

**AUDITED  
FINANCIAL STATEMENTS**

**2007/2008**

# The City of Edinburgh Council

## Statement of Accounts

Year to 31 March 2008

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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 2008.

The Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2007: A Statement of Recommended Practice (SORP) and the Best Value Accounting Code of Practice.

The new SORP has introduced a number of accounting changes which have been incorporated into the financial statements.

The SORP requires that financial instruments are accounted for under the requirements of FRS25 Financial Instruments: Presentation and Disclosure, FRS26 Financial Instruments: Recognition and Measurement and FRS29 Financial Instruments: Disclosure. Details can be seen in notes 1 and 23 to these financial statements.

The fixed asset restatement account and capital financing account have been replaced with a revaluation reserve and a capital adjustment account. The purpose of these non-distributable reserves is shown in note 27 to the financial statements.

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.
- **Statement of Internal Financial Control**  
This sets out the framework within which financial control is managed and reviewed and the main components of the financial control system, including the arrangements for Internal Audit.
- **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.

# Foreword by the Director of Finance

## Introduction - continued

- **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.

- **Council Tax Income Account**

This account shows the gross and net income from the 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 two funds operated under Lothian Pension Funds - the Lothian Pension Fund and Lothian Buses Pension Fund.

- **Common Good Fund**

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

- **Group Accounts**

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

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

## Foreword by the Director of Finance

### Financial Performance

#### Revenue

The Council's financial performance is presented in the Income and Expenditure Account which can be seen on page 16. 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 14 to the Financial Statements.

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

	<b>Revised Budget 2007/08 £000</b>	<b>Actual 2007/08 £000</b>	<b>Over / (Under) Spend £000</b>
General Fund Services	733,591	741,119	7,528
Dividend Income (net)	(7,790)	(7,821)	(31)
Significant Trading Operations	(5,340)	(4,379)	961
Loans Charges / Interest on Revenue Balances	80,073	76,597	(3,476)
Exceptional Expenditure - Equal Pay Claims	5,294	4,196	(1,098)
Contribution to Earmarked Balances	12,115	12,115	0
<b>Total Expenditure to be Funded</b>	<b>817,943</b>	<b>821,827</b>	<b>3,884</b>
Council Tax	(218,082)	(223,162)	(5,080)
Net Cost of Council Tax Benefit	(391)	(507)	(116)
Total - Council Tax Income Account	(218,473)	(223,669)	(5,196)
Community Charge Income	0	(24)	(24)
Revenue Support Grant	(422,908)	(422,906)	2
Distribution from Non-Domestic Rate Pool	(167,119)	(167,119)	0
Budgeted Contribution from Unallocated General Reserve	(336)	(336)	0
Contribution from Capital Fund	(8,929)	(8,929)	0
Contribution from Renewal and Repairs Reserve	(178)	(178)	0
<b>Funding</b>	<b>(817,943)</b>	<b>(823,161)</b>	<b>(5,218)</b>
<b>General Fund Surplus for the Year</b>	<b>0</b>	<b>(1,334)</b>	<b>(1,334)</b>

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 for a contribution of £0.336m from the unallocated general reserve. At the end of the financial year, having drawn this sum down, the Council's outturn resulted in a surplus of £1.334m. Where General Fund departments reported a surplus, the accounts have been closed on the basis that these surpluses will be carried forward to 2008/09. Thus, £1.165m requires to be set aside to earmarked reserves, meaning that a £0.169m will be credited to 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 £7.528m, together with a contribution shortfall of £0.961m from the Council's significant trading operations and an adjustment against the provision for monies earmarked for equal pay claims of £1.098m.
- A reduction of £3.476m on loan charges / interest on revenue balances, primarily resulting from effective treasury management on the investment of surplus funds and slippage in the capital programme.
- A net increase in Council Tax of £5.196m, resulting mainly from reviews of entitlements to discounts and exemptions undertaken during the year, together with an increase in the number of chargeable properties.

In addition, £8.929m 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 the monies provided within the budget for debt repayment costs to be used to offset on a one-off basis areas of overspend in general fund budgets. This is not sustainable and continued effort is needed to align expenditure with budgets.

## Foreword by the Director of Finance

### Principal Sources of Funding

The principal sources of funding used by the Council during the year were:	<b>£000</b>
Council Tax / Community Charge Income (net of cost of benefits)	223,693
Revenue Support Grant	422,906
Distribution from Non-Domestic Rates Pool	167,119
Total	<u>813,718</u>

### Reserves

The Council carries out an annual review of reserves as part of the budget process, the latest review being in February 2008.

The General Fund balance stands at £28.947m. A sum of £27.143m is earmarked for specific purposes, including balances held under School Boards' Delegation Scheme; monies held for equal pay and monies from Council Tax discounts payable to registered social landlords

Thus, the unallocated General Fund balance stands at £1.804m at 31 March 2008. This is in line with the amount anticipated in the review of reserves carried out as part of the 2008-2011 budget setting process.

### Housing Revenue Account

The Housing Revenue Account broke even at the end of the financial year, after making a contribution of £3.451m to the Renewal and Repairs Fund.

### 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. 2007/08 is the sixth 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 £4.379m 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 16), the results are included in 'Net Surplus from Trading Accounts', Exceptional Expenditure or within the relevant service as stated in note 5 to the Financial Statements.

	<b>£000</b>
Surplus	4,379
FRS 17 Charges	(492)
Included in Exceptional Items	(1,587)
Other Adjustments, including Non Distributed Costs	112
Total Cost included in Income and Expenditure Account	<u>2,412</u>
Included in Individual Services in Income and Expenditure Account	5
Included in Net Surplus from Trading Accounts	3,994
Included in Exceptional Items	(1,587)
Total Cost included in Income and Expenditure Account	<u>2,412</u>

BlindCraft, Direct Cleaning, Edinburgh Catering Services and Refuse Collection (including Trade Waste) failed to achieve their statutory obligation to break even over the three-year period 2005-06 to 2007-08.

## Foreword by the Director of Finance

### Capital Expenditure

The outturn position for capital expenditure is summarised below:

	<b>Revised Budget 2007/08 £000</b>	<b>Actual 2007/08 £000</b>	<b>(Slippage) / Acceleration £000</b>
General Fund Services	299,237	279,236	(20,001)
Housing Revenue Account	40,000	35,190	(4,810)
<b>Total Capital Expenditure</b>	<b>339,237</b>	<b>314,426</b>	<b>(24,811)</b>
<b>Capital Receipts and Other Contributions</b>			
- General Fund Services	(51,050)	(47,019)	4,031
- Housing Revenue Account	(16,500)	(11,817)	4,683
<b>Government and Other Grants</b>			
- General Fund Services	(163,583)	(162,241)	1,342
<b>Total Capital Income</b>	<b>(231,133)</b>	<b>(221,077)</b>	<b>10,056</b>
<b>Balance to be Funded Through Borrowing</b>			
- General Fund Services	(84,604)	(69,970)	14,634
- Housing Revenue Account	(23,500)	(23,379)	121
<b>Total Advances from Loans Fund</b>	<b>(108,104)</b>	<b>(93,349)</b>	<b>14,755</b>

Capital Expenditure for the year totalled £314.426m, as shown on page 33 of the Statement of Accounts. Of this amount, £35.190m was spent on Council housing through the Housing Revenue Account programme and £41.278m through the Housing Development Fund and Community Ownership Programme. £185.544m was spent on tram works, roads and other infrastructure and £29.147m on educational properties. In addition, £17.183m was transferred to the capital fund. This money was received through the sale of assets. A further £6.084m was transferred to investments. This money was received mainly from developers contributions and sales of assets.

Funding of capital expenditure included £162.241m from government and other grants and £58.836m from the sale of assets and other receipts. The remaining £93.349m was funded through borrowing.

Major capital projects undertaken during the year included:

- Continuing investment in roads and other infrastructure
- Construction and refurbishment of schools
- Construction of new care homes
- Commencement of the tram infrastructure project
- Refurbishment of Ratho Adventure Centre
- Construction of new Roads Services Depot

#### 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.

#### Fit for Future Project

The principal aim of the Fit for Future (FFF) project has been to modernise the Council's corporate office portfolio through a structured programme of asset disposals and focused investment in its retained properties. The programme has seen the number of corporate offices reduce from twenty five locations dispersed across the city to five principal city-centre properties. Total capital receipts in excess of £45million are anticipated once sales of the final properties have been concluded.

The focal point of the new office campus is Waverley Court, the Council's state-of-the-art headquarters building, accommodating over 1,800 staff. This building, alongside complementary upgrades to the remaining retained properties, offers substantial benefits in providing an environment conducive to modern ways of working, as well as enhanced customer accessibility.

## Foreword by the Director of Finance

### Long-term Borrowing

The Council borrowed money throughout the year to meet anticipated capital expenditure requirements and to refinance maturing loans after allowing for debt repayments. The borrowing strategy is prepared in accordance with the Code of Practice on Treasury Management in Local Authorities. The majority of the Council's borrowing comes from the Public Works Loan Board with the remainder from the European Investment Bank and market and other loans. Further details are provided at note 23 to the Financial Statements.

### 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 for the provision of school buildings, property maintenance and other facilities. This project provided for replacement of six secondary schools and two primary schools.

Further details are provided at note 3 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 35.5 to the Financial Statements, in accordance with the requirements of FRS17 (Retirement Benefits), amounts to £98.147m. This exceeds current General Fund reserves of £28.947m. It should be noted that this is a snapshot of the position at 31 March 2008. 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.



DONALD McGOUGAN, CPFA,  
Director of Finance  
11 June 2008



# STATEMENT OF ACCOUNTING POLICIES

The Annual Accounts for the year ended 31 March 2008 have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2007: 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 fairly" 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 .

Under FRS17, the discount rate used to place a value on the scheme's liabilities has increased from 5.4% to 6.9% (nominal), 2.1% to 3.2% (real). This contributes significantly to the reduction in the pension deficit from £253.638m to £98.147m.

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

Other Land and Buildings

Vehicles, Plant and Equipment

Infrastructure Assets e.g. Highways

Community Assets e.g. Parks

Non-Operational Assets:

Investment Properties

Assets in the Course of Construction

Surplus Assets Held for Disposal

# 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 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.

- **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.
- 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.

## Provisions

Provisions are made for liabilities of uncertain timing or amount that have been incurred.

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.
- A deferred consideration and a contribution to the PPP1 project 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 Edinburgh Schools Partnership. 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 contract, was calculated. Under the arrangements for accounting for Public Private Partnerships, this 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.

## 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.

# STATEMENT OF ACCOUNTING POLICIES

## Financial Liabilities - continued

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.

As a result of an operational change to the management of surplus funds on behalf of the Council and associated bodies, 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.

## 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 21 and 22 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 have been classified as Available for Sale Financial Instruments and have been valued based on the distributable reserves held by the companies and the net worth of the balance sheet respectively. The difference between these values and the historic cost of the investment has been reflected in the Available-for-Sale Financial Instruments Reserve.

# STATEMENT OF ACCOUNTING POLICIES

## **Available-for-Sale-Financial Instruments - continued**

The Council's investments in Waterfront Edinburgh Limited, tie Limited and Shawfair Developments Limited have been assessed as outwith the scope of FRS26, due to these investments being long-term Council priorities and have been recognised at historical cost.

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

## **Changes in Accounting Policies**

The following changes in accounting policies, arising from changes introduced by the Statement of Recommended Practice (SORP) have been reflected in the statement of accounts.

- **Deferred Premiums and Discounts on Early Repayment of Debt**

The lines in the Balance Sheet for deferred premiums and discounts on early repayment of debt have been deleted since any premiums or discounts arising on early redemption of debt that are required to be carried forward on the Balance Sheet have been used to adjust the carrying value of the replacement or modified loan debt.

- **Fixed Asset Restatement Account / Capital Financing Account**

The fixed asset restatement account and capital financing account have been replaced with a revaluation reserve and capital adjustment account.

- **Financial Instruments Adjustment Account**

A new reserve called the financial instruments adjustment account has been introduced to hold the accumulated difference between the financing costs included in the Income and Expenditure Account and the accumulated financing costs required in accordance with regulations to be charged to the General Fund Balance.

- **Available-for-Sale Financial Instruments Reserve**

A new reserve called the available-for-sale financial instruments reserve has been introduced to record the unrealised revaluation gains arising from holding available-for-sale investments. This reserve does not represent funds that are available for use.

# 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 fairly the financial position of the Authority at the accounting date and its income and expenditure for the year (ended 31 March 2008).

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 fairly the financial position of the Council as at 31st March, 2008, and its income and expenditure for the year ended 31st March, 2008.



DONALD McGOUGAN, CPFA,  
Director of Finance  
11 June 2008

## STATEMENT ON THE SYSTEM OF INTERNAL FINANCIAL CONTROL

1. This statement is given in respect of the internal financial controls operated by the City of Edinburgh Council and its group. I acknowledge my responsibility for ensuring that an effective system of internal financial control is maintained and operated.
2. The system of control can provide reasonable, but not absolute, assurance that material control weaknesses or irregularities do not exist, and that there is no unacceptable risk of material error, loss, fraud, or breach of legislation. Consequently, the Council continually seeks to improve the effectiveness of its systems of internal control so that irregularities are either prevented or detected within an acceptable period of time.
3. The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a scheme of delegation and accountability. The system is maintained and developed by Council and group management and includes:
  - comprehensive budgeting systems;
  - regular reviews of periodic financial reports that measure financial performance against forecasts;
  - targets against which financial and operational performance can be assessed;
  - preparation of regular financial reports that compare expenditure with plans and forecasts;
  - clearly defined capital expenditure guidelines;
  - formal project management disciplines; and
  - formal governance arrangements within the subsidiary and associated companies.
4. The Internal Audit Section operates in accordance with the Chartered Institute of Public Finance and Accountancy's Code of Practice for Internal Audit in Local Government in the United Kingdom and complies with the ISO 9001/2000 quality standard. The Section undertakes an annual programme based on an agreed audit strategy. The plan is based on formal assessments of risk and audit needs, which are reviewed regularly to reflect evolving risks and changes within the Council. The Section reports directly to the Head of Financial Services. However, it also has free access to myself, elected members of the Council, the Chief Executive and Directors when required. The Chief Internal Auditor reports to the Audit Committee in his own name. The Chief Internal Auditor has provided an assurance statement that includes his opinion on the adequacy and effectiveness of the system of internal financial control.
5. My review of the effectiveness of the system of internal financial control is informed by:
  - assurance certificates on internal control received from all Directors of Council Departments;
  - the governance arrangements in place for subsidiary and associated companies and an ongoing assessment of these arrangements;
  - the work of managers within the Council;
  - the work of Internal Audit and on an ad hoc basis within the group; and
  - external audit reports, including their report on the annual accounts.
6. Having reviewed the framework, it is my opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the system of internal control operated by the Council and its group. I have noted the actions taken during the year to improve the budget monitoring process, to change the culture of the organisation in relation to recognising the importance of effective budget monitoring and to improve the reliability and accuracy of the commitment accounting system. I also recognise the need to continue to develop these actions to ensure long-term financial stability within the Council and its group. Continued work will be required to ensure that Significant Trading Operations reach their financial targets and I will ensure that financial advice is made available where required in the coming year.

  
DONALD McGOUGAN, CPFA,  
Director of Finance  
11 June 2008





## 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 2008

2006/07 £000		£000
(46,633)	Deficit / (Surplus) in the Income and Expenditure Account	13,710
	Net Additional Amount required by Statute or Non-Statutory Proper Practices to be debited to the General Fund Balance for the Year.	(21,848)
34,766		
(11,867)	<b>General Fund (Surplus) / Deficit</b>	(8,138)
(8,942)	General Fund Balance Brought Forward	(20,809)
(20,809)	<b>General Fund Balance Carried Forward</b>	(28,947)

## 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 2008

(Re-stated) 2006/07 £000		£000
(46,633)	Deficit / (Surplus) on the Income and Expenditure Account for the Year	13,710
62,303	Deficit / (Surplus) arising on Revaluation of Fixed Assets	(179,713)
0	Deficit / (Surplus) arising on Capital Adjustment Account	40,665
0	(Gain) / Loss arising on Financial Instruments Adjustment Account	57,632
0	(Gain) / Loss arising on Available-for-Sale Financial Instruments Reserve	(43,324)
(72,294)	Surplus arising on Usable Capital Receipts	(40,723)
(47,275)	(Gain) / Loss arising on Other Capital Funds	(16,535)
(284)	(Gain) / Loss arising on Other Earmarked Revenue Reserves	(230)
(101,694)	Actuarial Gain on Pension Assets and Liabilities	(148,478)
(205,877)	<b>Total Recognised Gains for the Year</b>	(316,996)

The cumulative effect in reserves arising from the introduction of the Capital Adjustment Account, Revaluation Reserve and the Financial Instruments Adjustment Account is shown in note 1 to the Financial Statements.

# BALANCE SHEET

as at 31 March 2008

2006/07		Notes	£000	£000
1,536	<b>Intangible Fixed Assets</b>	15.		1,870
	<b>Tangible Fixed Assets</b>			
	<b>Operational Assets</b>			
793,037	Council Dwellings	19.	867,999	
658,475	Other Land and Buildings	19.	711,842	
24,792	Vehicles, Plant, Furniture and Equipment	19.	42,101	
298,173	Infrastructure Assets	19.	409,736	
18,225	Community Assets	19.	18,577	
<u>1,792,702</u>				2,050,255
	<b>Non-Operational Assets</b>			
96,517	Investment Properties	19.	111,352	
29,785	Assets under Construction	19.	54,683	
17,592	Surplus Assets Held for Disposal	19.	28,695	
<u>143,894</u>				194,730
	<b>Long-Term Assets</b>			
57,311	Long-Term Investments		100,822	
103,396	Long-Term Debtors	24.	102,358	
56,348	Deferred Premiums on Early Repayment of Debt	1.	0	
<u>217,055</u>				203,180
	<b>Current Assets</b>			
2,032	Stocks and Work-in-Progress		1,927	
365,936	Debtors		365,217	
(220,416)	Less: Bad Debt Provision	25.	(229,893)	
237,558	Investments		146,493	
557	Cash and Bank		561	
<u>385,667</u>				284,305
	<b>Less: Current Liabilities</b>			
(6,106)	Borrowing Repayable on Demand or Within 12 Months		(12,583)	
(334,164)	Creditors		(201,238)	
(17,097)	Provisions	26.	(16,909)	
(30,352)	Bank Overdraft		(19,077)	
<u>(387,719)</u>				(249,807)
<u>2,153,135</u>	<b>Total Assets Less Current Liabilities</b>			<u>2,484,533</u>

## BALANCE SHEET

2006/07 £000		Notes	£000	£000
<b>Long-Term Liabilities</b>				
(948,688)	Borrowing Repayable Within a Period in Excess of 12 Months	23.	(1,013,782)	
(37)	Deferred Liabilities		0	
(1,066)	Finance Leases	18.	(590)	
(114,730)	Government Grants Deferred	28.	(221,503)	
(350)	Deferred Credit	29.	(350)	
(1,461)	Deferred Discounts on Early Repayment of Debt		0	
<u>(253,638)</u>	Pension Liability	35.	<u>(98,147)</u>	
<u>(1,319,970)</u>				<u>(1,334,372)</u>
<b><u>833,165</u></b>	<b>TOTAL ASSETS LESS LIABILITIES</b>			<b><u>1,150,161</u></b>
<b>Represented by:</b>				
0	Revaluation Reserve	27.	175,549	
0	Capital Adjustment Account	27.	1,017,463	
467,152	Fixed Asset Restatement Reserve	1. / 27.	0	
567,654	Capital Financing Account	1. / 27.	0	
0	Financial Instruments Adjustment Account	27.	(57,054)	
0	Available-for-Sale Financial Instruments Reserve	1. / 27.	43,324	
27,127	Capital Fund	27.	32,514	
(253,638)	Pensions Reserve	35.	(98,147)	
4,061	Renewal and Repairs Fund	27.	7,565	
<u>20,809</u>	General Fund	27.	<u>28,947</u>	
<b><u>833,165</u></b>	<b>TOTAL NET WORTH</b>			<b><u>1,150,161</u></b>

The unaudited accounts were issued on 11 June 2008 and the audited accounts were authorised for issue on 29 September 2008.



