

**The South East of Scotland
Transport Partnership
(SESTRAN)**

**Unaudited
Annual Accounts**

2017/2018

The South East of Scotland Transport Partnership (SESTRAN)

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The South East of Scotland Transport Partnership (SESTRAN)

Management Commentary

1. Basis of Accounts

The Partnership prepares its Annual Accounts in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom. The Code of Practice is based on International Financial Reporting Standards (IFRS).

As a result of the 'Telling the Story' review of the presentation of local authority financial statements in 2015, an Expenditure and Funding Analysis statement is included at Note 2 on Page 19. An explanation of the nature and purpose of the statement is also included.

2. Statutory Background

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.

3. Corporate Strategy

The following is an introductory extract from the Transport (Scotland) Act 2005, which established the Partnership; one of seven Scottish Regional Transport Partnerships (RTPs):

“An Act of the Scottish Parliament to provide for the setting up and functions of the new transport bodies and to enable the Scottish Ministers to discharge certain transport functions; to provide further for the control and co-ordination of road works and for the enforcement of the duties placed on those who carry them out; to set up national concessionary fares schemes; and to make other, miscellaneous modifications of the law relating to transport.”

The Partnership aims to develop a sustainable transportation system for South East Scotland that will enable business to function effectively, and provide everyone living in the region with improved access to healthcare, education, public services and employment opportunities. These aims are embodied in the Regional Transport Strategy (RTS).

The constituent councils of the Partnership are the City of Edinburgh, Clackmannanshire, East Lothian, Falkirk, Fife, Midlothian, Scottish Borders and West Lothian.

SEStran's Vision Statement is as follows:

“A regional transport system that provides all citizens of South East Scotland with a genuine choice of transport which fulfils their needs and provides travel opportunities for work and leisure on a sustainable basis.”

4. Risks and Uncertainties

The principal risks and uncertainties faced by the Partnership fall into two categories.

Firstly, there is the funding uncertainty faced by all local authorities and RTPs. The Partnership has a range of statutory duties to enact. While every attempt is made to do this within the budget provided, budget reductions may make this less achievable resulting in a reduction in the quality of service provided.

The second category relates to changes in legislation leading to changes in the services to be delivered. This can create pressures from both a financial and organisational perspective.

5. Results for the Year

The Partnership is required to present its financial performance as a Comprehensive Income and Expenditure Statement. This can be seen on page 12.

The South East of Scotland Transport Partnership (SESTRAN)

Management Commentary (*continued*)

5. Results for the Year (*continued*)

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 Comprehensive Income and Expenditure Statement to take account of a number of items where the statutory accounting requirements differ from the management accounting practice of the Partnership. These adjustments are detailed in Note 2.

The revenue budget of the Partnership in 2017/18 was £1.327m. A comparison of the outturn position with the revenue budget is summarised below:

	Revised		
	Budget	Outturn	Variance
	£'000	£'000	£'000
Core Service	487	444	(43)
Revenue Projects	500	656	156
RTPI Project	339	498	159
Interest	1	0	(1)
Total Expenditure 2017/18	1,327	1,598	271
Government Grant	(782)	(782)	0
Constituent Council Requisitions	(190)	(174)	16
Other Income - Revenue Projects	(195)	(374)	(179)
Other Income - RTPI Project	(160)	(267)	(107)
Interest Received	0	(1)	(1)
Total Income 2017/18	(1,327)	(1,598)	(271)

The Partnership incurred core service expenditure of £0.444m which was £43,000 below the revised Core Service revenue budget. This underspend mainly reflected reduced expenditure on non-staff costs.

The Partnership incurred expenditure of £0.656m on revenue projects. Expenditure was £0.156m over budget, funded by additional income of £0.179m sourced during 2017/18. Overall, the net Revenue Projects budget was £23,000 below budget. The main favourable variance arose on the Sustainable and Active Travel grants programme. Expenditure of £0.498m on the Real-Time Passenger Information (RTPI) project was funded principally by income of £0.267m from bus operators, European Regional Development Fund and underspends on the Core and Revenue projects budgets. During 2017/18, the Partnership spent £177,000 on operational equipment for the regional real-time bus passenger travel information system.

Overall the Partnership had a net underspend of £16,000.

Non Financial Results

- The Regional Cycle Network Grant Scheme (RCNGS) delivered three projects in the financial year. The Partnership funded Edinburgh and the Lothians Greenspace Trust to upgrade the surface of a 700 metre stretch of the Water of Leith Walkway between Currie and Balerno. Funding was also given to East Lothian Council to provide lighting for a section of shared use path and to create a feasibility study looking at sustainable transport options in Musselburgh and its neighbouring local authorities, Edinburgh and Midlothian.
- During 2017/18, the Partnership developed a regional e-bike programme using combined grant funding. Phase One of the project development included sourcing potential sites for community hubs, developing partnerships and procuring equipment.
- SHARE-North funding was used to support an electric vehicle programme at Edinburgh College. Data logging devices were fitted to each electric vehicle in the project and new charging infrastructure was installed on campus.

The South East of Scotland Transport Partnership (SESTRAN)

Management Commentary (*continued*)

5. Results for the Year (*continued*)

Non Financial Results (*continued*)

- Three test phases of Social Car were implemented. Phase 1 saw the initial testing of the application. In phase 2, several test scenarios were run through the Regional Transport Model to understand the potential impacts that the Social Car application could have on the transport network. Phase 3 involved 'real world' testing in partnership with Queen Margaret University staff and students.
- The Thistle Assistance Card has now been adopted by all Regional Transport Partnerships across Scotland.
- The Partnership continued to commit to its Equalities Outcomes 2017-2021, through continuing engagement with equalities organisations - Young Scot, Changing the Chemistry, Stonewall and Equate Scotland.

6. Future Developments

During 2018/19, the Partnership intends to expand the Go-eBike Scheme, using Partnership revenue funds and, potentially, further external funding.

A key requirement for the RTPi scheme is to reestablish a need to continue to deliver live bus times to digital screens, following changes in bus operator usage of Bustracker SEStran.

In view of the available level of funding, the challenge to deliver the full Regional Transport Strategy (RTS) continues. It remains the Partnership's intention to carry out a full re-write of the RTS, but the Partnership considers it prudent to await the outcome of Scottish Government decisions as regards the future of Regional Transport Partnerships and regional spatial plans, before making that commitment.

It is considered appropriate to adopt a going concern basis for the preparation of the Annual Accounts.

The South East of Scotland Transport Partnership (SESTRAN)

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 the proper officer 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;
- to ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014) and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003);
- to approve the Annual Accounts.

The Treasurer's Responsibilities

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

In preparing the Annual Accounts, the Treasurer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with legislation;
- complied with the Local Authority Accounting Code (in so far it is compatible with legislation)

The Treasurer has also:

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

I certify that the Annual Accounts give a true and fair view of the financial position of the Partnership at the reporting date and the transactions of the Partnership for the year ended 31st March 2018.

Treasurer: HUGH DUNN, CPFA _____ Date signed: 14th June 2018

The South East of Scotland Transport Partnership (SESTRAN)

ANNUAL GOVERNANCE STATEMENT 2017/18

1. Scope of Responsibility

The South East of Scotland Transport Partnership's aim is to develop a transportation system for South East Scotland as outlined in the Partnership's Regional Transport Strategy 2008-2023.

The Partnership 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, effectively and ethically. The Partnership also has a duty to make arrangements to secure continuous improvement in the way its functions are carried out.

In discharging these overall responsibilities Elected Members and Senior Officers are responsible for implementing proper arrangements for the governance of the Partnership's affairs and facilitating the effective exercise of its functions, including arrangements for the management of risk.

The Partnership has approved and adopted a Local Code of Corporate Governance which is consistent with appropriate corporate governance principles and reflects the requirements of the "Delivering Good Governance in Local Government: Framework (2016)" and is supported by detailed evidence of compliance, which is regularly reviewed.

