

**AUDITED
FINANCIAL STATEMENTS**

2008/2009

The City of Edinburgh Council

Statement of Accounts

Year to 31 March 2009

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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 2009.

The Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008: 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, Scottish Homes 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

The Council has approved a number of changes to its company structure and these are reflected in the Group Accounts. The most significant of these changes are:

- The Council acquired Scottish Enterprise's shareholding in Waterfront Edinburgh Limited and therefore took 100% ownership of the company.
- The Council approved the transfer of Waterfront Edinburgh Limited to CEC Holdings Limited.
- In March 2009, the Council approved the setting up of Shawfair Land Limited. Land valued at £6.25m was sold by the Council to CEC Holdings Limited, who subsequently sold it on to Shawfair Land Limited, in exchange for a share with an equivalent value. The Council owns 100% of the company.
- The Council, along with Midlothian Council, bought out Miller Development Holdings Limited's loans and loan stock in Shawfair Developments Limited.

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Financial Performance

Revenue

The Council's financial performance is presented in the Income and Expenditure Account which can be seen on page 20. 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 17 to the Financial Statements.

The outturn position for the General Fund, excluding accounting practice adjustments, compared to budget is summarised below:

	Revised Budget 2008/09 £000	Actual 2008/09 £000	Over / (Under) Spend £000
General Fund services	855,990	860,927	4,937
Dividend income (net)	(2,000)	(2,000)	0
Significant trading operations	(3,189)	(3,812)	(623)
Loans charges / interest on revenue balances	85,527	80,497	(5,030)
Exceptional expenditure - equal pay claims	9,370	9,370	0
Budgeted contribution to unallocated general reserve	5,000	5,000	0
Contribution to earmarked balances	3,760	3,760	0
Total expenditure to be funded	954,458	953,742	(716)
Council tax	(220,445)	(221,775)	(1,330)
Net cost of council tax benefit	(391)	(223)	168
Total - council tax income account	(220,836)	(221,998)	(1,162)
Community charge income	0	(136)	(136)
Revenue support grant	(538,569)	(538,569)	0
Distribution from non-domestic rate pool	(177,798)	(177,798)	0
Contribution from capital fund	(16,494)	(16,494)	0
Contribution from renewal and repairs reserve	(761)	(761)	0
Funding	(954,458)	(955,756)	(1,298)
General Fund surplus for the year	0	(2,014)	(2,014)

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 £5m to the unallocated general reserve. At the end of the financial year, having contributed this sum, the Council's outturn resulted in a surplus of £2.014m. Where General Fund departments reported a surplus, Council has approved that these surpluses be carried forward to 2009/10. Thus, £2.346m requires to be set aside to earmarked reserves, meaning that £0.332m requires to be drawn back down from the unallocated general reserve.

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

- An overspend on General Fund Services of £4.937m, partly offset by an increased contribution of £0.623m from the Council's significant trading operations. The overspend includes a number of one-off items of expenditure.
- A reduction of £5.030m on loan charges / interest on revenue balances, primarily resulting from effective treasury management on the investment of surplus funds, including increasing the weighted average maturity of the cash fund at the beginning of the financial year to take advantage of higher interest rates, and slippage in previous year's capital programmes which impacts on 2008/09 loan charges.
- A net increase of £1.162m in Council Tax, mainly arising from an increase in the number of chargeable properties.

FOREWORD BY THE DIRECTOR OF FINANCE

Budget performance - General Fund - continued

In addition, £16.494m 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, on 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)	222,134
Revenue support grant	538,569
Distribution from non-domestic rates pool	<u>177,798</u>
Total	<u><u>938,501</u></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 2009, as part of the 2009-2012 budget setting process. This forecast an unallocated general fund balance of £6.804m at 31 March 2009. The actual balance was £6.472m. This includes the planned contribution of £5m, less £0.332m returned to manage the 2008/09 outturn position after budget flexibility set aside.

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 £53.103m 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 £25.890m 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 £20.279m 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 £3.158m 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 £0.904m.
- 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 £2.872m has been set aside under this scheme, of which £1.398m is earmarked to be returned to departments in 2009/10.

In summary, the level of reserves at 31 March 2009, 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

Under the Housing (Scotland) Act 1987, Councils are required to keep a Housing Revenue Account. This records all expenditure and income relating to the Council's own housing stock. Revenue expenditure for routine management, repairs and maintenance is funded from rent paid by tenants. In addition, the Council is pursuing a major capital programme to improve its housing stock to meet the Scottish Housing Quality Standard by 2015, funded largely through prudential borrowing (the costs of borrowing are funded through rental income).

The Housing Revenue Account broke even at the end of the financial year, after making a contribution, via the General Fund, of £3.232m to the Renewal and Repairs Fund.

In August 2008 the Health, Social Care and Housing Committee approved a new, simpler rent charging system, following consultation, based on two factors - property type and number of bedrooms. This rationalised the rent charges to just nine different rates from approximately 2,000 previously.

The new system aims to:

- be simpler;
- reduce the spread between rent levels;
- be financial neutral overall;
- sustain the rental income levels assumed within the HRA business plan; and
- protect individual tenants from disproportionate change in their rent levels.

It was introduced in October 2008 for new tenancies and from April 2009 for existing tenants.

For existing tenants there are transitional arrangements to protect those facing increases or decreases to their new charge by limiting the annual change to the rent that they are asked to pay. It is estimated that 42% of existing tenants face a rent increase, while 58% will benefit from a decrease in their rent.

Around 90% of tenants should reach their correct new charge by April 2013. A formal review of the new rent charging system will take place in 2013.

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. 2008/09 is the seventh year of trading for the areas identified as Significant Trading Operations.

The Council's Significant Trading Operations comprise:

Edinburgh Catering Services	City Fleet Maintenance Services	BlindCraft
Open Space Maintenance	Edinburgh Building Services	Direct Cleaning
Refuse Collection / Trade Waste	Edinburgh Road Services	

The surplus of £3.812m 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 20), 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	3,812
FRS 17 Charges	1,366
Included in exceptional items	(2,367)
Other adjustments, including non distributed costs and impairment of fixed assets	(2,993)
Total cost included in Income and Expenditure Account	(182)
Included in individual services in Income and Expenditure Account	(1,102)
Included in net surplus from trading accounts	3,287
Included in exceptional items	(2,367)
Total cost included in Income and Expenditure Account	(182)

FOREWORD BY THE DIRECTOR OF FINANCE

Significant Trading Operations - continued

BlindCraft, Direct Cleaning, Edinburgh Catering Services - School and Welfare Catering and Refuse Collection (including Trade Waste) failed to achieve their statutory obligation to break even over the three-year period 2006-07 to 2008-09. Excluding costs relating to equal pay, Direct Cleaning and Edinburgh Catering Services - School and Welfare Catering would have met their statutory targets to break even over a three-year period.

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 2009, £33.3m has either been paid or provided for to meet equal pay claims from female manual workers. After implementation of the new structure, employees who lose pay 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 from the same female manual worker group. In addition a budget of £10.5m has been established to meet the anticipated additional annual costs arising from implementing the new pay structure, an increase of 3% on the relevant annual employee budget.

At present, administrative, professional, technical and clerical claims are being defended. In the event that these claims are upheld at the employment tribunal this could result in another potentially substantial liability.

Capital Expenditure

The outturn position for capital expenditure is summarised below:

	Revised Budget 2008/09 £000	Actual 2008/09 £000	(Slippage) / Acceleration £000
Capital expenditure			
General Fund services	410,124	362,266	(47,858)
Housing Revenue Account	32,000	29,634	(2,366)
Total capital expenditure	<u>442,124</u>	<u>391,900</u>	<u>(50,224)</u>
Capital receipts and other contributions			
- General Fund services	(67,437)	(42,102)	25,335
- Housing Revenue Account	(9,500)	(9,927)	(427)
Government and other grants			
- General Fund services	(172,181)	(172,317)	(136)
Total capital income	<u>(249,118)</u>	<u>(224,346)</u>	<u>24,772</u>
Balance to be funded through borrowing			
- General Fund services	170,506	147,847	(22,659)
- Housing Revenue Account	22,500	19,707	(2,793)
Total advances from loans fund	<u>193,006</u>	<u>167,554</u>	<u>(25,452)</u>

The Scottish Government changed the way in which capital support was provided to Councils in 2008/09, with the introduction of general capital grant. The Council received £44.167m 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 its own priorities.

Capital Expenditure for the year totalled £391.900m, as shown on page 37 of the Statement of Accounts. Of this amount, £29.634m was spent on Council housing through the Housing Revenue Account programme and £41.701m through the Housing Development Fund and Community Ownership Programme. £241.953m was spent on tram works, roads and other infrastructure. £19.665m on recreational venues and £23.615m on educational properties. In addition, £16.927m was transferred to the capital fund. This money was received through the sale of assets. A further £6.250m was transferred to investments.

FOREWORD BY THE DIRECTOR OF FINANCE

Capital Expenditure - continued

Funding of capital expenditure included £172.317m from government and other grants and £52.029m from the sale of assets and other receipts. The remaining £167.554m was funded through borrowing.

The current economic climate has had 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, including construction of a new special school
- Construction of a new care home
- Commencement of the tram infrastructure project
- Refurbishment of the Usher Hall
- Acquisition of the Council's headquarters building.

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.

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 consortium. In addition, Carillion is undertaking the contract for all utility diversions along the route, including water, gas and telecoms, in preparation for the infrastructure works.

During the year work has progressed along the route, with key areas of progress being diversion of utilities, preliminary infrastructure work to prepare for track-laying and the commencement of fabrication of the first of the tram vehicles - a mock-up of which has been on public display in the city.

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.

Fit for Future Project

During the year the Council bought Waverley Court, its recently constructed head-quarters building. This acquisition will enable the Council to make revenue savings in future years, as the loan charges associated with the purchase will be more than offset by savings on rental costs.

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 26 to the Financial Statements.

FOREWORD BY THE DIRECTOR OF FINANCE

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 51.

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.

Financial Reporting Standards

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 38.5 to the Financial Statements, in accordance with the requirements of FRS17 (Retirement Benefits), amounts to £276.181m. This exceeds current General Fund reserves of £59.575m. It should be noted that this is a snapshot of the position at 31 March 2009. The actuarial valuation, which takes a longer term view, will consider the appropriate employer's contribution rates and this, together with revenues generated from the investments, will be utilised to meet the fund's commitments.


Pension Fund Actuarial Review

Continuing financial turmoil since the date of the most recent actuarial valuations at 31 March 2008 has seen a reduction in the assets of the fund. However, as the funds are long-term investors, the actuary did not recommend any changes to the Council's contributions as a result of the economic downturn.

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 they have seen the values of their property portfolios decrease as a direct result of the current economic climate.

In response to these changing circumstances, the Council has already approved a number of changes to its company structure, as outlined on page 3. The Council continues to closely monitor its companies and take action as appropriate to minimise the Council's expose to financial risk



DONALD McGOUGAN, CPFA,
Director of Finance
12 June 2009

STATEMENT OF ACCOUNTING POLICIES

The Annual Accounts for the year ended 31 March 2009 have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008: 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 revenue 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 revenue accounts 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 revenue 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 at 31 March 2009 have been valued at bid value (purchase price), as required under FRS17. Assets at 31 March 2008 were valued at mid-market prices. The change to valuing at bid value results in an actuarial loss, which has been reflected in the income and expenditure account.

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. Thereafter depreciation is provided on a straight line basis over the expected life of the asset.

Vehicles, plant and equipment are depreciated over a period of between five and twenty 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 the average right to buy selling price, where selling activity has taken place in that area, or estimated market value, as appropriate, at 1 April 2007. Where Council dwellings are earmarked for demolition, these are valued at a notional amount of £100 per dwelling.
- 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.
- 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 building) 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).

- **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.

Investments (Current Assets)

Investments (current assets) are shown in the Balance Sheet at cost.

STATEMENT OF ACCOUNTING POLICIES

Government Grants

Grants and other contributions relating to fixed assets are credited to a Government Grants Deferred Account and written off to service revenue accounts 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, with the exception of Edinburgh Building Services, Edinburgh Road Services and City Development, where stock has been valued at average cost.
- In those instances where stock has been valued at average cost, this does not comply with the Code of Practice, which requires stock to be shown at the lower of cost or net realisable value. The difference is not considered to be material.
- 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

- The accounting treatment for the Public Private Partnership of the provision of school buildings, maintenance and other facilities is in accordance with FRS5 - Reporting the Substance of Transactions and Treasury Guidance.
- PPP1 and PPP2 schools are provided by Edinburgh Schools Partnership and Axiom Education Limited respectively. A deferred consideration and a contribution to the PPP1 and PPP2 projects derived from asset disposals and other capital receipts has been included in the Balance Sheet, within long-term debtors, based on the net book value of the assets transferred to the two providers involved. This represents a prepayment, which will be written down, over 30 years, to the Education Services account, matched by a corresponding adjustment through the Statement of Movement on the General Fund Balance.
- In August 2003, the depreciated net replacement cost of the schools, which will be returning to the Council at the end of the PPP1 contract, was calculated. In March 2009, the same exercise was carried out for schools that will be returning to the Council at the end of the PPP2 contract. Under the arrangements for accounting for Public Private Partnerships, this combined sum will require to be recognised in the Balance Sheet over the life of the contract. An annual charge will be credited to the Income and Expenditure Account, matched by a corresponding adjustment through the Statement of Movement on the General Fund Balance. The charge will be added annually to long-term debtors, over the time span of the contract, with the total amount being transferred to fixed assets at the end of the contract.

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 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 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 24 and 25 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 and CEC Holdings Limited were previously classified as available for sale financial instruments and have been valued based on the distributable reserves held by the company and the net worth of the balance sheet respectively. The difference between these values and the historic cost of the investment was reflected in the available-for-sale financial instruments reserve. Following further guidance published by the Local Authority Accounting Panel (LAAP) it has been clarified that investments in subsidiaries, associates and joint ventures do not fall within the scope of FRS 26 and the SORP, provided the bodies are included in the group accounts. FRS 26 excludes these investments from its scope (unless the investments are held for resale). The Council's investments in Lothian Buses plc and CEC Holdings Limited are not held for resale and thus no longer require to be valued as such. Comparative figures for 2007/08 have been re-stated to show this change. Further details of the impact on the balance sheet of this change can be seen in note 1 to the Council's Financial Statements.

The Council's investments in **tie** Limited and Shawfair Developments Limited have been assessed as outwith the scope of FRS26. The investment in **tie** Limited is considered to be a long-term Council priority and has been recognised at historical cost, while Shawfair Developments Limited is in the process of being wound down.

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.

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 2009).

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, 2009, and its income and expenditure for the year ended 31 March, 2009.



DONALD McGOUGAN, CPFA,
Director of Finance
12 June 2009

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 are included at page 93 of the Accounts.

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 and Single Outcome Agreement;
- 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; and
- a Code of Guidance for the governance of Council-owned companies.

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.

Internal controls are intended to ensure that assets are safeguarded, transactions authorised and recorded, and material errors or irregularities are prevented or detected in a timely manner. It is based on a framework of financial regulations, administrative procedures, management information and management supervision.

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's 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.

ANNUAL GOVERNANCE STATEMENT

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 31st March 2009. It is the Director of Finance's opinion that reasonable assurance can be placed upon its effectiveness.

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:

- implementation of action plans agreed with external inspection agencies;
- finalisation of a Partnership Single Outcome Agreement to ensure effective partnership working;
- implementation of the single status pay agreement and mitigation of the resultant impact on services;
- review of alternative service delivery methods and service prioritisation;
- the budget monitoring process;
- the reliability and accuracy of the commitment accounting system;
- long term financial planning and mitigation of the effects of the economic downturn;
- the governance and group arrangements of Council Companies
- the governance arrangements and management of major projects;
- development and implementation of the Local Code of Corporate Governance.

