

# Annual Accounts 2019-20



# South Ayrshire Council 2019-2020 Annual Accounts

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# Section 1: Management Commentary



Welcome to South Ayrshire Council's Annual Accounts for the financial year ended 31 March 2020.

The accounts provide you with important and useful information about our administration, and financial management and performance, in the financial year 2019-20.

In this section you'll find a summary of our key achievements over the last 12 months, in line with the Council Plan 2018-2022, all of which have been made possible thanks to the hard work and dedication of our staff.

The 2020-21 Budget was again challenging, and I know we will be presented with more difficulties as we begin to emerge from the COVID-19 pandemic. However, this crisis has shown that together, with our communities, we really can make a difference to people in South Ayrshire.

While we continue to work towards the strategic objectives outlined in the Council Plan, much of the coming year will focus on recovery following the COVID-19 outbreak. Our priority now is to establish plans to help our communities and local businesses get back on their feet. We will seek out new and innovative ways of working as we aim to reduce poverty and disadvantage, maximise our local economy, and make sure South Ayrshire is a better place to live.

You can read more about our council plan at [Our People, Our Place - Council Plan 2018-22](#)

Councillor Peter Henderson, Leader of South Ayrshire Council.

## Highlights of 2019-20

In 2018, we set a clear and ambitious vision of what we want to achieve in our Council Plan 2018-22. Some of the key highlights delivered during 2019-20 to realise this include:

- We further enhanced the education estate with significant investment in our Early Years facilities. Projects ranged from extensions and alterations, to the opening of the new £2m Cherry Tree Early Years Centre and the completion of another major school project - Queen Margaret Academy. The investment in early years facilities will give us the capacity to provide every child with access to 1140 childcare/nursery hours each year when COVID-19 restrictions are relaxed. Plans are now well advanced for the continuation of major school projects including Prestwick Shared Campus, Maybole Campus and Sacred Heart Primary School.
- We opened the Grain Exchange on Ayr High Street in July 2019. Named in honour of its heritage, the Grain Exchange provides a multi-purpose market, cultural, and creative space. Boasting weekly Saturday markets, it provides small local businesses with a place to sell their products, and this year helped them generate over £55,000 in income. A programme of workshops and experiences, in collaboration with a range of partner organisations, is also delivered on site.
- We continued a positive programme of consultation and engagement with our communities on key issues and projects, including the 'Quality of Life Survey - Place'. This survey gave residents the opportunity to have their say on South Ayrshire as a place to live. Feedback helped identify areas of concern, and how we can address these.
- We improved the local environment by committing another £2.5 million to help maintain and improve our busy roads network, taking our ten year commitment to £17 million. Plus £3.2 million in street lighting, including upgrades to more energy efficient LED bulbs.
- We continued the work of the Ayrshire Growth Deal, a key component in our economic recovery plan. Considerable work has progressed to develop project proposals and the AGD PMO continue to liaise with colleagues in both governments, with focus on early signing of Full Deal documents. The Council is the lead for the development and delivery of the £80 million AGD Aerospace and Space Programme. This will facilitate the delivery of the transformational

change required for the Prestwick Aerospace and Space Campus to continue to lead the UK and Scotland on the world stage. The Council is also leading on the £14 million pan-Ayrshire AGD Digital Programme which will ensure Ayrshire is at the forefront of digital connectivity and offers a digital infrastructure attractive to investors.

- We achieved recognition for excellence and innovation in all aspects of procurement when we secured a Winner's Award at the Government Opportunities Awards 2019 (GO Awards) in the Best Procurement Project category.
- We improved the way we communicate with residents by increasing the frequency of our online messaging through South Ayrshire Council Live magazine and social media. We deliver accurate, informative and expeditious communications, to ensure our customers have constant access to current information about our services.
- We continued to develop the work we do to support young carers, by providing free access to our leisure facilities for all young carers aged 8-18 or 18 and in full time education. We also made support and information more accessible through our updated Young Carers Website.
- We refined our performance monitoring; with a focus on the strategic objectives of the Council Plan and included narrative on the experience of service users, examples of good practice and areas for improvement. Additional Panel meetings are now in place to scrutinise Council Plan delivery after a mid-term refresh was approved, alongside an associated Performance Management Framework.
- We transformed the way young people learn, especially in rural schools, by investing in our wide area network. We also made information more readily available to our customers with the roll out of public access Wi-Fi which is now running in 20 of our facilities.
- We attained Gold Accreditation from the Tenant Participation Advisory Service in recognition of our partnership work with our tenants.
- We received recognition for our ongoing work to improve South Ayrshire roads when we achieved 'Best Performer-Roads, Highways and Winter Maintenance' in the 2019 APSE (Association for Public Service Excellence) Awards.

This is just some of the positive progress we made in 2019-20, and you can find out more on our [website](#). You'll also find a range of news and information on our services on our social media channels, [Facebook](#), [Twitter](#) and [Instagram](#).





## Plans for 2020 and beyond

2020 has so far, brought many challenges, and I'm proud of the work we have done as a Council to overcome these. Recovery plans are being developed to allow us to resume full service delivery, and support those who need us most in the wake of the COVID-19 outbreak.

Although huge effort and focus is being applied to these plans, we are still resolute in delivering on our commitments as outlined in the Council Plan 2018-22 with budget decisions for 2020-21 targeting resources to help realise these ambitions.

We took on board the feedback from this year's budget consultation, 'Our Future – Let's Talk', which once again highlighted that people want us to protect the delivery of essential services. This has let us target our resources where they are needed most, so that we continue to make a difference every day across South Ayrshire.

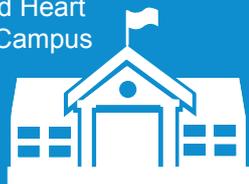
This includes £76.6 million for the South Ayrshire Health and Social Care Partnership, with a further £8.3 million directly from the Scottish Government. This means £84.9 million will be invested in health and care systems which allow us to grow well, live well and age well.

We will spend a total of £362.8 million over the next decade on our capital investment programme, with £66.8 million invested in 2020-21 alone.

Over the next 10 years we will invest £148 million in our schools and early years centres. This includes £8.3 million which will see us almost double early learning and childcare provision to 1,140 hours for all three and four year olds, and eligible two year olds, when COVID-19 restrictions ease.

### New schools

Girvan Primary; Carrick Academy in Maybole; Glenburn Primary and St Ninian's Primary shared campus in Prestwick; and Sacred Heart Primary in Girvan. Educational Campus – St John's Primary and Wallacetown Early Years Centre in Ayr



### Early years projects

New Kincaidston Early Years Centre; a new-build Forehill Early Years Centre; and a new Early Years Centre within the refurbished Ayr Grammar Primary; Struthers and Troon Early Years Centres.



To help you to care for your health and wellbeing, we have committed to a significant investment in our leisure facilities. This includes £36.5 million on a new leisure facility in Ayr Town Centre; £400,000 for sporting improvements in Whitletts; £6.7 million for new sports facilities at Craigie; and £825,000 for an all-weather pitch in Girvan.

Once again, the condition of our roads was of concern to residents. We have therefore allocated an additional £2.5 million to help maintain and improve the Network, taking our 10 year commitment to £17 million.

This ambitious programme of investment will make a difference to the lives of people throughout South Ayrshire, and bring hope of a brighter future following the COVID-19 crisis.

# About South Ayrshire

By 2043, the South Ayrshire population is projected to be 105,191 – a decrease of 6.5% compared to the population in 2018. The population of Scotland as a whole is projected to increase by 2.5%.

The pensionable age population is, however, projected to increase by 17% by 2043. More dramatically, the South Ayrshire population aged 75+ is projected to increase by 65% by 2043.

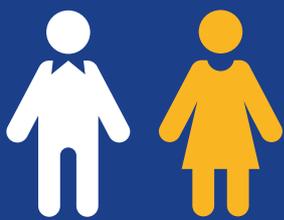
The projected change in South Ayrshire is not evenly spread across the different age groups. The number of children aged 0-15 years is projected to decrease by 17% and our working age population by 14%.

These anticipated changes to the population will have considerable consequences for the Council as it strives to ensure social, educational, housing and community services continue to meet the needs of the community.



**112,550**

POPULATION



**48% 52%**

MALE FEMALE



**25% over 65**

(National average 19%)



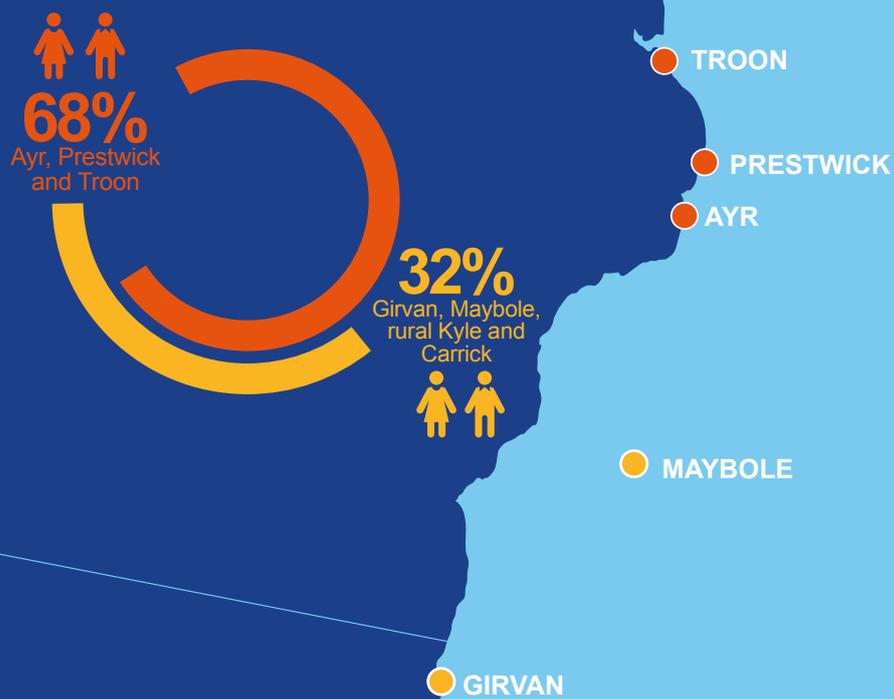
**16% under 16**

(National average 17%)

(Source: National Records of Scotland, 2018 Mid-Year Population Estimates & 2018 Based Population Projections)



(Source: National Records of Scotland, Small Area Population Estimates 2017)



# About The Council

Elected Members

CONSERVATIVE 12

SNP 9

LABOUR 5

INDEPENDENT 2



Staff



**4,412 full-time equivalent**

# Our Council Structure



## Chief Executive's Office

The Chief Executive is responsible for the efficient and effective management of the Council. The Chief Executive's Office is responsible for: Revenues and Benefits; Corporate Finance and Accounting; ICT Strategy and Delivery; Democratic Governance Services; Legal and Licensing Services; Insurance, Risk and Safety Management; Civil Contingencies and Business Continuity; Trading Standards and Environmental Health; Employee Services; Human Resources.



*Eileen Howat, Chief Executive*



## People Directorate

Responsible for: Libraries, Culture and Events and Tourism, Sports and Leisure; Golf; Health and Wellbeing; Community Engagement; Community Learning and Development; Community Safety; Corporate and Community Planning and Improvement; Housing Policy and Strategy; Internal Audit; Education Curriculum, Qualifications, Assessment and Additional Support Needs; Education Management and School Resources and Support Services; Early Years and Childcare; Customer Services; Employability and Skills; Information and Advice Hub; Organisational Development; Public Affairs.



*Douglas Hutchison, Director*



## Place Directorate

Responsible for: Asset Management (including Community Asset Transfer and Ayrshire Roads Alliance); Capital Programme; Corporate Procurement; Economic Development; Facilities Management; Fleet; Greenspace, Streetscene and Bereavement; Housing Development; Housing Management; Planning; Building Standards; Professional Design Services; Property Maintenance; Waste Management and Sustainability.



*Donald Gillies, Director*



## Health and Social Care Partnership

Responsible for: Adult Support and Protection; Care at Home and Care Homes; Community Care and Day Services; Community Mental Health; District Nursing; Physical Disability; Children with Disabilities; Children's Houses; Corporate Parenting; Family Support and Young People's Services; Fostering and Adoption; Health Visiting and School Nursing.



*Tim Eltringham, Director*

# Strategic Direction

The Council Plan 2018-22 sets out the Council's vision for the next four years, with a focus on 'Our People, Our Place'.

It details the high-level objectives and outcomes we want to achieve for our people and places by 2022.

## Our six strategic objectives are:



The image shows a blue rounded rectangle containing six icons and their corresponding strategic objectives. The icons are arranged in two rows of three. The first row contains: 1. An icon of three people silhouettes. 2. An icon of a hand holding a coin. 3. An icon of a heart with a pulse line. The second row contains: 4. An icon of a house with a pound sign inside. 5. An icon of a map with a location pin. 6. An icon of a leaf.

- Effective leadership that promotes fairness
- Reduce poverty and disadvantage
- Health and care systems that meet people's needs
- Make the most of the local economy
- Increase the profile and reputation of South Ayrshire and the Council
- Enhanced environment through social, cultural and economic activities

The Council Plan is supported by and linked to a number of other plans, such as the Children's Services Plan, Educational Services Improvement Plan and the Child Poverty Action Plan, as well as strategic plans for the Health and Social Care Partnership.

These plans set out what we will do to help achieve the best for every person and place within South Ayrshire and help them reach their full potential.

During 2019-20, a review of the Council Plan was undertaken to focus the strategic objectives into a series of six commitments with 21 supporting ambition statements. This mid-term refresh was approved by Council on 5 March 2020.

Progress against these plans is monitored in line with our Performance Management Framework. At the heart of the Framework is a cyclical approach to self-evaluation improvement planning, performance monitoring and reporting (including consultation and engagement). This allows us to see what we have achieved, how effective we are and identify where we need to improve.

We report on our performance - to managers, elected members, stakeholders and members of public through the Council's governance arrangements.

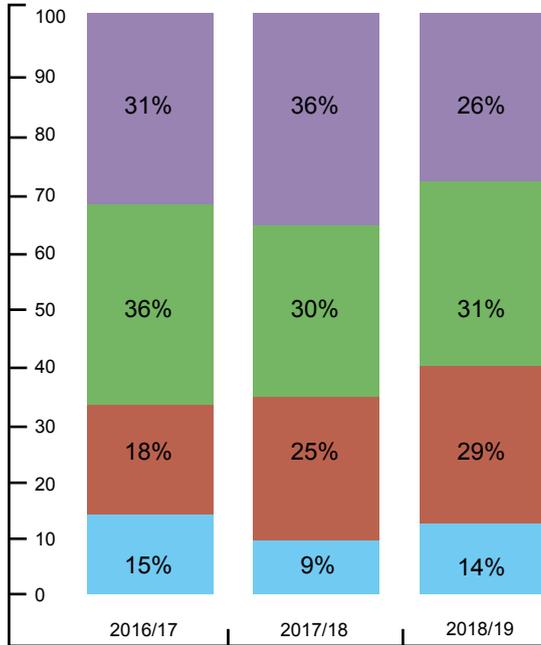
We also monitor our performance as part of the South Ayrshire Community Planning Partnership against the Local Outcomes Improvement Plan and Local Place Plans. The performance report reflects how community planning partners have worked together to deliver a range of outcomes that will improve the quality of life for people in South Ayrshire.

You can find out more about our plans at [www.south-ayrshire.gov.uk/council-plans](http://www.south-ayrshire.gov.uk/council-plans).

# Service Performance

## South Ayrshire's Performance against other Councils

The percentage of indicators where the council's performance is in the top quartile has decreased from 31% in 2016/17 to 26% in 2018/19.



This analysis groups services as to whether they performed higher or lower than the average performance of all 32 Scottish Councils.

Those services where performance was among the best in Scotland include the percentage of pupils gaining 5+ awards at Level 5, the percentage of P1, P4 and P7 (combined) pupils achieving expected levels in Curriculum for Excellence Literacy and Numeracy, satisfaction with our open parks and spaces, the cost per visit to libraries, the level sickness absence for teachers and non-teaching staff and the percentage of sampled invoices paid within 30 days.

Those services where our performance is poorest compared to others include the cost of refuse collection, the town vacancy rates for commercial premises, the condition of our A, B and C class roads and the street cleanliness score

Further detail on the performance of our services can be found at: [www.south-ayrshire.gov.uk/performance](http://www.south-ayrshire.gov.uk/performance)



Council Plan strategic objectives were reported twice a year, in addition the Council published an annual performance report in December. Other strategic planning documents also link closely to the national framework, including the Local Outcomes Improvement Plan, reporting to their respective governance structures under the Community Planning Partnership.

Performance reports are scrutinised by the Service and Performance Panel, which has the ability to raise any areas of concern with Leadership Panel for further investigation.

The LGBF reports are considered by Service and Performance Panel in February each year, carrying out detailed scrutiny of the information - exploring areas of poorer performance as well as higher performing services. Where services are underperforming, elected members ask for further information to be supplied and services use this process as evidence as part of the on-going self-evaluation exercise that is currently underway, in order to consider service specific improvements.

Further detail on the LGBF can be found at: <http://mylocalcouncil.info/>

The National Performance Framework sets out the Scottish Government's aim to create a more successful country, give opportunities to all people living in Scotland, increase the wellbeing of people living in Scotland, create sustainable and inclusive growth and reduce inequalities and give equal importance to economic, environmental and social progress. Priorities and outcomes in the South Ayrshire Council Plan and Community Planning Partnership LOIP align to the National Performance Framework Outcomes.

