The South East of Scotland Transport Partnership (SESTRAN)

Audited Financial Statements

2008/2009

The South East of Scotland Transport Partnership (SESTRAN)

Statement of Accounts

Year to 31 March 2009

CONTENTS

FOREWORD BY THE TREASURER

Introduction
The unaudited Statement of Accounts presents the financial position and performance of the Partnership for the year to 31 March 2009. This foreword describes briefly the nature and purpose of each of the statements which follow and the principal items of interest or note which are contained within the accounts.

The South East of Scotland Transport Partnership (SESTRAN) was established under the Regional Transport Partnerships (Establishment, Constitution and Membership) (Scotland) Order 2005. The Partnership came into force on 1st December 2005. Under Section 3 of the Transport (Scotland) Act 2005, the net expenses of SESTRAN, after allowing for government grant and any other income, are met by its constituent councils.

The constituent councils of SESTRAN are the City of Edinburgh, Clackmannanshire, East Lothian, Falkirk, Fife, Midlothian, Scottish Borders and West Lothian. In 2008/09 the Partnership delivered an approved programme of revenue projects.

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.

- **Income and Expenditure Account**
  The Income and Expenditure Account reports the net cost for the year of the services which the Partnership is responsible for providing and shows how the cost of these services has been financed from general government grants and contributions from the Partnership's constituent authorities.

- **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 Partnership'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 Partnership during the year. The most notable exclusion is 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 Partnership.

- **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 Partnership in the course of the year.

- **Statement of Responsibilities for the Statement of Accounts**
  This statement sets out the respective responsibilities of the Partnership and the Treasurer 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.

FOREWORD BY THE TREASURER

Financial Performance

Revenue Grant
For 2008/09, the Partnership is required to present its financial performance as an Income and Expenditure Account. This can be seen on page 7. The Income and Expenditure Account complies with UK GAAP (Generally Accepted Accounting Practice). However, to show the net position of the Partnership and to allow comparison with the approved revenue budget, it is necessary to adjust the expenditure shown in the Income and Expenditure Account to take account of a number of items where the statutory accounting requirements differ from the management accounting practice of the Partnership. The outturn position, adjusted to allow comparison with the approved budget, is summarised below:

	£000
Gross Expenditure per the Income & Expenditure Account	1,765
Amounts included in the Income & Expenditure Account but required to be excluded when determining the net revenue position of the Partnership	
Contributions received - Curacoa project, Dryport project, Routewise contribution, office space utilisation	(96)
FRS17 Charges and Depreciation	(35)
Total Expenditure of the Partnership in 2008/09	1,634
Less: Total Gross Expenditure financed by Capital Grant from the Scottish Government	(200)
Total Expenditure for Revenue Grant Purposes in 2008/09	**1,434**

The approved Revenue budget of the Partnership in 2008/09 was £1.511m. A comparison of the outturn position with the approved budget is summarised below:

	Budget	Outturn	Variance
	£000	£000	£000
Core Budget	619	605	(14)
Revenue Projects Budget	718	693	(25)
Travel Plan	158	120	(38)
Round the Forth and Long-Distance Cycling	16	16	0
Total Revenue Expenditure 2008/09	**1,511**	**1,434**	**(77)**
Interest Receivable	(61)	(85)	(24)
Government Grant	(1,094)	(1,032)	62
Government Grant - slippage on project costs from 2007/08	(41)	(41)	0
Constituent Council Requisitions	(315)	(276)	39
	(1,511)	**(1,434)**	**77**

Revenue Budget Performance - General Fund
As can be seen from the above, the Partnership incurred expenditure of £1.434m which represents an underspend of £77,000 (5%) compared to the approved budget. This relates mainly to slippage of £25,000 on the revenue projects budget and £38,000 on the Travel Plan budget, both of which are funded by Scottish Government Grant. The revenue projects grant underspend will be refunded to the Scottish Government in 2009/10. Permission has been granted from the Scottish Government to carry forward the underspend on the Travel Plan budget, which arose due to late changes to two projects where a revenue grant was due to be paid to partner organisations. The Partnership received interest of £85,000 in 2008/09 and this exceeded the budgeted amount by £24,000. This additional interest arose due to differences in timing between receipt of revenue grant funding from the Scottish Government and payment of project expenditure.

FOREWORD BY THE TREASURER

Financial Performance (continued)

Revenue Budget Performance - General Fund (cont).
The net expenses of SESTRAN, after allowing for government grant and any other income, fall to be met by the Partnership's constituent councils. SESTRAN received budgeted contributions from constituent councils totalling £315,000 during 2008/09. The net effect of the additional interest received plus the favourable core budget variance of £14,000 is to reduce the net expenses met by the constituent councils in 2008/09 from £315,000 to £276,000. Unspent requisitions at the year end therefore amounted to £39,000 and this sum is included in the balance sheet on page 9 under creditors. The Partnership Director will consult with the Chief Transportation Officials from the Partnership's constituent councils to consider how this balance could be used and will present proposals to the Partnership Board in due course.