DONALD McGOUGAN, CPFA,  
Director of Finance  
11 June 2008

# CASH FLOW STATEMENT

Year ended 31 March 2008

2006/07 £000	REVENUE ACTIVITIES	Notes	£000	£000
	<b>Cash Outflows</b>			
529,364	Cash Paid to and on Behalf of Employees		532,263	
623,455	Other Operating Cash Payments		808,538	
129,872	Housing Benefit Paid Out		142,316	
280,708	National Non-Domestic Rate Payments to National Pool		<u>278,898</u>	
<u>1,563,399</u>				1,762,015
	<b>Cash Inflows</b>			
(60,499)	Rents (after Rebates)		(71,202)	
(216,354)	Council Tax Receipts		(223,953)	
(168,283)	National Non-Domestic Rate Receipts from National Pool		(167,119)	
(282,360)	Non-Domestic Rate Receipts		(268,243)	
(397,727)	Revenue Support Grant	37.	(422,906)	
(142,087)	DWP Grants for Benefits	37.	(172,414)	
(137,484)	Other Government Grants	37.	(125,567)	
(305,504)	Cash Received for Goods and Services		<u>(271,291)</u>	
<u>(1,710,298)</u>				<u>(1,722,695)</u>
(146,899)	<b>NET CASH (INFLOW) / OUTFLOW FROM REVENUE ACTIVITIES</b>	36.		39,320
	<b>DIVIDENDS FROM JOINT VENTURES AND ASSOCIATES</b>			
	<b>Cash Inflows</b>			
(14,030)	Dividends received			(7,873)
	<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>			
	<b>Cash Outflows</b>			
62,503	Interest Paid		53,164	
51	Interest Element of Finance Leases		35	
	<b>Cash Inflows</b>			
(12,511)	Interest Received		<u>(9,009)</u>	
<u>50,043</u>				44,190
	<b>CAPITAL ACTIVITIES</b>			
	<b>Cash Outflows</b>			
258,222	Purchase of Fixed Assets		311,408	
8,266	Other Capital Cash Payments		<u>6,700</u>	
<u>266,488</u>			318,108	
	<b>Cash Inflows</b>			
(98,581)	Sale of Fixed Assets		(29,994)	
(93,628)	Capital Grants Received	37.	(177,677)	
(30,596)	Other Capital Cash Receipts		<u>(38,779)</u>	
<u>(222,805)</u>			(246,450)	
43,683	<b>NET CASH OUTFLOW FROM CAPITAL ACTIVITIES</b>			71,658
	<b>ACQUISITIONS AND DISPOSALS</b>			
	<b>Cash Outflows</b>			
187	Investments in Associates and Joint Ventures			<u>0</u>
<u>(67,016)</u>	<b>NET CASH (INFLOW) / OUTFLOW BEFORE FINANCING</b>	38.		<b>147,295</b>
	<b>MANAGEMENT OF LIQUID RESOURCES</b>			
81,889	Net Increase / (Decrease) in Short Term Deposits	39.		(91,065)
	<b>FINANCING</b>			
	<b>Cash Outflows</b>			
243,083	Repayments of Amounts Borrowed			58,421
	<b>Cash Inflows</b>			
(259,629)	New Loans Raised			<u>(125,930)</u>
<u>(1,673)</u>	<b>(INCREASE) / DECREASE IN CASH</b>	38.		<u>(11,279)</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Effect of Changes Introduced in the 2007 Code of Practice / Prior Period Adjustments

The 2007 Code of Practice on Local Authority Accounting in the United Kingdom introduced changes to the accounts affecting financial instruments and the reserves arising from the revaluation of fixed assets. The 2006/07 comparative figures have not been restated as a result of these changes. This note provides an explanation of how the comparative figures relate to the 2007/08 figures.

#### 1.1 Accounting for Fixed Assets

From 1 April 2007, the fixed asset restatement account and capital financing account were replaced by a revaluation reserve and a capital adjustment account. The opening balance on the revaluation reserve is nil. The opening balance on the fixed asset restatement account was transferred to the capital financing account, and the resulting balance on the capital financing account transferred to the capital adjustment account. The figures below show the effect of these transfers on the capital adjustment account. Details of other transactions on the capital adjustment account can be seen in note 27 to the financial statements.

	<b>Fixed Asset Restatement Account £000</b>	<b>Capital Financing Account £000</b>	<b>Capital Adjustment Account £000</b>
Balance 1 April 2007	467,152	567,654	0
Transfer to Capital Financing Account	(467,152)	467,152	n/a
Transfer to Capital Adjustment Account	n/a	(1,034,806)	1,034,806
	<u>0</u>	<u>0</u>	<u>1,034,806</u>

#### 1.2 Premiums and Discounts incurred on the Early Repayment of Debt

The balances at 1 April on premiums and discounts on the early repayment of debt have been transferred to the financial instruments adjustment account. The figures below show the effect of these transfers on the financial instruments adjustment account. Details of other transactions on the financial instruments adjustment account can be seen in note 27 to the financial statements.

	<b>Long-Term Assets Deferred Premiums £000</b>	<b>Long-Term Liabilities Deferred Discounts £000</b>	<b>Financial Instruments Adjustment Account £000</b>
Balance 1 April 2007	56,348	(1,461)	0
Transfer to Financial Instruments Adjustment Account	(56,348)	1,461	54,887
	<u>0</u>	<u>0</u>	<u>54,887</u>

1.3 The comparatives in the Balance Sheet have been re-stated to account for an investment of £0.187m in Shawfair Developments Limited, which had been included in current debtors in the 2006-2007 Audited Statement of Accounts.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Effect of Changes Introduced in the 2007 Code of Practice - continued

### 1.4 Accounting for Available-for-Sale Financial Assets

A new reserve called the available-for-sale financial instruments reserve has been introduced to record the unrealised revaluation gains arising from holding available-for-sale investments.

The Council has shareholdings in five companies Lothian Buses, CEC Holdings Limited, tie Limited, Waterfront Edinburgh Limited and Shawfair Developments Limited. These investments have been assessed under the requirements of FRS 26 Financial Instruments: Recognition and Measurement. The investments in tie Limited, Waterfront Edinburgh Limited and Shawfair Developments Limited have been assessed as being outwith the scope of FRS26 and have been included in the balance sheet at historical cost. Lothian Buses and CEC Holdings Limited have been assessed as being within the scope of FRS 26 and the investments have been re-stated to values based on distributable reserves and net worth of the balance sheet respectively.

	<b>Available- for-Sale Financial Instruments Reserve £000</b>
Balance 1 April 2007	0
Unrealised gains on investment in Lothian Buses	(36,586)
Unrealised gains on investment in CEC Holdings Limited	(6,738)
Transfer to Capital Adjustment Account	0
Balance 31 March 2008	<u>(43,324)</u>

## 2. Exceptional Items

Expenditure on exceptional items relates to payments / provisions of £5.005m (£7.124m 2006/07) relating to equal pay settlements and costs associated with single status.

## 3. Public Private Partnership

### 3.1 Provision of School Buildings

#### PPP Education Projects

In 2001, the Council entered into a Public Private Partnership for the provision of school buildings, maintenance and other facilities. This agreement was supplemented by a further agreement in April 2004, which now requires the provider to either replace or substantially renovate 10 primary, 5 secondary and 2 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 in to a second Public Private Partnership for the provision of school buildings, maintenance and other facilities. This requires the service provider to replace 6 secondary schools and 2 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 3. Public Private Partnership - continued

#### 3.1 Provision of School Buildings - continued

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
2008 - 2009	15,682	2,655
2009 - 2014	81,064	92,725
2014 - 2019	85,669	108,198
2019 - 2024	90,535	117,520
2024 - 2029	95,678	127,646
2029 - 2034	83,886	138,643
2034 - 2039	0	129,812
	<u>452,514</u>	<u>717,199</u>

#### 3.2 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 are in the period 2006/2007 to 2008/2009. Under the agreement the Council is committed to paying the following sums in cash terms (assuming an RPI increase at the level shown). The savings anticipated have not been incorporated as the timing of their delivery is still the subject of ongoing negotiations with the contractor.

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.
2008-09	24,160	2.5%
2009-10	22,935	2.5%
2010-11	24,405	2.5%
2011-12	23,925	2.5%
2012-13	24,560	2.5%
2013-14	25,212	2.5%
2014-15	25,880	2.5%
2015-16	26,064	2.5%
	<u>197,141</u>	

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

### 4. Analysis of Other Operating Income and Expenditure

	Gross Expend. £000	Income £000	Net Expend. £000	2006/07 Net Expend. £000
Joint Board Requisition				
- Lothian Valuation Joint Board	3,733	0	3,733	3,743
Non-General Fund Central Support	27,638	(22,215)	5,423	6,070
Other Miscellaneous Items	1,618	(10,313)	(8,695)	(1,088)
	<u>32,989</u>	<u>(32,528)</u>	<u>461</u>	<u>8,725</u>



## NOTES TO THE FINANCIAL STATEMENTS

### 5. 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.

	2007/08 £000	2006/07 £000	2005/06 £000	Cumulative £000
Turnover	7,245	7,684	7,407	
Deficit	(873)	(732)	(3,155)	(4,760)

Direct Cleaning failed to achieved its statutory obligation to break even over the three-year period. The deficit incurred in 2007/08, however, was after meeting costs of £1.096m (2006/07 £1.133m; 2005/06 £3.374m) relating to equal pay claims. Excluding these exceptional items, Direct Cleaning would have broken even over the three-year period.

#### • BlindCraft

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

BlindCraft received financial support from a number of local authorities, including a subsidy of £1.020m (2006/07 £2.051 m) from the Council's Health and Social Care department.

BlindCraft recorded a trading deficit of £0.207m after the contribution from the Health and Social Care department.

	2007/08 £000	2006/07 £000	2005/06 £000	Cumulative £000
Turnover	1,832	2,027	3,007	
Deficit	(207)	(314)	(357)	(878)

The Council, at its meeting in October 2004 approved the re-engineering of BlindCraft which was to focus on the manufacture, sale and retailing of beds. An update report was considered by the Council's Executive in December 2006 and a three year business plan has been prepared which shows improved financial prospects.

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.

	2007/08 £000	2006/07 £000	2005/06 £000	Cumulative £000
Turnover	26,844	28,941	30,635	
Surplus	3,710	4,062	276	8,048

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

## NOTES TO THE FINANCIAL STATEMENTS

### 5. Trading Undertakings - continued

- **Edinburgh Catering Services - Other Catering**

Other catering provides staff catering and hospitality in five Council buildings

	2007/08 £000	2006/07 £000	2005/06 £000	Cumulative £000
Turnover	1,189	1,110	999	
(Deficit) / Surplus	3	24	(158)	(131)

Edinburgh Catering Services - Other Catering failed to achieved its statutory obligation to break even over the three-year period. The deficit incurred was after meeting costs of £0.08m (£nil 2006/07; £0.168m 2005/06) relating to equal pay claims. Excluding this exceptional item, Other Catering would have broken even over the three-year period.

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

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

	2007/08 £000	2006/07 £000	2005/06 £000	Cumulative £000
Turnover	5,095	5,347	5,184	
(Deficit) / Surplus	(605)	(348)	(1,314)	(2,267)

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 deficit incurred in 2007/08 was after meeting costs of £0.482m (£0.425m 2006/07; £1.279m 2005/06) relating to equal pay claims.

Edinburgh Catering Services - School and Welfare Catering suffered a fall in income levels due to a decline in school meal uptake. This resulted largely from the on-going effects of the Hungry for Success healthy eating programme. The STO 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. 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.

	2007/08 £000	2006/07 £000	2005/06 £000	Cumulative £000
Turnover	4,192	4,232	4,011	
(Deficit) / Surplus	263	(34)	88	317

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

## NOTES TO THE FINANCIAL STATEMENTS

### 5. 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.

	2007/08 £000	2006/07 £000	2005/06 £000	Cumulative £000
Turnover	18,501	18,335	17,103	
Surplus	778	1,012	268	2,058

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

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.

	2007/08 £000	2006/07 £000	2005/06 £000	Cumulative £000
Turnover	16,172	15,955	14,505	
(Deficit) / Surplus	(8)	(56)	888	824

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.

	2007/08 £000	2006/07 £000	2005/06 £000	Cumulative £000
Turnover	14,391	13,045	12,791	
(Deficit) / Surplus	(642)	(2,246)	(2,344)	(5,232)

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 deficit on the trading account has been reduced from £2.2m in 2006/07 to £0.6m in 2007/08. This trend of improvement has continued into 2008/09, when it is anticipated that the trading account will break even.

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

### 6. 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:

	2007/08 £000	2006/07 £000
Advertising	1,802	2,232
Marketing	830	868
Other Publicity	234	272
<b>Total</b>	<b>2,866</b>	<b>3,372</b>

### 7. Agency Income and Expenditure

The Council has entered into agency agreements with other local public bodies to provide and receive services, the income and expenditure for which is included in the Income and Expenditure Account. Comparative figures have been re-stated for additional activities not disclosed in the 2006-07 Audited Financial Statements.

The main activities were:

	2007/08 £000	2006/07 £000 (re-stated)
<b>Expenditure</b>		
Payments to other local authorities in respect of:		
Area Waste Project	93	102
Educating pupils	300	233
Other Services for Children	1,208	0
Residential care for children	324	193
Residential care for the elderly	1,000	428
Payments made to Health Boards in respect of:		
Health and Safety services	269	168
Medicals for Cab Drivers	55	77
Others		
Police Officers	2,435	1,875
Lothian and Borders Police - Cab Inspection	328	340
<b>Total Expenditure</b>	<b>6,012</b>	<b>3,416</b>
<b>Income</b>		
Receipts in respect of library services:		
Scottish Prison Service	6	6
Health Boards	24	24
Receipts in respect of translation and Interpretation services:		
Lothian Health Board	373	276
Receipts from other local authorities in respect of:		
Child Protection Officer	31	0
Educating pupils	1,193	964
Residential Care for Children	36	545
Revenues	52	42
Risk Factory	50	42
Pentland Hills Regional Park Management	96	96
Social Services undertakings	1,690	1,903
Structural Engineering Consultancy	17	17
Technical Support Services	86	0
<b>Total Income</b>	<b>3,654</b>	<b>3,915</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 8. 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.

The main activities were:	2007/08 £000	2006/07 £000
Receipts from other local authorities in respect of:		
Central Purchasing Services	76	77
Cab Inspection Services	97	112
Analyst Services	502	355
Legal Services	51	158
Receipts in respect of Mortuary Fees		
Lothian and Borders Police Board	93	85
Receipts in respect of Collection Services		
Scottish Water	1,252	1,208
Other Local Authorities	52	42
<b>Total Income</b>	<b>2,123</b>	<b>2,037</b>

### 9. Members' Salaries and Expenses

Prior to 3 May 2007, members received basic allowances and special responsibility allowances. New arrangements came into effect from 3 May 2007, whereby 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 £1.16m (£1.12m 2006/07 basic and special responsibility allowances). Expenses amounted to £0.057m (£0.086m 2006/07).

In addition, severance payments of £0.28m were made to Councillors who stood down at the May 2007 elections. This sum was met in full through additional revenue support grant.

### 10. Officers' Remuneration

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

	2007/08	2006/07
£50,001 - £60,000	142	139
£60,001 - £70,000	49	30
£70,001 - £80,000	17	23
£80,001 - £90,000	17	13
£90,001 - £100,000	7	9
£100,001 - £110,000	1	1
£110,001 - £120,000	4	4
£120,001 - £130,000	0	1
£130,001 - £140,000	0	1
£140,001 - £150,000	0	0
£150,001 - £160,000	1	1
<b>Total</b>	<b>238</b>	<b>222</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 11. Related Parties

During the year, the Council entered into a number of transactions with related parties. Comparative figures have been re-stated for additional activities not disclosed in the 2006-07 Audited Financial Statements. The most material of these transactions, not disclosed elsewhere, include:

<b>Government Grants Received</b>		<b>2007/08</b>	<b>2006/07</b>
		<b>£000</b>	<b>£000</b>
<b>Revenue Grants</b>			<b>(re-stated)</b>
Scottish Government -	Revenue Support Grant	442,906	397,727
	Non-Domestic Rates	167,119	168,283
	Other Government Grants	132,589	131,226
Department of Works and Pensions -	Housing Benefits	139,607	133,019
	Council Tax Benefits	28,559	28,286
<b>Capital Grants</b>			
	Housing Development Fund / Community Ownership	38,618	39,205
	Other Government Grants	113,564	52,322
<b>Total Government Grants</b>		<b>1,062,962</b>	<b>950,068</b>

### Subsidiaries and Other Organisations - Revenue Income and Expenditure

#### • Revenue Expenditure

Lothian and Borders Fire and Rescue Board - Requisitions	27,065	27,217
Lothian and Borders Police Board - Requisitions	53,702	53,056
Lothian Valuation Joint Board - Requisitions	3,733	3,743
Edinburgh Leisure Limited - Revenue Funding	7,964	8,052
Edinburgh Leisure Limited - Hire of Facilities	44	1
Edinburgh Festival Theatres	944	944
Subsidiaries / Voluntary Organisations	28,099	27,938
SESTRAN (South East of Scotland Transport P'ship) - Requisitions	23	78
tie Limited	62	0
Buredi - Rent for District Court	342	297
Edinburgh Leisure Limited - Water Conservation	0	79
Edinburgh World Heritage Trust	617	617
Lothian Buses Limited - Supported Bus Services	1,439	1,528
<b>Total Revenue Expenditure</b>	<b>124,034</b>	<b>123,550</b>

#### • Revenue Income

Lothian Health Board - Resource Transfers	21,873	20,200
BlindCraft - Contributions from Other Local Authorities	282	280
EDI Group Limited - Loan Interest	262	269
tie Limited	607	126
Edinburgh Festival Theatres	150	240
Edinburgh Leisure Limited - Water Funding	18	87
Edinburgh Leisure - Borrowing Repayments	95	0
Lothian Health Board - Health Improvement	22	20
SESTRAN - Grant / Travel Plan / Round the Forth Grant	85	75
CPU - Purchasing Partnership -		
	Police Joint Board	15
	Fire Joint Board	11
	Valuation Joint Board	7
	Edinburgh Leisure	9
Accountancy Provision -	Projects Edinburgh Ltd	20
	CEC Holdings	20
	Edinburgh Military Tattoo	4
	EICC Ltd	9
	SESTRAN	20
Other Financial Services -	SESTRAN	15
<b>Total Revenue Income</b>	<b>23,524</b>	<b>21,427</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 11. Related Parties - continued

	2007/08 £000	2006/07 £000 (re-stated)
<b>• Central Support Income</b>		
Lothian and Borders Police Board	230	232
Lothian and Borders Fire and Rescue Board	500	376
Forth Estuary Transport Authority	196	185
Lothian Valuation Joint Board	93	250
Pension Funds	1,004	10,643
<b>Total Central Support Income</b>	<b>2,023</b>	<b>11,686</b>
<b>• Interest on Revenue Balances</b>		
Lothian and Borders Police Board	765	572
Lothian and Borders Fire and Rescue Board	464	299
Forth Estuary Transport Authority	(219)	184
Pension Funds	367	6,418
SESTRAN	242	99
<b>Total Interest on Revenue Balances</b>	<b>1,619</b>	<b>7,572</b>
<b>• Loans Charges Recovered</b>		
Lothian and Borders Police Board	5,517	5,267
Lothian and Borders Fire and Rescue Board	4,209	4,156
Further Education Colleges	100	101
<b>Total Loans Charges</b>	<b>9,826</b>	<b>9,524</b>
<b>• Lothian Pension Fund</b>		
Transfer of Contributions to Lothian Pension Fund	44,916	43,036
<b>Subsidiaries and Other Organisations - Capital Expenditure and Income</b>		
<b>• Capital Expenditure</b>		
Edinburgh Leisure Grant tie Limited	238 68,331	420 32,426
<b>Total Capital Expenditure</b>	<b>68,569</b>	<b>32,846</b>
<b>• Capital Income</b>		
Forth Estuary Transport Authority	8,629	21,997
SESTRAN	8,093	3,756
<b>Total Capital Income</b>	<b>16,722</b>	<b>25,753</b>

## 12. Audit Costs

The fees payable to Audit Scotland in respect of external audit services undertaken in accordance with the Code of Audit Practice are £0.717m (£0.634m 2006/07).