This Statement explains how the Partnership delivers good governance and reviews the effectiveness of these arrangements. It also includes a statement on internal financial control in accordance with proper practice.

The Partnership's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

2. The Partnership's Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the Partnership is directed and controlled, and its activities through which it accounts to, engages with and influences the community. It enables the Partnership to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The framework reflects the arrangements in place to meet the six supporting principles of effective corporate governance:

- Focusing on the purpose of the Partnership and on outcomes for the community, and creating and implementing a vision for the local area;
- Members and officers working together to achieve a common purpose with clearly defined functions and roles;
- Promoting values for the Partnership and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
- Developing the capacity and capability of members and officers to be effective;
- Engaging with local people and other stakeholders to ensure robust public accountability.

A significant part of the governance framework is the system of internal control which is based on an ongoing process designed to identify and manage the risks to the achievement of the Partnership's policies, aims and objectives. These are defined in the Partnership's Business Plan, which is updated annually. This enables the Partnership to manage its key risks efficiently, effectively, economically and ethically.

The South East of Scotland Transport Partnership (SESTRAN)

ANNUAL GOVERNANCE STATEMENT 2017/18 (*continued*)

2. The Partnership's Governance Framework (*continued*)

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

While the system of internal control is designed to manage risk at a reasonable level it cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable, and not absolute, assurance of effectiveness.

3. Determining the Partnership's purpose, its vision for the local area and intended outcomes for the Community

The Partnership aims to develop a transportation system for South East Scotland which will enable businesses to function effectively and provide everyone living in the Region with improved access to health care, education, public services and employment opportunities. The vision for achieving this is outlined in the Regional Transport Strategy.

The Business Plan defines how to implement the aims of this strategy and the Annual Report provides a report of performance against objectives, targets and performance indicators as outlined in the Regional Transport Strategy.

4. Review of Effectiveness

The Partnership has put in place arrangements, detailed in the Local Code, for monitoring each element of the framework and providing evidence of compliance. A Principal Officer within the Partnership has been nominated to review the effectiveness of the Local Code and reports annually to the Partnership Board.

The review of the effectiveness of its governance framework, including the system of internal financial control is informed by:

- the work of Internal Audit and the Chief Internal Auditor's Annual Opinion on the adequacy and effectiveness of the Partnership's control environment, governance and risk management frameworks;
- the Partnership Director's Certificate of Assurance on internal control;
- the operation and monitoring of controls by Partnership managers;
- the External Auditors in their Annual Audit Letter and other reports; and
- other inspection agencies comments and reports.

Through the year Elected Members and Officers have responsibility for the development and maintenance of the governance environment. These review mechanisms include:

- **The Partnership Board**, which provides strategic leadership, determines policy aims and objectives and takes executive decisions not delegated to officers. It provides political accountability for the Partnership's performance;
- **The Performance and Audit Committee**, which demonstrates the Partnership's commitment to the principles of good governance. It scrutinises the running of the Partnership and suggests improvements;

The South East of Scotland Transport Partnership (SESTRAN)

ANNUAL GOVERNANCE STATEMENT 2017/18 *(continued)*

4. Review of Effectiveness *(continued)*

- **Internal Audit** provides an independent and objective assurance service to the Partnership, by completing one review in each financial year that is focused on the adequacy and effectiveness of controls established to manage the Partnership's key risks;
- **The External Auditor's Annual Audit Report** is considered by the Partnership Board and the Performance and Audit Committee, along with the output from other external audits and inspections;
- **The risk management system** requires that risks are regularly reviewed by the Performance and Audit Committee and the Board. This ensures that actions are taken to effectively manage the Partnership's highest risks;
- **The Legal Officer** is responsible to the Partnership for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with.

5. Certification

In compliance with accounting practice, the Treasurer has provided the Partnership Director with a statement on the adequacy and effectiveness of the Partnership's internal financial control system for the year ended 31st March 2018. It is the Treasurer's opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Partnership's internal control system.

During the year, Internal Audit completed one review that focused on the Partnership's key risks, considered the status of any open Internal Audit findings and reviewed the schedule supporting this Annual Governance Statement. This resulted in an 'amber' rated internal audit opinion, reflecting that the Partnership's control environment. Governance and risk management frameworks are generally adequate, with assessment towards the low end of this category.

From this year's review there is evidence that the Local Code of Corporate Governance is operating effectively with overall compliance by the Partnership in all significant areas of its corporate governance arrangements.

The South East of Scotland Transport Partnership (SESTRAN)

REMUNERATION REPORT

1. Remuneration Policy for Senior Employees

The Partnership Board determines initial remuneration for senior employees with reference to the level of responsibility of the post. The Partnership does not operate a Remuneration Committee. Annual inflationary increases are based on those agreed by the Scottish Joint Negotiating Committee (SJNC) for Local Authority services.

2. Remuneration for Senior Councillors

The Partnership does not provide any remuneration to senior councillors.
Expenses paid to Board members are detailed in note 19 to the annual accounts.

3. Management of Remuneration Arrangements

The remuneration of the Partnership's employees is administered by the City of Edinburgh Council, as part of a service level agreement with the Partnership.

4. Officers Remuneration

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

Remuneration Bands	2017/18	2016/17
£50,000 - £54,999	0	1
£55,000 - £59,999	1	0
£60,000 - £64,999	0	1
£75,000 - £79,999	1	0

5. Senior Employees Remuneration

The remuneration paid to the Partnership's senior employees is as follows:

Name and Post Title	Salary, Fees and Allowances £'000	Total Remuneration 2017/18 £'000	Total Remuneration 2016/17 £'000
Alex Macaulay - Partnership Director (to 30/4/16) *	0	0	8
George Eckton - Partnership Director (from 1/6/16) *	76	76	62
Jim Grieve - Partnership Director duties (from 8/12/17) **	18	18	n/a
	94	94	70

* full time equivalent 2016/17 salaries being Alex Macaulay (£90,216) & George Eckton (£75,000)

** full time equivalent 2017/18 salary - Jim Grieve (£57,164)

The senior employees in the above table have responsibility for management of the Partnership to the extent that they have power to direct or control the major activities of the Partnership (including activities involving the expenditure of money), during the year to which the Remuneration Report relates, whether solely or collectively with other persons.

6. Senior Employees Pension Entitlement

The pension entitlement of the Partnership's senior employee(s) is as follows:

Name and Post Title	In-year pension contributions			Accrued pension benefits	
	2017/18 £'000	2016/17 £'000		As at 31 March 2018 £'000	Difference from 31 March 2017 £'000
Alex Macaulay - Partnership Director (to 30/4/16)	0	2	Pension	n/a	n/a
			Lump Sum	n/a	n/a
George Eckton - Partnership Director (from 1/6/16)	18	14	Pension	17	2
			Lump Sum	16	0
	18	16			

The senior employees shown in table above are members of the Local Government Pension Scheme (LGPS).

The South East of Scotland Transport Partnership (SESTRAN)

REMUNERATION REPORT (*continued*)

6. Senior Employees Pension Entitlement (*continued*)

THE LGPS is a final salary pension scheme.

This means that pension benefits are based on the final year's pay and the number of years that person has been a member of the scheme.

The scheme's normal retirement age for employees is 65.

From 1 April 2009, a five tier contribution system was introduced, with contributions from scheme members being based on how much pay falls into each tier. This is designed to give more equality between the cost and benefits of scheme membership. Prior to 2009, contribution rates were set at 6% for all non manual employees.

The tiers and members contributions rates for 2017-18 are as follows:

On earnings up to and including £20,700 (5.5%); on earnings above £20,700 and up to £25,300 (7.25%); on earnings above £25,300 and up to £34,700 (8.5%); on earnings above £34,700 and up to £46,300 (9.5%) and on earnings above £46,300 (12%).

If a person works part-time their contribution rate is worked out on the whole-time pay rate for the job, with actual contributions paid on actual pay earned.