# Financial Statements

## Introduction

The financial statements for 2019-20 and associated notes are set out on pages 27 to 66 and incorporate financial and other information required by the Code of Practice on Local Authority Accounting in the United Kingdom (The Code). The Significant Accounting Policies in Section 6 of the Accounts explains the basis for the recognition, measurement and disclosure of transactions and other events in the Annual Accounts, to ensure that they present a 'true and fair view' of the Council's financial performance. An explanation of each of the financial statements which follow, and their purpose, is shown at the top of each statement.

## Covid-19

The impact of the COVID-19 outbreak has been considered by the CIPFA-LASAAC Code Board in respect of any adjustments required to the Code and it was concluded that full application of the 2019-20 Code would apply. The Council recognises that there are concerns about the valuation of assets arising from the Royal Institution of Council Surveyors (RICS) guidance resulted in a material uncertainty, as disclosed in note 37 (page 79).

# Financial Strategy

Every Council in Scotland operates in a challenging economic climate and is faced with significant financial challenges due to the decreasing budgets and increasing demand for services and with the added impact of Covid-19, the situation will be significantly worsened. The Council's current Financial Strategy covers the period 2020-2030 and, using a scenario-based planning approach, indicates a potential budget gap of between £72.6 million and £90.6 million over the ten-year period. Taking this longer-term approach enables the Council to give early consideration to forecasting pressures in later years and take a measured approach to addressing them. It will also provide greater flexibility in financial planning by establishing a robust framework for the role of reserves in supporting planned expenditure and also considering how these reserves will be replenished.

The Strategy recognises the Council's duty to set a prudent, sustainable budget, and seeks to provide a practical foundation for the provision of the best possible value for money in the delivery of Council services in the longer term in the context of the significant uncertainty around the extent of grant reductions.

The Coronavirus (COVID-19) pandemic is having a significant impact in countries across the world. The impact on daily life for everyone is unprecedented in recent times and the public sector is at the forefront of efforts to respond to and mitigate against the challenges of this pandemic. Since the lockdown was initiated, a number of negative economic impacts have emerged in Scotland, which are likely to result in a deep recession. This will inevitably have a significant impact on the finances of the Council going forward, both in the short to medium and longer term. The Council's ten-year financial strategy will require to be updated in order to take account of the likely significant impact of the Covid-19 pandemic.

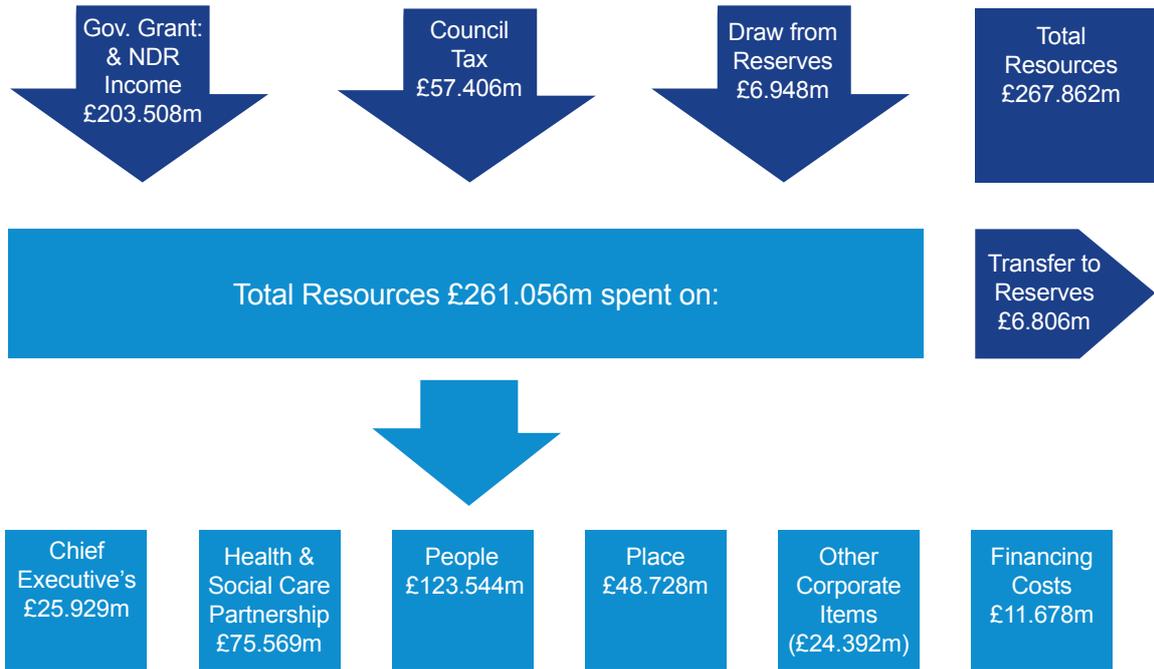
# Financial Performance

## Financial Performance Monitoring

Financial information is a key element of the council's performance management framework with regular reporting to the Council's Leadership Panel. The Council's General Fund financial performance is presented in the Annual Accounts that follow this management commentary. The Comprehensive Income and Expenditure account Statement (CIES) on Page 27 sets out the council's funding and spending in accordance with accounting requirements which is different to the way we report performance internally. The Expenditure and Funding Analysis (EFA) on page 32 provides the link between the budget management reports and the CIES.

# General Fund Revenue

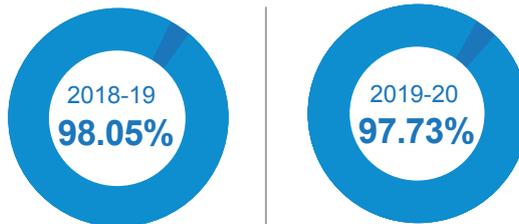
The General Fund is funded by Government Grant, Council Tax Revenues and draws from accumulated reserves. The analysis below shows how the resources were used during 2019-20.



The Councils contribution to the Health and Social Care Partnership (HSCP) included an additional £3.277 million in 2018-19 which was drawn down from reserves to offset an in year overspend. Following an improved financial position in 2019-20 the partnership was able to repay £0.291 million of the amount owed, leaving a remaining balance of £2.986 million to be repaid over the next three years. Further details on service out-turns can be found in the Budget Management report submitted to Group Leaders on June 24 for approval under Covid-19 emergency decision making governance arrangements.

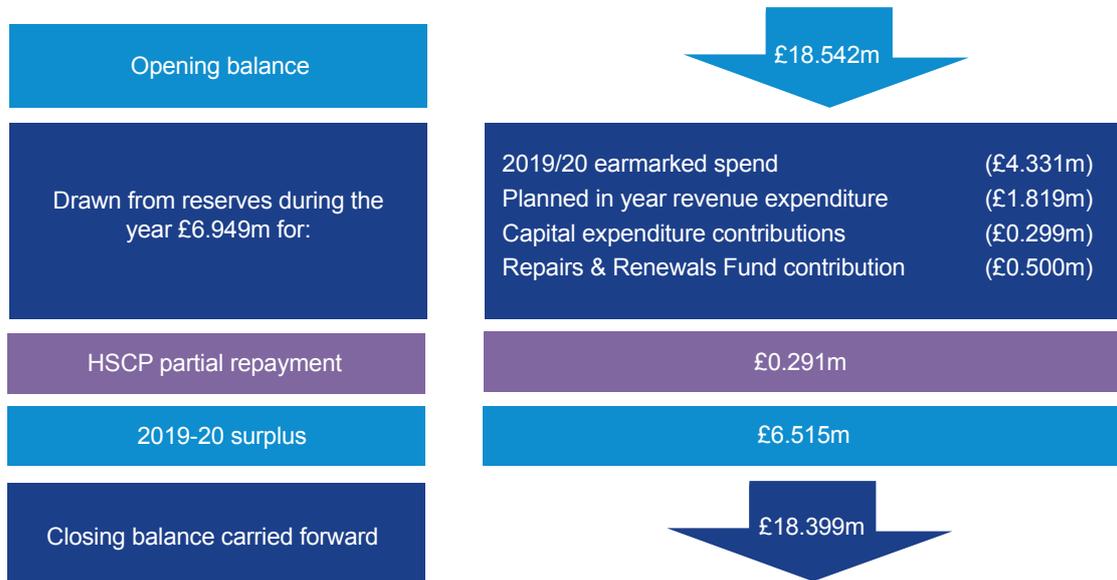
These documents were published in a report to Leadership Panel in August 2020 and can be found at: [www.south-ayrshire.gov.uk/committees/agendas.aspx](http://www.south-ayrshire.gov.uk/committees/agendas.aspx)

Actual net service expenditure as a percentage of budget

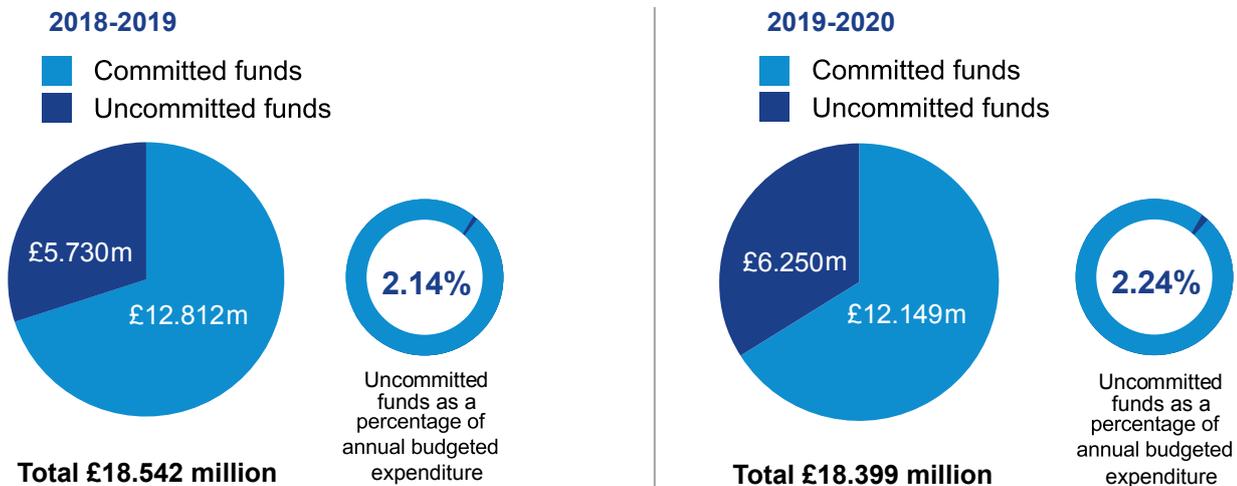


## Accumulated General Fund Reserves

The Council holds General Fund balances to meet contingencies and for specific initiatives. Within the General Fund, certain balances are earmarked to be held for specific purposes—for example, efficiency and improvements or for workforce change purposes. The Council brought forward accumulated reserves of £18.542 million from 2018-19 and the movement during the year on this balance, agreed as part of the original 2019-20 budget and through decisions taken during the year, was as follows:



The charts below show the £18.399 million to be carried forward to 2019-20 compared to the previous year and also the amount earmarked or committed to be used for specific purposes.



The Council keeps its level of balances under review and, as per the approved Council Financial Strategy, aims to maintain an uncommitted balance of at least 2% of annual running costs, which is equivalent to approximately £5.590 million. Any balance in excess of this provides additional flexibility until used or earmarked by the Council. In light of Covid-19 the Council plans to re-assess its level of reserves as part of its new Long Term Financial Strategy due to be presented to the Council during 2020-21.

Further detail on the uncommitted balances held can be found in the 2019-20 General Service Budget Management Out-turn report which can be found at: [www.south-ayrshire.gov.uk/committees/agendas.aspx](http://www.south-ayrshire.gov.uk/committees/agendas.aspx)

## Housing Revenue Account

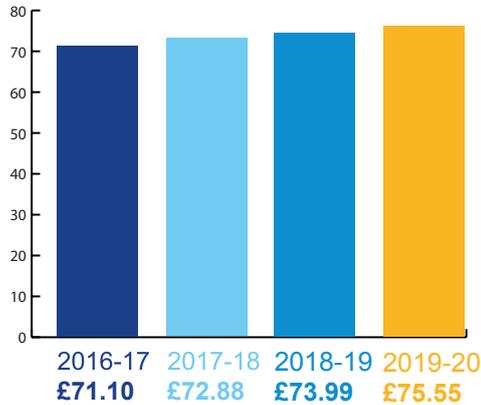
In addition to Government funding, Non-Domestic Rates and Council Tax income, the Council also receives income each year from Council house rents. There is a legal requirement for Councils to maintain a Housing Revenue Account (HRA) – separate from all other Council services – for all housing stock held by the Council. All spending and income related to Council house rented accommodation must be included in the HRA.

This income can only be used to meet the costs of delivering a housing service for our tenants in South Ayrshire. This includes managing the housing service, day-to-day repairs and larger investment through the modernisation of our properties.

### Income



### Average weekly rent (£)



The Council continues to make ongoing capital investment in its' housing stock to improve and maintain properties in line with the Scottish Housing Quality Standard and the Energy Efficiency Standard for Social Housing. Levels of investment are informed through assumptions contained in the Housing Revenue Account (HRA) Business Plan and the HRA Capital and Revenue budget is approved annually by Council.

### 2018-19

- Earmarked funds
- Uncommitted funds



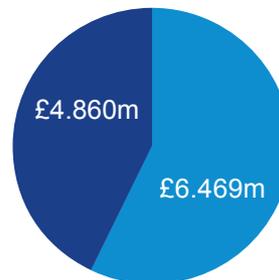
Total £9.357 million



Uncommitted funds as a percentage of annual budgeted expenditure

### 2019-20

- Earmarked funds
- Uncommitted funds



Total £11.329 million



Uncommitted funds as a percentage of annual budgeted expenditure

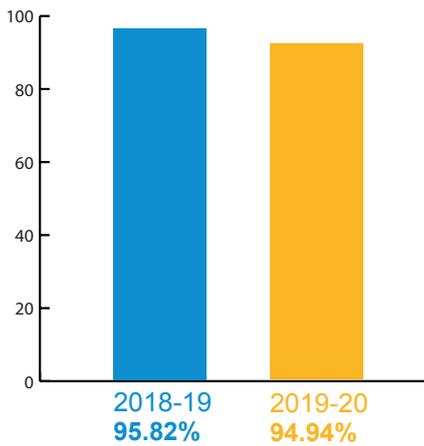
A significant proportion of the reserves held by the HRA are now committed to assist in future capital investment in the Council's housing stock.

Further detail on the uncommitted balances held can be found in the 2019-20 HRA Budget Management Out-turn report which can be found at: [www.south-ayrshire.gov.uk/committees/agendas.aspx](http://www.south-ayrshire.gov.uk/committees/agendas.aspx)



## Council Tax Collections

### In-year Collection Rate (%)



An in-year collection rate of **94.94%** was achieved in 2019-20

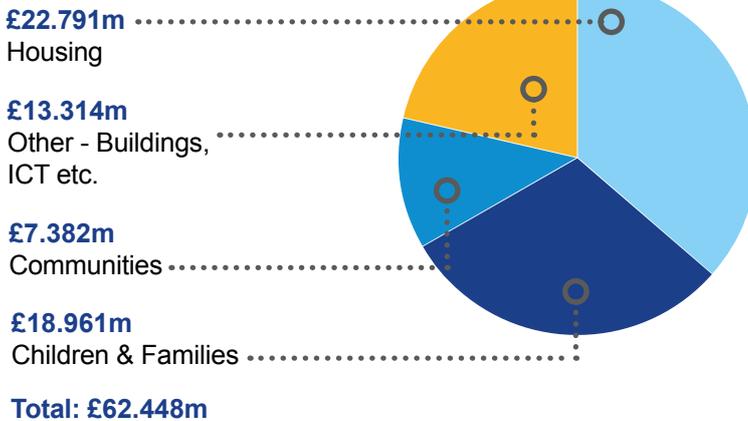


Actual Council Tax collected during 2019-2020. This equated to **21%** of the overall funding required to meet net expenditure for the year

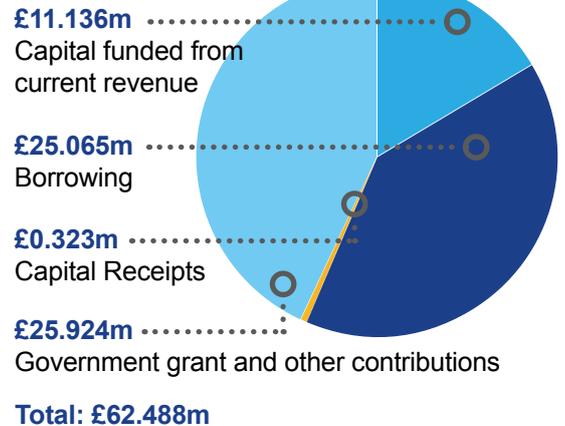
## Capital Expenditure and Income

The Prudential Code for Capital Finance in Local Authorities governs the level of capital expenditure taking into account affordability and sustainability. The Council continued to make significant capital investment in schools, roads, leisure, ICT, housing and other capital projects during 2019-20 and spent in total £62.448 million during the year. The funding of this spend was financed through government grants and other contributions, capital receipts from the sale of assets, capital financed from current revenue sources and borrowing. The charts below show the breakdown of both spend and financing of the programme.

### Expenditure



### Income



## New PPP School – Queen Margaret Academy

In addition to the £62.488m of capital expenditure shown in the charts above, during 2019-20 the Council took occupation of the New Queen Margaret Academy, which was constructed via a Design, Build, Finance and Maintain contract, commonly referred to as DBFM through the Schools for the Future Programme. A finance lease liability of £25.216 million has been brought on to the Council's balance sheet to reflect the new financing arrangement that is now in place.