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 and Clerk
29 September 2009

JENNY DAWE
Council Leader
29 September 2009

DONALD McGOUGAN
Director of Finance
29 September 2009

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 2009

2007/08 £000		£000
13,710	Deficit in the Income and Expenditure Account	74,169
	Net Additional Amount required by Statute or Non-Statutory Proper Practices to be debited to the General Fund Balance for the Year.	(104,797)
<u>(21,848)</u>		<u>(8,138)</u>
	General Fund Surplus	(30,628)
<u>(20,809)</u>	General Fund Balance Brought Forward	<u>(28,947)</u>
<u>(28,947)</u>	General Fund Balance Carried Forward	<u>(59,575)</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 included 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 2009

2007/08 £000		£000
13,710	Deficit / (surplus) on the Income and Expenditure Account for the year	74,169
(179,713)	Deficit / (surplus) arising on revaluation of fixed assets	(162,369)
(148,478)	Actuarial (gain) / loss on pension assets and liabilities	193,442
<u>40,809</u>	Other losses	<u>23,412</u>
<u>(273,672)</u>	Total recognised losses / (gains) for the year	<u>128,654</u>

BALANCE SHEET

as at 31 March 2009

2007/08		Notes	£000	£000
1,870	Intangible Fixed Assets	18.		2,821
	Tangible Fixed Assets			
	Operational Assets			
867,999	Council Dwellings	22.	818,828	
711,842	Other Land and Buildings	22.	905,828	
42,101	Vehicles, Plant, Furniture and Equipment	22.	48,629	
409,736	Infrastructure Assets	22.	528,219	
18,577	Community Assets	22.	21,595	
<u>2,050,255</u>				2,323,099
	Non-Operational Assets			
111,352	Investment Properties	22.	120,241	
54,683	Assets under Construction	22.	10,286	
28,695	Surplus Assets Held for Disposal	22.	23,463	
<u>194,730</u>				153,990
	Long-Term Assets			
57,498	Long-Term Investments		43,374	
102,358	Long-Term Debtors	27.	130,367	
<u>159,856</u>				173,741
	Current Assets			
1,927	Stocks and Work-in-Progress		2,121	
365,217	Debtors		399,551	
(229,893)	Less: Bad Debt Provision	28.	(238,234)	
146,493	Investments		141,698	
561	Cash and Bank		7,197	
<u>284,305</u>				312,333
	Less: Current Liabilities			
(12,583)	Borrowing Repayable on Demand or Within 12 Months		(50,568)	
(201,238)	Creditors		(177,163)	
(16,909)	Provisions	29.	(26,540)	
(19,077)	Bank Overdraft		(25,217)	
<u>(249,807)</u>				(279,488)
<u>2,441,209</u>	Total Assets Less Current Liabilities			<u>2,686,496</u>

BALANCE SHEET

2007/08 £000		Notes	£000	£000
	Long-Term Liabilities			
	Borrowing Repayable Within a Period in Excess of Twelve			
(1,013,782)	Months	26.	(1,100,284)	
(590)	Finance Leases	21.	(320)	
(221,503)	Government Grants Deferred	31.	(331,178)	
(350)	Deferred Credit	32.	(350)	
<u>(98,147)</u>	Pension Liability	38.	<u>(276,181)</u>	
<u>(1,334,372)</u>				<u>(1,708,313)</u>
<u>1,106,837</u>	TOTAL ASSETS LESS LIABILITIES			<u>978,183</u>
	Represented by:			
175,549	Revaluation Reserve	30.		322,961
1,017,463	Capital Adjustment Account	30.		896,190
(57,054)	Financial Instruments Adjustment Account	30.		(57,633)
32,514	Capital Fund	30.		22,941
(98,147)	Pensions Reserve	38.		(276,181)
7,565	Renewal and Repairs Fund	30.		10,330
<u>28,947</u>	General Fund	30.		<u>59,575</u>
<u>1,106,837</u>	TOTAL NET WORTH			<u>978,183</u>

The unaudited accounts were issued on 12 June 2009 and the audited accounts were authorised for issue on 29 September 2009.



DONALD McGOUGAN, CPFA,
Director of Finance
12 June 2009

CASH FLOW STATEMENT

Year ended 31 March 2009

2007/08 £000	REVENUE ACTIVITIES	Notes	£000	£000
	Cash Outflows			
532,263	Cash Paid to and on Behalf of Employees		548,860	
808,538	Other Operating Cash Payments		764,163	
142,316	Housing Benefit Paid Out		157,490	
<u>278,898</u>	National Non-Domestic Rate Payments to National Pool		<u>279,906</u>	
1,762,015				1,750,419
	Cash Inflows			
(71,202)	Rents (after Rebates)		(67,011)	
(223,953)	Council Tax Receipts		(224,653)	
(167,119)	National Non-Domestic Rate Receipts from National Pool		(177,798)	
(268,243)	Non-Domestic Rate Receipts		(264,957)	
(422,906)	Revenue Support Grant	40.	(538,569)	
(172,414)	DWP Grants for Benefits	40.	(178,638)	
(125,567)	Other Government Grants	40.	(49,476)	
<u>(271,291)</u>	Cash Received for Goods and Services		<u>(308,068)</u>	
<u>(1,722,695)</u>				<u>(1,809,170)</u>
39,320	NET CASH (INFLOW) / OUTFLOW FROM REVENUE ACTIVITIES	39.		(58,751)
	DIVIDENDS FROM JOINT VENTURES AND ASSOCIATES			
	Cash Inflows			
(7,873)	Dividends received			(1,886)
	RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
	Cash Outflows			
53,164	Interest Paid		65,547	
35	Interest Element of Finance Leases		44	
	Cash Inflows			
<u>(9,009)</u>	Interest Received		<u>(10,352)</u>	
44,190				55,239
	CAPITAL ACTIVITIES			
	Cash Outflows			
311,408	Purchase of Fixed Assets		312,477	
<u>6,700</u>	Other Capital Cash Payments		<u>21,602</u>	
318,108			334,079	
	Cash Inflows			
(29,994)	Sale of Fixed Assets		(28,448)	
(177,677)	Capital Grants Received	40.	(166,928)	
<u>(38,779)</u>	Other Capital Cash Receipts		<u>(13,206)</u>	
(246,450)			(208,582)	
71,658	NET CASH OUTFLOW FROM CAPITAL ACTIVITIES			125,497
	ACQUISITIONS AND DISPOSALS			
	Cash Outflows			
<u>0</u>	Investments in Subsidiaries			<u>6,250</u>
147,295	NET CASH (INFLOW) / OUTFLOW BEFORE FINANCING	41.		126,349
	MANAGEMENT OF LIQUID RESOURCES			
(91,065)	Net Increase / (Decrease) in Short Term Deposits	41.		(4,795)
	FINANCING			
	Cash Outflows			
58,421	Repayments of Amounts Borrowed			257,140
	Cash Inflows			
<u>(125,930)</u>	New Loans Raised			<u>(379,190)</u>
<u>(11,279)</u>	(INCREASE) / DECREASE IN CASH	41.		<u>(496)</u>

NOTES TO THE FINANCIAL STATEMENTS

1. Changes to 2007/08 Audited Financial Statements

Following further guidance from the Local Authority Accounting Panel (see page 15 for details), the Council's investments in Lothian Buses plc and CEC Holdings Limited do not require to be revalued as available for sale investments under FRS26. Comparative figures have been re-stated as shown below:

	2007/08 Audited Accounts	Lothian Buses	CEC Holdings	Re-stated 2007/08
Long-term investments	100,822	(36,586)	(6,738)	57,498
Available-for-sale fin. instruments reserve	(43,324)	36,586	6,738	0

2. New and Discontinued Operations

2.1 New Operations

In April 2008, eligible businesses in the city centre were balloted on the creation of a business improvement district (BID). Following a positive vote, a BID was established for this area. This is managed by Essential Edinburgh. Further details can be seen in note 9.

2.2 Discontinued Operations

In March 2008 the Scottish Court Service took over responsibility for the operation of the district court. Costs associated with the district court of £0.053m were included in services to the public within the income and expenditure account for the year ended 31 March 2008. There are no costs associated with the district court included in the income and expenditure account for the year ended 31 March 2009.

3. Exceptional Items

Expenditure on exceptional items relates to payments / provisions of £2.408m (£5.005m 2007/8) relating to equal pay settlements and costs associated with 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 back 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 requires 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 back to the Council with a guaranteed maintenance-free life of five years.

Under the agreements the Council is committed to paying the following sums (in cash terms assuming 2.5% increase in appropriate inflation index).

Future Repayment Period	PPP 1 £000	PPP 2 £000
2009 - 2010	15,857	11,826
2010 - 2015	81,965	100,696
2015 - 2020	86,621	109,371
2020 - 2025	91,541	118,795
2025 - 2030	96,741	129,030
2030 - 2035	64,108	140,147
2035 - 2039	0	100,105
	<u>436,833</u>	<u>709,970</u>

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 with proposals to deliver efficiency savings of £22.3m in the next ten years. £12m of these savings were in the period 2006/07 to 2008/09.

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

Future Repayment		
Period	£000	RPI Est.
2009-10	25,089	0.0%
2010-11	25,153	1.5%
2011-12	24,691	2.5%
2012-13	25,346	2.5%
2013-14	26,017	2.5%
2014-15	26,705	2.5%
2015-16	26,910	2.5%
	179,911	

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 RPI increase at the level shown):-

Future Repayment		
Period	£000	RPI Est.
2009-10	5,650	0.0%
2010-11	5,735	1.5%
2011-12	5,878	2.5%
	17,263	

5. Analysis of Other Operating Income and Expenditure

	Gross Expend. £000	Income £000	Net Expend. £000	2007/08 Net Expend. £000
Joint Board Requisition				
- Lothian Valuation Joint Board	3,788	0	3,788	3,733
Non-General Fund central support	25,638	(22,904)	2,734	5,423
Other miscellaneous items	12,975	(11,686)	1,289	(8,695)
	42,401	(34,590)	7,811	461

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 'Surplus or Deficit of 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.

	2008/09 £000	2007/08 £000	2006/07 £000	Cumulative £000
Turnover	7,189	7,245	7,684	
Deficit	(1,024)	(873)	(732)	(2,629)

Direct Cleaning failed to achieved its statutory obligation to break even over the three-year period. The deficit incurred in 2008/09, however, was after meeting costs of £1.552m (2007/08 £1.096m; 2006/07 £1.133m) 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 £0.988m (2007/08 £1.02m; 2006/07 £2.051m) from the Council's Health and Social Care department.

BlindCraft recorded a trading deficit of £0.134m after the contribution from the Health and Social Care department.

	2008/09 £000	2007/08 £000	2006/07 £000	Cumulative £000
Turnover	2,003	1,832	2,027	
Deficit	(134)	(207)	(314)	(655)

The losses made by BlindCraft have been reducing over the last three years following the implementation of the business plan, approved at the Council's Executive in December 2006. A new Working Group, including representatives from BlindCraft, the Health and Social Care Department and Trade Unions, has been set up to develop plans to break even.

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.

	2008/09 £000	2007/08 £000	2006/07 £000	Cumulative £000
Turnover	26,236	26,844	28,941	
Surplus	2,548	3,710	4,062	10,320

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**

Other catering provides staff catering and hospitality in five Council buildings

	2008/09 £000	2007/08 £000	2006/07 £000	Cumulative £000
Turnover	1,298	1,189	1,110	
Surplus	16	3	24	43

Edinburgh Catering Services - Other Catering achieved its statutory obligation to break even over the three-year period. These surpluses were after meeting costs of £nil (2007/08 £0.08m ; 2006/07 £nil) relating to equal pay claims.

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

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

	2008/09 £000	2007/08 £000	2006/07 £000	Cumulative £000
Turnover	5,266	5,095	5,347	
Deficit	(601)	(605)	(348)	(1,554)

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 £0.601m incurred in 2008/09 was after meeting costs of £0.815m (2007/08 £0.482m; 2006/07 £0.425m) 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.

The Hungry for Success healthy eating programme has impacted on school meal uptake levels. As a consequence, the service has introduced a series of cost reduction initiatives. It is also working closely with the Children and Families department to identify measures to promote the service and encourage an increase in meal uptake which have helped to increase turnover in 2008/09. Beyond this, a wider catering service strategy is being developed.

- **City Fleet Maintenance Services**

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

	2008/09 £000	2007/08 £000	2006/07 £000	Cumulative £000
Turnover	4,252	4,192	4,232	
(Deficit) / Surplus	330	263	(34)	559

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 road maintenance, street lighting and signs, design and maintenance for the Council and external customers.

	2008/09 £000	2007/08 £000	2006/07 £000	Cumulative £000
Turnover	23,291	18,501	18,335	
(Deficit) / Surplus	(1,778)	778	1,012	12

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

The deficit incurred in 2008/09, however, was after meeting an exceptional impairment cost of £3.037m for its Sighthill depot (2007/08 £nil, £2006/07 £nil).

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

- **Open Space Maintenance**

This significant trading operation (STO) maintains the City's green spaces including public parks, school playing fields, housing estates, sports playing fields, highway verges, bowling greens, children's playing areas, etc.

The STO also provides litter free maintenance of the City's roads, pavements and grassed areas with the use of Task Forces.

	2008/09 £000	2007/08 £000	2006/07 £000	Cumulative £000
Turnover	16,968	16,172	15,955	
(Deficit) / Surplus	306	(8)	(56)	242

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 to the above, 91,000 uplifts of bulky household refuse are undertaken each year.

	2008/09 £000	2007/08 £000	2006/07 £000	Cumulative £000
Turnover	15,295	14,392	13,045	
(Deficit) / Surplus	155	(642)	(2,246)	(2,733)

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 Council is seeking to transform the Refuse Collection service, particularly in terms of reducing cost whilst maintaining or improving customer satisfaction and other quality measures.

Financial performance has improved over the past year and the STO showed a surplus in 2008/09 of £0.155m on the trading account. This represents a significant improvement from previous years where the STO was in deficit in 2007/08 of £0.642m and 2006/07, £2.246m.

The main element of the transformation involves changing working arrangements. A pilot Pathfinder project commenced in the South of Edinburgh in August 2008. If successful, this will be rolled out across the city during the next year and it is estimated this will result in an annual saving in future years of around £2m (in a full year).

As a result of the roll out of the Pathfinder project, it is anticipated that savings will be sufficient to achieve a three year surplus for 2007-2010.

NOTES TO THE FINANCIAL STATEMENTS

7. Publicity Account (Section 5 of the Local Government Act 1986)

Under this legislation, the Council is required to maintain a separate publicity account. Certain items which are exempt expenditure, but which cannot be separately identified, are included in the following totals:

	2008/09 £000	2007/08 £000
Advertising	1,459	1,802
Marketing	854	830
Other publicity	150	234
Total	2,463	2,866

8. 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:

	2008/09 £000	2007/08 £000
Expenditure		
Payments to other local authorities in respect of:		
Area waste project	35	93
Educating pupils	290	300
Other services for children	1,157	1,208
Residential care for children	193	324
Residential care for the elderly	0	1,000
Payments made to Health Boards in respect of:		
Health and safety services	83	269
Medicals for cab drivers	28	55
Others		
Police officers	2,560	2,435
Lothian and Borders Police - cab inspection	362	328
Total Expenditure	4,708	6,012
Income		
Receipts in respect of library services:		
Scottish Prison Service	12	6
Health Boards	26	24
Receipts in respect of translation and Interpretation services:		
Lothian Health Board	595	373
Receipts from other local authorities in respect of:		
Child protection officer	0	31
Educating pupils	897	1,193
Pentland Hills Regional Park management	96	96
Residential care for children	422	36
Revenues	66	52
Risk factory	46	50
Social work undertakings	2,228	1,690
Technical support services	0	86
Total Income	4,388	3,637

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.

	2008/09
	£000
BID Levy Income	881
Payments made / due to Essential Edinburgh	837
Monies still to be recovered from ratepayers	<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. Landfill Allowance Trading Schemes

In 2008/09 the Council sent 100,439 tonnes of biodegradable municipal waste to landfill, 9,224 tonnes less than the Council's allowance of 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.

11. Local Authority (Goods and Services) Act 1970

The Local Authority (Goods and Services) Act 1970 allows the Council to enter into agreements with other public bodies to provide goods and services. Comparative figures have been re-stated for additional activities not disclosed in the 2007/08 Audited Financial Statements.

The main activities were:	2008/09	2007/08
	£000	£000
Receipts from other eligible bodies in respect of:		
Analyst services	494	502
Cab inspection services	99	97
Central purchasing services	28	76
Design services	185	341
Legal services	275	185
Pathfinder project	367	566
Staff secondments	65	53
Training services	47	5
Other professional and technical services	226	295
Receipts in respect of Mortuary Fees		
Crown Office	123	117
Lothian and Borders Police Board	118	93
Other local authorities	24	20
Receipts in respect of Collection Services		
Scottish Water	1,326	1,252
Other local authorities	66	52
Total Income	<u>3,443</u>	<u>3,654</u>

NOTES TO THE FINANCIAL STATEMENTS

12. 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 £1.22m (£1.16m 2007/08). Expenses amounted to £0.051m (£0.057m 2007/08).

