing.

FOREWORD BY THE DIRECTOR OF FINANCE

Capital Expenditure - continued

The current economic climate continues to have a serious impact on the property market and this in turn has impacted on the Council's ability to raise income to fund capital projects through the sale of assets. The residential market has been particularly affected and this is where the Council's largest capital receipts were anticipated. As this is not expected to improve in the immediate future, the Council has had to re-align its capital programme and defer commencement of some projects until later years to ensure that the capital programme remains affordable.

Major capital projects undertaken during the year included:

- Continuing investment in roads and other infrastructure
- Construction and refurbishment of schools
- Continuation of the tram project
- Refurbishment of the Usher Hall and Royal Commonwealth Pool
- Acquisition of properties from companies within the Council's group.

Tram Project

There are four key players in the tram project - the Council, Transport Scotland, Transport Edinburgh Limited and tie Limited. Transport Scotland is responsible for the Scottish Government's transport investment programme and is the principal funder of the Edinburgh tram project. The Council is the promoter of the tram project and has been responsible for its inception through the local transport strategy and the promotion of Parliamentary Bills enabling its construction. tie Ltd are managing the project on behalf of the Council, and Transport Edinburgh Limited (TEL) will operate the tram.

The current tram project will see construction of 18km of track, serving 22 stops on a route running from Edinburgh airport, through the city centre, to Newhaven. A fleet of 27 tram vehicles will be constructed to serve the tram route. The contract for the construction of the tram infrastructure and vehicles was awarded to Bilfinger Siemens CAF (BSC) consortium. In addition, a programme of utility diversion works has been undertaken along the route prior to construction of the tram track, with over 48km of utilities upgraded.

During the year 2009-10, contractual disputes with BSC affected construction progress on the project. However, track laying on Princes Street was completed, and infrastructure work continued on key structures along the route including the Depot, Edinburgh Park and Haymarket viaducts, and trackwork along the former guided busway at Saughton. Good progress has been made with the construction of the tram vehicles, with twenty-five vehicles now going through the construction and testing programmes. The first tram, which has completed both static factory testing and dynamic testing, will be on display in the city during the summer.

Funding of up to £545m has been agreed for the project, with £500m being grant funded by Transport Scotland and the Council contributing £45m, primarily to be funded from developer contributions and capital receipts. Costs incurred up to the £545m funding limit are shared between Transport Scotland and the Council on the basis of a 91.74% : 8.26% split. In the event that the funding level of £545m is exceeded, the Council will be liable for 100% of any additional costs. In view of the contractual difficulties referred to above, it is now anticipated that the full scope of the project cannot be delivered within the approved funding of £545m, and the Council has therefore noted within these accounts a contingent liability in regard to these costs.

The terms and conditions of the grant letter with Transport Scotland include a Conditions Precedent which, inter alia, states that the business plan for the tram for the full scope of phase 1a must be delivered within a maximum capital cost of £545m. This condition was satisfied at the time of signing. However, as a consequence of the on-going dispute with the infrastructure consortium, the Council is examining contingency planning options up to a capital cost of £600m. There are currently on-going discussions with the consortium to provide greater clarity which will impact on the project. In light of these circumstances, the Council is continuing discussions with Transport Scotland to review the grant letter and the current conditions, taking cognisance of possible outcomes of continuing dialogue with the consortium which will inform future policy options for the Council.

FOREWORD BY THE DIRECTOR OF FINANCE

Long-term Borrowing

The Council borrowed money throughout the year to meet anticipated capital expenditure requirements and to refinance maturing loans after allowing for debt repayments. The borrowing strategy is prepared in accordance with the Code of Practice on Treasury Management in Local Authorities. The majority of the Council's borrowing comes from the Public Works Loan Board with the remainder from the European Investment Bank and market and other loans. Further details are provided at note 24 to the Financial Statements.

Investments

The Council's approach to the investment of its surplus funds has always been to prioritise the security of its investments rather than to seek the greatest return possible on them. Throughout the 'credit crunch' the Council has continued to manage its counterparty exposure accordingly to protect its funds. More details can be found under credit risk on page 56.

Council Dwellings

The valuation method for council dwellings has been updated to existing use value - social housing basis. This resulted in an upward revaluation of £187.591m as at 31 March 2009. Further details can be seen on page 16.

Public Private Partnership - Provision of School Buildings

In November 2001, the Council entered into a public private partnership with Edinburgh Schools Partnership, for the provision of school buildings, property maintenance and other facility management services. This was supplemented by a further agreement in April 2004. The project provides for a total of eighteen new or refurbished schools and other facilities throughout the city.

In April 2007, the Council entered into a second public private partnership with Axiom Education Limited for the provision of school buildings, property maintenance and other facilities. This project provides for replacement of six secondary schools and two primary schools.

Further details are provided at note 4 to the Financial Statements.

Property used in providing services under PPP contracts is now recognised as an asset on an authority's balance sheet. Further details of the impact on the balance sheet from this change can be seen on page 16.

Financial Reporting Standard 17 - Retirement Benefits

FRS 17, which relates to Retirement Benefits is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, rather than when payment actually falls due.

Net cost of services in the Income and Expenditure Account therefore includes an appropriate amount for the retirement benefits the Council has committed to pay, while the effect on the amount to be met from government grant and local tax payers has been balanced through inclusion of pensions interest costs and a transfer from the pensions reserve. This is because the Council bases its budget on the agreed employer's pension contributions payable and payments to pensioners in the year rather than benefit entitlements earned by employees.

Net Pension Liability

The net pension liability, shown in note 36 to the Financial Statements, in accordance with the requirements of FRS17 (Retirement Benefits), amounts to £679.608m. This exceeds current General Fund reserves of £73.113m. It should be noted that this is a snapshot of the position at 31 March 2010. The actuarial valuation, which takes a longer term view, will consider the appropriate employer's contribution rates and this, together with employee contributions and revenues generated from fund investments, will be utilised to meet the fund's commitments.


FOREWORD BY THE DIRECTOR OF FINANCE

Group Accounts

In addition to the difficulties faced by the Council in generating capital receipts, the Council's arms-length companies have also been affected by the economic climate. A number of the companies are involved in the property market and have seen the values of their property portfolios decrease as a direct result of the current economic conditions. As noted on page 7, the Council spent £72.576m acquiring various properties from companies within its group, resulting in a net reduction in borrowing costs across the group.

The group structure was changed in 2008/09, with Waterfront Edinburgh Limited being transferred to CEC Holdings Limited and the setting up of Shawfair Land Limited, also part of CEC Holdings Limited.

The Group Balance Sheet, shown on pages 98 and 99 shows a net liabilities for 2009/10 of £155.065m. This mainly reflects the inclusion of pension liabilities relating to Council, police and fire officers, other employees and the incorporation of joint boards as associates within the group. This exceeds the value of distributable reserves held by the Group. It should be noted that this is a snapshot of the position at 31 March 2010. The actuarial valuation, which takes a longer term view, will consider the appropriate employers' contribution rates and these, together with employee contributions and revenues generated from fund investments, will be utilised to meet the financing of these liabilities. It is therefore appropriate to adopt a going concern basis for the preparation of the group financial statements.



DONALD McGOUGAN, CPFA,
Director of Finance
11 June 2010

STATEMENT OF ACCOUNTING POLICIES

The Annual Accounts for the year ended 31 March 2010 have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, (the SORP) and the Best Value Accounting Code of Practice (BVACOP). This is to ensure that the Annual Accounts 'present a true and fair view' of the financial position and transactions of the Council.

The accounts have been prepared on a historic cost basis, other than changes resulting from the revaluation of certain categories of fixed assets.

Income and Expenditure

- The income and expenditure and capital accounts have been prepared on an accruals basis in accordance with the Code of Practice.
- Provision has been made in the relevant accounts for bad and doubtful debts.
- Government Grants have been accounted for on an accruals basis.

Interest Charges

- Interest payable on external borrowings and interest receivable has been accounted for on an accruals basis.
- Interest on revenue balances is charged or credited to the Income and Expenditure Account in accordance with LASAAC Guidance Note 2.

Debt Redemption

- The Council operates a consolidated loans fund under the terms of the Local Government (Scotland) Act 1975. Capital payments made by services are financed from the loans fund and repaid on an annuity basis.
- Gains or losses arising on the repurchase or early settlement of borrowing are recognised in the Income and Expenditure Account in the periods during which the repurchase or early settlement is made. Where the repurchase of borrowing is taken with a refinancing or restructuring option, gains or losses are recognised over the life of the replacement borrowing.

Operating Leases

Rental payments, net of benefits received, under operating leases are charged to the Income and Expenditure Account on a straight line basis over the life of the lease.

Finance Leases

Finance leases, which have substantially transferred to the authority the benefits and risks of ownership of a fixed asset, are treated as if the asset had been purchased outright.

Assets acquired under finance leases are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals comprise capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged to revenue on a straight line basis over the term of the lease.

Overheads

The costs of support services are allocated to direct services. The allocations are made on a basis appropriate to the service provided, in order to match costs to service usage. Certain support service costs are recovered through direct charges during the year.

Charges to Revenue for use of Fixed Assets

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

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

The Council is not required to raise council tax to cover depreciation or impairment losses. Depreciation and impairment losses are therefore replaced by revenue provision in the Statement of Movement on the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account.

STATEMENT OF ACCOUNTING POLICIES

Pensions

The Council participates in two different pension schemes which meet the needs of employees in particular services. Both the schemes provide members with defined benefits related to pay and service. The schemes are as follows:

- **Teachers**

This is an unfunded scheme administered by the Scottish Public Pensions Agency. The pension cost charged in the accounts is the contribution rate set on the basis of a notional fund.

- **Other Employees**

Other employees, subject to certain qualifying criteria, are eligible to join the Local Government Pension Scheme (LGPS). The LGPS is a defined benefit statutory scheme, administered in accordance with the Local Government Pension Scheme (Scotland) Regulations 1998, as amended.

The Accounts have been prepared including pension costs, as determined under FRS17 - Retirement Benefits. The net cost of services includes expenditure equivalent to the amount of retirement benefits the Council has committed to during the year. Pensions interest cost and the expected return on pension assets have been charged to net operating expenditure.

The pension costs charged to the Income and Expenditure Accounts in respect of employees are not equal to contributions paid to the funded scheme for employees. The amount by which pension costs under FRS17 are different from the contributions due under the pension scheme regulations are disclosed in the Statements of Movement on the General Fund and Housing Revenue Account Balances.

Pension assets have been valued at bid value (purchase price), as required under FRS17.

Further costs arise in respect of certain pensions paid to retired employees on an unfunded basis. Under pension regulations, contribution rates are set to meet 100% of the overall liabilities of the Fund.

Intangible Fixed Assets

- **Intangible Assets**

Intangible fixed assets represent support for the construction of Housing, where the Council retains nomination rights to the properties and software licences purchased by the Council.

- **Recognition**

Expenditure on the acquisition, creation or enhancement of intangible fixed assets has been capitalised on an accruals basis.

- **Depreciation**

Nomination rights classified as intangible fixed assets are not depreciated, as these rights are in perpetuity.

Software licences classified as intangible fixed assets are depreciated over the period of the licence, commencing in the year after acquisition.

- **Measurement**

Intangible fixed assets are included in the Balance Sheet at net historical cost.

Tangible Fixed Assets

- **Categories of Assets**

Tangible fixed assets are categorised into the following classes:

Operational Assets

| | |
|-------------------------------|--|
| Council dwellings | Infrastructure assets e.g. carriageways and footways |
| Other land and buildings | Community assets e.g. Parks |
| Vehicles, plant and equipment | |

Non-Operational Assets

| | |
|--------------------------------------|----------------------------------|
| Investment properties | Surplus assets held for disposal |
| Assets in the course of construction | |

STATEMENT OF ACCOUNTING POLICIES

Fixed Assets - Continued

- **Recognition**

Expenditure on the acquisition, creation or enhancement of fixed assets has been capitalised on an accruals basis.

- **Depreciation**

Depreciation is provided on all fixed assets other than community assets, investment properties, surplus assets held for disposal and assets in the course of construction.

The Council does not depreciate its fixed assets in the year of acquisition. The Council operates a five-year rolling revaluation programme for assets and provides for depreciation on a straight line basis on the opening book value over the remaining useful life of the asset. Thus the charge to the Income and Expenditure Account for the year is not impacted by changes in asset value during the year arising from either revaluation or enhancements.

Vehicles, plant and equipment are depreciated over a period of between five and seven years. This ensures that depreciation charged reflects the estimated useful life of the assets.

- **Measurement**

Operational Assets

Operational land and properties and other operational assets are included in the Balance Sheet at the lower of net current replacement cost or net realisable value in existing use.

- Council dwellings are included in the Balance Sheet at existing use value - social housing at 1st April 2008. This valuation approach applies a beacon methodology which groups dwellings by property type, build type and year of build. These beacons are then valued on the basis of adjusted sales evidence and then discounted by an appropriate factor to account for their existing use as social housing. Where Council dwellings are vacant and boarded up, uninhabitable or awaiting demolition, these are valued at nil.
- Other land and buildings are included in the Balance Sheet at current value, net of depreciation.
- Vehicles, plant and equipment are included in the Balance Sheet at the lower of net current replacement cost or net realisable value in existing use, net of depreciation.
- Infrastructure assets are included in the Balance Sheet at historical cost, net of depreciation.
- Community assets are included in the Balance Sheet at historical cost, or current value where appropriate.

- **Measurement**

Non-Operational Assets

Non-operational land and properties and other non-operational assets are included in the Balance Sheet at the lower of net current replacement cost or net realisable value.

- Investment properties are included in the Balance Sheet at current value. The definition of investment properties adopted in these accounts complies with that stated in International Accounting Standard 40 (Investment Property). All assets categorised under the investment property heading in the Balance Sheet are held solely to earn rentals or for capital appreciation, or both, rather than for use in the production or supply of goods or services or for administrative purposes.
- Assets under construction are included in the Balance Sheet at cost.
- Surplus assets held for disposal are included in the Balance Sheet at either their current value, net of depreciation, if the asset was an operational asset (other land and buildings) during the course of the year, or at market value.

- **Revaluations**

When an asset is included in the Balance Sheet at current value, it is formally revalued at intervals of not more than five years and the revised amount is included in the Balance Sheet. The Council has a rolling programme in place to revalue 20% of its property assets each year. The assets are valued by the Council's Property Manager (Property Management and Development).

STATEMENT OF ACCOUNTING POLICIES

Fixed Assets - Continued

• Disposals

The net gain or loss on the disposal of a tangible fixed asset is shown in the Income and Expenditure Account. To comply with statutory / proper practices restrictions on the use of capital receipts, the gain or loss on disposal of tangible fixed assets is a reconciling item in the Statements of Movement on the General Fund and Housing Revenue Account Balances.

Government Grants

Grants and other contributions relating to fixed assets are credited to a Government Grants Deferred Account and written off to the Income and Expenditure Account in line with the depreciation policy of the related assets, except grants and other contributions relating to community assets, which will only be released in the event of disposal of the relevant asset.

General Capital Grant was introduced in 2008/09 and includes funding which used to be provided as Police Capital Grant as well as various other grants. This grant has been apportioned to specific assets, and the accounting treatment followed is as outlined above.

Provisions

The value of provisions is based upon the Council's obligations arising from past events, the probability that a transfer of economic benefit will take place, and a reasonable estimate of the obligation.

Stocks and Work-in-Progress

Stock is valued at the lower of cost or net realisable value.

Work-in-progress for BlindCraft has been valued at material cost plus labour costs. This does not comply with the Code of Practice, which requires work-in-progress to be valued at cost plus attributable profit less foreseeable losses. The difference is not considered to be material.

Public Private Partnership - School Buildings, Maintenance and Other Facilities

Public Private Partnership (PPP) contracts are agreements to receive services, where the responsibility for making available the fixed assets required to provide the services passes to the PPP contractor. As the Council is deemed to control the services that are provided under this scheme and as ownership of the schools and other facilities will pass to the Council at the end of the contracts for no additional charge, the Council carries the fixed assets used under the contracts on its Balance Sheet.

Fixed assets recognised on the Balance Sheet are revalued and depreciated in the same way as other assets owned by the Council.

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

- fair value of the services received during the year - debited to education services in the Income and Expenditure Account.
- finance cost - an interest charge of 7.35% (PPP1 scheme) and 5.004% (PPP2 scheme) on the outstanding balance sheet liability - debited to interest payable and similar charges in the Income and Expenditure Account.
- contingent rent - increases in the amount to be paid for the property arising during the contract - debited to interest payable and similar charges in the Income and Expenditure Account.
- payment towards liability - applied to write down the value of the finance lease on the Balance Sheet.
- lifecycle replacement costs - recognised as fixed assets on the Balance Sheet.

STATEMENT OF ACCOUNTING POLICIES

Reserves

The Council operates capital and renewal and repair funds under the terms of Schedule 3 to the Local Government (Scotland) Act 1975.

The Council operates a pensions reserve fund under the terms of the Local Government Pension Reserve Fund (Scotland) Regulations 2003.

Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

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

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

Financial Assets

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account 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 Council has, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

However, the Council has made two loans to a related party at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Income and Expenditure Account for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable from the related party, with the difference serving to increase the amortised cost of the loan in the Balance Sheet.

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 the Income and Expenditure Account.

Any gains and losses that arise on the de-recognition of the asset are credited / debited to the Income and Expenditure Account.

Surplus funds on behalf of the Council and associated bodies and cash monies of Lothian Pension Funds are now managed by the Council under a formal management agreement in a pooled investment arrangement. While the monies continue to be shown as investments in Lothian Pension Funds' accounts, they are no longer shown as both liabilities and investments in the Council's accounts.

STATEMENT OF ACCOUNTING POLICIES

Available-for-Sale-Financial Instruments

The Council has a significant financial interest in several companies and trusts which have been set up for specific purposes. Details of these appear in notes 22 and 23 to the Council's Financial Statements. These financial interests have been assessed under the requirements of FRS26 Financial Instruments: Measurement.

The Council's investments in Lothian Buses plc, CEC Holdings Limited and tie Limited have been assessed as outwith the scope of FRS26.

Unless otherwise stated, the accounts of these companies may be obtained on application to the Director of Finance, Waverley Court, 4 East Market Street, Edinburgh EH8 8BG.

Changes in Accounting Policies

The following changes in accounting policies, arising from changes introduced by the Statement of Recommended Practice (SORP) and other guidance have been reflected in the Statement of Accounts.

- **Valuation method used for Council Dwellings**

The previous method of measuring council dwellings at the average right to buy selling price has been replaced with an existing use value - social housing basis. This is a beacon approach which groups dwellings by housing type, adjusts for sale evidence and then discounts by an appropriate factor to account for their existing use as social housing. Dwellings earmarked for demolition are now valued at nil value. These were previously valued at a nominal value of £100 per dwelling.

- **Definition of Investment Property category on Balance Sheet**

The definition of investment properties adopted in these accounts complies with that stated in International Accounting Standard 40 (Investment Property). All assets categorised under the investment property heading in the Balance Sheet are held solely to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes.

As a result, the 2008/09 Balance Sheet has been restated to re-classify all assets previously held within the investment property category that do not meet the above definition.

- **Treatment of assets relating to PPP projects**

Property used in providing services under PPP contracts is now recognised as an asset on an authority's Balance Sheet.

As a result, the 2008/09 Balance Sheet has been restated to include certified valuations for PPP1 and PPP2 schools. The valuation basis of these schools is in line with the measurement policies explained on page 13. The value of schools recognised in the restated 2008/09 Balance Sheet amounts to £328.146m

The 2009/10 Balance Sheet includes a further five schools valued at £224.716m which form part of the PPP2 project.

Equipment used by the Council under the information technology contract, valued at £7.322m, has been recognised within vehicles, plant and equipment.

The recognition of these assets is partly balanced by the recognition of a liability for the amounts due to the scheme operators to pay for the assets. The liability has been written down by capital contributions of £35.995m (PPP1) and £9.729m (PPP2).

- **Non Domestic Rates**

Under the 2009 SORP the accounting treatment for non domestic rates has changed - the Council acts as an agent for the Scottish Government in collecting non domestic rates.

The amounts due from rate payers (net of bad debt provisions) are no longer reflected in the Council's Balance Sheet. The Council has recognised a debtor from the Scottish Government for the amounts it is due to recover under the pooling arrangements in future years.

- **Current Investments and Borrowing Repayable within Twelve Months**

The carrying value of current investments and borrowing repayable within twelve months have been restated to include accrued interest as at the Balance Sheet date.

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 Director of Finance.
- to manage its affairs to secure economic, efficient and effective use of its resources and safeguard its assets.

The Director of Finance's Responsibilities

The Director of Finance is responsible for the preparation of the Authority's Statement of Accounts which, in terms of the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice'), is required to present a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year (ended 31 March 2010).

In preparing this statement of accounts, the Director of Finance has:


- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code of Practice, except where stated in the Policies and Notes to the Accounts.

The Director of Finance has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of Accounts

The Statement of Accounts presents a true and fair view of the financial position of the Council as at 31 March 2010, and its income and expenditure for the year ended 31 March 2010.



DONALD McGOUGAN, CPFA,
Director of Finance
11 June 2010

ANNUAL GOVERNANCE STATEMENT

Scope of Responsibility

The City of Edinburgh Council is responsible for ensuring that its business is conducted in accordance with the law and appropriate standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently, effectively and ethically. The Council also has a duty to make arrangements to secure continuous improvement in the way its functions are carried out.

In discharging these responsibilities, elected members and senior officers are responsible for implementing effective arrangements for governing the Council's affairs, and facilitating the effective exercise of its functions, including arrangements for the management of risk.

To this end, the Council has approved and adopted a Local Code of Corporate Governance that is consistent with the principles of the CIPFA / SOLACE framework Delivering Good Governance in Local Government. This statement explains how the City of Edinburgh Council delivers good governance and reviews the effectiveness of those arrangements. It also includes a statement on internal financial control.

This statement also covers the organisations included in the Council's Group Accounts, a list of which is included at page 101 of the Financial Statements.

The Council's Governance Framework

The governance framework comprises the systems, processes, cultures and values by which the Council is directed and controlled. It also describes the way it engages with, accounts to and leads the community. It enables the Council to monitor the achievement of its objectives and consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The Local Code of Corporate Governance is supported by detailed evidence of compliance which is regularly reviewed. The key documents supporting the Code are available for inspection.

The Council has implemented arrangements for monitoring each element of the framework and providing evidence of compliance. The Chief Internal Auditor reviewed the arrangements and is satisfied that the Code continues to be adequate and effective. The framework meets the principles of effective governance.

Within the overall control arrangements the system of internal financial control is intended to ensure that assets are safeguarded, transactions are authorised and properly recorded, and material errors or irregularities are either prevented or would be detected within a timely period. It is based on a framework of regular management information, financial regulations, administrative procedures and management supervision.

These arrangements include:

- identifying the Council's objectives in the Corporate Plan, the Edinburgh Partnership Single Outcome Agreement and other policy statements agreed by the Council;
- monitoring of the achievement of objectives by the Council and senior officers;
- a systematic approach to monitoring service performance at elected member, senior officer and project level;
- reporting performance regularly to Council committees;
- describing the role of the Council and committees in Standing Orders, which also set out the decision-making powers delegated to officers;
- Financial Regulations that specify the controls over budgeting, income, expenditure and financial performance;
- a Monitoring Officer to ensure compliance with laws and regulations;
- an Audit Committee whose core functions comply with CIPFA standards;
- comprehensive budget and expenditure monitoring systems;
- targets against which financial and operational performance can be assessed;
- clearly defined capital expenditure guidelines;
- formal project management disciplines;
- a Code of Guidance for the governance of Council-owned companies;
- Codes of Conduct for both elected members and officers; and
- a governance policy statement and principles for investment for Lothian Pension Funds.

ANNUAL GOVERNANCE STATEMENT

A significant part of the governance framework is the system of internal control, which is based on an ongoing process to identify and prioritise risks to the achievement of the Council's objectives. While the system is designed to enable the Council to manage risk effectively, it cannot eliminate all risk of failure to implement policies and achieve objectives. Therefore, it provides a reasonable, but not absolute, assurance of effectiveness.

Determining the Authority's purpose, its vision for the local area and intended outcomes for the Community

The Council identified its vision, values and intended outcomes in its Corporate Plan 2007-11. The new Edinburgh Single Outcome Agreement (SOA) 2009-12, which was submitted to the Scottish Government in May 2009, provides an up-to-date statement of the context in which the Council and its partners are working.

It sets out the strategic priorities for 2009-12 as:

- developing the city and regional economy, including transport and housing, and mitigating the impact of the economic downturn;
- environmental sustainability, including action on climate change, waste, and the city's cleanliness;
- health, wellbeing and social inclusion, including care and support services, improving health, and tackling deprivation and inequality;
- services for children, including supporting early years development and educational excellence, and protecting vulnerable children;
- working in partnership to improve community safety and the quality of life in our communities.

The outcomes will be identified and monitored using indicators and targets that have been developed by the Council and its partners. They will form the basis of progress reports to the Council, its partners, the public and the Scottish Government. Accountability for the outcomes has been clearly specified and the Council will follow the Scottish Government's advice on SOA governance matters.

Review of Effectiveness

The Local Code of Governance details the Council's arrangements for monitoring each element of the framework and providing evidence of compliance. The Chief Internal Auditor has reviewed the effectiveness of the Code and reported the results to the Audit Committee.

The Internal Audit Section operates in accordance with the CIPFA Code of Practice for Internal Audit and complies with the ISO 9001/2008 quality standard. The Section undertakes an annual work programme based on an agreed audit strategy and formal assessments of risk that are reviewed regularly. The Chief Internal Auditor reports directly to the Head of Financial Services but has free access to the Director of Finance, Chief Executive and elected members, and reports to the Audit Committee in his own name.

The Chief Internal Auditor has provided an assurance statement on the effectiveness of the system of internal control, which was informed by:

- departmental Directors' certified assurances;
- Council officers' management activities;
- Internal Audit's review work;
- Audit Scotland's review work leading to its Annual Audit Report;
- risk management procedures;
- reports by external, statutory inspection agencies;
- self assessments completed by the Chief Executives of group companies.

In compliance with standard accounting practice, the Director of Finance has provided the Chief Executive with a statement of the effectiveness of the Council's internal financial control system for the year ended 31 March 2010. It is the Director of Finance's opinion that reasonable assurance can be placed upon its effectiveness.

ANNUAL GOVERNANCE STATEMENT

Each service Director has reviewed the arrangements in his / her department and certified their effectiveness to the Chief Executive.

Control statements have been received from organisations included within the group and reviewed. Reliance has also been placed on each organisation's most recent audited accounts together with Council officers' detailed knowledge of these organisations as a consequence of their continued involvement with these companies.

These reviews have identified actions that will be taken to continue improvement in the following activities:

By the Council:

- the mitigation of risks during a time of change of structures and service delivery;
- implementation of action plans agreed with external inspection agencies;
- joint commissioning of services;
- implementation of the single status pay agreement; and
- service prioritisation and consideration of alternative service delivery methods.

Within the Group:


- the budget monitoring process;
- long term financial planning and mitigation of the effects of the economic downturn;
- actions required across the group to mitigate the effects of the current financial situation;
- the governance arrangements and management of major projects;
- adopt an updated local code of governance; and
- completion of group restructuring.

Certification

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of City of Edinburgh Council and its Group systems of governance. The annual review demonstrates sufficient evidence that the Code is operated effectively and the Council and its Group complies with the Local Code of Corporate Governance in all significant respects.



TOM AITCHISON
Chief Executive
28 September 2010



JENNY DAWE
Council Leader
28 September 2010



DONALD McGOUGAN
Director of Finance
28 September 2010

INCOME AND EXPENDITURE ACCOUNT

for the year ended 31 March 2010

| (re-stated) 2008/09 £000 | | Gross Expenditure Notes £000 | Income £000 | Net Expenditure £000 |
|--------------------------------|--|---------------------------------------|------------------|----------------------------|
| | SERVICES | | | |
| 318,613 | Education Services | 4. 348,029 | (15,658) | 332,371 |
| 43,061 | Housing Services | 310,357 | (270,260) | 40,097 |
| 61,641 | Cultural and Related Services | 71,003 | (11,418) | 59,585 |
| 65,555 | Environmental Services | 87,332 | (17,811) | 69,521 |
| 32,295 | Roads and Transport | 4. 71,406 | (38,739) | 32,667 |
| 20,322 | Planning and Development | 76,091 | (47,344) | 28,747 |
| 253,773 | Social Work | 324,511 | (58,890) | 265,621 |
| 53,372 | Police Joint Board Requisition | 57,436 | (2,370) | 55,066 |
| 28,713 | Fire Joint Board Requisition | 28,246 | 0 | 28,246 |
| 13,027 | Corporate and Democratic Core | 14,052 | (447) | 13,605 |
| 23,216 | Non-Distributed Costs | 18,681 | 0 | 18,681 |
| 6,190 | Services to the Public | 21,539 | (14,642) | 6,897 |
| 8,150 | Other Operating Expenditure / (Income) | 5. 28,449 | (33,679) | (5,230) |
| 2,408 | Exceptional Expenditure | 3. 39,323 | 0 | 39,323 |
| 36,896 | Housing Revenue Account | 103,352 | (83,780) | 19,572 |
| 967,232 | NET COST OF SERVICES | 1,599,807 | (595,038) | 1,004,769 |
| (6,183) | (Gain) / Loss on Disposal of Fixed Assets | | | 1,219 |
| (3,287) | Net Surplus from Trading Undertakings | 6. | | (5,821) |
| (2,000) | Dividends Received | | | (2,000) |
| 66,805 | Interest Payable and Other Similar Charges | | | 63,850 |
| (3,696) | Interest and Investment Income | | | (1,260) |
| 2,275 | Pensions Interest Costs and Expected Return on Pension Assets | | | 21,446 |
| 1,021,146 | NET OPERATING EXPENDITURE | | | 1,082,203 |
| (221,998) | Council Tax | | | (238,523) |
| (136) | Community Charge | | | (104) |
| (538,569) | General Revenue Funding | | | (562,800) |
| (177,798) | Non-Domestic Rates | | | (197,002) |
| 82,645 | DEFICIT FOR THE YEAR | | | 83,774 |

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

The Income and Expenditure Account shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the Council is required to raise Council tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed rather than when the fixed assets are consumed;
- Retirement benefits are charged as amounts become payable to pensions funds and pensioners, rather than as future benefits are earned.

for the year ended 31 March 2010

| (re-stated) | | |
|--------------------|--|-----------------|
| 2008/09 | | |
| £000 | | £000 |
| 82,645 | Deficit in the Income and Expenditure Account | 83,774 |
| | Net Additional Amount required by Statute or Non-Statutory Proper Practices to be debited to the General Fund Balance for the Year | |
| <u>(113,273)</u> | | <u>(97,312)</u> |
| (30,628) | General Fund Surplus | (13,538) |
| <u>(28,947)</u> | General Fund Balance Brought Forward | <u>(59,575)</u> |
| <u>(59,575)</u> | General Fund Balance Carried Forward | <u>(73,113)</u> |

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

This Statement brings together all the gains and losses of the Council for the year and shows the aggregate increase in its net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

for the year ended 31 March 2010

| (re-stated) | | |
|--------------------|--|----------------|
| 2008/09 | | |
| £000 | | £000 |
| 82,645 | Deficit on the Income and Expenditure Account for the year | 83,774 |
| (354,774) | Surplus arising on revaluation of fixed assets | (250,439) |
| 193,442 | Actuarial loss on pension assets and liabilities | 404,128 |
| <u>(2,915)</u> | Other losses / (gains) | <u>150,192</u> |
| <u>(81,602)</u> | Total recognised losses / (gains) for the year | <u>387,655</u> |

The 2008/09 gains and losses have been re-stated. Details of the changes can be seen in note 1 to the Financial Statements.