## NOTES TO THE FINANCIAL STATEMENTS

### 13. 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 £21.848m better (£34.766m 2006/07 worse) 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 is the best measure of the Council's operating financial performance for the year. However, the surplus or deficit on the General Fund is also 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 14 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

14. 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 2008

2006/07 £000		£000	£000
	<b>Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the General Fund deficit for the year.</b>		
(47,575)	Depreciation, Amortisation and Impairment of Fixed Assets	(82,464)	
3,427	Government Grants Deferred Amortisation	6,791	
1,450	Amortisation of Education PPP Costs	1,523	
43,748	Net Profit on Sale of Fixed Assets	6,063	
0	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	578	
(31,960)	Net Charges made for Retirement Benefits in accordance with FRS 17	(45,113)	
<hr/>		<hr/>	
(30,910)			(112,622)
	<b>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.</b>		
41,973	Statutory Provision for Repayment of Debt	46,522	
672	Capital Expenditure Financed from the General Fund	0	
48,998	Employer's contributions payable to Lothian Pension Fund and retirement benefits payable direct to pensioners	52,126	
<hr/>		<hr/>	
91,643			98,648
	<b>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.</b>		
	Statutorily required transfer of the surplus for the year on the Housing Revenue Account to the Renewal and Repairs Fund	3,451	
0			
(23,996)	Net Transfer from Capital Fund	(11,325)	
(1,971)	Net Transfer from Earmarked Reserves	0	
<hr/>		<hr/>	
(25,967)			(7,874)
<hr/>		<hr/>	
34,766	<b>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.</b>		<b>(21,848)</b>

### 15. 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 movements on intangible assets during the year were:

	Nomination Rights £000	Software Licences £000	Total £000
Gross Book value at 31 March 2007	1,536	0	1,536
Additions in year	323	11	334
	<hr/>	<hr/>	<hr/>
Gross Book value at 31 March 2008	1,859	11	1,870

## NOTES TO THE FINANCIAL STATEMENTS

### 16. Capital Expenditure and Fixed Asset Disposals

16.1 Service Summary of Gross Capital Expenditure	2007/08 £000	2006/07 £000
<ul style="list-style-type: none"> <li>● <b>General Services</b></li> </ul>		
Children and Families	29,147	25,963
Culture and Leisure	11,924	8,506
Health and Social care	9,239	10,309
City Development	128,263	92,936
Corporate Services	4,528	2,215
Services for Communities	30,810	31,510
Other Services	52	93
Expenses Relating to Asset Sales	728	594
Contributions to Investments	6,084	0
Contributions to Capital Fund	17,183	55,403
<b>General Services Total:</b>	<b>237,958</b>	<b>227,529</b>
<ul style="list-style-type: none"> <li>● <b>Other Expenditure</b></li> </ul>		
Housing Revenue Account	35,190	56,372
Housing Development Fund / Community Ownership	41,278	40,520
<b>Total Expenditure</b>	<b>314,426</b>	<b>324,421</b>
16.2 Analysis of Capital Expenditure and Capital Financing	2007/08	2006/07
<b>Gross Capital Expenditure</b>	<b>£000</b>	<b>£000</b>
<b>Intangible Fixed Assets</b>		
Grants / Contributions	335	117
Housing Development Fund / Community Ownership	41,278	40,520
<b>Intangible Fixed Assets Total</b>	<b>41,613</b>	<b>40,637</b>
<b>Operational Fixed Assets:</b>		
Site and Building Acquisitions	12,897	4,205
Building Works and Demolitions	194,000	143,963
Road Works	8,472	6,452
Professional Fees	22,010	59,705
Vehicles, Plant, Machinery, Furniture, etc.	7,635	10,343
Other	1,296	2,373
<b>Operational Fixed Assets Total</b>	<b>246,310</b>	<b>227,041</b>
<b>Other Expenditure</b>		
Assets Subject to Sale and Lease Back Arrangements	2,231	1,128
Contribution to Capital Fund	17,183	55,403
Contributions to Investments	6,084	0
Shawfair Loan Stock	0	187
Contribution to Education PPP1 Project	1,005	25
	26,503	56,743
<b>Gross Capital Expenditure Total</b>	<b>314,426</b>	<b>324,421</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 16. Capital Expenditure and Fixed Asset Disposals - continued

#### 16.2 Analysis of Capital Expenditure and Capital Financing (continued)

	2007/08 £000	2006/07 £000
<b>Capital Financing</b>		
• <b>Fixed Asset Disposals</b>		
Land Sales	2,387	49,881
Other Property Sales	14,881	16,718
Council House Sales (Right to Buy)	10,581	12,509
Other Receipts (Right to Buy)	183	177
Council House Sales (Excluding Right to Buy)	83	18,147
Vehicle, Plant, Equipment, etc. Sales	1,880	1,149
	<u>29,995</u>	<u>98,581</u>
• <b>Other Capital Receipts</b>		
Minutes of Waiver	64	18
Owners' Shares - Common Repairs	479	884
Loan Repayments - Houses	116	123
Government Grants	112,790	51,504
Government Grants - Housing Development Funding / Community Ownership	38,618	39,205
Government Grants - Private Sector Housing	774	818
Lottery Grants	1,032	710
Grants - Other Public Bodies	9,027	6,112
Contributions from Other Bodies	24,170	24,867
Contributions from Developers	4,012	426
Revenue Contributions to Capital	0	672
	<u>191,082</u>	<u>125,339</u>
• <b>Advances from Council's Loans Fund</b>	<u>93,349</u>	<u>100,501</u>
<b>Capital Financing Total</b>	<u><u>314,426</u></u>	<u><u>324,421</u></u>

#### 16.3 Capital Receipts

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

	2007/08 £000	2006/07 £000
<b>Statement of Capital Receipts</b>		
Gross Capital Receipts during the year:		
Land Sales	2,387	49,881
Other Property Sales	14,881	16,718
Vehicle, Plant and Equipment Sales	1,880	1,149
Council House Sales	10,847	30,833
	<u>29,995</u>	<u>98,581</u>
Gross Capital Receipts Total	<u>29,995</u>	<u>98,581</u>
Capital Receipts Applied to:		
Finance Capital Expenditure	12,812	43,178
Capital Fund	17,183	55,403
	<u>29,995</u>	<u>98,581</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 17. Capital Commitments

At 31 March 2008 the City of Edinburgh Council was contractually committed to the following significant capital works:

	<b>£000</b>
Braidburn Flood Prevention	11,920
Usher Hall	11,566
Woodland School	4,130
Pentland School	4,020
Water of Leith Flood Prevention Scheme	3,300
Currie Primary School	3,150
North Merchiston Care Home	3,000
Tram Design	2,930
Gorgiemills Special Education and Behaviour Disorders School	2,280
North Edinburgh Football Academy	2,224
Tram Utilities Diversions	2,140
	<u>50,660</u>

### 18. Finance and Operating Leases

#### 18.1 Finance Leases

Items of Plant and Equipment under Finance Lease during 2007/08 amounted to rental of £0.410m (£0.473m 2006/07).

The following value of assets are held under finance lease by the Council and are accounted for as part of Tangible Fixed Assets.

	<b>Vehicles, Plant and Equipment £000</b>
Value as at 1 April 2007	1,446
Restatements during the year	(122)
Repayments during the year	(410)
	<u>914</u>
Value as at 31 March 2008	<u>914</u>

Outstanding obligations to make payments under these finance leases (excluding finance costs) at 31 March 2008, accounted for as part of current and long-term liabilities are shown below.

<b>Future Repayment Period</b>	<b>£000</b>
Obligations payable in 2008/09	324
Obligations payable over 2 - 5 Years	590
	<u>914</u>

#### 18.2 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 2007/08 was £13.759m (£13.63m 2006/07). The value of future payments under operating leases is £139.186m (£150.556m 2006/07).

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

<b>Future Repayment Period</b>	<b>Land and Buildings £000</b>	<b>Vehicles, Plant and Equipment £000</b>	<b>Total £000</b>
within one year	10,607	1,684	12,291
two - five years	38,938	2,638	41,576
in excess of five years	85,227	92	85,319
	<u>134,772</u>	<u>4,414</u>	<u>139,186</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 19. Fixed Assets

#### 19.1 Movement to Fixed Assets 2007-08 Operational Assets

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant and Equipment £000
<u>Gross Book Value</u>			
At 31 March 2007	793,075	673,959	33,854
Additions during year	24,211	33,106	21,395
Disposals during year	(10,658)	0	0
Impairments	0	(28,907)	0
Transferred to Common Good	0	(10,850)	0
Transferred to Surplus Assets	0	0	0
Revaluations and Restatements	77,070	66,454	2,170
At 31 March 2008	<u>883,698</u>	<u>733,762</u>	<u>57,419</u>
<u>Depreciation</u>			
As at 31 March 2007	(38)	(15,484)	(9,062)
Charge for Year	(15,858)	(11,104)	(6,256)
on Revalued / Impaired Assets	0	4,047	0
on Assets transferred to Common Good	0	67	0
on Disposals	197	554	0
As at 31 March 2008	<u>(15,699)</u>	<u>(21,920)</u>	<u>(15,318)</u>
Net book value at 31 March 2008	<u>867,999</u>	<u>711,842</u>	<u>42,101</u>
Net book value at 31 March 2007	<u>793,037</u>	<u>658,475</u>	<u>24,792</u>
	Infrastructure Assets £000	Community Assets £000	Total £000
<u>Gross Book Value</u>			
At 31 March 2007	386,301	18,225	1,905,414
Additions during year	133,900	2,986	215,598
Disposals during year	0	0	(10,658)
Impairments	0	(2,885)	(31,792)
Transferred to Common Good	0	(19)	(10,869)
Transferred to Surplus Assets	0	0	0
Revaluations and Restatements	(2,539)	270	143,425
At 31 March 2008	<u>517,662</u>	<u>18,577</u>	<u>2,211,118</u>
<u>Depreciation</u>			
As at 31 March 2007	(88,128)	0	(112,712)
Charge for Year	(19,798)	0	(53,016)
on Revalued / Impaired Assets	0	0	4,047
on Assets transferred to Common Good	0	0	67
on Disposals	0	0	751
As at 31 March 2008	<u>(107,926)</u>	<u>0</u>	<u>(160,863)</u>
Net book value at 31 March 2008	<u>409,736</u>	<u>18,577</u>	<u>2,050,255</u>
Net book value at 31 March 2007	<u>298,173</u>	<u>18,225</u>	<u>1,792,702</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 19. Fixed Assets - continued

#### 19.1 Movement to Fixed Assets 2007-08 (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 2007	96,517	29,785	17,592	143,894
Additions during year	5,031	24,898	783	30,712
Disposals during year	0	0	(11,148)	(11,148)
Impairments	(4,298)	0	(305)	(4,603)
Transferred to Common Good	(533)	0	0	(533)
Transferred to Surplus Assets	0	0	0	0
Revaluations and Restatements	14,635	0	22,007	36,642
At 31 March 2008	<u>111,352</u>	<u>54,683</u>	<u>28,929</u>	<u>194,964</u>
<u>Depreciation</u>				
As at 31 March 2007	0	0	0	0
Charge for Year	0	0	0	0
on Revalued / Impaired Assets	0	0	19	19
on Disposals	0	0	(253)	(253)
As at 31 March 2008	<u>0</u>	<u>0</u>	<u>(234)</u>	<u>(234)</u>
Net book value at 31 March 2008	<u>111,352</u>	<u>54,683</u>	<u>28,695</u>	<u>194,730</u>
Net book value at 31 March 2007	<u>96,517</u>	<u>29,785</u>	<u>17,592</u>	<u>143,894</u>

#### 19.2 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
Value at Historical Cost	0	0	0	0
Enhancements to assets not yet valued	306	46,507	0	46,813
New Certified Valuation included in Balance Sheet				
2007/08	34,748	0	27,527	62,275
2006/07	32,316	8,176	1,402	41,894
2005/06	30,452	0	0	30,452
2004/05	12,279	0	0	12,279
2003/04	1,251	0	0	1,251
Total	<u>111,352</u>	<u>54,683</u>	<u>28,929</u>	<u>194,964</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 19. Fixed Assets - continued

#### 19.2 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.

	<b>Council Dwellings £000</b>	<b>Other Land and Buildings £000</b>	<b>Vehicles, Plant and Equipment £000</b>
Value at Historical Cost	0	0	57,419
Enhancements to assets not yet valued	0	18,067	0
New Certified Valuation included in Balance Sheet			
2007/08	881,786	392,157	0
2006/07	1,519	105,713	0
2005/06	383	36,058	0
2004/05	10	175,875	0
2003/04	0	5,892	0
<b>Total</b>	<b>883,698</b>	<b>733,762</b>	<b>57,419</b>

	<b>Infrastructure Assets £000</b>	<b>Community Assets £000</b>	<b>Total £000</b>
Value at Historical Cost	517,662	0	575,081
Enhancements to assets not yet valued	0	2,449	20,516
New Certified Valuation included in Balance Sheet			
2007/08	0	11,508	1,285,451
2006/07	0	4,548	111,780
2005/06	0	36	36,477
2004/05	0	30	175,915
2003/04	0	6	5,898
<b>Total</b>	<b>517,662</b>	<b>18,577</b>	<b>2,211,118</b>

- **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

## 19. Fixed Assets - continued

### 19.2 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

- **Public Private Partnership**

In 2002/2003 the Council transferred secondary and primary schools and a residential unit valued at £41.180m to Edinburgh Schools Partnership. A further 4 schools, valued at £5.362m were transferred to Edinburgh Schools Partnership in 2004/2005.

### 19.3 Information on Assets Held

The fixed assets owned by the Council include the following approximate numbers at 31 March 2008:

- **Council Dwellings**

The Council has a housing stock of 22,374 properties (2007 - 23,230). Details of the composition of the housing stock can be seen on page 65.

- **Operational Land and Buildings**

The Council has 64 operational offices, including the City Chambers and the District Court in its Fit for Future office accommodation portfolio. It also has a further 100 depots and workshops.

The Council has 135 schools (excluding PPP properties), 29 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.



## NOTES TO THE FINANCIAL STATEMENTS

<b>20. Analysis of Net Assets / (Liabilities) Employed</b>	<b>2007/08</b>	<b>2006/07</b>
	<b>£000</b>	<b>£000</b>
General Fund	659,137	439,308
Other Trading Undertakings	(1,739)	(9,924)
HRA	492,763	403,781
Balance as at 31 March 2008	<u>1,150,161</u>	<u>833,165</u>

Total net liabilities relating to trading undertakings is £7.740m (£28.664m 2006/07), of which £6.001m (£18.74m 2006/07) is included in the General Fund.

### 21. 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.

#### 21.1 Subsidiary Companies

- **CEC Holdings Limited**

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

The most recent results of the company are as follows:	<b>31.12.2007</b>	<b>31.12.2006</b>
	<b>£000</b>	<b>£000</b>
Net Assets	37,249	49,137
Net (Loss) / Profit before taxation	3,761	2,008
Retained Loss carried forward	(43,322)	(39,394)

- **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:	<b>31.03.2007</b>	<b>31.03.2006</b>
	<b>£000</b>	<b>£000</b>
Net Assets	7	7
Net Profit before Taxation	(1)	(1)
Retained (Loss) Profit carried forward	(5)	(4)

- **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:	<b>31.12.2007</b>	<b>31.12.2006</b>
	<b>£000</b>	<b>£000</b>
Net Assets	54,917	33,284
Net Profit before Taxation	10,200	7,316
Profit and Loss Account Reserve	48,518	26,855
Dividend	2,198	2,198

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

## NOTES TO THE FINANCIAL STATEMENTS

### 21. Subsidiaries and Associated Companies - continued

#### 21.1 Subsidiary Companies (continued)

- **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:	<b>31.03.2008</b>	<b>31.03.2007</b>
	<b>£000</b>	<b>£000</b>
Net Liabilities	(406)	(372)
Net Loss before Taxation	(47)	(42)
Retained Loss carried forward	(1,095)	(1,062)

The Council has guaranteed the debts of the Pacific Shelf company.

- **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 most recent results of the company are as follows:	<b>31.03.2008</b>	<b>31.03.2007</b>
	<b>£000</b>	<b>£000</b>
Net Assets	29	29
Net Profit before Tax	0	1
Retained Profit carried forward	29	29

- **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:	<b>31.03.2008</b>	<b>31.03.2007</b>
	<b>£000</b>	<b>£000</b>
Turnover	58,673	42,591
Net Liabilities	123	(332)
Net Profit / (Loss) before Taxation	(17)	38
Retained Profit/(Loss) carried forward	60	0

- **Edinburgh City Centre Management Company Limited**

The company is limited by guarantee. Each member has undertaken to contribute an amount not exceeding £1 towards any deficit in the event of the company being wound up.