13. Officers' Remuneration

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

	2008/09	2007/08
£50,001 - £60,000	204	142
£60,001 - £70,000	50	49
£70,001 - £80,000	29	17
£80,001 - £90,000	13	17
£90,001 - £100,000	14	7
£100,001 - £110,000	2	1
£110,001 - £120,000	4	4
£120,001 - £130,000	0	0
£130,001 - £140,000	1	0
£140,001 - £150,000	0	0
£150,001 - £160,000	1	1
Total	318	238

14. 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	2008/09	2007/08
	£000	£000
Revenue Grants		
Scottish Government		
Revenue support grant	538,569	442,906
Non-domestic rates	177,798	167,119
Other Government Grants	41,209	132,589
Department of Works and Pensions -		
Housing benefits	153,412	139,607
Council tax benefits	27,798	28,559
Capital Grants		
Housing development fund / community ownership	38,496	38,618
Other government grants	124,913	113,564
Total Government Grants	1,102,195	1,062,962

NOTES TO THE FINANCIAL STATEMENTS

14. Related Parties - continued

	2008/09 £000	2007/08 £000
Subsidiaries and Other Organisations - Revenue Income and Expenditure		
• Revenue Expenditure		
Buredi - rent	340	342
Edinburgh Festival Theatres	944	944
Edinburgh Leisure Limited - other expenditure	25	44
Edinburgh Leisure Limited - revenue funding	8,099	7,964
Edinburgh World Heritage Trust	556	617
Lothian and Borders Fire and Rescue Board - requisitions	28,713	27,065
Lothian and Borders Police Board - capital grant	2,370	0
Lothian and Borders Police Board - requisitions	53,372	53,702
Lothian Buses Limited - other expenditure	29	29
Lothian Buses Limited - supported bus services	1,010	1,439
Lothian Valuation Joint Board - requisitions	3,788	3,733
SESTRAN (South East of Scotland Transport P'ship) - requisitions	99	23
Subsidiaries / Voluntary Organisations	23,543	28,099
tie Limited	0	62
Total Revenue Expenditure	122,888	124,063
• Revenue Income		
BlindCraft - contributions from other local authorities	287	282
CEC Holdings Limited (EDI Group Limited) - loan interest	254	262
Edinburgh Festival Theatres	152	150
Edinburgh Leisure - prudential investment costs	106	95
Lothian Health Board - resource transfers	19,780	21,873
SESTRAN - various grants	10	85
tie Limited	0	607
Professional services, other grants and funding		
Capital City Partnership	13	0
CEC Holdings Limited (including EICC Limited)	159	142
Edinburgh Leisure Limited	0	37
Edinburgh Military Tattoo	2	4
Lothian and Borders Fire and Rescue Board	10	21
Lothian and Borders Police Board	29	29
Projects Edinburgh Ltd	22	48
Other subsidiaries and voluntary organisations	22	22
tie Limited	23	12
Lothian Valuation Joint Board	7	7
Waterfront Edinburgh Limited	11	139
Total Revenue Income	20,887	23,815

NOTES TO THE FINANCIAL STATEMENTS

14. Related Parties - continued

	2008/09 £000	2007/08 £000
<ul style="list-style-type: none"> • Central Support Income (net of 2008/09 contribution by Council to minimise impact of impairment costs) 		
Forth Estuary Transport Authority	139	196
Lothian and Borders Fire and Rescue Board	395	500
Lothian and Borders Police Board	180	230
Lothian Valuation Joint Board	92	93
Pension Funds	970	1,004
Total Central Support Income	1,776	2,023
<ul style="list-style-type: none"> • Interest on Revenue Balances 		
Forth Estuary Transport Authority	(55)	(219)
Lothian and Borders Fire and Rescue Board	188	464
Lothian and Borders Police Board	670	765
Pension Funds	227	367
SESTRAN	86	242
Total Interest on Revenue Balances	1,116	1,619
<ul style="list-style-type: none"> • Loans Charges Recovered 		
Further Education Colleges	98	100
Lothian and Borders Fire and Rescue Board	1,660	4,209
Lothian and Borders Police Board	2,801	5,517
Total Loans Charges	4,559	9,826
<ul style="list-style-type: none"> • Lothian Pension Fund 		
Transfer of Contributions to Lothian Pension Fund	46,117	45,045
Pension Strain Costs	1,600	1,526
Total Lothian Pension Fund	47,717	46,571
Subsidiaries and Other Organisations - Capital Expenditure and Income		
<ul style="list-style-type: none"> • Capital Expenditure 		
Edinburgh Leisure tie Limited	286 87,086	238 68,331
Total Capital Expenditure	87,372	68,569
<ul style="list-style-type: none"> • Capital Income 		
Forth Estuary Transport Authority	867	8,629
SESTRAN	0	8,093
Total Capital Income	867	16,722

15. Audit Costs

The fees payable to Audit Scotland in respect of external audit services undertaken in accordance with the Code of Audit Practice are £0.751m (£0.717m 2007/08). The 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

16. 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 £104.797m better (£21.848m 2007/08) 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 17 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

17. 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 2009

2007/08 £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.		
(82,464)	Depreciation, Amortisation and Impairment of Fixed Assets	(179,322)	
6,791	Government Grants Deferred Amortisation	12,868	
1,523	Amortisation of Education PPP Costs	1,482	
6,063	Net Profit on Sale of Fixed Assets	6,183	
578	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	274	
(45,113)	Net Charges made for Retirement Benefits in accordance with FRS 17	(38,223)	
<hr/>		<hr/>	
(112,622)			(196,738)
	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.		
46,522	Statutory provision for repayment of debt	52,063	
0	Capital expenditure financed from the General Fund	140	
52,126	Employer's contributions payable to Lothian Pension Fund and retirement benefits payable direct to pensioners	53,631	
<hr/>		<hr/>	
98,648			105,834
	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.		
3,451	Statutorily required transfer of the surplus for the year on the Housing Revenue Account to the Renewal and Repairs Fund	3,232	
(11,325)	Net Transfer from Capital Fund and Other Earmarked Reserves	(17,125)	
<hr/>		<hr/>	
(7,874)			(13,893)
<hr/>		<hr/>	
(21,848)	Amount by which the surplus on the General Fund for the year was (greater) / less than the Income and Expenditure Account result for the year.		(104,797)

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. The 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 2008	1,859	11	1,870
Additions in year	174	779	953
	<hr/>	<hr/>	<hr/>
Gross Book value at 31 March 2009	2,033	790	2,823
	<hr/>	<hr/>	<hr/>
Depreciation charge for year	0	(2)	(2)
	<hr/>	<hr/>	<hr/>
Net book value at 31 March 2009	2,033	788	2,821
	<hr/>	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

19. Capital Expenditure and Fixed Asset Disposals

19.1 Service Summary of Gross Capital Expenditure

	2008/09 £000	2007/08 £000
• General Services		
Children and families	23,615	29,147
Health and social care	7,916	9,239
City development	212,420	128,263
Corporate services (including culture and sport)	20,966	16,452
Services for communities	29,761	30,810
Transfer to revenue for third party payments	2,370	0
Other services	(19)	52
Expenses relating to asset sales	359	728
Contributions to investments	6,250	6,084
Contributions to capital fund	16,927	17,183
General Services Total:	320,565	237,958
• Other Expenditure		
Housing revenue account	29,634	35,190
Housing development fund / community ownership	41,701	41,278
Total Expenditure	391,900	314,426

19.2 Analysis of Capital Expenditure and Capital Financing

	2008/09 £000	2007/08 £000
Gross Capital Expenditure		
Intangible Fixed Assets		
Grants / contributions	952	335
Housing development fund / community ownership	41,701	41,278
Intangible Fixed Assets Total	42,653	41,613
Operational and Non-Operational Fixed Assets:		
Site and building acquisitions	90,379	12,897
Building works and demolitions	182,562	194,000
Road works	11,816	8,472
Professional fees	24,041	22,010
Vehicles, plant, machinery, furniture, etc.	5,296	7,635
Other	5,566	1,296
Operational and Non-Operational Fixed Assets Total	319,660	246,310
Other Expenditure		
Assets subject to sale and lease back arrangements	1,835	2,231
Transfer to revenue for Lothian and Borders Police Joint Board	2,370	0
Write-back provision no longer required	(100)	0
Contribution to capital fund	16,927	17,183
Contributions to long-term investments	6,250	0
Contributions to short-term investments	0	6,084
Contribution to education PPP1 project	2,305	1,005
	29,587	26,503
Gross Capital Expenditure Total	391,900	314,426

NOTES TO THE FINANCIAL STATEMENTS

19. Capital Expenditure and Fixed Asset Disposals - continued

19.2 Analysis of Capital Expenditure and Capital Financing (continued)

	2008/09 £000	2007/08 £000
Capital Financing		
• Fixed Asset Disposals		
Land sales	27	2,387
Other property sales	18,072	14,881
Council house sales (right to buy)	8,413	10,581
Other receipts (right to buy)	99	183
Council house sales (excluding right to buy)	0	83
Vehicle, plant, equipment, etc. sales	1,837	1,880
	<u>28,448</u>	<u>29,995</u>
• Other Capital Receipts		
Minutes of waiver	58	64
Owners' shares - common repairs	406	479
Loan repayments - houses	115	116
Government grants	123,010	112,790
Government grants - housing development funding / community ownership	38,496	38,618
Government grants - private sector housing	1,903	774
Lottery grants	750	1,032
Grants - other public bodies	8,158	9,027
Contributions from other bodies	11,095	24,170
Contributions from developers	919	4,012
Contribution from capital fund	10,848	0
Revenue contributions to capital	140	0
	<u>195,898</u>	<u>191,082</u>
• Advances from Council's loans fund	<u>167,554</u>	<u>93,349</u>
Capital Financing Total	<u><u>391,900</u></u>	<u><u>314,426</u></u>

19.3 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.

	2008/09 £000	2007/08 £000
Statement of Capital Receipts		
Gross Capital Receipts during the year:		
Land sales	27	2,387
Other property sales	18,072	14,881
Vehicle, plant, equipment sales	1,837	1,880
Council house sales	8,512	10,847
	<u>28,448</u>	<u>29,995</u>
Gross Capital Receipts Total	<u><u>28,448</u></u>	<u><u>29,995</u></u>
Capital Receipts Applied to:		
Finance capital expenditure	11,521	12,812
Capital fund	16,927	17,183
	<u>28,448</u>	<u>29,995</u>

NOTES TO THE FINANCIAL STATEMENTS

20. Capital Commitments

At 31 March 2009 the City of Edinburgh Council was contractually committed to the following significant capital works:

	£000
Tram infrastructure contract	189,310
Tram vehicles contract	42,860
Royal Commonwealth Pool	34,870
Usher Hall	6,500
Braidburn flood prevention scheme	5,800
Redhall primary school	5,500
Glenogle swim centre	3,880
Tram utilities diversion contract	2,920
Burdiehouse / Southhouse community centre	2,500
Flora Stevenson school hall and music room	2,030
Cameron House community centre	1,800
	<u>297,970</u>

21. Finance and Operating Leases

21.1 Finance Leases

Items of Plant and Equipment under Finance Lease during 2008/09 amounted to rental of £0.324m (£0.410m 2007/08).

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 £000
Value as at 1 April 2008	914
Repayments during the year	<u>(324)</u>
Value as at 31 March 2009	<u>590</u>

Outstanding obligations to make payments under these finance leases (excluding finance costs) at 31 March 2009, accounted for as part of current and long-term liabilities are shown below.

Future Repayment Period	£000
Obligations payable in 2009/10	270
Obligations payable over 2 - 5 Years	<u>320</u>
	<u>590</u>

21.2 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 2008/09 was £11.766m (£13.759m 2007/08). The value of future payments under operating leases is £39.168m (£139.186m 2007/08). Future payments have reduced significantly due to the acquisition of Waverley Court, the Council's headquarters.

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

Future Repayment Period	Land and Buildings £000	Vehicles, Plant and Equipment £000	Total £000	2007/08 Total £000
within one year	5,296	1,386	6,682	12,291
two - five years	17,781	2,648	20,429	41,576
in excess of five years	<u>12,057</u>	<u>0</u>	<u>12,057</u>	<u>85,319</u>
	<u>35,134</u>	<u>4,034</u>	<u>39,168</u>	<u>139,186</u>

NOTES TO THE FINANCIAL STATEMENTS

22. Fixed Assets

22.1 Movement to Fixed Assets 2008/09

Operational Assets

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant and Equipment £000
<u>Gross Book Value</u>			
At 31 March 2008	883,698	733,762	57,419
Additions during year	21,335	121,461	15,126
Disposals during year	(8,110)	(809)	0
Impairments	(46,659)	(67,931)	0
Transferred from long-term investments	0	0	0
Transferred to Common Good	0	0	0
Transferred from non-operational assets	0	51,268	0
Revaluations and restatements	0	80,776	0
At 31 March 2009	<u>850,264</u>	<u>918,527</u>	<u>72,545</u>
<u>Depreciation</u>			
As at 31 March 2008	(15,699)	(21,920)	(15,318)
Charge for year	(17,711)	(11,117)	(8,598)
Revalued / impaired assets	1,676	16,811	0
Disposals	298	0	0
Restatements	0	3,527	0
As at 31 March 2009	<u>(31,436)</u>	<u>(12,699)</u>	<u>(23,916)</u>
Net book value at 31 March 2009	<u>818,828</u>	<u>905,828</u>	<u>48,629</u>
Net book value at 31 March 2008	<u>867,999</u>	<u>711,842</u>	<u>42,101</u>

	Infrastructure Assets £000	Community Assets £000	Total £000
<u>Gross Book Value</u>			
At 31 March 2008	517,662	18,577	2,211,118
Additions during year	139,943	1,174	299,039
Disposals during year	0	0	(8,919)
Impairments	0	(1,563)	(116,153)
Transferred from long-term investments	5,033	0	5,033
Transferred to Common Good	0	(119)	(119)
Transferred from non-operational assets	0	0	51,268
Revaluations and restatements	0	3,526	84,302
At 31 March 2009	<u>662,638</u>	<u>21,595</u>	<u>2,525,569</u>
<u>Depreciation</u>			
As at 31 March 2008	(107,926)	0	(160,863)
Charge for year	(26,493)	0	(63,919)
Revalued / impaired assets	0	0	18,487
Disposals	0	0	298
Restatements	0	0	3,527
As at 31 March 2009	<u>(134,419)</u>	<u>0</u>	<u>(202,470)</u>
Net book value at 31 March 2009	<u>528,219</u>	<u>21,595</u>	<u>2,323,099</u>
Net book value at 31 March 2008	<u>409,736</u>	<u>18,577</u>	<u>2,050,255</u>

NOTES TO THE FINANCIAL STATEMENTS

22. Fixed Assets - continued

22.1 Movement to Fixed Assets 2008/09 (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 2008	111,352	54,683	28,929	194,964
Additions during year	1,562	18,658	401	20,621
Disposals during year	(1,883)	0	(10,056)	(11,939)
Impairments	(9,699)	0	(4,309)	(14,008)
Transferred to operational / non-operational assets	4,764	(63,055)	7,023	(51,268)
Revaluations and restatements	14,145	0	1,480	15,625
At 31 March 2009	120,241	10,286	23,468	153,995
<u>Depreciation</u>				
As at 31 March 2008	0	0	(234)	(234)
Revalued / impaired assets	0	0	514	514
Disposals	0	0	130	130
Restatements	0	0	(415)	(415)
As at 31 March 2009	0	0	(5)	(5)
Net book value at 31 March 2009	120,241	10,286	23,463	153,990
Net book value at 31 March 2008	111,352	54,683	28,695	194,730

22.2 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	1,015	10,286	87	11,388
Valued at Current Value in:				
2008/09	25,297	0	18,090	43,387
2007/08	33,858	0	4,912	38,770
2006/07	13,983	0	0	13,983
2005/06	16,500	0	379	16,879
2004/05	29,588	0	0	29,588
Total	120,241	10,286	23,468	153,995

NOTES TO THE FINANCIAL STATEMENTS

22. Fixed Assets - continued

22.2 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 fixed assets.

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant and Equipment £000
Valued at historical cost	0	0	72,545
Additions to assets not yet valued	19,544	16,282	0
Valued at Current Value in:			
2008/09	106	649,869	0
2007/08	828,712	148,193	0
2006/07	74	49,892	0
2005/06	1,445	24,306	0
2004/05	383	29,985	0
Total	850,264	918,527	72,545

	Infrastructure Assets £000	Community Assets £000	Total £000
Valued at historical cost	662,638	0	735,183
Additions to assets not yet valued	0	1,231	37,057
Valued at Current Value in:			
2008/09	0	7,457	657,432
2007/08	0	8,944	985,849
2006/07	0	506	50,472
2005/06	0	3,426	29,177
2004/05	0	31	30,399
Total	662,638	21,595	2,525,569

- **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

22. Fixed Assets - continued

22.2 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

Infrastructure assets 20 years

Vehicles, plant and equipment 5 years to 20 years, to reflect estimated useful life

- **Public Private Partnership**

In 2008/09, two primary schools and one high school, valued net of land at £12.937m were transferred to Axiom Education Limited through the PPP2 project.

A further adjustment of £50.967m in 2008/09 relates to the PPP1 project. This amount was transferred off the Council's balance sheet to the Capital Adjustment Account.