The Partnership retains a balance of £49,000 from 2006/7. This balance is also included in creditors and is held as a working balance to help cushion the impact of uneven cash flows and provide a small contingency sum in respect of unexpected events or emergencies.

The Partnership retains a balance of £230,000 from 2007/08. This balance is included in creditors and is held as a commitment towards a project approved by the Partnership Board to develop regional real-time bus passenger travel information.

Capital Grant

From 2008/09, the Scottish Government transferred Regional Transport capital grant funding from Regional Transport Partnerships to local authorities.

Capital grant made available to SESTRAN by the Scottish Government in 2007/08 totalled £14.750m. Actual expenditure in that year was £14.550m with SESTRAN entering into a temporary grant swap arrangement with Strathclyde Partnership for Transport (SPT) for the remaining sum of £0.200m. This funding was returned to SESTRAN in 2008/09 and will be used by SESTRAN for a funding commitment to Network Rail for the Kirknewton Level Crossing project.

FRS 17 - Retirement Benefits
Financial Reporting Standard (FRS) 17 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 Partnership has committed to pay, while the effect on the amount to be met from government grant and constituent council requisitions has been balanced through inclusion of pensions interest costs and a transfer to the pensions reserve.

Net Pension Asset
The net pension liability, shown in note 15 to the Financial Statements, in accordance with the requirements of FRS17 (Retirement Benefits), amounts to £75,000. The 2008 actuarial valuation has considered the appropriate employer's rates and this, together with revenues generated from investments, will be utilised to meet the fund's commitments.

Financial Instruments
The 2008 Statement of Recommended Practice (SORP) stipulates that information required by FRS25 Financial Instruments: Presentation and Disclosures; FRS26 Financial Instruments: Recognition and measurement; and FRS29 Financial Instuments: Disclosures; be disclosed by way of a note in the financial statements.

This information is contained in note 18 which details the make up of financial instruments, the key risks which the Partnership is exposed to in the management of its financial instruments, and how those risks are managed.

D. McGougan

DONALD McGOUGAN, CPFA,
Treasurer
10 June 2009

STATEMENT OF ACCOUNTING POLICIES

The Accounts for the year ended 31 March 2009 have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008: A Statement of Recommended Practice, (the SORP) and the Best Value Accounting Code of Practice (BVACOP). This is to ensure that the Accounts present a true and fair view of the financial position and transactions of SESTRAN.

The accounts have been prepared on a historic cost basis modified by 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. Amounts estimated to be due to or from the Board in respect of 2008/09, but are still outstanding at the year end are included in the accounts.
- Government Grants have been accounted for on an accruals basis.

Interest Charges

- Interest payable on external borrowings and interest receivable have 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.

Operating Leases

Rental payments under operating leases are charged to the revenue account on a straight line basis over the period of the lease.

Charges for use of Fixed Assets

Charges are made to the Income and Expenditure Accounts for the use of fixed assets, through depreciation charges. The aggregate charge to individual services is determined on the basis of the assets used in each service.

Pensions

The Partnership participates in the Local Government Pension Scheme (LGPS) which meet the needs of employees. The scheme provides members with defined benefits related to pay and service. Details of the scheme are as follows:

- 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 Partnership 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 Statement of Movement on the General Fund Balance.

Intangible Fixed Assets

Expenditure on assets that have no physical substance but are identifiable and controlled by the Board have been capitalised where a benefit for more than one financial year can be established. The balance is amortised over the economic life of the investment to reflect the pattern of consumption of benefits.

Tangible Fixed Assets

- **Categories of Assets**

  Tangible Fixed Assets are categorised into the following classes:

  <u>Operational Assets</u>

  Vehicles, Plant, Furniture and Equipment

- **Recognition**

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

STATEMENT OF ACCOUNTING POLICIES

Fixed Assets (Continued)

- **Depreciation**
  Depreciation is provided on all fixed assets.

  The Partnership 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
- Vehicles, Plant, Furniture 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.

Government Grants

Grants and other contributions relating to fixed assets are credited to a Government Grants Deferred Account and written off to the Income and Expenditure account in line with the depreciation policy of the related assets.

Reserves

- The Partnership operates a Pensions Reserve Fund under the terms of the Local Government Pension Reserve Fund (Scotland) Regulations 2003.

Financial Instruments

- **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 the loans that the Partnership 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.

Going Concern

- The accounts have been prepared on a going concern basis, i.e. that the authority will remain in operational existence for the foreseeable future.