The company's objective is to promote and facilitate the development and improvement of the City Centre of Edinburgh.

The most recent results of the company are as follows:	<b>31.03.2006</b>	<b>(Re-stated) 31.03.2005</b>
	<b>£000</b>	<b>£000</b>
Net Assets	14	14
Net Surplus / (Deficit) before taxation	10	10
Retained Surplus carried forward	(173)	(133)

## NOTES TO THE FINANCIAL STATEMENTS

### 21. Subsidiaries and Associated Companies - continued

#### 21.2 Associated Companies

- **Edinburgh Leisure**

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

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

The most recent results of the company are as follows:	<b>31.03.2008</b>	<b>31.03.2007</b>
	<b>£000</b>	<b>£000</b>
Net Assets	4,674	1,122
Net Incoming Resources	3,552	3,063
Fund Balances carried forward	4,674	1,122

- **Festival City Theatres Trust**

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:	<b>31.03.2008</b>	<b>31.03.2007</b>
	<b>£000</b>	<b>£000</b>
Net Assets	8,326	9,618
Net Outgoing Resources	(1,291)	(373)
Fund Balances carried forward	8,326	9,618

- **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 principal activity of the company is the provision of investment finance by way of share or loan capital for industrial and commercial business located or intending to locate in the area formerly known as Lothian Region.

The most recent results of the company are as follows:	<b>31.03.2006</b>	<b>31.03.2005</b>
	<b>£000</b>	<b>£000</b>
Net Assets	331	437
Net Profit (Loss) before Taxation	(113)	579
Retained Profit (Loss) carried forward	(203)	(97)

The company is in the process of a voluntary liquidation and the assets realised.

## NOTES TO THE FINANCIAL STATEMENTS

### 21. Subsidiaries and Associated Companies - continued

#### 21.3 Joint Ventures

- **Shawfair Developments Limited**

The City of Edinburgh Council owns 37.5% (2005 25%) 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:	(9 months)	
	31.03.2008	31.03.2007
	£000	£000
Net Liabilities	(1,839)	(1,657)
Net Profit / (Loss) before Tax	(333)	(601)
Retained Loss carried forward	(1,839)	(1,657)

The company is not yet fully trading.

- **Waterfront Edinburgh Limited**

A joint venture company owned by the City of Edinburgh Council and Scottish Enterprise Edinburgh and Lothian.

The Council's shareholding comprises 100 (50%) £1 ordinary B shares (fully paid) and 16,624,900 (50%) (16,624,900 (50%) 2007) £1 Ordinary C Shares (fully paid), which carry no voting rights.

The company was set up to manage Waterfront Edinburgh, which will involve redevelopment of land at Granton as part of the North Edinburgh Project.

The most recent results of the company are as follows:	31.03.2008		31.03.2007	
	£000		£000	
Net Assets	14,393		21,995	
Net (Loss) / Profit before Taxation	(6,604)		(9,987)	
Retained Loss carried forward	(20,051)		(13,627)	

In the year to 31 March 2005, £5.1m of future receipts in relation to land sales were included in the turnover figure. Of these receipts, £0.5m was written off in the year to 31 March 2007, and a further £1.6m was deemed not recoverable at 31 March 2008. The balance of £3m previously recognised as land sales is now expected to be received by 31 March 2009.

In addition, estimated future costs of £0.864m previously included within the cost of sales and creditors will no longer be required to be incurred by Waterfront Edinburgh Limited. This has resulted in a net write down of previously recognised profit of £0.736m for the year to 31 March 2008.

#### 21.4 Audit Opinions noted on the Accounts of the Companies

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

#### 21.5 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
- Waterfront Edinburgh Ltd
- Shawfair Developments Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 22. 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 2008 was £1.032m (2007 £1.39m).

- **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 2008 was £0.550m (2007 £0.531m).

- **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 2008 was nil (2007 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 2008 was £13.425m (2007 £12.751m).

### 23. Financial Instruments

#### 23.1 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	
	31.03.08	31.03.07	31.03.08	31.03.07
	£000	£000	£000	£000
Financial Liabilities (principal amount)	1,009,757	948,688	31,701	15,140
Amortised Cost	4,025	0	0	0
Total Borrowing at Amortised Cost	<u>1,013,782</u>	<u>948,688</u>	<u>31,701</u>	<u>15,140</u>
Loans and Receivables	4,000	4,000	178,447	267,091
Available-for-Sale Financial Assets	79,659	36,336	0	0
Unquoted Equity Investment at Cost	17,163	16,975	0	0
Total Investments	<u>100,822</u>	<u>57,311</u>	<u>178,447</u>	<u>267,091</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 23. Financial Instruments - continued

#### 23.1 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:

	<b>Financial Liabilities</b>	<b>Financial Assets</b>		
	<b>Liabilities Measured at Amortised Cost £000</b>	<b>Loans and Receivables £000</b>	<b>Available- for-Sale Assets £000</b>	<b>Total £000</b>
Interest Expense	(57,724)	0	0	(57,724)
Impairment Losses	0	(84)	0	(84)
Interest Payable and Similar Charges	(57,724)	(84)	0	(57,808)
Interest and Investment Income	0	5,674	0	5,674
Gains on Revaluation	0	0	43,324	43,324
Surplus Arising on Revaluation of Financial Assets	0	0	43,324	43,324
Net Gain / (Loss) for the Year	(57,724)	5,590	43,324	(8,810)

Reconciliation to Loss arising on Financial Instruments Adjustment Account shown on page 17.

Net Loss above	<b>£000</b> (57,724)
Less: Interest on Temporary Investments (included in Income and Expenditure Account in Interest and Investment Income)	(413)
Add: Expenses relating to Loans Fund	505
Loss Recognised in STRGL	(57,632)

In addition to the above interest expense, £1.858m (of which £1.789m 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 £0.505m of loans fund expenses charged to the City of Edinburgh Council.

The impairment loss relates to two interest free loans totalling £0.38m to Edinburgh Leisure maturing in July 2012. 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 has also been calculated using the same procedures and interest rates and this provides a sound approximation for fair value for these instruments, and includes accrued interest. It should be noted that the redemption rules applying to PWLB debt changed on 1 November 2007, and are less favourable than the previous procedures. As a result, the fair value figures for 31 March 2008 are relatively higher (more costly to redeem) than the 31 March 2007 comparators.

## NOTES TO THE FINANCIAL STATEMENTS

### 23. Financial Instruments - continued

#### 23.1 Borrowing and Investments (continued)

- 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. These include accrued interest. 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.

The fair values are calculated as follows:

	31.03.08		31.03.07	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Public Works Loans Board	768,184	953,981	716,532	850,099
European Investment Bank	1,313	1,413	1,850	1,984
Market Debt	244,925	289,555	230,900	251,376
Temporary Borrowing	11,943	11,943	5,512	5,512
Other Bodies	5,543	5,543	0	0
Trade Creditors	13,575	13,575	9,035	9,035
<b>Financial Liabilities</b>	<b>1,045,483</b>	<b>1,276,010</b>	<b>963,829</b>	<b>1,118,006</b>

The carrying amount of the Market Debt at 31 March 2008 includes £240.9m of principal, the balance representing equalisation interest rates (EIR) adjustments in relation to stepped lender only borrowing options (LOBO) loans.

The fair value is higher than the carrying amount because the authority's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the Balance Sheet date. This commitment to pay interest above current market rates increases the amount that the authority would have to pay if the lender requested or agreed to early repayment of the loans.

	31.03.08		31.03.07	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Loans and Receivables	144,950	145,412	241,558	241,885
Available-for-Sale Financial Assets	79,659	79,659	36,336	36,336
Unquoted Equity Investment at Cost	17,163	17,163	16,975	16,975
Trade Debtors	31,954	31,954	29,534	29,534
<b>Total Investments</b>	<b>273,726</b>	<b>274,188</b>	<b>324,403</b>	<b>324,730</b>

The substantial reduction in Loans and Receivables is due to revised arrangements for the investment of Lothian Pension Funds' surplus funds which are no longer included in the invested total.

# NOTES TO THE FINANCIAL STATEMENTS

## 23. Financial Instruments - continued

### 23.2 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.

#### 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. The Council maintains written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash through Treasury Management Practices (TMPs). These TMPs are a requirement of the Code of Practice and are reviewed regularly.

#### 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. The following analysis summarises the Authority's potential maximum exposure to credit risk, based on experience of default assessed by the ratings agencies and the Council's historical experience of its customer collection levels, adjusted to reflect current market conditions.



## NOTES TO THE FINANCIAL STATEMENTS

### 23. Financial Instruments - continued

#### 23.2 Key Risks (continued)

	Amount at 31.03.08 £000 [a]	Historical Experience of Default % [b]	Adjustment for Market Conditions at 31.03.08 % [c]	Estimated Maximum Exposure to Default £000 [a] * [c]
Local Authorities	22,871	0.000%	0.000%	0
AAA Rated Counterparties	15,341	0.001%	0.001%	0
AA Rated Counterparties	56,941	0.000%	0.000%	0
A Rated Counterparties	45,798	0.007%	0.007%	3
Trade Debtors	31,954	1.800%	1.800%	575
Financial Investments	172,905			578

The historical experience of default has been taken from Moody's, a credit rating organisation used by the Council and applies to the period 1982 - 2005. Whilst the current credit crisis in international markets has raised the overall possibility of default the Council maintains strict credit criteria for investment counterparties. As a result of this high credit criteria, the Council has maintained historical default rates as a good indicator under these current conditions.

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.

All Council invoices become due for payment on issue. Excluding pre-payments of £4.577m, trade debtors past due date can be analysed by age as follows:

	£000
Less than three months	17,525
Three to six months	3,906
Six months to one year	2,556
More than one year	7,967
Total	31,954

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 would also have ready access to borrowings from the Money Markets to cover any day to day cash flow need, although this has not been required during the year. 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.

# NOTES TO THE FINANCIAL STATEMENTS

## 23. Financial Instruments - continued

### 23.2 Key Risks (continued)

#### Refinancing 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. The majority of the Council's debt portfolio are currently fixed rate longer term loans. As such, the Council has a relatively low refinancing 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 refinancing risk which the Council monitors and manages.

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

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

	<b>£000</b>
Less than three months	17,382
Three to six months	188
Six months to one year	556
More than one year	<u>1,009,757</u>
Financial Liabilities	<u>1,027,883</u>

All trade and other payables are due to be paid in less than one year and trade creditors of £13.575m are not shown in the table above. As it is the principal outstanding, EIR adjustments of £4.025m to the carrying amounts of market debt shown in the financial liabilities is 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 23. Financial Instruments - continued

#### 23.2 Key Risks (continued)

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy includes a forecast for short and longer term interest rates. The Treasury Team continue to monitor market and forecast interest rates during the year and adjust investment policies accordingly. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns. Any such strategy is run within the short and medium term liquidity requirements of the Council.

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

	<b>£000</b>
Increase in interest payable on variable rate borrowings	0
Increase in interest receivable on variable rate investments	(287)
Impact on Income and Expenditure Account	(287)
Increase in Government grant receivable for financing costs	0
Share of overall impact debited to the HRA	0
Decrease in fair value of fixed rate investment assets	251
Impact on STRGL	0
Decrease in fair value of fixed rate borrowings liabilities (no impact on Income and Expenditure Account or STRGL)	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 £96.8m in a number of Council owned Companies and joint ventures. Whilst these holding 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.

Of the above shareholdings, £79.659m are classified as available-for-sale and valued at fair value, meaning that all movements in price will impact on gains and losses recognised in the STRGL. A general shift of 5% in the general price of shares (positive or negative) would thus have resulted in a £3.98m gain or loss being recognised in the STRGL for 2007/08.

#### **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.

## NOTES TO THE FINANCIAL STATEMENTS

### 24. 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. The deferred consideration has been reduced by £1.092m, 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 is £44.242m (£45.971m 2006/07).
- It is estimated that at the end of the Edinburgh Schools Partnership contract, the net replacement cost of the schools returning to the Council will be £103.504m. 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 £14.991m (£11.413m 2006/07).
- Long-term debtors include £9.195m (£8.518m 2006/07) of expenditure which represents a contribution to the Education PPP1 project. This is derived from asset disposals and other capital receipts. The contribution to the project has the effect of reducing the annual unitary charge.
- The deferred consideration, which represents a prepayment, and the contribution to the Education PPP1 project will be written down, over 30 years, to the Education Services account.
- Long-term debtors also include £20.373m (£20.76m 2006/07) and £11.688m (£15.073m 2006/07) 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.

### 25. Provision for Bad Debts

	<b>Balance at 31.03.2007</b>	<b>Movement 2007/08</b>	<b>Balance at 31.03.2008</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Community Charge	73,007	(38)	72,969
Council Tax	122,474	6,864	129,338
Non-Domestic Rates	15,704	772	16,476
Sundry Debtors	9,231	1,879	11,110
Total Provisions	<u>220,416</u>	<u>9,477</u>	<u>229,893</u>

### 26. Provisions

Provision has been made for outstanding payments of £16.909m (£17.097m 2006/07). These include estimates of settlements on outstanding equal pay, compensation and insurance claims and Council Tax discounts payable to Registered Social Landlords. The actual amounts of these claims are unknown, however, provision has been made in the accounts to meet the estimated costs of these claims. It is also not known when settlement will be reached on these claims.

### 27. Movements on Reserves

#### 27.1 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.

##### • Fixed Asset Restatement Account

The balance on the Fixed Asset Restatement Account was transferred to the Capital Financing Account on 1 April 2007.

## NOTES TO THE FINANCIAL STATEMENTS

### 27. Movements on Reserves - continued

#### 27.1 Purposes of Funds Held - continued

- **Capital Financing Account**

The balance on the Capital Financing Account, including the transfer from the Fixed Asset Restatement Accounts, was transferred to the Capital Adjusting Account on 1 April 2007.

- **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.

- **Available-for-Sale Financial Instruments Reserve**

The available-for-sale financial instruments reserve records the unrealised revaluation gains arising from holding available-for-sale investments.

- **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, £11.315m was drawn down from the capital fund to provide for repayment of loan principal, including £2.083m 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.

27.2 Reserves	Balance Brought Forward £000	(Gains) / Losses for the Year £000	Transfers Between Reserves £000	Balance Carried Forward £000
Revaluation Reserve	0	(179,713)	4,164	(175,549)
Capital Adjustment Account	0	40,665	(1,058,128)	(1,017,463)
Fixed Asset Restatement Reserve	(467,152)	0	467,152	0
Capital Financing Account	(567,654)	0	567,654	0
Financial Instruments Adjustment Account	0	57,632	(578)	57,054
Available-for-Sale Financial Instruments Reserve	0	(43,324)	0	(43,324)
Capital Fund	(27,127)	(16,535)	11,148	(32,514)
Usable Capital Receipts Reserve	0	(40,723)	40,723	0
Pension Reserve	253,638	(148,478)	(7,013)	98,147
Renewal and Repairs Fund	(4,061)	(230)	(3,274)	(7,565)
General Fund Reserves				
- General Fund Balance	(373)	14,235	(15,666)	(1,804)
- Earmarked General Fund Balances	(20,436)	(525)	(6,182)	(27,143)
<b>Total Reserves</b>	<b>(833,165)</b>	<b>(316,996)</b>	<b>0</b>	<b>(1,150,161)</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 27. Movements on Reserves - continued

### 27.2 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 £28.947m. A sum of £27.143m is earmarked for specific purposes, including:

- Balances held under School Boards' Delegation Scheme (DSM).
- Insurance - monies can be used to defray any loss where the Council could have insured against a loss but has not done so and for paying premiums on an insurance policy.
- Monies held for equal pay claims.
- Council tax second home discounts payable to registered social landlords.

Thus, the unallocated General Fund balance stands at £1.804m at 31 March 2008.

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 2008-2011 budget setting process.

## 28. 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 2007		114,730
Government Grants and Other Contributions Received	113,564	
Less: Grants amortised	<u>(6,791)</u>	
		<u>106,773</u>
Balance as at 31 March 2008		<u><u>221,503</u></u>

## 29. 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 £350,000 of the sale proceeds. This is reflected in the balance sheet as a deferred credit of £350,000 and as a long-term investment.

# NOTES TO THE FINANCIAL STATEMENTS

## 30. Contingent Assets and Liabilities

### Contingent Asset

- The Council had a contingent asset of £1m in 2006/07. Following a review of this transaction and market conditions, it is considered unlikely that any receipt will be received.

### 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.

## 31. Post Balance Sheet Event - Non Adjusting

Since the Balance Sheet date, there has been considerable uncertainty and volatility in world financial markets. The UK equity market (as measured by the FTSE 100 index) has been almost 6% higher than the level as at 31 March 2008. At 17 September 2008 it was around 11% below the market close at 31 March 2008.

The pension fund's investment strategy includes a wide range of asset classes, including equities (quoted and unquoted), bonds, property and cash, invested in both UK and overseas markets. The current turbulence in world financial markets is considered to be a short-term issue in investment terms and not adjustment to the 31 March 2008 position is made.

## 32. 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 £7.4 million (as shown in note 32.2). 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.

The comparative figures for 2006-07 have been re-stated to reflect the investments at market value.

### 32.1 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:	31.03.2008	31.03.2007 (re-stated)
	£000	£000
Net Assets	7,414	7,715
Surplus	172	151

#### • 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:	31.03.2008	31.03.2007 (re-stated)
	£000	£000
Net Assets	1,106	1,155
Surplus	14	14

## NOTES TO THE FINANCIAL STATEMENTS

### 32. The City of Edinburgh Council Charitable Funds - continued

32.1 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:	31.03.2008	31.03.2007 (re-stated)
	£000	£000
Net Assets	1,322	1,342
Surplus	29	25

- **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:	31.03.2008	31.03.2007 (re-stated)
	£000	£000
Net Assets	804	845
Surplus	18	14

- **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:	31.03.2008	31.03.2007 (re-stated)
	£000	£000
Net Assets	1,492	1,519
Surplus	25	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:	31.03.2008	31.03.2007 (re-stated)
	£000	£000
Net Assets	1,108	1,132
Surplus	16	4

32.2 The main funds are:

Market Value 31.03.2007 £000	Scottish Charity Registration Number	Market Value 31.03.2008 £000
7,715	Trinity College Hospital SC018969	7,414
1,519	Jean F. Watson SC018971	1,492
1,342	Sir James Steel n/a	1,322
1,132	Surplus Fire Fund SC018967	1,108
1,155	John McGibbon SC018977	1,106
845	Alexander Mortification SC018949	804
511	John Watson SC018972	471
477	City of Edinburgh SC025067	456
409	Usher Hall Appeal SC030180	637
408	Sir William Watson SC018973	376
370	G. Boyd Anderson n/a	341
299	Royal High School n/a	277
1,063	Other Funds n/a	1,039
<u>17,245</u>	Total at 31 March 2008	<u>16,843</u>

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



## NOTES TO THE FINANCIAL STATEMENTS

### 32. The City of Edinburgh Council Charitable Funds - continued

32.3 The financial position of all funds is as follows:

#### Income and Expenditure Account

2006/07 £000		2007/08 £000
	<b>Income</b>	
570	Investment Income	645
54	Other Non-investment Income	232
624		877
	<b>Expenditure</b>	
276	Prizes, Awards and Other Expenses	295
51	Administrative Expenses	39
327		334
297	Surplus for the Year	543

#### Balance Sheet (re-stated)

£000			£000
	<b>Fixed Assets</b>		
14,201	Investments		13,290
756	Artworks - Jean Watson Trust		847
586	Heritable Property		586
15,543	<b>Total Long-Term Assets</b>		14,723
	<b>Current Assets</b>		
221	Sundry Debtors	228	
1,779	Cash and Bank	2,082	
2,000			2,310
	<b>Current Liabilities</b>		
122	Creditors	147	
176	Balance with City of Edinburgh Council	43	
298			190
17,245	<b>Total Assets less Liabilities</b>		16,843
15,999	<b>Capital at 1 April 2007 as Previously Stated</b>		16,314
297	Prior Year Adjustment - Investments at Market Value		931
297	Surplus for Year		543
634	Unrealised (Losses) / Gains		(969)
18	Capital Introduced		24
17,245	<b>Capital at 31 March</b>		16,843

### 33. Delegated Schemes

A net credit balance of £0.486m (£1.205m 2006/07) is held within the General Fund in accordance with the School Boards' Delegation Scheme.