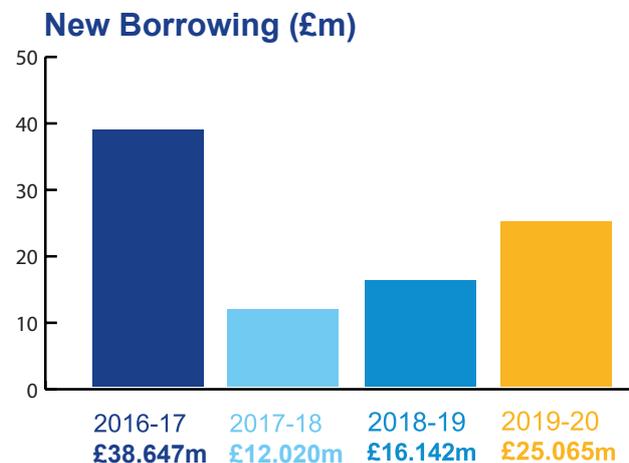


The Annual Treasury Management and Investment Strategy applicable for the 2019-20 financial year was approved by Council on 28 February 2019. The information contained in the Strategy provides the detailed information, and narrative on the authority's capital investment plans, treasury management (borrowing and investments), prudential indicators and the loans fund liabilities. Where that capital investment is financed from borrowing this is required to be prudent, affordable and sustainable. The 2019-20 Strategy can be found at [Committee Agendas, Papers and Minutes](#)

The 2019-20 Treasury and Investment annual report, which compares the actual performance against the plan, is not yet published.

## New 2019-20 Borrowing

The Council's borrowing strategy is prepared in accordance with the Code of Practice on Treasury Management in Local Authorities. The majority of the Council's borrowing is for capital investment purposes and is either sourced from the use of internal cash balances held (internal borrowing) or comes from the Public Works Loan Board (PWLB), a Government-sponsored body set up with the primary purpose of lending to UK local authorities. Borrowing for capital investment purposes is paid for by charging a proportion of the cost along with interest each year to the revenue account over the life of the asset.



## Balance Sheet

The Balance Sheet on page 30 summarises the Council's assets and liabilities at 31 March 2020. Total assets have increased from £789.674 million at 31 March 2019 to £828.819 million. This is primarily due to a reduction in short-term temporary investments and debtors held at the end of the year and an increase in the value of property, plant and equipment held by the Council following the latest revaluation of assets. Total liabilities have decreased from £525.087 million to £486.695 million. This is primarily due to a significant decrease in the pension fund liability following the latest valuation.

## Additional Information

### Pension Fund

The Council is required to disclose its share of Strathclyde Pension Fund's assets and liabilities, both current and future. The disclosure information is provided to the Council by the Pension Fund actuaries following their annual valuation of the Fund. Formal valuations take place every three years, with the latest formal valuation applicable for 2019-20 having taken place on 31 March 2017. The Council's Balance Sheet shows a pension liability of £94.090 million at 31 March 2020 compared with £155.657 million at 31 March 2019. The significant reduction is mainly due to changes in valuation assumptions made by the Council's actuary. The valuation is only applicable at the Balance Sheet date and fluctuates on a daily basis, primarily due to its reliance on stock market movements.

Two employment tribunal cases were recently brought against the Government in relation to possible discrimination in the implementation of transitional protection following changes made to public service pension scheme legislation in 2014. In December 2018, the Court of Appeal ruled that the transitional protection gave risk to unlawful discrimination on the basis of age. The Council's actuary has provided results which included an allowance for the additional liability potentially arising as a result of this ruling.

## Group Accounts

The Council has an interest in a number of other organisations and is therefore required to prepare Group Accounts. The Group Accounts are included separately in the Council's core statements and consolidate the results of the Council with its share of the results of two subsidiaries and four associates. The inclusion of the subsidiaries and associates in the Group Balance Sheet increases both the net assets and reserves by £38.861 million (£33.892 million in 2018-19), representing the Council's share of the net assets in these entities.

## Common Good and Trust Funds

The Council administers a Common Good Fund which comprises five distinct sub-funds, Ayr, Prestwick, Troon, Maybole and Girvan. The Council controls 100% of the fund and administers it for the interest and benefit of the people in the aforementioned areas. All expenditure is met from annual income or reserves. Details of income and expenditure accounts and balance sheets can be found on page 97 of these accounts.

The Council also administers several Trust Funds, some of which are registered charities. Details of income and expenditure accounts and balance sheets can be found on page 99 of these accounts.

Separate annual accounts and a Trustees' Annual Report have been prepared for the charitable trusts. These are subject to separate external audit and are available on the Council's website.



# Financial Outlook and Key Risks

## Financial Outlook and Plans

The Council set its 2020-21 General Fund revenue budget, Housing Revenue Account, Common Good and ten-year capital budgets on 5 March 2020.

As part of the budget process for 2020-21, Councillors agreed a revenue budget of £202.984 million – as well as a delegated budget of £76.6 million for the South Ayrshire Health and Social Care Partnership. They also approved a ten-year capital investment programme of £362.8 million for 2020-21 to 2029-30. To achieve a balanced budget for 2020-21, Councillors agreed the use of £1.1 million of uncommitted reserves for revenue spending and increase Council Tax by 4.84 per cent.

The previous working assumption for the 2021-22 financial year would have seen a budget gap of around £11 million, which would have meant the Council would face tough choices ahead to balance the books.

As a result of the Covid-19 outbreak the Council's Budget Working Group, comprising the Leader, Depute Leader, Provost, two other senior members of the administration, the Chief Executive, Directors and the Head of Finance, is developing an impact assessment of the financial implications of the pandemic with the intention of presenting an emergency budget to Council. This will set out the planning assumptions for a range of potential scenarios with recommendations to ensure the Council maintains a balanced budget position.

In early assessment and scenario planning of the impact of the COVID-19 outbreak and through the revised Governance arrangements put in place, the Council plans to put robust measures in place to continue to exhibit strong financial management of its financial affairs.

At Special Council in March 2020, the Council approved proposals for a strategic change programme, and to change the remit and delegated responsibilities of the Executive Managers to deliver this programme in support of the Council's strategic objectives as set out in the Council Plan 2018 to 2022 and the Financial Plan 2020 – 2030.

Council approved: **The South Ayrshire Way Strategic Change Programme – Preparing for the Future**, an extension of the South Ayrshire Way which goes beyond values and behaviours and challenges our way of working, driving organisational change and improvement while maintaining or improving outcomes for our communities. It introduces high level themes that will provide an overarching framework for the alignment of change activity.

The high level themes of the change programme are:

- Delivering Council Plan priorities – focussing our services and expenditure on activities that support the Council Plan priorities
- Services which are designed to be fit for purpose and sustainable - ensuring that we carry out systemic and structural reviews of our services which will seek to identify opportunities for transformational change through improvement, flexibility and integration
- Customers at the heart of what we do – Ensuring that the quality of services and the customer experience is the best that it can be, while encouraging and supporting customers to be more flexible and to work with us to deliver sustainable services
- Digitally confident – doing more online and being more efficient in our processes
- Maximising the use of our assets – working with communities to support them to make best use of their local assets
- A workforce for the future – ensuring an engaged, empowered and informed workforce with the skills necessary to deliver the Council priorities

# Key Risks

The top risks for the Council are set out in our Strategic Risk Register which is reviewed and updated by the Council's Corporate Leadership Team (CLT). The Strategic Risk Register is regularly presented to the Audit and Governance Panel for review and scrutiny and thereafter presented to Leadership panel for approval. The register contains ten strategic risks broken down across three risk themes; Governance, Protection and Resources. The risk associated with Brexit has been recognised and a Member and Officer working group established to consider relevant issues and required mitigating actions.

The Strategic Risk Register is currently being reviewed and updated to ensure that the risks surrounding the Covid-19 pandemic are recognised and mitigating actions identified. This will be presented to the Audit and Governance Panel for review and scrutiny thereafter.

The information below summarises the top strategic risk under each risk theme facing the Council alongside the mitigating actions.

Risk theme	Governance	Protection	Resources
Risk title	External change	Child and Adult Protection	Financial constraints
Potential risk	External factors out with the Council's control may adversely impact on ability to fulfil objectives and deliver services	Council and HSCP fail to provide adequate protection of children and adults	Current, planned or expected levels of service cannot be delivered due to Government funding reductions
Potential effect	Requirement to re-allocate resources, failure to deliver services to an acceptable level or drive desired improvements. Restrictions on budget, reputational damage	Accident, incident or crime resulting in harm or abuse to child or adult. Legal prosecution/civil litigation. Reputational damage. Financial impact of any prosecution or claims	Failure to deliver key services or meet change in service demands
Mitigations	<ul style="list-style-type: none"> <li>-Horizon scanning.</li> <li>-Watching brief on national environment.</li> <li>-Business Continuity plans.</li> <li>-Civil Emergency Response plans.</li> <li>-Dissemination of COSLA/Cipfa information.</li> <li>-Council reserves</li> </ul>	<ul style="list-style-type: none"> <li>-Governance by Adult Officers Group, Multi Agency Public Protection arrangements, Adult Protection and Child Protection Committees.</li> <li>-Pan Ayrshire training.</li> <li>-Management guidelines, protocols and paperwork.</li> <li>-Initial response team.</li> <li>-Ayrshire wide Social Work response team.</li> <li>-Internal and multi-agency audits and file review.</li> <li>-Adult Protection Practice Review Group.</li> </ul>	<ul style="list-style-type: none"> <li>-Annual budget setting aligned with priorities.</li> <li>-Medium term financial plan in place.</li> <li>-Level of reserves sufficient in the medium term.</li> <li>-Participation in COSLA groups.</li> <li>-High level of Member awareness.</li> </ul>

A full copy of the Strategic Risk Register presented the Audit and Governance Panel in November 2019 can be found at: [www.south-ayrshire.gov.uk/committees](http://www.south-ayrshire.gov.uk/committees)

# Conclusion and Acknowledgement

The Council's favourable financial position at 31 March 2020 reflects the collective efforts of elected members, service managers, directorate management teams and their staff, and Corporate Finance staff in maintaining sound financial management process during the year. This favourable position shows another strong performance over the year and demonstrates longer term stability in service delivery going forward. The impact of the COVID-19 outbreak brings global economic insecurities and specific uncertainties for the Council. Through our Council governance arrangement for responding to the emergency, and resilience plans we aim to manage and mitigate risks in a robust way to protect the sustainability of Council finances.

We would like to acknowledge the significant effort of all the staff across the Council, especially during this unprecedented lockdown period who contributed to the preparation of the Annual Accounts and to the budget managers and support staff whose financial stewardship contributed to the financial position at 31 March 2020.

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*Eileen Howat*  
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**Eileen Howat**  
**Chief Executive**  
**24 September 2020**

DocuSigned by:  
*Peter Henderson*  
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**Councillor Peter Henderson**  
**Leader of South Ayrshire Council**  
**24 September 2020**

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*Tim Baulk*  
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**Tim Baulk BA Acc CPFA**  
**Head of Finance & ICT**  
**24 September 2020**

# Section 2: Statement of Responsibilities

This statement sets out the respective responsibilities of the Council and the Head of Finance and ICT (as the Council's Section 95 Officer) for the Annual Accounts.

## The Council's responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to ensure that the proper officer of the Council has responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). For South Ayrshire Council that officer is the Head of Finance and ICT;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- 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); and
- approve the Annual Accounts for signature.

I confirm that these Annual Accounts were approved for signature by the Audit and Governance Panel at its meeting on 24 September 2020.

## The Head of Finance and ICT's responsibilities

The Head of Finance and ICT, as Section 95 Officer, is responsible for the preparation of the Council'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 these Annual Accounts, the Head of Finance and ICT has:

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

The Head of Finance and ICT has also:

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

I certify that the Annual Accounts statements give a "true and fair view" of the financial position of the Council at the reporting date and the transactions of South Ayrshire Council and its group for the year ended 31 March 2020.

DocuSigned by:

Peter Henderson

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**Councillor Peter Henderson**  
**Leader of the Council**

**24 September 2020**

DocuSigned by:

Tim Baulk

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**Tim Baulk BA Acc CPFA**  
**Head of Finance and ICT**

**24 September 2020**

## Section 3: Annual Governance Statement

This statement sets out the framework within which the Council has put in place proper arrangements (known as the governance framework), for the governance of the Council's affairs thereby facilitating the effective exercise of its functions, ensuring that appropriate arrangements are in place for the management of risk and that appropriate systems of internal financial control are in place.

### Scope of Responsibility

South Ayrshire Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 2003 to make arrangements to secure Best Value, through continuous improvement in the way in which its functions are exercised, having regard to economy, efficiency, effectiveness, the need to meet the equal opportunity requirements, and contributing to the achievement of sustainable development.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the Council's Framework is available on our website at [www.south-ayrshire.gov.uk/delivering-good-governance](http://www.south-ayrshire.gov.uk/delivering-good-governance) and can also be obtained from the Service Lead – Democratic Governance, South Ayrshire Council, County Buildings, Wellington Square, Ayr, KA7 1DR.

The Council complies with the requirements of the CIPFA Statement on *"The Role of the Chief Financial Officer in Local Government 2016"*. The Council's Head of Finance & ICT (Section 95 Officer) has overall responsibility for the Council's financial arrangements, and is professionally qualified and suitably experienced to lead the Council's finance function and to direct finance staff.

The Council complies with the Public Sector requirement within Standard 1210 Proficiency, of the Public Sector Internal Audit Standards (PSIAS) 2013, "The chief audit executive must hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced". The Council's Chief Internal Auditor has responsibility for the Council's Internal Audit function and is professionally qualified and suitably experienced to lead and direct the Council's Internal Audit staff.

Elected Members and officers of the Council are committed to the concept of sound governance and the effective delivery of Council services. The Audit and Governance Panel, which acts as the Council's Audit Committee, operates in accordance with CIPFA's *Audit Committee Principles in Local Authorities in Scotland* and *Audit Committees: Practical Guidance for Local Authorities*.

The Audit and Governance Panel performs a scrutiny role in relation to the application of *PSIAS* and regularly monitors the performance of the Council's Internal Audit service. The Council's Chief Internal Auditor has responsibility to review independently and report to the Audit Committee annually, to provide assurance on the adequacy and effectiveness of conformance with the *PSIAS*.

This statement explains how the Council has complied with the Framework and also meets the requirements of The Local Authority Accounts (Scotland) Regulations 2014 which requires all relevant bodies to prepare an Annual Governance Statement.

## The Purpose of the Governance Framework

The governance framework comprises the systems and processes, culture and values by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

Any system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, objectives and outcomes and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the Council's policies, objectives and outcomes, to evaluate the likelihood and potential impact of those risks being realised; and to manage them efficiently, effectively and economically.

The governance framework has been in place at South Ayrshire Council for the year ended 31 March 2020 and up to the date of approval of this statement of accounts.

## The Governance Framework

The Council's Framework is built around seven principles and twenty-one sub principles that set out the key building blocks of good governance. These are allocated to lead officers who review and assess the effectiveness of the arrangements that are in place within South Ayrshire Council.

	<b>Core Principle</b>	<b>Sub-principles</b>
A	<b>Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law</b>	Behaving with integrity
		Demonstrating strong commitment to ethical values
		Respecting the rule of law
B	<b>Ensuring openness and comprehensive stakeholder engagement</b>	Openness
		Engaging comprehensively with institutional stakeholders
		Engaging with individual citizens and service users effectively
C	<b>Defining outcomes in terms of sustainable economic, social, and environmental benefits</b>	Defining outcomes
		Sustainable economic, social and environmental benefits
D	<b>Determining the actions necessary to optimise the achievement of the intended outcomes</b>	Determining actions
		Planning actions
		Optimising achievement of intended outcomes
E	<b>Developing the Council's capacity, including the capability of its leadership and the individuals within it</b>	Developing the Council's capacity
		Developing the capability of the Council's leadership
F	<b>Managing risks and performance through robust internal control and strong public financial management</b>	Managing risk
		Managing performance
		Robust internal control
		Managing data
		Strong public financial management
G	<b>Implementing good practices in transparency, reporting, and audit to deliver effective accountability</b>	Implementing good practice in transparency
		Implementing good practices in reporting
		Assurance and effective accountability

## Internal Financial Control

The Council's system of internal controls is based on a framework of regular management information, financial regulations, administrative procedures, management supervision and a system of delegation and accountability. Development and maintenance of the system is undertaken by managers within the Council.

In particular the system includes:

- comprehensive budgeting systems;
- setting targets to measure financial and other performance;
- regular reviews of periodic and annual financial reports which indicate financial performance against forecasts and targets;
- clearly defined capital expenditure guidelines; and
- formal project management disciplines, as appropriate.

The system of financial control can only ever provide reasonable and not absolute assurance, that control weaknesses or irregularities do not exist or that there is no risk of material errors, losses, fraud or breaches of laws or regulations. Accordingly, the Council is continually seeking to improve the effectiveness of its system of internal controls.

The main objectives of the Council's internal control systems are:

- to ensure adherence to management policies and directives in order to achieve the organisation's objectives;
- to safeguard assets;
- to ensure relevance, reliability and integrity of information, so ensuring as far as possible the completeness and accuracy of records; and
- to ensure compliance with statutory regulations.

The system of financial control is reviewed to ensure continued effectiveness of the work of managers in the Council.