INCOME AND EXPENDITURE ACCOUNT

for the year ended 31 March 2009

2007/08 £000		Notes	Gross Expenditure £000	Income £000	Net Expenditure £000
	SERVICES				
607	Roads and Transport		1,536	(912)	624
0	Grants for Capital Expenditure	6.3	200	(200)	0
26	Corporate and Democratic Core	4	29	0	29
0	Non-Distributed Costs	15.1	0	0	0
633	**NET COST OF SERVICES**		1,765	(1,112)	653
(242)	Interest and Investment Income	6.2			(85)
(10)	Pensions Interest Costs and Expected Return on Pension Assets	15.1			(4)
381	**NET OPERATING EXPENDITURE**				564
(300)	Core Government Grant	6.1			(300)
(70)	Constituent Council Requisitions	6.2			(276)
11	**(SURPLUS) / DEFICIT FOR THE YEAR**				(12)

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

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

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

for the year ended 31 March 2009

2007/08 £000		£000
11	(Surplus) / Deficit on the Income and Expenditure Account for the Year	(12)
(11)	Net Additional Amount required by Statute or Non-Statutory Proper Practices to be debited / (credited) to the General Fund Balance for the Year (note 7)	12
0	**General Fund (Surplus) / Deficit**	0
0	General Fund Balance Brought Forward	0
0	**General Fund Balance Carried Forward**	0

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

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

for the year ended 31 March 2009

2007/08 £000		£000
11	(Surplus) / Deficit on the Income and Expenditure Account for the Year	(12)
(97)	Actuarial Loss / (Gain) on Pension Assets and Liabilities (note 15.1)	101
(86)	**Total Recognised Losses / (Gains) for the Year**	89

BALANCE SHEET

as at 31 March 2009

2007/08 £000		Notes	£000	£000
20	**Intangible Fixed Assets**	8,10.1	0	16
	Tangible Fixed Assets			
	Operational Assets			
166	Vehicles, Plant, Furniture and Equipment	8,10.2	0	125
	Current Assets			
4,334	Debtors	14	192	
3,887	Cash and Bank		1,007	
8,221				1,199
	Less: Current Liabilities			
(8,221)	Creditors	14	(999)	
0	Provisions	19	(200)	(1,199)
186	**Total Assets Less Current Liabilities**			141
	Long-Term Liabilities			
(175)	Government Grants Deferred	12	(132)	
12	Pension Asset (Liability)	15	(75)	
(163)				(207)
23	**TOTAL ASSETS LESS LIABILITIES**			**(66)**
	Represented by:			
11	Capital Adjustment Account	11		9
12	Pensions Reserve	11, 15.4		(75)
23	**TOTAL NET WORTH**			**(66)**

D. McGougan

DONALD McGOUGAN, CPFA,
Treasurer
10 June 2009

The unaudited accounts were issued on 10th June 2009 and the audited accounts were authorised for issue on 29th September 2009.

CASH FLOW STATEMENT

Year ended 31 March 2009

2007/08 £000		Notes	£000	£000
	REVENUE ACTIVITIES			
	Cash Outflows			
358	Cash Paid to and on Behalf of Employees		318	
16,324	Other Operating Cash Payments		8,426	
16,682				8,744
	Cash Inflows			
(300)	Constituent Council Requisitions		(315)	
(11,756)	Other Government Grants	17	(5,096)	
(12)	Other Operating Cash Receipts		(31)	
(12,068)				(5,442)
4,614	**NET CASH (INFLOW) / OUTFLOW FROM REVENUE ACTIVITIES**	16		3,302
	RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
	Cash Inflows			
(99)	Interest Received		(242)	
(99)				(242)
	CAPITAL ACTIVITIES			
	Cash Outflows			
115	Purchase of Fixed Assets		20	
115			20	
	Cash Inflows			
(56)	Capital Grants Received	17	(200)	
59	**NET CASH (INFLOW)/ OUTFLOW FROM CAPITAL ACTIVITIES**			(180)
4,574	**NET CASH (INFLOW) / OUTFLOW BEFORE FINANCING**			**2,880**
4,574	**(INCREASE) / DECREASE IN CASH**			**2,880**

NOTES TO THE FINANCIAL STATEMENTS

1. **Publicity Account (Section 5 of the Local Government Act 1986)**
   Under this legislation, the Partnership is required to maintain a separate publicity account. The Partnership's expenditure on publicity was:

	2008/09 £000	2007/08 £000
Recruitment Advertising	6	6
Other Advertising	49	55
Marketing	4	5
Other Publicity	25	29
Total	**84**	**95**

2. **Members' Allowances and Expenses**
   No allowances were paid during the year to members.

3. **Officers' Remuneration**
   The numbers of employees whose remuneration during the year exceeded £50,000 were as follows:

	2008/09	2007/08
£80,001 - £90,000	1	1
Total	1	1

4. **Audit Fee**
   Included within the cost of Corporate and Democratic Core is the audit fee of £10,300 (£10,000 in 2007/08), payable to Audit Scotland in respect of statutory external audit services undertaken in accordance with the Code of Audit Practice. There were no fees payable in respect of any other service provided by Audit Scotland over and above the statutory duties undertaken in accordance with the Code.