BALANCE SHEET

as at 31 March 2010

(re-stated)

| 2008/09 £000 | | Notes | £000 | £000 |
|------------------|---|-------|------------------|------------------|
| 2,821 | Intangible Fixed Assets | 18. | | 3,739 |
| | Tangible Fixed Assets | | | |
| | Operational Assets | | | |
| 1,026,464 | Council Dwellings | 21. | 1,006,542 | |
| 1,340,140 | Other Land and Buildings | 21. | 1,603,569 | |
| 37,645 | Vehicles, Plant, Furniture and Equipment | 21. | 36,004 | |
| 528,219 | Infrastructure Assets | 21. | 626,638 | |
| <u>21,642</u> | Community Assets | 21. | <u>22,988</u> | |
| <u>2,954,110</u> | | | | 3,295,741 |
| | Non-Operational Assets | | | |
| 1,791 | Investment Properties | 21. | 2,305 | |
| 10,286 | Assets under Construction | 21. | 39,911 | |
| <u>23,463</u> | Surplus Assets Held for Disposal | 21. | <u>26,501</u> | |
| <u>35,540</u> | | | | 68,717 |
| | Long-Term Assets | | | |
| 43,374 | Long-Term Investments | | 23,335 | |
| 207,227 | Long-Term Debtors | 25. | 214,133 | |
| <u>(154,612)</u> | Less: Bad Debt Provision | 26. | <u>(154,424)</u> | |
| <u>95,989</u> | | | | 83,044 |
| | Current Assets | | | |
| 2,121 | Stocks and Work-in-Progress | | 1,870 | |
| 222,657 | Debtors | | 222,709 | |
| (69,078) | Less: Bad Debt Provision | 26. | (64,575) | |
| 142,035 | Investments | | 161,862 | |
| <u>7,197</u> | Cash and Bank | | <u>619</u> | |
| <u>304,932</u> | | | | 322,485 |
| | Less: Current Liabilities | | | |
| (64,742) | Borrowing Repayable on Demand or Within 12 Months | | (28,029) | |
| (174,932) | Creditors | | (173,274) | |
| (26,540) | Provisions | 27. | (50,668) | |
| <u>(25,217)</u> | Bank Overdraft | | <u>(32,904)</u> | |
| <u>(291,431)</u> | | | | (284,875) |
| <u>3,101,961</u> | Total Assets Less Current Liabilities | | | <u>3,488,851</u> |

BALANCE SHEET

(re-stated)
2008/09
£000

| | Notes | £000 | £000 |
|------------------------------|--|----------------------|--------------------|
| Long-Term Liabilities | | | |
| (1,100,284) | Borrowing Repayable Within a Period in Excess of Twelve Months | 24. (1,213,186) | |
| (107,953) | Finance Leases | 19. (225,005) | |
| (331,178) | Government Grants Deferred | 29. (472,342) | |
| (350) | Deferred Credit | 30. (350) | |
| <u>(276,181)</u> | Pension Liability | 36. <u>(679,608)</u> | |
| <u>(1,815,946)</u> | | | <u>(2,590,491)</u> |
| <u>1,286,015</u> | TOTAL ASSETS LESS LIABILITIES | | <u>898,360</u> |
| Represented by: | | | |
| 515,365 | Revaluation Reserve | 28. | 745,152 |
| 1,011,618 | Capital Adjustment Account | 28. | 779,169 |
| (57,633) | Financial Instruments Adjustment Account | 28. | (56,848) |
| 22,941 | Capital Fund | 28. | 22,467 |
| 0 | Capital Grants Unapplied Account | 28. | 1,136 |
| (276,181) | Pensions Reserve | 36. | (679,608) |
| 10,330 | Renewal and Repairs Fund | 28. | 13,779 |
| <u>59,575</u> | General Fund | 28. | <u>73,113</u> |
| <u>1,286,015</u> | TOTAL NET WORTH | | <u>898,360</u> |

The unaudited accounts were issued on 11 June 2010 and the audited accounts were authorised for issue on 29 September 2010.



DONALD McGOUGAN, CPFA,
Director of Finance
11 June 2010

CASH FLOW STATEMENT

Year ended 31 March 2010

(re-stated)
2008/09

| £000 | REVENUE ACTIVITIES | Notes | £000 | £000 |
|--------------------|--|---------|------------------|--------------------|
| | Cash Outflows | | | |
| 548,860 | Cash Paid to and on Behalf of Employees | | 546,746 | |
| 754,096 | Other Operating Cash Payments | | 790,967 | |
| 157,490 | Housing Benefit Paid Out | | 176,533 | |
| <u>1,460,446</u> | | | | 1,514,246 |
| | Cash Inflows | | | |
| (67,011) | Rents (after Rebates) | | (72,832) | |
| (224,653) | Council Tax Receipts | | (224,740) | |
| (177,798) | National Non-Domestic Rate Receipts from National Pool | | (197,002) | |
| (538,569) | General Revenue Funding | 38. | (562,800) | |
| (178,638) | DWP Grants for Benefits | 38. | (206,362) | |
| (49,476) | Other Government Grants | 38. | (32,777) | |
| (308,068) | Cash Received for Goods and Services | | <u>(381,312)</u> | |
| <u>(1,544,213)</u> | | | | <u>(1,677,825)</u> |
| | NET CASH (INFLOW) / OUTFLOW FROM REVENUE ACTIVITIES | 37. | | (163,579) |
| (83,767) | | | | |
| | DIVIDENDS FROM JOINT VENTURES AND ASSOCIATES | | | |
| | Cash Inflows | | | |
| (1,886) | Dividends received | | | (2,114) |
| | RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | | | |
| | Cash Outflows | | | |
| 65,547 | Interest Paid | | 72,919 | |
| 7,453 | Interest Element of Finance Leases | | 11,789 | |
| | Cash Inflows | | | |
| (10,352) | Interest Received | | <u>(3,155)</u> | |
| <u>62,648</u> | | | | 81,553 |
| | CAPITAL ACTIVITIES | | | |
| | Cash Outflows | | | |
| 312,477 | Purchase of Fixed Assets | | 341,885 | |
| 21,602 | Other Capital Cash Payments | | 57,480 | |
| <u>334,079</u> | | | <u>399,365</u> | |
| | Cash Inflows | | | |
| (28,448) | Sale of Fixed Assets | | (6,313) | |
| (166,928) | Capital Grants Received | 38. | (213,999) | |
| (13,206) | Other Capital Cash Receipts | | <u>(21,010)</u> | |
| <u>(208,582)</u> | | | <u>(241,322)</u> | |
| 125,497 | NET CASH OUTFLOW FROM CAPITAL ACTIVITIES | | | 158,043 |
| | ACQUISITIONS AND DISPOSALS | | | |
| | Cash Outflows | | | |
| 6,250 | Investments in Subsidiaries | | | <u>0</u> |
| <u>108,742</u> | NET CASH (INFLOW) / OUTFLOW BEFORE FINANCING | 39. | | 73,903 |
| | MANAGEMENT OF LIQUID RESOURCES | | | |
| (4,795) | Net Increase / (Decrease) in Short Term Deposits | 39. | | 19,827 |
| 14,610 | Net Increase / (Decrease) in Other Liquid Resources | 39. | | (12,699) |
| | FINANCING | | | |
| | Cash Outflows | | | |
| 257,140 | Repayments of Amounts Borrowed | 39./40. | | 106,628 |
| 2,997 | Capital Element of Finance Lease Rental Payments | 39. | | 6,571 |
| | Cash Inflows | | | |
| (379,190) | New Loans Raised | 39./40. | | <u>(179,965)</u> |
| <u>(496)</u> | (INCREASE) / DECREASE IN CASH | 39. | | <u>14,265</u> |

NOTES TO THE FINANCIAL STATEMENTS

1. Prior Year Adjustments

Comparative figures for 2008/09 have been re-stated to reflect the changes outlined in the changes in accounting policies detailed on page 16 of the accounts. The impact on the Income and Expenditure Account, Statement of Total Recognised Gains and Losses, Cash Flow Statement and the Balance Sheet are shown below.

1.1 Income and Expenditure Account

| | 2008/09 Audited Accounts £000 | PPP Schemes £000 | Housing Stock Reval. £000 | Other Adjusts. £000 | 2008/09 Re-stated Accounts £000 |
|---------------------------|--|------------------------|------------------------------------|---------------------------|--|
| Education services | 322,359 | (3,746) | - | - | 318,613 |
| Housing revenue account | 32,083 | - | 4,813 | - | 36,896 |
| Other operating expend. | 7,811 | - | - | 339 | 8,150 |
| Net cost of services | 965,826 | (3,746) | 4,813 | 339 | 967,232 |
| Interest payable | 59,396 | 7,409 | - | - | 66,805 |
| Net operating expenditure | 1,012,331 | 3,663 | 4,813 | 339 | 1,021,146 |
| Non Domestic Rates | (177,459) | - | - | (339) | (177,798) |
| Deficit for the year | 74,169 | 3,663 | 4,813 | - | 82,645 |

1.2 Statement of Recognised Gains and Losses

| | 2008/09 Audited Accounts £000 | PPP Schemes £000 | Housing Stock Reval. £000 | 2008/09 Re-stated Accounts £000 |
|--|--|------------------------|------------------------------------|--|
| Deficit on Income / Expend. Account | 74,169 | 3,663 | 4,813 | 82,645 |
| Surplus on revaluation of fixed assets | (162,369) | - | (192,405) | (354,774) |
| Loss on pension assets and liabilities | 193,442 | - | - | 193,442 |
| Other losses / (gains) | 23,412 | (26,327) | - | (2,915) |
| Total recognised losses for the year | 128,654 | (22,664) | (187,592) | (81,602) |

1.3 Cash Flow Statement

| | 2008/09 Audited Accounts £000 | PPP Schemes £000 | Non Domestic Rates £000 | 2008/09 Re-stated Accounts £000 |
|--|--|------------------------|----------------------------------|--|
| Other operating cash payments | 764,163 | (10,406) | 339 | 754,096 |
| Payments to non domestic rates pool | 279,906 | - | (279,906) | 0 |
| Non domestic rates receipts | (264,957) | - | 264,957 | 0 |
| Interest element of finance leases | 44 | 7,409 | - | 7,453 |
| Net increase in other liquid resources | 0 | - | 14,610 | 14,610 |
| Capital element of finance leases | 0 | 2,997 | - | 2,997 |

NOTES TO THE FINANCIAL STATEMENTS

1. Prior Year Adjustments - continued

1.4 Balance Sheet

| | 2008/09 Audited Accounts £000 | PPP Schemes £000 | Housing Stock Reval. £000 | Reclassify Invest. Properties £000 | Carried Forward £000 |
|---------------------------|--|------------------------|------------------------------------|---|----------------------------|
| Council dwellings | 818,828 | - | 187,591 | 1,739 | 1,008,158 |
| Other land / buildings | 905,828 | 317,648 | - | 116,664 | 1,340,140 |
| Vehicles, plant, etc | 48,629 | 7,322 | - | - | 55,951 |
| Community assets | 21,595 | - | - | 47 | 21,642 |
| Investment properties | 120,241 | - | - | (118,450) | 1,791 |
| Long-term debtors | 130,367 | (85,153) | - | - | 45,214 |
| Long-term bad debt prov. | 0 | - | - | - | 0 |
| Current debtors | 399,551 | - | - | - | 399,551 |
| Short-term bad debt prov. | (238,234) | - | - | - | (238,234) |
| Current investments | 141,698 | - | - | - | 141,698 |
| Creditors | (177,163) | (11,943) | - | - | (189,106) |
| Current borrowing | (50,568) | - | - | - | (50,568) |
| Finance leases | (320) | (107,633) | - | - | (107,953) |
| Revaluation reserve | (322,961) | - | (192,404) | - | (515,365) |
| Capital adjustment acc. | (896,190) | (120,241) | 4,813 | - | (1,011,618) |

| | Brought Forward £000 | Reclassify Vehicles etc. £000 | Accrued Interest £000 | NDR / Reclassify Debtors £000 | 2008/09 Re-stated Accounts £000 |
|---------------------------|----------------------------|--|-----------------------------|--|--|
| Council dwellings | 1,008,158 | 18,306 | - | - | 1,026,464 |
| Other land / buildings | 1,340,140 | - | - | - | 1,340,140 |
| Vehicles, plant, etc | 55,951 | (18,306) | - | - | 37,645 |
| Community assets | 21,642 | - | - | - | 21,642 |
| Investment properties | 1,791 | - | - | - | 1,791 |
| Long-term debtors | 45,214 | - | - | 162,013 | 207,227 |
| Long-term bad debt prov. | 0 | - | - | (154,612) | (154,612) |
| Current debtors | 399,551 | - | (337) | (176,557) | 222,657 |
| Short-term bad debt prov. | (238,234) | - | - | 169,156 | (69,078) |
| Current investments | 141,698 | - | 337 | - | 142,035 |
| Creditors | (189,106) | - | 14,174 | - | (174,932) |
| Current borrowing | (50,568) | - | (14,174) | - | (64,742) |
| Finance leases | (107,953) | - | - | - | (107,953) |
| Revaluation reserve | (515,365) | - | - | - | (515,365) |
| Capital adjustment acc. | (1,011,618) | - | - | - | (1,011,618) |

NOTES TO THE FINANCIAL STATEMENTS

2. New and Discontinued Operations

2.1 New Operations

During the year the Council acquired a number of properties from companies within its group.

Waterfront Edinburgh Limited (part of CEC Holdings)

The Council acquired a number of properties from Waterfront Edinburgh Limited (WEL) for £7.5m.

Parc (part of CEC Holdings)

The Council acquired industrial units in Peffermill, for £1.1m and 19 homes for mid-rent or low cost home ownership in Craigmillar for £2.135m.

EDI Group Limited (part of CEC Holdings)

The Council acquired a number of properties from the EDI Group for £61.841m. These properties include industrial estates and office premises in a number of locations across the city.

3. Exceptional Items

Expenditure on exceptional items relates to payments / provisions of £39.323m (£2.408m 2008/09) relating to equal pay settlements and costs associated with implementing single status.

4. Public Private Partnership and Other Long Term Contracts

4.1 Provision of School Buildings

PPP Education Projects

In 2001, the Council entered into a Public Private Partnership (PPP1) for the provision of school buildings, maintenance and other facilities with Edinburgh Schools Partnership. This agreement was supplemented by a further agreement in April 2004, which now requires Edinburgh Schools Partnership to either replace or substantially renovate ten primary, five secondary and two special schools, together with one close support unit and a community wing, and to maintain these schools to a high standard. When the agreement ends in July 2033 the schools will be handed to the Council with a guaranteed maintenance-free life of five years.

In April 2007, the Council entered into a second Public Private Partnership (PPP2) for the provision of school buildings, maintenance and other facilities with Axiom Education Limited. This required Axiom Education Limited to replace six secondary schools and two primary schools and to maintain these schools to a high standard. When the agreement ends in July 2038 the schools will be handed to the Council with a guaranteed maintenance-free life of five years.

Under the agreements the Council is committed to paying the following sums as detailed in the contractor's final bid model:

| Future Repayment Period | PPP 1 £000 | Inflationary Uplift | PPP 2 £000 | Inflationary Uplift |
|----------------------------|----------------|------------------------|----------------|------------------------|
| 2010 - 2011 | 16,033 | 1.11% | 19,479 | 1.67% |
| 2011 - 2016 | 82,876 | 1.11% | 102,374 | 1.67% |
| 2016 - 2021 | 87,583 | 1.11% | 111,194 | 1.67% |
| 2021 - 2026 | 92,558 | 1.11% | 120,774 | 1.67% |
| 2026 - 2031 | 97,816 | 1.11% | 131,180 | 1.67% |
| 2031 - 2036 | 44,110 | 1.11% | 142,482 | 1.67% |
| 2036 - 2039 | - | - | 70,660 | 1.67% |
| | 420,976 | | 698,143 | |

NOTES TO THE FINANCIAL STATEMENTS

4. Public Private Partnership and Other Long Term Contracts - continued

4.2 Provision of Information Technology services

In 2001 the Council entered into a ten year Public Private Partnership for the provision of information technology services. This contract has now been extended for another five years.

Under the agreement the Council is committed to paying the following sums in cash terms (assuming an inflationary uplift at the level shown):-

| Future Repayment | | Inflationary |
|------------------|----------------|--------------|
| Period | £000 | Uplift |
| 2010-11 | 26,432 | 4.4% |
| 2011-12 | 26,190 | 3.2% |
| 2012-13 | 27,256 | 3.5% |
| 2013-14 | 28,146 | 3.1% |
| 2014-15 | 28,888 | 2.5% |
| 2015-16 | 29,147 | 2.5% |
| | <u>166,059</u> | |

The cost of information technology is included in overheads and is thus allocated to direct services.

4.3 Provision of Parking Enforcement

The Council entered into a five year contract with National Car Parks for the provision of parking enforcement.

Under the agreement the Council is committed to paying the following sums in cash terms (assuming an inflationary uplift at the level shown):-

| Future Repayment | | Inflationary |
|------------------|--------------|--------------|
| Period | £000 | Uplift |
| 2010-11 | 5,763 | 2.0% |
| 2011-12 | 3,919 | 2.0% |
| | <u>9,682</u> | |

4.4 Waste Disposal

The Council entered into a twenty year contract with Viridor in 2000 to supply waste to their landfill site in Dunbar. The contract requires the Council to supply an agreed tonnage to the landfill site each calendar year. Fees are subject to review twice a year, based on civil engineering indices.

Under the agreement the Council is committed to paying the following sums in cash terms (assuming an increase of 5% per annum):-

| Future Repayment | |
|------------------|---------------|
| Period | £000 |
| 2010 - 2011 | 3,941 |
| 2011 - 2016 | 17,882 |
| 2016 - 2020 | 17,803 |
| | <u>39,626</u> |

5. Analysis of Other Operating Income and Expenditure

| | Gross Expend. £000 | Income £000 | Net Expend. £000 | 2008/09 Net Expend. £000 |
|----------------------------------|-----------------------|-----------------|---------------------|--------------------------------|
| Joint Board Requisition | | | | |
| - Lothian Valuation Joint Board | 3,806 | 0 | 3,806 | 3,788 |
| Non-General Fund central support | 22,789 | (22,620) | 169 | 2,734 |
| Other miscellaneous items | 1,854 | (11,059) | (9,205) | 1,628 |
| | <u>28,449</u> | <u>(33,679)</u> | <u>(5,230)</u> | <u>8,150</u> |

NOTES TO THE FINANCIAL STATEMENTS

6. Trading Undertakings

The Council operates the following significant trading operations under the terms of the Local Government in Scotland Act 2003. The results are included in 'Net Surplus from Trading Undertakings' unless otherwise stated.

• Direct Cleaning

Direct Cleaning provides a daily internal building cleaning service to all departments of the Council. It also undertakes specialist cleaning when required.

| | 2009/10 £000 | 2008/09 £000 | 2007/08 £000 | Cumulative £000 |
|----------|-----------------|-----------------|-----------------|--------------------|
| Turnover | 6,928 | 7,189 | 7,245 | |
| Deficit | (347) | (1,024) | (873) | (2,244) |

Direct Cleaning failed to achieve its statutory obligation to break even over the three-year period. The deficit incurred in 2009/10, however, was after meeting costs of £0.966m (2008/09 £1.552m; 2007/08 £1.096m) relating to equal pay claims. Excluding these exceptional items, Direct Cleaning would have broken even over the three-year period.

• BlindCraft

BlindCraft provides supported employment for blind, visually impaired and other people with disabilities, and produces a range of goods which are sold through various outlets.

BlindCraft received financial support from a number of local authorities, including a subsidy of £1.128m (2008/09 £0.988m; 2007/08 £1.02m) from the Council's Health and Social Care department.

BlindCraft recorded a trading surplus of £0.010m in 2009/10 after the contribution from the Health and Social Care department.

| | 2009/10 £000 | 2008/09 £000 | 2007/08 £000 | Cumulative £000 |
|---------------------|-----------------|-----------------|-----------------|--------------------|
| Turnover | 1,522 | 2,003 | 1,832 | |
| Surplus / (deficit) | 10 | (134) | (207) | (331) |

The economic recession impacted on the business with sales dropping from £2.003m in 2008/09 to £1.522m in 2009/10. Despite this reduction in sales Blindcraft managed to achieve the surplus against budget through significant cost reductions in staffing, materials and other cost control disciplines.

BlindCraft failed to achieve its statutory obligation to break even over the three-year period.

• Edinburgh Building Services

Edinburgh Building Services is a multi-trade property maintenance trading operation providing a full repairs service to its clients.

| | 2009/10 £000 | 2008/09 £000 | 2007/08 £000 | Cumulative £000 |
|----------|-----------------|-----------------|-----------------|--------------------|
| Turnover | 27,315 | 26,236 | 26,844 | |
| Surplus | 4,750 | 2,548 | 3,710 | 11,008 |

Edinburgh Building Services achieved its statutory obligation to break even over the three-year period.

NOTES TO THE FINANCIAL STATEMENTS

6. Trading Undertakings - continued

- **Edinburgh Catering Services - Other Catering**

Edinburgh Catering Services - Other Catering provides staff catering and hospitality in five Council buildings.

| | 2009/10 £000 | 2008/09 £000 | 2007/08 £000 | Cumulative £000 |
|---------------------|-----------------|-----------------|-----------------|--------------------|
| Turnover | 1,358 | 1,298 | 1,189 | |
| (Deficit) / surplus | (22) | 16 | 3 | (3) |

Edinburgh Catering Services - Other Catering failed to achieved its statutory obligation to break even over the three-year period. The deficit in 2009/10 and surpluses in 2007/08 and 2008/09 were after meeting costs of £0.55m (2008/09 £nil ; 2007/08 £0.008m) relating to equal pay claims. Excluding these exceptional items, Edinburgh Catering Services - Other Catering would have broken even over the three-year period.

- **Edinburgh Catering Services - School and Welfare Catering**

Edinburgh Catering Services - School and Welfare Catering provides catering services to primary, secondary and special schools as well as welfare catering (lunch clubs) for Social Work.

| | 2009/10 £000 | 2008/09 £000 | 2007/08 £000 | Cumulative £000 |
|---------------------|-----------------|-----------------|-----------------|--------------------|
| Turnover | 5,262 | 5,266 | 5,095 | |
| Surplus / (deficit) | 41 | (601) | (605) | (1,165) |

The results of Edinburgh Catering Services' School and Welfare Catering trading operation are included within Education Services.

Edinburgh Catering Services - School and Welfare Catering failed to achieve its statutory obligation to break even over the three-year period. The £0.041m surplus achieved in 2009/10 was after meeting costs of £0.362m (2008/09 £0.815m; 2007/08 £0.482m) relating to equal pay claims. Excluding these exceptional items, Edinburgh Catering Services - School and Welfare Catering would have broken even over the three-year period.

- **City Fleet Maintenance Services**

City Fleet Maintenance Services provides a full range of vehicle and plant maintenance services.

| | 2009/10 £000 | 2008/09 £000 | 2007/08 £000 | Cumulative £000 |
|----------|-----------------|-----------------|-----------------|--------------------|
| Turnover | 4,262 | 4,252 | 4,192 | |
| Surplus | 420 | 330 | 263 | 1,013 |

City Fleet Maintenance Services achieved its statutory obligation to break even over the three-year period.

NOTES TO THE FINANCIAL STATEMENTS

6. Trading Undertakings - continued

- **Edinburgh Road Services**

Edinburgh Road Services provides repair and maintenance of carriageways, footways and street lighting.

| | 2009/10 £000 | 2008/09 £000 | 2007/08 £000 | Cumulative £000 |
|---------------------|-----------------|-----------------|-----------------|--------------------|
| Turnover | 23,813 | 23,291 | 18,501 | |
| Surplus / (deficit) | 1,367 | (1,778) | 778 | 367 |

The results of Edinburgh Road Services' trading operation are included within Roads and Transport.

The surplus of £1.367m in 2009/10 was after meeting impairment costs for its Sighthill depot of £0.247m (2008/09 £3.037m, 2007/08 £nil).

Edinburgh Road Services achieved its statutory obligation to break even over the three-year period.

- **Open Space Maintenance**

This significant trading operation (STO) is responsible for keeping roads, pavements and grassed areas free from litter and dumping. The grounds maintenance section maintains most of the civic amenity green spaces, including public parks and school playing fields. The STO also provides forestry services for the city's tree stock.

| | 2009/10 £000 | 2008/09 £000 | 2007/08 £000 | Cumulative £000 |
|---------------------|-----------------|-----------------|-----------------|--------------------|
| Turnover | 18,941 | 16,968 | 16,172 | |
| Surplus / (deficit) | 185 | 306 | (8) | 483 |

The results of the Open Space Maintenance trading operation are included within Environmental Services.

Open Space Maintenance achieved its statutory obligation to break even over the three-year period.

- **Refuse Collection (including Trade Waste)**

This STO provides a weekly refuse collection for over 227,000 households, with the majority of these properties being served by a containerised waste collection system. Trade waste provides a collection and disposal service to producers of commercial waste throughout the city. In addition the service provides uplifts of bulky household refuse.

| | 2009/10 £000 | 2008/09 £000 | 2007/08 £000 | Cumulative £000 |
|---------------------|-----------------|-----------------|-----------------|--------------------|
| Turnover | 14,849 | 15,295 | 14,392 | |
| (Deficit) / surplus | (1,760) | 155 | (642) | (2,247) |

The results of the Refuse Collection trading operation are included within Environmental Services.

Refuse Collection failed to achieve its statutory obligation to break even over the three-year period.

The on-going industrial dispute has resulted in an increase in costs in 2009/10; however, steps are being taken to improve the service with new working arrangements being implemented. These new arrangements (changes to routing assisted by new routing software and changes to shift patterns) will ensure that the quality of the service and customer satisfaction are maintained, while at the same time reducing costs.

NOTES TO THE FINANCIAL STATEMENTS

7. Agency Income and Expenditure

The Council has entered into agency agreements with other local public bodies to provide and receive services, the income and expenditure for which is included in the Income and Expenditure Account.

| The main activities were: | 2009/10 £000 | 2008/09 £000 |
|---|-----------------|-----------------|
| Expenditure | | |
| Payments to other local authorities in respect of: | | |
| Area waste project | 643 | 35 |
| Educational services for children | 1,523 | 1,447 |
| Residential care for children | 275 | 193 |
| Payments made to Health Boards in respect of: | | |
| Health and safety services | 0 | 83 |
| Medicals for cab drivers | 0 | 28 |
| Others | | |
| Police officers | 2,560 | 2,560 |
| Lothian and Borders Police - cab inspection | 418 | 362 |
| Total Expenditure | 5,419 | 4,708 |
| Income | | |
| Receipts in respect of library services: | | |
| Scottish Prison Service | 5 | 12 |
| Health Boards | 26 | 26 |
| Receipts in respect of translation and Interpretation services: | | |
| Lothian Health Board | 698 | 595 |
| Receipts from other local authorities in respect of: | | |
| Child protection officer | 34 | 32 |
| Educating pupils | 846 | 897 |
| Pentland Hills Regional Park management | 115 | 96 |
| Residential care for children | 268 | 422 |
| Revenues | 59 | 66 |
| Risk factory | 52 | 46 |
| Social work undertakings | 2,358 | 2,228 |
| Criminal justice services | 444 | 0 |
| Total Income | 4,905 | 4,420 |

8. Landfill Allowance Trading Schemes

In 2009/10 the Council sent 93,845 tonnes (2008/09 100,439 tonnes) of biodegradable municipal waste to landfill, 10,752 tonnes (2008/09 9,224 tonnes) less than the Council's allowance of 104,597 tonnes (2008/09 109,663 tonnes). In Scotland the landfill penalty scheme has been suspended and trading of allowances has not commenced. The Council has therefore determined that the value of surplus allowances cannot be measured and has not recognised landfill allowances as an asset in the Council's accounts. Final tonnages have yet to be confirmed with the Scottish Environmental Protection Agency (SEPA).

NOTES TO THE FINANCIAL STATEMENTS

9. Business Improvement District Scheme

The Council acts as the Billing Authority for Edinburgh's Central Business Improvement District (BID). The Council collects a levy from the business rate payers on behalf of the BID body, Essential Edinburgh.

| | 2009/10 £000 | 2008/09 £000 |
|--|-----------------|-----------------|
| Monies to be recovered from ratepayers at 1 April 2009 | 44 | 0 |
| BID Levy Income | 858 | 881 |
| Payments made / due to Essential Edinburgh | 765 | 837 |
| Monies still to be recovered from ratepayers | <u>137</u> | <u>44</u> |

The monies raised through the BID are used to fund activities around four key themes, including:

- area promotion - advertising, marketing and events
- clean and attractive area - cleaning teams, street décor, cleanliness surveys
- safe and secure area - CCTV, improved lighting
- accessibility - pedestrian friendly environment.

10. Members' Salaries and Expenses

Under arrangements introduced in May 2007, members are paid a standard salary (unless they are entitled to one of the higher amounts payable to certain post-holders). The total of salaries paid during the year to members amounted to £1.258m (2008/09 £1.223m). Expenses amounted to £0.046m (2008/09 £0.051m).

11. Officers' Remuneration

11.1 The numbers of employees whose remuneration during the year exceeded £50,000 were as follows:

| | 2009/10 | 2008/09 |
|---------------------|------------|------------|
| £50,001 - £60,000 | 224 | 204 |
| £60,001 - £70,000 | 50 | 50 |
| £70,001 - £80,000 | 36 | 29 |
| £80,001 - £90,000 | 9 | 13 |
| £90,001 - £100,000 | 16 | 14 |
| £100,001 - £110,000 | 2 | 2 |
| £110,001 - £120,000 | 0 | 4 |
| £120,001 - £130,000 | 4 | 0 |
| £130,001 - £140,000 | 1 | 1 |
| £140,001 - £150,000 | 0 | 0 |
| £150,001 - £160,000 | 1 | 1 |
| Total | <u>343</u> | <u>318</u> |

NOTES TO THE FINANCIAL STATEMENTS

11. Officers' Remuneration - continued

11.2 The Council's chief officials participate in the Local Government Pension Scheme administered by Lothian Pension Fund - a defined benefit statutory scheme. Details of their benefits under the scheme are set out below:

| Chief Officer | Accrued Annual Pension as at 31.03.10 £ | Accrued Lump Sum as at 31.03.10 £ | Transfer Value as at 31.03.10 £ | Member's Contrib. Paid in Year £ | 2009/10 Increase in Transfer Value less Members Contrib. £ |
|---|--|--------------------------------------|------------------------------------|-------------------------------------|---|
| Chief Executive (including returning officer role) - T. Aitchison | 72,861 | 209,845 | 1,831,007 | 18,532 | 193,747 |
| Director of Finance - D. McGougan | 58,943 | 170,802 | 1,469,335 | 12,533 | 131,394 |
| Director of Corporate Services - J. Inch | 55,472 | 160,390 | 1,322,767 | 12,533 | 54,216 |
| Director of Children and Families - G. Tee | 60,076 | 173,365 | 922,111 | 14,548 | 88,065 |
| Director of City Development - D. Anderson | 3,605 | 4,792 | 58,587 | 12,533 | 19,492 |
| Director of Services for Communities - M. Turley | 43,734 | 125,177 | 802,127 | 12,533 | 76,414 |

- Members of the scheme have the opportunity to pay additional voluntary contributions; neither the contributions nor the resulting benefits are included in the above table.
- The pension entitlement shown is that which would be paid annually on retirement along with the lump sum, based on membership to the end of that year.
- The transfer value of accrued benefits is calculated in accordance with guidance from the Government's actuary department.
- The Director of Health and Social Care (P. Gabbitas) is excluded from the above table as he does not participate in the Local Government Pension Scheme.