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The Internal Audit section operates in accordance with United Kingdom Public Sector Internal Audit Standards which came into force with effect from 1 April 2013 (and updated in March 2017). The requirements under PSIAS represent best practice and are mandatory.

The Chief Internal Auditor prepares an annual internal audit plan which outlines the programme of work to be undertaken. The plan is developed utilising a risk-based methodology and takes into account the requirement placed upon the Chief Internal Auditor to deliver an annual internal audit opinion. The plan needs to be flexible to reflect the changing risks and priorities of the organisation. The plan, and any material changes to the plan during the year, is approved by the Audit and Governance Panel. The annual assurance statement from the Chief Internal Auditor for the 2019-2020 financial year states "Internal Audit can provide reasonable assurance over the framework of governance, risk management and control and that adequate controls were in place, and were operating throughout the Council in 2019-2020".

Internal Audit reports are brought to the attention of management, including system weaknesses and/or non-compliance with expected controls, together with agreed action plans. It is management's responsibility to ensure that due consideration is given to internal audit reports and that appropriate action is taken on audit recommendations. This includes management taking remedial action where appropriate, or accepting that there may be a level of risk exposure if the weaknesses identified are not addressed for operational reasons. Internal Audit is required to ensure that appropriate arrangements are made to determine whether action has been taken on Internal Audit recommendations or that management has understood and assumed the risk of not taking action. Matters arising from internal audit work are reported to all Members, Chief Executive, Depute Chief Executive and Director (People), Head of Finance and ICT (as Section 95 Officer), Head of Regulatory Services (as Monitoring Officer) and external audit.

Internal Audit use a system of categorisation to aid the reader of the report in understanding control weaknesses. 'Full assurance' is used where appropriate controls are in place; 'Substantial assurance' is where the majority of controls are in place and working effectively; 'Reasonable assurance' is where controls are in place but more effective controls are required and 'Low assurance' or 'No assurance' is where no effective controls are in place. Of the twenty-four reviews carried out by Internal Audit during 2019-2020, one resulted in a 'full assurance' opinion, thirteen resulted in a 'substantial assurance' opinion and 10 resulted in a 'reasonable assurance' opinion. There were no 'low/no assurance' reports issued. Management have continued to react positively to all audit reports and have, in the main, implemented audit recommendations in order to enhance internal controls and to minimise the risks associated with audit findings.

With regard to the entities incorporated in the Group Accounts, the Council is not aware of any weaknesses within their internal control systems and has placed reliance on the individual Statements of Internal Financial Control where appropriate.

## Review of Effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the lead officers within the Council who have responsibility for the development and maintenance of the governance environment, Internal Audit's Annual Statement on the Adequacy of Internal Controls, and also by comments made by the external auditor and other review agencies and inspectorates.

Relating this, a year-end assessment against each of the 21 sub principles within the Council's Framework has been undertaken and signed off by the respective Service Leads / Heads of Service. These assessments were scrutinised by the Audit and Governance Panel in June 2020, ahead of formal consideration of the Council's unaudited Annual Accounts in August 2020 as agreed with the Council's external auditor.

2019-20 Assessments of each aspect in the Delivering Good Governance Framework					
Behaving with integrity		Sustainable economic, social and environmental benefits		Managing performance	
Demonstrating strong commitment to ethical values		Determining actions		Robust internal control	
Respecting the rule of law		Planning actions		Managing data	
Openness		Optimising achievement of intended outcomes		Strong public financial management	
Engaging comprehensively with institutional stakeholders		Developing the Council's capacity		Implementing good practice in transparency	
Engaging with individual citizens and service users effectively		Developing the capability of the Council's leadership		Implementing good practices in reporting	
Defining outcomes		Managing risk		Assurance and effective accountability	
<b>Key:</b>	 Effective	 Effective but scope for improvement	 Requiring improvement		

This assessment shows seventeen aspects are assessed as 'Effective' and four are effective but have scope for improvement.

## Review of 2019-20 Planned Improvement Actions

The following improvement actions were identified in the 2018-19 Annual Governance Statement and progress is shown against each action in the table below. These Actions have rolled over to the 2020-21 Improvement Action Programme:

Core Principle	2019-20 Improvement Action	Progress
<b>Ensuring openness</b>	Enhanced tools to capture client satisfaction data to be added to the Council's Internet Site	A new digital platform is now in the process of being stood up and developed and consideration of client satisfaction is being incorporated into this redesign (not fully implemented).
	Development of a new communications strategy	A new draft Communications Strategy has been developed. Public consultation on communication was paused due to Covid-19. It is anticipated that the Strategy will be presented to a Council Panel meeting later in 2020 (not fully implemented).
	Review of governance arrangements for the Integrated Joint Board (IJB) and Ayrshire Roads Alliance (ARA)	<p>A review of the Scheme of Integration was completed and recommendations made to the Scottish Government. In addition, a review was carried out of how the governance of the IJB operated regarding its relationship with the Council, and a paper agreed between the parties. The planned joint training sessions to confirm the governance process for IJB members and councillors will complete the action required.</p> <p>Discussions have taken place between the Council and East Ayrshire Council regarding aspects of the governance arrangements for ARA. New proposals have been submitted by the Council to East Ayrshire Council for their consideration (not fully implemented).</p>
	Development of a procedure to highlight the difference engagement has made - Community Engagement Strategy to be presented to Leadership Panel in June 2019.	A new Community Engagement Strategy was approved by the Council's Leadership Panel on 18 February 2020. Work continues, to develop how the Strategy can be taken forward with South Ayrshire communities and Elected Members (implemented).
	A short life working group to review the effectiveness and relevance of our Equality Impact Scopings and Assessments and the wider policy landscape, to report to Panel by 31 December 2019	A 'Health in all Policies' working group was established in Spring 2019. Since its establishment there has been a significant increase of the working group's scope. The working group are developing an integrated assessment that covers many strategic priorities including health, equalities, Fairer Scotland, climate change and other Council priorities (not fully implemented, scope of action has changed).
<b>Defining outcomes</b>	Head of Terms for the Ayrshire Growth Deal were signed on 08.03.19, business cases now to be developed to include details as to how projects will address inclusive growth	<p>A Regional Economic Partnership and sub-committee formed between the 3 Ayrshire Councils and other partner organisations with regular meetings taking place. Regional Economic Strategy being developed.</p> <p>Heads of Terms for Ayrshire Growth Deal agreed and work has progressed on full business cases for formal agreement of deal. Delay in the signing of the documents by the Government due to Covid-19 crisis (not fully implemented).</p>
<b>Determining the actions</b>	A report will be taken to leadership panel in June 2019 seeking approval to establish a Change Programme	A report was approved by Council on 24 March 2020 that agreed the broad themes of a change programme and tasked Assistant Directors to bring forward a detailed programme of activities to a Council Panel meeting by June 2020. This work has been delayed due to the Covid-19 pandemic. It is anticipated that the programme will be presented to a Council Meeting later in 2020 (implemented)

## Other 2019-2020 Governance Developments

A revised Performance Management Framework has afforded continued simplification of data collation and more effective reporting on the delivery of the Council Plan during 2019-20. Reporting on the commitments and ambition statements within the plan are now scheduled to take place on a more regular basis, scrutinised by the Service and Performance Panel. Greater use of qualitative narrative as well as the quantitative data is being utilised to highlight successes and areas for improvement.

The Council's political decision-making structures continue to be refined. The Council's management structure has been further reviewed resulting in the amendment of some Chief Officer remits and responsibilities to better support delivery of the Council's strategic objectives. All Chief Officer positions are now filled. Chief Officers work in conjunction with service leads to refine responsibilities to focus on service delivery and enhancements, as well as achieving balanced budgets.

From the turn of the year, work was carried out across all service areas to develop the Council's new purpose, vision and values and to highlight employees' contribution to the Council's wider ambitions. The refreshed purpose, vision and values are being embedded into the Council's Performance and Development Review system and its approach to recruitment.

The Strategic Risk Register continues to be regularly reviewed, updated and reported to the relevant Panels. Risks continue to be grouped under three themes - Governance, Protection and Resources – with ten strategic risks identified as having the potential to significantly threaten the achievement of the Council's overarching objectives.

Service Leads have been provided with workforce planning data to assist them to plan for the future. All six locality planning groups continue to meet regularly and have been engaged in and involved with the development of a number of strategic and delivery plans as part of the updated Local Outcomes Improvement Plan for the Community Planning Partnership.

The 'Our future – let's talk' budget engagement activity generated 711 responses this year. The feedback from communities was fed into the decisions taken for the Council's budget for 2020-21.

During 2019-20, six Participatory Budgeting (Decision Days) were held, involving 103 community groups with 1,212 people voting. Decisions on £83,614 of grants were made and distributed to a number of community groups. An annual report on the Local Outcomes Involvement Plan (LOIP) will be presented to the Community Planning Board in October 2020 and work continues on the delivery of outcomes for the strategic themes.

During 2019-20, the Council's Delivering Good Governance Framework continued to be refined, working in conjunction with Chief Officers and service leads, reporting the outcome to Elected Members. The supporting improvement actions from this year's assessment form part of a rolling programme to address any recognised areas for development and emerging priorities.

In June 2020, the Council and NHS Ayrshire and Arran agreed to review arrangements for Planning Commissioning and Delivery of Health and Social Care Services through a review of the South Ayrshire Integration Scheme. The Council agreed that the Scheme should be reviewed alongside a review of the governance and strategic planning arrangements at the IJB and Council. The conclusions from the review were presented to Council in March 2020 with further actions identified to be taken forward during 2020-21 to address outstanding governance and accountability matters.

## Covid-19

In order to manage the response to the Covid19 pandemic, the Council established a Corporate Leadership Team Strategic Response 'Gold' Group which is chaired by the Chief Executive. This group initially met daily, but now meets weekly to facilitate strategic decision making. The 'Gold' Group is supported by an Incident Co-ordination 'Silver' Group which is chaired by the Incident Coordinator. Initially it met daily, but now meets twice weekly. The Group acts as a forum for tactical operational decision making. In addition, the Head of Legal, HR and Regulatory Services attends the Ayrshire Local Resilience Partnership which was activated in response to the pandemic. The multi-agency forum helps ensure a whole system approach to the response and subsequent recovery to the pandemic.

On 24 March 2020, recommendations were put before a Special Council to streamline the Council's decision-making structure and governance arrangements to better enable staff and Members to adhere to the UK and Scottish Government's guidance and to support the operational response to the Covid-19 pandemic whilst allowing business of an urgent nature to be determined.

## 2020-21 Improvement Actions

	Core Principle	Improvement Action
<b>A</b>	<b>Behaving with integrity</b>	No actions planned
<b>B</b>	<b>Ensuring openness</b>	Enhanced tools to capture client satisfaction data to be added to the Council's Internet Site.
		Development of a new communications strategy.
		Review of governance arrangements for the Integrated Joint Board (IJB) and Ayrshire Roads Alliance (ARA).
		Development of a procedure to highlight the difference engagement has made
		Development of an integrated assessment tool incorporating equalities, health in all policies, Fairer Scotland Duty etc. to ensure key strategic priorities are considered at the start of the policy development process with review of effectiveness and relevance reported to Panel before 31 August 2021 (Link to A and C).
		Enhanced tools to capture client satisfaction data to be added to the Council's Internet Site.
<b>C</b>	<b>Defining outcomes</b>	Business cases to be developed to include details as to how Ayrshire Growth Deal projects will address Inclusive Growth.
		Complete Revised Asset Management Plan
<b>D</b>	<b>Determining the actions</b>	Complete a detailed programme of activities to provide a more rigorous approach to delivering change to be presented to Panel by December 2020 (Link to E and F).
<b>E</b>	<b>Developing the Council's capacity</b>	No actions planned
<b>F</b>	<b>Managing risks and performance</b>	The conclusion and outcomes from the review of the financial and associated operating systems will directly inform subsequent work streams to improve the flow of financial management information to budget holders.
<b>G</b>	<b>Deliver effective accountability</b>	No actions planned

## Assurance

Subject to the above, and on the basis of the assurance provided, we consider the governance and internal control environment operating during 2019-2020 provides reasonable and objective assurance that any significant risk impacting on our principal objectives will be identified and actions taken to avoid or mitigate their impact. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

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*Eileen Howat*  
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**Eileen Howat**  
**Chief Executive**

**24 September 2020**

DocuSigned by:  
*Peter Henderson*  
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**Councillor Peter Henderson**  
**Leader of the Council**

**24 September 2020**

## Section 4: Core Financial Statements

### I) Comprehensive Income and Expenditure Statement for the year ended 31 March 2020

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 from taxation or rents. Authorities raise taxation and rents to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Movement in Reserves Statement and the Expenditure and Funding Analysis.

2018-2019				2019-2020				
Expend	Council	Net	Group	Expend	Council	Net	Group	
£'000	£'000	£'000	Net	£'000	£'000	£'000	Net	
			£'000				£'000	
57,706	(34,736)	22,970	23,006	Chief Executive's Strategic Office	57,105	(32,725)	24,380	24,401
136,799	(18,369)	118,430	118,217	People	146,114	(23,540)	122,574	122,361
63,647	(10,849)	52,798	52,548	Place	58,797	(10,205)	48,592	48,342
32,277	(32,219)	58	58	Housing Revenue Account	32,278	(32,468)	(190)	(190)
76,760	-	76,760	76,760	Social Care: Contribution to IJB	76,585	-	76,585	76,585
101,695	(102,461)	(766)	(766)	Social Care: Provision of Services	103,660	(104,413)	(753)	(753)
15,930	(2,721)	13,209	13,198	Miscellaneous Services	1,680	(229)	1,451	1,454
-	-	-	426	Common Good Funds	-	-	-	489
<b>484,814</b>	<b>(201,355)</b>	<b>283,459</b>	<b>283,447</b>	<b>Cost of services</b>	<b>476,219</b>	<b>(203,580)</b>	<b>272,639</b>	<b>272,689</b>
		(53)	(53)	(Gain)/ loss on disposal of non-current assets	810	(323)	487	487
				<b>Financing and investment income and expenditure:</b>				
		14,415	14,415	Interest payable and similar charges		15,265	15,265	
		(558)	(558)	Interest and investment income	<i>Note 10</i>	(487)	(487)	
		2,593	2,593	Net interest on the net defined benefit liability	<i>Note 30</i>	3,946	3,946	
		-	(398)	Share of (surplus)/ deficit on provision of services by associates		-	(2,977)	
		(273,460)	(273,460)	<b>Taxation and non-specific grant income</b>	<i>Note 24</i>	(285,900)	(285,900)	
		<b>26,396</b>	<b>25,986</b>	<b>Deficit on the provision of services</b>		<b>5,950</b>	<b>3,023</b>	
		(6,673)	(6,673)	(Surplus)/ deficit on the revaluation of property, plant and equipment		(4,164)	(4,164)	
		33	33	(Surplus)/ deficit on financial assets measured at fair value		(7)	(7)	
		45,031	45,031	Actuarial (gains)/ losses on pension fund assets and liabilities	<i>Note 18</i>	(79,316)	(79,316)	
		-	3,911	Share of other comprehensive income and expenditure of associates		-	(2,042)	
		<b>38,391</b>	<b>42,302</b>	<b>Other comprehensive (income) and expenditure</b>		<b>(83,487)</b>	<b>(85,529)</b>	
		<b>64,787</b>	<b>68,288</b>	<b>Total comprehensive (income) and expenditure</b>		<b>(77,537)</b>	<b>(82,506)</b>	

## II) Movement in Reserves Statement for the year ended 31 March 2020

This statement shows the movement in the year on the different reserves held by the Council, analysed into “Usable Reserves” (i.e. those that can be applied to fund expenditure or reduce local taxation) and “Unusable Reserves”. The surplus or (deficit) on the Provision of Services line shows the true economic cost of providing the Council’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 for council tax setting. The Net Increase or Decrease before Transfers to Earmarked Reserves shows the statutory General Fund Balance before any discretionary transfers to and from the earmarked reserves of the Council. The Group element of the statement below provides details of the Council’s share of the results of two subsidiaries and four associates. Separate notes to the Group are contained in section eleven of the accounts on pages 94 to 96.