5. **Operating Leases**
   SESTRAN entered into a lease of an office at Hopetoun Gate, 8b McDonald Road, Edinburgh under a 5 year lease agreement, which has been accounted for as an operating lease. The date of entry for this lease was 5th May 2006. The rental charge to the income and expenditure account in 2008/09 was £32,400 (£32,400 in 2007/08). The Partnership is committed to a rental charge of £32,400 in 2009/10. The lease expires on 4th May 2011.

NOTES TO THE FINANCIAL STATEMENTS

6. Related Parties

During the year, the Partnership entered into a number of transactions with related parties. The most material of these transactions, not disclosed elsewhere, include:

6.1 Government Grants

		2008/09 £000	2007/08 £000
Revenue Grants			
Scottish Government -	Core Grant	300	300
	Revenue Grant	636	951
	Travel Plan	120	124
	Round the Forth	16	55
Capital Grants			
Scottish Government		0	14,550
Total Government Grants		**1,072**	**15,980**

6.2 Subsidiaries and Other Organisations - Revenue Income and Expenditure

- **Revenue Expenditure - Grants for Capital Expenditure**

	2008/09 £000	2007/08 £000
Clackmannanshire Council	0	127
East Lothian Council	0	689
City of Edinburgh Council	0	8,093
Falkirk Council	0	1,119
Fife Council	0	1,244
Midlothian Council	0	1,550
Scottish Borders Council	0	474
West Lothian Council	0	798
Total Revenue Expenditure	**0**	**14,094**

- **Revenue Expenditure - Grants for Revenue Expenditure**

	2008/09 £000	2007/08 £000
Edinburgh Council	0	75
Total Revenue Expenditure	**0**	**75**

- **Revenue Expenditure - Travel Plan / Round the Forth Grants**

	2008/09 £000	2007/08 £000
Clackmannanshire Council	12	15
East Lothian Council	1	6
City of Edinburgh Council	10	10
Falkirk Council	10	11
Fife Council	26	3
Midlothian Council	10	6
Scottish Borders Council	0	29
West Lothian Council	4	18
Total Revenue Expenditure	**73**	**98**

- **Revenue Expenditure - Support Services**

	2008/09 £000	2007/08 £000
City of Edinburgh Council - Financial Services	33	35
Falkirk Council - HR Services	0	1
Fife Council - Legal / Clerk Services	23	20
Total Revenue Expenditure	**56**	**56**

NOTES TO THE FINANCIAL STATEMENTS

6. Related Parties (Continued)

	2008/09 £000	2007/08 £000
• **Revenue Income - Requisitions**		
Clackmannanshire Council	9	2
East Lothian Council	17	4
City of Edinburgh Council	87	23
Falkirk Council	28	7
Fife Council	67	17
Midlothian Council	15	4
Scottish Borders Council	21	5
West Lothian Council	31	8
Total Revenue Income	**276**	**70**

• **Revenue Income - Interest on Revenue Balances**		
City of Edinburgh Council	(85)	(242)

6.3 Grants for Capital Expenditure - Reconciliation to Income & Expenditure Account

The Income and Expenditure Account shows grants for capital expenditure of £0.2m. This represents provision for a commitment of £0.2m to Network Rail to meet costs of the Kirknewton Level Crossing project.

NOTES TO THE FINANCIAL STATEMENTS

7. Statement of Movement on the General Fund Balance

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

for the year ended 31 March 2009

2007/08 £000		£000	£000
	Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the General Fund deficit for the year.		
(33)	Depreciation of Fixed Assets	(45)	
30	Government Grants Deferred Amortisation	43	
(69)	Net Charges made for Retirement Benefits in accordance with FRS 17 (note 15.1)	(36)	
(72)			(38)
	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.		
0	Capital Expenditure Financed from the General Fund	0	
61	Employer's contributions payable to Lothian Pension Fund	50	
61			50
	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.		
0	Net Transfer from Earmarked Reserves	0	
0			0
(11)	**Amount by which the (surplus)/ deficit on the General Fund for the year was (more)/ less than the Income and Expenditure Account result for the year.**		12

NOTES TO THE FINANCIAL STATEMENTS

8. Capital Expenditure

8.1 Summary of Gross Capital Expenditure

	2008/09 £000	2007/08 £000
• Operational Equipment:		
Cycle Counters	0	22
Meeting Room Acoustic Equipment	0	14
Risk Management System	0	20
Total Expenditure	0	56

8.2 Analysis of Capital Expenditure and Capital Financing

	2008/09 £000	2007/08 £000
Gross Capital Expenditure		
Intangible Fixed Assets	0	20
Operational Fixed Assets:		
Vehicles, Plant, Furniture and Equipment	0	36
Operational Fixed Assets Total	0	36
Gross Capital Expenditure Total	0	56
Capital Financing		
• **Other Capital Receipts**		
Government Grants	0	56
Capital Financing Total	0	56

9. Capital Commitments

The Partnership has no contractual commitments for capital works.