12. Related Parties

During the year, the Council entered into a number of transactions with related parties. The most material of these transactions, not disclosed elsewhere, are shown below.

| Government Grants Received | 2009/10 £000 | 2008/09 £000 |
|--|------------------|------------------|
| Revenue Grants | | |
| Scottish Government | | |
| General revenue funding | 562,800 | 538,569 |
| Non-domestic rates | 197,002 | 177,798 |
| Other government grants | 39,508 | 41,209 |
| Department of Works and Pensions | | |
| Housing benefits | 169,590 | 153,412 |
| Council tax benefits | 29,549 | 27,798 |
| Capital Grants | | |
| Housing development fund / community ownership | 46,500 | 38,496 |
| Other government grants | 156,110 | 124,913 |
| Total Government Grants | 1,201,059 | 1,102,195 |

NOTES TO THE FINANCIAL STATEMENTS

12. Related Parties - continued

| | 2009/10 £000 | 2008/09 £000 |
|--|-----------------|-----------------|
| Subsidiaries and Other Organisations - Revenue Income and Expenditure | | |
| • Revenue Expenditure | | |
| Buredi - rent | 0 | 340 |
| Edinburgh Festival Theatres | 165 | 150 |
| Edinburgh Leisure Limited | | |
| Revenue funding | 8,838 | 8,099 |
| Other expenditure | 50 | 25 |
| Edinburgh World Heritage Trust | 487 | 556 |
| Lothian and Borders Fire and Rescue Board - requisitions | 28,246 | 28,713 |
| Lothian and Borders Police Board | | |
| Capital grant | 2,370 | 2,370 |
| Requisitions | 55,066 | 53,372 |
| Lothian Buses Limited | | |
| Supported bus services | 815 | 1,010 |
| Other expenditure | 0 | 29 |
| Lothian Valuation Joint Board - requisitions | 3,806 | 3,788 |
| SESTRAN (South East of Scotland Transport P'ship) - requisitions | 99 | 99 |
| Subsidiaries / Voluntary Organisations | 23,036 | 23,543 |
| tie Limited | 70 | 0 |
| Total Revenue Expenditure | 123,048 | 122,094 |
| • Revenue Income | | |
| CEC Holdings Limited (EDI Group Limited) | | |
| Loan interest | 249 | 254 |
| Rent - car parks | 1,030 | 1,206 |
| Edinburgh Festival Theatres | 150 | 152 |
| Edinburgh Leisure - prudential investment costs | 95 | 106 |
| Lothian Health Board | | |
| Resource transfers | 19,877 | 19,780 |
| Hub partnership | 73 | 0 |
| SESTRAN - various grants | 12 | 10 |
| tie Limited | 1,018 | 0 |
| Professional services, other grants and funding | | |
| Capital City Partnership | 0 | 13 |
| CEC Holdings Limited (including EICC Limited) | 215 | 159 |
| Lothian and Borders Fire and Rescue Board | 48 | 10 |
| Lothian and Borders Police Board | 94 | 29 |
| Projects Edinburgh Ltd | 10 | 22 |
| Other subsidiaries and voluntary organisations | 21 | 22 |
| tie Limited | 42 | 23 |
| Lothian Valuation Joint Board | 0 | 7 |
| Waterfront Edinburgh Limited | 0 | 11 |
| Total Revenue Income | 22,934 | 21,804 |

NOTES TO THE FINANCIAL STATEMENTS

12. Related Parties - continued

| | 2009/10 £000 | 2008/09 £000 |
|---|-----------------|-----------------|
| • Central Support Income | | |
| Forth Estuary Transport Authority | 114 | 139 |
| Lothian and Borders Fire and Rescue Board | 315 | 395 |
| Lothian and Borders Police Board | 161 | 180 |
| Lothian Valuation Joint Board | 74 | 92 |
| Pension Funds | 771 | 970 |
| Total Central Support Income | 1,435 | 1,776 |
| • Interest on Revenue Balances | | |
| Forth Estuary Transport Authority | (7) | (55) |
| Lothian and Borders Fire and Rescue Board | 12 | 188 |
| Lothian and Borders Police Board | 57 | 670 |
| Pension Funds | 18 | 227 |
| SESTRAN | 5 | 86 |
| Total Interest on Revenue Balances | 85 | 1,116 |
| • Loans Charges Recovered | | |
| Further Education Colleges (pre 1996 expenditure) | 60 | 98 |
| Lothian and Borders Fire and Rescue Board | 1,674 | 1,660 |
| Lothian and Borders Police Board | 3,202 | 2,801 |
| Total Loans Charges | 4,936 | 4,559 |
| • Lothian Pension Fund | | |
| Transfer of Contributions to Lothian Pension Fund | 49,343 | 46,117 |
| Pension Strain Costs | 2,662 | 1,600 |
| Total Lothian Pension Fund | 52,005 | 47,717 |

Subsidiaries and Other Organisations - Capital Expenditure and Income

| | | |
|--|----------------|---------------|
| • Capital Expenditure | | |
| Edinburgh Leisure | 1,333 | 286 |
| Edinburgh Military Tattoo tie Limited | 1,175 | 0 |
| | 118,926 | 87,086 |
| Total Capital Expenditure | 121,434 | 87,372 |
| • Capital Income | | |
| Forth Estuary Transport Authority | 663 | 867 |
| Scottish Enterprise | 750 | 0 |
| tie Limited | 300 | 0 |
| Total Capital Income | 1,713 | 867 |

13. Audit Costs

The fees payable to Audit Scotland in respect of external audit services undertaken in accordance with the Code of Audit Practice are £0.763m (2008/09 £0.751 m). The 2008/09 fee was reduced to a net payment of £0.710m by means of a rebate of £0.041m being funded from Audit Scotland reserves.

NOTES TO THE FINANCIAL STATEMENTS

14. Reconciliation of the Deficit / (Surplus) for the Year on the Income and Expenditure Account to the Surplus for the Year on the General Fund

The net General Fund position was £97.312m better (2008/09 £113.273m) than the outcome shown in the Income and Expenditure Account.

The Income and Expenditure Account discloses the income received and expenditure incurred in operating the Council's services for the year and is equivalent to the Profit and Loss Account of a business. Income and expenditure and the resulting deficit for the year are measured using essentially the same accounting conventions that most large UK businesses are required to use in preparing their audited annual financial statements. Accountants refer to such accounting conventions as UK Generally Accepted Accounting Practices (UK GAAP). This UK GAAP based approach is codified in the Code of Practice on Local Authority Accounting (SORP), which local authorities are required by statute to observe when preparing their annual statement of accounts.

The items that the Council is required to credit and debit to its General Fund when determining the surplus or deficit on its General Fund are laid down in statute and non-statutory 'proper practices' rather than being UK GAAP based. While the amounts included in the Income and Expenditure Account and in the General Fund are largely the same, there are a number of differences. For example, a charge for the depreciation of fixed assets must be charged to the Income and Expenditure Account in accordance with the SORP but depreciation must be excluded from the General Fund in accordance with statute.

The deficit on the Income and Expenditure Account measures the Council's operating financial performance for the year. However, the surplus or deficit on the General Fund is also very important since it indicates whether the Council added to or drew on its General Fund Balance during the year. This in turn affects the amount of the General Fund Balance that the Council can take into account when determining its spending plans on Council Tax financed services for the following year and in determining the Council's decision about the amount of Council Tax income it should budget to raise from its Council Tax payers.

Note 15 to the Financial Statements gives a detailed breakdown of the differences between the income and expenditure included in the Income and Expenditure Account in accordance with the SORP, and the amounts that statute and non-statutory proper practice required the Council to debit and credit to the General Fund Balance.

NOTES TO THE FINANCIAL STATEMENTS

15. Analysis of additional items required by statute and non-statutory proper practice to be taken into account in determining the General Fund surplus or deficit for the year.

for the year ended 31 March 2010

(re-stated)

2008/09

£000

£000

£000

Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the General Fund deficit for the year.

| | | | |
|-----------|--|-----------|-----------|
| (189,258) | Depreciation, amortisation and impairment of fixed assets | (184,759) | |
| 12,868 | Government grants deferred amortisation | 23,599 | |
| 0 | Revenue expenditure funded from capital under statute | (49,325) | |
| 6,183 | Net (loss) / profit on sale of fixed assets | (1,219) | |
| 274 | Amount by which finance costs calculated in accordance with the SORP are different from the amount of finance costs calculated in accordance with statutory requirements | 694 | |
| (38,223) | Net charges made for retirement benefits in accordance with FRS 17 | (56,763) | |
| | | | |
| (208,156) | | | (267,773) |

Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the General Fund deficit for the year.

| | | | |
|---------|---|--------|---------|
| 55,005 | Statutory provision for repayment of debt | 60,684 | |
| 140 | Capital expenditure financed from the General Fund | 0 | |
| 0 | Capital expenditure charged to the General Fund balance | 49,325 | |
| 53,631 | Employer's contributions payable to Lothian Pension Fund and retirement benefits payable direct to pensioners | 57,464 | |
| | | | |
| 108,776 | | | 167,473 |

Transfers to / or from the General Fund Balance that are required to be taken into account when determining the General Fund deficit for the year.

| | | | |
|----------|--|-------|-------|
| 3,232 | Statutorily required transfer of the surplus for the year on the Housing Revenue Account to the Renewal and Repairs Fund | 3,421 | |
| (17,125) | Net transfer from capital fund and other earmarked Reserves | (433) | |
| | | | |
| (13,893) | | | 2,988 |

Amount by which the surplus on the General Fund for the year was greater than the Income and Expenditure Account result for the year.

| | | | |
|-----------|--|--|----------|
| (113,273) | | | (97,312) |
|-----------|--|--|----------|

NOTES TO THE FINANCIAL STATEMENTS

16. Capital Expenditure and Fixed Asset Disposals

16.1 Service Summary of Gross Capital Expenditure

| | 2009/10 £000 | 2008/09 £000 |
|--|-----------------|-----------------|
| • General Services | | |
| Children and families | 15,882 | 23,615 |
| Health and social care | 5,562 | 7,916 |
| City development | 217,394 | 212,420 |
| Corporate services (including culture and sport) | 27,109 | 20,966 |
| Services for communities | 24,989 | 29,761 |
| Transfer to revenue for third party payments | 2,825 | 2,370 |
| Other services | 22 | (19) |
| Expenses relating to asset sales | 189 | 359 |
| Contributions to investments | 1,246 | 6,250 |
| Contributions to capital fund | 0 | 16,927 |
| Contributions to unapplied capital grants fund | 1,136 | 0 |
| Applied to capital adjustment account | (71) | 0 |
| General Services Total: | 296,283 | 320,565 |
| • Other Expenditure | | |
| Housing revenue account | 33,864 | 29,634 |
| Housing development fund / community ownership | 46,500 | 41,701 |
| Total Expenditure | 376,647 | 391,900 |

16.2 Analysis of Capital Expenditure and Capital Financing

| | 2009/10 £000 | 2008/09 £000 (re-stated) |
|---|-----------------|--------------------------------|
| Gross Capital Expenditure | | |
| Intangible Fixed Assets | | |
| Grants / contributions | 1,076 | 952 |
| Intangible Fixed Assets Total | 1,076 | 952 |
| Operational and Non-Operational Fixed Assets | | |
| Site and building acquisitions | 76,240 | 90,379 |
| Building works and demolitions | 202,200 | 182,562 |
| Road works | 12,153 | 11,816 |
| Professional fees | 15,993 | 24,041 |
| Vehicles, plant, machinery, furniture, etc. | 7,861 | 5,296 |
| Other expenditure | 3,644 | 5,566 |
| Operational and Non-Operational Fixed Assets Total | 318,091 | 319,660 |
| Other Expenditure | | |
| Assets subject to sale and lease back arrangements | 0 | 1,835 |
| Revenue expenditure funded from capital | 49,325 | 44,071 |
| Write-back provision no longer required | 0 | (100) |
| Contribution to capital fund | 0 | 16,927 |
| Contributions to long-term investments | 0 | 6,250 |
| Contributions to short-term investments | 1,246 | 0 |
| Contribution to education PPP project | 5,844 | 2,305 |
| Contributions to unapplied capital grants fund | 1,136 | 0 |
| Applied to capital adjustment account | (71) | 0 |
| | 57,480 | 71,288 |
| Gross Capital Expenditure Total | 376,647 | 391,900 |

NOTES TO THE FINANCIAL STATEMENTS

16. Capital Expenditure and Fixed Asset Disposals - continued

16.2 Analysis of Capital Expenditure and Capital Financing (continued)

| | 2009/10 £000 | 2008/09 £000 |
|--|-----------------------|-----------------------|
| Capital Financing | | |
| • Fixed Asset Disposals | | |
| Land sales | 112 | 27 |
| Other property sales | 2,636 | 18,072 |
| Council house sales (right to buy) | 3,403 | 8,413 |
| Other receipts (right to buy) | 1 | 99 |
| Vehicle, plant, equipment, etc. sales | 161 | 1,837 |
| | <u>6,313</u> | <u>28,448</u> |
| • Other Capital Receipts | | |
| Minutes of waiver | 450 | 58 |
| Owners' shares - common repairs | 37 | 406 |
| Loan repayments | 83 | 115 |
| Government grants | 156,110 | 123,010 |
| Government grants - housing development funding / community ownership | 46,500 | 38,496 |
| Government grants - private sector housing | 0 | 1,903 |
| Lottery grants | 1,933 | 750 |
| Grants - other public bodies | 4,816 | 8,158 |
| Contributions from other bodies | 3,516 | 11,095 |
| Contributions from developers | 1,396 | 919 |
| Contribution from capital fund | 130 | 10,848 |
| Contribution from investments | 55 | 0 |
| Revenue contributions to capital | 0 | 140 |
| | <u>215,026</u> | <u>195,898</u> |
| • Advances from Council's loans fund | <u>155,308</u> | <u>167,554</u> |
| Capital Financing Total | <u><u>376,647</u></u> | <u><u>391,900</u></u> |

16.3 Capital Receipts

Capital Receipts from the disposal of land and buildings, equipment or vehicles may be utilised to finance capital expenditure or to redeem outstanding capital debt.

| | 2009/10 £000 | 2008/09 £000 |
|---|---------------------|----------------------|
| Statement of Capital Receipts | | |
| Gross Capital Receipts during the year: | | |
| Land sales | 112 | 27 |
| Other property sales | 2,636 | 18,072 |
| Vehicle, plant, equipment sales | 161 | 1,837 |
| Council house sales | 3,404 | 8,512 |
| | <u>6,313</u> | <u>28,448</u> |
| Gross Capital Receipts Total | <u><u>6,313</u></u> | <u><u>28,448</u></u> |
| Capital Receipts Applied to: | | |
| Finance capital expenditure | 6,313 | 11,521 |
| Capital fund | 0 | 16,927 |
| | <u>6,313</u> | <u>28,448</u> |

NOTES TO THE FINANCIAL STATEMENTS

17. Capital Commitments

At 31 March 2010 the Council was contractually committed to the following significant capital works:

| | £000 | Expected Completion Date |
|------------------------------------|----------------|--------------------------------|
| Tram infrastructure contract | 135,770 | 2013 |
| Royal Commonwealth Pool | 27,500 | 2012 |
| Tram vehicles contract | 16,300 | 2013 |
| New Tattoo grandstand | 11,000 | 2011 |
| Portobello High School replacement | 3,330 | 2014 |
| Tram design contract | 2,870 | 2013 |
| Road infrastructure projects | 1,500 | 2010 |
| Wave 3 schools | 1,000 | 2014 |
| Glenogle Swim Centre | 681 | 2010 |
| External doors framework contract | 650 | 2011 |
| Heating at Dumbryden Gardens | 560 | 2011 |
| Towerbank School extension | 510 | 2013 |
| | <u>201,671</u> | |

18. Intangible Assets

Intangible assets represent support for the construction of houses for rent by Housing Associations where the Council will have nomination rights and purchased software licences. Software licences had a life of five years at the time of acquisition. The movements on intangible assets during the year were:

| | Nomination Rights £000 | Software Licences £000 | Total £000 |
|-----------------------------------|------------------------------|------------------------------|---------------|
| Gross book value at 31 March 2009 | 2,033 | 788 | 2,821 |
| Additions in year | <u>535</u> | <u>541</u> | <u>1,076</u> |
| Gross book value at 31 March 2010 | <u>2,568</u> | <u>1,329</u> | <u>3,897</u> |
| Depreciation charge for year | <u>0</u> | <u>(158)</u> | <u>(158)</u> |
| Net book value at 31 March 2010 | <u>2,568</u> | <u>1,171</u> | <u>3,739</u> |

19. Finance and Operating Leases

19.1 Finance Leases - Vehicles, Plant and Equipment

Items of Plant and Equipment under Finance Lease during 2009/10 amounted to rental of £1.749m (2008/09 £0.324m). The following value of assets are held under finance lease by the Council and are accounted for as part of tangible fixed assets:

| | Vehicles, Plant and Equipment (re-stated) £000 |
|----------------------------|---|
| Value as at 1 April 2009 | 7,912 |
| Repayments during the year | <u>(1,749)</u> |
| Value as at 31 March 2010 | <u>6,163</u> |

Outstanding obligations to make payments under these finance leases (excluding finance costs) at 31 March 2010, accounted for as part of current and long-term liabilities are shown below.

| Future Repayment Period | £000 |
|--|--------------|
| Obligations payable in 2010/11 | 1,690 |
| Obligations payable within 2 - 5 Years | <u>4,473</u> |
| | <u>6,163</u> |

NOTES TO THE FINANCIAL STATEMENTS

19. Finance and Operating Leases - continued

19.2 Finance Leases - PPP Education Projects

The recognition of the schools under the two PPP education projects is partly balanced by the recognition of a liability for the amounts due to the scheme operators to pay for the assets. The liability has been written down by capital contributions of £35.995m (PPP1) and £9.729m (PPP2).

The finance leases for the two education PPP projects included rental payment of £4.822m in 2009/10 (£2.707m 2008/09).

| | Education PPP Projects £000 |
|---|--|
| Value as at 1 April 2009 | 112,253 |
| Additions during the year | 125,073 |
| Less: Release of capital contribution and other movements | (5,656) |
| Repayments during the year | <u>(4,822)</u> |
| Value as at 31 March 2010 | <u><u>226,848</u></u> |

Outstanding obligations to make payments under these finance leases (excluding finance costs) at 31 March 2010, accounted for as part of current and long-term liabilities are shown below.

| Future Repayment Period | £000 |
|--|-----------------------|
| Obligations payable in 2010/11 | 6,316 |
| Obligations payable within 2 - 5 years | 26,596 |
| Obligations payable within 6 - 10 years | 36,657 |
| Obligations payable within 11 - 15 years | 36,714 |
| Obligations payable within 16 - 20 years | 44,273 |
| Obligations payable within 21 - 25 years | 49,868 |
| Obligations payable within 26 - 29 years | <u>26,424</u> |
| | <u><u>226,848</u></u> |

19.3 Operating Leases

The Council leases in property and vehicles financed under the terms of operating leases. The amount charged to the revenue account under these arrangements in 2009/10 was £6.851m (2008/09 £11.766m). The value of future payments under operating leases is £34.763m (2008/09 £39.168m).

Under the leases, the Council is committed to paying the following sums:

| Future Repayment Period | Land and | Vehicles, | Total | 2008/09 |
|--------------------------------|----------------------|---------------------|----------------------|----------------------|
| | Buildings | Plant and | | Total |
| | £000 | Equipment | £000 | £000 |
| within one year | 5,178 | 1,010 | 6,188 | 6,682 |
| two - five years | 17,068 | 1,790 | 18,858 | 20,429 |
| in excess of five years | <u>9,717</u> | <u>0</u> | <u>9,717</u> | <u>12,057</u> |
| | <u><u>31,963</u></u> | <u><u>2,800</u></u> | <u><u>34,763</u></u> | <u><u>39,168</u></u> |

20. Analysis of Net Assets / (Liabilities) Employed

| | 2009/10 | 2008/09 |
|-----------------------------|-----------------------|-------------------------|
| | £000 | £000 |
| General Fund | 289,369 | 752,694 |
| Other trading undertakings | (17,135) | (7,142) |
| Housing Revenue Account | <u>626,126</u> | <u>540,463</u> |
| Balance as at 31 March 2010 | <u><u>898,360</u></u> | <u><u>1,286,015</u></u> |

Total net liabilities relating to trading undertakings is £34.153m (2008/09 £10.248m), of which £17.018m (2008/09 £3.106m) is included in the General Fund.

NOTES TO THE FINANCIAL STATEMENTS

21. Fixed Assets

21.1 Movement to Fixed Assets 2009/10 Operational Assets

| | Council Dwellings £000 | Other Land and Buildings £000 | Vehicles, Plant and Equipment £000 |
|---|------------------------------|--|---|
| <u>Gross Book Value</u> | | | |
| At 31 March 2009 | 850,264 | 918,527 | 72,545 |
| Prior Year Restatements | | | |
| - PPP / long-term contract assets | 0 | 322,771 | 7,322 |
| - Reclassification | 18,836 | 0 | (18,836) |
| - Reclassification from / to non-operational assets | 1,739 | 116,664 | 0 |
| - Revaluation | 202,066 | 0 | 0 |
| - Impairment | (46,335) | 0 | 0 |
| Re-stated 31 March 2009 | 1,026,570 | 1,357,962 | 61,031 |
| Additions during year | 33,713 | 103,742 | 8,984 |
| Disposals during year | (4,636) | (644) | 0 |
| Impairments | (35,822) | (89,955) | 0 |
| - Reclassification from / to non-operational assets | 0 | (1,827) | 0 |
| Revaluations | 1,338 | 260,462 | 0 |
| At 31 March 2010 | 1,021,163 | 1,629,740 | 70,015 |
| <u>Depreciation</u> | | | |
| As at 31 March 2009 | (31,436) | (12,699) | (23,916) |
| Prior Year Restatements | | | |
| - PPP / long-term contract assets | 0 | (5,123) | 0 |
| - Reclassification | (530) | 0 | 530 |
| - Revalued / impaired assets | 31,860 | 0 | 0 |
| Re-stated 31 March 2009 | (106) | (17,822) | (23,386) |
| Charge for year | (16,044) | (23,594) | (10,625) |
| Revalued / impaired assets | 1,464 | 15,244 | 0 |
| Disposals | 65 | 1 | 0 |
| As at 31 March 2010 | (14,621) | (26,171) | (34,011) |
| Net book value at 31 March 2010 | 1,006,542 | 1,603,569 | 36,004 |
| Net book value at 31 March 2009 | 818,828 | 905,828 | 48,629 |
| Re-stated net book value at 31 March 2009 | 1,026,464 | 1,340,140 | 37,645 |

NOTES TO THE FINANCIAL STATEMENTS

21. Fixed Assets

21.1 Movement to Fixed Assets 2009/10 - continued Operational Assets - continued

| | Infrastructure Assets £000 | Community Assets £000 | Total £000 |
|---|----------------------------------|-----------------------------|---------------|
| <u>Gross Book Value</u> | | | |
| At 31 March 2009 | 662,638 | 21,595 | 2,525,569 |
| Prior Year Restatements | | | |
| - PPP / long-term contract assets | 0 | 0 | 330,093 |
| - Reclassification | 0 | 0 | 0 |
| - Reclassification from / to non-operational assets | 0 | 47 | 118,450 |
| - Revaluation | 0 | 0 | 202,066 |
| - Impairment | 0 | 0 | (46,335) |
| Re-stated 31 March 2009 | 662,638 | 21,642 | 3,129,843 |
| Additions during year | 132,161 | 1,620 | 280,220 |
| Disposals during year | 0 | 0 | (5,280) |
| Impairments | 0 | (1,541) | (127,318) |
| - Reclassification from / to non-operational assets | 0 | 0 | (1,827) |
| Revaluations | 0 | 1,267 | 263,067 |
| At 31 March 2010 | 794,799 | 22,988 | 3,538,705 |
| <u>Depreciation</u> | | | |
| As at 31 March 2009 | (134,419) | 0 | (202,470) |
| Prior Year Restatements | | | |
| - PPP / long-term contract assets | 0 | 0 | (5,123) |
| - Reclassification | 0 | 0 | 0 |
| - Revalued / impaired assets | 0 | 0 | 31,860 |
| Re-stated 31 March 2009 | (134,419) | 0 | (175,733) |
| Charge for year | (33,742) | 0 | (84,005) |
| Revalued / impaired assets | 0 | 0 | 16,708 |
| Disposals | 0 | 0 | 66 |
| As at 31 March 2010 | (168,161) | 0 | (242,964) |
| Net book value at 31 March 2010 | 626,638 | 22,988 | 3,295,741 |
| Net book value at 31 March 2009 | 528,219 | 21,595 | 2,323,099 |
| Re-stated net book value at 31 March 2009 | 528,219 | 21,642 | 2,954,110 |

NOTES TO THE FINANCIAL STATEMENTS

21. Fixed Assets - continued

21.1 Movement to Fixed Assets 2009/10 (continued)

Non-Operational Assets

| | Investment Properties £000 | Assets Under Construction £000 | Surplus Assets held for Disposal £000 | Total £000 |
|---|----------------------------------|---|--|---------------|
| <u>Gross Book Value</u> | | | | |
| At 31 March 2009 | 120,241 | 10,286 | 23,468 | 153,995 |
| Prior Year Restatements | | | | |
| Reclassification from / to operational assets | (118,450) | 0 | 0 | (118,450) |
| Re-stated 31 March 2009 | 1,791 | 10,286 | 23,468 | 35,545 |
| Additions during year | 0 | 37,732 | 139 | 37,871 |
| Disposals during year | 0 | 0 | (2,158) | (2,158) |
| Impairments | 0 | 0 | (6,028) | (6,028) |
| Reclassification from / to operational assets | 0 | (8,107) | 9,934 | 1,827 |
| Revaluations | 514 | 0 | 1,146 | 1,660 |
| At 31 March 2010 | 2,305 | 39,911 | 26,501 | 68,717 |
| <u>Depreciation</u> | | | | |
| As at 31 March 2009 | 0 | 0 | (5) | (5) |
| Revalued / impaired assets | 0 | 0 | 5 | 5 |
| As at 31 March 2010 | 0 | 0 | 0 | 0 |
| Net book value at 31 March 2010 | 2,305 | 39,911 | 26,501 | 68,717 |
| Net book value at 31 March 2009 | 120,241 | 10,286 | 23,463 | 153,990 |
| Re-stated net book value at 31 March 2009 | 1,791 | 10,286 | 23,463 | 35,540 |

21.2 Valuation of Fixed Assets

Non-Operational Assets

The following statement shows the progress of the Council's five year rolling programme for the revaluation of non-operational fixed assets.

| | Investment Properties £000 | Assets Under Construction £000 | Surplus Assets held for Disposal £000 | Total £000 |
|------------------------------------|----------------------------------|---|--|---------------|
| Additions to assets not yet valued | 0 | 39,911 | 85 | 39,996 |
| Valued at current value in: | | | | |
| 2009/10 | 1,100 | 0 | 23,086 | 24,186 |
| 2008/09 | 413 | 0 | 3,251 | 3,664 |
| 2007/08 | 406 | 0 | 79 | 485 |
| 2006/07 | 0 | 0 | 0 | 0 |
| 2005/06 | 386 | 0 | 0 | 386 |
| Total | 2,305 | 39,911 | 26,501 | 68,717 |

NOTES TO THE FINANCIAL STATEMENTS

21. Fixed Assets - continued

21.2 Valuation of Fixed Assets (continued)

Operational Assets

The following statement shows the progress of the Council's 5 year rolling programme for the revaluation of operational fixed assets.

| | Council Dwellings £000 | Other Land and Buildings £000 | Vehicles, Plant and Equipment £000 |
|------------------------------------|---------------------------------------|--|---|
| Valued at historical cost | 0 | 0 | 70,015 |
| Additions to assets not yet valued | 24,336 | 16,372 | 0 |
| Valued at Current Value in: | | | |
| 2009/10 | 1,200 | 901,221 | 0 |
| 2008/09 | 993,246 | 500,201 | 0 |
| 2007/08 | 657 | 122,328 | 0 |
| 2006/07 | 193 | 50,204 | 0 |
| 2005/06 | 1,531 | 39,414 | 0 |
| Total | 1,021,163 | 1,629,740 | 70,015 |

| | Infrastructure Assets £000 | Community Assets £000 | Total £000 |
|------------------------------------|---|--------------------------------------|-----------------------|
| Valued at historical cost | 794,799 | 0 | 864,814 |
| Additions to assets not yet valued | 0 | 1,407 | 42,115 |
| Valued at Current Value in: | | | |
| 2009/10 | 0 | 14,376 | 916,797 |
| 2008/09 | 0 | 3,654 | 1,497,101 |
| 2007/08 | 0 | 284 | 123,269 |
| 2006/07 | 0 | 318 | 50,715 |
| 2005/06 | 0 | 2,949 | 43,894 |
| Total | 794,799 | 22,988 | 3,538,705 |

- **Council Dwellings, Other Land and Buildings and Investment Properties**

The freehold and leasehold properties which comprise the Authority's property portfolio are revalued on a five year rolling basis. The properties were valued by the Council's Property Manager (Property Management and Development), W. Miller FRICS, in accordance with the Statements of Asset Valuation Practice and Guidance Notes of The Royal Institution of Chartered Surveyors. Fixtures and fittings are included in the valuation of the buildings where appropriate.

Properties regarded by the Authority as non-operational have been valued on the basis of open market value. The sources of information and assumptions made in producing the various valuations are set out in a valuation certificate and report.

Investment properties are recorded at current value.

In addition, any material changes in the value of individual assets that arise between the periodic valuations are immediately reflected in the Balance Sheet.

NOTES TO THE FINANCIAL STATEMENTS

21. Fixed Assets - continued

21.2 Valuation of Fixed Assets (continued)

- **Vehicles, Plant and Equipment**

Vehicles, plant and equipment are included in the balance sheet at the lower of net current replacement cost or net realisable value in existing use, net of depreciation.

- **Infrastructure Assets**

Infrastructure Assets are included in the balance sheet at historical cost net of depreciation.

- **Community Assets**

Community Assets are included in the balance sheet at historical cost.

- **Depreciation**

No depreciation is provided in the year of the asset's purchase. Assets in the course of construction are not depreciated until they are brought into use. Where depreciation is provided for, assets are depreciated using the straight line method over the following periods:

| | |
|-----------------------|---|
| Council dwellings | 50 years |
| Operational buildings | 50 years |
| PPP Schools | 40 years (PPP1 schools) and 35 years (PPP2 schools) |
| Infrastructure assets | 20 years |

Vehicles, plant and equipment 5 years to 7 years, to reflect estimated useful life

- **Public Private Partnership**

The Statement of Recommended Practice (SORP) 2009/10 requires property used in providing services under PPP contracts to be recognised as an asset on an authority's Balance Sheet.

The restated 2008/09 balance sheet includes schools valued at £241.565m and £86.581m relating to PPP1 and PPP2 projects respectively.

The 2009/10 Balance Sheet includes a further 5 schools valued at £224.716m which relate to the PPP2 project.