2019-2020	Council Reserves								Share of Group	Total Group Reserve
	General fund balance	Housing revenue account balance	Capital grants unapplied account	Other Statutory Funds	Capital fund	Total usable reserve	Unusable reserves	Total Council reserves	Usable and unusable	Usable and unusable
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31 March 2019</b>	18,542	9,357	3,511	2,381	3,695	<b>37,486</b>	<b>227,101</b>	<b>264,587</b>	33,892	<b>298,479</b>
<b>Movement in reserves during 2019-2020</b>										
Surplus or (deficit) on the provision of services	(7,700)	1,750	-	-	-	<b>(5,950)</b>	-	<b>(5,950)</b>	2,927	<b>(3,023)</b>
Other comprehensive income and expenditure	-	-	-	-	-	-	<b>83,487</b>	<b>83,487</b>	2,042	<b>85,529</b>
<b>Total comprehensive income and expenditure</b>	<b>(7,700)</b>	<b>1,750</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(5,950)</b>	<b>83,487</b>	<b>77,537</b>	<b>4,969</b>	<b>82,506</b>
Adjustments between accounting basis and funding basis (Note 5)	7,043	222	(737)	(199)	-	<b>6,329</b>	<b>(6,329)</b>	-	-	-
<b>Net increase/ (decrease) before transfers</b>	<b>(657)</b>	<b>1,972</b>	<b>(737)</b>	<b>(199)</b>	<b>-</b>	<b>379</b>	<b>77,158</b>	<b>77,537</b>	<b>4,969</b>	<b>82,506</b>
Transfers to/from earmarked reserves (Note 6)	514	-	-	(47)	(467)	-	-	-	-	-
<b>Increase/ (decrease) in 2019-2020</b>	<b>(143)</b>	<b>1,972</b>	<b>(737)</b>	<b>(246)</b>	<b>(467)</b>	<b>379</b>	<b>77,158</b>	<b>77,537</b>	<b>4,969</b>	<b>82,506</b>
<b>Balance at 31 March 2020</b>	<b>18,399</b>	<b>11,329</b>	<b>2,774</b>	<b>2,135</b>	<b>3,228</b>	<b>37,865</b>	<b>304,259</b>	<b>342,124</b>	<b>38,861</b>	<b>380,985</b>

2018-2019	Council Reserves								Share of Group	Total Group Reserve
	General fund balance	Housing revenue account balance	Capital grants unapplied account	Other Statutory funds	Capital fund	Total usable reserve	Unusable reserves	Total Council reserves	Usable and unusable	Usable and unusable
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31 March 2018</b>	27,774	11,597	3,813	1,722	-	44,906	284,468	329,374	37,393	366,767
<b>Movement in reserves during 2018-2019</b>										
Surplus or (deficit) on the provision of services	(27,820)	1,424	-	-	-	(26,396)	-	(26,396)	410	(25,986)
Other comprehensive income and expenditure	-	-	-	-	-	-	(38,391)	(38,391)	(3,911)	(42,302)
<b>Total comprehensive income and expenditure</b>	(27,820)	1,424	-	-	-	(26,396)	(38,391)	(64,787)	(3,501)	(68,288)
Adjustments between accounting basis and funding basis (Note 5)	22,970	(3,664)	(302)	(28)	-	18,976	(18,976)	-	-	-
<b>Net increase/ (decrease) before transfers</b>	(4,850)	(2,240)	(302)	(28)	-	(7,420)	(57,367)	(64,787)	(3,501)	(68,288)
Transfers to/from earmarked reserves (Note 6)	(4,382)	-	-	687	3,695	-	-	-	-	-
<b>Increase/ (decrease) in 2018-2019</b>	(9,232)	(2,240)	(302)	659	3,695	(7,420)	(57,367)	(64,787)	(3,501)	(68,288)
<b>Balance at 31 March 2019</b>	18,542	9,357	3,511	2,381	3,695	37,486	227,101	264,587	33,892	298,479

### III) Balance Sheet as at 31 March 2020

The Balance Sheet is a snapshot of the value at the reporting date of the assets and liabilities recognised by the Council. The net assets (assets less liabilities) of the Council are matched by the reserves held. Reserves are reported in two categories: (i) usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use; and (ii) unusable reserves, i.e. those reserves that the Council is not able to use to provide services. These include reserves that hold unrealised gains or losses, 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".

2018-2019			2019-2020	
Council £'000	Group £'000		Council £'000	Group £'000
693,293	709,892	Property, plant and equipment	746,606	763,207
3,332	3,332	Heritage assets	3,332	3,332
3,005	3,005	Intangible assets	5,741	5,741
968	1,015	Long-term investments	1,125	1,125
<b>700,598</b>	<b>717,244</b>	<b>Long-term assets</b>	<b>756,804</b>	<b>773,405</b>
36,000	36,000	Short-term investments	25,000	25,000
64	64	Assets held for sale	64	64
463	465	Inventories	539	541
28,670	28,680	Short-term debtors	23,524	23,532
23,879	23,879	Cash and cash equivalents	22,888	22,888
<b>89,076</b>	<b>89,088</b>	<b>Current assets</b>	<b>72,015</b>	<b>72,025</b>
(62,931)	(62,931)	Short-term borrowing	(51,004)	(51,004)
(59,079)	(59,120)	Short-term creditors	(49,377)	(49,398)
(453)	(453)	Short-term provisions	(507)	(507)
(7,327)	(6,213)	Other short-term liabilities	(7,075)	(5,972)
<b>(129,790)</b>	<b>(128,717)</b>	<b>Current liabilities</b>	<b>(107,963)</b>	<b>(106,881)</b>
(2,127)	(2,127)	Long-term provisions	(1,346)	(1,346)
-	16,192	Investments in associates	-	21,199
(162,022)	(162,022)	Long-term borrowing	(186,010)	(186,010)
(3,190)	(3,190)	Other long-term liabilities (finance leases)	(2,972)	(2,972)
(155,657)	(155,657)	Other long-term liabilities (pensions)	(94,090)	(94,090)
(72,301)	(72,332)	Other long-term liabilities	(94,314)	(94,345)
<b>(395,297)</b>	<b>(379,136)</b>	<b>Long-term liabilities</b>	<b>(378,732)</b>	<b>(357,564)</b>
<b>264,587</b>	<b>298,479</b>	<b>Net assets</b>	<b>342,124</b>	<b>380,985</b>
37,486	37,486	Usable reserves	37,865	37,865
227,101	227,101	Unusable reserves	304,259	304,259
-	33,892	Group reserves	-	38,861
<b>264,587</b>	<b>298,479</b>	<b>Total reserves</b>	<b>342,124</b>	<b>380,985</b>

The unaudited annual Accounts were issued on 29 June 2020 and the audited annual accounts were authorised for issue on 24 September 2020.

DocuSigned by:

*Tim Baulk*

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**Tim Baulk BA Acc CPFA**  
**Head of Finance and ICT**

**24 September 2020**

## IV) Cash Flow Statement for the year ended 31 March 2020

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

2018-2019			2019-2020	
Council £'000	Group £'000		Council £'000	Group £'000
<b>26,396</b>	<b>25,986</b>	<b>Deficit on the provision of services</b>	<b>5,950</b>	<b>3,023</b>
		<i>Adjustments to deficit on the provision of services for non-cash movements:</i>		
(24,840)	(24,840)	Depreciation of property, plant and equipment	(26,578)	(26,578)
(14,220)	(14,220)	Impairment of property, plant and equipment	(7,951)	(7,951)
(310)	(310)	Amortisation of intangible assets	(441)	(441)
(10,240)	(10,279)	(Increase)/ decrease in creditors	7,237	7,150
4,625	4,625	Increase/(decrease) in debtors	(5,514)	(5,514)
25	25	Increase/ (decrease) in inventories	76	76
(26,483)	(26,483)	Increase in pension liability	(17,749)	(17,749)
(286)	(286)	Carrying amount of non-current assets sold	(810)	(810)
220	220	Other non-cash items	734	734
(71,509)	(71,548)	<b>Adjustments to deficit on the provision of services for non-cash movements</b>	(50,996)	(51,083)
21,911	22,309	Adjustment for items included in the deficit on the provision of services that are investing or financing activities	14,312	17,287
<b>(23,202)</b>	<b>(23,253)</b>	<b>Net cash flows from operating activities</b>	<b>(30,734)</b>	<b>(30,773)</b>
36,496	36,547	Investing activities	37,346	37,385
(15,122)	(15,122)	Financing activities	(5,621)	(5,621)
<b>(1,828)</b>	<b>(1,828)</b>	<b>Net (increase)/ decrease in cash and cash equivalents</b>	<b>991</b>	<b>991</b>
(22,051)	(22,051)	Cash and cash equivalents at the beginning of the reporting period	(23,879)	(23,879)
<b>(23,879)</b>	<b>(23,879)</b>	<b>Cash and cash equivalents at the end of the reporting period</b>	<b>(22,888)</b>	<b>(22,888)</b>

## Section 5: Notes to the Core Financial Statements

### Note 1: Expenditure and Funding analysis

The Expenditure and Funding Analysis shows how the annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by the Council in comparison with those resources consumed or earned by the Council in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2018-2019				2019-2020		
Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement		Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£000	£000	£000		£000	£000	£000
19,554	3,416	22,970	Chief Executive's Strategic Office	19,819	4,561	24,380
98,920	19,510	118,430	People	104,134	18,440	122,574
42,561	10,237	52,798	Place	39,767	8,825	48,592
18	40	58	Housing Revenue Account	(4,328)	4,138	(190)
76,760	-	76,760	Social Care: Contribution to IJB	76,585	-	76,585
(3,531)	2,765	(766)	Social Care: Provision of Services	(4,138)	3,385	(753)
10,424	2,785	13,209	Miscellaneous Services	12,562	(11,111)	1,451
<b>244,706</b>	<b>38,753</b>	<b>283,459</b>	<b>Net Cost of Services</b>	<b>244,402</b>	<b>28,237</b>	<b>272,639</b>
(237,616)	(19,447)	(257,063)	Other Income and Expenditure	(245,717)	(20,972)	(266,689)
<b>7,090</b>	<b>19,306</b>	<b>26,396</b>		<b>(1,315)</b>	<b>7,265</b>	<b>5,950</b>
<b>39,371</b>			<b>Opening General Fund and HRA balance</b>	<b>27,899</b>		
<b>(7,090)</b>			<b>Less/Plus Surplus or (Deficit) on General Fund and HRA balance in the year</b>	<b>1,315</b>		
<b>(4,382)</b>			<b>Transfer (to)/from earmarked reserves</b>	<b>514</b>		
<b>27,899</b>			<b>Closing General Fund and HRA balance as at 31 March</b>	<b>29,728</b>		

The following table provides a reconciliation of the main adjustments to the Net Expenditure Chargeable to the General Fund and HRA Balances to arrive at the amounts in the Comprehensive Income and Expenditure Statement. The relevant transfers between reserves are explained in the Movement in Reserves Statement.

<b>2019-2020</b>	<b>Adjustments for capital purposes (Note 1)</b>	<b>Net changes for the pensions adjustment (Note 2)</b>	<b>Other differences (Note 3)</b>	<b>Total adjustments</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Chief Executive's Strategic Office	1,694	2,744	123	4,561
People	13,477	4,315	648	18,440
Place	4,422	4,237	166	8,825
Housing Revenue Account	3,668	447	23	4,138
Social Care: Contribution to IJB	-	-	-	-
Social Care: Provision of Services	(28)	3,649	(236)	3,385
Miscellaneous Services	(9,523)	(1,588)	-	(11,111)
<b>Net cost of services</b>	<b>13,710</b>	<b>13,803</b>	<b>724</b>	<b>28,237</b>
Other Income and Expenditure from the Expenditure and funding analysis	(24,502)	3,946	(416)	(20,972)
<b>Difference between the General Fund surplus or deficit and Comprehensive Income and Expenditure Statement</b>	<b>(10,792)</b>	<b>17,749</b>	<b>308</b>	<b>7,265</b>

<b>2018-2019</b>	<b>Adjustments for capital purposes (Note 1)</b>	<b>Net changes for the pensions adjustment (Note 2)</b>	<b>Other differences (Note 3)</b>	<b>Total adjustments</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Chief Executive's Strategic Office	1,622	1,849	(55)	3,416
People	16,409	2,999	102	19,510
Place	7,520	2,808	(91)	10,237
Housing Revenue Account	(740)	794	(14)	40
Social Care: Contribution to IJB	-	-	-	-
Social Care: Provision of Services	-	2,460	305	2,765
Miscellaneous Services	(10,195)	12,980	-	2,785
<b>Net Cost of services</b>	<b>14,616</b>	<b>23,890</b>	<b>247</b>	<b>38,753</b>
Other Income and Expenditure from the Expenditure and funding analysis	(21,624)	2,593	(416)	(19,447)
<b>Difference between the General Fund surplus or deficit and Comprehensive Income and Expenditure Statement</b>	<b>(7,008)</b>	<b>26,483</b>	<b>(169)</b>	<b>19,306</b>

### Note 1: Adjustments for Capital Purposes

This column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

**Other operating expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

**Financing and investment income and expenditure** – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

**Taxation and non-specific grant income and expenditure** – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non-Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

## Note 2: Net Change for the Pensions Adjustments

Net change for the removal of pension contributions and the addition of IAS 19 *Employee Benefits* pension related expenditure and income:

**For services** this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.

For **Financing and investment income and expenditure** - the net interest on the defined benefit liability is charged to the CIES.

## Note 3: Other differences

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

For **Financing and investment income and expenditure** the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.

## Expenditure and income analysed by nature

The authority's expenditure and income is analysed as follows:

	2019-2020 £000	2018-2019 £000
<b>Expenditure</b>		
Employee benefit expenses	195,981	192,449
Other service expenses	249,215	255,588
Depreciation, amortisation and impairment	34,969	39,370
Interest payments	15,265	14,415
(Gain)/loss on the disposal of assets	487	(53)
<b>Total Expenditure</b>	<b>495,917</b>	<b>501,769</b>
<b>Income</b>		
Fees, charges and other service income	(203,580)	(201,355)
Interest & investment income	(487)	(558)
Income from Council Tax, non-domestic rates	(100,224)	(92,854)
Government grants and contributions	(185,676)	(180,606)
<b>Total Income</b>	<b>(489,967)</b>	<b>(475,373)</b>
<b>Deficit in the provision of services</b>	<b>5,950</b>	<b>26,396</b>

## Note 2: Prior period adjustment

The Significant Accounting Policies provided in Note 34 of Section 6 to these accounts on pages 67 to 78 state that prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. There were no prior period adjustments in 2019-20.

## Note 3: Material items of income and expense

Where material items are not disclosed on the face of the Comprehensive Income and Expenditure Statement (CIES), *The Code* requires a disclosure of the nature and amount of material items. In 2019-2020 there were no material items of income and expense requiring additional disclosure.

## **Note 4: Events after the Balance Sheet date**

The unaudited Annual Accounts were signed by the Head of Finance and ICT on 24 September 2020. Where events which took place before this date provided information about conditions which existed at 31 March 2020, the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

### **Covid-19 Pandemic**

The financial statements and notes have not been adjusted for the events in relation to the Covid-19 pandemic which have taken place since 31 March 2020 as these events provide information which is relevant to an understanding of the Council's financial position and future risks but do not relate to conditions at that date.

### **Leader of South Ayrshire Council**

At a meeting on 25 June 2020, Councillor Peter Henderson was elected to replace Councillor Douglas Campbell as Leader of the Council.

### **Pensions – McCloud and Goodwin**

The Council's net pension liability continues to be affected by the McCloud legal case in respect of potential discrimination in the implementation of transitional protections following changes to public sector pension schemes in 2015. Following consultation published by the Scottish Public Pensions Agency subsequent to the year end, Strathclyde Pension Fund's actuary amended its estimate of the impact of McCloud to only include members who were in service before 1 April 2012. Another legal case - the Goodwin judgement - has also impacted on the Council's pension scheme. The judgement is in respect of a case where there was deemed to be discrimination in spousal transfer on death of the member (a male widower was deemed to be discriminated against through receiving a different level of benefits than a female widow). Strathclyde Pension Fund's actuary amended its estimates subsequent to the year-end to account for this case. The net effect of these two changes is to reduce the Council's net pension liability by £3.813m from that disclosed in the unaudited Annual Accounts. This increase in value has been reflected in the audited Annual Accounts as an adjusting event.

However, while the actuary made this adjustment to past service costs, it did not make any allowance for the impact of McCloud on the current service costs; therefore, it does not fully represent the cost of the benefits accruing for current service. The estimated impact of this is £0.394m which is deemed to be immaterial and therefore the Council has not adjusted for this.

## **Note 5: 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 Council in the year in accordance with proper accounting practice, to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure. The following sets out a description of the usable reserves that the adjustments are made against.

### **General Fund**

The General Fund is the statutory fund into which all the receipts of an authority are required to be paid and out of which all liabilities of the Council are met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund balance, therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year.

## Housing Revenue Account balance

The Housing Revenue Account balance reflects the statutory obligation to maintain a revenue account for local authority housing provision in accordance with the Housing (Scotland) Act 1987. It contains the balance of income and expenditure as defined by the Act that is available to fund future expenditure in connection with the Council's landlord function.

## Capital Grants Unapplied Account

The Capital Grants Unapplied Account holds the grants and contributions received towards capital projects for which the Council has met the conditions, that would otherwise require repayment of the monies, but which have yet to be applied to meet expenditure.

## Repairs and Renewals Fund

The Repairs & Renewals Fund is used to assist with abnormal repairs and maintenance to Council assets and holds contributions received from the general fund for this purpose. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year end.

2019-2020

	General fund balance £000	Housing revenue account balance £000	Capital grants unapplied account £000	Repairs & renewals fund £000	Net movement £000
<b>Adjustments primarily involving the capital grants unapplied account:</b>					
Application of grants to capital financing transferred to the capital adjustment account	-	-	933	199	(1,132)
<b>Adjustments primarily involving the capital adjustment account:</b>					
<i>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</i>					
Charges for depreciation and impairment of non-current assets	(20,796)	(13,732)	-	-	34,528
Amortisation of intangible assets	(441)	-	-	-	441
Capital grants and contributions applied	21,057	3,931	(196)	-	(24,792)
Net gain or (loss) on sale of non-current assets	(488)	2	-	-	486
<i>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement</i>					
Statutory provision for the financing of capital investment	9,033	1,090	-	-	(10,123)
Capital expenditure charged against the general fund and HRA balances	2,162	8,974	-	-	(11,136)
<b>Adjustments primarily involving the financial instruments adjustment account:</b>					
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	306	110	-	-	(416)
<b>Adjustments primarily involving the employee benefit statutory mitigation account:</b>					
Amount by which employees' remuneration charged to the Comprehensive Income and Expenditure Statement on an accrual basis is different from remuneration chargeable in the year in accordance with statutory requirements	(701)	(23)	-	-	724
<b>Adjustments primarily involving the pensions reserve:</b>					
Reversal of items in relation to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (Note 30)	(17,175)	(574)	-	-	17,749
<b>Total adjustments</b>	<b>(7,043)</b>	<b>(222)</b>	<b>737</b>	<b>199</b>	<b>6,329</b>

Figures for 2018-2019 are provided in an additional table below for the purposes of comparison.