## NOTES TO THE FINANCIAL STATEMENTS

### 34. Related Parties

The following represents material amounts due to / (from) the Council, at 31 March 2008, with its related parties. Comparative figures have been re-stated for additional activities not disclosed in the 2006-07 Audited Financial Statements.

	2007/08 £000	2006/07 £000 (re-stated)
<b>• Capital</b>		
EDI Group Ltd	4,000	4,000
tie Limited	(15,519)	8,647
SESTRAN	3,993	3,756
Lothian and Borders Police Board	20,373	20,760
Lothian and Borders Fire Board	11,688	15,073
	<u>24,535</u>	<u>52,236</u>
<b>• Revenue</b>		
Lothian and Borders Police Board	(19,360)	(19,493)
Lothian and Borders Fire Board	(5,667)	(7,629)
Forth Estuary Transport Authority	798	(2,437)
SESTRAN	102	255
Lothian Valuation Joint Board	(228)	(247)
Pension Funds	(9,940)	(13,390)
	<u>(34,295)</u>	<u>(42,941)</u>
<b>• Investments held on behalf of, and repayable to:</b>		
Forth Estuary Transport Authority	(5,449)	n/a
Craigmillar Parc	(42)	n/a
CEC Holdings	(52)	n/a
	<u>(5,543)</u>	<u>0</u>

### 35. Pension Costs

35.1 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 2007/08, the Council paid £16.673m (£14.8m 2006/07) to the Scottish Government in respect of teachers' pension costs, which represents 13.3% (12.5% 2006/07) 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 £0.0m in 2007/08 (£1.66m 2006/07), or 0.0% (1.4% 2006/07) of pensionable pay. The capitalised value of discretionary awards entered into prior to 2007/08 amounts to £22.5m (£24.0m 2006/07).

At 31st March 2008, creditors include £0.0m (£1.256m 2006/07) 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

### 35. 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 2007/08, the Council paid an employer's contribution of £45.04m (£43.04m 2006/07) into the Lothian Pension Fund, representing 19.0% (18.7% 2006/07) 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 2005. The results of the latest actuarial review at 31 March 2008 are expected to be available in autumn of 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 2007/08, 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.

	<b>2007/08</b>	<b>2006/07</b>
	<b>£000</b>	<b>£000</b>
Amounts charged to Net Operating Expenditure:		
Current Service Costs	51,045	57,292
Past Service Costs	1,263	226
Past Service Costs - Commutation	0	(17,109)
Settlements and Curtailments	3,285	1,577
Pension Interest Costs and Expected Return on Assets	<u>(10,480)</u>	<u>(10,026)</u>
Costs included in Income and Expenditure Statement	45,113	31,960
Appropriation from Pensions Reserve	<u>7,013</u>	<u>17,038</u>
Net Charge to General Fund	<u><u>52,126</u></u>	<u><u>48,998</u></u>
Comprising:		
Employer's Contributions	45,993	43,036
Contributions in respect of Unfunded Costs	<u>6,133</u>	<u>5,962</u>
	<u><u>52,126</u></u>	<u><u>48,998</u></u>

#### 35.2 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 £1.526m in 2007/08 (£0.867m 2006/07). The future value of payments, based on employees who have retired on the above grounds amounts to £2.173m (£1.735m 2006/07).

#### 35.3 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

### 35. Pension Costs - continued

	2007/08		2006/07
	£000	£000	£000
<b>35.4 Pensions Reserve</b>			
Balance at 1 April		(253,638)	(372,370)
Current Service Cost	(51,045)		(57,292)
Employer Contributions	45,993		43,036
Contributions in respect of Unfunded Benefits	6,133		5,962
Past Service Costs	(1,263)		16,883
Impact of Settlement and Curtailments	(3,285)		(1,577)
Net Return on Assets	10,480		10,026
Appropriation to General Fund		7,013	17,038
Actuarial Gains		148,478	(2,449)
Losses arising from Changes in Financial Assumptions		0	104,143
Deficit at 31 March		<u>(98,147)</u>	<u>(253,638)</u>
<b>35.5 Net Pension Deficit</b>			
The Council's assets and liabilities amounted to:		<b>2007/08</b>	<b>2006/07</b>
		<b>£000</b>	<b>£000</b>
Fair Value of Employer Assets		1,296,168	1,309,896
Present Value of Funded Obligations		<u>(1,308,344)</u>	<u>(1,468,124)</u>
Net Underfunding in Funded Plans		(12,176)	(158,228)
Present Value of Unfunded Obligations		<u>(85,971)</u>	<u>(95,410)</u>
Net Liability		<u>(98,147)</u>	<u>(253,638)</u>
Amount in the Balance Sheet			
Liabilities		(98,147)	(253,638)
Assets		0	0
Net Liability		<u>(98,147)</u>	<u>(253,638)</u>

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 2008 (31 March 2007).

Assets have been valued at mid-market prices and consist of:

	2007/08		2006/07	
	Market Value £000	Assumed Rate of Return	Market Value £000	Assumed Rate of Return
Equity investments	983,970	7.7%	1,004,720	7.8%
Bonds	115,105	5.7%	70,922	4.9%
Property	154,330	5.7%	161,016	5.8%
Cash	42,763	4.8%	73,238	4.9%
	<u>1,296,168</u>		<u>1,309,896</u>	

## NOTES TO THE FINANCIAL STATEMENTS

### 35. Pension Costs - continued

#### 35.5 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 2008 were those from the beginning of the year (i.e. 31 March 2007) and have not been changed during the year, although there has been an increase in the discount rate from the rate applicable in the previous financial year, which contributes significantly to the reduction in the pension deficit. The main assumptions in the calculations are:

	2007/08	2006/07
Price Increases	3.6%	3.2%
Salary Increases	5.1%	4.7%
Pension Increases	3.6%	3.2%
Discount Rate (Nominal Rate)	6.9%	5.4%
Discount Rate (Real Rate)	3.2%	2.1%

The net pension liability of £98.147m exceeds current general fund reserves of £28.947m by £69.2m. 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.

#### 35.6 Analysis of amount to be charged to net cost of services

	2007/08	2006/07
	£000	£000
Net Cost of Services:		
Service Cost	51,045	57,292
Past Service Cost	1,263	(16,883)
Curtailment and Settlements	3,285	1,577
	<u>55,593</u>	<u>41,986</u>
Other Charges to Net Operating Expenditure		
Expected Return on Employer Assets	(95,708)	(87,039)
Interest on Pension Scheme Liabilities	85,228	77,013
	<u>(10,480)</u>	<u>(10,026)</u>
Net Return		
	<u>45,113</u>	<u>31,960</u>
Actual Return on Plan assets	<u>(35,299)</u>	<u>94,834</u>

These amounts are based on employer and employee contributions up to 31 March 2008 and the number of employees, deferred pensioners and pensioners as at 1 March 2008 in order to estimate the position for the year to 31 March 2008.

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 estimated of 25% (25% 2006/07) of future retirees to take additional cash up to HM Revenues and Customs' limits in the 2008 balance sheet liabilities.

#### 35.7 History of Gains and Losses

	2007/08	2006/07	2005/06	2004/05	2003/04
	£000	£000	£000	£000	£000
Fair Value of Employer Assets	1,296,168	1,309,896	1,191,398	919,030	820,290
Present Value of Defined Benefit Obligation	(1,394,315)	(1,563,534)	(1,563,770)	(1,332,900)	(1,027,740)
Deficit	(98,147)	(253,638)	(372,372)	(413,870)	(207,450)
Experience Gains / (Losses) on Assets	(135,790)	7,795	189,492	28,010	130,700
Experience Gains / (Losses) on Liabilities	5,968	(10,244)	26,401	(9,420)	830

## NOTES TO THE FINANCIAL STATEMENTS

### 35. Pension Costs - continued

#### 35.8 Analysis of Amount Recognised in Statement of Total Movement in Reserves

	2007/08 £000	2006/07 £000	2005/06 £000	2004/05 £000	2003/04 £000
Actuarial Gains and Losses	148,478	101,694	44,921	(212,560)	131,530
Cumulative Actuarial Gains and Losses	(14,937)	(163,415)	(265,109)	(310,030)	(97,470)

#### 35.9 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:

	2007/08 £000	2006/07 £000
Lothian and Borders Police Board	603,803	725,844
Lothian and Borders Fire Board	136,607	162,989
Lothian Valuation Joint Board	866	3,320

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

#### 35.10 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.

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

	2007/08		2006/07	
	£000	£000	£000	£000
Deficit / (Surplus) per Income and Expenditure Account		13,710		(46,633)
Non-Cash Transactions				
Provisions Set Aside During Year	(10,962)		(20,881)	
Less: Provisions Utilised	<u>1,903</u>		<u>2,726</u>	
		(9,059)		(18,155)
Gain on Disposal of Fixed Assets		6,063		43,748
Effect of FRS17		7,013		17,038
Capital Financing Costs		(128,804)		(98,622)
Interest Received		2,304		1,629
Dividend Income		7,873		14,030
Year-End Variations				
Increase / (Decrease) in Debtors	10,005		2,138	
Decrease / (Increase) in Creditors	130,320		(61,972)	
Increase / (Decrease) in Stocks	<u>(105)</u>		<u>(100)</u>	
		<u>140,220</u>		<u>(59,934)</u>
Net Cash (Inflow) / Outflow from Revenue Activities		<u>39,320</u>		<u>(146,899)</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 37. Analysis of Government Grants shown in Cash Flow Statement

37.1 Revenue	2007/08		2006/07	
	£000	£000	£000	£000
Revenue Support Grant		(422,906)		(397,727)
DWP Grant (Housing Benefit / Council Tax Benefit Subsidy)		(172,414)		(142,087)
Other Government Grants:				
Supported Employment		(369)		(380)
Teachers In Service Training		(2,243)		(2,184)
Mental Illness		(1,345)		(1,345)
Social Work Training		(500)		(500)
Other Specific Grants		(46,051)		(43,049)
Supporting People		(44,122)		(41,228)
Cities Growth Fund		(1,007)		(11,555)
Non-Specific Grants		(29,930)		(37,243)
		<u>(125,567)</u>		<u>(137,484)</u>
		<u>(720,887)</u>		<u>(677,298)</u>
<b>37.2 Capital</b>				
Transport Projects		(102,553)		(35,541)
Public Transport Fund		(1,888)		(2,506)
New Housing Partnership		0		(971)
Development Funding / Community Ownership		(42,964)		(40,733)
Other Capital Grants		(30,272)		(13,877)
		<u>(177,677)</u>		<u>(93,628)</u>

### 38. Reconciliation of Movement in Cash to Movement in Net Debt

Opening Net Debt	2007/08		2006/07	
	£000	£000	£000	£000
Opening Net Debt		747,068		814,084
Increase / (Decrease) in Cash	(11,279)		(1,673)	
Increase / (Decrease) in Debt Financing	67,509		16,546	
Increase / (Decrease) in Liquid Resources	91,065		(81,889)	
Movement in Net Debt		<u>147,295</u>		<u>(67,016)</u>
Closing Net Debt		<u>894,363</u>		<u>747,068</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 38. Reconciliation of Movement in Cash to Movement in Net Debt - continued

	Balance 01.04.2007 £000	Cashflow £000	Balance 31.03.2008 £000
<b>Analysis of Change in Net Debt</b>			
Cash in Hand	(557)	(4)	(561)
Bank Overdraft	30,352	(11,275)	19,077
	29,795	(11,279)	18,516
Debt Due within 1 Year	6,106	6,477	12,583
Debt Due after 1 Year	948,688	65,094	1,013,782
Deferred Liabilities	37	(37)	0
	954,831	71,534	1,026,365
Short Term Investments	(237,558)	91,065	(146,493)
<b>Total</b>	<b>747,068</b>	<b>151,320</b>	<b>898,388</b>

### 39. Reconciliation of Movement in Financing and Management of Liquid Resources

	Balance 01.04.2007 £000	Cashflow £000	Balance 31.03.2008 £000
<b>Management of Liquid Resources</b>			
Short Term Investments	(237,558)	91,065	(146,493)

Short-term investments held by the authority as at 31 March 2008 comprised £23.837m invested with other local authorities, £74.973m invested with banks and £47.683m invested with building societies.

#### Financing

Temporary Loans	5,513	6,430	11,943
PWLB	716,532	51,652	768,184
Market Loans	230,900	14,025	244,925
European Investment Bank	1,850	(537)	1,313
Deferred Liabilities	36	(36)	0
<b>Net Financing per Cashflow</b>	<b>954,831</b>	<b>71,534</b>	<b>1,026,365</b>



## HOUSING REVENUE ACCOUNT

for the year ended 31 March 2008

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.

2006/07 £000	INCOME	2007/08 £000	£000
(62,305)	Dwelling Rents	(64,177)	
(529)	Non-Dwelling Rents (Gross)	(487)	
(9,112)	Service Charges Excluding Hostels	(10,602)	
(432)	Hostels and Lodging Houses	(451)	
(642)	Other Income	(626)	
(73,020)			(76,343)
	<b>EXPENDITURE</b>		
20,568	Repairs and Maintenance	19,862	
14,537	Supervision and Management - General	12,949	
6,868	Supervision and Management - Special Services	8,162	
15,708	Depreciation and Impairment of Fixed Assets	16,290	
1,507	Bad or Doubtful Debts	1,728	
3,184	Other Expenditure	3,404	
62,372			62,395
(10,648)	Net Cost of HRA Services (as included in the whole authority Income and Expenditure Account)		(13,948)
180	HRA share of Corporate and Democratic Core		196
208	HRA share of other amounts included in whole authority		142
	Net Cost of Services but not allocated to specific services		(13,610)
(10,260)	HRA Share of the Operating Income and Expenditure included in the whole authority accounts		(13,610)
(5,604)	- Gain on Sale of HRA Fixed Assets	(2)	
16,665	- Interest Payable and Similar Charges	16,887	
0	- Amortisation of Premiums and Discounts	51	
(570)	- Interest and Investment Income	(996)	
(418)	- Pensions Interest Cost and Expected Return on Pension Assets	(208)	
			15,732
(187)	Deficit / (Surplus) for the Year on HRA Services		2,122

## STATEMENT OF MOVEMENT ON THE HRA BALANCE

£000		£000
(187)	Deficit / (Surplus) for the Year on the HRA Income and Exp Account	2,122
	Net Additional Amount required by Statute or Non-Statutory Proper	
187	Practices to be credited to the HRA Balance for the Year	(2,122)
0	<b>Movement in HRA Balance</b>	0
0	HRA Balance Brought Forward	0
0	<b>HRA Balance Carried Forward</b>	0

# 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 2008

2006/07 £000		£000	£000
	<b>Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year</b>		
(15,709)	Depreciation, Amortisation and Impairment of Fixed Assets	(16,291)	
5,604	Gain on Sale of HRA Fixed Assets	2	
430	HRA Share of Contribution to the Pension Reserve	160	
	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		
0		169	
(9,675)			(15,960)
	<b>Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year</b>		
9,818	Loans Fund Principal		10,387
	<b>Transfers to / from General Fund that are required to be taken into account when determining the HRA deficit or surplus</b>		
44	Contribution to Renewal and Repairs Fund		3,451
187	<b>Net Additional Amount required by statute to be credited to the HRA Balance for the year</b>		<b>(2,122)</b>

## Notes to the Housing Revenue Account

1. The number and types of dwellings in the authority's housing stock at 31 March 2008 are as follows:

Types of Houses	2008		2007	
	Number	Annual Average Rent £	Number	Annual Average Rent £
1 Apartment	329	2,594.28	351	2,729.00
2 Apartment	6,071	2,884.97	6,224	2,697.66
3 Apartment	11,666	3,322.38	12,168	3,104.42
4 Apartment	3,711	3,919.78	3,874	3,668.70
5 Apartment	561	4,584.74	577	4,298.94
6 Apartment	11	3,892.24	11	3,643.80
7 Apartment	3	3,620.88	3	3,389.76
8 Apartment	2	5,199.38	2	4,867.50
Travelling People Sites	20	3,128.78	20	3,128.78
	<b>22,374</b>		<b>23,230</b>	

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 £2.197m (£2.024m 2006/07) against which a provision amounting to £1.248m (£1.205m 2006/07), 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 uncollectable void rents for main provision properties was £0.574m (£0.877m 2006/07).

# COUNCIL TAX INCOME ACCOUNT

for the year ended 31 March 2008

2006/07 £000		£000	£000
274,922	Gross Council Tax Levied and Contributions in Lieu		282,063
46,948	Less: - Exemptions and Other Discounts	46,564	
9,085	- Provision for Bad Debts	8,682	
(546)	- Net Cost of Benefits	(507)	
2,637	- Other Reductions	2,765	
58,124			57,504
216,798			224,559
(87)	Previous Years' Adjustments		(890)
216,711	<b>Total Transferred to General Fund</b>		<b>223,669</b>

## Notes to the Council Tax Income Account

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

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

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

## Calculation of the Council Tax Base 2007/08

Band	Number of Properties	Disabled Relief	Exemptions	Discounts	Effective Properties	Ratio to Band D	Band D Equivalents	Charges per Band
A Up to £27,000	24,024	123	(2,554)	(3,865)	17,728	6/9	11,819	£779.33
B £27,001 - £35,000	45,638	27	(3,376)	(6,981)	35,308	7/9	27,462	£909.22
C £35,001 - £45,000	41,750	(37)	(3,373)	(5,418)	32,922	8/9	29,264	£1,039.11
D £45,001 - £58,000	34,736	37	(3,222)	(4,026)	27,525	9/9	27,525	£1,169.00
E £58,001 - £80,000	37,000	9	(3,686)	(3,506)	29,817	11/9	36,443	£1,428.78
F £80,001 - £106,000	22,636	(38)	(1,249)	(1,916)	19,433	13/9	28,070	£1,688.56
G £106,001 - £212,000	19,294	(92)	(505)	(1,187)	17,510	15/9	29,183	£1,948.33
H Over £212,000	3,445	(29)	(131)	(166)	3,119	18/9	6,238	£2,338.00
							196,004	
							596	
							7,373	
							<b>189,227</b>	

The provision for non-payment of Council Tax has been reduced to 3.75%, effective from 1 April 2007.