22.3 Information on Assets Held

The fixed assets owned by the Council include the following approximate numbers at 31 March 2009:

- **Council Dwellings**

The Council has a housing stock of 21,854 properties (2008 - 22,374). Details of the composition of the housing stock can be seen on page 69. The 2008/09 total includes 1,045 houses which have been earmarked for demolition.

- **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 108 schools (excluding PPP properties), 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 arts and museum exhibits and 800 items of civic regalia.

- **Non-Operational Assets**

Non-operational assets comprise over 725 shops, offices, industrial units and other commercial units.

- **Infrastructure Assets**

Included within infrastructure assets are 1,378 kilometres of public roads and 60,400 street lamps. Infrastructure assets also include £163.56m of expenditure on the Edinburgh Tram project.

NOTES TO THE FINANCIAL STATEMENTS

23. Analysis of Net Assets / (Liabilities) Employed	2008/09	2007/08
	£000	£000
General Fund	510,367	615,813
Other Trading Undertakings	(7,142)	(1,739)
HRA	474,958	492,763
Balance as at 31 March 2009	<u>978,183</u>	<u>1,106,837</u>

Total net liabilities relating to trading undertakings is £10.248m (£7.740m 2007/08), of which £3.106m (£6.001m 2007/08) is included in the General Fund.

24. 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.

24.1 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.

		(CECH Only)
The most recent results of the company are as follows:	31.12.2008	31.12.2007
	£000	£000
Net assets	27,876	37,249
Net (loss) / profit before taxation	(15,152)	3,761
Retained loss carried forward	(76,868)	(43,322)

On the 30 March 2009, the Council sold land to the value of £6,250,000 to CEC Holding Limited, who subsequently sold it to Shawfair Land Ltd, a new wholly owned subsidiary of CEC Holdings Ltd.

During the year, the Council transferred its 100% shareholding in Waterfront Edinburgh Limited to CEC Holdings, following the withdrawal of the Council's joint venture partner Scottish Enterprise from Waterfront Edinburgh Limited.

The figures to 31 December 2008 above have been adjusted to include the results of Shawfair Land Limited and Waterfront Edinburgh Limited. The previous year's results for Waterfront Edinburgh Limited, based on a 50% shareholding, were as follows: net assets £14.393m, loss before tax £6.604m and retained loss carried forward £20.051m.

- **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 will be wound up in 2009-10.

NOTES TO THE FINANCIAL STATEMENTS

24. Subsidiaries and Associated Companies - continued

24.1 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:	31.03.2008	31.03.2007
	£000	£000
Net assets	11	7
Net profit / (loss) before taxation	6	(1)
Retained / (loss) profit carried forward	0	(5)

- **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:	31.12.2008	31.12.2007
	£000	£000
Net assets	43,596	54,917
Net profit before taxation	979	10,200
Profit and loss account reserve	37,197	48,518
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:	31.03.2009	31.03.2008
	£000	£000
Net liabilities	(455)	(406)
Net loss before taxation	(49)	(47)
Retained loss carried forward	(1,144)	(1,095)

The Council has made a full provision for the losses of the Pacific Shelf company in the 2008-09 accounts. The company is expected to be wound up in 2009-10.

- **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.

The company will have no further activity after the current projects are completed. The company will be voluntarily wound up in 2009-10 therefore the accounts have been prepared on a not for going concern basis for the year ending 31 March 2009. This requires any future liabilities of the company to be included in the accounts. Future income is treated as contingent on performance and is therefore excluded.

The most recent results of the company are as follows:	31.03.2009	31.03.2008
	£000	£000
Net (liabilities) / assets	(67)	29
Net (loss) / profit before taxation	(96)	0
Retained (loss) / profit carried forward	(67)	29

NOTES TO THE FINANCIAL STATEMENTS

24. Subsidiaries and Associated Companies - continued

24.1 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:	31.03.2009	31.03.2008 (re-stated)
	£000	£000
Turnover	127,201	58,673
Net assets / (liabilities)	(560)	123
Net profit / (loss) before taxation	96	(17)
Retained profit / (loss) carried forward	(561)	122

24.2 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:	31.03.2009	31.03.2008 (re-stated)
	£000	£000
Net assets	2,838	4,674
Net incoming resources	940	(978)
Fund balances carried forward	2,838	4,674

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:	31.03.2009	31.03.2008
	£000	£000
Net assets	7,423	8,326
Net outgoing resources	(904)	(1,291)
Fund balances carried forward	7,423	8,326

NOTES TO THE FINANCIAL STATEMENTS

24. Subsidiaries and Associated Companies - continued

24.2 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 20 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)

24.3 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 has been made in the Council accounts. Shawfair Development Limited's accounts remain unaudited.

The company is expected to become dormant in 2009-10.

24.4 Audit Opinions noted on the Accounts of the Companies

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

24.5 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
- Pacific Shelf 825 Limited
- Edinburgh Leisure
- Festival City Theatres Trust
- Shawfair Developments Limited

NOTES TO THE FINANCIAL STATEMENTS

25. 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 balance of unexpended funds at 31 March 2009 was £0.118m (2008 £1.032m).

The Trust will be wound up in 2009-10, at the same time as Projects (Edinburgh) Limited

- **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 2009 was £0.59m (2008 £0.55m).

The Trust will be wound up in 2009-10 .

- **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 2009 was £nil (2008 £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 2009 was £29.359m (2008 £13.425m).

26. Financial Instruments

26.1 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	
	31.03.09 £000	31.03.08 £000	31.03.09 £000	31.03.08 £000
Financial liabilities (principal amount)	1,093,822	1,009,757	69,825	31,701
Amortised cost	6,462	4,025	0	0
Total borrowing at amortised cost	<u>1,100,284</u>	<u>1,013,782</u>	<u>69,825</u>	<u>31,701</u>
Loans and receivables	4,000	4,000	163,853	178,447
Unquoted equity investment at cost	39,374	53,498	0	0
Total investments	<u>43,374</u>	<u>57,498</u>	<u>163,853</u>	<u>178,447</u>

The significant increase in current liabilities relates to the residual element of temporary borrowing undertaken during the year. The Council took the view that interest rates would fall during the financial year and therefore undertook temporary borrowing to fund its capital expenditure to allow it to borrow medium term debt at lower rates later in the year.

NOTES TO THE FINANCIAL STATEMENTS

26. Financial Instruments - continued

26.1 Borrowing and Investments (continued)

The gains and losses recognised in the Income and Expenditure Account and Statement of 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	(59,237)	0	(59,237)
Impairment gain / (losses)	0	15	15
Total Interest payable and similar charges	<u>(59,237)</u>	<u>15</u>	<u>(59,222)</u>
Interest and investment income	<u>0</u>	<u>6,903</u>	<u>6,903</u>
Net gain / (loss) for the year	<u>(59,237)</u>	<u>6,918</u>	<u>(52,319)</u>

In addition to the above interest expense, £1.858m (£1.858m 2007/08) (of which £1.790m [£1.789m 2007/08] 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 £0.501m (£0.505m 2007/08) 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. These 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

26. Financial Instruments - continued

26.1 Borrowing and Investments (continued)

The fair values are calculated as follows:

	31.03.09		31.03.08	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Public Works Loans Board	(853,129)	(1,072,436)	(768,184)	(953,981)
European Investment Bank	(728)	(842)	(1,313)	(1,413)
Market debt	(247,363)	(352,244)	(244,925)	(289,555)
Temporary borrowing	(49,632)	(49,632)	(11,943)	(11,943)
Other bodies	(10,025)	(10,025)	(5,543)	(5,543)
Trade creditors	(9,232)	(9,232)	(13,575)	(13,575)
Financial liabilities	(1,170,109)	(1,494,411)	(1,045,483)	(1,276,010)

The carrying amount of the Market Debt at 31 March 2009 includes £240.9m (£240.9m 2007/08) of principal, the balance representing equalisation interest rates (EIR) adjustments in relation to stepped lender only borrowing options (LOBO) loans. The Council does not adjust the carrying amount of the debt in its loans pool to include accrued interest. £14.174m (£13.348m 2007/08) of accrued interest is included in creditors on the balance sheet.

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 fair value figures for 31 March 2009 are higher (more costly to redeem) than the 31 March 2008 comparators due to the lower prevailing interest rates at 31 March 2009.

	31.03.09		31.03.08	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Loans and receivables	134,691	135,635	150,493	150,955
Unquoted equity investment at cost	39,374	39,374	53,498	53,498
Trade debtors	33,162	33,162	31,954	31,954
Total Investments	207,227	208,171	235,945	236,407

The Council does not adjust the carrying amount of the external investments to include accrued interest. £0.657m (£0.696m 2007/08) of accrued interest is included in debtors on the balance sheet.

26.2 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

26. Financial Instruments - continued

26.2 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;

These are reported and approved as part of the Council's annual Council Tax setting process. Actual performance is also reported annually to Members. These policies are implemented by a central treasury team.

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.

Throughout the 'credit crunch' and the difficulties encountered by banks, both in the UK and globally, over the last two years, actions have been taken in respect of the Council's investments to manage the risk to which the Council was exposed, both through changes to the Council's treasury policy and also through further operational restrictions on investments.

The Council's treasury policy statement was last amended by Council on 16 October 2008, to allow a greater use of more secure investment types. The report, which includes the current investment criteria contained in the treasury policy statement, is available on the Council's website. The Council has always placed the security of its investments as its highest priority and in the exceptional financial and market circumstances during 2008/09 has been even more cautious. At 31 March 2009, over 40% of the Council's investments were represented by short term deposits with other local authorities, reducing significantly the Council's counterparty risk.

The following table gives details of global corporate finance average cumulative default rates (including financial organisations) from Fitch for the period 1990 - 2007 on investments out to five years and includes the Council's historical experience of its customer levels, adjusted to reflect current market conditions.

	Amount at 31.03.09 £000	Historical Experience of Default %	Adjustment for Market Conditions at 31.03.09 %	Estimated Maximum Exposure to Default £000
	[a]	[b]	[c]	[a] * [c]
Local Authorities	46,471	0.000%	0.000%	0
AAA Rated Counterparties	4,305	0.001%	0.001%	0
AA Rated Counterparties	42,537	0.060%	0.060%	26
A Rated Counterparties	27,353	0.650%	0.650%	178
Trade Debtors	33,162	1.800%	2.470%	819
Financial Investments	<u>153,828</u>			<u>1,023</u>

NOTES TO THE FINANCIAL STATEMENTS

26. Financial Instruments - continued

26.2 Key Risks (continued)

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 £2.735m, trade debtors past due date can be analysed by age as follows:

	2008/09		2007/08
	£000		£000
Less than two months	16,632	Less than three months	17,525
Two to four months	3,159	Three to six months	3,906
Four to six months	1,533	Six months to one year	2,556
Six months to one year	2,817	More than one year	7,967
More than one year	<u>9,021</u>		
Total	<u>33,162</u>		<u>31,954</u>

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

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 has been 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 refinancing risk to the Council relates to managing the exposure to replacing financial instruments as they mature. Although the Council's borrowing in 2008/09 had a much shorter average maturity than in previous years, 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 re-pay 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.

NOTES TO THE FINANCIAL STATEMENTS

26. Financial Instruments - continued

26.2 Key Risks (continued)

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

	2008/09	2007/08
	£000	£000
Less than one-year	(60,592)	(17,382)
Between one and two years	(1,123)	(188)
Between two and five years	(42,820)	(556)
More than five years	<u>(1,049,879)</u>	<u>(1,009,757)</u>
Financial Liabilities	<u>(1,154,414)</u>	<u>(1,027,883)</u>

All trade and other payables are due to be paid in less than one year and trade creditors of £9.232m (£13.575m 2007/08) are not shown in the table above. The above figures show the principal outstanding, therefore, EIR adjustments of £6.462m (£4.025m 2007/08) to the carrying amounts of market debt shown in the financial liabilities are also not included.

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

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.

NOTES TO THE FINANCIAL STATEMENTS

26. Financial Instruments - continued

26.2 Key Risks (continued)

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

	2008/09 £000	2007/08 £000
Increase in interest payable on variable rate borrowings	0	0
Increase in interest receivable on variable rate investments	(388)	(287)
Impact on Income and Expenditure Account	(388)	(287)
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	246	251
Impact on STRGL	0	0
Decrease in fair value of fixed rate borrowings liabilities (no impact on Income and Expenditure Account or STRGL)	181,242	167,660

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed. These assumptions are based on the same methodology as used in the Note – Fair value of Assets and Liabilities carried at Amortised Cost. 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 £39.374m (£53.498m 2007/08) 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.

27. Long Term Debtors

- Between 2002/03 and 2004/05, the Council transferred secondary and primary schools and a residential unit valued at £46.542m to Edinburgh Schools Partnership. In 2008/2009, two primary schools and one high school, valued at £17.121m were transferred to a separate provider, Axiom Education Limited, as part of the PPP2 project. The deferred consideration has been reduced by £5.375m, as a result of the land being separately valued and transferred back to the Council's balance sheet. The current value of the deferred consideration on both PPP1 and PPP2 is £55.451m (£44.242m 2007/08).
- It is estimated that at the end of the Edinburgh Schools Partnership and Axiom Education Limited contracts, the net replacement cost of the schools returning to the Council will be £101.517m. Under PPP accounting arrangements, the Council is required to recognise this amount in the Council's balance sheet over the life of the contract, initially as a long-term debtor, with the full value transferring to fixed assets at the end of the contract. The value included within long-term debtors for this residual value is £18.570m (£14.991m 2007/08).

NOTES TO THE FINANCIAL STATEMENTS

27. Long Term Debtors - continued

- Long-term debtors include £11.132m (£9.195m 2007/08) of expenditure which represents a contribution to the Education PPP1 and PPP2 projects. This is derived from asset disposals and other capital receipts. The contribution to the projects has the effect of reducing the annual unitary charge.
- The deferred consideration, which represents a prepayment, and the contribution to the Education PPP1 and PPP2 projects will be written down, over 30 years, to the Education Services account.
- Long-term debtors also include £24.734m (£20.373m 2007/08) and £10.702m (£11.688m 2007/08) 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.

28. Provision for Bad Debts

	Balance at 31.03.2008	Movement 2008/09	Balance at 31.03.2009
	£000	£000	£000
Community charge	72,969	(140)	72,829
Council tax	129,338	8,641	137,979
Non-Domestic rates	16,476	(645)	15,831
Sundry debtors	11,110	485	11,595
Total provisions	<u>229,893</u>	<u>8,341</u>	<u>238,234</u>

29. Provisions

Provision has been made for outstanding payments of £26.540m (£16.909m 2007/08). 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 31.03.2008	Movement 2008/09	Balance at 31.03.2009
	£000	£000	£000
Tram contributions	0	15,488	15,488
Equal pay claims	12,300	(6,186)	6,114
Council Tax discounts	897	153	1,050
Housing benefit subsidy	0	1,543	1,543
Insurance claims	1,276	(332)	944
Other sundry payment provisions	2,436	(1,035)	1,401
	<u>16,909</u>	<u>9,631</u>	<u>26,540</u>

30. Movements on Reserves

30.1 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.

NOTES TO THE FINANCIAL STATEMENTS

30. Movements on Reserves - continued

30.1 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, £17.321m (£11.315m 2007/08) was drawn down from the capital fund to provide for repayment of loan principal, including £0.359m (£2.083m 2007/08) 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.

30.2 Reserves	Balance Brought Forward £000	Gains / (Losses) for the Year £000	Transfers Between Reserves £000	Balance Carried Forward £000
Revaluation reserve	(175,549)	(162,369)	14,957	(322,961)
Capital adjustment account	(1,017,463)	68,459	52,814	(896,190)
Financial instruments adjustment account	57,054	853	(274)	57,633
Capital fund	(32,514)	(6,790)	16,363	(22,941)
Usable capital receipts reserve	0	(38,815)	38,815	0
Pension reserve	98,147	193,442	(15,408)	276,181
Renewal and repairs fund	(7,565)	(295)	(2,470)	(10,330)
General Fund reserves				
- General Fund balance	(8,511)	74,836	(72,797)	(6,472)
- Earmarked General Fund balances	(20,436)	(667)	(32,000)	(53,103)
Total Reserves	(1,106,837)	128,654	0	(978,183)

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

30. Movements on Reserves - continued

30.2 Purposes of Funds Held (continued)

- **Renewal and Repairs Fund**

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

- **General Fund Balance**

The General Fund balance stands at £59.575m. Sums of £53.103m 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 £6.472m at 31 March 2009.

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

31. 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 2008		221,503
Government grants and other contributions received	122,543	
Less: grants amortised	<u>(12,868)</u>	
		<u>109,675</u>
Balance as at 31 March 2009		<u><u>331,178</u></u>

32. 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

33. 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.
- 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. In the event that the funding level of £545m is exceeded, the Council will be liable for 100% of any additional costs.