NOTES TO THE FINANCIAL STATEMENTS

10. Fixed Assets

10.1 Movement in Intangible Fixed Assets 2008/09

	Total £000
Gross Book Value	
At 1 April 2008	20
Additions during year	0
Disposals during year	0
Impairments	0
Revaluations and Restatements	0
At 31 March 2009	20
Depreciation	
As at 1 April 2008	0
Charge for Year	4
on Revalued Assets	0
on Disposals	0
As at 31 March 2009	4
Net book value at 31 March 2009	16
Net book value at 31 March 2008	20

The 2008/09 opening balance has been amended as the Magique Risk Management System is now classified as an intangible fixed asset.

10.2 Movement in Tangible Fixed Assets 2008/09

	Vehicles, Plant, Furniture and Equipment £000	Total £000
Gross Book Value		
At 1 April 2008	199	199
Additions during year	0	0
Disposals during year	0	0
Impairments	0	0
Revaluations and Restatements	0	0
At 31 March 2009	199	199
Depreciation		
As at 1 April 2008	33	33
Charge for Year	41	41
on Revalued Assets	0	0
on Disposals	0	0
As at 31 March 2009	74	74
Net book value at 31 March 2009	125	125
Net book value at 31 March 2008	167	167

The 2008/09 opening balance has been amended as the Magique Risk Management System is now classified as an intangible fixed asset.

NOTES TO THE FINANCIAL STATEMENTS

11. Reserves

11.1 Movement on Reserves 2008/09

	Balance Brought Forward £000	Gains / (Losses) for the Year £000	Transfers to / (from) Reserves £000	Balance Carried Forward £000
Capital Adjustment Account	11	0	(2)	9
Pension Reserve	12	(101)	14	(75)
Total Reserves	23	(101)	12	(66)

11.2 Purposes of Funds Held

- **Capital Adjustment Account**

  The Capital Adjustment Account represents movement in the funding of assets arising either from capital resources such as capital receipts or capital funded directly from revenue contributions.

- **Pension Reserve**

  The Pension Reserve represents the net monies which the Partnership requires to meet its net pension liability, as calculated under FRS17, Retirement Benefits. It represents a balancing account to allow inclusion of the Pensions asset / liability on the Balance Sheet.

12. 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 the service revenue account over the useful life of the asset to match the depreciation of the asset to which it relates.

	£000	£000
Balance as at 31 March 2008		175
Government Grants and Other Contributions Received	0	
Less: Grants amortised	(43)	
		(43)
Balance as at 31 March 2009		132

13. Events After the Balance Sheet Date

Pension fund asset values are a snapshot in time and are subject to market volatility after the balance sheet date. Any increase or diminution in values as a result of such volatility may not be permanent.

No other events have occurred between 1 April 2009 and 10 June 2009 that have had an impact on the 2008-09 financial statements. The latter date is the date at which the accounts were authorised for issue by the Treasurer.

NOTES TO THE FINANCIAL STATEMENTS

14. Debtors / Creditors

The following represents amounts due to / (from) the Partnership, at 31 March 2009, with its related parties.

• **Creditors - Grant for Capital Expenditure**	**2008/09 £000**	**2007/08 £000**
Clackmannanshire Council	0	(38)
East Lothian Council	0	(539)
City of Edinburgh Council	0	(3,993)
Falkirk Council	0	(898)
Fife Council	0	(335)
Midlothian Council	0	(245)
Scottish Borders Council	0	(67)
West Lothian Council	0	(703)
	0	(6,818)
• **Creditors - Revenue Grants**		
Scottish Government - revenue budget flexibility carry forward	(113)	(95)
Clackmannanshire Council	(12)	(8)
East Lothian Council	(1)	(6)
City of Edinburgh Council	(10)	(14)
Falkirk Council	(10)	(11)
Fife Council	(26)	(3)
Midlothian Council	(10)	(6)
Scottish Borders Council	(24)	(29)
West Lothian Council	(4)	(18)
	(210)	(190)
• **Creditors - Other**		
City of Edinburgh Council	(33)	(16)
Fife Council	0	(10)
Constituent Councils - receipts in advance of need	(269)	(230)
	(302)	(256)
• **Debtors - Revenue Grants**		
Scottish Government	120	431
• **Debtors - Capital Grants**		
Scottish Government	0	3,835

The following represents amounts due to / (from) the Partnership, at 31 March 2009, with other parties:

Debtors	72	68
Creditors	(487)	(957)

NOTES TO THE FINANCIAL STATEMENTS

15. Pension Costs

15.1 As part of the terms and conditions of employment of its employees, the Partnership offers retirement benefits. Although these benefits will not actually be payable until the employees retire, the partnership has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The Partnership participates in the Local Government Pension Scheme, administered by Lothian Pension Fund. This is a funded defined benefit final salary scheme, meaning that the Partnership and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

Change of Accounting Policy
Under the 2008 SORP, the Partnership has adopted the amendments to FRS17, *Retirement benefits*. As a result, quoted securities held as assets in the defined benefit pension scheme are now valued at bid price rather than mid market value. The values for prior years have not been restated.