**2018-2019**

	General fund balance £000	Housing revenue account balance £000	Capital grants unapplied account £000	Repairs & renewals fund £000	Net movement £000
<b>Adjustments primarily involving the capital grants unapplied account:</b>					
Application of grants to capital financing transferred to the capital adjustment account	-	-	952	28	(980)
<b>Adjustments primarily involving the capital adjustment account:</b>					
<i>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</i>					
Charges for depreciation and impairment of non-current assets	(25,391)	(13,669)	-	-	39,060
Amortisation of intangible assets	(310)	-	-	-	310
Capital grants and contributions applied	17,885	3,686	(650)	-	(20,921)
Net gain or (loss) on sale of non-current assets	60	(7)	-	-	(53)
<i>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement</i>					
Statutory provision for the financing of capital investment	9,599	1,098	-	-	(10,697)
Capital expenditure charged against the general fund and HRA balances	747	13,310	-	-	(14,057)
<b>Adjustments primarily involving the financial instruments adjustment account:</b>					
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	304	112	-	-	(416)
<b>Adjustments primarily involving the employee benefit statutory mitigation account:</b>					
Amount by which employees' remuneration charged to the Comprehensive Income and Expenditure Statement on an accrual basis is different from remuneration chargeable in the year in accordance with statutory requirements	(261)	14	-	-	247
<b>Adjustments primarily involving the pensions reserve:</b>					
Reversal of items in relation to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (Note 30)	(25,603)	(880)	-	-	26,483
<b>Total adjustments</b>	<b>(22,970)</b>	<b>3,664</b>	<b>302</b>	<b>28</b>	<b>18,976</b>

<b>Note 6: Transfers to or from other statutory reserves/Movements in Earmarked Reserves</b>
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This note sets out the amounts set aside from the General Fund in statutory reserves established under Schedule 3 of the Local Government (Scotland) Act 1975 to provide financing for future expenditure plans and the amounts transferred back to meet General Fund expenditure in 2019-2020. Figures for 2018-2019 are provided in an additional table below for the purposes of comparison.

**2019-2020**

	<b>General Fund Balance</b>	<b>Repairs and Renewals Fund</b>	<b>Capital Fund</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Contribution to Repair and Renewal Fund from General Fund	47	(47)	-
Contribution to Capital Fund from General Fund	467	-	(467)
<b>Total adjustments</b>	<b>514</b>	<b>(47)</b>	<b>(467)</b>

**2018-2019 comparative information**

	<b>General Fund Balance</b>	<b>Repair and Renewals Fund</b>	<b>Capital Fund</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Contribution from Repair and Renewal Fund to General Fund	(687)	687	-
Contribution to Capital Fund from General Fund	(3,695)	-	3,695
<b>Total adjustments</b>	<b>(4,382)</b>	<b>687</b>	<b>3,695</b>

## Note 7: Property, plant and equipment

### Movement on balances

The movement on balances for Property, plant and equipment are shown in the following table.

2019-2020

	Council Dwellings	Other Land & Buildings	PPP Schools Assets	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets not for Sale	Assets Under Construction	Total PPE
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or valuation</b>									
At 1 April 2019	297,135	270,302	96,603	28,983	77,648	605	5,875	22,567	<b>799,718</b>
Additions in year	13,663	8,055	26,869	4,023	5,331	-	-	25,766	<b>83,707</b>
Disposals in year	(319)	(557)	-	-	-	-	(25)	-	<b>(901)</b>
Revaluation adjustments to revaluation reserve	-	(4,175)	3,452	-	-	-	21	-	<b>(702)</b>
Revaluation adjustments to CIES	-	(9,404)	-	-	-	-	29	(8)	<b>(9,383)</b>
Other reclassifications*	8,112	3,436	37	860	114	-	-	(13,257)	<b>(698)</b>
<b>At 31 March 2020</b>	<b>318,591</b>	<b>267,657</b>	<b>126,961</b>	<b>33,866</b>	<b>83,093</b>	<b>605</b>	<b>5,900</b>	<b>35,068</b>	<b>871,741</b>
<b>Depreciation and impairment</b>									
At 1 April 2019	25,249	32,081	536	21,273	24,570	-	2,715	-	<b>106,424</b>
Depreciation charge for the year	13,429	6,290	2,560	1,685	1,942	-	672	-	<b>26,578</b>
Depreciation/Impairment written to revaluation reserve	-	(4,866)	-	-	-	-	-	-	<b>(4,866)</b>
Impairment losses to CIES	-	(2,909)	-	-	-	-	(1)	-	<b>(2,910)</b>
On disposals	-	(91)	-	-	-	-	-	-	<b>(91)</b>
Other reclassifications	-	(679)	679	-	-	-	-	-	<b>-</b>
<b>At 31 March 2020</b>	<b>38,678</b>	<b>29,826</b>	<b>3,775</b>	<b>22,958</b>	<b>26,512</b>	<b>-</b>	<b>3,386</b>	<b>-</b>	<b>125,135</b>
<b>Balance Sheet amount at 31 March 2020</b>	<b>279,913</b>	<b>237,831</b>	<b>123,186</b>	<b>10,908</b>	<b>56,581</b>	<b>605</b>	<b>2,514</b>	<b>35,068</b>	<b>746,606**</b>
<b>Nature of asset holding</b>									
Owned	279,913	234,793	-	10,761	56,581	605	2,514	35,068	<b>620,235</b>
Finance lease	-	3,038	-	147	-	-	-	-	<b>3,185</b>
PPP	-	-	123,186	-	-	-	-	-	<b>123,186</b>
	<b>279,913</b>	<b>237,831</b>	<b>123,186</b>	<b>10,908</b>	<b>56,581</b>	<b>605</b>	<b>2,514</b>	<b>35,068</b>	<b>746,606*</b>

\*Net reclassifications from Vehicle, Plant & Equipment to Intangible assets.

\*\*£16.601m of Group PPE totalling £763.207m relates to subsidiaries on consolidation that are not included in the above balances. Please refer to the Group Accounts on pages 94 to 96

**2018-2019  
comparative  
movements**

	<b>Council Dwellings</b>	<b>Other Land &amp; Buildings</b>	<b>Schools PPP Assets</b>	<b>Vehicles, Plant &amp; Equipment</b>	<b>Infrastructure Assets</b>	<b>Community Assets</b>	<b>Surplus Assets not for Sale</b>	<b>Assets Under Construction</b>	<b>Total PPE</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Cost or valuation</b>									
At 1 April 2018	284,110	271,463	99,862	25,421	70,520	540	6,831	8,099	<b>766,846</b>
Additions in year	12,173	1,337	636	3,577	7,128	-	-	24,690	<b>49,541</b>
Disposals in year	(211)	(106)	-	(15)	-	-	-	-	<b>(332)</b>
Revaluation adjustments to revaluation reserve	33	756	(905)	-	-	65	(80)	-	<b>(131)</b>
Revaluation adjustments to CIES	-	(12,070)	(2,990)	-	-	-	(876)	(5)	<b>(15,941)</b>
Other reclassifications	1,030	8,922	-	-	-	-	-	(10,217)	<b>(265)</b>
<b>At 31 March 2019</b>	<b>297,135</b>	<b>270,302</b>	<b>96,603</b>	<b>28,983</b>	<b>77,648</b>	<b>605</b>	<b>5,875</b>	<b>22,567</b>	<b>799,718</b>
<b>Depreciation and impairment</b>									
At 1 April 2018	12,316	28,997	7,143	19,984	22,808	-	2,052	-	<b>93,300</b>
Depreciation charge for the year	12,835	6,658	1,612	1,302	1,762	-	671	-	<b>24,840</b>
Impairment losses to revaluation reserve	98	(1,912)	(3,468)	-	-	-	(7)	-	<b>(5,289)</b>
Impairment losses to CIES	-	(1,626)	(4,751)	-	-	-	(1)	-	<b>(6,378)</b>
On disposals	-	(36)	-	(12)	-	-	-	-	<b>(48)</b>
Other reclassifications	-	-	-	-	-	-	-	-	<b>-</b>
<b>At 31 March 2019</b>	<b>25,249</b>	<b>32,081</b>	<b>536</b>	<b>21,274</b>	<b>24,570</b>	<b>-</b>	<b>2,715</b>	<b>-</b>	<b>106,425</b>
<b>Balance Sheet amount at 31 March 2019</b>	<b>271,886</b>	<b>238,221</b>	<b>96,067</b>	<b>7,709</b>	<b>53,078</b>	<b>605</b>	<b>3,160</b>	<b>22,567</b>	<b>693,293</b>
<b>Nature of asset holding</b>									
Owned	271,886	235,023	-	7,488	53,078	605	3,160	22,567	<b>593,807</b>
Finance lease	-	3,198	-	221	-	-	-	-	<b>3,419</b>
PPP	-	-	96,067	-	-	-	-	-	<b>96,067</b>
	<b>271,886</b>	<b>238,221</b>	<b>96,067</b>	<b>7,709</b>	<b>53,078</b>	<b>605</b>	<b>3,160</b>	<b>22,567</b>	<b>693,293</b>

**Covid-19 – effect on valuations**

The outbreak has caused extensive disruption to businesses and economic activities and the uncertainties created have increased the estimation uncertainty over the fair value of the land and buildings portfolio (Council Dwellings and Other Land and Buildings) at the balance sheet date. The valuation methods used in relation to Property, Plant and Equipment are provided in Accounting Policy 11 within Note 34: Significant accounting policies. Note 37: Assumptions made about the future and other major sources of estimation uncertainty, also provides information in relation to the uncertainties surrounding property valuations.

## Depreciation

As highlighted in Significant Accounting Policies, Note 34 Section 6 to these accounts on pages 67 to 78 under “Property, plant and equipment”, depreciation is provided for all assets with a determinable life on a straight-line basis inclusive of the year of acquisition. The period for each applicable category is shown in the table below:

<b>Category</b>	<b>Sub Category</b>	<b>Useful life (years)</b>	<b>Valuer</b>	<b>Basis of Valuation</b>	<b>Date of last full valuation</b>
Schools PPP assets	~	40	Estates Co-ordinator	Current Value	Valued on a 5-year rolling programme
Other land and buildings	Buildings	5 to 40	Estates Co-ordinator	Current Value / Fair Value / Historic Cost	As above
	Land	Up to 999	Estates Co-ordinator	Current Value / Fair Value / Historic Cost	As above
	Specialised buildings	10 to 40	Estates Co-ordinator	Current Value	31-Mar-16
Council dwellings	~	19-23	DVS Property Specialists	Existing Use Value – Social Housing ‘Beacon Principle’ (EUVSH)	31-Mar-17
Vehicles	~	0 to 7	Transport Manager	Net Realisable Value (NRV)	Not Applicable
Equipment	~	5 to 20	Not applicable	Historical Cost	Not Applicable
Infrastructure assets	~	Up to 40	Not applicable	Historical Cost	Not Applicable
Assets under construction	~	5 to 99	Not applicable	Historical Cost	Not Applicable
Community assets	~	99 to 999	Not applicable	Historical Cost	Not Applicable

## Effect of changes in estimates

The Council made no material changes to its accounting estimates for property, plant and equipment during the year.

## Revaluation programme

The Council’s programme for the revaluation of property, plant and equipment, ensures all such assets required to be measured at fair value are re-valued at least every five years. The measurement basis used for determining the gross carrying amount, the valuers and the significant assumptions applied in estimating the fair values are disclosed separately in Significant Accounting Policies, Note 34 Section 6 to these accounts on pages 67 to 78 under “Property, plant and equipment”.

## Commitments under capital contracts

The Council approved capital investment programmes for General Services and Housing for 2020-2021 for construction or enhancement of property, plant and equipment, as outlined in the table below.

	<b>General Services</b>	<b>Housing</b>	<b>2019-20 Total</b>	<b>2018-19 Total</b>
<b>Expenditure</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Capital investment	66,766	39,295	106,061	104,673
	<b>66,766</b>	<b>39,295</b>	<b>106,061</b>	<b>104,673</b>
<b>Sources of finance</b>				
Prudential borrowing	50,228	23,006	73,234	71,150
Capital grants, contributions and other receipts	16,538	8,972	25,510	26,772
Capital funded from current revenue	-	7,317	7,317	6,751
	<b>66,766</b>	<b>39,295</b>	<b>106,061</b>	<b>104,673</b>

## Note 8: Heritage assets

<i>Valuation</i>	<b>Fine Arts</b>	<b>Other Heritage Assets</b>	<b>Civic Regalia</b>	<b>Total Heritage Assets</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
1 April 2019	2,115	1,066	151	3,332
<b>31 March 2020</b>	<b>2,115</b>	<b>1,066</b>	<b>151</b>	<b>3,332</b>
1 April 2018	2,115	1,066	151	3,332
<b>31 March 2019</b>	<b>2,115</b>	<b>1,066</b>	<b>151</b>	<b>3,332</b>

### Fine arts and other heritage assets

The Council's collection of fine arts is reported on the Balance Sheet at insurance valuation, which is based on market values. Additionally, individual collections are reviewed periodically to ensure the adequacy of the valuation. Details of the most recent valuations conducted on the above assets are as follows:

Lyon and Turnbull 2016

### Civic regalia and other civil effects

The civic regalia and other civic effects are reported in the Balance Sheet at a replacement cost insurance valuation by external valuers. Details of most recent valuations conducted on the above are as follows:

Lyon and Turnbull 2016

## Note 9: Intangible assets

The Council accounts for its software and licences financed through the capital investment programme as intangible assets and are shown at cost. The asset is amortised over the economic life of the software and licenses, assessed as either three or five years on a straight-line basis.

There have been no changes to the estimated useful life of any intangible assets during the year; there have been no revaluations, disposals of intangible assets and no charges for impairment have been made.

The movement on intangible asset balances during the year is as follows:

	<b>31 March 2020</b>	<b>31 March 2019</b>
	<b>£000</b>	<b>£000</b>
<b>Balance at start of year:</b>		
Gross carrying amounts	4,770	4,113
Accumulated amortisation	(1,765)	(1,455)
<b>Net carrying amount at start of year</b>	<b>3,005</b>	<b>2,658</b>
Additions:		
Purchases	2,481	392
Reclassifications*	696	265
Amortisation for the period	(441)	(310)
<b>Net carrying amount at end of the year</b>	<b>5,741</b>	<b>3,005</b>
Comprising:		
Gross carrying amounts	7,946	4,770
Accumulated amortisation	(2,205)	(1,765)
	<b>5,741</b>	<b>3,005</b>

\*Net reclassifications from Vehicle, Plant & Equipment to Intangible assets.

## Note 10: Financial instruments

### Categories of financial instrument

The following categories of financial instrument are carried in the balance sheet:

#### Financial Assets

	Non-Current				Current			
	Investments		Debtors		Investments		Debtors	
	31	31	31	31	31	31	31	31
	March	March	March	March	March	March	March	March
	2020	2019	2020	2019	2020	2019	2020	2019
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Amortised Cost	385	234	-	-	25,000	36,000	23,524	28,670
Fair value through other comprehensive income - other	740	734	-	-	-	-	-	-
<b>Total financial assets</b>	<b>1,125</b>	<b>968</b>	<b>-</b>	<b>-</b>	<b>25,000</b>	<b>36,000</b>	<b>23,524</b>	<b>28,670</b>
Non-financial assets	-	-	-	-	-	-	-	-
<b>Total</b>	<b>1,125</b>	<b>968</b>	<b>-</b>	<b>-</b>	<b>25,000</b>	<b>36,000</b>	<b>23,524</b>	<b>28,670</b>

#### Financial Liabilities

	Non-Current				Current			
	Borrowings		Creditors		Borrowings		Creditors	
	31	31	31	31	31	31	31	31
	March	March	March	March	March	March	March	March
	2020	2019	2020	2019	2020	2019	2020	2019
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Amortised Cost <i>Note 1*</i>	(186,010)	(162,022)	-	-	(51,004)	(62,931)	(49,377)	(59,079)
<b>Total financial liabilities</b>	<b>(186,010)</b>	<b>(162,022)</b>	<b>-</b>	<b>-</b>	<b>(51,004)</b>	<b>(62,931)</b>	<b>(49,377)</b>	<b>(59,079)</b>
Finance lease liabilities	(2,972)	(3,190)	-	-	(217)	(211)	-	-
PPP	(94,314)	(72,301)	-	-	(4,715)	(4,810)	-	-
<b>Total Non-financial liabilities</b>	<b>(97,286)</b>	<b>(75,491)</b>	<b>-</b>	<b>-</b>	<b>(4,932)</b>	<b>(5,021)</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>(283,296)</b>	<b>(237,513)</b>	<b>-</b>	<b>-</b>	<b>(55,936)</b>	<b>(67,952)</b>	<b>(49,377)</b>	<b>(59,079)</b>

#### \*Note 1

- Under accounting requirements the carrying value of the financial instrument value is shown in the balance sheet which includes the principal amount borrowed or lent and further adjustments for breakage costs or stepped interest loans (measured by an effective interest rate calculation) including accrued interest.
- Accrued interest is not required for instruments measured at Effective Interest Rate (EIR), as this adjustment covers a full year's interest.
- Accrued interest is shown separately in current assets/liabilities where the payments/receipts are due within one year. The effective interest rate is effectively accrued interest receivable under the instrument adjusted for the amortisation of any premiums or discounts reflected in the purchase price.