34. Post Balance Sheet Event - Non Adjusting

The Council, at its meeting on 28 May 2009 approved the purchase by the Council of property assets from Waterfront Edinburgh Limited, EDI Group Limited and Parc at market value. The purchases from Waterfront Edinburgh Limited and Parc were completed in August and September respectively. The estimated purchase cost is £70m, with the annual rental income streams from the properties meeting the prudential borrowing costs.

The Council's Finance and Resources Committee, at its meeting on 25 August 2009 approved funding, if required, of up to £0.75m to meet restructuring costs within EDI Group Limited.

There are no other post balance sheet events that have a significant financial impact for the Council.

35. The City of Edinburgh Council Charitable Funds

The City of Edinburgh Council administers 120 Charitable Funds as defined by the Law Reform Act 1990. The funds are of varying size: the smallest has a market value of £6, with the largest valued at £6.1 million (as shown in note 35.2). 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.

35.1 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

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:

	31.03.2009	31.03.2008
	£000	£000
Net Assets	6,055	7,414
Surplus	126	172

• John McGibbon

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:

	31.03.2009	31.03.2008
	£000	£000
Net Assets	890	1,106
Surplus	2	14

NOTES TO THE FINANCIAL STATEMENTS

35. The City of Edinburgh Council Charitable Funds - continued

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

- **Sir James Steel**

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

The financial results of the fund are as follows:	31.03.2009	31.03.2008
	£000	£000
Net Assets	1,117	1,322
Surplus	21	29

- **Alexander Mortification**

Beneficiaries are elected with the following preference: (a) those of kindred of Alexander of Knockhill who died in 1696, (b) those of the surname Alexander, which may be a female's maiden name, (c) other persons which are thought fit.

The financial results of the fund are as follows:	31.03.2009	31.03.2008
	£000	£000
Net Assets	635	804
Surplus	14	18

- **Jean F. Watson Bequest**

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:	31.03.2009	31.03.2008
	£000	£000
Net Assets	1,348	1,492
Surplus	21	25

- **Surplus Fire Fund**

The purpose of the fund is to remunerate injured firemen, and relieve widows and orphans of those who may have lost their lives through fires in Edinburgh.

The financial results of the fund are as follows:	31.03.2009	31.03.2008
	£000	£000
Net Assets	918	1,108
(Deficit) / Surplus	(18)	16

35.2 The main funds are:

Market Value		Scottish Charity	Market Value
31.03.2008		Registration	31.03.2009
£000		Number	£000
7,414	Trinity College Hospital	SC018969	6,055
1,492	Jean F. Watson	SC018971	1,348
1,322	Sir James Steel	n/a	1,117
1,108	Surplus Fire Fund	SC018967	918
1,106	John McGibbon	SC018977	890
804	Alexander Mortification	SC018949	635
471	John Watson	SC018972	347
456	City of Edinburgh	SC025067	358
637	Usher Hall Appeal	SC030180	662
376	Sir William Watson	SC018973	277
341	G. Boyd Anderson	n/a	266
277	Royal High School	n/a	201
1,039	Other Funds	n/a	886
16,843	Total at 31 March 2009		13,960

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

NOTES TO THE FINANCIAL STATEMENTS

35. The City of Edinburgh Council Charitable Funds - continued

35.3 The financial position of all funds is as follows:

Income and Expenditure Account

2007/08 £000		2008/09 £000
	Income	
(645)	Investment Income	(629)
<u>(232)</u>	Other Non-investment Income	<u>(27)</u>
<u>(877)</u>		<u>(656)</u>
	Expenditure	
295	Prizes, Awards and Other Expenses	364
<u>39</u>	Administrative Expenses	<u>69</u>
<u>334</u>		<u>433</u>
<u>(543)</u>	Surplus for the Year	<u>(223)</u>

Balance Sheet

£000			£000
	Fixed Assets		
13,290	Investments		10,183
847	Artworks - Jean Watson Trust		831
<u>586</u>	Heritable Property		<u>586</u>
14,723	Total Long-Term Assets		11,600
	Current Assets		
228	Sundry Debtors	74	
<u>2,082</u>	Cash and Bank	<u>2,532</u>	
2,310			2,606
	Current Liabilities		
(147)	Creditors	(125)	
<u>(43)</u>	Balance with City of Edinburgh Council	<u>(120)</u>	
<u>(190)</u>			<u>(245)</u>
<u>16,843</u>	Total Assets less Liabilities		<u>13,961</u>
17,245	Capital at 1 April 2008		16,843
543	Surplus for Year		223
(969)	Unrealised (Losses) / Gains		(3,129)
<u>24</u>	Capital Introduced		<u>24</u>
<u>16,843</u>	Capital at 31 March		<u>13,961</u>

36. Delegated Schemes

A net credit balance of £0.904m (£0.486m 2007/08) is held within the General Fund in accordance with the School Boards' Delegation Scheme.

NOTES TO THE FINANCIAL STATEMENTS

37. Related Parties

The following represents material amounts due to / (from) the Council, at 31 March 2009, with its related parties. Comparative figures have been re-stated for additional activities not disclosed in the 2007/2008 Audited Financial Statements.

	2008/09 £000	2007/08 £000
• Capital		
CEC Holdings Limited (EDI Group Ltd)	4,000	4,000
Lothian and Borders Fire Board	10,702	11,688
Lothian and Borders Police Board	24,734	20,373
SESTRAN	1,757	3,993
tie Limited	<u>(32,360)</u>	<u>(15,519)</u>
	<u>8,833</u>	<u>24,535</u>
• Revenue		
Edinburgh Leisure Limited	324	309
Edinburgh Military Tattoo	115	51
Forth Estuary Transport Authority	905	798
Lothian and Borders Fire Board	(3,409)	(5,667)
Lothian and Borders Police Board	(17,815)	(19,360)
Lothian Valuation Joint Board	(77)	(228)
Pension Funds	(8,177)	(9,940)
SESTRAN	176	102
	<u>(27,958)</u>	<u>(33,935)</u>
• Investments held on behalf of, and repayable to:		
CEC Holdings	(65)	(52)
Common Good	(1,537)	0
Craigmillar Parc	0	(42)
Forth Estuary Transport Authority	(8,423)	(5,449)
tie Limited	<u>(9,019)</u>	<u>0</u>
	<u>(19,044)</u>	<u>(5,543)</u>

38. Pension Costs

38.1 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 2008/09, the Council paid £16.823m (£16.673m 2007/08) to the Scottish Government in respect of teachers' pension costs, which represents 13.5% (13.3% 2007/08) 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 £0.00m in 2008/09 (£0m 2007/08), or 0% (0% 2007/08) of pensionable pay. The capitalised value of discretionary awards entered into prior to 2008/09 amounts to £21.1m (£22.5m 2007/08).

At 31st March 2009, creditors include £2.058m (£0m 2007/08) in respect of teachers' superannuation. Payment for March 2008 of £2.068m is included in the bank overdraft on the Balance Sheet.

NOTES TO THE FINANCIAL STATEMENTS

38. 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 2008/09, the Council paid an employer's contribution of £46.117m (£45.045m 2007/08) into the Lothian Pension Fund, representing 19.4% (19.0% 2007/08) 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 2008/09, 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.

	2008/09	2007/08
	£000	£000
Amounts charged to net operating expenditure:		
Current service costs	31,251	51,045
Past service costs	876	1,263
Settlements and curtailments	3,821	3,285
Pension interest costs and expected return on assets	2,275	(10,480)
Costs included in Income and Expenditure Statement	<u>38,223</u>	<u>45,113</u>
Appropriation from pensions reserve	<u>15,408</u>	<u>7,013</u>
Net Charge to General Fund	<u>53,631</u>	<u>52,126</u>
Comprising:		
Employer's contributions	47,564	45,993
Contributions in respect of unfunded costs	<u>6,067</u>	<u>6,133</u>
	<u>53,631</u>	<u>52,126</u>

38.2 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 £1.600m in 2008/09 (£1.526m 2007/08). The future value of payments, based on employees who have retired on the above grounds amounts to £3.445m (£2.173m 2007/08).

38.3 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

38. Pension Costs - continued

	2008/09 £000	2007/08 £000
38.4 Pensions Reserve		
Balance at 1 April		(253,638)
Current service cost	(31,251)	(51,045)
Employer contributions	47,564	45,993
Contributions in respect of unfunded benefits	6,067	6,133
Past service costs	(876)	(1,263)
Impact of settlement and curtailments	(3,821)	(3,285)
Net return on assets	<u>(2,275)</u>	<u>10,480</u>
Appropriation to general fund		15,408
Actuarial (losses) / gains		<u>(193,442)</u>
Deficit at 31 March		<u>(98,147)</u>

38.5 Net Pension Deficit

The Council's assets and liabilities amounted to:	2008/09 £000	2007/08 £000
Fair value of employer assets	1,038,934	1,296,168
Present value of funded obligations	<u>(1,234,068)</u>	<u>(1,308,344)</u>
Net underfunding in funded plans	(195,134)	(12,176)
Present value of unfunded obligations	<u>(81,047)</u>	<u>(85,971)</u>
Net Liability	<u>(276,181)</u>	<u>(98,147)</u>
Amount in the Balance Sheet		
Liabilities	(276,181)	(98,147)
Assets	<u>0</u>	<u>0</u>
Net Liability	<u>(276,181)</u>	<u>(98,147)</u>

The net pension liability of £276.181m exceeds current general fund reserves of £59.575m by £216.606m. 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 2009 (31 March 2008).

Assets at 31 March 2009 have been valued at bid value, as required under FRS17. Assets at 31 March 2008 were valued at mid-market prices. The change to valuing at bid value results in an actuarial loss, which has been reflected in the income and expenditure account.

	2008/09		2007/08	
	Market Value £000	Assumed Rate of Return	Market Value £000	Assumed Rate of Return
Equity investments	820,758	7.0%	983,970	7.7%
Bonds	114,283	5.4%	115,105	5.7%
Property	103,893	4.9%	154,330	5.7%
Cash	<u>0</u>	4.0%	<u>42,763</u>	4.8%
	<u>1,038,934</u>		<u>1,296,168</u>	

NOTES TO THE FINANCIAL STATEMENTS

38. Pension Costs - continued

38.5 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 2009 were those from the beginning of the year (i.e. 31 March 2008) and have not been changed during the year, although there has been a change in valuing assets from mid-market value to bid value, which has resulted in an actuarial loss in the income and expenditure account. The main assumptions in the calculations are:

		2008/09	2007/08
Inflation / pension increase rate		3.1%	3.6%
Salary increase rate		4.6%	5.1%
Expected return on assets		6.6%	7.2%
Discount rate		6.9%	6.9%
Mortality rates - current pensioners	male	19.8 years	n/a
	female	22.8 years	n/a
Mortality rates - future pensioners	male	21.0 years	n/a
	female	24.0 years	n/a

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

	2008/09	2007/08
	£000	£000
Net cost of services:		
Service cost	31,251	51,045
Past service cost	876	1,263
Curtailement and settlements	3,821	3,285
	<u>35,948</u>	<u>55,593</u>
Other charges to net operating expenditure		
Expected return on employer assets	(93,426)	(95,708)
Interest on pension scheme liabilities	95,701	85,228
	<u>2,275</u>	<u>(10,480)</u>
Net return	2,275	(10,480)
	<u>38,223</u>	<u>45,113</u>
Net charge to net operating expenditure	38,223	45,113
	<u>(222,872)</u>	<u>(35,299)</u>
Actual return on plan assets	(222,872)	(35,299)

These amounts are based on employer and employee contributions up to 31 March 2009 and the number of employees, deferred pensioners and pensioners as at 17 February 2009 in order to estimate the position for the year to 31 March 2009.

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 an estimate of 50% (25% 2007/08) of future retirees to take additional cash up to HM Revenues and Customs' limits in the 2009 balance sheet liabilities.

38.7 History of Gains and Losses

	2008/09	2007/08	2006/07	2005/06	2004/05
	£000	£000	£000	£000	£000
Fair value of employer assets	1,038,934	1,296,168	1,309,896	1,191,398	919,030
Present value of defined benefit obligation	(1,315,115)	(1,394,315)	(1,563,534)	(1,563,770)	(1,332,900)
Deficit	(276,181)	(98,147)	(253,638)	(372,372)	(413,870)
Experience gains / (losses) on assets	(355,405)	(135,790)	7,795	189,492	28,010
Experience gains / (losses) on liabilities	45,059	5,968	(10,244)	26,401	(9,420)

NOTES TO THE FINANCIAL STATEMENTS

38. Pension Costs - continued

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

	2008/09 £000	2007/08 £000	2006/07 £000	2005/06 £000	2004/05 £000
Actuarial gains and losses	(193,442)	148,478	101,694	44,921	(212,560)
Cumulative actuarial gains and losses	(208,379)	(14,937)	(163,415)	(265,109)	(310,030)

38.9 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:

	2008/09 £000	2007/08 £000
Lothian and Borders Police Board	632,753	603,803
Lothian and Borders Fire Board	145,610	136,607
Lothian Valuation Joint Board	1,538	866

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

38.10 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.

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

	2008/09		2007/08	
	£000	£000	£000	£000
Deficit / (Surplus) per Income and Expenditure Account		74,169		13,710
Non-cash transactions				
Provisions set aside during year	(11,163)		(10,962)	
Less: provisions utilised	<u>8,578</u>		<u>1,903</u>	
		(2,585)		(9,059)
Gain on disposal of fixed assets		6,183		6,063
Effect of FRS17		15,408		7,013
Capital financing costs		(224,388)		(128,804)
Interest received		3,696		2,304
Dividend income		2,000		7,873
Year-End Variations				
Increase / (decrease) in debtors	13,052		10,005	
Decrease / (increase) in creditors	53,520		130,320	
Increase / (decrease) in stocks	<u>194</u>		<u>(105)</u>	
		<u>66,766</u>		<u>140,220</u>
Net cash (inflow) / outflow from revenue activities		<u>(58,751)</u>		<u>39,320</u>

NOTES TO THE FINANCIAL STATEMENTS

40. Analysis of Government Grants shown in Cash Flow Statement

40.1 Revenue	2008/09		2007/08	
	£000	£000	£000	£000
Revenue Support Grant		(538,569)		(422,906)
DWP Grant (housing benefit / council tax benefit subsidy)		(178,638)		(172,414)
Other Government Grants:				
Supported employment	(314)		(369)	
Teachers in service training	0		(2,243)	
Mental illness	0		(1,345)	
Social work training	0		(500)	
Other specific grants	(13,134)		(46,051)	
Supporting people	0		(44,122)	
Cities growth fund	264		(1,007)	
Non-specific grants	(36,292)		(29,930)	
		<u>(49,476)</u>		<u>(125,567)</u>
		<u>(766,683)</u>		<u>(720,887)</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.

40.2 Capital

Transport Projects (including trams)	(76,589)	(102,553)
General capital grant	(44,167)	0
Public transport fund	0	(1,888)
New housing partnership	(1,903)	0
Development funding / community ownership	(44,773)	(42,964)
Other capital grants	504	(30,272)
	<u>(166,928)</u>	<u>(177,677)</u>

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

	2008/09		2007/08	
	£000	£000	£000	£000
Opening Net Debt		898,388		747,068
Increase / (decrease) in cash	(9,516)		(11,279)	
Increase / (decrease) in debt financing	122,050		67,509	
Increase / (decrease) in liquid resources	4,795		91,065	
Movement in net debt		<u>117,329</u>		<u>147,295</u>
		1,015,717		894,363
Non-cash items				
Movement in equalisation interest rate adj. on market loans		2,437		4,025
Closing Net Debt		<u>1,018,154</u>		<u>898,388</u>

NOTES TO THE FINANCIAL STATEMENTS

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

	Balance 01.04.2008 £000	Cashflow £000	Balance 31.03.2009 £000
Analysis of Change in Net Debt			
Cash in hand	(561)	(6,636)	(7,197)
Bank overdraft	19,077	6,140	25,217
	<u>18,516</u>	<u>(496)</u>	<u>18,020</u>
Debt due within 1 Year	12,583	37,985	50,568
Debt due after 1 Year	1,013,782	86,502	1,100,284
	<u>1,026,365</u>	<u>124,487</u>	<u>1,150,852</u>
Short term investments	(146,493)	4,795	(141,698)
	<u>(146,493)</u>	<u>4,795</u>	<u>(141,698)</u>
Total	<u>898,388</u>	<u>128,786</u>	<u>1,027,174</u>

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

	Balance 01.04.2008 £000	Cashflow £000	Balance 31.03.2009 £000
Management of Liquid Resources			
Short term investments	(146,493)	4,795	(141,698)
	<u>(146,493)</u>	<u>4,795</u>	<u>(141,698)</u>

Short-term investments held by the authority as at 31 March 2009 include £50.547m invested with other local authorities, £75.460m invested with banks and £4.684m of other investments.