21.3 Information on Assets Held

The fixed assets owned by the Council include the following approximate numbers at 31 March 2010:

- **Council Dwellings**

The Council has a housing stock of 21,324 properties (2009 - 21,854). Details of the composition of the housing stock can be seen on page 76.

- **Operational Land and Buildings**

The Council has 7 operational offices, including Waverley Court, in its Fit for Future office accommodation portfolio. It also has over 100 depots, workshops and other offices.

The Council has 114 schools, 26 residential homes and day centres, and over 60 cultural and recreational facilities, including museums, theatres, sports centres, swimming pools and golf courses. In addition the Council operates 1 crematorium and has 39 cemeteries.

- **Community Assets**

Community assets include over 300 parks and open spaces, together with other amenities including monuments, public conveniences and allotments.

The Council has approximately 314,000 works of art and museum exhibits and 800 items of civic regalia.

- **Non-Operational Assets**

Non-operational assets include advertising hoardings. These are categorised as investment properties on the Balance Sheet as they are held solely to earn rental income.

Assets under construction include £30.04m of expenditure on the Edinburgh Tram Project. This expenditure relates to the construction of tram vehicles and a depot.

- **Infrastructure Assets**

Included within infrastructure assets are 1,378 kilometres of public roads and 62,400 street lamps. Infrastructure assets also include £252.45m of expenditure on the Edinburgh Tram project.

NOTES TO THE FINANCIAL STATEMENTS

22. Subsidiaries and Associated Companies

The Council holds shares in various trading companies, either as a controlling or minority shareholder.

The Council is also represented on the Boards of various companies that are limited by guarantee and have no share capital. It participates in these companies by means of Board membership and the provision of funding and management support.

Unless otherwise stated, the accounts of the companies may be obtained on application to the Director of Finance, Waverley Court, 4 East Market Street, Edinburgh EH8 8BG.

22.1 Subsidiary Companies

- **CEC Holdings Limited**

The principal activities of the company are property development and the operation of an international conference centre. The company is wholly owned by the City of Edinburgh Council.

| | | |
|--|-------------------|-------------------|
| The most recent results of the company are as follows: | 31.12.2009 | 31.12.2008 |
| | £000 | £000 |
| Net assets | 17,160 | 27,876 |
| Net loss before taxation | (12,096) | (15,152) |
| Retained loss carried forward | (46,421) | (76,868) |

As detailed in note 2 to the Financial Statements, the Council acquired a number of properties from companies within the CEC Holdings Limited group during 2009.

- **Edinburgh City Centre Management Company Limited**

On 1 July 2008, Essential Edinburgh Limited acquired the business of Edinburgh City Centre Management Company Limited as a going concern. All assets and liabilities transferred to Essential Edinburgh, with the exception of the pension liability which was transferred to the Council. This has been provided for in the Council's accounts. Edinburgh City Centre Management Company Limited ceased trading on 1 July 2008 and applied for voluntary strike-off on 6 May 2010. The company will be dissolved in August 2010.

- **Edinburgh Convention Bureau Limited**

The principal activity of the company is marketing and organising Scotland's capital city as a premier conference and event destination. It was formerly part of the Edinburgh and Lothians Tourist Board and is now an independent company limited by guarantee. Following the withdrawal of VisitScotland in May 2009 the company is now under the control of the City of Edinburgh Council.

| | | |
|--|-------------------|-------------------|
| The most recent results of the company are as follows: | 31.03.2010 | 31.03.2009 |
| | £000 | £000 |
| Net assets | 239 | 349 |
| Net profit before taxation | 35 | 8 |
| Retained profit carried forward | 239 | 349 |

NOTES TO THE FINANCIAL STATEMENTS

22. Subsidiaries and Associated Companies - continued

22.1 Subsidiary Companies (continued)

- **Edinburgh, Lothian and Scottish Borders Screen Industries Office Limited**

The City of Edinburgh Council owns 100% of this company which was formed to promote potential screen locations throughout Edinburgh, the Lothians and the Scottish Borders.

| | | |
|--|-------------------|-------------------|
| The most recent results of the company are as follows: | 31.03.2009 | 31.03.2008 |
| | £000 | £000 |
| Net assets | 14 | 11 |
| Retained profit carried forward | 3 | 0 |

- **Lothian Buses plc**

The City of Edinburgh Council is the major shareholder in Lothian Buses plc, a company incorporated to operate buses in the City of Edinburgh and its surrounding area. The Council's shareholding comprises 5,824,139 (91.01%) £1 ordinary shares (fully paid).

| | | |
|--|-------------------|-------------------|
| The most recent results of the company are as follows: | 31.12.2009 | 31.12.2008 |
| | £000 | £000 |
| Net assets | 11,851 | 43,596 |
| Net profit before taxation | 8,494 | 979 |
| Profit and loss account reserve | 5,452 | 37,197 |
| Dividend | 2,198 | 2,198 |

The net assets figure excludes the revaluation of depots which has been calculated for group account purposes.

A copy of the latest accounts can be obtained by writing to the Finance Director, Lothian Buses plc, Annandale Street, Edinburgh, EH7 4AZ.

- **Pacific Shelf 825 Limited**

The City of Edinburgh Council wholly owns 100% of the company.

The principal activity of the company during the period was leasing land and property.

| | | |
|--|-------------------|-------------------|
| The most recent results of the company are as follows: | 31.03.2010 | 31.03.2009 |
| | £000 | £000 |
| Net liabilities | (444) | (455) |
| Net profit / (loss) before taxation | 10 | (49) |
| Retained loss carried forward | (1,134) | (1,144) |

- **Projects (Edinburgh) Limited**

The principal activity of the company is to manage various capital projects on behalf of the City of Edinburgh Council. The company, which has a nominal issued share capital, is wholly owned by the City of Edinburgh Council.

As the company had no further activity once the current projects were completed, the Board approved that the company be wound up, on a voluntary basis. The accounts for the year ended 31 March 2009 had been completed on a not for going concern basis. This required the company's future liabilities to be included in the accounts, but excluded future income as this was treated as contingent on performance.

| | | |
|--|-------------------|-------------------|
| The most recent results of the company are as follows: | 11.12.2009 | 31.03.2009 |
| | £000 | £000 |
| Net assets / (liabilities) | 0 | (67) |
| Net profit / (loss) before taxation | 67 | (96) |
| Retained profit / (loss) carried forward | 0 | (96) |

NOTES TO THE FINANCIAL STATEMENTS

22. Subsidiaries and Associated Companies - continued

22.1 Subsidiary Companies (continued)

- **tie Limited**

The principal activity of the company is to promote, support and / or effect the development, procurement and implementation of projects defined in, or referred to in the Local Transport Strategy of the City of Edinburgh Council. The Council owns 100% (1,000 shares) of the issued share capital.

| The most recent results of the company are as follows: | 31.03.2010 | 31.03.2009 |
|--|-------------------|-------------------|
| | £000 | £000 |
| Turnover | 114,921 | 127,201 |
| Net liabilities | (2,205) | (560) |
| Net profit before taxation | 309 | 96 |
| Retained profit / (loss) carried forward | (2,206) | (561) |

22.2 Associated Companies

- **Edinburgh Leisure**

This is a non-profit-distributing company limited by guarantee and registered as a Charity. Each member has undertaken to contribute an amount not exceeding £1 towards any deficit arising in the event of the company being wound up.

The principal activity of the company is the provision of recreation and leisure facilities.

The City of Edinburgh Council is represented on the company's Board of Directors and contributes a substantial sum to the company towards the cost of operating sport and leisure facilities.

The City of Edinburgh Council leases its sport and leisure centres to the company.

| The most recent results of the company are as follows: | 31.03.2010 | 31.03.2009 |
|--|-------------------|-------------------|
| | £000 | £000 |
| Net (liabilities) / assets | (2,138) | 2,838 |
| Net incoming resources | 488 | 940 |
| Fund balances carried forward | (2,138) | 2,838 |

The net incoming resources are prior actuarial gain / (loss) on pension scheme.

- **Festival City Theatres Trust**

This is a non-profit-distributing company limited by guarantee and registered as a Charity.

The City of Edinburgh Council is represented on the trust's board of directors and gives substantial financial assistance. The City of Edinburgh Council leases the King's Theatre and the Festival Theatre to the trust.

| The most recent results of the trust are as follows: | 31.03.2010 | 31.03.2009 |
|--|-------------------|-------------------|
| | £000 | £000 |
| Net assets | 6,577 | 7,423 |
| Net outgoing resources | (845) | (904) |
| Fund balances carried forward | 6,577 | 7,423 |

NOTES TO THE FINANCIAL STATEMENTS

22. Subsidiaries and Associated Companies - continued

22.2 Associated Companies (continued)

- **Lothian Investment Fund for Enterprise Limited**

The City of Edinburgh Council is the major shareholder in Lothian Investment Fund for Enterprise Limited. The Council's shareholding comprises 669,000 (99.99%) £1 ordinary shares (fully paid).

The Royal Bank of Scotland, as Joint Venture Partner, owns a £1 golden share (fully paid) which gives the bank equal rights to the assets of the company with the Council's ordinary shares.

The company is in the process of a voluntary liquidation and the assets are being realised. Final draft accounts at 30 September 2007 have been produced. These have not been audited.

| The most recent results of the company are as follows: | Unaudited | |
|--|------------|------------|
| | 30.09.2007 | 31.03.2006 |
| | £000 | £000 |
| Net assets | 1,375 | 331 |
| Net profit / (loss) before taxation | 1,043 | (113) |
| Retained profit / (loss) carried forward | 1,375 | (203) |

22.3 Joint Ventures

- **Shawfair Developments Limited**

The City of Edinburgh Council owns 50% (2008 37.5%) of the issued share capital of the company. The principal activity of the company is land and property development.

| The most recent results of the company are as follows: | Unaudited (re-stated) | |
|--|-----------------------|------------|
| | 31.03.2009 | 31.03.2008 |
| | £000 | £000 |
| Net liabilities | (4,299) | (1,917) |
| Net profit / (loss) before taxation | (2,382) | (260) |
| Retained loss carried forward | (4,299) | (1,917) |

During the year the share capital held by Miller Developments Limited was transferred to The City of Edinburgh and Midlothian Councils and the loans held by Miller Developments Limited, were also repaid by the Councils.

Full provision for the loss in Shawfair Development Limited was made in the Council's 2008/09 financial statements.

Shawfair Development Limited's accounts remain unaudited.

The company is expected to become dormant in 2010/11.

22.4 Audit Opinions noted on the Accounts of the Companies

Unless otherwise indicated, all the companies noted have an unqualified audit opinion.

22.5 Group Accounts

The following entities have a significant impact on the Council's operations and have been consolidated into the Group Accounts:

- CEC Holdings Limited
- Lothian Buses plc
- tie Limited
- Edinburgh Convention Bureau
- Edinburgh Leisure
- Festival City Theatres Trust

NOTES TO THE FINANCIAL STATEMENTS

23. Trusts

- **Capital Development Trust**

This Trust was set up to hold funds provided by the City of Edinburgh Council for future expenditure on nominated capital projects, through the medium of Projects (Edinburgh) Limited.

The Trust was wound up in 2009/10 following approval by the Projects (Edinburgh) Limited's Board to voluntarily wind the company up.

The balance of unexpended funds at 11 December 2009 was £nil (2009 £0.118m), this being the date Projects (Edinburgh) Limited ceased trading.

- **Common Repairs Grants Trust**

This Trust was set up to hold funds provided by the City of Edinburgh Council and by private owners for the grant-aided repair of multiple-ownership housing in the city.

The balance of unexpended funds held at 31 March 2010 was £0.551m (2009 £0.59m).

There is on-going discussion about winding the Trust up in 2010/11.

- **International Conference Centre Expenditure Trust**

This Trust was set up to hold funds provided by the Council for its development of the Edinburgh International Conference Centre.

The balance of unexpended funds held at 31 March 2010 was £0.601m (2009 £nil).

- **International Conference Centre Income Trust**

This Trust was set up to hold funds received from the sale of land at the Edinburgh International Conference Centre site, pending their use for development and other costs of the centre.

The balance of unexpended funds held at 31 March 2010 was £26.231m (2009 £29.359m).

24. Financial Instruments

24.1 Borrowing and Investments

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

| | Long-Term | | Current | |
|--|------------------|------------------|----------------|----------------|
| | 31.03.10 | 31.03.09 | 31.03.10 | 31.03.09 |
| | £000 | £000 | £000 | £000 |
| Financial liabilities (principal amount) | 1,430,656 | 1,201,774 | 28,387 | 82,063 |
| Accrued interest | 0 | 0 | 15,953 | 14,174 |
| Amortised cost | 7,535 | 6,462 | 0 | 0 |
| Total borrowing at amortised cost | <u>1,438,191</u> | <u>1,208,236</u> | <u>44,340</u> | <u>96,237</u> |
| Loans and receivables | 4,000 | 4,000 | 194,191 | 164,534 |
| Unquoted equity investment at cost | 23,335 | 39,374 | 0 | 0 |
| Total investments | <u>27,335</u> | <u>43,374</u> | <u>194,191</u> | <u>164,534</u> |

The significant decrease in current liabilities relates to unwinding the residual element of temporary borrowing undertaken during the year. During 2008/09 the Council took the view that interest rates would fall during the financial year and therefore undertook temporary borrowing to fund its capital expenditure. During 2009/10 this tactical position was unwound and replaced by short to medium term borrowing at the low rates on offer.

NOTES TO THE FINANCIAL STATEMENTS

24. Financial Instruments - continued

24.1 Borrowing and Investments (continued)

The gains and losses recognised in the Income and Expenditure Account and Statement of Total Recognised Gains and Losses (STRGL) in relation to financial instruments comprise the following:

| | Financial Liabilities | Financial Assets | |
|--|---|--------------------------------------|-----------------|
| | Liabilities Measured at Amortised Cost | Loans and Receivables | Total |
| | £000 | £000 | £000 |
| Interest expense | (63,400) | 0 | (63,400) |
| Impairment gain / (losses) | 0 | 19 | 19 |
| Total Interest payable and similar charges | <u>(63,400)</u> | <u>19</u> | <u>(63,381)</u> |
| Interest and investment income | <u>0</u> | <u>1,770</u> | <u>1,770</u> |
| Net gain / (loss) for the year | <u>(63,400)</u> | <u>1,789</u> | <u>(61,611)</u> |

In addition to the above interest expense, £1.858m (2008/09 £1.858m) (of which £1.796m [2008/09 £1.790m] related to the City of Edinburgh Council) was charged to the loans pool from the financial instruments adjustment account during the year, but not reflected in the Income and Expenditure Account. It also excludes £0.473m (2008/09 £0.501m) of loans fund expenses charged to the City of Edinburgh Council.

The impairment gain relates to two interest free loans totalling £0.38m to Edinburgh Leisure maturing in July 2012 against which an impairment charge was taken in 2007/08. £0.03m of the loans were repaid during the year. The loans are included in the Balance Sheet in long-term debtors.

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

- the fair values for financial liabilities have been determined by reference to the Public Works Loans Board (PWLB) redemption rules and prevailing PWLB redemption rates as at each Balance Sheet date. The fair values for non-PWLB debt have also been calculated using the same procedures and interest rates and this provides a sound approximation for fair value for these instruments.
- the fair values for loans and receivables have been determined by reference to the PWLB redemption rules which provide a good approximation for the fair value of a financial instrument. The comparator market rates prevailing have been taken from indicative investment rates at each Balance Sheet date. In practice, rates will be determined by the size of the transaction and the counterparty, but it is impractical to use these figures, and the difference is likely to be immaterial.
- no early repayment of impairment is recognised.
- where no instrument will mature in the next twelve months, carrying amount is assumed to approximate to fair value.
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

NOTES TO THE FINANCIAL STATEMENTS

24. Financial Instruments - continued

24.1 Borrowing and Investments (continued)

The fair values are calculated as follows:

| | 31.03.10 | | 31.03.09 (re-stated) | |
|--------------------------|-------------------------|--------------------|-------------------------|--------------------|
| | Carrying Amount £000 | Fair Value £000 | Carrying Amount £000 | Fair Value £000 |
| Public Works Loans Board | (964,340) | (1,118,113) | (864,562) | (1,072,436) |
| European Investment Bank | (615) | (686) | (759) | (842) |
| Market debt | (266,356) | (290,263) | (250,044) | (282,650) |
| Temporary borrowing | (9,904) | (9,904) | (49,661) | (49,661) |
| Other bodies | (1,623) | (1,623) | (10,050) | (10,050) |
| Trade creditors | (6,682) | (6,682) | (9,232) | (9,232) |
| Finance Leases | (233,011) | (233,011) | (120,165) | (120,165) |
| Financial liabilities | <u>(1,482,531)</u> | <u>(1,660,282)</u> | <u>(1,304,473)</u> | <u>(1,545,036)</u> |

In line with revised accounting practice, the carrying amounts of the liabilities have been adjusted to include accrued interest. The 2008/09 figures have been re-stated on the same basis. The carrying amount of the market debt at 31 March 2010 includes £255.9m (2008/09 £240.9m) of principal, the balance representing equalisation interest rates (EIR) adjustments in relation to stepped lender only borrowing options (LOBO) loans.

The fair value is higher than the carrying amount because the authority'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 at the Balance Sheet date. This commitment to pay interest above current market rates increases the amount that the authority would have to pay if the lender requested or agreed to early repayment of the loans.

The increase in market debt principal outstanding is due to £15m of inverse LOBO fixed / variable rate loans. A further £25m of a similar structure has been committed to for 2010/11 with the same lender and it is anticipated that this facility will be drawn down during February 2011.

| | 31.03.10 | | 31.03.09 (re-stated) | |
|------------------------------------|-------------------------|--------------------|-------------------------|--------------------|
| | Carrying Amount £000 | Fair Value £000 | Carrying Amount £000 | Fair Value £000 |
| Loans and receivables | 166,471 | 166,471 | 135,372 | 135,372 |
| Unquoted equity investment at cost | 23,335 | 23,335 | 39,374 | 39,374 |
| Trade debtors | 31,720 | 31,720 | 33,162 | 33,162 |
| Total Investments | <u>221,526</u> | <u>221,526</u> | <u>207,908</u> | <u>207,908</u> |

In line with revised accounting practice, the carrying amount of the external investments have been adjusted to include accrued interest. The 2008/09 figures have been re-stated on the same basis.

24.2 Key Risks

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

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

NOTES TO THE FINANCIAL STATEMENTS

24. Financial Instruments - continued

24.2 Key Risks

Overall Procedures for Managing Risk

The Council's overall risk management procedures focus on the unpredictability of financial markets, and implementing restrictions to minimise these risks. The Council complies with the CIPFA Prudential Code and has adopted the CIPFA Treasury Management in the Public Services Code of Practice. Overall these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the Code of Practice;
- by approving annually in advance prudential indicators for the following three years limiting:
 - the Council's overall borrowing;
 - its maximum and minimum exposures to fixed and variable rates;
 - its maximum and minimum exposures in the maturity structure of its debt;
- by selecting investment counterparties in compliance with the Council's Treasury Policy Statement.

The annual treasury management strategy which incorporates the prudential indicators was approved by the Council on 16 March 2010 and is available on the Council website. The key issues within the strategy are:

- The authorised limit for 2010/11 has been set at £1.354bn. This is the maximum limit for external borrowings or other long term liabilities.
- The operational boundary for 2010/11 has been set at £1.304bn. This is the expected level of debt and other long term liabilities during the year.
- The maximum amounts of fixed and variable interest rate exposure were set at 100% and 50% of the Council's net debt.

These are reported and approved as part of the Council's annual budget setting process. Actual performance is also reported annually to members of the Council. These policies are implemented by a central treasury team. As reported in the budget motion, accurate figures for the inclusion of the finance leases relating to the PPP projects were not available at the time and the authorised limit and operational boundary indicators do not include them.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. Deposits are with banks, building societies, and other institutions in line with the Council's prevailing counterparty limits as set out in the Council's treasury policy statement. Investment decisions are considered daily as part of the daily cash flow management by the Council's Treasury Team who can, and do, restrict the list further in light of market conditions.

As it has throughout the 'credit crunch' and the difficulties encountered by banks, both in the UK and globally, over the last two years, the Council has continued to manage its cash investments with an emphasis on managing the risk to which the Council was exposed, while at the same time seeking innovative and secure investment opportunities.

The Council's funds are managed along with those of Lothian Pension Fund, the Forth Estuary Transport Authority and some other related organisations which are pooled for investment purposes as a treasury cash fund. Management of the cash fund is on a low risk, low return basis, with security of the investments the key consideration. This arrangement has allowed a better management of the Council's risk in the exceptional financial and market circumstances over the last three years.

As well as lending monies to other local authorities, the Council placed deposits during the year with Northern Rock whilst it was subject to an explicit UK government guarantee and has purchased UK government treasury bills of one and three months duration. At 31 March 2010 nearly 75% of the Council's investments were represented by short term loans to other local authorities or to the UK government by the purchase of UK treasury bills, substantially reducing the Council's counterparty risk.

NOTES TO THE FINANCIAL STATEMENTS

24. Financial Instruments - continued

24.2 Key Risks - continued

Overall Procedures for Managing Risk - continued

The Council has no direct investments with institutions domiciled outwith the UK. However, at 31 March 2010 the Council had £15.369m invested with a UK bank which is the subsidiary of a Spanish banking group and £2.069m held in a 'AAA' money market fund which itself has monies invested outwith the UK.

In March 2010 the Scottish Parliament passed investment regulations governing the investment of surplus funds by Scottish local authorities. Scottish government ministers issued the relevant consent for authorities to invest on 1 April 2010, with a three-month implementation period to adopt the new regulations. The Council approved a new annual investment strategy and treasury policy statement for both the Council and the cash fund at its March 2010 meeting. The papers are available on the Council's website. A full list of the deposits outstanding at 31 March 2010 is contained in the treasury cash fund investment report for quarter one 2010. This is available on request from the Council's treasury section - Waverley Court, 4 East Market Street, Edinburgh, EH8 8BG.

The following analysis summarises the authority's maximum exposure to credit risk. The table (composite defaults from Fitch, Standard and Poors and Moody's) gives details of global corporate finance average cumulative default rates (including financial institutions) for the period since at least 1990 - 2009. Defaults shown are by long term rating category on investments out to one year, which were the most commonly held investments during the year.

| | Amount at 31.03.10 £000 | Historical Experience of Default % | Adjustment for Market Conditions at 31.03.10 % | Estimated Maximum Exposure to Default £000 |
|--------------------------|----------------------------------|---|---|---|
| | [a] | [b] | [c] | [a] * [c] |
| Local Authorities | 68,931 | 0.000% | 0.000% | 0 |
| AAA Rated Counterparties | 50,068 | 0.000% | 0.000% | 0 |
| AA Rated Counterparties | 41,158 | 0.030% | 0.030% | 12 |
| A Rated Counterparties | 0 | 0.080% | 0.080% | 0 |
| Trade Debtors | 31,720 | 1.800% | 2.700% | 856 |
| Financial Investments | 191,877 | | | 868 |

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits. In October 2008 the Icelandic banking sector defaulted on its obligations. The Council has never had any exposure to Icelandic banks and had no investment in the sector at that time.

All Council invoices become due for payment on issue. Excluding pre-payments of £2.018m (2008/09 £2.735m), trade debtors past due date can be analysed by age as follows:

| | 2009/10 £000 | 2008/09 £000 |
|------------------------|-----------------|-----------------|
| Less than two months | 13,996 | 16,632 |
| Two to four months | 3,401 | 3,159 |
| Four to six months | 1,618 | 1,533 |
| Six months to one year | 4,587 | 2,817 |
| More than one year | 8,118 | 9,021 |
| Total | 31,720 | 33,162 |

Collateral – During the reporting period the Council held no collateral as security.

NOTES TO THE FINANCIAL STATEMENTS

24. Financial Instruments - continued

24.2 Key Risks (continued)

Liquidity risk

The Council carries out short and medium term cash flow management to ensure that it will have sufficient liquidity to cover all of its payment obligations. This includes monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs. The Council also has ready access to borrowings from the money markets to cover any day to day cash flow needs. While this has not been needed for normal cash flow requirements, it was used for tactical temporary borrowing during 2008/09 when the Council considered that interest rates were going to fall and that medium to long-term borrowing would be disadvantageous at that time.

Whilst the PWLB provides access to longer term funds, it also acts as a lender of last resort to the Council. The Council is also required by statute to provide a balanced budget, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

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 cash flow management procedures required by the Code of Practice.

Re-financing and Maturity Risk

The Council maintains significant debt and investment portfolios. The re-financing risk to the Council relates to managing the exposure to replacing financial instruments as they mature. Although the average maturity of the Council's borrowing reduced during 2009/10, the majority of the Council's debt portfolio remains fixed rate longer term loans. As such, the Council has a relatively low re-financing risk on its liabilities. However, the Council has market debt which allows the lender the option to ask for a rate increase at set dates and at that point the Council may choose to repay the loan at no additional cost. This gives a potential re-financing risk which the Council monitors and manages.

The Council's approved treasury strategy addresses the main risks and the treasury team address the operational risks within the approved parameters. This includes monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt.

The maturity analysis of the principal outstanding on the Council's financial liabilities is as follows:

| | 2009/10 | (re-stated) 2008/09 |
|----------------------------|--------------------|------------------------|
| | £000 | £000 |
| Less than one year | (21,705) | (72,831) |
| Between one and two years | (30,250) | (5,600) |
| Between two and five years | (85,038) | (55,624) |
| Between five and ten years | (287,794) | (179,317) |
| More than ten years | <u>(1,027,574)</u> | <u>(961,234)</u> |
| Financial Liabilities | <u>(1,452,361)</u> | <u>(1,274,606)</u> |

All trade and other payables are due to be paid in less than one year and trade creditors of £6.682m (2008/09 £9.232m) are not shown in the table above. The above figures show the principal outstanding, therefore, neither accrued interest of £15.953m (2008/09 £14,174m) nor net equivalent interest rate (EIR) adjustments of £7.535m (2008/09 £6.462m) to the carrying amounts of market debt shown in the financial liabilities are included.

The Council has no investments, other than £4m in EDI loan stock, with a maturity greater than one year.

NOTES TO THE FINANCIAL STATEMENTS

24. Financial Instruments - continued

24.2 Key Risks (continued)

Market risk

Interest rate risk

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

- borrowings at variable rates – the interest expense charged to the Income and Expenditure Account will rise;
- borrowings at fixed rates – the fair value of the borrowing liability will fall;
- investments at variable rates – the interest income credited to the Income and Expenditure Account will rise; and
- investments at fixed rates – the fair value of the assets will fall.

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 Income and Expenditure Account or Statement of Total Recognised Gains and Losses (STRGL). However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Income and Expenditure Account and effect the General Fund Balance, subject to influences from Government grants. Movements in the fair value of fixed rate investments will be reflected in the STRGL, unless the investments have been designated as fair value through the Income and Expenditure Account.

The Council has a number of strategies for managing interest rate risk. The annual treasury management strategy includes a forecast for short and longer term interest rates. The treasury team continue to monitor market and forecast interest rates during the year and adjust investment policies accordingly. 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. Any such strategy is run within the short and medium term liquidity requirements of the Council.

If all interest rates had been 1% higher with all other variables held constant, the financial effect would be:

| | 2009/10 £000 | 2008/09 £000 |
|--|-----------------|-----------------|
| Increase in interest payable on variable rate borrowings | 0 | 0 |
| Increase in interest receivable on variable rate investments | (264) | (388) |
| Impact on Income and Expenditure Account | (264) | (388) |
| Increase in government grant receivable for financing costs | 0 | 0 |
| Share of overall impact debited to the HRA | 0 | 0 |
| Decrease in fair value of fixed rate investment assets | 0 | 0 |
| Impact on STRGL | 0 | 0 |
| Decrease in fair value of fixed rate borrowings liabilities (no impact on Income and Expenditure Account or STRGL) | 157,073 | 181,242 |

NOTES TO THE FINANCIAL STATEMENTS

24. Financial Instruments - continued

24.2 Key Risks (continued)

The approximate impact of a 1% fall in interest rates would be as shown on the previous page 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 (page 53). However, it should be noted that it would be unlikely that short term and long term interest rates would move in the same direction by the same amount at the same time.

Price Risk

The Council does not generally invest in equity shares but does have shareholdings to the value of £23.335m (2008/09 £39.374m) in a number of Council owned Companies and joint ventures. Whilst these holdings are generally illiquid, the Council is exposed to losses arising from movements in the prices of the shares.

As the shareholdings have arisen in the acquisition of specific interests, the Council is not in a position to limit its exposure to price movements by diversifying its portfolio.

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.

25. Long-Term Debtors

| | Balance at 31.03.2009 | Movement 2009/10 | Balance at 31.03.2010 |
|--|--------------------------|---------------------|--------------------------|
| | £000 | £000 | £000 |
| Capital advances | | | |
| Lothian and Borders Police Board | 24,734 | 3,789 | 28,523 |
| Lothian and Borders Fire and Rescue Board | 10,702 | (1,064) | 9,638 |
| Further Education Colleges (pre 1996 debt) | 876 | (694) | 182 |
| Council Tax | 82,427 | 5,089 | 87,516 |
| Community Charge | 72,749 | (81) | 72,668 |
| Non-Domestic Rates | 6,837 | 1,656 | 8,493 |
| CEC Holdings | 7,949 | (3,949) | 4,000 |
| Edinburgh Marketing loan | 117 | (17) | 100 |
| Edinburgh Leisure loan | 324 | (11) | 313 |
| CEC Holdings - Parc loan | 0 | 608 | 608 |
| House rents | 0 | 1,923 | 1,923 |
| Car loan scheme | 512 | (343) | 169 |
| | <u>207,227</u> | <u>6,906</u> | <u>214,133</u> |

- As part of its preparation for the transition to International Financial Reporting Standards (IFRS) compliant accounts, a review has been undertaken of current debtors to identify debtors that are expected to be collected in a period of more than twelve months. As a result of this review, £160.184m of debtors relating to council tax and community charge are now recognised as long term, together with £1.923m of house rents. Prior year comparatives for council tax and community charge have been re-stated.
- Long-term debtors include £28.523m (2008/09 £24.734m) and £9.638m (2008/09 £10.702m) for sums recoverable from Lothian and Borders Police and Fire and Rescue Boards respectively. These sums relate to monies advanced to the joint boards for capital expenditure.

NOTES TO THE FINANCIAL STATEMENTS

26. Provision for Bad Debts

| | (re-stated) Balance at 31.03.2009 | Transferred between Current and Long-Term £000 | Movement 2009/10 £000 | Balance at 31.03.2010 £000 |
|--------------------------|---|--|-----------------------------|----------------------------------|
| Long- Term Assets | £000 | £000 | £000 | £000 |
| Community charge | (72,748) | 0 | 80 | (72,668) |
| Council tax | (81,083) | 0 | 1,568 | (79,515) |
| Non-Domestic rates | (781) | 0 | (146) | (927) |
| Sundry debtors | 0 | (706) | (608) | (1,314) |
| Total provisions | <u>(154,612)</u> | <u>(706)</u> | <u>894</u> | <u>(154,424)</u> |
| Current Assets | £000 | £000 | £000 | £000 |
| Community charge | (80) | 0 | 20 | (60) |
| Council tax | (56,896) | 0 | 2,335 | (54,561) |
| Non-Domestic rates | (507) | 0 | (110) | (617) |
| Sundry debtors | <u>(11,595)</u> | <u>706</u> | <u>1,552</u> | <u>(9,337)</u> |
| Total provisions | <u>(69,078)</u> | <u>706</u> | <u>3,797</u> | <u>(64,575)</u> |

27. Provisions

Provision has been made for outstanding payments of £50.668m (2008/09 £26.540m). These include estimates of settlements on outstanding equal pay, compensation and insurance claims, land acquisition costs relating to the tram development project and Council Tax discounts payable to Registered Social Landlords. The precise amount of these payments is unknown, however, provision has been made in the accounts, as summarised below, based on a Council assessment of the costs.

| | Balance at 31.03.2009 £000 | Movement 2009/10 £000 | Balance at 31.03.2010 £000 |
|---------------------------------|----------------------------------|-----------------------------|----------------------------------|
| Tram contributions | (15,488) | 5,651 | (9,837) |
| Equal pay claims | (6,114) | (29,449) | (35,563) |
| Council Tax discounts | (1,050) | (81) | (1,131) |
| Housing benefit subsidy | (1,543) | (574) | (2,117) |
| Insurance claims | (944) | 398 | (546) |
| Other sundry payment provisions | <u>(1,401)</u> | <u>(73)</u> | <u>(1,474)</u> |
| | <u>(26,540)</u> | <u>(24,128)</u> | <u>(50,668)</u> |

28. Movements on Reserves

28.1 Purposes of Funds Held

- **Revaluation Reserve**

The Revaluation Reserve records unrealised gains arising since 1 April 2007 from holding fixed assets.