#### Income, expense, gains and losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

	2019-2020		2018-2019	
	(Surplus)/deficit on the provision of services	Other comprehensive income and expenditure	(Surplus)/deficit on the provision of services	Other comprehensive income and expenditure
	£000s	£000s	£000s	£000s
<b>Net gains/losses on:</b>				
Financial assets measured at amortised cost	(487)	-	(558)	-
Financial assets measured at fair value through other comprehensive income	-	(7)	-	33
Financial liabilities measured at amortised cost	15,265	-	14,415	-
<b>Total net (gains)/losses</b>	<b>14,778</b>	<b>(7)</b>	<b>13,857</b>	<b>33</b>
<b>Interest revenue:</b>				
Financial assets measured at amortised cost	(487)	-	(558)	-
Financial assets measured at fair value through other comprehensive income	-	(7)	-	33
	<b>(487)</b>	<b>(7)</b>	<b>(558)</b>	<b>33</b>
<b>Interest expense</b>	<b>15,265</b>	<b>-</b>	<b>14,415</b>	<b>-</b>

### Fair values of assets and liabilities

Except for the financial assets carried at fair value, all other financial assets and liabilities represented by amortised cost and long-term debtors and creditors are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instrument using the following assumptions:

- For loans from the Public Works Loan Board (PWLB) new borrowing rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures (Table 1).
- As an alternative, applying premature redemption rates have also been applied to highlight the impact of the alternative fair value valuation (Table 2).
- For non PWLB loans payable prevailing market rates have been applied to provide the fair value under PWLB debt redemption procedures.
- For loans receivable prevailing benchmark market rates have been used to provide their fair value.
- No early repayment or impairment is recognised.
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable, the fair value is taken to be the carrying amount or the billed amount.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

## Fair value of financial assets and financial liabilities

As at 31 March 2020, the fair values of financial assets and financial liabilities are calculated as follows:

	31 March 2020		31 March 2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Liabilities	£000s	£000s	£000s	£000s
PWLB	139,962	179,279	117,893	167,597
LOBO (Option)	36,200	52,414	36,200	55,012
Market Debt	10,000	13,185	20,000	22,985
Short Term Borrowing	50,000	50,173	50,000	50,201
<b>Sub Total Borrowing</b>	<b>236,162</b>	<b>295,051</b>	<b>224,093</b>	<b>295,795</b>
PPP Liability	99,029	135,386	77,110	109,678
Short Term Finance Lease Liability	217	217	211	211
Long Term Finance Lease Liability	2,972	2,972	3,190	3,190
Short Term Creditors	49,377	49,377	59,079	59,079
	<b>151,595</b>	<b>187,952</b>	<b>139,590</b>	<b>172,158</b>
<b>Total Liabilities</b>	<b>387,757</b>	<b>483,003</b>	<b>363,683</b>	<b>467,953</b>

The fair values calculated using premature redemption rates are calculated as follows:

	31 March 2020		31 March 2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Liabilities	£000s	£000s	£000s	£000s
PWLB	139,962	256,383	117,893	197,621
LOBO (Option)	36,200	79,827	36,200	67,053
Market Debt	10,000	19,146	20,000	25,750
Short Term Borrowing	50,000	50,185	50,000	50,212
<b>Sub Total Borrowing</b>	<b>236,162</b>	<b>405,541</b>	<b>224,093</b>	<b>340,636</b>
PPP Liability	99,029	165,632	77,110	109,678
Short Term Finance Lease Liability	217	217	211	211
Long Term Finance Lease Liability	2,972	2,972	3,190	3,190
Short Term Creditors	49,377	49,377	59,079	59,079
	<b>151,595</b>	<b>218,198</b>	<b>139,590</b>	<b>172,158</b>
<b>Total Liabilities</b>	<b>387,757</b>	<b>623,739</b>	<b>363,683</b>	<b>512,794</b>

The fair value of the liabilities is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates for similar loans in the market at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2020) arising from a commitment to pay interest to lenders above current market rates.

The fair value of PWLB loans of £179.297m (using new loan rate) measures the economic effect of the terms agreed with PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. The difference between the carrying amount and the fair value measures the additional interest that the Council will pay over the remaining terms of the loans under the agreements with PWLB, against what would be paid if the loans were at prevailing market rates.

The fair values of financial assets are calculated as follows:

Table 3	31 March 2020		31 March 2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets	£000s	£000s	£000s	£000s
Long term investments	1,125	1,460	967	1,305
Investments	25,000	25,096	36,000	36,185
Current asset debtors	23,524	23,524	28,670	28,670
	<b>49,649</b>	<b>50,080</b>	<b>65,637</b>	<b>66,160</b>

The fair value of the assets is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate investments where the interest rate payable is higher than the prevailing rates in the market at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31 March 2020) arising from a commitment to receive interest from lenders above current market rates.

### Note 11: Inventories

	Consumable Stores		Maintenance Materials		Client Services Work in Progress		Property Acquired or Constructed for Sale		Total	
	2020 £000	2019 £000	2020 £000	2019 £000	2020 £000	2019 £000	2020 £000	2019 £000	2020 £000	2019 £000
<b>As at 31 March</b>										
<b>Balance outstanding at start of year</b>	149	107	265	253	-	13	49	65	463	438
Purchases	1,238	1,116	1,266	1,120	10	(13)	1,493	1,580	4,007	3,803
Recognised as an expense in year	(1,225)	(1,074)	(1,212)	(1,110)	-	-	(1,493)	(1,597)	(3,930)	(3,781)
Written off balances	-	-	(1)	2	-	-	-	1	(1)	3
Reversals of write-offs in previous years	-	-	-	-	-	-	-	-	-	-
<b>Balance outstanding at year end</b>	<b>162</b>	<b>149</b>	<b>318</b>	<b>265</b>	<b>10</b>	<b>-</b>	<b>49</b>	<b>49</b>	<b>539</b>	<b>463</b>

### Note 12: Debtors

	2019-2020 £000	2018-2019 £000
Trade receivables	11,549	13,904
Prepayments	3,418	3,336
Other receivable amounts	8,557	11,430
<b>Total</b>	<b>23,524</b>	<b>28,670</b>

### Note 13: Cash and cash equivalents

The balance of cash and cash equivalents is made up of the following components. With the exception of Imprest accounts held at council establishments, the balances in all of the categories listed below are used

	2019-2020	2018-2019
	£000	£000
Cash held by the authority	50	45
Bank current accounts	(4,137)	(1,266)
Short term/Callable deposits held with UK banks	16,975	25,100
Callable deposits held in Money Market Funds	10,000	-
<b>Total cash and cash equivalents</b>	<b>22,888</b>	<b>23,879</b>

together to manage the Council's overall cash balances on a day-to-day basis.

### Note 14: Assets held for sale

	2019-2020	2018-2019
	£000	£000
Balance outstanding at start of year	64	64
<b>Balance outstanding at year end</b>	<b>64</b>	<b>64</b>

### Note 15: Creditors

	2019-2020	2018-2019
	£000	£000
Trade Creditors	43,062	50,567
Other payable amounts	6,315	8,512
<b>Total</b>	<b>49,377</b>	<b>59,079</b>

### Note 16: Provisions

	Short	Long	Total
	£000	£000	£000
<b>Balance as at 1 April 2019</b>	<b>453</b>	<b>2,127</b>	<b>2,580</b>
Additional provisions made in 2019/20	119	62	181
Amounts used in 2019/20	(65)	(843)	(908)
<b>Balance as at 31 March 2020</b>	<b>507</b>	<b>1,346</b>	<b>1,853</b>

The Council has made a provision in respect of a number of employee related potential claims outstanding at 31 March 2020. Provisions are also held in relation to outstanding payments for enterprise grants and grants to voluntary organisations.

Other provisions are also held relating to the Council's share of the former Strathclyde Regional Council's insurance claims and other potential insurance claims against the Council. The information usually required by International Accounting Standard 37 (Provisions, Contingent Liabilities and Contingent Assets) is not disclosed in respect of these provisions on the grounds that it can be expected to prejudice seriously the outcome of the proceedings. Payments in relation to provisions are expected over the next 12 - 24 months.

## Note 17: Other short-term liabilities

	31 March 2020	31 March 2019
	£000	£000
Public Private Partnership (PPP)	4,716	4,810
Amounts owed to Common Good	1,103	1,114
Amounts owed to Trusts and others	1,039	1,192
Finance Lease	217	211
	<b>7,075</b>	<b>7,327</b>

## Note 18: Unusable reserves

### Summary of year-end balances

The total for Unusable Reserves in the Balance Sheet is made up of the following reserves:

	2019-2020	2018-2019
	£000	£000
Revaluation reserve	158,921	161,507
Capital adjustment account	255,071	236,594
Financial Instrument adjustment account	(11,400)	(11,816)
Financial instruments measured at fair value reserve	700	693
Pension reserve	(94,090)	(155,657)
Employee statutory mitigation account	(4,943)	(4,220)
	<b>304,259</b>	<b>227,101</b>

### Revaluation Reserve

The Revaluation Reserve contains the unrealised gains made by the Council arising from the increases in the value of its property, plant and equipment. The balance is reduced when assets with accumulated gains are:

- Re-valued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised

The reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the capital adjustment account.

	2019-2020	2018-2019
	£000	£000
<b>Balance at 1 April</b>	<b>161,507</b>	<b>161,165</b>
Upward revaluation of assets	4,988	9,583
Downward valuation of assets and impairment losses not charged to the surplus/(deficit) on the Provision of Services	(824)	(2,910)
Surplus or (deficit) on revaluation of non-current assets not posted to the surplus or (deficit) on the Provision of Services	<b>4,164</b>	<b>6,673</b>
Difference between fair value depreciation and historical cost depreciation	(6,388)	(6,185)
Accumulated gains on assets sold or scrapped	(362)	(146)
Amount written off to the Capital Adjustment Account	<b>(6,750)</b>	<b>(6,331)</b>
<b>Balance at 31 March</b>	<b>158,921</b>	<b>161,507</b>

## Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements of 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 Council as finance for the costs of acquisition, construction and enhancement.

The account contains accumulated gains and losses on investment properties and gains recognised on donated assets that have yet to be consumed by the Council. The account also contains revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date that the revaluation reserve was created to hold such gains. Note 5 on page 35 details the source of all the transactions posted to the account, apart from those involving the Revaluation Reserve.

	2019-2020 £000	2018-2019 £000
<b>Balance at 1 April</b>	<b>236,594</b>	<b>222,924</b>
<i>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement (CIES):</i>		
Charges for depreciation and impairment of non-current assets	(34,528)	(39,060)
Amortisation of intangible assets	(441)	(310)
Amounts of non-current assets written off on disposal or sale as part of the gain/(loss) on disposal to the CIES	(486)	53
Adjusting amounts written out of the revaluation reserve	6,750	6,331
Net written out amount of the cost of non-current assets consumed in the year	(28,705)	(32,986)
<i>Capital financing applied in the year:</i>		
Capital grants and contributions credited to the CIES that have been applied to capital financing	24,791	20,922
Application of grants to capital financing from the capital grants unapplied account/repairs and renewals fund	1,132	980
Statutory provision for the financing of capital investment charged against the general fund and HRA balances	10,123	10,697
Capital expenditure charged against the general fund and HRA balances	11,136	14,057
<b>Balance at 31 March</b>	<b>255,071</b>	<b>236,594</b>

## Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

	2019-2020 £000	2018-2019 £000
<b>Balance at 1 April</b>	<b>(11,816)</b>	<b>(12,232)</b>
Proportion of premiums incurred in previous financial years to be charged against the general fund balance in accordance with statutory requirements	407	407
Fair value effective interest rate adjustment in line with statutory requirements	9	9
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement	416	416
<b>Balance at 31 March</b>	<b>(11,400)</b>	<b>(11,816)</b>

## Financial Assets Measured at Fair Value

The Financial Assets Measured at Fair Value Reserve contains the gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- disposed of and the gains are realised

	2019-2020 £000	2018-2019 £000
<b>Balance at 1 April</b>	<b>693</b>	<b>727</b>
Upward/(downward) revaluation of investments	7	(34)
<b>Balance at 31 March</b>	<b>700</b>	<b>693</b>

## Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding 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 Council makes employer 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 substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding has been set aside by the time the benefits are paid.

	2019-2020 £000	2018-2019 £000
<b>Balance at 1 April</b>	<b>(155,657)</b>	<b>(84,143)</b>
Re-measurement of the net defined benefit asset	79,316	(45,031)
Reversal 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	(36,132)	(44,315)
Employer's pension contributions and direct payments	18,383	17,832
<b>Balance at 31 March</b>	<b>(94,090)</b>	<b>(155,657)</b>

## Employee Statutory Mitigation Account

The Employee Statutory Mitigation 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 e.g. annual leave entitlement carried forward at 31 March.

	2019-2020 £000	2018-2019 £000
<b>Balance at 1 April</b>	<b>(4,220)</b>	<b>(3,973)</b>
Settlement or cancellation of accrual made at the end of the preceding year	4,220	3,973
Amounts accrued at the end of the current year	(4,943)	(4,220)
<b>Balance at 31 March</b>	<b>(4,943)</b>	<b>(4,220)</b>

## Note 19: Cash Flow Statement – operating activities

The cash flows from operating activities included the following items:

	2019-2020 £000	2018-2019 £000
Interest received	(549)	(405)
Interest paid	16,167	14,239
<b>Net cash flows used in operating activities</b>	<b>15,618</b>	<b>13,834</b>

## Note 20: Cash Flow Statement – investing activities

	2019-2020 £000	2018-2019 £000
Property, plant and equipment, investment property and intangible assets	63,530	51,843
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(323)	(339)
Purchase (proceeds) from short-term investments	150	6,000
Other receipts from investing activities	(26,011)	(21,008)
<b>Net cash flows used in investing activities</b>	<b>37,346</b>	<b>36,496</b>

## Note 21: Cash Flow Statement – financing activities

	2019-2020 £000	2018-2019 £000
Cash receipts from short-term and long-term borrowing	(12,069)	(17,799)
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	3,510	3,092
Other payments for financing activities	2,938	(415)
<b>Net cash flows used in financing activities</b>	<b>(5,621)</b>	<b>(15,122)</b>

## Note 22: Agency services

The Council billed and collected domestic water and sewerage charges on behalf of Scottish Water with its own Council Tax. During 2019-2020 the Council collected £19.921m (£19.598m 2018-2019) and paid over £19.516m (£19.193m 2018-2019) and received £0.405m (£0.405m 2018-2019) for providing this service. The Council also bills and collects Non-Domestic Rates on behalf of the Scottish Government. During 2019-2020 the Council billed £41.438m (£44.442m 2018-2019) on their behalf and received £42.818m (£38.299m 2018-2019) in income from the Non-Domestic Rates Pool.

## Note 23: External audit cost

The Council has incurred costs of £0.277m in 2019-2020 in respect of fees payable with regard to external audit services carried out under The Code of Practice (£0.272m 2018-2019).

## Note 24: Grant income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2019-2020:

	31 March 2020	31 March 2019
	£000	£000
<b>Credited to taxation and non-specific grant income</b>		
General revenue grant	160,689	159,035
Receipted capital income	24,987	21,571
Non-domestic rates income	42,818	38,299
Council tax income	57,406	54,555
<b>Total</b>	<b>285,900</b>	<b>273,460</b>
	31 March 2020	31 March 2019
	£000	£000
<b>Credited to services</b>		
Burns Festival	15	25
Department of Work and Pensions	27,849	31,420
Education	12,809	7,835
Education Maintenance Allowance	25	25
Electric Vehicles	198	-
Health Authorities	143	95
Leader	1,339	918
Modern Apprentices	187	125
NHS Alcohol & Drug Misuse	5	-
Other Grants and Contributions	459	415
Police	30	30
School Milk	24	30
Social Work	3,958	2,952
Townscape Heritage Initiative	280	361
Zero Waste	5	676
<b>Total</b>	<b>47,326</b>	<b>44,907</b>

## Note 25: Related parties

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council 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 Council.

**Scottish Government** – has effective control over the general operations of the Council – it is responsible for providing the statutory frame work within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Details of grants received from the Scottish Government are included in Note 24 above.

**Members of the Council** - Members of the Council have direct control over the Council's financial and operating policies. The total members' allowances paid in 2019-2020 are shown in the Remuneration Report. During 2019-2020 works and services to the value of £26.251m were commissioned from organisations in which four members had an interest (£3.410m for one member in 2018-19). Contracts were entered into in full compliance with the Council's standing orders. During 2019-2020 there were no grants paid to voluntary organisations wherein Members of the Council had an interest. Details of the transactions during 2019-2020 are available for any member of the public to view in the Council's offices at County Buildings, Ayr during normal working hours. No material balances were outstanding on these contracts as at 31 March 2020.

**Officers of the Council** – During 2019-2020 Donald Gillies, Director – Place and Jim Johnstone, Service Lead – Economic Development declared an interest in Freeport Scotland Ltd as directors. Freeport Scotland is a joint venture by a number of prominent organisations both within Ayrshire and beyond. Donald Gillies and Jim Johnstone were appointed by The Council as directors of the company and the Council has a 37% share in the company. The Council did not receive any lease income during 2019-20 and there was no management fee received during 2019-2020. No material balances were outstanding on these contracts as at 31 March 2020. In addition, Donald Gillies was appointed by Council and B Shareholders (Public Sector Shareholders) as Public Sector Director on Hub South West Scotland Ltd which is a Company established by the Scottish Government as a development partner to deliver Public Sector Infrastructure. All works and services commissioned during 2019-2020 by HUB South West Scotland Ltd are incorporated in the 'Members of the Council' section above.