Financing

Temporary loans	11,943	(5,110)	6,833
PWLB	768,184	84,945	853,129
Market loans	244,925	2,437	247,362
Short-term borrowing for capital expenditure	0	42,800	42,800
European Investment Bank	1,313	(585)	728
	<u>1,026,365</u>	<u>124,487</u>	<u>1,150,852</u>
Net financing per cash flow	<u>1,026,365</u>	<u>124,487</u>	<u>1,150,852</u>

HOUSING REVENUE ACCOUNT

for the year ended 31 March 2009

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	
2007/08		£000	£000
£000	INCOME		
(64,177)	Dwelling rents	(66,526)	
(487)	Non-Dwelling rents (gross)	(393)	
(11,679)	Other income	(14,540)	
<u>(76,343)</u>			(81,459)
	EXPENDITURE		
19,862	Repairs and maintenance	26,073	
21,111	Supervision and management	18,196	
16,290	Depreciation and impairment of fixed assets	63,844	
5,132	Other expenditure	5,429	
<u>62,395</u>			<u>113,542</u>
(13,948)	Net cost of HRA Services (as included in the whole authority Income and Expenditure Account)		32,083
196	HRA share of corporate and democratic core		147
142	HRA share of other amounts included in whole authority		331
	Net Cost of Services but not allocated to specific services		<u> </u>
(13,610)	HRA Share of the Operating Income and Expenditure included in the whole authority accounts		32,561
(2)	- Gain on sale of HRA fixed assets	(1,385)	
16,887	- Interest payable and similar charges	16,950	
51	- Amortisation of premiums and discounts	0	
(996)	- Interest and investment income	(582)	
(208)	- Pensions interest cost and expected return on pension assets	38	
			<u>15,021</u>
<u>2,122</u>	Deficit for the year on HRA services		<u>47,582</u>

STATEMENT OF MOVEMENT ON THE HRA BALANCE

£000		£000
2,122	Deficit for the year on the HRA Income and Exp Account	47,582
(2,122)	Net additional amount required by statute or non-statutory proper practices to be credited to the HRA balance for the year	(47,582)
<u>0</u>	Movement in HRA balance	<u>0</u>
<u>0</u>	HRA Balance brought forward	<u>0</u>
<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 2009

2007/08 £000		£000	£000
	Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA balance for the year		
(16,291)	Depreciation, amortisation and impairment of fixed assets	(63,845)	
2	Gain on sale of HRA fixed assets	1,385	
160	HRA Share of contribution to the pension reserve	117	
	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		
169		77	
(15,960)			(62,266)
	Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year		
10,387	Loans fund principal		11,452
	Transfers to / from General Fund that are required to be taken into account when determining the HRA deficit or surplus		
3,451	Contribution to renewal and repairs fund, via the General Fund		3,232
(2,122)	Net additional amount required by statute to be credited to the HRA balance for the year		(47,582)

Notes to the Housing Revenue Account

1. The number and types of dwellings in the authority's housing stock at 31 March 2009 are as follows:

Types of Houses	2009		2008	
	Number	Annual Average Rent £	Number	Annual Average Rent £
1 Apartment	300	2,591.24	329	2,594.28
2 Apartment	6,025	2,866.53	6,071	2,884.97
3 Apartment	11,313	3,307.88	11,666	3,322.38
4 Apartment	3,625	3,919.92	3,711	3,919.78
5 Apartment	556	4,578.11	561	4,584.74
6 Apartment	10	3,912.98	11	3,892.24
7 Apartment	3	3,620.88	3	3,620.88
8 Apartment	2	4,160.56	2	5,199.38
Travelling People Sites	20	3,381.60	20	3,128.78
	21,854		22,374	

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 £2.232m (£2.197m 2007/08) against which a provision amounting to £1.239m (£1.248m 2007/08), has been created in respect of non collectable debts.
3. Significant non-residential income includes ground rent at Broomhouse Drive of £0.125m.
4. The total cost of uncollectible void rents for main provision properties was £0.519m (£0.574m 2007/08).

NON-DOMESTIC RATES INCOME ACCOUNT

for the year ended 31 March 2009

2007/08 £000		£000	£000
339,959	Gross rates levied and contributions in lieu		356,620
54,451	Less: - Reliefs and other deductions	61,947	
90	- Payment of interest	576	
3,324	- Provision for bad and doubtful debts	3,311	
57,865			65,834
282,094			290,786
(3,460)	Previous years' adjustments		(11,219)
278,634	Net Non-Domestic Rates Income		279,567
	Allocated to:		
278,898	Contribution to National Non-Domestic Rates Pool		279,906
(264)	Adjustments for years prior to introduction of National Non-Domestic Rates Pool		(339)
278,634			279,567

Notes to the Non-Domestic Rates Income Account

Rateable Values as at 1 April 2008

	Number	Rateable Value £000
Shops, offices and other commercial subjects	12,490	569,259
Industrial and freight transport	2,709	70,619
Telecommunications	12	14
Public service subjects	362	36,414
Miscellaneous	2,807	108,594
	18,380	784,900

Contribution to / from National Non-Domestic Rates Pool

The contribution to the National Non-Domestic Rates Pool of £279.906m (£278.898m 2007/08) 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 £177.798m (£167.119m 2007/08). Thus the Council made a net contribution of £102.108m (£111.779m 2007/08).

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 45.8p per £ in 2008/09 (44.1p per £ in 2007/08).

Properties with a rateable value greater than £29,000 (£29,000 in 2007/08) had their rate charges calculated using the poundage of 46.2p (44.4p per £ in 2007/08).

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:

Up to £8,000	80%
£8,001 - £10,000	40%
£10,001 to £15,000	20%

In 2007/08, properties with a rateable value of £11,500 or less received 5% relief and properties with a rateable value of less than £8,000 may have qualified for further relief.

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 over the age of 16.
- 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 over 180 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 Agency	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 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:

	Nominal	Real (Relative to price inflation)
	% p.a.	% p.a.
Lothian Pension Fund and Lothian Buses Pension Fund		
'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)
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.
- The Funds adopted the requirements of the revised Pensions SORP for the 2007/08 accounts. The recommendation to value futures on an associated economic exposure basis was replaced by the recommendation to value derivatives on a fair value basis. Another key change was the requirement to value all investments at their fair value - where there is an active market, bid price is usually the appropriate quoted market price. The main impact is on the Net Asset Statements where the figures comply with the new format. As the revised SORP was adopted in 2007/08, the net assets totals as at 31 March 2008 and 2009 are valued on the same basis.
- 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 is valued annually by a Fellow of the Royal Institution of Chartered Surveyors. 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 £0.666m (2008 £0.971m) were made. All AVCs are managed by Standard Life and the value at 31 March 2009 was £5.359m (2008 £5.965m). 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 2009

2007/08		Notes	2008/09
£000			£000
	Income		
(112,164)	Contributions from Employers	5.	(118,040)
(35,551)	Contributions from Employees	5.	(36,802)
<u>(13,848)</u>	Transfers from Other Schemes		<u>(8,646)</u>
<u>(161,563)</u>			<u>(163,488)</u>
	Less: Expenditure		
84,427	Pension Payments including Increases	5.	90,412
20,866	Lump Sum Payments	5.	24,383
2,367	Death Benefits		2,281
461	Refunds to Members Leaving Service		412
462	Premiums to State Scheme		428
10,836	Transfers to Other Schemes		9,210
<u>1,834</u>	Other Expenditure		<u>1,904</u>
<u>121,253</u>			<u>129,030</u>
<u>(40,310)</u>	Net Additions from Dealing with Members		<u>(34,458)</u>
	Returns on Investments		
83,471	Investment Income	6.	95,293
(188,128)	Change in Market Value of Investments	7.	(727,751)
<u>(10,560)</u>	Investment Management Expenses		<u>(11,547)</u>
<u>(115,217)</u>	Net Returns on Investments		<u>(644,005)</u>
<u>(74,907)</u>	Net (Decrease) / Increase in the Fund During the Year		<u>(609,547)</u>
<u>3,101,615</u>	Net Assets of the Fund at 1 April 2008		<u>3,026,708</u>
<u>3,026,708</u>	Net Assets of the Fund at 31 March 2009		<u>2,417,161</u>

LOTHIAN PENSION FUND

Net Assets Statement as at 31 March 2009

2007/08		Investments at Market Value	Notes	2008/09	
£000	£000			£000	£000
	217,745	Financial Assets			
	1,879,156	Fixed Interest Securities	7.		198,351
	40,350	Equities	7.		1,522,421
	505,436	UK Index-Linked	7.		21,112
	223,975	Pooled Investment Vehicles	7.		425,445
		Properties	7.		153,805
2,791		Derivatives - Futures	7.	1,296	
<u>187,580</u>		- Forward Foreign Exchange	7.	<u>136,673</u>	
	190,371				137,969
		Cash Deposits			
2,666		Margin Balances	7.	3,627	
<u>157,541</u>		Deposits	7.	<u>113,929</u>	
	160,207				117,556
		Other Financial Assets			
37,965		Due from Broker		16,988	
<u>13,364</u>		Dividends Due	7.	<u>10,376</u>	
	51,329				27,364
	<u>3,268,569</u>	Total Financial Assets			<u>2,604,023</u>
		Financial Liabilities			
(2,706)		Derivatives - Futures	7.	(941)	
<u>(228,956)</u>		- Forward Foreign Exchange	7.	<u>(194,136)</u>	
	(231,662)				(195,077)
	<u>(37,999)</u>	Other Financial Liabilities - Due to Broker			<u>(19,028)</u>
	<u>(269,661)</u>	Total Financial Liabilities			<u>(214,105)</u>
	<u>2,998,908</u>	Net Financial Assets			<u>2,389,918</u>
		Current Assets			
9,513		City of Edinburgh Council	4.	7,518	
17,007		Cash Balances		14,931	
<u>7,025</u>		Sundry Debtors		<u>7,955</u>	
	33,545				30,404
		Current Liabilities			
	<u>(5,745)</u>	Sundry Creditors			<u>(3,161)</u>
	<u>27,800</u>	Net Current Assets			<u>27,243</u>
	<u>3,026,708</u>	Net Assets			<u>2,417,161</u>
		Reconciliation of Movement in Net Assets of the Fund for year ended 31 March 2009			
3,101,615		Net Assets at 1 April 2008			3,026,708
113,221		Net New Money Invested			118,204
<u>(188,128)</u>		Change in Market Value of Investments	7.		<u>(727,751)</u>
	<u>3,026,708</u>	Net Assets at 31 March 2009			<u>2,417,161</u>

The unaudited accounts were issued on 12 June 2009 and the audited accounts were authorised for issue on 29 September 2009.


DONALD McGOUGAN, CPFA,
Director of Finance
12 June 2009

NOTES TO LOTHIAN PENSION FUND ACCOUNT

1. Scottish Homes Pension Fund

Edinburgh City 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 2009

	Lothian	Scottish Homes
Active	30,859	0
Pensioner	20,566	1,294
Deferred	13,881	770
	<u>65,306</u>	<u>2,064</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:

	31.3.09	31.3.08
	£000	£000
Lothian		
Funds Bank Account (Due from City of Edinburgh Council)	91,234	130,879
Due from City of Edinburgh Council	7,518	9,513
Scottish Homes		
Fund Bank Accounts (Due from City of Edinburgh Council)	1,294	45

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	14,471	0	17,689	4,642	36,802
Employers					
Normal (ongoing contributions)	34,496	0	42,749	11,218	88,463
Deficit funding	11,621	0	12,700	2,079	26,400
Pension strain	1,600	0	1,322	255	3,177
	<u>47,717</u>	<u>0</u>	<u>56,771</u>	<u>13,552</u>	<u>118,040</u>
Benefits					
Pensions	33,568	6,494	38,601	11,749	90,412
Lump sum	11,019	627	10,214	2,523	24,383

As the Lothian Fund had a deficit at the 2005 actuarial valuation, employers are 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 14.5% (as stated in the actuarial valuation of 31 March 2005). 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. The rates set by the latest actuarial valuation of 31 March 2008 came into effect on 1 April 2009.

6. Investment Income

	31.3.09	31.3.08
	£000	£000
Income from fixed interest securities	11,451	10,386
Dividends from equities	64,331	52,621
Income from index-linked securities	751	857
Income from pooled investment vehicles	900	0
Net rents from properties	12,848	9,803
Interest on cash deposits	7,563	12,433
Other	1,872	1,102
	<u>99,716</u>	<u>87,202</u>
Irrecoverable withholding tax	(4,423)	(3,731)
	<u>95,293</u>	<u>83,471</u>

NOTES TO LOTHIAN PENSION FUND ACCOUNT

7. Investments as at 31 March 2009

	Value at 01.04.08 £m	Purchases at Cost and Derivative Payments £m	Sales Proceeds and Derivative Receipts £m	Change in Market Value £m	Value at 31.03.09 £m
Fixed interest securities	217.745	136.376	(157.267)	1.497	198.351
Equities	1,879.156	2,228.167	(2,131.307)	(453.595)	1,522.421
Index-Linked securities	40.350	9.883	(27.143)	(1.978)	21.112
Pooled investment vehicles	505.436	124.681	(147.503)	(57.169)	425.445
Property	223.975	0.696	(0.019)	(70.847)	153.805
Derivatives - future	0.085	5.308	(10.733)	5.695	0.355
Derivatives - fwd foreign exchange	(41.376)	132.835	(2.733)	(146.189)	(57.463)
	<u>2,825.371</u>	<u>2,637.946</u>	<u>(2,476.705)</u>	<u>(722.586)</u>	<u>2,264.026</u>
Other financial assets / liabilities					
Margin balances	2.666			0.016	3.627
Cash deposits	157.541			6.614	113.929
Broker balances	(0.034)			(11.743)	(2.040)
Dividends due	13.364			(0.052)	10.376
	<u>173.537</u>			<u>(5.165)</u>	<u>125.892</u>
Net financial assets	<u>2,998.908</u>			<u>(727.751)</u>	<u>2,389.918</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.

This year has seen financial markets at their most turbulent in recent times. However, the pension funds are long-term investors and it would therefore be inappropriate to place too much emphasis on the recent movements within financial markets. The impact on the funds is reflected in the market valuations of the assets.

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 £3.002m (£3.613m 2007/08).

	2008/09 £000	2007/08 £000
Fixed interest securities		
UK public sector quoted	67,943	70,998
UK commercial quoted	25,811	35,956
Overseas public sector quoted	35,914	51,738
Overseas commercial quoted	68,683	59,053
	<u>198,351</u>	<u>217,745</u>
Equities		
UK quoted	420,030	521,335
UK unquoted	0	29
Overseas quoted	1,102,391	1,357,792
	<u>1,522,421</u>	<u>1,879,156</u>
Pooled investment vehicles		
UK managed funds - other	120,262	254,736
Overseas managed funds - other	51,228	0
UK managed funds - property	74,041	111,932
UK private equity funds	28,751	38,967
Overseas private equity funds	151,163	99,801
	<u>425,445</u>	<u>505,436</u>

NOTES TO LOTHIAN PENSION FUND ACCOUNT

7. Investments as at 31 March 2009 - continued

	2008/09 £000	2007/08 £000
Index linked securities		
UK public sector quoted	21,112	40,350
Properties		
UK direct property	153,805	223,975

Derivatives - Futures

Summary of contracts held at 31 March 2009

	Settlement Date	Economic Exposure £000	Asset £000	Liability £000	Net £000
ERX EuroShatz	3 months	6,620	21	0	21
CBT 5 year treasury note	3 months	(6,546)	0	(92)	(92)
LIFFE long gilt	3 months	62,956	1,140	0	1,140
ERX Euro BOBL	3 months	(3,671)	6	0	6
ERX Euro BUND	3 months	10,488	55	0	55
CBT 2 year treasury note	3 months	8,970	44	0	44
CBT 10 year treasury note	3 months	(28,656)	0	(504)	(504)
CBT US treasury bond	3 months	(6,878)	0	(147)	(147)
SFE 10 year government bond	3 months	10,002	0	(131)	(131)
CAN 10 year government bond	3 months	(4,006)	0	(67)	(67)
JPN 10 year government bond	3 months	(6,833)	30	0	30
			1,296	(941)	355

The economic exposure represents the nominal 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 2009

	Settlement Date	Value of Currency Bought £000	Asset £000	Liability £000	Net £000
Various currency forwards	1 month	3,647,920	110,586	(163,938)	(53,352)
Various currency forwards	2 months	564,305	11,475	(14,614)	(3,139)
Various currency forwards	3 months	455,021	10,092	(11,852)	(1,760)
Various currency forwards	4 months	82,866	3,145	(2,079)	1,066
Various currency forwards	5 months	60,605	1,273	(1,498)	(225)
Various currency forwards	6 months	15,188	102	(155)	(53)
			136,673	(194,136)	(57,463)

The above table summarises the contracts held by maturity date - 20 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 72% of its equities (48% of the overall fund) 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 2009