- **Capital Adjustment Account**

The Capital Adjustment Account provides a balancing mechanism between the different rates at which assets are depreciated and are financed through the capital controls system.

- **Capital Grants Unapplied Account**

The capital grants unapplied account holds capital grants and contributions that have been received towards specific works that have yet to be completed.

NOTES TO THE FINANCIAL STATEMENTS

28. Movements on Reserves - continued

28.1 Purposes of Funds Held (continued)

- **Financial Instruments Adjustment Account**

The Financial Instruments Adjustment Account provides a balancing mechanism between the different rates at which gains and losses (such as premiums on the early repayment of debt) are recognised under the SORP and are required by statute to be met from the General Fund.

- **Capital Fund**

Under Schedule 3 of the Local Government Act 1975 certain receipts derived from the sale of property may also be used to create a capital fund "to be used for defraying any expenditure of the authority to which capital is properly applicable, or in providing money for repayment of the principal of loans".

During the year, £0.450m (2008/09 £17.321m) was drawn down from the capital fund to provide for repayment of loan principal, including £0.000m (2008/09 £0.359m) from the Fit for Future office accommodation project.

- **Usable Capital Receipts Reserve**

The Usable Capital Receipts Reserve represents the capital receipts available to finance capital expenditure in future years, after setting aside the statutory amounts for the repayment of external loans.

- **Pension Reserve**

The Pension Reserve represents the net monies which the Council requires to meet its net pension liability, as calculated under FRS17, Retirement Benefits.

- **Renewal and Repairs Fund**

This fund represents monies set aside for the renewal and repair of Council property.

| 28.2 Reserves | Balance Brought Forward £000 | (Gains) / Losses for the Year £000 | Transfers Between Reserves £000 | Balance Carried Forward £000 |
|---|---------------------------------------|---|--|---------------------------------------|
| Revaluation reserve | (515,365) | (250,439) | 20,652 | (745,152) |
| Capital adjustment account | (1,011,618) | 157,718 | 74,731 | (779,169) |
| Financial instruments adjustment account | 57,633 | (91) | (694) | 56,848 |
| Capital fund | (22,941) | 50 | 424 | (22,467) |
| Capital grants unapplied account | 0 | (1,136) | 0 | (1,136) |
| Usable capital receipts reserve | 0 | (6,312) | 6,312 | 0 |
| Pension reserve | 276,181 | 404,128 | (701) | 679,608 |
| Renewal and repairs fund | (10,330) | (37) | (3,412) | (13,779) |
| General Fund reserves | | | | |
| - General Fund balance | (6,472) | 83,882 | (86,435) | (9,025) |
| - Earmarked General Fund balances | (53,103) | (108) | (10,877) | (64,088) |
| Total Reserves | (1,286,015) | 387,655 | 0 | (898,360) |

In the above table, balances brought and carried forward in brackets are positive balances, while those without brackets represent negative or overdrawn balances.

NOTES TO THE FINANCIAL STATEMENTS

28. Movements on Reserves - continued

28.3 General Fund

The General Fund balance stands at £73.113m. Sums of £64.088m are earmarked for specific purposes, including:

- Balances set aside to manage the likelihood of future risks being realised.
- Balances set aside, primarily from grant income, due to timing differences between the receipt of the income and planned expenditure.
- Balances set aside to enable the Council to undertake investment in specific projects which will deliver savings in future years.
- Balances held under the School Board Delegation Scheme (DSM)
- Balances set aside under the Council's budget flexibility scheme.

The unallocated General Fund balance stands at £9.025m at 31 March 2010.

A review of the Council's General Fund is undertaken annually as part of the budget setting process. The review considers the level of balances, the risks inherent in the budget process and the arrangements in place to manage these. Unallocated balances are held against the risk of unanticipated expenditure arising in any particular year. Included in these risks are costs associated with single status, costs of insurance and the level of excesses, and energy costs, where recent contracts have been subject to significant price increases due to market fluctuations.

The level of unallocated reserves remains in line with the level anticipated in the review of reserves carried out as part of the 2009-2012 budget setting process.

29. Government Grants Deferred

Where the acquisition of a fixed asset is financed either wholly or in part by a government grant or other contribution, the amount of the grant or contribution is credited to the government grants deferred account and written off to service accounts over the useful life of the asset to match the depreciation of the asset to which it relates.

| | £000 | £000 |
|--|-----------------|-----------------------|
| Balance as at 31 March 2009 | | 331,178 |
| Government grants and other contributions received | 164,763 | |
| Less: grants amortised | <u>(23,599)</u> | |
| | | <u>141,164</u> |
| Balance as at 31 March 2010 | | <u><u>472,342</u></u> |

30. Deferred Credit

Lothian Regional Council entered into an agreement for the disposal of Norton Park Annex to the Tudor Trust. The terms of the disposal included the creation of a Title Company with share capital of 100 ordinary shares, held by the Tudor Trust, and 350,000 £1 preference shares held by City of Edinburgh Council. The preference shares carry rights that, in the event of the company being wound up or the property sold, the Council will receive the first £0.35m of the sale proceeds. This is reflected in the Balance Sheet as a deferred credit of £0.35m and as a long-term investment.

NOTES TO THE FINANCIAL STATEMENTS

31. Contingent Assets and Liabilities

Contingent Liabilities

- There may be outstanding liability claims against the Council in relation to income received from parking charges and other services. The actual cost of these claims cannot be estimated with reasonable accuracy and consequently, no provisions have been made in the financial statements in respect of them. It is also not possible to estimate precisely when these claims could become due.
- In addition to the provision made in the financial statements for equal pay claims, further liabilities may arise in respect of employees who have not yet signed agreements and who may progress a tribunal claim. The liability of these potential claims cannot be estimated with accuracy and the outcome is not considered sufficiently certain. The Council expects to introduce its modernising pay scheme in October 2010. This will result in the Council requiring to meet pay protection costs for up to three years. No provision has been made in the accounts for these costs.
- As noted in the foreword to the accounts on page 8, funding of up to £545m has been agreed for the tram project, with £500m being grant funded by Transport Scotland and the Council contributing £45m, primarily to be funded from developer contributions and capital receipts. It is now anticipated the full scope of phase 1a cannot be delivered for the approved funding of £545m. It is considered prudent to plan for a contingency of 10% above the approved funding of £545m, due to the ongoing contractual difficulties. However, Transport Edinburgh Limited is not seeking approval for an increased budget at this time.

32. Post Balance Sheet Event - Non Adjusting

The Chancellor of the Exchequer announced in his emergency budget on 22 June 2010 that the consumer price index rather than the retail price index will be the basis for future public sector pension increases. In accordance with paragraph 21 of Financial Reporting Standard 21 (Events after the Balance Sheet date), this change is deemed to be a non-adjusting post Balance Sheet event. It is estimated that this change will reduce the value of an average employer's FRS17 liabilities in the fund by around 6 - 8%.

33. The City of Edinburgh Council Charitable Funds

The City of Edinburgh Council administers a number of charitable funds. At the end of the year this included 62 Scottish charities registered under the Charities and Trustee Investment (Scotland) Act 2005 and 51 other charitable funds, mainly educational endowments.

The funds are of varying size: the smallest has a market value of £6, with the largest valued at £7.6m (as shown in note 33.2). Whilst each fund has specific objectives and conditions, most were gifted into the trust of the Council for provision of prizes and scholarships in particular Council schools or for providing additional pensions for poor or needy citizens of Edinburgh.

33.1 The purpose, and financial position, of the largest of the charitable funds is as follows:

• Trinity Hospital Scheme of Administration

The scheme applies to Trinity College Hospital, John McGibbon, Sir James Steel and the Alexander Mortification.

Trinity College Hospital (Scottish Charity Reg. No. SC018969)

Beneficiaries must have resided in Edinburgh for a minimum of 2 years, be at least 50 years of age, and in decayed circumstances through no fault of their own.

The financial results of the fund are as follows:

| | 31.03.2010 | 31.03.2009 |
|-------------|------------|------------|
| | £000 | £000 |
| Income | (199) | (279) |
| Expenditure | 172 | 153 |
| Assets | 7,624 | 6,111 |
| Liabilities | (62) | (56) |

NOTES TO THE FINANCIAL STATEMENTS

33. The City of Edinburgh Council Charitable Funds - continued

33.1 The purpose, and financial position, of the largest of the charitable funds is as follows:

- **Trinity Hospital Scheme of Administration - continued**
John McGibbon (Scottish Charity Reg. No. SC018977)

The fund was established for the relief of governesses, teachers and women engaged in business of good character.

| The financial results of the fund are as follows: | 31.03.2010 | 31.03.2009 |
|---|------------|------------|
| | £000 | £000 |
| Income | (34) | (44) |
| Expenditure | 40 | 42 |
| Assets | 1,104 | 890 |
| Liabilities | 0 | 0 |

- **Sir James Steel (Scottish Charity Reg. No. n/a)**

The fund was established to assist masons, joiners and other workmen if appropriate.

| The financial results of the fund are as follows: | 31.03.2010 | 31.03.2009 |
|---|------------|------------|
| | £000 | £000 |
| Income | (48) | (62) |
| Expenditure | 41 | 41 |
| Assets | 1,378 | 1,117 |
| Liabilities | 0 | 0 |

- **Alexander Mortification (Scottish Charity Reg. No. SC018949)**

Beneficiaries are elected with the following preference:

- those of kindred of Alexander of Knockhill who died in 1696;
- those of the surname Alexander, which may be a female's maiden name;
- other persons which are thought fit.

| The financial results of the fund are as follows: | 31.03.2010 | 31.03.2009 |
|---|------------|------------|
| | £000 | £000 |
| Income | (24) | (33) |
| Expenditure | 17 | 19 |
| Assets | 823 | 635 |
| Liabilities | 0 | 0 |

- **Jean F. Watson Bequest (Scottish Charity Reg. No. SC018971)**

The purpose of the fund is to purchase works of art by artists who have connections with the city.

| The financial results of the fund are as follows: | 31.03.2010 | 31.03.2009 |
|---|------------|------------|
| | £000 | £000 |
| Income | (23) | (29) |
| Expenditure | 6 | 8 |
| Assets | 1,530 | 1,417 |
| Liabilities | 0 | 69 |

The Jean F. Watson Committee meeting held on 9 March 2010 agreed the purchase of four paintings at a purchase price of £0.069m. However, this is subject to obtaining an additional £0.045m of grants and donations. As such there is no legal commitment to buy the paintings at 31 March 2010.

NOTES TO THE FINANCIAL STATEMENTS

33. The City of Edinburgh Council Charitable Funds - continued

33.1 The purpose, and financial position, of the largest of the charitable funds is as follows:

- **Surplus Fire Fund (Scottish Charity Reg. No. SC018967)**

The purposes of the fund are to offer relief to persons that have suffered as the result of a fire and to recognise meritorious service in connection with fires. In both cases the fire must have occurred in the Edinburgh area.

| | | |
|---|-------------------|-------------------|
| The financial results of the fund are as follows: | 31.03.2010 | 31.03.2009 |
| | £000 | £000 |
| Income | (34) | (43) |
| Expenditure | 59 | 61 |
| Assets | 1,074 | 918 |
| Liabilities | 0 | 0 |

33.2 The main funds are:

| Market Value | | Scottish Charity | Market Value |
|---------------------|-------------------------------|-------------------------|---------------------|
| 31.03.2009 | | Registration | 31.03.2010 |
| £000 | | Number | £000 |
| 6,055 | Trinity College Hospital | SC018969 | 7,562 |
| 1,348 | Jean F. Watson | SC018971 | 1,530 |
| 1,117 | Sir James Steel | n/a | 1,378 |
| 918 | Surplus Fire Fund | SC018967 | 1,074 |
| 890 | John McGibbon | SC018977 | 1,104 |
| 635 | Alexander Mortification | SC018949 | 823 |
| 347 | John Watson | SC018972 | 468 |
| 358 | City of Edinburgh | SC025067 | 476 |
| 662 | Usher Hall Appeal | SC030180 | 667 |
| 277 | Sir William Watson | SC018973 | 374 |
| 266 | G. Boyd Anderson | n/a | 342 |
| 201 | Royal High School | n/a | 0 |
| 887 | Other Funds | n/a | 997 |
| 13,961 | Total at 31 March 2010 | | 16,795 |

The funds do not represent assets of the Council and are not included in the Balance Sheet.

33.3 Transferred Trusts

As part of its ongoing charity reorganisation project, the Council has transferred a number of trusts to external parties during the year:

| | Value |
|--|--------------|
| | £000 |
| Royal High School | 216 |
| Admiral Duff Bequest | 30 |
| St. Margaret's Park (Corstorphine) Trust | 12 |
| Mary Whitfield Citizenship Award | 10 |
| Abel Philips Bequest | 8 |
| Mrs Gibson's Mortification | 2 |
| Other Trusts | 4 |
| Total value of transferred trusts | 282 |

On 29 June 2010, the Pensions and Trusts Committee of the Council approved a plan that would see 38 of the poverty related trusts transferred to an external charity which would take responsibility of their future administration. A further meeting is due to be held on 15 October 2010 to consider proposals from potential receiving charities.

NOTES TO THE FINANCIAL STATEMENTS

33. The City of Edinburgh Council Charitable Funds - continued

33.4 Financial Position of the Funds

The financial position of all funds is as follows:

Income and Expenditure Account

| 2008/09 £000 | | 2009/10 £000 |
|-----------------|-----------------------------------|-----------------|
| | Income | |
| (629) | Investment income | (443) |
| <u>(27)</u> | Other non-investment income | <u>(13)</u> |
| <u>(656)</u> | | <u>(456)</u> |
| | Expenditure | |
| 364 | Prizes, awards and other expenses | 328 |
| <u>69</u> | Administrative expenses | <u>76</u> |
| <u>433</u> | | <u>404</u> |
| <u>(223)</u> | Surplus for the Year | <u>(52)</u> |

Balance Sheet

| 2008/09 £000 | | | 2009/10 £000 |
|-----------------|--|--------------|-----------------|
| | Fixed Assets | | |
| 10,183 | Investments | | 12,960 |
| 831 | Artworks - Jean Watson Trust | | 821 |
| <u>586</u> | Heritable property | | <u>586</u> |
| 11,600 | Total Long-Term Assets | | 14,367 |
| | Current Assets | | |
| 74 | Sundry debtors | 77 | |
| <u>2,532</u> | Cash and bank | <u>2,521</u> | |
| 2,606 | | | 2,598 |
| | Current Liabilities | | |
| (125) | Creditors | (62) | |
| <u>(120)</u> | Balance with City of Edinburgh Council | <u>(108)</u> | |
| <u>(245)</u> | | | <u>(170)</u> |
| <u>13,961</u> | Total Assets less Liabilities | | <u>16,795</u> |
| 16,843 | Capital at 1 April 2009 | | 13,961 |
| 223 | Surplus for year | | 52 |
| (3,129) | Unrealised (losses) / gains | | 3,040 |
| 24 | Capital introduced | | 24 |
| <u>0</u> | Trusts transferred to external charities | | <u>(282)</u> |
| <u>13,961</u> | Capital at 31 March 2010 | | <u>16,795</u> |

34. Delegated Schemes

A net credit balance of £1.000m (2008/09 £0.904m) is held within the General Fund in accordance with the School Boards' Delegation Scheme.

NOTES TO THE FINANCIAL STATEMENTS

35. Related Parties

The following represents material amounts due to / (from) the Council, at 31 March 2010, with its related parties. Comparative figures have been re-stated for additional activities not disclosed in the 2008/09 Audited Financial Statements.

| | 2009/10 | (re-stated) 2008/09 |
|---|-----------------|------------------------|
| | £000 | £000 |
| • Capital | | |
| CEC Holdings Limited (EDI Group Ltd) | 4,000 | 4,000 |
| CEC Holdings Limited | 0 | 7,949 |
| Edinburgh Leisure Limited | (271) | 0 |
| Lothian and Borders Fire Board | 9,638 | 10,702 |
| Lothian and Borders Police Board | 28,523 | 24,734 |
| SESTRAN | 0 | 1,757 |
| tie Limited | 18,674 | 35,393 |
| | <u>60,564</u> | <u>84,535</u> |
| • Revenue | | |
| CEC Holdings Limited (EDI Group Limited) | 249 | 254 |
| CEC Holdings Limited (Parc) | 608 | 0 |
| Edinburgh Leisure Limited | 144 | 324 |
| Edinburgh Military Tattoo | 1 | 115 |
| Forth Estuary Transport Authority | 2,872 | 905 |
| Lothian and Borders Fire Board | (4,080) | (3,409) |
| Lothian and Borders Police Board | (20,047) | (17,815) |
| Lothian Buses | (50) | (29) |
| Lothian Valuation Joint Board | (669) | (77) |
| Pension Funds | (10,022) | (8,177) |
| SESTRAN | 554 | 176 |
| Transport Scotland | (17,121) | (32,960) |
| | <u>(47,561)</u> | <u>(60,693)</u> |
| • Investments held on behalf of, and repayable to: | | |
| CEC Holdings | (67) | (65) |
| Common Good | (1,556) | (1,537) |
| Forth Estuary Transport Authority | 0 | (8,423) |
| tie Limited | (27,030) | (23,280) |
| | <u>(28,653)</u> | <u>(33,305)</u> |

36. Pension Costs

36.1 The Council participates in two different pension schemes which meet the needs of employees in particular services. Both the schemes provide members with defined benefits related to pay and service.

• Teachers

The Scottish Teachers' Superannuation Scheme is an unfunded scheme administered by the Scottish Public Pensions Agency. The scheme is excluded from the accounting requirements of FRS 17 as it is a national scheme which does not allow for the identification of pension liabilities consistently and reliably between participating authorities. The accounts, therefore, only include the payments made by the Council to the scheme in year and do not reflect the estimated pension assets or liabilities of the scheme. The exception to this are payments in relation to unfunded pension enhancements for members of the scheme as they are administered through the Local Government Pension Scheme and are taken into consideration in accounting for pension costs under FRS 17.

In 2009/10, the Council paid £18.635m (2008/09 £16.823m) to the Scottish Government in respect of teachers' pension costs, which represents 14.9% (2008/09 13.5%) of teachers' pensionable pay. In addition, the Council is responsible for all pension payments relating to "added years" it has awarded, together with related increases. These amounted to £nil in 2009/10 (2008/09 £nil), or 0% (2008/09 0%) of pensionable pay. The capitalised value of discretionary awards entered into prior to 2009/10 amounts to £25.1m (2008/09 £21.1m).

At 31st March 2010, creditors include £2.213m (2008/09 £2.058m) in respect of teachers' superannuation.

NOTES TO THE FINANCIAL STATEMENTS

36. Pension Costs - continued

- **Local Government Pension (Scotland) Scheme**

Employees other than teachers are eligible to join the Local Government Pension Scheme. The pension costs charged to Services in respect of these employees have been calculated under FRS17 - Retirement Benefits.

In terms of this scheme in 2009/10, the Council paid an employer's contribution of £49.343m (2008/09 £46.117m) into the Lothian Pension Fund, representing 20.0% (2008/09 19.4%) of pensionable pay. The contribution rate is determined by the Fund's Actuary based on triennial actuarial valuations, the last review being carried out as at 31 March 2008.

In accordance with the Code of Practice guidance on the application of FRS17, Retirement Benefits, the Income and Expenditure Account recognises the true economic cost of retirement benefits earned by employees in 2009/10, irrespective of when benefits are due to be paid. These costs are based upon an assessment by the Fund's Actuary of the share of fund assets and liabilities attributable to the City of Edinburgh Council at 31 March 2008.

The Fund's Actuary is unable to provide an analysis of FRS17 pension costs by individual service. The charge in the Income and Expenditure Account applied against each service included in 'Net Cost of Services' reflects an apportionment of costs in line with the actual cash payments made by the Council to Lothian Pension Fund.

The cost of pension benefits, as assessed by the Fund's Actuary and reflected with 'Net Cost of Services', differed from the cash payment to the Fund charged against Council Tax. The table below summarises the entries reflected within the Income and Expenditure Statement in respect of accounting for pensions under FRS17. The amount by which pension costs calculated in accordance with FRS17 are different from the contributions due under the pension scheme regulations is included in the Statement of Movement on the General Fund Balance.

| | 2009/10 £000 | 2008/09 £000 |
|--|-----------------|-----------------|
| Amounts charged to net operating expenditure: | | |
| Current service costs | 26,815 | 31,251 |
| Past service costs | 8,181 | 876 |
| Settlements and curtailments | 321 | 3,821 |
| Pension interest costs and expected return on assets | 21,446 | 2,275 |
| Costs included in Income and Expenditure Statement | 56,763 | 38,223 |
| Appropriation from pensions reserve | 701 | 15,408 |
| Net Charge to General Fund | 57,464 | 53,631 |
| Comprising: | | |
| Employer's contributions | 51,279 | 47,564 |
| Contributions in respect of unfunded costs | 6,185 | 6,067 |
| | 57,464 | 53,631 |

36.2 Strain on the Pension Fund

Lothian Pension Fund has the right to require the Council to make additional payments to the pension fund to reflect the extra cost to the pension fund of immediate payment of benefits to employees who retire early on efficiency, redundancy or voluntary grounds. This amounted to £2.662m in 2009/10 (2008/09 £1.600m). The future value of payments, based on employees who have retired on the above grounds amounts to £1.653m (2008/09 £3.445m). Payments for employees who have left the Council since 1 April 2009 require to be paid in full to Lothian Pension Fund at the time of leaving.

36.3 Pension Assets and Liabilities

As previously noted, the Council participates in two formal schemes, the Local Government Pension (Scotland) Scheme, which is administered by Lothian Pension Fund and the Teachers' Scheme. The Council is not required to record information related to the Teachers' Scheme as the liability for payment of pensions rests ultimately with the Scottish Government. In addition, the Council has liabilities for discretionary pension payments outside the main schemes.

NOTES TO THE FINANCIAL STATEMENTS

36. Pension Costs - continued

| | 2009/10 £000 | 2008/09 £000 |
|---|-----------------|------------------|
| 36.4 Pensions Reserve | | |
| Balance at 1 April | | (98,147) |
| Current service cost | (26,815) | (31,251) |
| Employer contributions | 51,279 | 47,564 |
| Contributions in respect of unfunded benefits | 6,185 | 6,067 |
| Past service costs | (8,181) | (876) |
| Impact of settlement and curtailments | (321) | (3,821) |
| Net return on assets | <u>(21,446)</u> | <u>(2,275)</u> |
| Appropriation to general fund | | 15,408 |
| Actuarial (losses) / gains | | <u>(404,128)</u> |
| Deficit at 31 March | | <u>(276,181)</u> |

36.5 Net Pension Deficit

The Council's assets and liabilities amounted to:

| | 2009/10 £000 | 2008/09 £000 |
|---------------------------------------|--------------------|--------------------|
| Fair value of employer assets | 1,417,285 | 1,038,934 |
| Present value of funded obligations | <u>(1,997,134)</u> | <u>(1,234,068)</u> |
| Net underfunding in funded plans | (579,849) | (195,134) |
| Present value of unfunded obligations | <u>(99,759)</u> | <u>(81,047)</u> |
| Net Liability | <u>(679,608)</u> | <u>(276,181)</u> |
| Amount in the Balance Sheet | | |
| Liabilities | (679,608) | (276,181) |
| Assets | <u>0</u> | <u>0</u> |
| Net Liability | <u>(679,608)</u> | <u>(276,181)</u> |

The net pension liability of £679.608m exceeds current general fund reserves of £73.113m by £606.495m. The actuarial valuation will consider the appropriate employer's rates and this, together with revenues generated from the investments, will be utilised to meet the fund's commitments.

The fair value of employer's assets and the corporate bond rate used to discount future pension scheme liabilities are subject to changes in market conditions. The net liability above therefore shows the position at 31 March 2010.

Assets have been valued at bid value, as required under FRS17.

| | 2009/10 | | 2008/09 | |
|--------------------|-------------------------|------------------------------|-------------------------|------------------------------|
| | Market Value £000 | Assumed Rate of Return | Market Value £000 | Assumed Rate of Return |
| Equity investments | 1,119,655 | 7.8% | 820,758 | 7.0% |
| Bonds | 113,383 | 5.0% | 114,283 | 5.4% |
| Property | 127,556 | 5.8% | 103,893 | 4.9% |
| Cash | 56,691 | 4.8% | 0 | 4.0% |
| | <u>1,417,285</u> | | <u>1,038,934</u> | |

NOTES TO THE FINANCIAL STATEMENTS

36. Pension Costs - continued

36.5 Net Pension Deficit (continued)

Hymans Robertson, the independent actuaries to Lothian Pension Fund, have advised that the financial assumptions used to calculate the components of the pension expense for the year ended 31 March 2010 were those from the beginning of the year (i.e. 31 March 2009) and have not been changed during the year. The main assumptions in the calculations are:

| | | 2009/10 | 2008/09 |
|--------------------------------------|--------|----------------|----------------|
| Inflation / pension increase rate | | 3.8% | 3.1% |
| Salary increase rate | | 5.3% | 4.6% |
| Expected return on assets | | 7.3% | 6.6% |
| Discount rate | | 5.5% | 6.9% |
| Mortality rates - current pensioners | male | 20.8 years | 19.8 years |
| | female | 24.1 years | 22.8 years |
| Mortality rates - future pensioners | male | 22.3 years | 21.0 years |
| | female | 25.7 years | 24.0 years |

36.6 Analysis of amount to be charged to net cost of services

| | 2009/10 | 2008/09 |
|---|------------------|------------------|
| | £000 | £000 |
| Net cost of services: | | |
| Service cost | 26,815 | 31,251 |
| Past service cost | 8,181 | 876 |
| Curtailement and settlements | 321 | 3,821 |
| | <u>35,317</u> | <u>35,948</u> |
| Other charges to net operating expenditure: | | |
| Expected return on employer assets | (69,095) | (93,426) |
| Interest on pension scheme liabilities | 90,541 | 95,701 |
| | <u>21,446</u> | <u>2,275</u> |
| Net return | | |
| | <u>56,763</u> | <u>38,223</u> |
| Actual return on plan assets | <u>(362,162)</u> | <u>(222,872)</u> |

These amounts are based on employer and employee contributions up to 31 March 2010 and the number of employees, deferred pensioners and pensioners as at 5 January 2010 in order to estimate the position for the year to 31 March 2010.

From October 2006, members retiring are able to elect an additional tax-free lump sum in lieu of part of their pension ("commutation"). Allowance has been made for future retirees to elect to take 50% of the maximum additional tax-free cash up to HM Revenues and Customs limits for pre-April 2009 service and 75% of the maximum tax-free cash for post-April 2009 service.

36.7 History of Gains and Losses

| | 2009/10 | 2008/09 | 2007/08 | 2006/07 | 2005/06 |
|---|----------------|----------------|----------------|----------------|----------------|
| | £000 | £000 | £000 | £000 | £000 |
| Fair value of employer assets | 1,417,285 | 1,038,934 | 1,296,168 | 1,309,896 | 1,191,398 |
| Present value of defined benefit obligation | (2,096,893) | (1,315,115) | (1,394,315) | (1,563,534) | (1,563,770) |
| Deficit | (679,608) | (276,181) | (98,147) | (253,638) | (372,372) |
| Experience gains / (losses) on assets | 293,067 | (355,405) | (135,790) | 7,795 | 189,492 |
| Experience gains / (losses) on liabilities | (6,282) | 45,059 | 5,968 | (10,244) | 26,401 |

NOTES TO THE FINANCIAL STATEMENTS

36. Pension Costs - continued

36.8 Analysis of Amount Recognised in Statement of Total Movement in Reserves

| | 2009/10 £000 | 2008/09 £000 | 2007/08 £000 | 2006/07 £000 | 2005/06 £000 |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Actuarial gains and losses | (404,128) | (193,442) | 148,478 | 101,694 | 44,921 |
| Cumulative actuarial gains and losses | (612,507) | (208,379) | (14,937) | (163,415) | (265,109) |

36.9 Joint Board Pension Deficits

Local government legislation provides that local authorities have an obligation to meet the expenditure of the joint boards of which they are constituent members. As a consequence, the City of Edinburgh Council has obligations to meet the liabilities arising from the following joint board pension deficits as they fall due:

| | 2009/10 £000 | 2008/09 £000 |
|----------------------------------|-----------------|-----------------|
| Lothian and Borders Police Board | 969,829 | 632,754 |
| Lothian and Borders Fire Board | 213,827 | 145,609 |
| Lothian Valuation Joint Board | 7,228 | 1,538 |

Further information regarding these deficits can be found in the annual report and accounts of the relevant bodies.

36.10 Further Information

Further information can be found in the Council's Pension Fund's Annual Report which is available upon application to the Director of Finance, Waverley Court, 4 East Market Street, Edinburgh, EH8 8BG.

37. Reconciliation of the Cash Flow Statement with the Income and Expenditure Account

| | 2009/10 | | 2008/09 | |
|--|--------------|------------------|--------------|-----------------|
| | £000 | £000 | £000 | £000 |
| Deficit / (Surplus) per Income and Expenditure Account | | 83,774 | | 82,645 |
| Non-cash transactions | | | | |
| Provisions set aside during year | (33,788) | | (11,811) | |
| Less: provisions utilised | <u>8,701</u> | | <u>8,578</u> | |
| | | (25,087) | | (3,233) |
| Gain on disposal of fixed assets | | (1,219) | | 6,183 |
| Effect of FRS17 | | 701 | | 15,408 |
| Capital financing costs | | (238,189) | | (243,215) |
| Interest received | | 1,261 | | 3,696 |
| Dividend income | | 2,000 | | 2,000 |
| Year-End Variations | | | | |
| Increase / (decrease) in debtors | 16,399 | | (366) | |
| Decrease / (increase) in creditors | (2,968) | | 52,921 | |
| Increase / (decrease) in stocks | <u>(251)</u> | | <u>194</u> | |
| | | <u>13,180</u> | | <u>52,749</u> |
| Net cash (inflow) / outflow from revenue activities | | <u>(163,579)</u> | | <u>(83,767)</u> |

NOTES TO THE FINANCIAL STATEMENTS

38. Analysis of Government Grants shown in Cash Flow Statement

| 38.1 Revenue | 2009/10 | | 2008/09 | |
|---|---------|------------------|---------|------------------|
| | £000 | £000 | £000 | £000 |
| General revenue funding | | (562,800) | | (538,569) |
| DWP Grant (housing benefit / council tax benefit subsidy) | | (206,362) | | (178,638) |
| Other Government Grants: | | | | |
| Supported employment | | (302) | | (314) |
| Other specific grants | | (12,909) | | (13,134) |
| Cities growth fund | | (264) | | 264 |
| Non-specific grants | | (19,302) | | (36,292) |
| | | <u>(32,777)</u> | | <u>(49,476)</u> |
| | | <u>(801,939)</u> | | <u>(766,683)</u> |

In 2008/09, the Scottish Government changed how funds were distributed to Councils. Many of the grants previously paid to Councils for specific purposes were mainstreamed into revenue support grant. This enables the Council to direct funding to the areas it considers to be a priority.