# NON-DOMESTIC RATES INCOME ACCOUNT

for the year ended 31 March 2008

2006/07 £000		£000	£000
339,767	Gross Rates Levied and Contributions in Lieu		339,959
55,565	Less: - Reliefs and Other Deductions	54,451	
55	- Payment of Interest	90	
3,338	- Provision for Bad and Doubtful Debts	3,324	
58,958			57,865
280,809			282,094
(420)	Previous Years' Adjustments		(3,460)
280,389	<b>Net Non-Domestic Rates Income</b>		<b>278,634</b>
	Allocated to:		
280,708	Contribution to National Non-Domestic Rates Pool		278,898
(319)	Adjustments for years prior to introduction of National Non-Domestic Rates Pool		(264)
280,389			<b>278,634</b>

## Notes to the Non-Domestic Rates Income Account

### Rateable Values as at 1 April 2007

	Number	Rateable Value £000
Shops, Offices and Other Commercial Subjects	12,664	546,718
Industrial and Freight Transport	2,722	77,598
Telecommunications	15	62
Public Service Subjects	359	36,395
Miscellaneous	2,359	120,904
	18,119	781,677

### Contribution to / from National Non-Domestic Rates Pool

The contribution to the National Non-Domestic Rates Pool of £278.898m (£280.708m 2006/07) 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 £167.119m (£168.283m 2006/07). Thus the Council made a net contribution of £111.779m (£112.425m 2006/07).

### 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 44.1p per £ in 2007/08 (44.9p per £ in 2006/07).

Properties with a rateable value greater than £29,000 (£29,000 in 2006/7) had their rate charges calculated using the poundage of 44.4p (45.3p per £ in 2006/07).

Properties with a rateable value of £11,500 or less (£11,500 in 2006/07) received 5% relief for 2007/08.

Properties with a rateable value of less than £8,000 (£8,000 2006/07) 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 170 scheduled and admitted bodies, of which 117 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 and Lothian Buses Pension Fund was at 31 March 2005. For the Scottish Homes Pension Fund the latest valuation was at 30 June 2005.
- 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. The following key assumptions have been made:

	Nominal	Real (Relative to price inflation)
	% p.a.	% p.a.
<b>Lothian Pension Fund and Lothian Buses Pension Fund</b>		
Investment Return - Equities	6.7%	3.8%
Investment Return - Property	5.7%	2.8%
Investment Return - Bonds	4.9%	2.0%
Discount Rate	6.2%	3.3%
Pay Increases (excluding increments)	4.4%	1.5%
Price Inflation / Pension Increases	2.9%	0.0%

# PENSION FUND ACCOUNTS

## Actuarial Valuation - continued

Scottish Homes Fund	Nominal	Real (Relative to price inflation)
Discount Rate - Deferreds	4.2%	1.4%
Discount Rate - Pensioners	4.2%	1.5%
Guaranteed Minimum Pension Increases Before State Pension Age	4.3%	1.5%
Price Inflation/Pension Increases - Deferreds	2.8%	0.0%
Price Inflation/Pension Increases - Pensioners	2.6%	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 have adopted the requirements of the revised Pensions SORP early. The recommendation to value futures on an associated economic exposure basis has been replaced by the recommendation to value derivatives on a fair value basis. Another key change is 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 have been re-stated to comply with the new format. As the revised SORP does not require the valuation basis for the previous year to be changed there is no change in the Net Assets totals as at 31 March 2007.
- 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 £0.971m (2007 £0.8m) were made. All AVCs are managed by Standard Life and the value at 31 March 2008 was £5.965m (2007 £5.828m). In accordance with regulation 5(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 1985, AVCs are not included in the pension fund accounts.

## Post Balance Sheet Event - Non Adjusting

Since the Balance Sheet date there has been considerable uncertainty and volatility in world financial markets. The UK equity market (as measured by the FTSE 100 index) has been almost 6% higher than the level as at 31 March 2008. At 17 September 2008 it was around 11% below the market close at 31 March 2008.

The effect on the asset values of the pension fund and the future outlook for employer's contributions will be assessed at the next actuarial valuation of the pension fund.

# LOTHIAN PENSION FUND

## Scottish Homes Pension Fund

Edinburgh City Council has been selected by the Scottish Executive 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.

## Membership at 31 March 2008

	Lothian	Scottish Homes
Active	31,059	0
Pensioner	20,027	1,310
Deferred	13,224	815
	<u>64,310</u>	<u>2,125</u>

## Actuarial Position - Lothian

The market value of the fund (excluding the assets and liabilities in respect of money purchase AVCs) was £2,092m as at 31 March 2005 and showed a deficit of £358m when compared against its liabilities, giving a funding level of 85%. The next Actuarial Valuation is due as at 31 March 2008. The common employers' contribution rate is 19.0% of pensionable pay. The contribution rates as a percentage of pensionable pay for the main scheduled bodies are as follows:

	Year Ending		
	March 2007	March 2008	March 2009
The City of Edinburgh Council	18.7%	19.0%	19.4%
Midlothian Council	18.3%	18.7%	19.1%
West Lothian Council	18.1%	18.4%	18.7%
East Lothian Council	18.4%	18.5%	19.2%
Scottish Water	19.0%	20.3%	21.5%

## Actuarial Position - Scottish Homes

The initial actuarial valuation of the fund was as at 30 June 2005. At that time, the market value of the fund was £115.8m and there was a deficit of £28.0m when comparing its liabilities against its assets, a funding level of 81%. The Scottish Government acts as Guarantor and will make contributions to the fund in accordance with a formula approved by the actuary. The next actuarial valuation is due as at 31 March 2008.

## 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:

	31.3.08	31.3.07
	£000	£000
<b>Lothian</b>		
Funds Bank Account (Due from City of Edinburgh Council)	130,879	151,196
Due from City of Edinburgh Council	9,513	13,978
<b>Scottish Homes</b>		
Fund Bank Accounts (Due from City of Edinburgh Council)	45	1,088

# LOTHIAN PENSION FUND

## Contributions and Benefits

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

	<b>Administering Authority £000</b>	<b>Scottish Homes £000</b>	<b>Other Scheduled Bodies £000</b>	<b>Admitted Bodies £000</b>	<b>Total £000</b>
<b>Contributions</b>					
Employees	14,490	0	16,719	4,342	35,551
Employers					
Normal (Ongoing Contributions)	34,741	0	40,404	10,493	85,638
Deficit Funding	10,303	0	11,486	1,596	23,385
Pension Strain	1,526	0	1,446	169	3,141
	<u>46,570</u>	<u>0</u>	<u>53,336</u>	<u>12,258</u>	<u>112,164</u>
<b>Benefits</b>					
Pensions	31,198	6,434	35,875	10,920	84,427
Lump Sum	9,556	429	8,291	2,590	20,866

As the Lothian Fund had a deficit at the last 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.

## Investment Income

	<b>31.3.08 £000</b>	<b>31.3.07 £000</b>
Income from Fixed Interest Securities	10,386	5,899
Dividends from Equities	52,621	47,868
Income from Index-Linked Securities	857	1,593
Net Rents from Properties	9,803	10,875
Interest on Cash Deposits	12,433	16,944
Other	1,102	335
	<u>87,202</u>	<u>83,514</u>
Irrecoverable Withholding Tax	(3,731)	(4,983)
	<u>83,471</u>	<u>78,531</u>



# LOTHIAN PENSION FUND

Investments as at 31 March 2008

	Value at 01.04.07 £m	Purchases at Cost and Derivative Payments £m	Sales Proceeds and Derivative Receipts £m	Change in Market Value £m	Value at 31.03.08 £m
Fixed Interest Securities	179.54	195.56	(151.79)	(5.56)	217.75
Equities	1,866.63	1,371.12	(1,259.59)	(99.01)	1,879.15
Index-Linked Securities	36.70	0.00	0.00	3.65	40.35
Pooled Investment Vehicles	524.90	197.83	(224.69)	7.40	505.44
Property	255.81	11.60	(7.90)	(35.53)	223.98
Derivatives - Future	3.98	1.21	(5.80)	0.70	0.09
Derivatives - Fwd Foreign Exchange	11.54	42.48	(36.90)	(58.50)	(41.38)
	<u>2,879.10</u>	<u>1,819.80</u>	<u>(1,686.67)</u>	<u>(186.85)</u>	<u>2,825.38</u>
Other Financial Assets / Liabilities					
Margin Balances	0.00			0.01	2.67
Cash Deposits	197.30			(5.15)	157.54
Broker Balances	(15.95)			3.92	(0.04)
Dividends Due	12.96			(0.06)	13.36
	<u>194.31</u>			<u>(1.28)</u>	<u>173.53</u>
Net Financial Assets	<u>3,073.41</u>			<u>(188.13)</u>	<u>2,998.91</u>

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

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Fund such as fees, commissions, stamp duty and other fees. Transaction costs during the year amounted to £3.613m (£3.102m 2006/07).

	2007/08 £000	2006/07 £000
<b>Fixed Interest Securities</b>		
UK Public Sector Quoted	70,998	46,094
UK Commercial Quoted	35,956	46,201
Overseas Public Sector Quoted	51,738	49,414
Overseas Corporate Quoted	59,053	37,833
	<u>217,745</u>	<u>179,542</u>
<b>Equities</b>		
UK Quoted	521,335	526,625
UK Unquoted	29	20
Overseas Quoted	1,357,792	1,339,989
	<u>1,879,156</u>	<u>1,866,634</u>
<b>Index Linked Securities</b>		
UK Public Sector Quoted	40,350	36,699
<b>Pooled Investment Vehicles</b>		
UK Managed Funds - Other	254,736	320,935
Overseas Managed Funds - Other	0	5,071
UK Managed Funds - Property	111,932	124,511
UK Private Equity Funds	38,967	36,502
Overseas Private Equity Funds	99,801	37,878
	<u>505,436</u>	<u>524,897</u>
<b>Properties</b>		
UK Direct Property	223,975	255,817

# LOTHIAN PENSION FUND

## Derivatives - Futures

### Summary of contracts held at 31 March 2008

	Settlement Date	Economic Exposure £000	Asset £000	Liability £000	Net £000
ERX EuroShatz	3 months	88,977	0	(656)	(656)
CBT 5 Year Treasury Note	3 months	(9,254)	0	(119)	(119)
LIFFE Long Gilt	3 months	83,135	2,083	0	2,083
ERX Euro BOBL	3 months	(3,432)	13	0	13
ERX Euro BUND	3 months	(3,698)	56	0	56
TBA	Within 30 Days	14,715	208	0	208
CBT 2 Year Treasury Note	3 months	37,586	274	0	274
CBT 10 Year Treasury Note	3 months	(47,463)	0	(1,805)	(1,805)
CBT US Treasury Bond	3 months	(3,706)	0	(126)	(126)
SFE 10 Year Government Bond	3 months	11,972	157	0	157
			<u>2,791</u>	<u>(2,706)</u>	<u>85</u>

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 2008

	Settlement Date	Value of Currency Bought £000	Asset £000	Liability £000	Net £000
Various Currency Forwards	Within 30 Days	2,635	112	0	112
Various Currency Forwards	1 month	2,542,201	127,379	(152,517)	(25,138)
Various Currency Forwards	2 months	1,148,688	27,634	(36,188)	(8,554)
Various Currency Forwards	3 months	375,533	16,035	(16,679)	(644)
Various Currency Forwards	4 months	145,170	5,003	(5,978)	(975)
Various Currency Forwards	5 months	59,446	3,093	(3,542)	(449)
Various Currency Forwards	6 month	61,617	593	(804)	(211)
Various Currency Forwards	7 months	126,560	7,731	(13,248)	(5,517)
			<u>187,580</u>	<u>(228,956)</u>	<u>(41,376)</u>

The above table summarises the contracts held by maturity date - 23 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 70% of its equities (46% 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. The Fund's transition manager also used forward foreign exchange contracts to assist with settlement of trades during the transition of the emerging markets portfolio from Lloyd George Management to Aberdeen Asset Managers.

# LOTHIAN PENSION FUND

## Investment Managers and Mandates as at 31 March 2008

Manager	Mandate	2008	Prop of	2007	Prop of
		Market Value £000	Fund Under Mgmt %	Market Value £000	Fund Under Mgmt %
Aberdeen	Emerging Markets	158,922	5.5	0	0.0
AG Bisset	Currency Overlay	(24,349)	(0.9)	14,048	0.5
Axa Rosenberg	European Equities	174,743	6.1	177,267	6.0
Baillie Gifford	Pacific Equities	317,876	11.1	316,470	10.7
Franklin Templeton	Global Equities	158,648	5.5	159,097	5.4
Goldman Sachs	US Equities	138,337	4.8	144,406	4.9
In-House	Index Linked	40,531	1.4	37,701	1.3
In-House	Cash	103,799	3.6	133,493	4.5
In-House	Alternatives	178,044	6.2	91,183	3.1
In-House	UK Equities	347,081	12.1	361,598	12.3
In-House	Transition	369	0.0	9,391	0.3
JP Morgan	Currency Overlay	(6,254)	(0.2)	(3,772)	(0.1)
Lazard	Global Equities	170,092	5.9	157,901	5.4
Legal and General	Global Equities	136,699	4.8	193,856	6.6
Lloyd George	Emerging Markets	0	0.0	151,807	5.2
Martin Currie	UK Equities	147,305	5.1	171,283	5.8
Record	Currency Overlay	(5,978)	(0.2)	(71)	0.0
Rogge	Fixed Interest	227,330	7.9	190,856	6.5
Standard Life	Property	328,917	11.5	372,533	12.6
Wellington Mgmt Int'l	Global Equities	279,977	9.8	267,157	9.0
		<b>2,872,089</b>	<b>100.0</b>	<b>2,946,204</b>	<b>100.0</b>
<b>Scottish Homes:</b>					
State Street	Balanced	116,446	91.8	111,753	87.8
Schroders	Property	10,373	8.2	15,459	12.2
		<b>126,819</b>	<b>100.0</b>	<b>127,212</b>	<b>100.0</b>
<b>Total</b>		<b>2,998,908</b>		<b>3,073,416</b>	

The Lothian Fund participates in two stock lending arrangements. The arrangement with Citigroup covers the main investments of the Fund. As at 31 March 2008, £64.820m (2007 £67.206m) of stock was released to third parties. Collateral valued at 112.38% 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 2008, £34.398m (2007 £46.571m) of stock was released to third parties. Collateral valued at 106.42% 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 PENSION FUND

Fund account for the year ended 31 March 2008

2006/07		2007/08
£000		£000
	<b>Income</b>	
105,100	Contributions from Employers	112,164
33,923	Contributions from Employees	35,551
8,076	Transfers from Other Schemes	13,848
<u>147,099</u>		<u>161,563</u>
	<b>Less: Expenditure</b>	
79,155	Pension Payments including Increases	84,427
12,913	Lump Sum Payments	20,866
1,711	Death Benefits	2,367
473	Refunds to Members Leaving Service	461
277	Premiums to State Scheme	462
8,476	Transfers to Other Schemes	10,836
1,735	Other Expenditure	1,834
<u>104,740</u>		<u>121,253</u>
<u>42,359</u>	<b>Net Additions from Dealing with Members</b>	<u>40,310</u>
	<b>Returns on Investments</b>	
78,531	Investment Income	83,471
134,322	Change in Market Value of Investments	(188,128)
(9,359)	Investment Management Expenses	(10,560)
<u>203,494</u>	<b>Net Returns on Investments</b>	<u>(115,217)</u>
<u>245,853</u>	<b>Net (Decrease) / Increase in the Fund During the Year</b>	<u>(74,907)</u>
<u>2,855,762</u>	Net Assets of the Fund at 1 April 2007	<u>3,101,615</u>
<u>3,101,615</u>	<b>Net Assets of the Fund at 31 March 2008</b>	<u>3,026,708</u>

# LOTHIAN PENSION FUND

## Net Assets Statement as at 31 March 2008

(re-stated)

2006/07		Investments at Market Value		2007/08	
£000	£000	Financial Assets	£000	£000	
	179,542	Fixed Interest Securities		217,745	
	1,866,634	Equities		1,879,156	
	36,699	UK Index-Linked		40,350	
	524,897	Pooled Investment Vehicles		505,436	
	255,817	Properties		223,975	
		Derivatives			
		- Futures	2,791		
3,977		- Forward Foreign Exchange	187,580		
<u>11,538</u>	15,515				190,371
		Cash Deposits			
		Margin Balances	2,666		
0		Deposits	157,541		
<u>197,300</u>	197,300				160,207
		Other Financial Assets			
		Due from Broker	37,965		
33,018		Dividends Due	13,364		
<u>12,957</u>	45,975				51,329
	<u>3,122,379</u>	<b>Total Financial Assets</b>			<u>3,268,569</u>
		<b>Financial Liabilities</b>			
		Derivatives			
		Futures	(2,706)		
0		Forward Foreign Exchange	(228,956)		
<u>0</u>	0				(231,662)
	(48,963)	Other Financial Liabilities - Due to Broker			(37,999)
	<u>(48,963)</u>	<b>Total Financial Liabilities</b>			<u>(269,661)</u>
	<u>3,073,416</u>	<b>Net Financial Assets</b>			<u>2,998,908</u>
		<b>Current Assets and Liabilities</b>			
		City of Edinburgh Council	9,513		
13,978		Cash Balances	17,007		
12,459		Sundry Debtors less Creditors	1,280		
<u>1,762</u>	28,199				27,800
	<u>3,101,615</u>	<b>Net Assets</b>			<u>3,026,708</u>
		<b>Reconciliation of Movement in Net Assets of the Fund for year ended 31 March 2008</b>			
	2,855,762	Net Assets at 1 April 2007		3,101,615	
	111,531	Net New Money Invested		113,221	
	<u>134,322</u>	Change in Market Value of Investments		<u>(188,128)</u>	
	<u>3,101,615</u>	<b>Net Assets at 31 March 2008</b>		<u>3,026,708</u>	

The unaudited accounts were issued on 11 June 2008 and the audited accounts were authorised for issue on 29 September 2008.



DONALD McGOUGAN, CPFA,  
Director of Finance  
11 June 2008

# LOTHIAN BUSES PENSION FUND

## Membership

The Fund membership has increased from 3,994 to 4,209, of whom 1,827 (1,794 2006/07) are current contributors and 1,249 (1,212 2006/07) are beneficiaries in receipt of pension. The Fund closed to new members with effect from 1 January 2008.