There is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for lump sum up to the limit set by the Finance Act 2004. The accrual rate guarantees a pension based on 1/60th of final pensionable salary and years of pensionable service. (Prior to 2009 the accrual rate guaranteed a pension based on 1/80th and a lump sum based on 3/80th of final pensionable salary and years of pensionable service).

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

7. Exit Packages

Exit packages include compulsory and voluntary redundancy costs, pension contributions in respect of added years, ex-gratia payments and other departure costs.

There was no payment of any exit packages in 2017-18.

All information disclosed in the tables at paragraphs 4, 5 and 6 in this Remuneration Report will be audited.

The other sections of the Remuneration Report have been reviewed by the appointed auditor to ensure that they are consistent with the annual accounts.

The South East of Scotland Transport Partnership (SESTRAN)

MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on different reserves held by the Partnership, analysed into "Usable Reserves" (that is, those that can be applied to fund expenditure) and "Unusable Reserves". The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Partnership's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Partnership.

2016/17 - Previous Year Year Comparative

Opening Balances at 1 April 2016

Total Comprehensive Expenditure and Income

Adjustments between accounting basis & funding basis under regulations (Note 7)

Increase/Decrease in 2016/17

Balance at 31 March 2017 carried forward

	Usable Reserves		Unusable Reserves	Total Partnership Reserves
	General Fund Balance	Total Usable Reserves		
	£'000	£'000	£'000	£'000
	0	0	1,430	1,430
	(1,285)	(1,285)	(107)	(1,392)
	1,285	1,285	(1,285)	0
	0	0	(1,392)	(1,392)
	0	0	38	38

2017/18 - Current Financial Year

Opening Balances at 1 April 2017

Total Comprehensive Expenditure and Income

Adjustments between accounting basis & funding basis under regulations (Note 7)

Increase/Decrease in 2017/18

Balance at 31 March 2018 carried forward

	Usable Reserves		Unusable Reserves	Total Partnership Reserves
	General Fund Balance	Total Usable Reserves		
	£'000	£'000	£'000	£'000
	0	0	38	38
	39	39	(358)	(319)
	(39)	(39)	39	0
	0	0	(319)	(319)
	0	0	(281)	(281)

The South East of Scotland Transport Partnership (SESTRAN)

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT 2017/18

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded by government grant, council requisitions and other income.

2016/17			2017/18			
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	Services	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
1,814	(2)	1,812	Core	573	0	573
915	(516)	399	Projects	977	(641)	336
2,729	(518)	2,211	Cost Of Services	1,550	(641)	909
61	(54)	7	Financing & Investment Income (Note 9)	58	(50)	8
0	(933)	(933)	Taxation and Non-Specific Grant Income (Note 10)	0	(956)	(956)
2,790	(1,505)	1,285	(Surplus) or Deficit on Provision of Services	1,608	(1,647)	(39)
			Other Comprehensive Income and Expenditure			
0	0	0	Change in Demographic Assumptions	0	(12)	(12)
405	0	405	Change in Financial Assumptions	0	(113)	(113)
0	0	0	Other Experience	499	0	499
0	(298)	(298)	Expected Return on Assets	0	(16)	(16)
405	(298)	107	Total Other Comprehensive Income and Expenditure	499	(141)	358
3,195	(1,803)	1,392	Total Comprehensive Income and Expenditure	2,107	(1,788)	319

The South East of Scotland Transport Partnership (SESTRAN)

BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Partnership. The net assets of the Partnership (assets less liabilities) are matched by the reserves held by the Partnership. Reserves are reported in two categories. The first category of reserves are usable reserves, that is, those reserves that the Partnership may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The Partnership does not have powers to maintain a usable reserve. The second category of reserves are those that the Partnership is not able to use to provide services. This category of reserves include reserves that hold unrealised gains and losses (for example, the Capital Adjustment Account Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

31 March 2017 £'000		Notes	31 March 2018 £'000
351	Property, plant and equipment	11	422
351	Long term assets		422
422	Short-term debtors	13	464
(12)	Provision for Bad Debts	14	0
76	Cash and cash equivalents	15	700
486	Current assets		1,164
(93)	Contributions and Grants Received in Advance		(27)
(399)	Short-term creditors	16	(1,144)
(492)	Current liabilities		(1,171)
(307)	Other long-term liabilities (Pensions)	18	(696)
(307)	Long-term liabilities		(696)
38	Net assets/ (liabilities)		(281)
	Financed by:		
0	Usable reserves	17	0
38	Unusable reserves	18	(281)
38	Total reserves		(281)

The unaudited Annual Accounts were issued on the 14th June 2018.

Treasurer: HUGH DUNN, CPFA

Date signed: 14th June 2018

The South East of Scotland Transport Partnership (SESTRAN)

CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the Partnership during the reporting period. The statement shows how the Partnership generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flow arising from operating activities is a key indicator of the extent to which the operations of the Partnership are funded by way of government grant income, council requisitions and recipients of services provided by the Partnership. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Partnership's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (that is, borrowing) to the Partnership.

31 March 2017 £'000	31 March 2017 £'000		31 March 2018 £'000	31 March 2018 £'000
		OPERATING ACTIVITIES		
(1,551)		Government Grants	(782)	
(200)		Constituent Council Requisitions	(190)	
(1)		Interest paid/ (received)	0	
(520)		Other receipts from operating activities	(354)	
	(2,272)	Cash inflows generated from operating activities		(1,326)
384		Cash paid to and on behalf of employees	310	
1,838		Cash paid to suppliers of goods and services	392	
	2,222	Cash outflows generated from operating activities		702
	(50)	Net cash flows from operating activities		(624)
		INVESTING ACTIVITIES		
15		Purchase of property, plant and equipment	0	
	15	Net cash flows from investing activities		0
		FINANCING ACTIVITIES		
0		Other receipts from financing activities	0	
	0	Net cash flows from financing activities		0
	(35)	Net(increase)/ decrease in cash and cash equivalents		(624)
	41	Cash and cash equivalents at the beginning of the reporting period		76
	76	Cash and cash equivalents at the end of the reporting period (Note 15)		700

The South East of Scotland Transport Partnership (SESTRAN)

1. STATEMENT OF ACCOUNTING POLICIES

1.1 Accounting Policies

The Annual Accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) based Code of Practice in the United Kingdom (the Code). This is to ensure that the Annual Accounts "present a true and fair view" of the financial position and transactions of the Partnership.

The Annual Accounts have been prepared on an historic cost basis, modified by the valuation of pension assets and liabilities and property, plant and equipment, where appropriate.

1.2 Revenue Expenditure

Revenue expenditure is that which does not yield benefit beyond the year of account. In broad terms the revenue expenditure of the Partnership can be divided into two categories:

- employees;
- day-to-day operating expenses, includes costs incurred in respect of furniture and fittings, and equipment.

1.3 Accruals of Expenditure and Income

The revenue account has been prepared on an accruals basis in accordance with the Code of Practice. Amounts estimated to be due to or from the Partnership, which are still outstanding at the year end, are included in the accounts. Government Grants have been accounted for on an accruals basis.

1.4 Operating Leases

a) *Leased-in assets*

Rental payments under operating leases are charged to the Comprehensive Income and Expenditure Statement on a straight line basis over the life of the lease.

b) *Leased-out assets*

The Partnership has not identified any leased-out assets that fall under the definition of operating leases.

1.5 Overheads

The cost of service in the Comprehensive Income and Expenditure Statement includes the Partnership's overheads.

1.6 Charges to the Comprehensive Income and Expenditure Statement for use of non-current assets

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

1.7 Employee Benefits

Pensions

The Partnership is an admitted body to the Local Government Pension Scheme (LGPS) which is administered by the Lothian Pension Fund. The LGPS is a defined benefit statutory scheme, administered in accordance with the Local Government Pension Scheme (Scotland) Regulations 1998, as amended.