38.2 Capital

| | 2009/10 | 2008/09 |
|---|------------------|------------------|
| | £000 | £000 |
| Transport projects (including trams) | (125,851) | (76,589) |
| General capital grant | (46,565) | (44,167) |
| New housing partnership | 0 | (1,903) |
| Development funding / community ownership | (41,373) | (44,773) |
| Other capital grants | (210) | 504 |
| | <u>(213,999)</u> | <u>(166,928)</u> |

39. Reconciliation of Movement in Cash to Movement in Net Debt

| | 2009/10 | | (re-stated) 2008/09 | |
|---|---------|------------------|------------------------|------------------|
| | £000 | £000 | £000 | £000 |
| Opening Net Debt | | 1,135,476 | | 959,548 |
| Increase / (decrease) in cash | 14,265 | | (496) | |
| Increase / (decrease) in debt financing | 73,337 | | 122,050 | |
| Increase / (decrease) in finance leases | (6,571) | | (2,997) | |
| Increase / (decrease) in liquid resources | (7,128) | | (9,815) | |
| Movement in net debt | | <u>73,903</u> | | <u>108,742</u> |
| | | 1,209,379 | | 1,068,290 |
| Non-cash items | | <u>124,036</u> | | <u>67,186</u> |
| Closing Net Debt | | <u>1,333,415</u> | | <u>1,135,476</u> |

NOTES TO THE FINANCIAL STATEMENTS

39. Reconciliation of Movement in Cash to Movement in Net Debt - continued

| | (re-stated) Balance 01.04.2009 £000 | Cashflow £000 | Non Cash Transactions £000 | Balance 31.03.2010 £000 |
|---------------------------------------|--|------------------|----------------------------------|-------------------------------|
| Analysis of Change in Net Debt | | | | |
| Cash in hand | (7,197) | 6,578 | 0 | (619) |
| Bank overdraft | 25,217 | 7,687 | 0 | 32,904 |
| | 18,020 | 14,265 | 0 | 32,285 |
| Debt due within 1 Year | 64,742 | (35,798) | (915) | 28,029 |
| Debt due after 1 Year | 1,100,284 | 109,135 | 3,767 | 1,213,186 |
| | 1,165,026 | 73,337 | 2,852 | 1,241,215 |
| Short-term investments | (142,035) | (19,827) | 0 | (161,862) |
| Other liquid resources | (25,700) | 12,699 | 0 | (13,001) |
| Finance leases | 120,165 | (6,571) | 119,417 | 233,011 |
| Total | 1,135,476 | 73,903 | 122,269 | 1,331,648 |

40. Reconciliation of Movement in Financing and Management of Liquid Resources

| | (re-stated) Balance 01.04.2009 £000 | Cashflow £000 | Non Cash Transactions £000 | Balance 31.03.2010 £000 |
|---------------------------------------|--|------------------|----------------------------------|-------------------------------|
| Management of Liquid Resources | | | | |
| Short-term investments | (142,035) | (19,827) | 0 | (161,862) |

Short-term investments held by the authority as at 31 March 2010 include £69.664m invested with other local authorities, £41.596m invested with banks and £48.869m invested in treasury bills.

| | (re-stated) Balance 01.04.2009 £000 | Cashflow £000 | Non Cash Transactions £000 | Balance 31.03.2010 £000 |
|--|--|------------------|----------------------------------|-------------------------------|
| Financing | | | | |
| Temporary loans | 6,853 | 3,067 | (16) | 9,904 |
| PWLB | 864,562 | 98,208 | 1,570 | 964,340 |
| Market loans | 250,044 | 14,999 | 1,313 | 266,356 |
| Short-term borrowing for capital expenditure | 42,808 | (42,800) | (8) | 0 |
| European Investment Bank | 759 | (137) | (7) | 615 |
| Net financing per cash flow | 1,165,026 | 73,337 | 2,852 | 1,241,215 |

Accrued interest is included in the carrying value of investments and loans.

HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT

for the year ended 31 March 2010

The Housing Revenue Account (HRA) Income and Expenditure Account shows in more detail the income and expenditure on HRA services included in the whole authority Income and Expenditure Account.

| (re-stated) | | | |
|--------------------|--|-----------------|----------------|
| 2008/09 | | | |
| £000 | INCOME | £000 | £000 |
| (66,526) | Dwelling rents | (69,041) | |
| (393) | Non-Dwelling rents (gross) | (556) | |
| <u>(14,540)</u> | Other income | <u>(14,183)</u> | |
| <u>(81,459)</u> | | | (83,780) |
| | EXPENDITURE | | |
| 26,073 | Repairs and maintenance | 27,849 | |
| 16,775 | Supervision and management | 16,315 | |
| 68,658 | Depreciation and impairment of fixed assets | 53,399 | |
| <u>6,849</u> | Other expenditure | <u>5,789</u> | |
| <u>118,355</u> | | | <u>103,352</u> |
| 36,896 | Net cost of HRA Services (as included in the whole authority Income and Expenditure Account) | | 19,572 |
| 147 | HRA share of corporate and democratic core | | 205 |
| 331 | HRA share of other amounts included in whole authority | | 364 |
| | Net Cost of Services but not allocated to specific services | | |
| <u>37,374</u> | HRA Share of the Operating Income and Expenditure included in the whole authority accounts | | <u>20,141</u> |
| (1,385) | - (Gain) / Loss on sale of HRA fixed assets | 815 | |
| 16,950 | - Interest payable and similar charges | 17,337 | |
| 0 | - Amortisation of premiums and discounts | (25) | |
| (582) | - Interest and investment income | (77) | |
| 38 | - Pensions interest cost and expected return on pension assets | 413 | |
| <u>15,021</u> | | | <u>18,463</u> |
| <u>52,395</u> | Deficit for the year on HRA services | | <u>38,604</u> |

STATEMENT OF MOVEMENT ON THE HRA BALANCE

| (re-stated) | | | |
|--------------------|--|--|-----------------|
| 2008/09 | | | |
| £000 | | | £000 |
| 52,395 | Deficit for the year on the HRA Income and Exp Account | | 38,604 |
| | Net additional amount required by statute or non-statutory proper practices to be credited to the HRA balance for the year | | |
| <u>(52,395)</u> | | | <u>(38,604)</u> |
| 0 | Movement in HRA balance | | 0 |
| 0 | HRA Balance brought forward | | 0 |
| <u>0</u> | HRA Balance carried forward | | <u>0</u> |

HOUSING REVENUE ACCOUNT

Statement of Movement on the Housing Revenue Account Balance

Analysis of additional items required by statute and non-statutory proper practice to be taken into account in determining the balance carried forward on the Housing Revenue Account.

for the year ended 31 March 2010

| 2008/09 £000 | | £000 | £000 |
|-----------------|---|----------|----------|
| | Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA balance for the year | | |
| (68,658) | Depreciation, amortisation and impairment of fixed assets | (53,399) | |
| 1,385 | Gain on sale of HRA fixed assets | (815) | |
| 117 | HRA Share of contribution to the pension reserve | (247) | |
| | Sums directed by the Scottish Government to be debited or credited to the HRA that are not income or expenditure in accordance with UK GAAP | | |
| 77 | | 187 | |
| (67,079) | | | (54,274) |
| | Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year | | |
| 11,452 | Loans fund principal | | 12,249 |
| | Transfers to / from General Fund that are required to be taken into account when determining the HRA deficit or surplus | | |
| 3,232 | Contribution to renewal and repairs fund, via the General Fund | | 3,421 |
| (52,395) | Net additional amount required by statute to be credited to the HRA balance for the year | | (38,604) |

Notes to the Housing Revenue Account

1. The number and types of dwellings in the authority's housing stock at 31 March 2010 are as follows:

| Types of Houses | 2010 | | 2009 | |
|-------------------------|--------|-------------------------|--------|-------------------------|
| | Number | Annual Average Rent (£) | Number | Annual Average Rent (£) |
| 1 Apartment | 309 | 2,802.00 | 300 | 2,591.24 |
| 2 Apartment | 5,817 | 3,146.00 | 6,025 | 2,866.53 |
| 3 Apartment | 10,989 | 3,648.00 | 11,313 | 3,307.88 |
| 4 Apartment | 3,615 | 4,201.00 | 3,625 | 3,919.92 |
| 5 Apartment | 553 | 4,511.00 | 556 | 4,578.11 |
| 6 Apartment | 14 | 4,342.00 | 10 | 3,912.98 |
| 7 Apartment | 4 | 4,250.00 | 3 | 3,620.88 |
| 8 Apartment | 2 | 4,403.00 | 2 | 4,160.56 |
| Travelling People Sites | 21 | 3,483.00 | 20 | 3,381.60 |
| | 21,324 | | 21,854 | |

The stock figure represents all types of residential properties, including furnished tenancies, sheltered housing and homelessness units.

2. The amount of rent arrears included as debtors in the Council's Balance Sheet was £2.136m (2008/09 £2.232m) against which a provision amounting to £1.115m (2008/09 £1.239m), has been created in respect of non collectable debts.
3. Significant non-residential income includes ground rent at Broomhouse Drive of £0.160m per annum.
4. The total value of uncollectable void rents for main provision properties was £0.497m (2008/09 £0.519m). This has been netted against rental income.

COUNCIL TAX INCOME ACCOUNT

for the year ended 31 March 2010

| 2008/09 £000 | | £000 | £000 |
|-----------------|--|--------|----------------|
| 284,566 | Gross council tax levied and contributions in lieu | | 286,767 |
| 47,864 | Less: - Exemptions and other discounts | 47,750 | |
| 8,727 | - Provision for bad debts | 8,813 | |
| (223) | - Net cost of benefits | (335) | |
| 2,981 | - Other reductions | 3,141 | |
| 59,349 | | | 59,369 |
| 225,217 | | | 227,398 |
| (3,219) | Previous years' adjustments | | 11,125 |
| 221,998 | Total transferred to General Fund | | 238,523 |

Notes to the Council Tax Income Account

Each household or occupied dwelling is allocated to a council tax band by the Assessor. The charge per council tax band is calculated as a proportion of band D - these proportions are determined by legislation.

A council tax bill is reduced by 25% where a dwelling has only one occupant or, with certain exceptions, 10% where the property is empty or a second home. For council tax purposes, students and certain other categories of people are not regarded as occupants. Reductions in council tax payable are also granted for physically disabled people.

Charges in respect of water and sewerage are the responsibility of Scottish Water. The Council collects both water and sewerage charges and makes payment to the Water Authority.

The increase in income from previous years' adjustments relates primarily to additional income as a result of a review of the bad debt provision.

Calculation of the Council Tax Base 2009/10

| Band | Number of Properties | Disabled Relief | Exemptions | Discounts | Effective Properties | Ratio to Band D | Band D Equivalents | Charges per Band |
|-----------------------|----------------------|-----------------|------------|-----------|----------------------|-----------------|--------------------|------------------|
| A Up to £27,000 | 23,744 | 109 | (3,326) | (3,518) | 17,009 | 6/9 | 11,339 | £779.33 |
| B £27,001 - £35,000 | 45,888 | 43 | (3,282) | (6,815) | 35,834 | 7/9 | 27,871 | £909.22 |
| C £35,001 - £45,000 | 42,374 | (34) | (3,104) | (5,248) | 33,988 | 8/9 | 30,212 | £1,039.11 |
| D £45,001 - £58,000 | 35,752 | 47 | (2,881) | (4,039) | 28,879 | 9/9 | 28,879 | £1,169.00 |
| E £58,001 - £80,000 | 37,778 | (6) | (3,373) | (3,452) | 30,947 | 11/9 | 37,824 | £1,428.78 |
| F £80,001 - £106,000 | 23,115 | (32) | (1,255) | (1,890) | 19,938 | 13/9 | 28,799 | £1,688.56 |
| G £106,001 - £212,000 | 19,685 | (98) | (457) | (1,209) | 17,921 | 15/9 | 29,868 | £1,948.33 |
| H Over £212,000 | 3,567 | (29) | (124) | (183) | 3,231 | 18/9 | 6,462 | £2,338.00 |
| | | | | | | | 201,254 | |
| | | | | | | | 573 | |
| | | | | | | | 7,468 | |
| | | | | | | | 194,359 | |

NON-DOMESTIC RATES INCOME ACCOUNT

for the year ended 31 March 2010

| 2008/09 £000 | | £000 | £000 |
|-----------------|---|--------|----------------|
| 356,620 | Gross rates levied and contributions in lieu | | 373,646 |
| 61,947 | Less: - Reliefs and other deductions | 71,163 | |
| 576 | - Payment of interest | 165 | |
| 3,311 | - Provision for bad and doubtful debts | 3,215 | |
| 65,834 | | | 74,543 |
| 290,786 | | | 299,103 |
| (11,219) | Previous years' adjustments | | (6,210) |
| 279,567 | Net Non-Domestic Rates Income | | 292,893 |
| | Allocated to: | | |
| 279,906 | Contribution to National Non-Domestic Rates Pool | | 293,238 |
| (339) | Adjustments for years prior to introduction of National Non-Domestic Rates Pool | | (345) |
| 279,567 | | | 292,893 |

Notes to the Non-Domestic Rates Income Account

Rateable Values as at 1 April 2009

| | Number | Rateable Value £000 |
|--|---------------|---------------------------|
| Shops, offices and other commercial subjects | 12,630 | 567,880 |
| Industrial and freight transport | 2,693 | 67,858 |
| Telecommunications | 9 | 13 |
| Public service subjects | 362 | 35,572 |
| Miscellaneous | 2,803 | 104,199 |
| | 18,497 | 775,522 |

Contribution to / from National Non-Domestic Rates Pool

The contribution to the National Non-Domestic Rates Pool of £293.238m (2008/09 £279.906m) is the non-domestic rates contributed by the Council through the pooling arrangements for government grant purposes. The amount distributed to the Council under these pooling arrangements was £197.002m (2008/09 £177.798m). Thus the Council made a net contribution of £96.236m (2008/09 £102.108m).

Poundage

Occupiers of non-domestic property pay rates based on the valuation of the property within the valuation roll for Edinburgh. The non-domestic rate poundage is determined by the Scottish Ministers, and was 48.1p per £ in 2009/10 (2008/09 45.8p per £).

Properties with a rateable value greater than £29,000 (2008/09 £29,000) had their rate charges calculated using the poundage of 48.5p per £ (2008/09 46.2p per £).

From 1 April 2008, the Scottish Government introduced the Small Business Bonus Scheme. Business properties with a rateable value of £15,000 or less may have received relief as set out below:

| | 2009/10 | 2008/09 |
|--|---------|---------|
| Rateable Value up to £8,000 | 100% | 80% |
| Rateable value between £8,001 and £10,000 | 50% | 40% |
| Rateable value between £10,001 and £15,000 | 25% | 20% |

PENSION FUND ACCOUNTS

The Local Government Pension Scheme

- The Local Government Pension Scheme, established under the Superannuation Act 1972, is a statutory scheme and is contracted out of the State Second Pension. It is open to all employees of scheduled and admitted bodies who are under the age of 75.
- Management and administration of the Lothian Pension Funds (the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund) is undertaken by the City of Edinburgh Council. The Lothian Pension Fund membership totals 190 scheduled and admitted bodies, of which 107 are active. The scheduled bodies are listed below, and a list of admitted bodies is contained in the Lothian Pension Funds Annual Report and Accounts available from the Council's Investment and Pensions Division, Level 3:3, Waverley Court, 4 East Market Street, Edinburgh, EH8 8BG.

| | |
|------------------------------------|---|
| City Of Edinburgh Council | East Lothian Council |
| Edinburgh College of Art | Edinburgh's Telford College |
| Forth Estuary Transport Authority | Heriot-Watt University |
| Jewel and Esk Valley College | Lothian and Borders Fire and Rescue Board |
| Lothian and Borders Police Board | Lothian Valuation Joint Board |
| Midlothian Council | Oatridge Agricultural College |
| Scottish Police Services Authority | Scottish Water |
| SESTRAN | Stevenson College |
| Visit Scotland | West Lothian College |
| West Lothian Council | |

Actuarial Valuation

- Employees' contributions are fixed by statute and employers' contributions are assessed every three years by an independent actuary. The employers' contribution is calculated to ensure that the fund can meet its future pension and pensions increase liabilities. The latest actuarial valuation for the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund was at 31 March 2008.
- The funding objectives are to build up assets to provide adequate security for the benefits as they accrue. The actuarial method of valuation used for Lothian Pension Fund is the "projected unit method", which assumes a stable long term contribution rate over time and a steady flow of new entrants to the Fund. Lothian Buses Fund has moved to the "attained age method" as it is now closed to new members. The following key assumptions have been made:

| Lothian Pension Fund and Lothian Buses Pension Fund | Nominal | Real (Relative to price inflation) |
|--|---------|--|
| | % p.a. | % p.a. |
| 'Gilt-based' discount rate | 4.5% | 0.9% |
| Funding basis discount rate | 6.0% | 2.4% |
| Pay increases | 5.1% | 1.5% |
| Price inflation (RPI) | 3.6% | 0.0% |

PENSION FUND ACCOUNTS

Actuarial Valuation - continued

| Scottish Homes Fund | Nominal | Real |
|---|---------|-------------------------------|
| | | (Relative to price inflation) |
| | % p.a. | % p.a. |
| Funding basis discount rate - (deferreds) | 4.5% | 0.9% |
| Funding basis discount rate - (pensioners) | 4.6% | 1.0% |
| Guaranteed minimum pension increases before state pension age | 5.1% | 1.5% |
| Price inflation (RPI) | 3.6% | 0.0% |

Accounting Policies

- The accounts have been prepared in accordance with recommendations of the Financial Reports of Pension Schemes - A Statement of Recommended Practice (Revised May 2007) (the Pensions SORP) and the CIPFA Code of Practice on Local Authority Accounting. All transfer values paid and the service credit given in exchange for transfer values received, are calculated in accordance with the Scheme's regulations and are consistent with the requirements of Schedule 1A of the Social Security Pensions Act.
- Quoted investments are valued at closing prices; these prices may be the last trade prices or bid prices depending on the convention of the stock exchange or other market on which they are quoted. Overseas investments and cash are stated in sterling using exchange rates as at close of business. The direct property portfolio was valued at market value; this was carried out at 31 March 2010 by CB Richard Ellis Ltd., the valuer being qualified for that purpose in accordance with Royal Institution of Chartered Surveyors Appraisal and Valuation Standards. Unquoted holdings in private equity funds have been included at the fund managers' valuation adjusted for cash movements since the last valuation date.

Funding Strategy Statement and Statement of Investment Principles

Copies of these documents are available from the Council's Investment and Pensions Division, Level 3:3, Waverley Court, 4 East Market Street, Edinburgh, EH8 8BG.

Other Information

The Funds' financial statements do not take account of liabilities to pay pensions and other benefits after the period end.

Additional Voluntary Contributions

Additional Voluntary Contributions (AVCs) are invested separately from the main fund, securing additional benefits on a money purchase basis for those members that have elected to contribute. During the year contributions of £0.697m (2008/09 £0.666m) were made. All AVCs are managed by Standard Life and the value at 31 March 2010 was £6.744m (2008/09 £5.359m). In accordance with regulation 5(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 1998, AVCs are not included in the pension fund accounts.

LOTHIAN PENSION FUND

Fund account for the year ended 31 March 2010

| 2008/09 £000 | | Notes | £000 |
|------------------|--|-------|------------------|
| | Income | | |
| (118,040) | Contributions from Employers | 5. | (130,383) |
| (36,802) | Contributions from Employees | 5. | (41,550) |
| <u>(8,646)</u> | Transfers from Other Schemes | | <u>(10,435)</u> |
| <u>(163,488)</u> | | | <u>(182,368)</u> |
| | Less: Expenditure | | |
| 90,412 | Pension Payments including Increases | 5. | 97,019 |
| 24,383 | Lump Sum Payments | 5. | 22,180 |
| 2,281 | Death Benefits | | 3,086 |
| 412 | Refunds to Members Leaving Service | | 362 |
| 428 | Premiums to State Scheme | | 295 |
| 9,210 | Transfers to Other Schemes | | 12,164 |
| <u>1,904</u> | Other Expenditure | | <u>1,785</u> |
| <u>129,030</u> | | | <u>136,891</u> |
| <u>(34,458)</u> | Net Additions from Dealing with Members | | <u>(45,477)</u> |
| | Returns on Investments | | |
| 95,293 | Investment Income | 6. | 71,260 |
| (727,751) | Change in Market Value of Investments | 7. | 781,713 |
| <u>(11,547)</u> | Investment Management Expenses | | <u>(9,995)</u> |
| <u>(644,005)</u> | Net Returns on Investments | | <u>842,978</u> |
| <u>(609,547)</u> | Net (Decrease) / Increase in the Fund During the Year | | <u>888,455</u> |
| <u>3,026,708</u> | Net Assets of the Fund at 1 April 2009 | | <u>2,417,161</u> |
| <u>2,417,161</u> | Net Assets of the Fund at 31 March 2010 | | <u>3,305,616</u> |

LOTHIAN PENSION FUND

Net Assets Statement as at 31 March 2010

2008/09

| £000 | £000 | Investments at Market Value | Notes | £000 | £000 |
|------|------------------|---|-------|----------|------------------|
| | 198,351 | Financial Assets | | | |
| | 1,522,421 | Fixed Interest Securities | 7. | | 222,306 |
| | 21,112 | Equities | 7. | | 1,317,971 |
| | 425,445 | UK Index-Linked | 7. | | 22,788 |
| | 153,805 | Pooled Investment Vehicles | 7. | | 1,323,580 |
| | 1,296 | Properties | 7. | | 204,120 |
| | 136,673 | Derivatives - Futures | 7. | 539 | |
| | | - Forward Foreign Exchange | 7. | 56,040 | |
| | 137,969 | | | | 56,579 |
| | 3,627 | Cash Deposits | | | |
| | 113,929 | Margin Balances | 7. | 1,155 | |
| | | Deposits | 7. | 196,928 | |
| | 117,556 | | | | 198,083 |
| | 16,988 | Other Financial Assets | | | |
| | 10,376 | Due from Broker | | 8,631 | |
| | | Dividends Due | 7. | 7,352 | |
| | 27,364 | | | | 15,983 |
| | 2,604,023 | Total Financial Assets | | | 3,361,410 |
| | | Financial Liabilities | | | |
| | (941) | Derivatives - Futures | 7. | (73) | |
| | (194,136) | - Forward Foreign Exchange | 7. | (83,014) | |
| | (195,077) | | | | (83,087) |
| | (19,028) | Other Financial Liabilities - Due to Broker | | | (9,419) |
| | (214,105) | Total Financial Liabilities | | | (92,506) |
| | 2,389,918 | Net Financial Assets | | | 3,268,904 |
| | | Fixed Assets | | | |
| | 0 | Computer Systems | | | 120 |
| | | Current Assets | | | |
| | 7,518 | City of Edinburgh Council | 4. | 9,264 | |
| | 14,931 | Cash Balances | | 19,804 | |
| | 7,955 | Sundry Debtors | | 11,483 | |
| | 30,404 | | | | 40,551 |
| | | Current Liabilities | | | |
| | (3,161) | Sundry Creditors | | | (3,959) |
| | 27,243 | Net Current Assets | | | 36,592 |
| | 2,417,161 | Net Assets | | | 3,305,616 |

LOTHIAN PENSION FUND


Net Assets Statement as at 31 March 2010

2008/09

Reconciliation of Movement in Net Assets of the Fund for year ended 31 March 2010

| | | | |
|-------------------------|---------------------------------------|----|-------------------------|
| 3,026,708 | Net Assets at 1 April 2009 | | 2,417,161 |
| 118,204 | Net New Money Invested | | 106,742 |
| <u>(727,751)</u> | Change in Market Value of Investments | 7. | <u>781,713</u> |
| <u>2,417,161</u> | Net Assets at 31 March 2010 | | <u>3,305,616</u> |

The unaudited accounts were issued on 11 June 2010 and the audited accounts were authorised for issue on 29 September 2010.


DONALD McGOUGAN, CPFA,
Director of Finance
11 June 2010

NOTES TO LOTHIAN PENSION FUND ACCOUNT

1. Scottish Homes Pension Fund

The City of Edinburgh Council was selected by the Scottish Government to be the administering authority of a fund created prior to the wind up of the Scottish Homes Residuary Body. The fund is part of the Local Government Pension Scheme and consists of deferred and pensioner members only.

The figures for Scottish Homes are consolidated with those of the Lothian Pension Fund. Individual fund accounts can be found in the annual report of the Lothian Pension Fund available from the Council's Investment and Pensions Division.

2. Membership at 31 March 2010

| | Lothian | Scottish Homes |
|-----------|---------------|----------------|
| Active | 30,313 | 0 |
| Pensioner | 21,051 | 1,303 |
| Deferred | 14,172 | 721 |
| | <u>65,536</u> | <u>2,024</u> |

3. Actuarial Position

3.1 Lothian

The market value of the fund (excluding the assets and liabilities in respect of money purchase AVCs) was £2,903m as at 31 March 2008 and showed a deficit of £524m when compared against its liabilities, giving a funding level of 85%. The next Actuarial Valuation is due as at 31 March 2011. The common employers' contribution rate is 22.5% of pensionable pay. The contribution rates as a percentage of pensionable pay for the main scheduled bodies are as follows:

| | Year Ending | | |
|-------------------------------|-------------|------------|------------|
| | March 2010 | March 2011 | March 2012 |
| The City of Edinburgh Council | 20.0% | 20.6% | 21.3% |
| Midlothian Council | 19.7% | 20.3% | 20.9% |
| West Lothian Council | 19.3% | 19.9% | 20.4% |
| East Lothian Council | 19.9% | 20.6% | 21.3% |
| Scottish Water | 21.6% | 21.7% | 21.8% |

3.2 Scottish Homes

The market value of the fund was £125.9m and there was a deficit of £20.7m when comparing its liabilities against its assets, a funding level of 85.9%. The Scottish Government acts as guarantor and will make contributions to the fund in accordance with a formula approved by the actuary.

4. Related Parties

There were no transactions with related parties during the year other than the balance with the City of Edinburgh Council loans fund disclosed in the net assets statement, made up thus:

| | 31.03.10 | 31.03.09 |
|---|----------|----------|
| | £000 | £000 |
| Lothian | | |
| Funds Bank Account (Due from City of Edinburgh Council) | 199,250 | 91,234 |
| Due from City of Edinburgh Council | 9,264 | 7,518 |
| Scottish Homes | | |
| Fund Bank Accounts (Due from City of Edinburgh Council) | 1,695 | 1,294 |

NOTES TO LOTHIAN PENSION FUND ACCOUNT

5. Contributions and Benefits

The total contributions receivable and benefits payable analysed between administering, other scheduled bodies and admitted bodies were as follows:-

| | Administering Authority £000 | Scottish Homes £000 | Other Scheduled Bodies £000 | Admitted Bodies £000 | Total £000 |
|--------------------------------|------------------------------------|---------------------------|--------------------------------------|----------------------------|----------------|
| Contributions | | | | | |
| Employees | 15,966 | 0 | 19,938 | 5,646 | 41,550 |
| Employers | | | | | |
| Normal (ongoing contributions) | 42,188 | 100 | 52,669 | 12,674 | 107,631 |
| Deficit funding | 7,155 | 0 | 8,007 | 1,928 | 17,090 |
| Pension strain | 2,662 | 0 | 1,804 | 1,196 | 5,662 |
| | <u>52,005</u> | <u>100</u> | <u>62,480</u> | <u>15,798</u> | <u>130,383</u> |
| Benefits | | | | | |
| Pensions | 36,141 | 6,667 | 41,561 | 12,650 | 97,019 |
| Lump sum | 8,162 | 573 | 9,535 | 3,910 | 22,180 |

As the Lothian Fund had a deficit at the last actuarial valuation (2008), employers were required to make a contribution towards restoring the funding position in excess of the amount required to fund the ongoing accrual of benefits. The table above shows an estimation of the split between normal contributions (required to fund the accrual of benefits for current service) and the amount attributable to "deficit funding". This estimate is calculated based on a future service contribution rate of 17.1% (as stated in the actuarial valuation of 31 March 2008). The deficit recovery period varies depending on the individual circumstances of each employer ranging from 20 years for local authorities; 15 years for educational establishments; with the remainder being the estimated future working lifetime of current active members.