Transactions Relating to Retirement Benefits
The Partnership recognises the cost of retirement benefits in the Income and Expenditure Account, when they are earned by employees, rather than when benefits are eventually paid as pensions. The charge that is required to be made against Scottish Government grants and constituent councils' requisitions is based on cash payable in the year, so the real cost of retirement benefits is reversed in the Statement of Movement on the General Fund Balance. The following transactions have been made in the Income and Expenditure Account and Statement of Movement on the General Fund Balance

	2008/09 £000	2007/08 £000
Income and Expenditure Account		
Current Service Costs	40	79
Past Service Costs *	0	0
Pension Interest Costs and Expected Return on Assets	(4)	(10)
Costs included in Income and Expenditure Statement	36	69
Statement of Movement on the General Fund Balance		
Appropriation to / (from) Pensions Reserve	14	(8)
Actual Charge to General Fund	50	61
Comprising:		
Employer's Contributions	50	61
	50	61

* Past Service costs are included in the Income and Expenditure Account as non-distributed costs.

In addition to the recognised gains and losses included in the Income and Expenditure Account, actuarial losses of £101,000 (gains of £97,000 in 2007/08) were included in the Statement of Total Recognised Gains and Losses. The cumulative amount of actuarial losses recognised in the Statement of Total Recognised Gains and Losses is £88,000.

NOTES TO THE FINANCIAL STATEMENTS

15. Pension Costs (Continued)

Assets and Liabilities in Relation to Retirement Benefits

15.2 Reconciliation of Present Value of the Scheme Liabilities:

	2008/09 £000	2007/08 £000
Balance at 1 April	(803)	(836)
Current Service Cost	(40)	(79)
Interest Costs	(57)	(48)
Contributions by Scheme Participants	(16)	(19)
Actuarial Gains and (Losses)	141	179
Benefits Paid	1	0
Past Service Costs	0	0
Balance at 31 March	(774)	(803)

15.3 Reconciliation of Fair Value of the Scheme Assets:

	2008/09 £000	2007/08 £000
Balance at 1 April	(815)	(759)
Expected Return on Assets	(61)	(58)
Contributions by Members	(16)	(19)
Contributions by the Employer	(50)	(61)
Actuarial (Gains) and Losses	242	82
Benefits Paid	1	0
Balance at 31 March	(699)	(815)

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect long term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £146,000 (£24,000 in 2007/08).

15.4 Scheme History

	2008/09 £000	2007/08 £000	2006/07 £000
Present Value of Liabilities	(774)	(803)	(836)
Fair Value of Assets	699	815	759
Surplus/(Deficit) in the scheme	(75)	12	(77)

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £75,000 has a substantial impact on the net worth of the authority as recorded in the Balance Sheet, resulting in an overall negative balance of £66,000.

The statutory arrangement for funding the deficit means that the financial position of the authority remains healthy. It is anticipated that the deficit on the scheme will be made good by increased contributions over the remaining working life of employees.

The total contributions expected to be made by the Partnership to the Local Government Pension Scheme in the year to 31 March 2010 is anticipated to be £52,000.

NOTES TO THE FINANCIAL STATEMENTS

15. Pension Costs (Continued)

15.5 Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method and estimates of the pensions that will be payable in future years, which are dependent on assumptions about mortality rates, salary levels, etc. The Lothian Pension Fund liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries and are based on the latest valuation of the scheme as at 31 March 2008.

The principal assumptions used by the actuary are:

	2008/09	2007/08
Long-term expected rate of return on assets in the scheme:	% p.a	% p.a
Equity investments	7.0%	7.7%
Bonds	5.4%	5.7%
Property	4.9%	5.7%
Cash	4.0%	4.8%
	Years	**Years**
Mortality - Current Pensioners:		
Men	19.8	
Women	22.8	
Mortality - Future Pensioners:		
Men	21.0	
Women	24.0	

The assumptions of life expectancy are based on PFA92 and PMA92 'year of birth' tables.

	% p.a	% p.a
Price Increases	3.1%	3.6%
Salary Increases	4.6%	5.1%
Expected Return on Assets	6.6%	7.2%
Pension Increases	3.1%	3.6%
Discount Rate (Nominal Rate)	6.9%	6.9%
Take up rate to convert annual pension into retirement lump sum	50.0%	

The Lothian Pension Fund's assets consist of the following categories, by proportion of total assets held (estimate based on split of investments as at 31 December 2008).