Manager	Mandate	2009		2008	
		Market Value £000	Prop of Fund Under Mgmt %	Market Value £000	Prop of Fund Under Mgmt %
Aberdeen	Emerging markets	132,136	5.8	158,922	5.5
AG Bisset	Currency overlay	(51,159)	(2.2)	(24,349)	(0.9)
Axa Rosenberg	European equities	115,563	5.1	174,743	6.1
Baillie Gifford	Pacific equities	269,414	11.8	317,876	11.1
Franklin Templeton	Global equities	124,267	5.4	158,648	5.5
Goldman Sachs	US equities	121,812	5.3	138,337	4.8
In-House	Index linked	21,210	0.9	40,531	1.4
In-House	Cash	46,781	2.0	103,799	3.6
In-House	Alternatives	234,646	10.3	178,044	6.2
In-House	UK equities	282,591	12.4	347,081	12.1
In-House	Transition	(8)	0.0	369	0.0
JP Morgan	Currency overlay	(1,691)	(0.1)	(6,254)	(0.2)
Lazard	Global equities	153,530	6.7	170,092	5.9
Legal and General	Global equities	55,904	2.4	136,699	4.8
Martin Currie	UK equities	109,795	4.8	147,305	5.1
Record	Currency overlay	(4,565)	(0.2)	(5,978)	(0.2)
Rogge	Fixed interest	205,284	9.0	227,330	7.9
Standard Life	Property	235,038	10.3	328,917	11.5
Wellington Mgmt Int'l	Global equities	235,866	10.3	279,977	9.8
		2,286,414	100.0	2,872,089	100.0
Scottish Homes:					
State Street	Balanced	96,593	93.3	116,446	91.8
Schroders	Property	6,911	6.7	10,373	8.2
		103,504	100.0	126,819	100.0
Total		2,389,918		2,998,908	

The Lothian Fund participates in two stock lending arrangements. The arrangement with Citigroup covers the main investments of the Fund. As at 31 March 2009, £21.350m (2008 £64.820m) of stock was released to third parties. Collateral valued at 118.07% 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 2009, £21.157m (2008 £34.398m) of stock was released to third parties. Collateral valued at 107.15% 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 2009


2007/08		Notes	2008/09
£000			£000
	Income		
(5,969)	Contributions from Employers	3.	(7,563)
(2,286)	Contributions from Employees		(2,319)
(504)	Transfers from Other Schemes		(521)
<u>(8,759)</u>			<u>(10,403)</u>
	Less: Expenditure		
5,282	Pension Payments Including Increases		5,595
1,284	Lump Sum Payments		2,256
125	Death Benefits		130
62	Refunds to Members Leaving Service		44
67	Premiums to State Scheme		54
140	Transfers to Other Schemes		163
116	Other Expenditure		149
<u>7,076</u>			<u>8,391</u>
<u>(1,683)</u>	Net Additions from Dealing with Members		<u>(2,012)</u>
	Returns on Investments		
4,735	Investment Income	5.	4,989
(3,985)	Change in Market Value of Investments	7.	(41,909)
(481)	Investment Management Expenses		(453)
<u>269</u>	Net Returns on Investments		<u>(37,373)</u>
<u>1,952</u>	Net (Decrease) / Increase in the Fund During the Year		<u>(35,361)</u>
<u>196,843</u>	Net Assets of the Fund at 1 April 2008		<u>198,795</u>
<u>198,795</u>	Net Assets of the Fund at 31 March 2009		<u>163,434</u>

LOTHIAN BUSES PENSION FUND

Net Assets Statement as at 31 March 2009

2007/08 £000		Notes	2008/09 £000
	Investments at Market Value		
	Financial Assets		
8,896	Fixed Interest Securities	7.	8,832
107,864	Equities	7.	80,976
12,733	UK Index-Linked	7.	13,346
61,650	Pooled Investment Vehicles	7.	51,153
1	Derivatives - Forward Foreign Exchange	7.	0
4,186	Cash Deposits	7.	4,577
2,511	Other Financial Assets - Due from Broker		156
917	Other Financial Assets - Dividends Due	7.	526
<u>198,758</u>			<u>159,566</u>
	Financial Liabilities		
<u>(3,243)</u>	Other Financial Liabilities - Due to Broker		<u>(81)</u>
<u>195,515</u>	Net Financial Assets		<u>159,485</u>
	Current Assets		
2,153	Cash Deposits		2,591
427	City of Edinburgh Council	4.	659
876	Sundry Debtors		769
			<u>4,019</u>
	Current Liabilities		
<u>(176)</u>	Sundry Creditors		<u>(70)</u>
<u>3,280</u>	Net Current Assets		<u>3,949</u>
<u>198,795</u>	Net Assets		<u>163,434</u>
	Reconciliation of Movement in Net Assets of the Fund for year ended 31 March 2009		
196,843	Net Assets at 1 April 2008		198,795
5,937	Net New Money Invested		6,548
<u>(3,985)</u>	Change in Market Value of Investments	7.	<u>(41,909)</u>
<u>198,795</u>	Net Assets at 31 March 2009		<u>163,434</u>

The unaudited accounts were issued on 12 June 2009 and the audited accounts were authorised for issue on 29 September 2009.


DONALD McGOUGAN, CPFA,
Director of Finance
12 June 2009

NOTES TO LOTHIAN BUSES PENSION FUND

1. Membership

The Fund membership has decreased from 4,209 to 4,134, of whom 1,664 (1,827 2007/08) are current contributors and 1,297 (1,249 2007/08) 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

	31.3.09	31.3.08
	£000	£000
Normal	5,777	5,694
Deficit funding	1,751	275
Pension strain	35	0
	<u>7,563</u>	<u>5,969</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 14.3% (as stated in the actuarial valuation of 31 March 2005). 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:

	31.3.09	31.3.08
	£000	£000
Funds Bank Account (Due from City of Edinburgh Council)	3,626	2,153
Due from City of Edinburgh Council	659	427

5. Investment Income

	31.3.09	31.3.08
	£000	£000
Income from fixed interest securities	1,404	972
Dividends from equities	3,385	3,614
Income from index-linked securities	159	164
Interest on cash deposits	331	279
Other	6	0
	<u>5,285</u>	<u>5,029</u>
Irrecoverable withholding tax	(296)	(294)
	<u>4,989</u>	<u>4,735</u>

Stock Lending

As at 31 March 2009, £1.337m (£2.302m 2008) of stock was released to third parties under a securities lending agreement with Citigroup. Collateral valued at 115.12% of the market value of the stock on loan, was held at that date.

6. Fund Managers

Baillie Gifford - balanced mandate	145,833	178,789
Standard Life - property managed fund	12,614	16,726
In-house cash	1,038	0
	<u>159,485</u>	<u>195,515</u>

NOTES TO LOTHIAN BUSES PENSION FUND

7. Investments and Assets

	Value at 01.04.08 £000	Purchases at Cost / Derivative Payments £000	Sales Proceeds / Derivative Receipts £000	Change in Market Value £000	Value at 31.03.09 £000
Fixed interest securities	8,896	7,892	(8,866)	910	8,832
Equities	107,864	36,312	(32,876)	(30,324)	80,976
Index-Linked securities	12,733	6,858	(6,117)	(128)	13,346
Pooled investment vehicles	61,650	8,407	(6,678)	(12,226)	51,153
Derivatives - forward foreign exchange	1	19,417	(18,975)	(443)	0
	<u>191,144</u>	<u>78,886</u>	<u>(73,512)</u>	<u>(42,211)</u>	<u>154,307</u>
Other Financial assets / liabilities					
Cash deposits	4,186			359	4,577
Broker balances	(732)			(56)	75
Dividends due	917			(1)	526
	<u>4,371</u>			<u>302</u>	<u>5,178</u>
Net Financial Assets	<u>195,515</u>			<u>(41,909)</u>	<u>159,485</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.

This year has seen financial markets at their most turbulent in recent times. However, the pension funds are long-term investors and it would therefore be inappropriate to place too much emphasis on the recent movements within financial markets. The impact on the funds is reflected in the market valuations of the assets.

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 £0.127m (£0.148m 2007/08).

	2008/09 £000	2007/08 £000
Fixed Interest Securities		
UK public sector quoted	8,832	8,126
Overseas public sector quoted	0	367
Overseas corporate quoted	0	403
	<u>8,832</u>	<u>8,896</u>
Equities		
UK quoted	37,502	55,793
UK Unquoted	0	28
Overseas quoted	43,474	52,043
	<u>80,976</u>	<u>107,864</u>
Index Linked Securities		
UK public sector quoted	<u>13,346</u>	<u>12,733</u>
Pooled Investment Vehicles		
UK managed funds - property	12,614	16,727
UK managed funds - other	38,539	44,923
	<u>51,153</u>	<u>61,650</u>
Derivatives		
Forward foreign exchange contracts	<u>0</u>	<u>1</u>

The above contract, outstanding at 31 March 2008, was traded over the counter for the purchase of £0.421m and the sale of \$0.830m. It was settled in June 2008

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 project.

The market value of investments at 31 March 2009 was £1.537m (2008 £nil).

During the year 2 properties, Portobello Park and Inch Park were identified assets of the Common Good. These were transferred from the Council's Balance Sheet to the Common Good Balance Sheet. The value of these assets, based on an open market valuation, as shown in note 1.1 was £0.119m.

Common Good Fund Accounts

Year ended 31 March 2009

2007/08	Income and Expenditure Account	2008/09
£000		£000
1,241	Expenditure	1,761
(500)	Income	(687)
(536)	Recharge to City of Edinburgh Council for Use of Assets	(564)
<u>205</u>	Deficit / (Surplus) for Year	<u>510</u>
Statement of Movement on the Common Good Fund		
205	Deficit / (Surplus) for the Year on the Common Good Income and Expenditure Account	510
(237)	Net Additional Amount required by Statute on Non-Statutory Proper Practices to be credited to the Common Good balance for the year	(475)
<u>(32)</u>		<u>35</u>

COMMON GOOD FUND

Common Good Fund Accounts - continued

Balance Sheet at 31 March 2009			
2007/08 £000		Notes	2008/09 £000
16,008	Fixed Assets	1.1	17,184
1	Investments		1,535
<u>1,881</u>	Net Current Assets		<u>312</u>
<u>17,890</u>	Net Assets		<u>19,031</u>
Represented by:			
1,456	Revaluation Reserve	1.4	2,988
14,531	Capital Adjustment Account	1.3	14,175
1,672	Common Good Fund	2.1	1,637
<u>231</u>	Fit For Future Earmarked Fund	2.1	<u>231</u>
<u>17,890</u>			<u>19,031</u>

The unaudited accounts were issued on 12 June 2009 and the audited accounts were authorised for issue on 29 September 2009.


DONALD McGOUGAN, CPFA,
Director of Finance
12 June 2009

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 2008	14,475	1,318	215	16,008
Revaluations and restatements	1,569	(37)	0	1,532
Impairment of fixed assets	(475)	0	0	(475)
Transfer of assets from City of Edinburgh Council	<u>119</u>	<u>0</u>	<u>0</u>	<u>119</u>
Balance at 31 March 2009	<u>15,688</u>	<u>1,281</u>	<u>215</u>	<u>17,184</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 2009 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 2008	14,531
Impairment of assets	(475)
Transfer of Assets from City of Edinburgh Council	119
	<u>14,175</u>
Balance as at 31 March 2009	<u>14,175</u>

1.4 Revaluation Reserve

	£000
Balance as at 1 April 2008	1,456
Revaluation of assets	1,532
	<u>2,988</u>
Balance as at 31 March 2009	<u>2,988</u>

2. Funds and Reserves

2.1 Movement of Funds and Reserves

	Common Good Fund £000	Fit for Future £000
Balance at 1 April 2008	1,672	231
Deficit for the year	(35)	0
	<u>1,637</u>	<u>231</u>
Balance at 31 March 2009	<u>1,637</u>	<u>231</u>

GROUP INCOME AND EXPENDITURE ACCOUNT

for the year ended 31 March 2009

2007/08 (re-stated) £000		Expenditure £000	Income £000	Net Expenditure £000
	Services			
290,611	Education Services	338,297	(15,938)	322,359
17,829	Housing Services	251,148	(208,087)	43,061
(13,898)	Housing Revenue Account	113,542	(81,459)	32,083
46,905	Cultural and Related Services	75,554	(15,381)	60,173
47,271	Environmental Services	83,512	(17,957)	65,555
22,083	Roads and Transport	299,907	(265,413)	34,494
15,394	Planning and Development	71,838	(53,334)	18,504
235,204	Social Work	311,384	(57,611)	253,773
14,536	Corporate and Democratic Core	13,474	(447)	13,027
53,702	Police Joint Board	55,742	(2,370)	53,372
27,065	Fire Joint Board	28,713	0	28,713
20,998	Non-Distributable Costs	23,216	0	23,216
7,434	Central Services to the Public	21,135	(15,115)	6,020
2,488	Other Operating Income and Expenditure	42,730	(34,590)	8,140
	Share of Operating Results of Associates and Joint Ventures	195,238	(215,819)	(20,581)
1,633	Exceptional Items	2,408	0	2,408
5,005	Exceptional Items of Group	10,575	0	10,575
0				
794,260	NET COST OF SERVICES	1,938,413	(983,521)	954,892
(9,253)	Gain on Sale of Fixed Assets			(9,043)
(3,994)	Surplus of Trading Undertakings			(3,288)
(5,873)	Dividends Received			0
62,395	Interest Payable			65,690
1,642	Share of Interest Payable by Associates and Joint Ventures			1,488
10	(Gains) / Losses on the Repurchase of Borrowing			(5)
(3,531)	Interest and Investment Income			(4,964)
198	Dividend Paid			198
(1,404)	Share of Interest Receivable by Associates and Joint Ventures			(1,516)
(13,399)	Pensions Interest Cost and expected return on Pension Assets - Group			(147)
46,771	Pensions Interest Cost and expected return on Pension Assets - Associates and Joint Ventures			50,400
268	Taxation of Group Entities			(1,310)
759	Minority Interest of Share of Profits of Subsidiaries			(101)
3,015	Other Non-Operating Costs			4,527
871,864	NET OPERATING EXPENDITURE			1,056,821
(223,669)	Income from Council Tax			(221,998)
(24)	Community Charge			(136)
(422,906)	Revenue Support Grant Received			(538,569)
(166,855)	Distribution from Non-Domestic Rates Pool			(177,459)
58,410	DEFICIT FOR THE YEAR			118,659

GROUP ACCOUNTS

Reconciliation of the Council's Position to the Group Position

for the year ended 31 March 2009

2007/08 (re-stated) £000		£000
	Services	
13,710	Deficit / (surplus) on the Council's Income and Expenditure Account	74,169
	Less:	
(53)	Subsidiary and associate transactions included in the Council's Income and Expenditure Account	4,115
	Add:	
	(Surplus) or deficit arising from other entities included in the Group accounts	
(10,474)	Subsidiaries	10,757
51,947	Associates	28,427
3,280	Joint ventures	1,191
58,410	Group account deficit for the year	118,659

Group Statement of Total Recognised Gains and Losses

for the year ended 31 March 2009

2007/08 (re-stated) £000		£000
58,410	Net Deficit for the Year	118,659
9,686	Dividends declared but not included in Income and Expenditure Account	0
(198,221)	(Gains) / losses arising on revaluation of fixed assets	(159,797)
(367,100)	Actuarial (gains) / losses on Pension Fund assets and liabilities	198,428
30,149	Other losses	20,304
(467,076)	Total recognised losses / (gains) for the year	177,594
(4,042)	Minority adjustments	1,017
328	Prior year adjustments	0
(470,790)	Total recognised losses / (gains) since last financial statements	178,611

GROUP BALANCE SHEET

As at 31 March 2009

(re-stated) 2007/08 £000	Fixed Assets	Notes	£000	£000
1,870	Intangible Assets			2,821
	Tangible Fixed Assets			
867,999	Council Dwellings	7.	818,828	
758,143	Other Land and Buildings	7.	955,218	
107,609	Vehicles, Plant, Furniture and Equipment	7.	119,000	
415,192	Infrastructure Assets	7.	528,145	
18,577	Community Assets	7.	21,595	
2,167,520				2,442,786
	Non-Operational Assets			
180,195	Investment Properties	7.	179,783	
55,298	Assets Under Construction	7.	10,665	
28,694	Surplus Assets Held for Disposal	7.	23,462	
264,187				213,910
	Long-Term Assets			
7,732	Long-Term Investments		5,833	
102,358	Long-Term Debtors		117,508	
14,931	Share in Gross Assets of Joint Venture		225	
(8,237)	Share in Gross Liabilities of Joint Ventures		(2,374)	
116,784				121,192
	Current Assets			
31,269	Stocks and Work-in-Progress		34,477	
439,699	Debtors		449,194	
(229,893)	Less: Bad Debt Provision		(238,234)	
146,811	Investments		141,977	
7,448	Cash and Bank		12,957	
395,334				400,371
	Less: Current Liabilities			
(12,583)	Borrowing Repayable on Demand or Within Twelve Months		(106,065)	
(322,065)	Creditors		(244,767)	
(16,909)	Provisions		(26,540)	
(19,077)	Bank Overdraft		(31,437)	
(370,634)				(408,809)
2,575,061	Total Assets Less Current Liabilities			2,772,271
	Borrowing Repayable Within a Period in Excess of			
(1,043,482)	Twelve Months		(1,106,862)	
(235)	Deferred Liabilities		(8,370)	
(7,583)	Finance Leases		(12,069)	
(221,503)	Government Grants Deferred		(331,178)	
(10,249)	Deferred Credit		(1,946)	
(10,089)	Provisions		(10,692)	
(660,014)	Share in Net Liabilities of Associates		(671,022)	
(96,592)	Pension Liability		(283,429)	
(2,049,747)				(2,425,568)
525,314	TOTAL ASSETS LESS LIABILITIES			346,703

GROUP BALANCE SHEET

As at 31 March 2009

(re-stated)

2007/08

£000

		Notes	£000
	Represented by:		
1,102,699	Capital Adjustment Account		1,003,132
32,514	Capital Fund		22,941
226,365	Revaluation Reserve		367,730
15,962	Earmarked Capital Reserve		32,025
(57,128)	Financial Instruments Adjustment Account		(57,748)
(835,537)	Pensions Reserve		(1,059,846)
2,051	Earmarked Revenue Reserve		2,123
144	Capital Contribution		(4,744)
7,565	Renewal and Repairs Fund		10,330
689	Share Premium Account		689
28,947	General Fund		59,575
(5,682)	Revenue Reserve		(35,212)
<u>518,589</u>	Group Balance and Reserves	9.	<u>340,995</u>
<u>6,725</u>	Minority Interest		<u>5,708</u>
<u>525,314</u>	TOTAL NET WORTH		<u>346,703</u>

The unaudited accounts were issued on 12 June 2009 and the audited accounts were authorised for issue on 29 September 2009.