The South East of Scotland Transport Partnership (SESTRAN)

1. STATEMENT OF ACCOUNTING POLICIES (*continued*)

1.7 Employee Benefits (*continued*)

Pensions (*continued*)

The Annual Accounts have been prepared including pension costs, as determined under International Accounting Standard 19 – Employee Benefits (IAS 19). The cost of service in the Comprehensive Income and Expenditure Statement 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 included in the “Surplus or Deficit on the Provision of Services” within the Comprehensive Income and Expenditure Statement.

The pension costs charged to the Comprehensive Income and Expenditure Statement in respect of employees are not equal to contributions paid to the funded scheme for employees. The amount by which pension costs under IAS19 are different from the contributions due under the pension scheme regulations are disclosed in the Movement in Reserves Statement for the General Fund.

Pension assets have been valued at bid value (purchase price), as required under IAS19. Under pension regulations, contribution rates are set to meet 100% of the overall liabilities of the Fund.

Accruals of Holiday Leave

Cost of service includes a charge for annual leave to which employees are entitled, but have not taken as at the Balance Sheet date. The Partnership is not required to raise requisitions on constituent councils to cover the cost of accrued annual leave. These costs are therefore replaced by revenue provision in the Movement in Reserves Statement for the General Fund balance by way of an adjusting transaction with the Accumulated Absence Account.

1.8 Non Current Assets

a) *Intangible Assets*

Expenditure on assets that have no physical substance but are identifiable and controlled by the Partnership have been capitalised where a benefit of more than one financial year can be established. The balance is depreciated over the economic life of the asset to reflect the pattern of consumption of benefits. Intangible assets have been valued on an historic cost basis.

b) *Property, Plant and Equipment*

Property, Plant and Equipment is categorised into the following classes:

- Vehicles, plant and equipment;
- Assets under construction;

Recognition:

- Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment has been capitalised on an accruals basis;

Depreciation:

- Depreciation is provided on all Property, Plant and Equipment;
- The Partnership provides depreciation on its Property, Plant and Equipment from the month when it comes into use. Thereafter depreciation is provided on a straight line basis over the expected life of the asset. No depreciation is provided on Assets Under Construction.

Measurement:

Property, 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.

The South East of Scotland Transport Partnership (SESTRAN)

1. STATEMENT OF ACCOUNTING POLICIES (*continued*)

1.9 Government Grants and Other Contributions

● Revenue

Revenue grants and other contributions have been included in the financial statements on an accruals basis.

Where such funds remain unapplied at the Balance Sheet date, but approval has been given to carry these funds forward to the next financial year, the funds have been accrued.

● Capital

Capital grants and contributions are recognised in the Comprehensive Income and Expenditure Statement, except to the extent there are conditions attached to them that have not been met.

Where there are no conditions attached to capital grants and contributions, these funds are a reconciling item in the Movement in Reserves Statement by way of an adjusting transaction with the capital adjustment account where expenditure has been incurred and the unapplied capital grants account, where expenditure has not been incurred.

Where there are outstanding conditions attached to capital grants and contributions that have not been met by the Balance Sheet date, the grant or the contribution will be recognised as part of capital grants in advance. Once the condition has been met, the grant or contribution will be transferred from capital grants received in advance and recognised as income in the Comprehensive Income and Expenditure Statement.

1.10 Provisions

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

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

1.11 Reserves

Reserves held on the Balance Sheet are classified as either usable or unusable. Unusable reserves cannot be applied to fund expenditure. Under the Transport (Scotland) Act 2005, the Partnership does not have the power to operate a General Fund reserve.

The Partnership operates the following unusable reserves:

a) Pension Reserve

The Partnership operates a Pensions Reserve Fund under the terms of the Local Government Pension Reserve Fund (Scotland) Regulations 2003. The Pension Reserve represents the net monies which the Partnership requires to meet its net pension liability as calculated under IAS 19, Employee Benefits;

b) 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;

c) Accumulated Absences Account

This represents the net monies which the Partnership requires to meet its short-term compensated absences for employees under IAS19.

1.12 Financial Instruments

Financial Assets

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

Surplus funds held on behalf of the Partnership are managed by the City of Edinburgh Council under a formal management agreement in a pooled investment arrangement.

The South East of Scotland Transport Partnership (SESTRAN)

1. STATEMENT OF ACCOUNTING POLICIES (*continued*)

1.13 Cash and Cash Equivalents

Cash and cash equivalents include:

- Credit and debit funds held in banks

1.14 Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Partnership a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Partnership.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

1.15 Value Added Tax

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs.

1.16 Events After the Reporting Period

Events after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Annual Accounts are authorised for issue.

Two types of events can be identified:

- i) those that provide evidence of conditions that existed at the end of the reporting period - the Annual Accounts are adjusted to reflect such events;
- ii) those that are indicative of conditions that arose after the reporting period - the Annual Accounts are not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Annual Accounts.

1.17 Short Term Debtors and Short Term Creditors

The revenue transactions of the Partnership are recorded on an accruals basis which means that amounts due to or from the Partnership, but still outstanding at the year end, are included in the accounts. Where there was insufficient information available to provide actual figures, estimates have been included.

1.18 Changes in Accounting Policies and Estimates and Errors

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Partnership's financial position or performance.

Changes in accounting estimates are accounted for prospectively; i.e. in the current and future years affected by the change.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

The South East of Scotland Transport Partnership (SESTRAN)

2. EXPENDITURE AND FUNDING ANALYSIS

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources by the Partnership in comparison with those resources consumed or earned by the Partnership in accordance with general accounting practice. It also shows how this expenditure is allocated for decision making purposes between service areas. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement (CIES) (see page 12).

Expenditure and Funding Analysis

	Net Expenditure Chargeable to the General Fund	Adjustments	Net Expenditure in the CIES
2017/18	£'000	£'000	£'000
Core	443	130	573
Projects	513	(177)	336
Net Cost of Services	956	(47)	909
Other Income and Expenditure			
Government grant	(782)	0	(782)
Constituent council requisitions	(174)	0	(174)
Net pension interest cost	0	8	8
(Surplus) or deficit on the provision of services	0	(39)	(39)
	Net Expenditure Chargeable to the General Fund	Adjustments	Net Expenditure in the CIES
2016/17	£'000	£'000	£'000
Core	456	1,357	1,813
Projects	478	(79)	399
Net Cost of Services	934	1,278	2,212
Other Income and Expenditure			
Government grant	(782)	0	(782)
Constituent council requisitions	(151)	0	(151)
Interest paid	(1)	0	(1)
Net pension interest cost	0	7	7
(Surplus) or deficit on the provision of services	0	1,285	1,285

The South East of Scotland Transport Partnership (SESTRAN)

2. EXPENDITURE AND FUNDING ANALYSIS *(continued)*

Expenditure and Funding Analysis *(continued)*

2.1 Adjustments from the General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts:

	Adjusts. For Capital Purposes £'000	Net Change for Pensions Adjusts. £'000	Other Differences £'000	Total Statutory Adjusts. £'000
2017/18				
Core	106	23	1	130
Projects	(177)	0	0	(177)
Net Cost of Services	(71)	23	1	(47)
Other Income and Expenditure				
Government Grant	0	0	0	0
Constituent council requisitions	0	0	0	0
Interest paid	0	0	0	0
Net pension interest cost	0	8	0	8
(Surplus) or deficit on the provision of services	(71)	31	1	(39)
	Adjusts. For Capital Purposes £'000	Net Change for Pensions Adjusts. £'000	Other Differences £'000	Total Statutory Adjusts. £'000
2016/17				
Core	1,349	4	4	1,357
Projects	(79)	0	0	(79)
Net Cost of Services	1,270	4	4	1,278
Other Income and Expenditure				
Government Grant	0	0	0	0
Constituent council requisitions	0	0	0	0
Interest paid	0	0	0	0
Net pension interest cost	0	7	0	7
(Surplus) or deficit on the provision of services	1,270	11	4	1,285

- Adjustments for capital purposes include the removal of depreciation and impairment costs, and the inclusion of capital funded from current revenue.
- Net changes for pensions adjustment relates to the adjustment made for the removal of IAS19 Employee Benefits pension related expenditure and income with the pension contributions.
- Other differences relate to the reversal of the value of entitlement to accrued leave.