	2008/09	2007/08
	%	%
Equity investments	79.0%	76.0%
Bonds	11.0%	9.0%
Property	10.0%	12.0%
Cash	0.0%	3.0%
	100.0%	100.0%

15.6 History of Experience Gains and Losses

The actuarial gains and losses identified as a movement on the Pension Reserve in 2008/09 can be analysed into the following categories, measured as a percentage of assets or liabilities as at 31 March 2009.

	2008/09	2007/08	2006/07
Difference between Expected and Actual	%	%	%
Return on Assets	(34.6)	(10.1)	95.1
Experience Gains and Losses on Liabilities	(7.5)	0	17.5

15.7 Further Information

Further information can be found in the Lothian Pension Fund's Annual Report which is available upon application to the Director of Finance, City of Edinburgh Council, Waverley Court (Business Centre 3.3), 4 East Market Street, Edinburgh, EH8 8BG.

NOTES TO THE FINANCIAL STATEMENTS

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

	2008/09		2007/08	
	£000	£000	£000	£000
(Surplus) / Deficit per Income and Expenditure Account		(12)		11
Non-Cash Transactions: Depreciation, Government Grant Deferred Amortisation and FRS17 net charges		12		(11)
Interest Received		85		242
Capital Grant Received		200		0
Year-End Variations				
Increase / (Decrease) in Revenue Debtors	(3,900)		3,924	
Decrease / (Increase) in Revenue Creditors	6,917		448	
		3,017		4,372
Net Cash (Inflow) / Outflow from Revenue Activities		3,302		4,614

17. Analysis of Government Grants shown in Cash Flow Statement

17.1 Revenue	2008/09 £000	2007/08 £000
Other Government Grants:		
Core	(300)	(300)
Revenue	(826)	(606)
Capital	(3,835)	(10,658)
Travel Plan	(89)	(85)
Car Share	0	(22)
Round the Forth	(46)	(85)
	(5,096)	(11,756)

17.2 Capital

Capital Grant - 2007/08 swap with Strathclyde Partnership for Transport	(200)	(56)
	(200)	(56)

NOTES TO THE FINANCIAL STATEMENTS

18. Financial Instruments

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

	Long-Term		Current	
	2008/09	2007/08	2008/09	2007/08
	£000	£000	£000	£000
Financial liabilities at amortised cost	0	0	618	0
Total borrowings	0	0	618	0
Loans and receivables	0	0	843	3,887
Total investments	0	0	843	3,887

The gains and losses recognised in the Income and Expenditure Account and in the Statement of Total Recognised Gains and Losses in 2008/09 in relation to financial instruments are made up as follows:

	Financial Liabilities	Financial Assets		
	Liabilities at amortised cost	Loans and receivables	Available-for-sale assets	Total
	£000	£000	£000	£000
Interest payable and similar charges	0	0	0	0
Interest income	0	85	0	85
Interest and investment income	0	85	0	85
Net gain/(loss) for the year	0	85	0	85

The financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. Since all of the Partnership's loans and receivables mature within the next 12 months, the carrying amount has been 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 calculated for Financial Liabilities are as follows:

	2008/09		2007/08	
	Carrying amount	Fair Value	Carrying amount	Fair Value
	£000s	£000s	£000s	£000s
Trade Creditors	618	618	0	0
Financial liabilities	618	618	0	0

The fair values calculated for Financial Assets are as follows:

	2008/09		2007/08	
	Carrying amount	Fair Value	Carrying amount	Fair Value
	£000	£000	£000	£000
Loans and receivables	831	831	3,887	3,887
Trade Debtors	12	12	0	0
Total Investments	843	843	3,887	3,887

NOTES TO THE FINANCIAL STATEMENTS

18. Financial Instruments (Continued)

The reduction in loans and receivables is due to capital funding being paid directly to the relevant local authority by the Scottish Government, reducing the funds due to SESTRAN from the City of Edinburgh Council.

The Authority'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 Authority;
- Liquidity risk – the possibility that the Authority might not have funds available to meet its commitments to make payments;
- Re-financing risk – the possibility that the Authority might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms;
- Market risk - the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates movements.

Overall Procedures for Managing Risk

Treasury Management is carried out on the Partnership's behalf by the City of Edinburgh Council. 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.

Credit Risk

The Partnership's surplus funds not immediately required to meet expenditure commitments are held with the City of Edinburgh Council, and the Partnership receives interest on revenue balances on these monies. The following analysis summarises the Partnership's potential maximum exposure to credit risk, based on experience of default assessed by the ratings agencies. Since the Partnership's suplus funds are held with the City of Edinburgh Council, the counterparty default exposure is effectively nil.

	Amount at 31 March 2009 £000s	Historical experience of default** %	Adjustment for market conditions at 31 March 2009 %	Estimated maximum exposure to default £000s
	(a)	(b)	(c)	(a * c)
Local Authorities	831	0.00%	0.00%	0

All Partnership invoices become due for payment on issue, and all trade debtors are overdue less than a month.