## Actuarial Position

The market value of the Fund was £144.9m as at 31 March 2005. The Fund had a deficit of £6.4m 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 31.12.06	12.0%
12 Months to 31.12.07	15.0%
15 Months to 31.03.09	17.5%

## Employer Contributions

	31.3.08	31.3.07
	£000	£000
Normal	5,694	4,436
Deficit Funding	275	0
	<u>5,969</u>	<u>4,436</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 nine years.

## 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:

	31.3.08	31.3.07
	£000	£000
Funds Bank Account (Due from City of Edinburgh Council)	2,153	752
Due from City of Edinburgh Council	427	560

## Investment Income

	31.3.08	31.3.07
	£000	£000
Income from Fixed Interest Securities	972	358
Dividends from Equities	3,614	2,626
Income from Index-Linked Securities	164	161
Interest on Cash Deposits	279	136
	<u>5,029</u>	<u>3,281</u>
Irrecoverable Withholding Tax	(294)	(202)
	<u>4,735</u>	<u>3,079</u>

## Stock Lending

As at 31 March 2008, £2.302m (£2.079m 2007) of stock was released to third parties under a securities lending agreement with Citigroup. Collateral valued at 117.93% of the market value of the stock on loan, was held at that date.

# LOTHIAN BUSES PENSION FUND

Investments and Assets	Value at 01.04.07 £000	Purchases at Cost and Derivative Payments £000	Sales Proceeds and Derivative Receipts £000	Change in Market Value £000	Value at 31.03.08 £000
Fixed Interest Securities	6,192	9,325	(6,746)	125	8,896
Equities	122,445	35,821	(44,699)	(5,703)	107,864
Index-Linked Securities	7,116	9,431	(4,801)	987	12,733
Pooled Investment Vehicles	56,306	16,448	(11,566)	462	61,650
Derivatives - Forward Foreign Exchange	0	0	0	1	1
	<u>192,059</u>	<u>71,025</u>	<u>(67,812)</u>	<u>(4,128)</u>	<u>191,144</u>
Other Financial Assets / Liabilities					
Cash Deposits	1,738			63	4,186
Broker Balances	320			5	(732)
Dividends Due	774			75	917
	<u>2,832</u>			<u>143</u>	<u>4,371</u>
Net Financial Assets	<u>194,891</u>			<u>(3,985)</u>	<u>195,515</u>

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

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Fund such as fees, commissions, stamp duty and other fees. Transaction costs during the year amounted to £0.148m (£0.107m 2006/07).

	2007/08 £000	2006/07 £000
<b>Fixed Interest Securities</b>		
UK Public Sector Quoted	8,126	5,832
Overseas Public Sector Quoted	367	0
Overseas Corporate Quoted	403	360
	<u>8,896</u>	<u>6,192</u>
<b>Equities</b>		
UK Quoted	55,793	64,990
UK Unquoted	28	0
Overseas Quoted	52,043	57,455
	<u>107,864</u>	<u>122,445</u>
<b>Index Linked Securities</b>		
UK Public Sector Quoted	12,733	7,116
<b>Pooled Investment Vehicles</b>		
UK Managed Funds - Property	16,727	20,425
UK Managed Funds - Other	44,923	35,881
	<u>61,650</u>	<u>56,306</u>
<b>Derivatives</b>		
Forward Foreign Exchange Contracts	1	0

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. Settlement is due in June 2008.

Fund Managers	2007/08 £000	2006/07 £000
Baillie Gifford - Balanced Mandate	178,789	174,466
Standard Life - Property Managed Fund	16,726	20,425
	<u>195,515</u>	<u>194,891</u>

# LOTHIAN BUSES PENSION FUND

Fund account for the year ended 31 March 2008

2006/07		2007/08
£000		£000
	<b>Income</b>	
4,436	Contributions from Employers	5,969
2,109	Contributions from Employees	2,286
721	Transfers from Other Schemes	504
7,266		8,759
	<b>Less: Expenditure</b>	
4,972	Pension Payments Including Increases	5,282
1,162	Lump Sum Payments	1,284
166	Death Benefits	125
66	Refunds to Members Leaving Service	62
48	Premiums to State Scheme	67
158	Transfers to Other Schemes	140
109	Other Expenditure	116
6,681		7,076
585	<b>Net Additions from Dealing with Members</b>	1,683
	<b>Returns on Investments</b>	
3,079	Investment Income	4,735
5,282	Change in Market Value of Investments	(3,985)
(473)	Investment Management Expenses	(481)
7,888	<b>Net Returns on Investments</b>	269
8,473	<b>Net Increase in the Fund During the Year</b>	1,952
188,370	Net Assets of the Fund at 1 April 2007	196,843
196,843	<b>Net Assets of the Fund at 31 March 2008</b>	198,795



# LOTHIAN BUSES PENSION FUND

## Net Assets Statement as at 31 March 2008

2006/07 (re-stated) £000		2007/08 £000
	<b>Investments at Market Value</b>	
	<b>Financial Assets</b>	
6,192	Fixed Interest Securities	8,896
122,445	Equities	107,864
7,116	UK Index-Linked	12,733
56,306	Pooled Investment Vehicles	61,650
0	Derivatives - Forward Foreign Exchange	1
1,738	Cash Deposits	4,186
320	Other Financial Assets - Due from Broker	2,511
774	Other Financial Assets - Dividends Due	917
194,891		198,758
	<b>Financial Liabilities</b>	
0	Other Financial Liabilities - Due to Broker	(3,243)
194,891	<b>Net Financial Assets</b>	195,515
752	Cash Deposits	2,153
560	City of Edinburgh Council	427
640	Sundry Debtors less Creditors	700
1,952		3,280
196,843	<b>Net Assets</b>	198,795
	<b>Reconciliation of Movement in Net Assets of the Fund for year ended 31 March 2008</b>	
188,370	Net Assets at 1 April 2007	196,843
3,191	Net New Money Invested	5,937
5,282	Change in Market Value of Investments	(3,985)
196,843	<b>Net Assets at 31 March 2008</b>	198,795

The unaudited accounts were issued on 11 June 2008 and the audited accounts were authorised for issue on 29 September 2008.

  
 DONALD McGOUGAN, CPFA,  
 Director of Finance  
 11 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 2008 was £nil (2007 £nil).

Following the report to the Council's Finance and Resources Committee in January 2008, the properties identified in that report as being held on the Common Good Account were transferred from the Council's Balance Sheet to the Common Good Balance Sheet. The value of these assets, as shown in note 1.1 was £11.423m.

### Common Good Fund Accounts

#### Year ended 31 March 2008

2006/07 £000	Income and Expenditure Account	Notes	2007/08 £000
67	Expenditure		1,241
(231)	Income		(500)
<u>0</u>	Recharge to City of Edinburgh Council for Use of Assets		<u>(536)</u>
<u>(164)</u>	Deficit / (Surplus) for Year		<u>205</u>

#### Statement of Movement on the Common Good Fund

(164)	Deficit / (Surplus) for the Year on the Common Good Income and Expenditure Account	205
<u>0</u>	Net Additional Amount required by Statute on Non-Statutory Proper Practices to be credited to the Common Good balance for the year	<u>(237)</u>
<u>(164)</u>		<u>(32)</u>

# COMMON GOOD FUND

## Common Good Fund Accounts - continued

Balance Sheet at 31 March 2008				
2006/07 £000		Notes		2007/08 £000
3,365	Fixed Assets	1.		16,008
1	Investments			1
<u>1,860</u>	Net Current Assets			<u>1,881</u>
<u>5,226</u>	Net Assets			<u>17,890</u>
Represented by:				
3,359	Fixed Asset Restatement Account	1.		0
(15)	Capital Financing Account			0
0	Revaluation Reserve			1,456
0	Capital Adjustment Account			14,531
1,665	Common Good Fund			1,672
11	Disabled Access Grants Reserve			0
<u>206</u>	Fit For Future Earmarked Fund			<u>231</u>
<u>5,226</u>				<u>17,890</u>

The unaudited accounts were issued on 11 June 2008 and the audited accounts were authorised for issue on 29 September 2008.

  
DONALD McGOUGAN, CPFA,  
Director of Finance  
11 June 2008

## Notes to the Common Good Accounts

### 1. Fixed Assets

	Community Assets £000	Other Land and Buildings £000	Investment Properties £000	Surplus Assets Held for Disposal £000	Total £000
<b>1.1 Movement of Fixed Assets</b>					
Balance at 31 March 2007	2,364	0	556	445	3,365
Revaluations and Restatements	1,069	159	228	0	1,456
Impairment of Fixed Assets	(6)	0	0	(230)	(236)
Transfer of assets from City of Edinburgh Council	<u>39</u>	<u>10,850</u>	<u>534</u>	<u>0</u>	<u>11,423</u>
Balance at 31 March 2008	<u>3,466</u>	<u>11,009</u>	<u>1,318</u>	<u>215</u>	<u>16,008</u>

# COMMON GOOD FUND

## Notes to the Common Good Accounts - continued

### 1.2 Information on Assets Held

The fixed assets owned by the Common Good Fund include the following approximate numbers at 31 March 2008:-

Community Assets -	
Monuments and Other Activities	3
Parks and Open Spaces	11
Non Operational Assets -	
Shops, Industrial Units and other Commercial Lettings	17

### 1.3 Fixed Asset Restatement Account

£000

Balance as at 1 April 2007	3,359
Transfer to Capital Financing Account	(3,359)
	<u>0</u>
Balance as at 31 March 2008	<u>0</u>

### 1.4 Capital Financing Account

£000

Balance as at 1 April 2007	(15)
Transfer from Fixed Asset Restatement Account	3,359
Transfer to Capital Adjustment Account	(3,344)
	<u>0</u>
Balance as at 31 March 2008	<u>0</u>

### 1.5 Capital Adjustment Account

£000

Balance as at 1 April 2007	0
Transfer from Capital Financing Account	3,344
Impairment of Assets	(236)
Transfer of Assets from City of Edinburgh Council	11,423
	<u>14,531</u>
Balance as at 31 March 2008	<u>14,531</u>

### 1.6 Revaluation Reserve

£000

Balance as at 1 April 2007	0
Revaluation of Assets	1,456
	<u>1,456</u>
Balance as at 31 March 2008	<u>1,456</u>

## 2. Funds and Reserves

### 2.1 Movement of Funds and Reserves

	Common Good Fund £000	Disabled Grants Reserve £000	Fit for Future £000
Balance at 1 April 2007	1,665	11	206
Transferred to Revenue Account in year	0	(11)	0
Surplus for Year	7	0	25
	<u>1,672</u>	<u>0</u>	<u>231</u>
Balance at 31 March 2008	<u>1,672</u>	<u>0</u>	<u>231</u>

# GROUP INCOME AND EXPENDITURE ACCOUNT

for the year ended 31 March 2008

2006/07 (re-stated) £000		Expenditure £000	Income £000	Net Expenditure £000
	<b>Services</b>			
278,933	Education Services	337,370	(46,759)	290,611
18,417	Housing Services	249,421	(231,592)	17,829
(10,199)	Housing Revenue Account	59,975	(73,873)	(13,898)
40,779	Cultural and Related Services	61,290	(14,385)	46,905
47,063	Environmental Services	68,952	(21,681)	47,271
21,571	Roads and Transport	211,278	(189,195)	22,083
15,314	Planning and Development	60,877	(45,483)	15,394
215,772	Social Work	300,607	(65,403)	235,204
12,933	Corporate and Democratic Core	15,092	(556)	14,536
53,056	Police Joint Board	53,702	0	53,702
27,217	Fire Joint Board	27,065	0	27,065
(1,561)	Non-Distributable Costs	20,998	0	20,998
7,810	Central Services to the Public	23,817	(16,383)	7,434
11,604	Other Operating Income and Expenditure	35,016	(32,528)	2,488
7,123	Exceptional Items	5,005	0	5,005
	Share of Operating Results of Associates and Joint Ventures	194,101	(192,468)	1,633
11,940		0	0	0
<b>757,772</b>	<b>NET COST OF SERVICES</b>	<b>1,724,566</b>	<b>(930,306)</b>	<b>794,260</b>
(44,814)	Gain on Sale of Fixed Assets			(9,253)
(3,755)	Surplus of Trading Undertakings			(3,994)
(12,030)	Dividends Received			(5,873)
60,278	Interest Payable			62,395
1,822	Share of Interest Payable by Associates and Joint Ventures			1,643
0	Losses on the Repurchase of Borrowing			9
(2,934)	Interest and Investment Income			(3,531)
198	Dividend Paid			198
(700)	Share of Interest Receivable by Associates and Joint Ventures			(1,404)
(12,321)	Pensions Interest Cost and expected return on Pension Assets - Group			(13,399)
43,190	Pensions Interest Cost and expected return on Pension Assets - Associates and Joint Ventures			46,771
2,692	Taxation of Group Entities			268
219	Minority Interest of Share of Profits of Subsidiaries			(157)
2,610	Other Non-Operating Costs			3,015
<b>792,227</b>	<b>NET OPERATING EXPENDITURE</b>			<b>870,948</b>
(216,711)	Income from Council Tax			(223,669)
548	Community Charge			(24)
(397,727)	Revenue Support Grant Received			(422,906)
(167,964)	Distribution from Non-Domestic Rates Pool			(166,855)
<b>10,373</b>	<b>DEFICIT FOR THE YEAR</b>			<b>57,494</b>

## GROUP ACCOUNTS

### Reconciliation of the Council's Position to the Group Position

for the year ended 31 March 2008

2006/07 (re-stated) £000		£000
	<b>Services</b>	
(46,633)	Deficit / (Surplus) on the Council's Income and Expenditure Account	13,710
	Less:	
522	Subsidiary and Associate Dividend Income included in the Council's Surplus on the Income and Expenditure Account	(53)
	Add:	
	(Surplus) or Deficit Arising from Other Entities Included in the Group Accounts	
(4,507)	Subsidiaries	(11,390)
55,997	Associates	51,947
4,994	Joint Ventures	3,280
10,373	<b>Group Account Deficit for the Year</b>	57,494

### Group Statement of Total Recognised Gains and Losses

for the year ended 31 March 2008

2006/07 (re-stated) £000		£000
10,373	Net Deficit for the Year	57,494
6,090	Dividends declared but not included in Income and Expenditure Account	9,686
47,457	(Gains) / Losses arising on Revaluation of Fixed Assets	(200,318)
(29)	(Gains) / Losses arising on Capital Financing Account	0
0	(Gains) / Losses arising on Capital Adjustment Account	28,948
0	(Gains) / Losses arising on Financial Instruments Adjustment Account	57,710
0	(Gains) / Losses arising on Available-for-Sale Financial Instruments Reserve	(43,324)
(72,294)	(Gains) / Losses arising on Usable Capital Receipt Reserve	(40,785)
(47,285)	(Gains) / Losses arising on Other Capital Funds	(16,964)
(464)	Gains arising on Other Earmarked Revenue Reserves not included in the Income and Expenditure Account	(299)
2,152	Other Gains or Losses	2,397
(188,774)	Actuarial (Gains) / Losses on Pension Fund Assets and Liabilities	(367,042)
(242,774)	<b>Total Recognised Gains for the Year</b>	(512,497)
(931)	Minority Adjustment	(1,944)
(243,705)	<b>Total Recognised Gains since last financial statements</b>	(514,441)

# GROUP BALANCE SHEET

As at 31 March 2008

2006/07 (re-stated) £000	Fixed Assets	Notes	£000	£000
1,536	<b>Intangible Assets</b>			1,870
	<b>Tangible Fixed Assets</b>			
793,036	Council Dwellings	7.	867,999	
678,136	Other Land and Buildings	7.	758,143	
82,073	Vehicles, Plant, Furniture and Equipment	7.	107,608	
304,124	Infrastructure Assets	7.	415,192	
18,225	Community Assets	7.	18,577	
<u>1,875,594</u>				2,167,519
	<b>Non-Operational Assets</b>			
168,229	Investment Properties	7.	180,195	
29,785	Assets Under Construction	7.	55,298	
17,592	Surplus Assets Held for Disposal	7.	28,694	
<u>215,606</u>				264,187
	<b>Long-Term Assets</b>			
10,580	Long-Term Investments		51,056	
103,396	Long-Term Debtors		102,358	
19,363	Share in Gross Assets of Joint Venture		14,931	
(8,987)	Share in Gross Liabilities of Joint Ventures		(8,237)	
56,348	Deferred Premiums on the Early Repayment of Borrowing		0	
<u>180,700</u>				160,108
	<b>Current Assets</b>			
12,325	Stocks and Work-in-Progress		31,270	
379,868	Debtors		439,698	
(220,416)	Less: Bad Debt Provision		(229,893)	
237,823	Investments		146,811	
14,004	Cash and Bank		7,448	
<u>423,604</u>				395,334
	<b>Less: Current Liabilities</b>			
(6,106)	Borrowing Repayable on Demand or Within 12 Months		(12,583)	
(375,226)	Creditors		(322,065)	
(17,097)	Provisions		(16,909)	
(30,352)	Bank Overdraft		(19,077)	
<u>(428,781)</u>				(370,634)
2,268,259	<b>Total Assets Less Current Liabilities</b>			2,618,384
(977,547)	Borrowing Repayable Within a Period in Excess of 12 Months		(1,043,482)	
	Creditors: amounts falling due after more than one year			
(354)	Deferred Liabilities		(235)	
(6,233)	Finance Leases		(7,583)	
(114,730)	Government Grants Deferred		(221,503)	
(1,461)	Deferred Discounts on the Early Repayment of Debt		0	
(9,579)	Deferred Credit		(10,249)	
(9,941)	Provisions		(10,089)	
(827,816)	Share in Net Liabilities of Associates		(660,014)	
(266,402)	Pension Liability		(96,592)	
<u>(2,214,063)</u>				(2,049,747)
<u>54,196</u>	<b>TOTAL ASSETS LESS LIABILITIES</b>			<u>568,637</u>

# GROUP BALANCE SHEET

As at 31 March 2008

2006/07 (re-stated) £000		Notes	£000
	<b>Represented by:</b>		
509,980	Fixed Asset Restatement Account		0
596,661	Capital Financing Account		0
0	Capital Adjustment Account		1,102,699
27,127	Capital Fund		32,514
1	Usable Capital Receipt Reserve		0
36,176	Revaluation Reserve		228,461
15,805	Earmarked Capital Reserve		15,962
0	Financial Instruments Adjustment Account		(57,128)
0	Available-for-Sale Financial Instruments Reserve		43,324
(1,158,070)	Pensions Reserve		(837,130)
1,983	Earmarked Revenue Reserve		2,051
155	Capital Contribution		145
4,061	Renewal and Repairs Fund		7,565
689	Share Premium Account		689
20,809	General Fund		28,947
(3,864)	Revenue Reserve		(4,089)
<u>51,513</u>	<b>Group Balance and Reserves</b>	9.	<u>564,010</u>
<u>2,683</u>	Minority Interest		<u>4,627</u>
<u>54,196</u>	<b>TOTAL NET WORTH</b>		<u>568,637</u>

The unaudited accounts were issued on 11 June 2008 and the audited accounts were authorised for issue on 29 September 2008.