The South East of Scotland Transport Partnership (SESTRAN)

2. EXPENDITURE AND FUNDING ANALYSIS *(continued)*

2.2 Segmental Analysis of Income included in Expenditure and Funding Analysis

	Core £'000	Projects £'000	Total £'000
2017/18			
Expenditure			
Employee expenses	248	4	252
Other service expenses	195	1,150	1,345
Total Expenditure	443	1,154	1,597
Income			
Revenues from external customers	0	0	0
Government grants and other contribs.	0	(641)	(641)
Total Income	0	(641)	(641)
Net Cost of Services	443	513	956
2016/17			
Expenditure			
Employee expenses	241	12	253
Other service expenses	216	983	1,199
Total Expenditure	457	995	1,452
Income			
Revenues from external customers	(1)	(52)	(53)
Government grants and other contribs.		(465)	(465)
Total Income	(1)	(517)	(518)
Net Cost of Services	456	478	934

The South East of Scotland Transport Partnership (SESTRAN)

2. EXPENDITURE AND FUNDING ANALYSIS *(continued)*

2.3 Expenditure and Income Analysed by Nature

The Partnership's expenditure and income, as set out within the Comprehensive Income and Expenditure Statement is analysed as follows:

	31st March 2018 £'000	31st March 2017 £'000
Expenditure		
Employee expenses	277	261
Other service expenses	1,168	1,104
Depreciation, amortisation and impairment	106	1,364
Interest payments	58	61
Total Expenditure	<u>1,609</u>	<u>2,790</u>
Income		
Fees, charges and other service income	0	(53)
Interest and investment income	(51)	(54)
Income from constituent councils	(174)	(151)
Government grants and other contributions	(1,423)	(1,247)
Total Income	<u>(1,648)</u>	<u>(1,505)</u>
(Surplus) or Deficit on the Provision of Services	<u>(39)</u>	<u>1,285</u>

3. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT NOT YET ADOPTED

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2018/19 Code. For 2017/18 the following accounting policy changes that need to be reported relate to:

- IFRS 9 Financial Instruments;
- IFRS 15 Revenue from Contracts with Customers including amendments to IFRS 15 Clarifications to IFRS 15 Revenue from Contracts with Customers;
- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses, and
- Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative.

The Code does not anticipate that the above amendments will have a material impact on the information provided in the Partnership's Annual Accounts.

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 1, the Partnership has had to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in the Annual Accounts are:

- There is high degree of uncertainty about future levels of funding for local government.
The Partnership has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Partnership might be impaired as a result of a need to reduce levels of service provision.

The South East of Scotland Transport Partnership (SESTRAN)

5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Annual Accounts contains estimated figures that are based on assumptions made by the Partnership about the future or events that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Partnership's Balance Sheet at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are:

5.1 Pension Liabilities

Uncertainties

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Partnership with expert advice about the assumptions to be applied.

Effect if Actual Result Differs from Assumptions

Formal actuarial valuations are carried out every three years. Each employer's assets and liabilities are calculated on a detailed basis, using individual member data, for cash contribution setting purposes. The formal valuations for Scottish Local Government Pension Scheme funds were concluded by 31 March 2018. The accounting balance sheet position at 31 March 2018, and the projected charge for 2018/19, is therefore based on this new roll forward from the 2017 formal valuation. This differs to the balance sheet position at 31 March 2017 and the charge for 2017/18, which was based on a roll forward from the 2014 formal valuation. This 'step change' can lead to sizeable asset and liability 'remeasurement experience' items in the reconciliation of the Balance Sheet from 31 March 2017 to 31 March 2018.

The following table shows the sensitivity of the results to the changes in the assumptions used to measure the scheme liabilities. Approximate percentage changes and monetary values are shown:

	Approximate % increase to Defined Benefit Obligation %	Approximate monetary amount £000
0.5% decrease in Real Discount Rate	12%	310
0.5% increase in the Salary Increase Rate	3%	90
0.5% increase in the Pension Increase Rate	8%	212

6. EVENTS AFTER THE BALANCE SHEET DATE

The Unaudited Annual Accounts were authorised for issue on 14th June 2018. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2018, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

There were no events which took place after 31st March 2018 which would materially affect the 2017/18 Annual Accounts.

The South East of Scotland Transport Partnership (SESTRAN)

7. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

2017/18	Usable Reserves	Unusable Reserves			
	General Fund Balance	Capital Adjustment Account	Accumulated Absence Account	Pension Reserve	Movement in Unusable Reserve
	£'000	£'000	£'000	£'000	£'000
Adjustments primarily involving the Capital Adjustment Account					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)					
Charges for depreciation and revaluation of non-current assets	106	(106)			(106)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement (CIES)					
Contributions credited to the CIES that have been applied to capital financing	(177)	177			177
Adjustments primarily involving the Pensions Reserve					
Reversal of items relating to retirement benefits debited or credited to the CIES	84			(84)	(84)
Employer's pension contributions and direct payments to pensioners payable in the year	(53)			53	53
Adjustments primarily involving the Accumulated Absence Account					
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1		(1)		(1)
Total Adjustments	(39)	71	(1)	(31)	39

The South East of Scotland Transport Partnership (SESTRAN)

7. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

(continued)

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

2016/17	Usable Reserves		Unusable Reserves		
	General Fund Balance	Capital Adjustment Account	Accumulated Absence Account	Pension Reserve	Movement in Unusable Reserve
	£'000	£'000	£'000	£'000	£'000
Adjustments primarily involving the <u>Capital Adjustment Account</u>					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)					
Charges for depreciation and impairment of non-current assets	1,364	(1,364)			(1,364)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement (CIES)					
Contributions credited to the CIES that have been applied to capital financing	(94)	94			94
Adjustments primarily involving the <u>Pensions Reserve</u>					
Reversal of items relating to retirement benefits debited or credited to the CIES	63			(63)	(63)
Employer's pension contributions and direct payments to pensioners payable in the year	(52)			52	52
Adjustments primarily involving the <u>Accumulated Absence Account</u>					
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	4		(4)		(4)
Total Adjustments	1,285	(1,270)	(4)	(11)	(1,285)

The South East of Scotland Transport Partnership (SESTRAN)

8. TRANSFERS TO/FROM EARMARKED RESERVES

The Partnership does not have powers for an earmarked reserve to be set aside from the General Fund to provide financing for future expenditure plans.