6. Investment Income

| | 31.03.10 £000 | 31.03.09 £000 |
|--|------------------|------------------|
| Income from fixed interest securities | 10,872 | 11,451 |
| Dividends from equities | 47,377 | 64,331 |
| Income from index-linked securities | 513 | 751 |
| Income from pooled investment vehicles | 810 | 900 |
| Net rents from properties | 12,451 | 12,848 |
| Interest on cash deposits | 1,256 | 7,563 |
| Other | 1,219 | 1,872 |
| | <u>74,498</u> | <u>99,716</u> |
| Irrecoverable withholding tax | (3,238) | (4,423) |
| | <u>71,260</u> | <u>95,293</u> |

NOTES TO LOTHIAN PENSION FUND ACCOUNT

7. Investments as at 31 March 2010

| | Value at 01.04.09 £000 | Purchases at Cost and Derivative Payments £000 | Sales Proceeds and Derivative Receipts £000 | Change in Market Value £000 | Value at 31.03.10 £000 |
|--------------------------------------|---------------------------------|---|--|---|---------------------------------|
| Fixed interest securities | 198,351 | 182,075 | (168,352) | 10,232 | 222,306 |
| Equities | 1,522,421 | 1,022,004 | (1,836,653) | 610,199 | 1,317,971 |
| Index-Linked securities | 21,112 | 0 | 0 | 1,676 | 22,788 |
| Pooled investment vehicles | 425,445 | 898,280 | (125,943) | 125,798 | 1,323,580 |
| Property | 153,805 | 37,609 | (8) | 12,714 | 204,120 |
| Derivatives - future | 355 | 2,931 | (1,380) | (1,440) | 466 |
| Derivatives - fwd foreign exchange | (57,463) | 46,052 | (31,987) | 16,424 | (26,974) |
| | <u>2,264,026</u> | <u>2,188,951</u> | <u>(2,164,323)</u> | <u>775,603</u> | <u>3,064,257</u> |
| Other financial assets / liabilities | | | | | |
| Margin balances | 3,627 | | | 6 | 1,155 |
| Cash deposits | 113,929 | | | 13,750 | 196,928 |
| Broker balances | (2,040) | | | (7,617) | (788) |
| Dividends due | 10,376 | | | (29) | 7,352 |
| | <u>125,892</u> | | | <u>6,110</u> | <u>204,647</u> |
| Net financial assets | <u>2,389,918</u> | | | <u>781,713</u> | <u>3,268,904</u> |

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Fund such as fees, commissions, stamp duty and other fees. Transaction costs during the year amounted to £2.913m (2008/09 £3.002m).

| | 2009/10 £000 | 2008/09 £000 |
|-----------------------------------|------------------|------------------|
| Fixed interest securities | | |
| UK public sector quoted | 98,268 | 67,943 |
| UK commercial quoted | 49,520 | 25,811 |
| Overseas public sector quoted | 9,413 | 35,914 |
| Overseas commercial quoted | 65,105 | 68,683 |
| | <u>222,306</u> | <u>198,351</u> |
| Equities | | |
| UK quoted | 72,164 | 420,030 |
| Overseas quoted | 1,245,807 | 1,102,391 |
| | <u>1,317,971</u> | <u>1,522,421</u> |
| Pooled investment vehicles | | |
| UK managed funds - other | 321,117 | 120,262 |
| In-house UK equities | 428,366 | 0 |
| Overseas managed funds - other | 291,258 | 51,228 |
| UK managed funds - property | 91,421 | 74,041 |
| UK private equity funds | 24,146 | 28,751 |
| Overseas private equity funds | 167,272 | 151,163 |
| | <u>1,323,580</u> | <u>425,445</u> |

NOTES TO LOTHIAN PENSION FUND ACCOUNT

7. Investments as at 31 March 2010 - continued

| | 2009/10 £000 | 2008/09 £000 |
|--------------------------------|-----------------|-----------------|
| Index linked securities | | |
| UK public sector quoted | 22,788 | 21,112 |
| Properties | | |
| UK direct property | 204,120 | 153,805 |

Derivatives - Futures

Summary of contracts held at 31 March 2010

| | Settlement Date | Economic Exposure £000 | Asset £000 | Liability £000 | Net £000 |
|-----------------------------|--------------------|------------------------------|---------------|-------------------|-------------|
| ERX EuroShatz | 3 months | 3,782 | 4 | 0 | 4 |
| CBT 5 year treasury note | 3 months | (4,617) | 21 | 0 | 21 |
| LIFFE long gilt | 3 months | 17,212 | 283 | 0 | 283 |
| ERX Euro BOBL | 3 months | (17,544) | 0 | (35) | (35) |
| ERX Euro BUND | 3 months | 15,184 | 67 | 0 | 67 |
| CBT 2 year treasury note | 3 months | 5,148 | 0 | (1) | (1) |
| CBT 10 year treasury note | 3 months | (17,775) | 59 | 0 | 59 |
| CBT US treasury bond | 3 months | (7,040) | 31 | 0 | 31 |
| SFE 10 year government bond | 3 months | 4,427 | 0 | (37) | (37) |
| JPN 10 year government bond | 3 months | (9,752) | 74 | 0 | 74 |
| | | | 539 | (73) | 466 |

The economic exposure represents the notional value of security purchased under the future contract and therefore the value subject to market movements. All future contracts are exchange traded.

The Fund uses futures for the purposes of efficient portfolio management and / or risk reduction. During the year the Fund's bond manager transacted futures to manage interest rate exposure.

Derivatives - Forward Foreign Exchange

Summary of contracts held at 31 March 2010

| | Settlement Date | Value of Currency Bought £000 | Asset £000 | Liability £000 | Net £000 |
|---------------------------|--------------------|--|---------------|-------------------|-------------|
| Various currency forwards | 1 month | 2,637,094 | 36,292 | (62,009) | (25,717) |
| Various currency forwards | 2 months | 490,045 | 8,894 | (9,486) | (592) |
| Various currency forwards | 3 months | 460,477 | 8,451 | (8,526) | (75) |
| Various currency forwards | 4 months | 60,188 | 1,566 | (1,849) | (283) |
| Various currency forwards | 5 months | 103,210 | 604 | (814) | (210) |
| Various currency forwards | 6 months | 56,538 | 233 | (330) | (97) |
| | | | 56,040 | (83,014) | (26,974) |

The above table summarises the contracts held by maturity date - 18 foreign currencies being involved. All contracts are traded on an over the counter basis.

In order to maintain appropriate diversification of investments in the portfolio and take advantage of wider opportunities, the Lothian Pension Fund invests 73% (72% 2008/09) of its equities (51% of the overall fund [48% 2008/09]) in overseas markets. A currency hedging programme, using forward foreign exchange contracts, has been put in place to reduce the extent to which the Fund is exposed to currency movements. In addition, the Fund's currency and bond managers use forward foreign exchange contracts to add value to the Fund.

NOTES TO LOTHIAN PENSION FUND ACCOUNT

8. Investment Managers and Mandates as at 31 March 2010

| Manager | Mandate | 2010 | Prop of Fund | 2009 | Prop of Fund |
|------------------------|--------------------------|----------------------|--------------|----------------------|--------------|
| | | Market Value £000 | Under Mgmt % | Market Value £000 | Under Mgmt % |
| Aberdeen | Emerging markets | 213,663 | 6.8 | 132,136 | 5.8 |
| AG Bisset | Active currency overlay | (14,145) | (0.4) | (11,401) | (0.5) |
| AG Bisset | Passive currency overlay | (10,942) | (0.3) | (39,758) | (1.7) |
| Axa Rosenberg | European equities | 0 | 0.0 | 115,563 | 5.1 |
| Baillie Gifford | Pacific equities | 385,071 | 12.2 | 269,414 | 11.8 |
| Franklin Templeton | Global equities | 173,657 | 5.5 | 124,267 | 5.4 |
| Goldman Sachs | US equities | 0 | 0.0 | 121,812 | 5.3 |
| In-House | Index linked | 22,884 | 0.7 | 21,210 | 0.9 |
| In-House | Cash | 167,220 | 5.3 | 46,781 | 2.0 |
| In-House | Alternatives | 249,666 | 7.9 | 234,646 | 10.3 |
| In-House | UK equities | 428,485 | 13.6 | 282,591 | 12.4 |
| In-House | Fixed interest gilts | 98,527 | 3.1 | 0 | 0.0 |
| In-House | Transition | 2 | 0.0 | (8) | 0.0 |
| JP Morgan | Currency overlay | 353 | 0.0 | (1,691) | (0.1) |
| Lazard | Global equities | 206,855 | 6.6 | 153,530 | 6.7 |
| Legal and General | UK equities | 155,766 | 4.9 | 0 | 0.0 |
| Legal and General | Global equities | 317,873 | 10.2 | 55,904 | 2.4 |
| Martin Currie | UK equities | 480 | 0.0 | 109,795 | 4.8 |
| Record | Currency overlay | (3,310) | (0.1) | (4,565) | (0.2) |
| Rogge | Fixed interest | 130,864 | 4.2 | 205,284 | 9.0 |
| Standard Life | Property | 293,353 | 9.3 | 235,038 | 10.3 |
| State Street | European equities | 163,634 | 5.2 | 0 | 0.0 |
| State Street | US equities | 168,121 | 5.3 | 0 | 0.0 |
| Wellington Mgmt Int'l | Global equities | 248 | 0.0 | 235,866 | 10.3 |
| | | 3,148,325 | 100.0 | 2,286,414 | 100.0 |
| Scottish Homes: | | | | | |
| In-house | Cash | 8 | 0.0 | 0 | 0.0 |
| State Street | Balanced | 109,271 | 90.6 | 96,593 | 93.3 |
| Schroders | Property | 7,112 | 5.9 | 6,911 | 6.7 |
| Standard Life | Property | 4,188 | 3.5 | 0 | 0.0 |
| | | 120,579 | 100.0 | 103,504 | 100.0 |
| Total | | 3,268,904 | | 2,389,918 | |

The Lothian Fund participates in two stock lending arrangements. The arrangement with Citigroup covers the main investments of the Fund. As at 31 March 2010, £60.102m (2009 £21.350m) of stock was released to third parties. Collateral valued at 104.53% (118.07% 2008/09) of the market value of the stock on loan was held at that date. The arrangement with Barclays Global Investors relates to the Fund's holding of FTSE 250 iShares, as at 31 March 2010, £18.180m (2009 £21.157m) of stock was released to third parties. Collateral valued at 111.23% (107.15% 2008/09) of the market value of the stock on loan was held at that date.

The Scottish Homes Fund does not participate in a stock lending programme.

LOTHIAN BUSES PENSION FUND

Fund account for the year ended 31 March 2010

| 2008/09 £000 | | Notes | £000 |
|-----------------|--|-------|-----------------|
| | Income | | |
| (7,563) | Contributions from Employers | 3. | (8,025) |
| (2,319) | Contributions from Employees | | (2,374) |
| (521) | Transfers from Other Schemes | | (70) |
| <u>(10,403)</u> | | | <u>(10,469)</u> |
| | Less: Expenditure | | |
| 5,595 | Pension Payments Including Increases | | 6,055 |
| 2,256 | Lump Sum Payments | | 1,751 |
| 130 | Death Benefits | | 74 |
| 44 | Refunds to Members Leaving Service | | 32 |
| 54 | Premiums to State Scheme | | 32 |
| 163 | Transfers to Other Schemes | | 137 |
| 149 | Other Expenditure | | 127 |
| <u>8,391</u> | | | <u>8,208</u> |
| <u>(2,012)</u> | Net Additions from Dealing with Members | | <u>(2,261)</u> |
| | Returns on Investments | | |
| 4,989 | Investment Income | 5. | 4,501 |
| (41,909) | Change in Market Value of Investments | 7. | 62,562 |
| (453) | Investment Management Expenses | | (644) |
| <u>(37,373)</u> | Net Returns on Investments | | <u>66,419</u> |
| <u>(35,361)</u> | Net (Decrease) / Increase in the Fund During the Year | | <u>68,680</u> |
| <u>198,795</u> | Net Assets of the Fund at 1 April 2009 | | <u>163,434</u> |
| <u>163,434</u> | Net Assets of the Fund at 31 March 2010 | | <u>232,114</u> |

LOTHIAN BUSES PENSION FUND

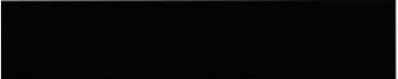
Net Assets Statement as at 31 March 2010

| 2008/09 £000 | | Notes | £000 |
|-----------------|---|-------|----------------|
| | Investments at Market Value | | |
| | Financial Assets | | |
| 8,832 | Fixed Interest Securities | 7. | 0 |
| 80,976 | Equities | 7. | 134,438 |
| 13,346 | UK Index-Linked | 7. | 18,102 |
| 51,153 | Pooled Investment Vehicles | 7. | 68,895 |
| 4,577 | Cash Deposits | 7. | 7,981 |
| 156 | Other Financial Assets - Due from Broker | 7. | 0 |
| 526 | Other Financial Assets - Dividends Due | 7. | 395 |
| <u>159,566</u> | | | <u>229,811</u> |
| | Financial Liabilities | | |
| (81) | Other Financial Liabilities - Due to Broker | 7. | (1,519) |
| <u>159,485</u> | Net Financial Assets | | <u>228,292</u> |
| | Current Assets | | |
| 2,591 | Cash Deposits | | 2,208 |
| 659 | City of Edinburgh Council | 4. | 758 |
| 769 | Sundry Debtors | | 857 |
| <u>4,019</u> | | | <u>3,823</u> |
| | Current Liabilities | | |
| (70) | Sundry Creditors | | (1) |
| <u>3,949</u> | Net Current Assets | | <u>3,822</u> |
| <u>163,434</u> | Net Assets | | <u>232,114</u> |

Reconciliation of Movement in Net Assets of the Fund for year ended 31 March 2010

| | | | |
|----------------|---------------------------------------|----|----------------|
| 198,795 | Net Assets at 1 April 2009 | | 163,434 |
| 6,548 | Net New Money Invested | | 6,118 |
| (41,909) | Change in Market Value of Investments | 7. | 62,562 |
| <u>163,434</u> | Net Assets at 31 March 2010 | | <u>232,114</u> |

The unaudited accounts were issued on 11 June 2010 and the audited accounts were authorised for issue on 29 September 2010.


DONALD McGOUGAN, CPFA,
Director of Finance
11 June 2010

NOTES TO LOTHIAN BUSES PENSION FUND

1. Membership

The Fund membership has decreased from 4,134 to 4,084, of whom 1,558 (2008/09 1,664) are current contributors and 1,338 (2008/09 1,297) are beneficiaries in receipt of pension. The Fund closed to new members with effect from 1 January 2008.

2. Actuarial Position

The market value of the Fund was £198.8m as at 31 March 2008. The Fund had a deficit of £9.3m when comparing its liabilities against its assets, a funding level of 96%. The employers' contribution rates expressed as a percentage of pensionable pay are as follows:

| | |
|-----------------------|------------------------------|
| 12 months to 31.12.09 | 18.7% plus £46,333 per month |
| 12 months to 31.12.10 | 19.0% plus £46,333 per month |
| 12 months to 31.12.11 | 19.3% plus £46,333 per month |
| 3 months to 31.03.12 | 19.6% plus £46,333 per month |

3. Employer Contributions

| | 31.03.10 | 31.03.09 |
|-----------------|-----------------|-----------------|
| | £000 | £000 |
| Normal | 7,311 | 5,777 |
| Deficit funding | 556 | 1,751 |
| Pension strain | 158 | 35 |
| | <u>8,025</u> | <u>7,563</u> |

The employer pays an agreed contribution rate on pensionable salaries, this rate includes an element in respect of deficit funding. The part of the contribution attributable to deficit funding, as shown above, is calculated based on a future service contribution rate of 21.1% (as stated in the actuarial valuation of 31 March 2008). The deficit recovery period is the estimated future working lifetime of current active members.

4. Related Parties

There were no transactions with related parties during the year other than the balance with the City of Edinburgh Council's loans fund disclosed in the net assets statement, made up thus:

| | 31.03.10 | 31.03.09 |
|---|-----------------|-----------------|
| | £000 | £000 |
| Funds Bank Account (Due from City of Edinburgh Council) | 5,489 | 3,626 |
| Due from City of Edinburgh Council | 758 | 659 |

5. Investment Income

| | 31.03.10 | 31.03.09 |
|--|-----------------|-----------------|
| | £000 | £000 |
| Income from fixed interest securities | 293 | 702 |
| Dividends from equities | 3,364 | 3,385 |
| Income from index-linked securities | 110 | 159 |
| Income from pooled investment vehicles | 910 | 702 |
| Interest on cash deposits | 94 | 331 |
| Other | 3 | 6 |
| | <u>4,774</u> | <u>5,285</u> |
| Irrecoverable withholding tax | <u>(273)</u> | <u>(296)</u> |
| | <u>4,501</u> | <u>4,989</u> |

The investment breakdown for 2009 has been re-stated to better identify the type of income received.

Stock Lending

The Fund participates in two stock lending arrangements. As at 31 March 2010, £3.018m (£1.337m 2008/09) of stock was released to third parties under a securities lending agreement with Citigroup. Collateral valued at 100.93% (115.12% 2008/09) of the market value of the stock on loan was held at that date. The arrangement with Barclays Global Investors relates to the Fund's holding of FTSE 250 iShares, as at 31 March 2010 £1.413m (£nil 2009) of stock was released to third parties. Collateral valued at 111.23% (107.15% 2008/09) of the market value of the stock on loan was held at that date.

NOTES TO LOTHIAN BUSES PENSION FUND

| 6. Fund Managers | 31.03.10 | 31.03.09 |
|---------------------------------------|----------------|----------------|
| | £000 | £000 |
| Baillie Gifford - balanced mandate | 172,218 | 145,833 |
| Standard Life - property managed fund | 16,307 | 12,614 |
| In-house - alternatives fund | 3,183 | 0 |
| In-house - cash | 3,285 | 1,038 |
| In-house - UK equities | 33,299 | 0 |
| | <u>228,292</u> | <u>159,485</u> |

| 7. Investments and Assets | Value at 01.04.09 £000 | Purchases at Cost / Derivative Payments £000 | Sales Proceeds / Derivative Receipts £000 | Change in Market Value £000 | Value at 31.03.10 £000 |
|--------------------------------------|---------------------------------|--|---|---|---------------------------------|
| Fixed interest securities | 8,832 | 0 | (8,622) | (210) | 0 |
| Equities | 80,976 | 163,119 | (151,736) | 42,079 | 134,438 |
| Index-Linked securities | 13,346 | 11,021 | (7,298) | 1,033 | 18,102 |
| Pooled investment vehicles | 51,153 | 45,929 | (47,490) | 19,303 | 68,895 |
| | <u>154,307</u> | <u>220,069</u> | <u>(215,146)</u> | <u>62,205</u> | <u>221,435</u> |
| Other Financial assets / liabilities | | | | | |
| Cash deposits | 4,577 | | | 133 | 7,981 |
| Broker balances | 75 | | | 226 | (1,519) |
| Dividends due | 526 | | | (2) | 395 |
| | <u>5,178</u> | | | <u>357</u> | <u>6,857</u> |
| Net Financial Assets | <u>159,485</u> | | | <u>62,562</u> | <u>228,292</u> |

The change in market value of investments comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Fund such as fees, commissions, stamp duty and other fees. Transaction costs during the year amounted to £0.255m (2008/09 £0.127m).

| | 2009/10 £000 | 2008/09 £000 |
|-----------------------------------|-----------------|-----------------|
| Fixed Interest Securities | | |
| UK public sector quoted | 0 | 8,832 |
| | <u>0</u> | <u>8,832</u> |
| Equities | | |
| UK quoted | 19,147 | 37,502 |
| Overseas quoted | 115,291 | 43,474 |
| | <u>134,438</u> | <u>80,976</u> |
| Index Linked Securities | | |
| UK public sector quoted | 18,102 | 13,346 |
| | <u>18,102</u> | <u>13,346</u> |
| Pooled Investment Vehicles | | |
| UK managed funds - property | 16,307 | 12,614 |
| In-house - UK equities | 33,299 | 0 |
| UK managed funds - other | 19,289 | 38,539 |
| | <u>68,895</u> | <u>51,153</u> |

COMMON GOOD FUND

The Common Good Fund stands separate from the Council's accounts and has been described as "the ancient patrimony of the community". It was originally derived from the grants by the Sovereigns of Scotland at various times. The present fund is an amalgam of the funds of the City and Royal Burgh of Edinburgh and the Royal Burgh of South Queensferry.

A report on the (Edinburgh) Common Good prepared by the Town Clerk and City Chamberlain in 1905 set out the historical background of the fund and listed its then assets in some detail. The report also stated a "General Principle" that the Fund should be administered "for the purpose of upholding the dignity and suitable hospitality of the City; performing the duties incumbent upon a Royal Burgh maintaining the municipal establishment and managing the municipal affairs; vindicating or extending the corporate rights of the community and defending its interests; acquiring additional land or property for the corporate benefit, or improving existing corporation property, and generally for any purpose which in the bona fide judgement of the Town Council is for the good of the community as a whole, or in which the inhabitants at large may share, as distinct from the separate interests or benefit of any particular individual or class, however deserving or needy. The purpose must be limited to those which concern the City and its interests".

The Local Government etc. (Scotland) Act 1994 confirms this interpretation that use of the Fund shall "... have regard to the interests of all the inhabitants" of the area.

The Fit For Future reserve represents funds set aside from certain Common Good properties to assist in the funding of the Fit For Future office accommodation project.

The market value of investments at 31 March 2010 was £1.556m (2009 £1.541m).

Common Good Fund Accounts

Year ended 31 March 2010

| 2008/09 £000 | Income and Expenditure Account | £000 |
|-----------------|---|-------|
| 1,761 | Expenditure | 2,340 |
| (687) | Income | (673) |
| (564) | Recharge to City of Edinburgh Council for Use of Assets | (932) |
| 0 | Transfer from Fit for Future Earmarked Reserve | (231) |
| 510 | Deficit / (Surplus) for Year | 504 |


| Statement of Movement on the Common Good Fund | | |
|--|--|-------|
| 510 | Deficit / (Surplus) for the Year on the Common Good Income and Expenditure Account | 504 |
| (475) | Net Additional Amount required by Statute or Non-Statutory Proper Practices to be credited to the Common Good balance for the year | (504) |
| 35 | | 0 |

COMMON GOOD FUND

Common Good Fund Accounts - continued

| Balance Sheet at 31 March 2010 | | | |
|--------------------------------|-------------------------------|-------|---------------|
| 2008/09 £000 | | Notes | £000 |
| 17,184 | Fixed Assets | 1.1 | 16,849 |
| 1 | Investments | | 1 |
| <u>1,846</u> | Net Current Assets | | <u>1,615</u> |
| <u>19,031</u> | Net Assets | | <u>18,465</u> |
| Represented by: | | | |
| 2,988 | Revaluation Reserve | 1.4 | 3,091 |
| 14,175 | Capital Adjustment Account | 1.3 | 13,737 |
| 1,637 | Common Good Fund | 2.1 | 1,637 |
| <u>231</u> | Fit For Future Earmarked Fund | 2.1 | <u>0</u> |
| <u>19,031</u> | | | <u>18,465</u> |

The unaudited accounts were issued on 11 June 2010 and the audited accounts were authorised for issue on 29 September 2010.


DONALD McGOUGAN, CPFA,
Director of Finance
11 June 2010

Notes to the Common Good Accounts

1. Fixed Assets

| | Community Assets £000 | Investment Properties £000 | Surplus Assets Held for Disposal £000 | Total £000 |
|-------------------------------------|-----------------------------|----------------------------------|---|---------------|
| 1.1 Movement of Fixed Assets | | | | |
| Balance at 31 March 2009 | 15,688 | 1,281 | 215 | 17,184 |
| Revaluations and restatements | 203 | 0 | 0 | 203 |
| Impairment of fixed assets | (538) | 0 | 0 | (538) |
| Re-classification of assets | <u>1,281</u> | <u>(1,281)</u> | <u>0</u> | <u>0</u> |
| Balance at 31 March 2010 | <u>16,634</u> | <u>0</u> | <u>215</u> | <u>16,849</u> |

COMMON GOOD FUND

Notes to the Common Good Accounts - continued

1.2 Information on Assets Held

The number of fixed assets owned by the Common Good Fund at 31 March 2010 includes:

| | |
|---|----|
| Community Assets - | |
| Monuments and statues | 20 |
| Parks and open spaces and other properties | 30 |
| Non Operational Assets - | |
| Shops, industrial units and other commercial lettings | 17 |

1.3 Capital Adjustment Account

| | |
|-----------------------------|---------------|
| | £000 |
| Balance as at 1 April 2009 | 14,175 |
| Impairment of assets | (438) |
| | <hr/> |
| Balance as at 31 March 2010 | <u>13,737</u> |

1.4 Revaluation Reserve

| | |
|-----------------------------|--------------|
| | £000 |
| Balance as at 1 April 2009 | 2,988 |
| Revaluation of assets | 103 |
| | <hr/> |
| Balance as at 31 March 2010 | <u>3,091</u> |

2. Funds and Reserves

2.1 Movement of Funds and Reserves

| | | |
|---|---------------|----------------|
| | Common | Fit for |
| | Good | Future |
| | Fund | Future |
| | £000 | £000 |
| Balance at 1 April 2009 | 1,637 | 231 |
| Transferred to Income and Expenditure Account | 0 | (231) |
| | <hr/> | <hr/> |
| Balance at 31 March 2010 | <u>1,637</u> | <u>0</u> |

GROUP INCOME AND EXPENDITURE ACCOUNT

for the year ended 31 March 2010

| (re-stated) 2008/09 £000 | | Expenditure £000 | Income £000 | Net Expenditure £000 |
|--------------------------------|---|---------------------|--------------------|----------------------------|
| | Services | | | |
| 318,613 | Education Services | 348,029 | (15,658) | 332,371 |
| 43,061 | Housing Services | 310,357 | (270,260) | 40,097 |
| 36,896 | Housing Revenue Account | 103,352 | (83,780) | 19,572 |
| 60,173 | Cultural and Related Services | 74,208 | (16,880) | 57,328 |
| 65,555 | Environmental Services | 87,332 | (17,811) | 69,521 |
| 34,494 | Roads and Transport | 283,824 | (258,540) | 25,284 |
| 18,504 | Planning and Development | 95,785 | (68,379) | 27,406 |
| 253,773 | Social Work | 324,511 | (58,890) | 265,621 |
| 13,027 | Corporate and Democratic Core | 14,052 | (447) | 13,605 |
| 53,372 | Police Joint Board | 57,436 | (2,370) | 55,066 |
| 28,713 | Fire Joint Board | 28,246 | 0 | 28,246 |
| 23,216 | Non-Distributable Costs | 18,681 | 0 | 18,681 |
| 6,020 | Central Services to the Public | 21,538 | (14,642) | 6,896 |
| 8,479 | Other Operating Income and Expenditure | 35,703 | (33,679) | 2,024 |
| | Share of Operating Results of Associates and | | | |
| (20,460) | Joint Ventures | 204,634 | (204,787) | (153) |
| 2,408 | Exceptional Items | 39,323 | 0 | 39,323 |
| 10,575 | Exceptional Items of Group | 3,246 | 0 | 3,246 |
| 956,419 | NET COST OF SERVICES | 2,050,257 | (1,046,123) | 1,004,134 |
| (9,043) | Loss / (Gain) on Sale of Fixed Assets | | | (791) |
| (3,288) | Surplus of Trading Undertakings | | | (5,821) |
| 0 | Dividends Received | | | 0 |
| 73,099 | Interest Payable and Other Similar Charges | | | 71,798 |
| 1,488 | Share of Interest Payable by Associates and | | | 1,241 |
| | Joint Ventures | | | |
| (5) | (Gains) / Losses on the Repurchase of Borrowing | | | 0 |
| (4,964) | Interest and Investment Income | | | (1,644) |
| 198 | Dividend Paid | | | 2,395 |
| (1,516) | Share of Interest Receivable by Associates | | | (1,426) |
| | and Joint Ventures | | | |
| (147) | Pensions Interest Cost and expected return on | | | 21,446 |
| | Pension Assets - Group | | | |
| 50,400 | Pensions Interest Cost and expected return on | | | 53,799 |
| | Pension Assets - Associates and Joint Ventures | | | |
| (1,310) | Taxation of Group Entities | | | (397) |
| (101) | Minority Interest of Share of Profits of Subsidiaries | | | 121 |
| 7,970 | Other Non-Operating Costs | | | (1,355) |
| 1,069,200 | NET OPERATING EXPENDITURE | | | 1,143,500 |
| (221,998) | Income from Council Tax | | | (238,523) |
| (136) | Community Charge | | | (104) |
| (538,569) | General Revenue Funding | | | (562,800) |
| (177,798) | Distribution from Non-Domestic Rates Pool | | | (197,002) |
| 130,699 | DEFICIT FOR THE YEAR | | | 145,071 |

GROUP ACCOUNTS

Reconciliation of the Council's Position to the Group Position

for the year ended 31 March 2010

| (re-stated) 2008/09 £000 | | £000 |
|--------------------------------|---|----------------|
| | Services | |
| 82,645 | Deficit on the Council's Income and Expenditure Account | 83,774 |
| | Less: | |
| 4,115 | Subsidiary and associate transactions included in the Council's Income and Expenditure Account | 1,464 |
| | Add: | |
| | Deficit arising from other entities included in the Group Accounts | |
| 13,745 | Subsidiaries | 5,914 |
| 29,003 | Associates | 53,919 |
| 1,191 | Joint ventures | 0 |
| <u>130,699</u> | Group account deficit for the year | <u>145,071</u> |

Group Statement of Total Recognised Gains and Losses

for the year ended 31 March 2010

| (re-stated) 2008/09 £000 | | £000 |
|--------------------------------|--|----------------|
| 130,699 | Net Deficit for the Year | 145,071 |
| 0 | Dividends declared but not included in Income and Expenditure Account | 0 |
| (352,201) | (Gains) / losses arising on revaluation of fixed assets | (255,668) |
| 198,428 | Actuarial (gains) / losses on Pension Fund assets and liabilities | 802,449 |
| <u>(6,478)</u> | Other losses / (gains) | <u>110,999</u> |
| <u>(29,552)</u> | Total recognised losses / (gains) for the year | <u>802,851</u> |
| 1,017 | Minority adjustments | 2,852 |
| <u>(28,535)</u> | Total recognised losses / (gains) since last financial statements | <u>805,703</u> |

GROUP BALANCE SHEET

As at 31 March 2010

| (re-stated) 2008/09 £000 | Fixed Assets | Notes | £000 | £000 |
|--------------------------------|---|-------|-------------|-------------|
| 2,821 | Intangible Assets | | | 3,739 |
| | Tangible Fixed Assets | | | |
| 1,026,464 | Council Dwellings | 7. | 1,006,542 | |
| 1,389,530 | Other Land and Buildings | 7. | 1,652,385 | |
| 108,016 | Vehicles, Plant, Furniture and Equipment | 7. | 107,645 | |
| 528,145 | Infrastructure Assets | 7. | 629,419 | |
| 21,642 | Community Assets | 7. | 22,988 | |
| 3,073,797 | | | | 3,418,979 |
| | Non-Operational Assets | | | |
| 61,333 | Investment Properties | 7. | 2,305 | |
| 10,665 | Assets Under Construction | 7. | 40,350 | |
| 23,462 | Surplus Assets Held for Disposal | 7. | 26,501 | |
| 95,460 | | | | 69,156 |
| | Long-Term Assets | | | |
| 5,833 | Long-Term Investments | | 5,768 | |
| 39,756 | Long-Term Debtors | | 55,709 | |
| 225 | Share in Gross Assets of Joint Venture | | 0 | |
| (2,374) | Share in Gross Liabilities of Joint Ventures | | 0 | |
| 43,440 | | | | 61,477 |
| | Current Assets | | | |
| 34,477 | Stocks and Work-in-Progress | | 25,081 | |
| 272,300 | Debtors | | 266,601 | |
| (69,078) | Less: Bad Debt Provision | | (64,575) | |
| 142,314 | Investments | | 162,091 | |
| 12,957 | Cash and Bank | | 19,666 | |
| 392,970 | | | | 408,864 |
| | Less: Current Liabilities | | | |
| (123,227) | Borrowing Repayable on Demand or Within Twelve Months | | (28,029) | |
| (242,536) | Creditors | | (248,709) | |
| (26,540) | Provisions | | (50,668) | |
| (31,437) | Bank Overdraft | | (33,375) | |
| (423,740) | | | | (360,781) |
| 3,184,748 | Total Assets Less Current Liabilities | | | 3,601,434 |
| | Borrowing Repayable Within a Period in Excess of | | | |
| (1,106,862) | Twelve Months | | (1,219,357) | |
| (8,370) | Deferred Liabilities | | 0 | |
| (119,702) | Finance Leases | | (235,296) | |
| (331,178) | Government Grants Deferred | | (472,342) | |
| (1,946) | Deferred Credit | | (10,498) | |
| (10,692) | Provisions | | (10,203) | |
| (671,931) | Share in Net Liabilities of Associates | | (1,086,727) | |
| (283,429) | Pension Liability | | (722,076) | |
| (2,534,110) | | | | (3,756,499) |
| 650,638 | TOTAL ASSETS LESS LIABILITIES | | | (155,065) |

GROUP BALANCE SHEET

As at 31 March 2010


(re-stated)

2008/09

£000

| | | Notes | £000 |
|-----------------|--|-------|------------------|
| | Represented by: | | |
| 1,117,772 | Capital Adjustment Account | | 879,454 |
| 22,941 | Capital Fund | | 22,467 |
| 560,134 | Revaluation Reserve | | 783,784 |
| 32,025 | Earmarked Capital Reserve | | 29,329 |
| 0 | Capital Grants Unapplied Account | | 1,136 |
| (57,748) | Financial Instruments Adjustment Account | | (57,028) |
| (1,034,517) | Pensions Reserve | | (1,840,619) |
| (21,565) | Employee Statutory Adjustment Account | | (29,873) |
| 2,123 | Earmarked Revenue Reserve | | 1,817 |
| (4,744) | Capital Contribution | | 1,537 |
| 10,330 | Renewal and Repairs Fund | | 13,779 |
| 689 | Share Premium Account | | 0 |
| 59,575 | General Fund | | 73,113 |
| <u>(42,085)</u> | Revenue Reserve | | <u>(36,817)</u> |
| 644,930 | Group Balance and Reserves | 9. | (157,921) |
| <u>5,708</u> | Minority Interest | | <u>2,856</u> |
| <u>650,638</u> | TOTAL NET (LOSS) / WORTH | | <u>(155,065)</u> |

The unaudited accounts were issued on 11 June 2010 and the audited accounts were authorised for issue on 29 September 2010.