DONALD McGOUGAN, CPFA,  
Director of Finance  
11 June 2008



# GROUP CASH FLOW STATEMENT

2006/07		Notes	2007/08	
£000			£000	£000
(162,422)	<b>Net Cash Outflow / (Inflow) From Revenue Activities</b>	4.		37,020
(3,250)	<b>Dividends from Joint Ventures and Associates</b>			(1,023)
	<b>Returns on Investments and Servicing of Finance</b>			
65,878	Interest Paid		57,435	
(13,819)	Interest Received		(10,234)	
<u>52,059</u>				47,201
(113,613)	<b>Net Cash Outflow / (Inflow) from Revenue Activities</b>			<u>83,198</u>
1,399	<b>Taxation</b>			4,784
	<b>Capital Expenditure and Financial Investments</b>			
270,916	Purchase of Fixed Assets		325,697	
8,266	Other Capital Cash Payments		9,488	
(4,762)	Purchase / (Sale) of Long-Term Investments		0	
(119,560)	Sale of Fixed Assets		(33,367)	
(93,850)	Capital Grants Received		(197,996)	
(30,597)	Other Capital Receipts		(38,779)	
<u>30,413</u>				65,043
396	<b>Equity Dividends Paid</b>			4,138
241	<b>Acquisitions and Disposals</b>			(136)
<u>(81,164)</u>	<b>Net Cash Outflow / (Inflow) Before Financing</b>			<u>157,027</u>
75,902	<b>Management of Liquid Resources</b>			(95,813)
	<b>Financing</b>			
256,240	Repayment of Amounts Borrowed		59,058	
4,403	Capital Element of Finance Lease Payments		4,399	
(268,287)	New Loans Raised		(128,790)	
<u>(7,644)</u>				<u>(65,333)</u>
<u>(12,906)</u>	<b>Net Increase in Cash</b>			<u>(4,119)</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 21 and 22 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.

Final Audited accounts of the companies are consolidated into these accounts.

The following companies have been consolidated into the Group Statements:

<b>Subsidiaries:</b>	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 are consolidated based on Board Representation

Edinburgh Leisure	33.33%	31 March
Festival City Theatres Trust	30.77%	31 March

The following associates are consolidated based on the funding percentages

	Pension Reserve	Other Reserves	
Lothian and Borders Police Board	55.77%	55.93%	31 March
Lothian and Borders Fire and Rescue Board	56.21%	57.73%	31 March
Lothian Valuation Joint Board	61.79%	61.84%	31 March

### **Joint Ventures:**

Waterfront Edinburgh Limited	50%	31 March
Shawfair Developments Limited	37.5%	31 March

### **Trust:**

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

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

- Capital Development Trust
- Edinburgh, Lothian and Scottish Borders Screen Industries Office Limited
- International Conference Centre Expenditure Trust
- Lothian Investment Fund for Enterprise Limited
- Projects (Edinburgh) Limited
- Edinburgh City Centre Management Company Limited
- South East Scotland Regional Transport Partnership (SESTRAN)

## 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 £581.524m (£778.969m 2006/07) 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

	2007/08		2006/07	
	£000	£000	£000	£000
Deficit / (Surplus) for the year		13,710		(46,633)
Share of Group Companies Surplus		(7,437)		(6,755)
Dividend Income		127		3,190
Gains on Fixed Asset Disposals		6,063		44,038
Interest Received		2,304		1,629
Year-End Variations				
Increase / (Decrease) in Debtors	58,058		5,718	
Decrease / (Increase) in Creditors	82,414		(56,505)	
Increase / (Decrease) in Stocks	15,085		(10,314)	
Increase / (Decrease) in Investments	0		7	
		155,557		(61,094)
Non Cash Transactions		(133,304)		(96,797)
Net Cash (Inflow) / Outflow from Revenue Activities		37,020		(162,422)

## 5. Joint Venture Companies

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

### Waterfront Edinburgh Limited                      50% Joint Venture

The group share of the results of Waterfront Edinburgh Limited is as follows:

	2008	2007
	£000	£000
Incoming resources	1,454	733
(Loss) / Profit Before Tax	(3,302)	(4,994)
Taxation	90	0
(Loss) / Profit After Tax	(3,212)	(4,994)
Fixed Assets	2,952	2,647
Current Assets	11,313	16,356
Liabilities due within one year	(3,452)	(4,337)
Liabilities due after one year or more	(3,616)	(3,668)
Net Assets	7,197	10,998

# NOTES TO THE GROUP ACCOUNTS

## 5. Joint Venture Companies - continued

### Shawfair Developments Limited

### 37.5% Joint Venture

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

	<b>2008</b> <b>£000</b>	<b>2007</b> <b>£000</b>
Incoming resources	<u>0</u>	<u>0</u>
(Loss) / Profit Before Tax	(125)	(601)
Taxation	<u>57</u>	<u>180</u>
(Loss) / Profit After Tax	<u>(68)</u>	<u>(421)</u>
Current Assets	666	961
Liabilities due within one year	<u>(1,356)</u>	<u>(2,618)</u>
Net Assets	<u>(690)</u>	<u>(1,657)</u>

## 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 33.33% (2007 35.71% ) Board Representation, is as follows:

	<b>2008</b> <b>£000</b>	<b>2007</b> <b>£000</b>
Incoming Resources	<u>8,136</u>	<u>8,262</u>
Net Surplus/ (Loss)	<u>(326)</u>	<u>11</u>
Fixed Assets	1,639	1,700
Current Assets	318	1,471
Liabilities due within one year	(995)	(1,974)
Liabilities due after one year or more	(315)	(213)
Pension Liability	<u>911</u>	<u>(584)</u>
Net Assets	<u>1,558</u>	<u>400</u>

# NOTES TO THE GROUP ACCOUNTS

## 6. Associated Companies - continued

### Festival City Theatres Trust

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

The group share of the results of the Festival City Theatres Trust, based on 30.77% (33.33% in 2007) Board Representation, is as follows:

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
Incoming Resources	<u>2,390</u>	<u>2,487</u>
Net Outgoing Resources	<u>(397)</u>	<u>(124)</u>
Fixed Assets	2,634	3,165
Current Assets	211	413
Liabilities due within one year	(283)	(355)
Liabilities due after one year or more	<u>0</u>	<u>(18)</u>
Net Assets	<u>2,562</u>	<u>3,205</u>

### Lothian and Borders Police Board

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

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

The group share of the results of the Lothian and Borders Police Board, based on 55.93% (2007 55.93%) funding percentage and in respect of the Pension Liability 55.77% (2007 55.77%) based on the GAE, is as follows:

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
Funding - Requisitions	53,704	53,057
Grant and Other Income	<u>90,816</u>	<u>84,760</u>
Total Income	<u>144,520</u>	<u>137,817</u>
Surplus /(Deficit) for the year	<u>(41,897)</u>	<u>(46,887)</u>
Fixed Assets	44,769	41,976
Current Assets	15,796	14,077
Liabilities due within one year	(10,478)	(9,597)
Liabilities due after one year or more	<u>(19,568)</u>	<u>(17,878)</u>
Net Assets	30,519	28,578
Net Pension liabilities	<u>(603,804)</u>	<u>(725,844)</u>
	<u>(573,285)</u>	<u>(697,266)</u>

# NOTES TO THE GROUP ACCOUNTS

## 6. Associated Companies - continued

### Lothian and Borders Fire and Rescue Board

The South Eastern Combined Fire Services Area Administration Scheme 1995 requires the Joint Board to comprise 18 members appointed from the constituent authorities as follows: two members from East Lothian, Midlothian and Scottish Borders; 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 57.73% (2007 57.56%) funding percentage and in respect of the Pension Liability 56.21% (2007 56.21%) based on the GAE, is as follows:

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
Funding - Requisitions	27,259	27,217
Other Income	769	690
	<u>28,028</u>	<u>27,907</u>
Total Income		
Surplus /(Deficit) for the year	<u>(10,034)</u>	<u>(9,047)</u>
Fixed Assets	24,374	23,792
Current Assets	4,193	4,877
Liabilities due within one year	(1,842)	(2,218)
Liabilities due after one year or more	<u>(11,786)</u>	<u>(12,610)</u>
Net Assets	14,939	13,841
Net Pension liabilities	<u>(136,607)</u>	<u>(162,989)</u>
	<u>(121,668)</u>	<u>(149,148)</u>

### 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 61.84% (2007 61.82%) funding percentage and in respect of the Pension Liability 61.79% (2007 61.80%) based on the GAE, is as follows:

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
Funding - Requisitions	3,689	3,743
Other Income	33	114
	<u>3,722</u>	<u>3,857</u>
Total Income		
Surplus / (Deficit) for the year	<u>239</u>	<u>323</u>
Fixed Assets	748	716
Current Assets	290	272
Liabilities due within one year	(150)	(113)
Liabilities due after one year or more	<u>(519)</u>	<u>(541)</u>
Net Assets	369	334
Net Pension liabilities	<u>(865)</u>	<u>(3,320)</u>
	<u>(496)</u>	<u>(2,986)</u>

# NOTES TO THE GROUP ACCOUNTS

## 7. Tangible Fixed Assets

### 7.1 Operational Assets

	<b>Council Dwellings</b>	<b>Other Land and Buildings</b>	<b>Vehicles, Plant and Equipment</b>
<b>Cost</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Gross book value as at 1 April 2007	793,074	725,739	138,070
Additions during year	24,211	37,069	36,735
Transferred to Surplus Assets	0	0	0
Transferred to Common Good	0	(10,850)	0
Disposals during year	(10,658)	(2)	(6,258)
Impairments	0	(28,907)	0
Revaluations and Restatements	77,071	89,799	2,170
<b>Gross book value as at 31 March 2008</b>	<b>883,698</b>	<b>812,848</b>	<b>170,717</b>
<b>Accumulated Depreciation</b>			
Depreciation as at 1 April 2007	(38)	(47,603)	(55,997)
Depreciation for year	(15,858)	(11,770)	(13,142)
Depreciation on revalued/Impaired assets	0	4,047	0
Depreciation on reclassified assets	0	67	0
Depreciation on disposals	197	554	6,030
<b>Depreciation as at 31 March 2008</b>	<b>(15,699)</b>	<b>(54,705)</b>	<b>(63,109)</b>
<b>Net Book Value</b>			
As at 31 March 2008	867,999	758,143	107,608
As at 1 April 2007	793,036	678,136	82,073
	<b>Infrastructure Assets</b>	<b>Community Assets</b>	<b>£000</b>
<b>Cost</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Gross book value as at 1 April 2007	396,293	18,225	2,071,401
Additions during year	133,900	2,986	234,901
Transferred to Surplus Assets	0	0	0
Transferred to Common Good	0	(19)	(10,869)
Disposals during year	0	0	(16,918)
Impairments	0	(2,853)	(31,760)
Revaluations and Restatements	(2,538)	238	166,740
<b>Gross book value as at 31 March 2008</b>	<b>527,655</b>	<b>18,577</b>	<b>2,413,495</b>
<b>Accumulated Depreciation</b>			
Depreciation as at 1 April 2007	(92,169)	0	(195,807)
Depreciation for year	(20,294)	0	(61,064)
Depreciation on revalued assets	0	0	4,047
Depreciation on reclassified assets	0	0	67
Depreciation on disposals	0	0	6,781
<b>Depreciation as at 31 March 2008</b>	<b>(112,463)</b>	<b>0</b>	<b>(245,976)</b>
<b>Net Book Value</b>			
As at 31 March 2008	415,192	18,577	2,167,519
As at 1 April 2007	304,124	18,225	1,875,594

# NOTES TO THE GROUP ACCOUNTS

## 7. Tangible Fixed Assets - continued

### 7.2 Non-Operational Assets

	<b>Investment Properties £000</b>	<b>Assets Under Construction £000</b>	<b>Surplus Assets £000</b>	<b>Total £000</b>
<b>Cost</b>				
Gross book value as at 1 April 2007	168,229	29,785	17,592	<b>215,606</b>
Additions during year	6,089	25,513	783	<b>32,385</b>
Addition under a Finance Lease	0	0	0	<b>0</b>
Transferred to Surplus Assets	0	0	0	<b>0</b>
Transferred to Common Good	(534)	0	0	<b>(534)</b>
Disposals during year	0	0	(7,784)	<b>(7,784)</b>
Impairments	(2,670)	0	(305)	<b>(2,975)</b>
Revaluations and Restatements	9,081	0	18,642	<b>27,723</b>
Gross book value as at 31 March 2008	<u>180,195</u>	<u>55,298</u>	<u>28,928</u>	<u><b>264,421</b></u>
<b>Accumulated Depreciation</b>				
Depreciation as at 1 April 2007	0	0	0	<b>0</b>
Depreciation for year	0	0	0	<b>0</b>
Depreciation on revalued assets	0	0	19	<b>19</b>
Depreciation on reclassified assets	0	0	0	<b>0</b>
Depreciation on disposals	0	0	(253)	<b>(253)</b>
Depreciation as at 31 March 2008	<u>0</u>	<u>0</u>	<u>(234)</u>	<u><b>(234)</b></u>
<b>Net Book Value</b>				
As at 31 March 2008	<u>180,195</u>	<u>55,298</u>	<u>28,694</u>	<u><b>264,187</b></u>
As at 1 April 2007	<u>168,229</u>	<u>29,785</u>	<u>17,592</u>	<u><b>215,606</b></u>

## 8. Capital Commitments

At 31 March 2008 Council companies were committed to the following contractual commitments:

	<b>2008 £000</b>	<b>2007 £000</b>
<b>Contractual Commitments</b>		
CEC Holdings Limited	13,700	0
Lothian Buses	8,700	0
	<u>22,400</u>	<u>0</u>
<b>Authorised, but not Contracted, Commitments</b>		
CEC Holdings Limited	10,000	0
	<u>10,000</u>	<u>0</u>



# NOTES TO THE GROUP ACCOUNTS

## 9. Movements on Reserves

9.1 Reserves	Balance Brought Forward £000	(Gains) / Losses for the Year £000	Transfers Between Reserves £000	Balance Carried Forward £000
Fixed Asset Restatement Account				
- Group	467,152	0	(467,152)	0
- Share of Associates and Joint Ventures	42,828	42	(42,870)	0
Capital Financing Account				
- Group	600,706	0	(600,706)	0
- Share of Associates and Joint Ventures	(4,045)	(9)	4,054	0
Capital Fund				
- Group	27,127	16,535	(11,148)	32,514
Capital Adjustment Account				
- Group	0	(40,665)	1,091,181	1,050,516
- Share of Associates and Joint Ventures	0	11,717	40,466	52,183
Usable Capital Receipts Reserve				
- Group	0	40,723	(40,723)	0
- Share of Associates and Joint Ventures	1	62	(63)	0
Financial Instruments Adjustment Account				
- Group	0	(57,632)	578	(57,054)
- Share of Associates and Joint Ventures	0	(78)	4	(74)
Available-for-Sale Financial Instruments Reserve				
- Group	0	43,324	0	43,324
Revaluation Reserve				
- Group	34,989	198,885	(7,952)	225,922
- Share of Associates and Joint Ventures	1,187	1,400	(48)	2,539
Capital Contribution				
- Share of Associates and Joint Ventures	155	(10)	0	145
Earmarked Capital Reserves				
- Share of Associates and Joint Ventures	15,805	439	(282)	15,962
Earmarked Revenue Reserves				
- Share of Associates and Joint Ventures	1,983	68	0	2,051
Pension Reserve				
- Group	(265,333)	160,997	7,571	(96,765)
- Share of Associates and Joint Ventures	(892,737)	206,045	(53,673)	(740,365)
Renewal and Repairs Fund				
- Group	4,061	231	3,273	7,565
Share Premium Account				
- Group	689	0	0	689
General Fund Reserves				
- Group	20,809	(13,710)	21,848	28,947
Revenue Reserves				
- Group	(4,623)	(124)	3,229	(1,518)
- Share of Associates and Joint Ventures	759	(55,743)	52,413	(2,571)
<b>Total Reserves</b>	<b>51,513</b>	<b>512,497</b>	<b>0</b>	<b>564,010</b>

## 9.2 Purposes of Funds Held

The purpose of the following funds can be seen in note 27 to the Financial Statements:

- Fixed Asset Restatement Account
- Capital Financing Account
- Capital Adjustment Account
- Financial Instruments Adjustment Account
- Available-for-Sale Financial Instruments Reserve
- Capital Fund
- Usable Capital Receipts Reserve
- Pension Reserve
- Renewal and Repairs Fund
- General Fund Balance

# 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:

	<b>2007-08</b>	<b>2006-07</b>
	<b>£000</b>	<b>£000</b>
Council	(98,147)	(253,638)
Tie limited	62	(333)
CEC Holdings	(428)	(531)
Lothian Buses	1,747	(10,831)
<b>Group</b>	<u>(96,766)</u>	<u>(265,333)</u>
Valuation board	(865)	(3,320)
Police Board	(603,803)	(725,844)
Fire Board	(136,607)	(162,989)
Edinburgh Leisure	911	(584)
<b>Associates and Joint Ventures</b>	<u>(740,364)</u>	<u>(892,737)</u>
<b>Total at 31 March 2008</b>	<u><u>(837,130)</u></u>	<u><u>(1,158,070)</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 2008 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 2007 - A Statement of Recommended Practice (the 2007 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 present fairly, in accordance with relevant legal and regulatory requirements and the 2007 SORP 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 Statement on the System of Internal Financial Control 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 - continued

## 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's, and its group, circumstances, consistently applied and adequately disclosed.

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

## Opinion

In my opinion the financial statements

- present fairly, in accordance with relevant legal and regulatory requirements and the 2007 SORP, the financial position of City of Edinburgh Council and its group as at 31 March 2008 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 2008 in respect of the following significant trading operations:

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



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

30 September 2008

## STATEMENT OF ASSURANCE ON CORPORATE GOVERNANCE

The City of Edinburgh Council is responsible for ensuring that its business is conducted in accordance with the law and appropriate standards, that public money is safeguarded and properly accounted for, and used economically efficiently and effectively. In discharging this accountability, members and senior officers are responsible for implementing effective arrangements for the governance of the Council's affairs and the stewardship of the resources at its disposal. To this end, the Council has adopted a Local Code of Corporate Governance that is consistent with the principles, and reflects the requirements, of the CIPFA/ SOLACE framework.

The Council has implemented arrangements, detailed by the Local Code, for monitoring each element of the framework and providing evidence of annual compliance.

During the year, the Chief Internal Auditor reviewed changes to the current arrangements and indicated his satisfaction that the Code continues to be adequate and effective.

The Director of Finance has provided the Council with an internal financial control statement in conformance with accepted accounting practice. This can be viewed at page 15.

JENNY DAWE  
Leader of the Council  
29-Sep-08

## **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](http://www.edinburgh.gov.uk)

## **The Scottish Public Services Ombudsman**

If you have gone through the Council's complaints process and you are still unhappy, you have the right to take your complaint to the Scottish Public Ombudsman, 4 Melville Street, Edinburgh, EH3 7NS.

Telephone 0800 377 7330.

E-mail [ask@spso.org.uk](mailto:ask@spso.org.uk)

Generally, if you want to do this, you must contact the Ombudsman within one year.