9. FINANCING AND INVESTMENT INCOME

	2017/18 £'000	2016/17 £'000
Interest income on plan assets	(50)	(54)
Pensions interest cost	58	61
	<hr/> 8	<hr/> 7

10. TAXATION AND NON SPECIFIC GRANT INCOME

	2017/18 £'000	2016/17 £'000
Government Grant	(782)	(782)
Constituent Council Requisitions	(174)	(151)
	<hr/> (956)	<hr/> (933)

The South East of Scotland Transport Partnership (SESTRAN)

11. PROPERTY, PLANT AND EQUIPMENT

11.1 Movements on balances:

Movements in 2017/18

Cost or Valuation	Vehicles Plant and Equipment £'000	Assets Under Construction £'000	Property Plant and Equipment £'000
At 1st April 2017	534	79	613
Additions	256	(79)	177
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0	(12)	(12)
At 31st March 2018	<u>790</u>	<u>(12)</u>	<u>778</u>
Accumulated Depreciation			
At 1st April 2017	(262)	0	(262)
Depreciation charge	(94)	0	(94)
Depreciation written out to the Surplus/Deficit on the Provision of Services	0	0	0
At 31st March 2018	<u>(356)</u>	<u>0</u>	<u>(356)</u>
Net Book Value			
At 31st March 2018	<u><u>434</u></u>	<u><u>(12)</u></u>	<u><u>422</u></u>

The South East of Scotland Transport Partnership (SESTRAN)

11. PROPERTY, PLANT AND EQUIPMENT *(continued)*

11.2 Movements on balances:

Comparative Movements in 2016/17

Cost or Valuation	Vehicles Plant and Equipment £'000	Assets Under Construction £'000	Total Property Plant and Equipment £'000
At 1st April 2016	2,437	0	2,437
Additions	15	79	94
Impairment increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(1,918)	0	(1,918)
At 31st March 2017	<u>534</u>	<u>79</u>	<u>613</u>
Accumulated Depreciation			
At 1st April 2016	(816)	0	(816)
Depreciation charge	(64)	0	(64)
Depreciation written out to the Surplus/Deficit on the Provision of Services	618	0	618
At 31st March 2017	<u>(262)</u>	<u>0</u>	<u>(262)</u>
Net Book Value			
At 31st March 2017	<u><u>272</u></u>	<u><u>79</u></u>	<u><u>351</u></u>

11.3 Depreciation

The following useful lives have been used in the calculation of depreciation:

- Vehicles, plant and equipment: 4 - 5 years

The Partnership provides depreciation on its Property, Plant and Equipment from the month when it comes into use.

11.4 Capital Commitments

Through the Sustainable Travel programme, the Partnership anticipates providing a sum of £150,000 to match a Scottish Government grant of a similar sum to provide more electric bike hubs throughout the SEStran Region. This will expand further on SEStran's investment in sustainable transport, undertaken in 2017/18. At the date of the balance sheet, this expenditure was not legally committed.

The South East of Scotland Transport Partnership (SESTRAN)

12. FINANCIAL INSTRUMENTS

12.1 The following categories of financial instrument are carried in the Balance Sheet:

	Long-term		Current	
	31st March 2018 £'000	31st March 2017 £'000	31st March 2018 £'000	31st March 2017 £'000
Investments				
Loans and receivables	0	0	898	344
Borrowings				
Financial liabilities at amortised cost	0	0	976	331

12.2 Fair Values of Assets and Liabilities

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 are as follows:

Financial Liabilities	31 March 2018		31 March 2017	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Trade creditors	976	976	331	331

Financial Assets	31 March 2018		31 March 2017	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Loans and receivables	890	890	160	160
Trade debtors	8	8	184	184
	<u>898</u>	<u>898</u>	<u>344</u>	<u>344</u>

13. DEBTORS

	31st March 2018 £'000	31st March 2017 £'000
Debtors:		
Central government bodies	1	0
Other local authorities	11	0
HM Customs and Excise - VAT	49	15
Other entities and individuals	403	407
	<u>464</u>	<u>422</u>

The South East of Scotland Transport Partnership (SESTRAN)

14. PROVISION FOR BAD DEBTS

	31st March 2018 £'000	31st March 2017 £'000
Cost or Valuation		
Opening Balance	(12)	0
Provision made during year	0	(12)
Amounts used during the year	0	0
Unused amounts reversed during the year	12	0
Closing Balance	<u>0</u>	<u>(12)</u>

15. CASH AND CASH EQUIVALENTS

The balance of cash and cash equivalents is made up of the following elements:

	31st March 2018 £'000	31st March 2017 £'000
Bank account	700	76
	<u>700</u>	<u>76</u>

16. CREDITORS

	31st March 2018 £'000	31st March 2017 £'000
Central government bodies	(4)	0
Other local authorities	(134)	(77)
Other entities and individuals	(998)	(316)
Employee costs	(8)	(6)
	<u>(1,144)</u>	<u>(399)</u>

17. USABLE RESERVES

The Partnership does not have statutory powers to operate a usable reserve.

The South East of Scotland Transport Partnership (SESTRAN)

18. UNUSABLE RESERVES

	31st March 2018 £'000	31st March 2017 £'000
18.1 Capital Adjustment Account	422	351
18.2 Pension Reserve	(696)	(307)
18.3 Accumulated Absence Account	(7)	(6)
	(281)	38

18.1 Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Partnership as finance for the costs of acquisition, construction and enhancement.

	2017/18 £'000	2016/17 £'000
Balance at 1st April	351	1,621
Reversal of items related to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
• Charges for depreciation and impairment of non-current assets	(94)	(1,364)
• Charges for revaluation of non-current assets	(12)	0
Net written out amount of the cost of non-current assets consumed in year	245	257
Capital financing applied in the year:		
• Contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	177	94
Balance at 31st March	422	351

18.2 Pension Reserve

The Pension Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Partnership accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Partnership makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a shortfall in the benefits earned by past and current employees and the resources the Partnership has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

The South East of Scotland Transport Partnership (SESTRAN)

18. UNUSABLE RESERVES *(continued)*

18.2 Pension Reserve *(continued)*

	2017/18 £'000	2016/17 £'000
Balance at 1st April	(307)	(189)
Remeasurements of the net defined benefit liability / (asset)	(358)	(107)
Reversals of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.	(84)	(63)
Employer's pension contributions and direct payments to pensioners payable in the year.	53	52
Balance at 31st March	<u>(696)</u>	<u>(307)</u>

18.3 Accumulated Absence Account

The Accumulated Absence Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, for example, annual leave entitlement carried forward at 31st March. Statutory arrangements require that the impact on the General Fund balance is neutralised by transfers to or from the Account.

	2017/18 £'000	2016/17 £'000
Balance at 1st April	(6)	(2)
Settlement or cancellation of accrual made at the end of the preceding year	6	2
Amounts accrued at the end of the current year	(7)	(6)
Balance at 31st March	<u>(7)</u>	<u>(6)</u>

19. MEMBERS EXPENSES

The Partnership paid the following amounts to members during the year:

	2017/18 £'000	2016/17 £'000
Expenses	<u>1</u>	<u>1</u>
	<u>1</u>	<u>1</u>

The South East of Scotland Transport Partnership (SESTRAN)

20. EXTERNAL AUDIT COSTS

The Partnership has incurred the following costs in relation to the audit of the Annual Accounts, certification of grant claims, statutory inspections and to non-audit services provided by the Partnership's external auditors:

	2017/18 £'000	2016/17 £'000
Fees payable in respect of:		
<ul style="list-style-type: none"> external audit services carried out by the appointed auditor for the year 	11	10
	11	10

21. GRANT INCOME

The Partnership credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2017/18:

	2017/18 £'000	2016/17 £'000
Credited to Taxation and Non Specific Grant Income		
Scottish Government - Revenue Grant	(782)	(782)
Constituent Council Requisitions (Note 22.3)	(174)	(151)
	(956)	(933)
Credited to Services		
EU Grant - CHUMS	0	(6)
EU Grant - Social Car	(58)	(26)
EU Grant - Regio Mob	(81)	(36)
EU Grant - Sharenorth	(53)	(11)
EU Grant - RTPi	(82)	(32)
EU Grant - Surflogh	(6)	0
Contribution - City of Edinburgh Council	0	(4)
Contribution - East Lothian Council	(2)	0
Contribution - Fife Council	0	(1)
Contribution - Scottish Borders Council	(3)	(1)
Contribution - West Lothian Council	(1)	0
Contribution - HITRANS	(3)	(2)
Contribution - NESTRANS	(1)	(3)
Contribution - SUSTRANS	(118)	(83)
Contribution - SWESTRANS	(1)	0
Contribution - TACTRAN	(3)	0
Contribution - ZETRANS	(1)	0
	(413)	(205)

The South East of Scotland Transport Partnership (SESTRAN)

22. RELATED PARTIES

The Partnership is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the Partnership or to be controlled or influenced by the Partnership. Disclosure of these transactions allows readers to assess the extent to which the Partnership might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Partnership.