DONALD McGOUGAN, CPFA,
Director of Finance
11 June 2010

GROUP CASH FLOW STATEMENT

Year ended 31 March 2010

| (re-stated) 2008/09 £000 | | Notes | £000 | £000 |
|--------------------------------|--|-------|-----------|------------------|
| (76,224) | Net Cash Inflow From Revenue Activities | 5. | | (193,420) |
| 114 | Dividends from Joint Ventures and Associates | | | (114) |
| | Returns on Investments and Servicing of Finance | | | |
| 70,513 | Interest Paid | | 79,806 | |
| 8,737 | Interest Element of Finance Leases | | 12,878 | |
| (11,626) | Interest Received | | (3,542) | |
| <u>67,624</u> | | | | 89,142 |
| (8,486) | Net Cash Inflow from Revenue Activities | | | <u>(104,392)</u> |
| (2,620) | Taxation | | | (1,331) |
| | Capital Expenditure and Financial Investments | | | |
| 326,861 | Purchase of Fixed Assets | | 288,450 | |
| 21,602 | Other Capital Cash Payments | | 57,480 | |
| (29,162) | Sale of Fixed Assets | | (8,706) | |
| (168,441) | Capital Grants Received | | (214,066) | |
| (13,840) | Other Capital Receipts | | (22,503) | |
| <u>137,020</u> | | | | 100,655 |
| 198 | Equity Dividends Paid | | | 198 |
| 6,250 | Acquisitions and Disposals | | | 0 |
| <u>132,362</u> | Net Cash Outflow / (Inflow) Before Financing | | | <u>(4,870)</u> |
| 9,708 | Management of Liquid Resources | | | 7,598 |
| | Financing | | | |
| 259,542 | Repayment of Amounts Borrowed | | 162,870 | |
| 1,182 | Capital Element of Finance Lease Payments | | 11,908 | |
| (408,981) | New Loans Raised | | (181,380) | |
| <u>(148,257)</u> | | | | <u>(6,602)</u> |
| <u>(6,187)</u> | Net Increase in Cash | | | <u>(3,874)</u> |

NOTES TO THE GROUP ACCOUNTS

1. Introduction

The Council has an interest in a number of Subsidiary and Associate Companies along with Joint Ventures and Trusts. Full details of these interests are shown in notes 22 and 23 to the Financial Statements. The most significant of these companies in terms of the size of trading operations and other factors are included in the Group Accounts.

The Group Balance Sheet shows net liabilities at 31 March 2010. As set out in the foreword on page 10, it has however been appropriate to adopt a going concern basis for the preparation of the group accounts.

Unless otherwise stated in notes 22 and 23, unaudited accounts of the companies have been consolidated into these accounts.

The following companies have been consolidated into the group statements:

| Subsidiaries: | Shareholding | Year End |
|---|--------------|-------------|
| CEC Holdings Limited | 100% | 31 December |
| Lothian Buses plc | 91.01% | 31 December |
| tie Limited | 100% | 31 March |
| Edinburgh Convention Bureau - from 1 April 2009 | 100% | 31 March |

Associates:

The following associates have been consolidated based on board representation:

| | | |
|------------------------------|--------|----------|
| Edinburgh Leisure | 35.71% | 31 March |
| Festival City Theatres Trust | 36.36% | 31 March |

The following associates have been consolidated based on the funding percentages:

| | Pension Reserve | Other Reserves | |
|---|-----------------|----------------|----------|
| Lothian and Borders Police Board | 55.79% | 55.79% | 31 March |
| Lothian and Borders Fire and Rescue Board | 54.23% | 54.65% | 31 March |
| Lothian Valuation Joint Board | 61.57% | 61.57% | 31 March |

Trust:

| | | |
|--|------|----------|
| International Conference Centre Income Trust | 100% | 31 March |
|--|------|----------|

The following companies are currently not consolidated into the Group Accounts. An assessment has been carried out on the companies and their activities and the level of Council control. These companies are not considered to be a material part of the group and have therefore been excluded from the Group Statements:

Capital Development Trust
Edinburgh, Lothian and Scottish Borders Screen Industries Office Limited
International Conference Centre Expenditure Trust
Lothian Investment Fund for Enterprise Limited
Pacific Shelf 825 Limited (included as a subsidiary in 2008/09 Financial Statements)
Projects (Edinburgh) Limited
Shawfair Developments Limited (included as a joint venture in 2008/09 Financial Statements)

2. Nature of Consolidation

The Council inherited its interest in the subsidiary companies, CEC Holdings Limited and Lothian Buses plc, following the reorganisation of local government in 1996. It is considered that this was on an acquisition basis, however, as no consideration was given for these interests, there is no goodwill involved in these instances.

NOTES TO THE GROUP ACCOUNTS

3. Prior Year Adjustments

As noted in note 1 to the Financial Statements, the Council's 2008/09 figures have been re-stated. The impact on the group accounts mirrors the impact on the Council's financial statements. For details of the Council's changes, please refer to note 1 to the Financial Statements on pages 26 and 27.

3.1 Income and Expenditure Account

| | 2008/09 Audited Accounts £000 | City of Edinburgh Council Adjusts. £000 | Lothian Fire Board Adjusts. £000 | Other Adjusts. £000 | 2008/09 Re-stated Accounts £000 |
|-------------------------------------|--|---|--|---------------------------|--|
| Education services | 322,359 | (3,746) | - | - | 318,613 |
| Housing revenue account | 32,083 | 4,813 | - | - | 36,896 |
| Other operating expend. | 8,140 | 339 | - | - | 8,479 |
| Share of operating results - assoc. | (20,581) | - | 121 | - | (20,460) |
| Net cost of services | 954,892 | 1,406 | 121 | - | 956,419 |
| Interest payable | 65,690 | 7,409 | - | - | 73,099 |
| Other non-operating costs | 4,527 | - | - | 3,443 | 7,970 |
| Net operating expenditure | 1,056,821 | 8,815 | 121 | 3,443 | 1,069,200 |
| Non Domestic Rates | (177,459) | (339) | - | - | (177,798) |
| Deficit for the year | 118,659 | 8,476 | 121 | 3,443 | 130,699 |

3.2 Statement of Recognised Gains and Losses

| | 2008/09 Audited Accounts £000 | City of Edinburgh Council Adjusts. £000 | Lothian Fire Board Adjusts. £000 | Other Adjusts. £000 | 2008/09 Re-stated Accounts £000 |
|---------------------------------------|--|---|--|---------------------------|--|
| Deficit - Income / Expend. Account | 118,659 | 8,476 | 121 | 3,443 | 130,699 |
| Surplus - revaluation of fixed assets | (159,797) | (192,405) | - | 1 | (352,201) |
| Loss - pension assets / liabilities | 198,428 | - | - | - | 198,428 |
| Other losses / (gains) | 20,304 | (26,327) | - | (455) | (6,478) |
| Total recognised losses for the year | 177,594 | (210,256) | 121 | 2,989 | (29,552) |

NOTES TO THE GROUP ACCOUNTS

3. Prior Year Adjustments - continued

3.3 Balance Sheet

| | 2008/09 Audited Accounts £000 | City of Edinburgh Council Adjusts. £000 | Subsidiary Adjusts. £000 | Associate Adjusts. £000 | 2008/09 Re-stated Accounts £000 |
|-------------------------------------|--|---|--------------------------------|-------------------------------|--|
| Council dwellings | 818,828 | 207,636 | - | - | 1,026,464 |
| Other land / buildings | 955,218 | 434,312 | - | - | 1,389,530 |
| Vehicles, plant, etc | 119,000 | (10,984) | - | - | 108,016 |
| Community assets | 21,595 | 47 | - | - | 21,642 |
| Investment properties | 179,783 | (118,450) | - | - | 61,333 |
| Long-term debtors | 117,508 | (77,752) | - | - | 39,756 |
| Current debtors | 449,194 | (176,894) | - | - | 272,300 |
| Short term bad debt prov. | (238,234) | 169,156 | - | - | (69,078) |
| Current investments | 141,977 | 337 | - | - | 142,314 |
| Creditors | (244,767) | 2,231 | - | - | (242,536) |
| Current borrowing | (106,065) | (14,174) | (2,988) | - | (123,227) |
| Finance leases | (12,069) | (107,633) | - | - | (119,702) |
| Share net liabilities of associates | (671,022) | - | - | (909) | (671,931) |
| Revaluation reserve | (367,730) | (192,404) | - | - | (560,134) |
| Capital adjustment acc. | (1,003,132) | (115,428) | - | 788 | (1,117,772) |
| Pensions reserve | 1,059,846 | - | (6,674) | (18,655) | 1,034,517 |
| Employee statutory adj. account | 0 | - | - | 21,565 | 21,565 |
| Revenue reserve | 35,212 | - | 9,662 | (2,789) | 42,085 |

4. Financial Impact of Consolidation

The effect of inclusion of the Companies on the Group Balance Sheet is to decrease both reserves and net assets by £1,053.425m (2008/09 £635.377m) representing the Council's share of the realisable surpluses or deficits in these companies.

As noted in the foreword to the accounts, the financial impact on consolidation of the group mainly arises from the inclusion of pension liabilities. This is a snapshot of the position at 31 March 2010. The actuarial valuation, which takes account of the longer term view, will consider the appropriate employers' contribution rates and these together with employee contributions and revenues generated from fund investments will be utilised to meet the financing of these liabilities.

NOTES TO THE GROUP ACCOUNTS

5. Reconciliation of Group Cash Flow Statement to Group Income and Expenditure Account

| | 2009/10 | | 2008/09 | |
|---|----------|------------------|----------|------------------|
| | £000 | £000 | £000 | £000 |
| Deficit for the year | | 83,774 | | 82,645 |
| Share of group companies (deficit) / surplus | | (484) | | 9,647 |
| (Losses) / gains on fixed asset disposals | | (1,219) | | 6,183 |
| Interest received | | 1,261 | | 3,696 |
| Year-end variations | | | | |
| Increase / (decrease) in debtors | 32,135 | | (27,722) | |
| Decrease / (increase) in creditors | (29,194) | | 82,788 | |
| Increase / (decrease) in stocks | (9,396) | | (4,547) | |
| Increase / (decrease) in investments | 0 | | 120 | |
| | | (6,455) | | 50,639 |
| Non cash transactions | | <u>(270,297)</u> | | <u>(229,034)</u> |
| Net cash (inflow) / outflow from revenue activities | | <u>(193,420)</u> | | <u>(76,224)</u> |

6. Associated Companies

Included in the group results are the following associated companies:

The Lothian Valuation Joint Board

The Lothian Valuation Joint Board provides Valuation Appeals, Lands Valuation, Electoral Registration and Council Tax Valuation Services.

The Board comprises 16 members of whom nine are elected by the City of Edinburgh, three by West Lothian and two each by East and Midlothian Councils.

Costs incurred by the Lothian Valuation Joint Board are apportioned in accordance with the non-domestic rateable subjects and dwellings valued for council tax within the areas of each constituent authority.

The group share of the results of the Lothian Valuation Joint Board, based on 61.57% (2009 61.83%) funding percentage and in respect of the Pension Liability 61.57% (2009 61.82%) based on the GAE, is as follows:

| | 2010 | 2009 |
|--|----------------|----------------|
| | £000 | £000 |
| Funding - requisitions | 3,803 | 3,826 |
| Other income | 53 | 33 |
| Total income | <u>3,856</u> | <u>3,859</u> |
| Surplus for the year | <u>59</u> | <u>225</u> |
| Fixed assets | 326 | 724 |
| Long-term debtors | 76 | 0 |
| Current assets | 553 | 199 |
| Liabilities due within one year | (155) | (75) |
| Liabilities due after one year or more | <u>(474)</u> | <u>(498)</u> |
| Net assets | 326 | 350 |
| Net pension liabilities | <u>(7,228)</u> | <u>(1,538)</u> |
| | <u>(6,902)</u> | <u>(1,188)</u> |

NOTES TO THE GROUP ACCOUNTS

6. Associated Companies - continued

Festival City Theatres Trust

Although the above charitable company is included due to the nature of its activities being a core part the Council's policy, the Council has no legal interest in the assets or liabilities of the company.

The group share of the results of the Festival City Theatres Trust, based on 36.36% (2009 36.36%) Board Representation, is as follows:

| | 2010 £000 | 2009 £000 |
|---------------------------------|----------------------------|----------------------------|
| Incoming resources | <u>2,623</u> | <u>2,716</u> |
| Net outgoing resources | <u>(3,052)</u> | <u>(329)</u> |
| Fixed assets | 2,459 | 2,777 |
| Current assets | 248 | 392 |
| Liabilities due within one year | <u>(315)</u> | <u>(470)</u> |
| Net assets | <u>2,392</u> | <u>2,699</u> |

Lothian and Borders Police Board

The Lothian and Borders Combined Police Area Amalgamation Scheme 1995 requires the Joint Board to comprise 18 members appointed from the constituency authorities as follows: two members from East Lothian, Midlothian and Scottish Borders Councils; three from West Lothian Council; and nine from the City of Edinburgh Council.

The Amalgamation Scheme 1995 provides that the estimated expenditure of the Board in each financial year shall be apportioned among constituent authorities according to the cost of the provision of services by Lothian and Borders Police within the area of each constituent authority.

The group share of the results of the Lothian and Borders Police Board, based on 55.79% (2009 55.79%) funding percentage and in respect of the Pension Liability 55.79% (2009 55.74%) based on the GAE, is as follows:

| | 2010 £000 | (re-stated) 2009 £000 |
|--|----------------------------|--|
| Funding - requisitions | 55,066 | 53,369 |
| Other income | <u>105,506</u> | <u>100,221</u> |
| Total income | <u>160,572</u> | <u>153,590</u> |
| Deficit for the year | <u>(41,609)</u> | <u>(39,451)</u> |
| Fixed assets | 59,174 | 58,157 |
| Current assets | 15,914 | 16,609 |
| Liabilities due within one year | (10,548) | (11,945) |
| Liabilities due after one year or more | <u>(24,641)</u> | <u>(21,597)</u> |
| Net assets | 39,899 | 41,224 |
| Net pension / other retirement liabilities | <u>(969,828)</u> | <u>(632,753)</u> |
| Net Liabilities | <u>(929,929)</u> | <u>(591,529)</u> |

NOTES TO THE GROUP ACCOUNTS

6. Associated Companies - continued

Lothian and Borders Fire and Rescue Board

The South Eastern Combined Fire Services Area Administration Scheme 1995 requires the Joint Board to comprise 18 members appointed from the constituent authorities as follows: two members from East Lothian, Midlothian and Scottish Borders Councils; three from West Lothian Council; and nine from the City of Edinburgh Council.

Costs are apportioned according to the estimated cost of service provision within the area of each constituent authority.

The group share of the results of the Lothian and Borders Fire and Rescue Board, based on 54.65% (2009 54.64%) funding percentage and in respect of the Pension Liability 54.23% (2009 54.23%) based on the GAE, is as follows:

| | 2010 | (re-stated) |
|--|------------------|--------------------|
| | £000 | 2009 |
| | | £000 |
| Funding - requisitions | 28,246 | 29,103 |
| Other income | 696 | 648 |
| Total income | 28,942 | 29,751 |
| Deficit for the year | (9,112) | (5,235) |
| Fixed assets | 25,452 | 23,231 |
| Long-term debtors | 793 | 788 |
| Current assets | 2,808 | 3,016 |
| Liabilities due within one year | (729) | (1,243) |
| Liabilities due after one year or more | (11,367) | (11,578) |
| Net assets | 16,957 | 14,214 |
| Net pension / other retirement liabilities | (213,828) | (145,610) |
| Net Liabilities | (196,871) | (131,396) |

Edinburgh Leisure

Although the above charitable company is included due to the nature of its activities being a core part of the Council's policy, the Council has no legal interest in the assets or liabilities of the company.

The group share of the results of Edinburgh Leisure, based on 33.33% (2009 38.46%) Board Representation, is as follows:

| | 2010 | 2009 |
|--|--------------|--------------|
| | £000 | £000 |
| Incoming resources | 8,285 | 9,800 |
| Net surplus | 205 | 362 |
| Fixed assets | 1,520 | 1,760 |
| Current assets | 448 | 359 |
| Liabilities due within one year | (1,047) | (987) |
| Liabilities due after one year or more | (102) | (198) |
| Pension liability | (1,532) | 157 |
| Net (liabilities) / assets | (713) | 1,091 |

NOTES TO THE GROUP ACCOUNTS

7. Tangible Fixed Assets

7.1 Operational Assets

| | Council Dwellings £000 | Land and Buildings £000 | Vehicles, Plant and Equipment £000 |
|---|---|--|---|
| <u>Gross Book Value</u> | | | |
| Gross book value as at 1 April 2009 | 1,026,570 | 1,439,581 | 183,344 |
| Transferred during the year | 0 | (3,435) | (208) |
| Additions during year | 33,713 | 113,729 | 21,364 |
| Transferred from non-operational assets | 0 | (1,827) | 0 |
| Disposals during year | (4,636) | (56,751) | (15,008) |
| Impairments | (35,822) | (89,955) | 0 |
| Revaluations and restatements | 1,338 | 310,073 | 0 |
| Gross book value as at 31 March 2010 | <u>1,021,163</u> | <u>1,711,415</u> | <u>189,492</u> |
| <u>Depreciation</u> | | | |
| Depreciation as at 1 April 2009 | (106) | (50,051) | (75,328) |
| Charge for the year | (16,044) | (24,254) | (19,575) |
| Transferred during the year | 0 | 0 | (71) |
| Revalued / impaired assets | 1,464 | 15,244 | 12,803 |
| Restatements | 0 | 30 | 303 |
| Disposals | 65 | 1 | 21 |
| Depreciation as at 31 March 2010 | <u>(14,621)</u> | <u>(59,030)</u> | <u>(81,847)</u> |
| <u>Net Book Value</u> | | | |
| As at 31 March 2010 | <u>1,006,542</u> | <u>1,652,385</u> | <u>107,645</u> |
| As at 1 April 2009 | <u>1,026,464</u> | <u>1,389,530</u> | <u>108,016</u> |
| | Infrastructure Assets £000 | Community Assets £000 | Total £000 |
| <u>Gross Book Value</u> | | | |
| Gross book value as at 1 April 2009 | 667,599 | 21,642 | 3,338,736 |
| Transferred during the year | 0 | 0 | (3,643) |
| Additions during year | 137,194 | 1,620 | 307,620 |
| Transferred from non-operational assets | 0 | 0 | (1,827) |
| Disposals during year | (3,324) | 0 | (79,719) |
| Impairments | 0 | (1,541) | (127,318) |
| Revaluations and restatements | 0 | 1,267 | 312,678 |
| Gross book value as at 31 March 2010 | <u>801,469</u> | <u>22,988</u> | <u>3,746,527</u> |
| <u>Depreciation</u> | | | |
| Depreciation as at 1 April 2009 | (139,454) | 0 | (264,939) |
| Charge for the year | (34,197) | 0 | (94,070) |
| Transferred during the year | 0 | 0 | (71) |
| Revalued / impaired assets | 0 | 0 | 29,511 |
| Restatements | 0 | 0 | 333 |
| Disposals | 1,601 | 0 | 1,688 |
| Depreciation as at 31 March 2010 | <u>(172,050)</u> | <u>0</u> | <u>(327,548)</u> |
| <u>Net Book Value</u> | | | |
| As at 31 March 2010 | <u>629,419</u> | <u>22,988</u> | <u>3,418,979</u> |
| As at 1 April 2009 | <u>528,145</u> | <u>21,642</u> | <u>3,073,797</u> |

Opening values have been re-stated. Details of the changes can be seen on pages 44 - 46.

NOTES TO THE GROUP ACCOUNTS

7. Tangible Fixed Assets - continued

7.2 Non-Operational Assets

| | Investment Properties £000 | Assets Under Construction £000 | Surplus Assets £000 | Total £000 |
|---|----------------------------------|--------------------------------------|---------------------------|---------------|
| <u>Gross Book Value</u> | | | | |
| Gross book value as at 1 April 2009 | 61,333 | 10,665 | 23,467 | 95,465 |
| Transferred during the year | 0 | 0 | 0 | 0 |
| Additions during year | 0 | 37,792 | 139 | 37,931 |
| Additions under a finance lease | 0 | 0 | 0 | 0 |
| Transferred to operational / non-operational assets | 0 | (8,107) | 9,934 | 1,827 |
| Disposals during year | 0 | 0 | (2,158) | (2,158) |
| Impairments | 0 | 0 | (6,028) | (6,028) |
| Revaluations and restatements | (59,028) | 0 | 1,147 | (57,881) |
| Gross book value as at 31 March 2010 | 2,305 | 40,350 | 26,501 | 69,156 |
| <u>Depreciation</u> | | | | |
| Depreciation as at 1 April 2009 | 0 | 0 | (5) | (5) |
| Charge for the year | 0 | 0 | 0 | 0 |
| Revalued / impaired assets | 0 | 0 | 0 | 0 |
| Disposals | 0 | 0 | 0 | 0 |
| Restatements | 0 | 0 | 5 | 5 |
| Depreciation as at 31 March 2010 | 0 | 0 | 0 | 0 |
| <u>Net Book Value</u> | | | | |
| As at 31 March 2010 | 2,305 | 40,350 | 26,501 | 69,156 |
| As at 1 April 2009 | 61,333 | 10,665 | 23,462 | 95,460 |

8. Capital Commitments

At 31 March 2010 Council companies were committed to the following contractual commitments:

| | 2010 £000 | 2009 £000 |
|--------------------------------|--------------|--------------|
| Contractual Commitments | | |
| Lothian Buses | 0 | 8,000 |
| | 0 | 8,000 |

NOTES TO THE GROUP ACCOUNTS

9. Movements on Reserves

| 9.1 Reserves | Balance Brought Forward £000 | Structure Changes £000 | Gains / (Losses) for the Year £000 | Transfers Between Reserves £000 | Balance Carried Forward £000 |
|--|---------------------------------------|------------------------------|--|--|---------------------------------------|
| Capital fund | | | | | |
| - Group | 22,941 | 0 | (50) | (424) | 22,467 |
| Capital adjustment account | | | | | |
| - Group | 1,063,590 | (988) | (158,317) | (74,730) | 829,555 |
| - Share of associates | 54,182 | 0 | (490) | (3,793) | 49,899 |
| Usable capital receipts reserve | | | | | |
| - Group | 0 | 0 | 6,312 | (6,312) | 0 |
| - Share of associates | 0 | 0 | 0 | 0 | 0 |
| Financial instruments adjustment account | | | | | |
| - Group | (57,633) | 0 | 91 | 694 | (56,848) |
| - Share of associates | (115) | 0 | (68) | 3 | (180) |
| Revaluation reserve | | | | | |
| - Group | 548,616 | 0 | 250,648 | (32,018) | 767,246 |
| - Share of associates | 11,518 | 0 | 5,020 | 0 | 16,538 |
| Capital contribution | | | | | |
| - Group | (4,910) | 3,358 | 2,945 | 0 | 1,393 |
| - Share of associates | 166 | 0 | (22) | 0 | 144 |
| Capital grants unapplied account | | | | | |
| - Group | 0 | 0 | 1,136 | 0 | 1,136 |
| Earmarked capital reserves | | | | | |
| - Share of associates | 32,025 | 0 | (2,484) | (212) | 29,329 |
| Earmarked revenue reserves | | | | | |
| - Share of associates | 2,123 | 0 | (306) | 0 | 1,817 |
| Pension reserve | | | | | |
| - Group | (276,181) | 0 | (436,882) | 33,455 | (679,608) |
| - Share of associates | (758,336) | 0 | (357,984) | (44,691) | (1,161,011) |
| Employee statutory adj. account | | | | | |
| - Share of associates | (21,565) | 0 | (7,583) | (725) | (29,873) |
| Renewal and repairs Fund | | | | | |
| - Group | 10,330 | 0 | 37 | 3,412 | 13,779 |
| Share premium Account | | | | | |
| - Group | 689 | (689) | 0 | 0 | 0 |
| General Fund reserves | | | | | |
| - Group | 59,575 | 0 | (83,774) | 97,312 | 73,113 |
| Revenue reserves | | | | | |
| - Group | (48,006) | 33,345 | (7,377) | (21,388) | (43,426) |
| - Share of associates | 5,921 | 2,149 | (50,878) | 49,417 | 6,609 |
| Total reserves | 644,930 | 37,175 | (840,026) | 0 | (157,921) |

NOTES TO THE GROUP ACCOUNTS

9. Movements on Reserves - continued

9.2 Impact of Changes in Structure on Reserves

| | Capital Adjust. Account £000 | Capital Contrib. £000 | Share Premium Account £000 | Revenue Reserves £000 |
|-----------------------------------|---------------------------------------|-----------------------------|-------------------------------------|-----------------------------|
| Removal of: | | | | |
| Shawfair Developments Limited | - | - | - | 2,149 |
| Pacific Shelf 825 Limited | - | - | (689) | 1,144 |
| Consolidation Adjustments: | | | | |
| CEC Holdings | (988) | 3,358 | - | 31,852 |
| Addition of: | | | | |
| Edinburgh Convention Bureau | - | - | - | 349 |
| Total | (988) | 3,358 | (689) | 35,494 |

9.3 Purposes of Funds Held

The purpose of the following funds can be seen in note 28 to the Financial Statements:

- Capital fund
- Capital adjustment account
- Pension reserve
- General Fund balance
- Usable capital receipts reserve
- Financial instruments adjustment account
- Renewal and repairs fund
- Capital grants unapplied account
- **Revaluation Reserve**
This represents the surplus or deficit arising from revaluation of investment properties held by subsidiaries and the Council's share of any surplus or deficit in assets held by associate
- **Capital contribution**
This reserve represents the Council's share of the notional value of assets gifted by the City of Edinburgh to associate companies.
- **Earmarked Capital Reserves**
These reserves have been accumulated from capital receipts and contributions and can only be used to fund specific capital expenditure. They include the Festival Theatre Trust restricted funds and the Lothian Road Income Trust.
- **Earmarked Revenue Reserves**
These reserves have been accumulated from various contributions and can only be used to fund specific expenditure. They include the Common Good Fund and Edinburgh Leisure restricted funds.
- **Revenue Reserves**
The revenue reserves record the total accumulated profit and loss of subsidiary companies and the Council's share of the accumulated profit and loss of associate and joint venture companies included in the consolidated accounts.
- **Employee Statutory Adjustment Account**
This reserve represents the injury benefits / compensation scheme liabilities and is used to neutralise the impact on the General Fund balances within the Police and Fire Joint Board accounts.

NOTES TO THE GROUP ACCOUNTS

9.4 Pension Reserves

The pension reserves shown in the Group Balance Sheet relate to the Council and its joint boards, as these are statutory accounts under the SORP. Pension reserves for other companies in the group are included in revenue reserves. The value of the pension reserves is shown separately below.

Pension Reserves

| | 2009/10 | | 2008/09 | |
|---|-------------------------|--|-------------------------|--|
| | Pension Reserve £000 | Employee Statutory Adjust. Account £000 | Pension Reserve £000 | Employee Statutory Adjust. Account £000 |
| Council | 679,608 | 0 | 276,181 | 0 |
| Lothian and Borders Police Board | 942,938 | 26,891 | 613,412 | 19,342 |
| Lothian and Borders Fire and Rescue Board | 210,845 | 2,982 | 143,386 | 2,223 |
| Lothian Valuation Joint Board | 7,228 | 0 | 1,538 | 0 |
| | <u>1,840,619</u> | <u>29,873</u> | <u>1,034,517</u> | <u>21,565</u> |

Pension Reserves included in Revenue Reserve

| | 2009/10 £000 | 2008/09 £000 |
|------------------------------|-----------------|-----------------|
| CEC Holdings | 1,278 | 299 |
| Edinburgh Convention Bureau | 115 | 0 |
| Edinburgh Leisure | 1,532 | (157) |
| Lothian Buses tie limited | 35,774 | 5,814 |
| | <u>2,206</u> | <u>561</u> |
| | <u>40,905</u> | <u>6,517</u> |

10. Shareholder Support to Council Companies

A number of companies within the group are currently dependent on the continued financial support of their shareholders. The companies are Waterfront Edinburgh Limited, EICC Limited, Parc Craigmillar Limited and the EDI Group Limited. These companies are all subsidiaries of CEC Holdings Limited - the Council owns 100% of the shares in CEC Holdings Limited and therefore these companies are dependent on the continued support of the Council.

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the members of City of Edinburgh Council and the Accounts Commission for Scotland

I certify that I have audited the financial statements of City of Edinburgh Council and its group for the year ended 31 March 2010 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Statement of Total Recognised Gains and Losses, Balance Sheet and Cash-Flow Statement, the Housing Revenue Account Income and Expenditure Account, Statement of Movement on the HRA Balance, the Council Tax Income Account, the Non-Domestic Rates Income Account, the Pension Funds Accounts, the Common Good Fund, and the related notes and the Statement of Accounting Policies together with the Group Accounts. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Director of Finance and auditor

The Director of Finance's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009 - A Statement of Recommended Practice (the 2009 SORP) are set out in the Statement of Responsibilities for the financial statements.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland.

I report my opinion as to whether the financial statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2009 SORP, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

In addition, I report to you if, in my opinion, the local government body has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the Governance Statement reflects compliance with the SORP, and I report if, in my opinion, it does not. I am not required to consider whether this statement covers all risk and controls, or form an opinion on the effectiveness of the local government body's corporate governance procedures or its risk and control procedures.

I read the other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Foreword by the Director of Finance. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

INDEPENDENT AUDITOR'S REPORT

Basis of audit opinion

I conducted my audit in accordance with Part VII of the Local Government (Scotland) Act 1973 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Accounts Commission. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Director of Finance in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the local authority's and its group circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion the financial statements

- give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2009 SORP, of the financial position of City of Edinburgh Council and its group as at 31 March 2010 and the income and expenditure of City of Edinburgh Council and its group for the year then ended; and
- have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

Failure to comply with a statutory requirement

It has not been necessary to qualify my opinion in respect of the following matter.

Local authorities have a duty under section 10 of the Local Government in Scotland Act 2003 to conduct each of their significant trading operations so that income is not less than expenditure over each three year period. The authority failed to comply with this statutory requirement for the three year period ended 31 March 2010 in respect of the following significant trading operations:

- Direct Cleaning
- Blindcraft
- Catering Services – School and Welfare Catering
- Catering Services – Other Catering
- Refuse Collection (including Trade Waste).

Emphasis of matter - Tram Project

Without qualifying my opinion I draw attention to the disclosures in the Foreword and the Notes to the financial statements on the Tram Project. In view of contractual difficulties there is a lack of clarity on programme and cost. The Council now anticipates that the full scope of phase 1a of the tram project cannot be delivered within the approved level of funding.



Gillian Woolman FCA, Assistant Director
Audit Scotland – Audit Services
Osborne House, 1/5 Osborne Terrace
Edinburgh, EH12 5HG

30 September 2010