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

Liquidity risk

The Partnership is 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 arrangement with the City of Edinburgh Council ensures sufficient liquidity is available for the Partnership's day to day cash flow needs.

The Council manages the Partnership's liquidity position through the risk management procedures above as well as through cash flow management procedures required by the Code of Practice.

Refinancing and Maturity Risk

The Partnership has only a small level of surplus funds and no long term debt. The refinancing risk to the Partnership relates to managing the exposure to replacing financial instruments as they mature. As such, the Partnership has no refinancing risk on its liabilities.

The Partnership has no investments with a maturity greater than one year.

NOTES TO THE FINANCIAL STATEMENTS

18. Financial Instruments (Continued)

Market risk
Interest rate risk - The Partnership is exposed to interest rate movements on its investments. Movements in interest rates have a complex impact on an organisation, 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.

The Partnership currently has no borrowings. Changes in interest receivable on variable rate investments will be posted to the Income and Expenditure Account and affect the Fund Balance. However, all investments currently have a maturity of less than one year and the fair value has therefore been approximated by the outstanding principal.

The Partnership's surplus funds are held with the City of Edinburgh Council. The Council's Treasury Management Team continue to monitor market and forecast interest rates during the year and adjust investment policies accordingly.

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

	£000
Increase in interest receivable on variable rate investments	(22)
Impact on Income and Expenditure Account	(22)

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

Price risk
The Partnership does not invest in equity shares.

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

19. Provisions

The Partnership has established a provision of £200,000 to meet a commitment to Network Rail towards the cost of the Kirknewton Level Crossing Project.

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Partnership's Responsibilities

The Partnership 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 Partnership, that officer is the Treasurer;
- to manage its affairs to secure economic, efficient and effective use of its resources and safeguard its assets.

The Treasurer's Responsibilities

The Treasurer is responsible for the preparation of the Partnership's statement of accounts which, in terms of the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice'), is required to present a true and fair view the financial position of the Partnership at the accounting date and its income and expenditure for the year ended 31 March 2009.

In preparing this statement of accounts, the Treasurer 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 Treasurer has also:

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

Statement of Accounts

The Statement of Accounts presents a true and fair view of the financial position of the Partnership as at 31st March 2009, and its income and expenditure for the year ended 31st March 2009.

D. McGougan

DONALD McGOUGAN, CPFA,
Treasurer
10 June 2009

STATEMENT ON THE SYSTEM OF INTERNAL FINANCIAL CONTROL FOR THE YEAR ENDED 31st MARCH 2009

1. This statement is given in respect of the statement of accounts for the South East of Scotland Transport Partnership (SESTRAN). I acknowledge my responsibility for ensuring that an effective system of internal financial control is maintained and operated.

2. The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

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 system of delegation and accountability. The system is maintained and developed by SESTRAN management and includes:

   - comprehensive budgeting systems;
   - regular reviews of periodic 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; and
   - as appropriate, formal project management disciplines.

4. The Internal Audit function is provided by the City of Edinburgh Council's Internal Audit Section. The Section operates in accordance with the Chartered Institute of Public Finance and Accountancy's Code of Practice for Internal Audit in Local Government and complies with the ISO 9001:2008 quality standard. The Section's annual programme is based on formal assessments of risk and audit needs in line with the agreed audit strategy. The Section reports directly to the Treasurer of the Partnership and, where necessary, to members and employees of SESTRAN. The Chief Internal Auditor has provided me with an assurance statement that contains his views 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:

   - the Partnership Director's assurance certificate on internal controls;
   - the certification of grant claims;
   - the work of managers within the Partnership;
   - the work of internal auditors as described above; and
   - the external auditors in their annual audit letter and other reports.

6. Having reviewed the above, it is my opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Partnership's internal control system.

D. McGougan

DONALD McGOUGAN, CPFA,
Treasurer
10 June 2009

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the members of South East of Scotland Transport Partnership and the Accounts Commission for Scotland

I certify that I have audited the financial statements of the South East of Scotland Transport Partnership for the year ended 31 March 2009 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Statement of Total Recognised Gains and Losses, Balance Sheet and Cash-Flow Statement, and the related notes and the Statement of Accounting Policies. 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 Treasurer and auditor

The treasurer's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 - A Statement of Recommended Practice (the 2008 SORP) are set out in the Statement of Responsibilities for the financial statements.

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

I report my opinion as to whether the financial statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2008 SORP, of the financial position of the Partnership 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 partnership'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 the Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

INDEPENDENT AUDITOR'S REPORT

Basis of audit opinion

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

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

Opinion

In my opinion the financial statements

- give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2008 SORP, of the financial position of the South East of Scotland Transport Partnership as at 31 March 2009 and its income and expenditure for the year then ended; and

- have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

Alasdair Craik

Alasdair Craik FCCA
Senior Audit Manager
Audit Scotland – Audit Services
Osborne House
1/5 Osborne Terrace
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EH12 5HG

30 September 2009