22.1 Scottish Government

The Partnership receives grant-in-aid revenue funding through the Scottish Government. Grants received from the Scottish Government are set out in the subjective analysis in Note 21.

22.2 Members

Members of the Partnership have direct control over the Partnership's financial and operating policies. The total of members' expenses paid by the Partnership in 2017-18 is shown in Note 19.

22.3 Other Parties

During the year, the Partnership entered into the following transactions with related parties:

	2017/18 £'000	2016/17 £'000
• Revenue Expenditure - Support Services		
City of Edinburgh Council - Financial Services/ Clerking	33	23
Falkirk Council - HR Services	2	2
Fife Council - Clerking/ Legal Services	11	27
	<hr/> 46	<hr/> 52
• Revenue Expenditure - Other		
City of Edinburgh Council	0	9
City of York Council	12	12
East Lothian Council	60	4
Edinburgh and Lothians Greenspace Trust	59	86
Falkirk Council	17	0
Midlothian Council	25	25
Scottish Borders Council	0	5
Scottish Government	17	17
West Lothian Council	0	2
	<hr/> 190	<hr/> 160

The South East of Scotland Transport Partnership (SESTRAN)

22. RELATED PARTIES *(continued)*

22.3 Other Parties *(continued)*

	2017/18 £'000	2016/17 £'000
• Revenue Income - Requisitions		
Clackmannanshire Council	(6)	(5)
East Lothian Council	(11)	(10)
City of Edinburgh Council	(56)	(49)
Falkirk Council	(18)	(15)
Fife Council	(41)	(36)
Midlothian Council	(10)	(8)
Scottish Borders Council	(12)	(11)
West Lothian Council	(20)	(17)
	<u>(174)</u>	<u>(151)</u>
• Revenue Income - Interest on Revenue Balances		
City of Edinburgh Council	(1)	(1)
	<u>(1)</u>	<u>(1)</u>
• Revenue Income - Other		
Scottish Government	(1)	0
Constituent Councils	(49)	(87)
City of Edinburgh Council	0	(4)
East Lothian Council	(2)	0
Fife Council	0	(1)
Network Rail	(3)	0
NHS Fife	(1)	0
Scottish Borders Council	(3)	(1)
West Lothian Council	(1)	0
	<u>(60)</u>	<u>(93)</u>

The South East of Scotland Transport Partnership (SESTRAN)

22. RELATED PARTIES *(continued)*

22.3 Other Parties *(continued)*

The following represents amounts due to/(from) the Partnership at 31 March 2018, with its related parties.

CREDITORS	2017/18	2016/17
	£'000	£'000
• Creditors - Related Parties (Revenue Grants)		
City of Edinburgh Council	0	(4)
East Lothian Council	(60)	(5)
Falkirk Council	(17)	0
Midlothian Council	(25)	(25)
Scottish Borders Council	0	(5)
	<u>(102)</u>	<u>(39)</u>
• Creditors - Related Parties (Other)		
City of Edinburgh Council	(30)	(25)
Edinburgh and Lothians Greenspace Trust	(40)	(86)
Falkirk Council	(2)	(2)
Fife Council		(14)
Constituent Councils	(18)	(49)
Scottish Government	(4)	0
	<u>(94)</u>	<u>(176)</u>
• Creditors - Other Parties	<u>(975)</u>	<u>(277)</u>
Total Creditors	<u>(1,171)</u>	<u>(492)</u>
DEBTORS		
• Debtors - Related Parties (Revenue Grants/ Other)		
Fife Council	7	0
Network Rail	3	0
NHS Fife	1	0
Scottish Borders Council	2	1
Scottish Government	1	0
Strathclyde Partnership for Transport	1	0
West Lothian Council	0	0
	<u>15</u>	<u>1</u>
• Debtors - Other Parties	<u>449</u>	<u>421</u>
Total Debtors	<u>464</u>	<u>422</u>

The South East of Scotland Transport Partnership (SESTRAN)

23. LEASES

Operating Leases

From 8th February 2016 the Partnership took occupancy of Area 3D (Bridge) in Victoria Quay, Edinburgh under the terms of a Memorandum of Terms of Occupation with Scottish Government, which forms part of the Civil Estates Occupancy Agreement (CEOA).

The Partnership is permitted to occupy the space from 8th February 2016 to 7th February 2019 (the Prescribed Term) and so on until ended by either party giving notice under the terms of the CEOA. Both parties will, upon provision of not less than 1 year's prior written notice, have the ability to break this agreement.

The Partnership's contract with MOBIUS Networks for the leasing of SIM cards for the RTP1 project, which enable buses to be tracked live on the system, continues into 2018/19. Due to a bus operator's (First Scotland Ltd) decision to move to new ticket machines and its own RTP1 system, effective from June 2018, the number of leased SIM cards will be reduced to ten, being those required for fixed signs in Fife. This will lead to a reduced cost. The Partnership has the option to terminate the lease under no penalty if at least six months notice is given.

The Partnership's expenditure on lease payments during 2017/18 was £67,000 (2016/17 £69,000)

The minimum lease payments due under non-cancellable leases in future years are:

	2017/18	2016/17
	£'000	£'000
• Not later than 1 year	22	40
• Later than 1 year not later than 5 years	0	0
• Later than 5 years	0	0
	<hr/>	<hr/>
	22	40
	<hr/>	<hr/>

The Partnership has no other material operational leases.

24. DEFINED BENEFIT PENSION SCHEMES

24.1 Participation in Pension Schemes

As part of the terms and conditions of employment of its staff, the Partnership makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until the employees retire, the Partnership has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement. As explained in Accounting Policy 1.7, the Partnership is an admitted body to the Local Government Pension Scheme (LGPS) which is administered by the Lothian Pension Fund.

The Partnership participates in:

- A funded defined benefit final salary scheme. This means that the Partnership and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- An arrangement for the award of discretionary post retirement benefits upon early retirement - this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

The South East of Scotland Transport Partnership (SESTRAN)

24. DEFINED BENEFIT PENSION SCHEMES *(continued)*

24.2 Transactions Relating to Post-employment Benefits

The Partnership recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge that is required to be made is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	2017/18 £000	2017/18 £000	2016/17 £000	2016/17 £000
Comprehensive Income and Expenditure Statement				
<i>Cost of services:</i>				
Service cost, comprising:				
Current service costs	76		56	
Past service costs	<u>0</u>		<u>0</u>	
		76		56
<i>Financing and investment income:</i>				
Net interest expense		<u>8</u>		<u>7</u>
Total post employee benefit charged to the surplus on the provision of services		84		63
<i>Other post-employment benefits charges to the Comprehensive Income / Expenditure Statement</i>				
Remeasurement of the net defined liability, comprising:				
Return on plan assets, excluding the amount included in the net interest expense above	(16)		(298)	
Actuarial gains and (losses) arising on changes in financial assumptions	(113)		405	
Actuarial gains and (losses) arising on changes in demographic assumptions	(12)		0	
Other experience	<u>499</u>		<u>0</u>	
		<u>358</u>		<u>107</u>
Total post-employment benefits charged to the Comprehensive Income / Expenditure Statement		<u>442</u>		<u>170</u>
Movement in Reserves Statement				
Reversal of net charges made to the surplus on the provision of services for post-employment benefits in accordance with the Code.		<u>(389)</u>		<u>(118)</u>
Actual amount charged against the General Fund Balance for pensions in the year:				
Employer's contributions payable to the scheme		<u>53</u>		<u>52</u>
		<u>53</u>		<u>52</u>

The South East of Scotland Transport Partnership (SESTRAN)

24. DEFINED BENEFIT PENSION SCHEMES *(continued)*

24.3 Pension Assets and Liabilities Recognised in the Balance Sheet

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

	2017/18 £'000	2016/17 £'000
Fair value of employer assets	1,982	1,913
Present value of funded liabilities	(2,678)	(2,220)
Present value of unfunded liabilities	0	0
	<hr/>	<hr/>
Net liability arising from defined benefit obligation	(696)	(307)
	<hr/>	<hr/>