DONALD McGOUGAN, CPFA,
Director of Finance
12 June 2009

GROUP CASH FLOW STATEMENT

2007/08		Notes	2008/09	
£000			£000	£000
37,020	Net Cash Outflow / (Inflow) From Revenue Activities	4.		(51,208)
(1,023)	Dividends from Joint Ventures and Associates			114
	Returns on Investments and Servicing of Finance			
57,435	Interest Paid		71,841	
(10,234)	Interest Received		(11,626)	
<u>47,201</u>				60,215
83,198	Net Cash Outflow / (Inflow) from Revenue Activities			<u>9,121</u>
4,784	Taxation			(2,620)
	Capital Expenditure and Financial Investments			
325,697	Purchase of Fixed Assets		326,861	
9,488	Other Capital Cash Payments		21,602	
(33,367)	Sale of Fixed Assets		(29,162)	
(197,996)	Capital Grants Received		(168,441)	
(38,779)	Other Capital Receipts		(13,840)	
<u>65,043</u>				137,020
4,138	Equity Dividends Paid			198
(136)	Acquisitions and Disposals			6,250
<u>157,027</u>	Net Cash Outflow / (Inflow) Before Financing			<u>149,969</u>
(95,813)	Management of Liquid Resources			(4,902)
	Financing			
59,058	Repayment of Amounts Borrowed		259,542	
4,399	Capital Element of Finance Lease Payments		(1,815)	
(128,790)	New Loans Raised		(408,981)	
<u>(65,333)</u>				<u>(151,254)</u>
<u>(4,119)</u>	Net Increase in Cash			<u>(6,187)</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 24 and 25 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.

Unless otherwise stated in notes 24 and 25, audited 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
Pacific Shelf 825 Limited	100%	31 March

Associates:

The following associates have been consolidated based on board representation:

Edinburgh Leisure	38.46%	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%	55.74%	31 March
Lothian and Borders Fire and Rescue Board	54.23%	54.64%	31 March
Lothian Valuation Joint Board	61.82%	61.83%	31 March

Joint Ventures:

Shawfair Developments Limited	50.0%	31 March
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Trust:

International Conference Centre Income Trust	100%	31 March
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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
 Projects (Edinburgh) Limited
 Lothian Investment Fund for Enterprise Limited

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. 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 £631.480m (£581.523m 2007/08) representing the Council's share of the realisable surpluses in these companies.

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

	2008/09		2007/08	
	£000	£000	£000	£000
Deficit for the year		74,169		13,710
Share of group companies surplus		9,647		(7,437)
Dividend income		0		127
Gains on fixed asset disposals		6,183		6,063
Interest received		3,696		2,304
Year-end variations				
Increase / (decrease) in debtors	(14,304)		58,058	
Decrease / (increase) in creditors	83,386		82,414	
Increase / (decrease) in stocks	(4,547)		15,085	
Increase / (decrease) in investments	120		0	
		64,655		155,557
Non cash transactions		(209,558)		(133,304)
Net cash (inflow) / outflow from revenue activities		(51,208)		37,020

5. Joint Venture Companies

Included in the group results are the following joint venture companies:

Shawfair Developments Limited 50% Joint Venture

Miller Group limited withdrew from the Joint venture on the 28 November 2008, thus increasing the Council's share of the company from 37.5% in 2008 to 50% in 2009.

The group share of the results of Shawfair Development Limited is as follows:

	2009	2008
	Unaudited 50% £000	(re-stated) 37.5% £000
Incoming resources	16	0
Loss before tax	(1,148)	(125)
Taxation	(43)	27
Loss after tax	(1,191)	(98)
Current assets	225	637
Liabilities due within one year	(2,374)	(1,356)
Net assets	(2,149)	(719)

NOTES TO THE GROUP ACCOUNTS

6. Associated Companies

Included in the group results are the following associated companies:

Edinburgh Leisure

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 Edinburgh Leisure, based on 38.46% (2008 33.33%) Board Representation, is as follows:

	2009	2008
	£000	£000
Incoming resources	<u>9,800</u>	<u>8,136</u>
Net surplus / (loss)	<u>362</u>	<u>(326)</u>
Fixed assets	1,760	1,639
Current assets	359	318
Liabilities due within one year	(987)	(995)
Liabilities due after one year or more	(198)	(315)
Pension liability	<u>157</u>	<u>911</u>
Net assets	<u>1,091</u>	<u>1,558</u>

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 33.36% (30.77% in 2008) Board Representation, is as follows:

	2009	2008
	£000	£000
Incoming resources	<u>2,716</u>	<u>2,390</u>
Net outgoing resources	<u>(329)</u>	<u>(397)</u>
Fixed assets	2,777	2,634
Current assets	392	211
Liabilities due within one year	(470)	(283)
Liabilities due after one year or more	<u>0</u>	<u>0</u>
Net assets	<u>2,699</u>	<u>2,562</u>

NOTES TO THE GROUP ACCOUNTS

6. Associated Companies - continued

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% (2008 55.93%) funding percentage and in respect of the Pension Liability 55.74% (2008 55.77%) based on the GAE, is as follows:

	2009	2008
	£000	£000
Funding - requisitions	53,369	53,704
Other income	100,221	90,816
Total income	<u>153,590</u>	<u>144,520</u>
Deficit for the year	<u>(39,451)</u>	<u>(41,897)</u>
Fixed assets	58,157	44,769
Current assets	16,609	15,796
Liabilities due within one year	(11,945)	(10,478)
Liabilities due after one year or more	<u>(21,597)</u>	<u>(19,568)</u>
Net assets	41,224	30,519
Net pension liabilities	<u>(632,753)</u>	<u>(603,804)</u>
	<u>(591,529)</u>	<u>(573,285)</u>

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 54.64% (2008 57.73%) funding percentage and in respect of the Pension Liability 54.23% (2008 56.21%) based on the GAE, is as follows:

	2009	2008
	£000	£000
Funding - requisitions	29,225	27,259
Other income	648	769
Total income	<u>29,873</u>	<u>28,028</u>
Deficit for the year	<u>(5,113)</u>	<u>(10,034)</u>
Fixed assets	24,019	24,374
Current assets	3,138	4,193
Liabilities due within one year	(1,243)	(1,842)
Liabilities due after one year or more	<u>(10,789)</u>	<u>(11,786)</u>
Net assets	15,125	14,939
Net pension liabilities	<u>(145,610)</u>	<u>(136,607)</u>
	<u>(130,485)</u>	<u>(121,668)</u>

NOTES TO THE GROUP ACCOUNTS

6. Associated Companies - continued

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 61.83% (2008 61.84%) funding percentage and in respect of the Pension Liability 61.82% (2008 61.79%) based on the GAE, is as follows:

	2009	2008
	£000	£000
Funding - requisitions	3,826	3,689
Other income	33	33
Total income	<u>3,859</u>	<u>3,722</u>
Surplus for the year	<u>225</u>	<u>239</u>
Fixed assets	724	748
Current assets	199	290
Liabilities due within one year	(75)	(150)
Liabilities due after one year or more	<u>(498)</u>	<u>(519)</u>
Net assets	350	369
Net pension liabilities	<u>(1,538)</u>	<u>(865)</u>
	<u>(1,188)</u>	<u>(496)</u>

NOTES TO THE GROUP ACCOUNTS

7. Tangible Fixed Assets

7.1 Operational Assets

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant and Equipment £000
Cost			
Gross book value as at 1 April 2008	883,698	812,848	170,718
Transferred during the year	0	251	307
Additions during year	21,335	128,386	27,950
Transferred from non-operational assets	0	51,268	0
Transferred to Common Good	0	0	0
Disposals during year	(8,110)	(1,051)	(4,377)
Impairments	(46,659)	(67,931)	0
Revaluations and restatements	0	76,373	0
Gross book value as at 31 March 2009	<u>850,264</u>	<u>1,000,144</u>	<u>194,598</u>
Accumulated Depreciation			
Depreciation as at 1 April 2008	(15,699)	(54,705)	(63,109)
Charge for the year	(17,711)	(11,797)	(16,113)
Transferred during the year	0	(24)	(274)
Revalued / impaired assets	1,676	16,811	0
Restatements	0	3,527	0
Disposals	298	1,262	3,898
Depreciation as at 31 March 2009	<u>(31,436)</u>	<u>(44,926)</u>	<u>(75,598)</u>
Net Book Value			
As at 31 March 2009	<u>818,828</u>	<u>955,218</u>	<u>119,000</u>
As at 1 April 2008	<u>867,999</u>	<u>758,143</u>	<u>107,609</u>

	Infrastructure Assets £000	Community Assets £000	Total £000
Cost			
Gross book value as at 1 April 2008	527,656	18,577	2,413,497
Transferred during the year	0	0	558
Additions during year	139,943	1,174	318,788
Transferred from non-operational assets	0	0	51,268
Transferred to Common Good	0	(119)	(119)
Disposals during year	0	0	(13,538)
Impairments	0	(1,563)	(116,153)
Revaluations and restatements	0	3,526	79,899
Gross book value as at 31 March 2009	<u>667,599</u>	<u>21,595</u>	<u>2,734,200</u>
Accumulated Depreciation			
Depreciation as at 1 April 2008	(112,464)	0	(245,977)
Charge for the year	(26,990)	0	(72,611)
Transferred during the year	0	0	(298)
Revalued / impaired assets	0	0	18,487
Restatements	0	0	3,527
Disposals	0	0	5,458
Depreciation as at 31 March 2009	<u>(139,454)</u>	<u>0</u>	<u>(291,414)</u>
Net Book Value			
As at 31 March 2009	<u>528,145</u>	<u>21,595</u>	<u>2,442,786</u>
As at 1 April 2008	<u>415,192</u>	<u>18,577</u>	<u>2,167,520</u>

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
Cost				
Gross book value as at 1 April 2008	180,195	55,298	28,928	264,421
Transferred during the year	5,644	0	0	5,644
Additions during year	6,335	20,056	401	26,792
Addition under a finance lease	0	0	0	0
Transferred to operational / non-operational assets	6,398	(64,689)	7,023	(51,268)
Disposals during year	(1,883)	0	(10,056)	(11,939)
Impairments	(15,597)	0	(4,309)	(19,906)
Revaluations and restatements	(1,309)	0	1,480	171
Gross book value as at 31 March 2009	179,783	10,665	23,467	213,915
Accumulated Depreciation				
Depreciation as at 1 April 2008	0	0	(234)	(234)
Charge for the year	0	0	514	514
Revalued / impaired assets	0	0	49	49
Disposals	0	0	130	130
Restatements	0	0	(464)	(464)
Depreciation as at 31 March 2009	0	0	(5)	(5)
Net Book Value				
As at 31 March 2009	179,783	10,665	23,462	213,910
As at 1 April 2008	180,195	55,298	28,694	264,187

8. Capital Commitments

At 31 March 2009 Council companies were committed to the following contractual commitments:

	2009 £000	2008 £000
Contractual Commitments		
CEC Holdings Limited	0	13,700
Lothian Buses	8,000	8,700
	8,000	22,400
Authorised, but not Contracted, Commitments		
CEC Holdings Limited	0	10,000
	0	10,000

NOTES TO THE GROUP ACCOUNTS

9. Movements on Reserves

9.1 Reserves	(re-stated)			Balance Carried Forward £000
	Balance Brought Forward £000	(Gains) / Losses for the Year £000	Transfers Between Reserves £000	
Capital fund				
- Group	32,514	6,790	(16,363)	22,941
Capital adjustment account				
- Group	1,050,516	(49,540)	(52,814)	948,162
- Share of associates and joint ventures	52,183	(812)	3,599	54,970
Usable capital receipts reserve				
- Group	0	38,815	(38,815)	0
- Share of associates and joint ventures	0	(284)	284	0
Financial instruments adjustment account				
- Group	(57,054)	(853)	274	(57,633)
- Share of associates and joint ventures	(74)	(42)	1	(115)
Revaluation reserve				
- Group	223,827	147,341	(14,957)	356,211
- Share of associates and joint ventures	2,538	12,456	(3,475)	11,519
Capital contribution				
- Group	0	(4,910)	0	(4,910)
- Share of associates and joint ventures	144	22	0	166
Earmarked capital reserves				
- Share of associates and joint ventures	15,962	16,395	(332)	32,025
Earmarked revenue reserves				
- Share of associates and joint ventures	2,051	72	0	2,123
Pension reserve				
- Group	(96,765)	(203,400)	17,310	(282,855)
- Share of associates and joint ventures	(738,772)	4,972	(43,191)	(776,991)
Renewal and repairs Fund				
- Group	7,565	295	2,470	10,330
Share premium Account				
- Group	689	0	0	689
General Fund reserves				
- Group	28,947	(74,169)	104,797	59,575
Revenue reserves				
- Group	(1,519)	(34,923)	(1,902)	(38,344)
- Share of associates and joint ventures	(4,163)	(35,819)	43,114	3,132
Total reserves	518,589	(177,594)	0	340,995

9.2 Purposes of Funds Held

The purpose of the following funds can be seen in note 30 to the Financial Statements:

- Capital Fund
- Capital Adjustment Account
- Financial Instruments Adjustment Account
- General Fund Balance
- Usable Capital Receipts Reserve
- Pension Reserve
- Renewal and Repairs Fund

NOTES TO THE GROUP ACCOUNTS

9. Movements on Reserves - continued

9.2 Purposes of Funds Held (continued)

- **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 and Joint Venture companies.

- **Capital contribution**

This reserves 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.

9.3 Pension Reserves

The pension reserves are broken down as follows:

	2008-09 £000	2007-08 £000
Council	276,181	(98,147)
tie limited	561	62
CEC Holdings	299	(428)
Lothian Buses	5,814	1,748
Group	<u>282,855</u>	<u>(96,765)</u>
Valuation Board	1,538	(865)
Police Board	630,926	(602,928)
Fire Board	144,684	(135,890)
Edinburgh Leisure	<u>(157)</u>	<u>911</u>
Associates and Joint Ventures	<u>776,991</u>	<u>(738,772)</u>
Total at 31 March 2009	<u><u>1,059,846</u></u>	<u><u>(835,537)</u></u>

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 2009 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 Rate 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 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 2008 - A Statement of Recommended Practice (the 2008 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.

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 2008 SORP, of the financial position of the local authority and its group and its income and expenditure for the year, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

I also 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. My 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 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 2008 SORP, of the financial position of City of Edinburgh Council and its group as at 31 March 2009 and its income and expenditure 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 ending 31 March 2009 in respect of the following significant trading operations:

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



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30 September 2009

THE CITIZEN'S CHARTER PERFORMANCE INDICATORS

The Local Government Act 1992 requires all local authorities to prepare information about its performance in a range of services.

Copies of these performance indicators can be obtained from any public library or from the City of Edinburgh Council's website: www.edinburgh.gov.uk