24.4 Reconciliation of the Movements in the Fair Value of Scheme Assets

	2017/18 £'000	2016/17 £'000
Opening fair value of scheme assets	1,913	1,551
Interest income	50	54
Remeasurement gain / (loss):		
Return on plan assets, excluding the amount included in the net interest expense	16	298
Contributions from employer	53	52
Contributions from employees into the scheme	17	15
Benefits paid	(67)	(57)
Unfunded benefits paid	0	0
	<hr/>	<hr/>
Closing fair value of scheme assets	1,982	1,913
	<hr/>	<hr/>

Reconciliation of Present Value of the Scheme Liabilities

	2017/18 £'000	2016/17 £'000
Present value of funded liabilities	(2,220)	(1,740)
Present value of unfunded liabilities	0	0
	<hr/>	<hr/>
Opening balance at 1st April	(2,220)	(1,740)
Current service cost	(76)	(56)
Interest cost	(58)	(61)
Contributions from employees into the scheme	(17)	(15)
Remeasurement gain / (loss):		
Change in demographic assumptions	12	0
Change in financial assumptions	113	(405)
Other experience	(499)	0
Past service cost	0	0
Benefits paid	67	57
Unfunded benefits paid	0	0
	<hr/>	<hr/>
Closing balance at 31st March	(2,678)	(2,220)
	<hr/>	<hr/>

The South East of Scotland Transport Partnership (SESTRAN)

24. DEFINED BENEFIT PENSION SCHEMES *(continued)*

24.5 Fair Value of Employer Assets

The following asset values are at bid value as required under IAS19.

	2017/18		2016/17	
	£'000	%	£'000	%
Equity Securities:				
Consumer *	272	14	287	15
Manufacturing *	295	15	290	15
Energy and Utilities *	124	6	142	7
Financial Institutions *	176	9	134	7
Health and Care *	97	5	112	6
Information technology *	121	6	95	5
Other	125	6	132	7
Sub-total Equity Securities	1,210		1,192	
Debt Securities:				
Corporate Bonds (investment grade) *	0	0	0	0
Corporate Bonds (non-investment grade)	39	2	0	0
UK Government *	192	10	192	10
Other *	0	0	4	0
Sub-total Debt Securities	231		196	
Private Equity:				
All *	6	0	2	0
All	30	2	60	3
Sub-total Private Equity	36		62	
Real Estate:				
UK Property	127	6	129	7
Overseas Property	2	0	0	0
Sub-total Real Estate	129		129	
Investment Funds and Unit Trusts:				
Equities *	19	1		
Bonds *			28	2
Commodities *			6	0
Infrastructure	235	12	171	9
Other	4	0	41	2
Sub-total Investment Funds and Unit Trusts	258		246	
Derivatives:				
Foreign Exchange *	1	0	0	0
Sub-total Derivatives	1		0	
Cash and Cash Equivalents				
All *	117	6	89	5
Sub-total Cash and Cash Equivalents	117		89	
Total Fair Value of Employer Assets	1,982		1,914	

Scheme assets marked with an asterisk () have quoted prices in active markets.*

The South East of Scotland Transport Partnership (SESTRAN)

24. DEFINED BENEFIT PENSION SCHEMES *(continued)*

24.6 Basis for Estimating Assets and Liabilities

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 2018 were those from the beginning of the year (i.e. 31 March 2017) and have not been changed during the year.

The principal assumptions used by the actuary in the calculations are:

Investment returns

- Actual returns for the period from 31 March 2017 to 31 January 2018 3.2%
- Estimated returns for the period from 1 April 2017 to 31 March 2018 (0.3%)

	2017/18	2016/17
Mortality assumptions - longevity at 65 for current pensioners:		
• Males	21.7 years	22.1 years
• Females	24.3 years	23.7 years
Mortality assumptions - longevity at 65 for future pensioners:		
• Males	24.7 years	24.2 years
• Females	27.5 years	26.3 years
Pension increase rate	2.4%	2.4%
Salary increase rate (see below)	4.1%	4.4%
Discount rate	2.7%	2.6%

Estimation of defined benefit obligations is sensitive to the actuarial assumptions set out above. In order to quantify the impact of a change in the financial assumptions used, the Actuary has calculated and compared the value of the scheme liabilities as at 31 March 2018 on varying bases. The approach taken by the Actuary is consistent with that adopted to derive the IAS19 figures.

The principal demographic assumption is the longevity assumption (i.e. member life expectancy). For sensitivity purposes, the Fund's Actuary has estimated that a one year increase in life expectancy would approximately increase the Employer's Defined Benefit Obligation by around 3-5%. In practice the actual cost of a one year increase in life expectancy will depend on the structure of the revised assumption (i.e. if improvements to survival rates predominantly apply at younger or older ages).

Change in assumptions at 31 March 2018	Approximate % Increase to Employer	Approximate Monetary Amount £'000
0.5% decrease in Real Discount Rate	12.0%	310
0.5% increase in the Salary Increase Rate	3.0%	90
0.5% increase in the Pension Increase Rate	8.0%	212

The South East of Scotland Transport Partnership (SESTRAN)

24. DEFINED BENEFIT PENSION SCHEMES *(continued)*

24.7 Analysis of projected amount to be charged to profit or loss for the period to 31 March 2019

	Assets £000	Obligations £000	Net (liability) / asset £000 % of pay	
Projected current service cost	0	(81)	(81)	(35.6%)
Past service cost including curtailments	0	0	0	0.0%
Effect of settlements	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.0%</u>
Total Service Cost	<u>0</u>	<u>(81)</u>	<u>(81)</u>	<u>(35.6%)</u>
Interest income on plan assets	54	0	54	23.6%
Interest cost on defined benefit obligation	<u>0</u>	<u>(73)</u>	<u>(73)</u>	<u>(31.9%)</u>
Total Net Interest Cost	<u>54</u>	<u>(73)</u>	<u>(19)</u>	<u>(8.3%)</u>
Total included in Profit or Loss	<u><u>54</u></u>	<u><u>(154)</u></u>	<u><u>(100)</u></u>	<u><u>(43.9%)</u></u>

SESTRAN's estimated contribution to Lothian Pension Fund for 2018/19 is £54,000.

25. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Partnership's activities expose it to a variety of financial risks:

- Credit risk - the possibility that other parties might fail to pay amounts due to the Partnership;
- Liquidity risk - the possibility that the Partnership might not have funds available to meet its commitments to make payments;
- Re-financing risk - the possibility that the Partnership 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 Partnership as a result of changes in such measures as interest rate movements;
- Price risk - the possibility that fluctuations in equity prices has a significant impact on the value of financial instruments held by the Partnership;
- Foreign exchange risk - the possibility that fluctuations in exchange rates could result in loss to the Partnership.

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

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Partnership's customers.

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. As the Partnership's surplus funds are held with the City of Edinburgh Council, the counterparty default exposure is effectively nil.

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.

The South East of Scotland Transport Partnership (SESTRAN)

25. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS *(continued)*

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 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.

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 Surplus or Deficit on the Provision of Services will rise;
- borrowings at fixed rates - the fair value of the liabilities borrowings will fall;
- investments at variable rates - the interest income credited to the Surplus or Deficit on the Provision of Services 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 Surplus or Deficit on the Provision of Services and affect the General 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.

Price risk

The Partnership does not invest in equity shares.

Foreign Exchange risk

As at 31 March 2018, the Partnership had financial assets of £108,000 subject to foreign exchange risk.

The foreign exchange loss or gain on these financial assets cannot be determined until 2018/19, when the Partnership is in receipt of the related grant income from the European Regional Development Fund.

The Partnership has no financial liabilities denominated in foreign currencies.