**South Ayrshire Integration Joint Board** – The South Ayrshire Integration Joint Board was established on 1<sup>st</sup> April 2015 as a partnership between South Ayrshire Council and NHS Ayrshire and Arran Health Board and is responsible for planning and overseeing the delivery of a full range of community health and social work/social care services, including those for older people, adults, children and families, people in the Criminal Justice System and allied health professions. In the year 2019-2020 the following South Ayrshire Council financial transactions were made with South Ayrshire Integration Joint Board relating to the integrated and social care functions:

	<b>2019-20</b>	<b>2018-19</b>
	<b>£000</b>	<b>£000</b>
Contribution made to South Ayrshire Integration Joint Board	76,585	75,794
Commissioning income received from South Ayrshire Integration Joint Board	104,413	97.071

The Councils contribution to the Health and Social Care Partnership (HSCP) included an additional £3.277m in 2018-2019 which was drawn down from reserves to offset an in year overspend. Following an improved financial position in 2019-20 the partnership was able to repay £0.291m of the amount owed, leaving a remaining balance of £2.986m to be repaid over the next three years.

**Other public bodies** – the Council has substantial interests in other public bodies, details of which are disclosed in the Group Balance Sheet. In addition, the Council received grants and income from NHS Ayrshire & Arran of £20.541m during 2019-2020 (£21.247m 2018-2019).

**Assisted organisations** – the Council provided funding to organisations including Grants to Voluntary Organisations, Rural Communities Fund and funding for Business Advice, which are all made up of small donations to small organisations, none of which exceeded 50% of those organisations' total funding. No material balances were outstanding on these contracts as at 31 March 2020.

**Ayr Renaissance LLP** - established by the Council as a separate arm's length Limited Liability Partnership, with the purpose of regenerating Ayr Town Centre. It has two members, namely the Council (which is entitled to 99.999% share of profits) and SAC (LLP Nominees) Limited, a nominee company wholly owned by the Council. Following the resignations of four private sector board members during September 2018, from 14 February 2019 a variation of the LLP Agreement for Ayr Renaissance LLP has resulted in the membership of the LLP board consisting of four South Ayrshire councillors and the Council's Chief Executive. The organisations' running costs were met by way of a contribution of £0.201m (£0.255m 2018-2019). No material balances were outstanding as at 31 March 2020. The organisation is in the process of being wound up, which is expected to be concluded during 2020-2021.

**Administration of Trust Funds** - The Council have responsibility for the administration and decision making of various trusts where the Councillors have sole control.

The Councillors and Officers of the Council also exert significant influence in the administration and decision making of several trusts where the Councillors do not have sole control. For further details please see Section 13 Trust Funds.

## Note 26: Capital expenditure and capital financing

The total amount of capital expenditure incurred in the year is shown in the following table (including the value of assets acquired under finance leases and PPP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The movement in the CFR during the year is analysed in the second part of the table.

	31 March 2020 £000	31 March 2019 £000
<b>Opening capital financing requirement</b>	<b>301,593</b>	<b>295,511</b>
<b>Capital investment</b>		
Property, plant and equipment	59,967	52,685
Intangible assets	2,481	392
PPP/Finance lease	25,216	-
	<u>87,664</u>	<u>53,077</u>
<b>Sources of finance</b>		
Capital Receipts	(323)	(339)
Government grant and other contributions	(25,924)	(21,903)
Capital funded from current revenue	(11,136)	(14,693)
Repayment of PPP/finance lease	(3,507)	(3,092)
Loans fund principal repayments	(6,616)	(6,968)
<b>Closing capital financing requirement</b>	<b><u>341,751</u></b>	<b><u>301,593</u></b>
<b>Explanation of movements during the year</b>		
Increase in the underlying need to borrow	18,450	9,175
Increase/(decrease) in finance lease obligations	(211)	(205)
Increase/(decrease) in PPP finance lease creditor	21,919	(2,888)
<b>Increase/(decrease) in capital financing requirement</b>	<b><u>40,158</u></b>	<b><u>6,082</u></b>

## Note 27: Leases

### Authority as lessee - Finance leases

The Council has entered into a number of contracts for miscellaneous equipment under finance leases.

The assets acquired under these leases are carried as property, plant and equipment in the Balance Sheet at the following net book values:

	31 March 2020 £000	31 March 2019 £000
Property, plant and equipment	<u>3,185</u>	<u>3,419</u>

The Council is committed to making minimum payments under these lease arrangements, comprising settlement of the long-term liability for the interest in the property, plant and equipment acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	31 March 2020 £000	31 March 2019 £000
Finance lease liabilities (net present value of minimum lease payments):		
Current	217	211
Non-Current	2,972	3,190
Finance costs payable in future years	870	948
<b>Minimum lease payments</b>	<b><u>4,059</u></b>	<b><u>4,349</u></b>

The minimum lease payments will be payable over the following periods:

	Minimum lease payments		Finance lease liabilities	
	31 March 2020	31 March 2019	31 March 2020	31 March 2019
	£000	£000	£000	£000
No later than one year	289	289	217	211
Later than one year and not later than five years	885	975	657	724
Later than five years	2,886	3,085	2,316	2,466
	<b>4,060</b>	<b>4,349</b>	<b>3,190</b>	<b>3,401</b>

#### Authority as lessee - Operating leases

The Council has acquired vehicles, plant and equipment by entering into operating leases. The minimum lease payments due under non-cancellable leases in future years are:

	31 March 2020	31 March 2019
	£000	£000
No later than one year	1,727	1,618
Later than one year and not later than five years	2,169	2,353
Later than five years	-	-
	<b>3,896</b>	<b>3,971</b>

The expenditure charged to the service lines in the Comprehensive Income and Expenditure Statement during the year in relation to these leases are:

	31 March 2020	31 March 2019
	£000	£000
Minimum lease payments	1,646	1,480
	<b>1,646</b>	<b>1,480</b>

#### Authority as lessor - Finance leases

The Council has not entered into any finance lease arrangements.

#### Authority as lessor - Operating leases

The Council has granted commercial leases for properties to various tenants on a variety of lease terms. These arrangements are accounted for as operating leases. The minimum lease payments receivable under non-cancellable leases in future years are shown in the table below. (These figures do not include rents that are contingent upon events taking place after the lease was entered into, such as adjustments following rent reviews.)

	31 March 2020	31 March 2019
	£000	£000
No later than one year	803	820
Later than one year and not later than five years	1,527	1,235
Later than five years	11,423	10,977
	<b>13,753</b>	<b>13,032</b>

### Note 28: Public private partnerships and similar contracts

The Council previously entered into a Public Private Partnership (PPP) agreement with Education for Ayrshire (e4a) for the construction and operation of two new secondary and three new primary schools, together with an annex to an existing secondary school. The first unitary charge payment relating to part-year costs for two primary schools and the annex to the secondary school, was made during 2007-2008. The final unitary charge payment will be made in 2039-2040, at which time the schools will transfer to Council ownership with a guarantee of no major maintenance requirements for a five-year period. All the schools were completed during 2009-2010.

Scotland's Schools for the Future Programme was established in 2009 to manage the replacement or upgrading of a programme of schools in collaboration between all 32 local authorities in Scotland and the Scottish Government. During 2017-2018 and then in 2019-2020 the Council took occupation of the New Ayr Academy and New Queen Margaret Academy respectively, both of which were constructed via a Design, Build, Finance and Maintain contract, commonly referred to as DBFM through the Schools for the Future Programme. This form of contract is similar to the existing PPP contract except responsibility for most janitation and cleaning etc. remains with the Council. The first unitary charge payment for Ayr Academy relating to the part-year costs for the secondary school, was made during 2017-2018. The final unitary charge payment will be made in 2042-2043. The first unitary charge payment for Queen Margaret Academy relating to the part-year costs for the secondary school, was made during 2019-2020. The final unitary charge payment will be made in 2044-2045. Once the final unitary charges are made for both schools the schools will transfer to Council ownership.

### Property, plant and equipment

The assets used to provide services at the schools are recognised on the Council's Balance Sheet. Movements in value over the year are detailed in the analysis of the movement in Note 7 Property, plant and equipment.

### Remaining payments under the agreements

The Council makes an agreed payment each year, which is increased each year by inflation and can be reduced if the provider fails to meet availability and performance standards in any year but which is otherwise fixed. Payments remaining to be made under the original PPP contract, the new Ayr Academy and new Queen Margaret academy contract at 31 March 2020 (assuming an average inflation rate of 2.50% and excluding any estimation of availability and performance deductions) are as follows:

	Payment of services £000	Reimbursement of capital expenditure £000	Interest £000	Total £000
Payable within one year	5,761	3,357	7,297	16,415
Payable within two to five years	24,966	14,670	28,709	68,345
Payable within six to ten years	38,911	19,085	33,487	91,483
Payable within eleven to fifteen years	45,621	22,312	30,910	98,843
Payable within sixteen to twenty years	42,114	28,235	26,994	97,343
Payable within twenty-one to twenty-five years	6,402	11,371	2,063	19,836
<b>Total</b>	<b>163,775</b>	<b>99,030</b>	<b>129,460</b>	<b>392,265</b>

### Liabilities from PPP arrangements

Although the payments to the provider are described as unitary payments, they have been calculated to compensate the provider for the fair value of the services they provide and the capital expenditure incurred plus the interest payable whilst the capital expenditure remains to be reimbursed. The liability outstanding to pay to the provider for the capital expenditure (the outstanding finance lease obligation) is as follows:

	2019-2020 £000	2018-2019 £000
Balance outstanding at start of year	77,111	79,999
New liability (Queen Margaret Academy)	25,216	-
Increases/(reductions) during the year	(3,297)	(2,888)
<b>Balance outstanding at year end</b>	<b>99,030</b>	<b>77,111</b>

## Note 29: Termination benefits

The Council terminated the contracts (or agreed to terminate prior to the financial year end) of a number of employees in 2019-20, incurring liabilities of £1.799m (£2.565m 2018-19). The total is payable to 58 employees from directorates detailed in the analysis provided. Termination benefits exclude ill health retirals'. Further detail can be found within the Exit packages note contained in the Remuneration report on page 88.

Number	Directorate
15	Chief Executive's Strategic Office
29	Place
7	People
7	Health and Social Care

## Note 30: Defined benefit pension schemes

### Participation in pension schemes

The post-employment scheme for employees other than teachers is the Local Government Pension Scheme (LGPS) and is administered by Glasgow City Council in respect of all local authorities and admitted bodies in the former Strathclyde area. This is a multi-employer scheme in which it is possible for an employer to identify its share of the assets and liabilities on a consistent and reasonable basis. Employer's liabilities can be evaluated directly by the appointed actuary at any time on membership data. Individual employer assets have been apportioned to each employer since 2002. Prior to that date, each employer was considered to have the same funding as the whole fund. There is a statutory requirement for the Strathclyde Pension Fund to publish a separate annual report, which can be accessed on their website: <http://www.spfo.org.uk>.

### Benefits

It is a defined benefit scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level to balance the pension's liability with investment assets.

The pension accrual rate guarantees a pension based on 1/49th of pensionable salary and years of pensionable services. (Prior to 2015, the accrual rate guaranteed a pension and a lump sum based on final pensionable salary and years of pensionable service.) 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 scheme's normal retirement age is linked to the state pension age. Pensions are increased annually in line with changes to the Pensions (Increases) Act 1971 and Section 59 of the Social Security Pensions Act 1975.

### Governance

The Strathclyde Pension Fund is operated under the regulatory framework for the LGPS in Scotland and the governance of the scheme is the responsibility of the Strathclyde Pension Fund Committee. This committee is comprised solely of elected members of Glasgow City Council. Employing authorities (including South Ayrshire Council) are represented at the Strathclyde Pension Fund Representative Forum.

Policy is determined in accordance with the Local Government Pension Scheme (Scotland) Regulations. Management of the Fund's investments is carried out by the Fund's Investment Advisory Panel which selects and appoints a number of external investment managers/partners and monitors their investment performance.

Under the Regulations, employers fall into three categories, scheme employers (also known as schedule bodies) such as South Ayrshire Council, community admission bodies and transferee admission bodies. Admission agreements are generally assumed to be open-ended. However, either party can voluntarily terminate the admission agreement by giving an appropriate period of notice to the other parties. Any deficit arising from the cessation valuation will usually be levied on the departing admission body as a capital payment.

## Principal risks

The principal risks to the scheme are the longevity assumptions, statutory changes to the scheme, changes to inflation, bond yields and the performance of the investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge the General Fund the amount due by statute as described in the accounting policy note.

## Discretionary post-employment benefits

Discretionary post-retirement benefits on early retirement are an unfunded defined benefit arrangement, under which liabilities are recognised when an award is made. There are no plan assets built up to meet these pension liabilities.

## Transactions relating to post-employment benefits

The cost of retirement benefits is recognised in the reported Cost of Services when they are earned by the Council's employees, rather than when the benefits are eventually paid as pensions. However, the charge that is statutorily required to be made against the Council Tax is based upon the pension contributions payable by the Council in the year, and an adjustment is made in the Movement in Reserves Statement to achieve this.

The following transactions have been made in the accounting statements in 2019-2020 and the prior year 2018-2019.

	2019-2020 £000	2018-2019 £000
<b>Comprehensive Income and Expenditure Statement (CIES)</b>		
Cost of Services:		
<i>Service cost comprising:</i>		
Current service cost	34,723	28,946
Past service cost (including curtailments)	(2,537)	12,776
<i>Financing and investment income and expenditure:</i>		
Net interest expense/ (income)	3,946	2,593
<b>Total post-employment benefit charged to the surplus or deficit on the provision of services</b>	<b>36,132</b>	<b>44,315</b>
Other post-employment benefits charged to the CIES:		
<i>Re-measurement of the net defined benefit liability comprising:</i>		
Return on the plan assets	53,902	(24,761)
Actuarial (gains) and losses arising on changes in demographic assumptions	(96,512)	-
Actuarial (gains) and losses arising on changes in financial assumptions	(31,947)	68,186
Other	(4,759)	1,606
<b>Total post-employment benefit charged to the CIES</b>	<b>(43,184)</b>	<b>89,346</b>
<b>Movement in Reserves Statement (MiRS)</b>		
Reversal of net charge made to the surplus or deficit on the provision of services for post-employment benefits in accordance with the Code	<b>61,567</b>	<b>(71,514)</b>
<b>Actual amount charged against the General Fund balance for pensions in the year:</b>		
<b>Employers' contribution payable to the scheme</b>	<b>18,383</b>	<b>17,832</b>

## Pension assets and liabilities recognised in the Balance Sheet

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

	2019-2020 £000	2018-2019 £000
Present value of the defined benefit obligation: funded	(836,268)	(926,993)
Present value of the defined benefit obligation: unfunded	(32,270)	(37,479)
Fair value of pension fund assets	774,448	808,815
<b>Net Liability arising from defined benefit obligations</b>	<b>(94,090)</b>	<b>(155,657)</b>

A reconciliation of the Council's share of the present value of Strathclyde Pension Fund's defined benefit obligation is as follows:

	2019-2020 £000	2018-2019 £000
<b>Opening balance at 1 April</b>	<b>964,472</b>	<b>847,919</b>
Current service cost	34,723	28,946
Past service cost	(2,537)	12,776
Interest cost	23,359	23,210
Contributions by scheme participants	4,685	4,400
<i>Re-measurement gains and (losses):</i>		
Actuarial (gains) and losses arising on changes in demographic assumptions	(31,947)	-
Actuarial (gains) and losses arising from changes in financial assumptions	(96,512)	68,186
Other losses/ (gains)	(4,759)	1,606
Benefits paid	(21,039)	(20,667)
Unfunded benefits paid	(1,907)	(1,904)
<b>Closing balance at 31 March</b>	<b>868,538</b>	<b>964,472</b>

A reconciliation of the movement in the Council's share of the fair value of Strathclyde Pension Fund's assets is as follows:

	2019-2020 £000	2018-2019 £000
<b>Opening fair value of the scheme assets</b>	<b>808,815</b>	<b>763,776</b>
Interest income	19,413	20,617
<i>Re-measurement gains and (losses):</i>		
Return on the plan assets	(53,902)	24,761
Contributions from employers	16,476	15,928
Contributions from employees in the scheme	4,685	4,400
Benefits paid	(21,039)	(20,667)
<b>Closing fair value of the scheme assets</b>	<b>774,448</b>	<b>808,815</b>

## Analysis of pension fund assets

The asset values below are at bid value as required under IAS19 Employee Benefits.

At 31 March 2020

Asset category	Quoted Prices in Active Markets £000	Quoted Prices not in Active Markets £000	2019-2020 Total £000
<b>Cash and cash equivalents</b>			
<b>Equity instruments:</b>			
Consumer	49,595	141	49,736
Manufacturing	40,183	122	40,305
Energy and Utilities	10,353	-	10,353
Financial Institutions	33,386	-	33,386
Health and Care	19,608	201	19,809
Information Technology	25,523	6	25,529
<b>Sub-total equity</b>	<b>178,648</b>	<b>470</b>	<b>179,118</b>
<b>Debt securities</b> (corporate bonds incl. non-investment grade)	<b>24,299</b>	<b>1</b>	<b>24,300</b>
<b>Private equity</b>	<b>-</b>	<b>92,543</b>	<b>92,543</b>
<b>Real estate (UK property)</b>	<b>-</b>	<b>70,119</b>	<b>70,119</b>
<b>Investment funds and unit trusts:</b>			
Equities	219,953	19,065	239,018
Bonds	33,868	55,796	89,664
Commodities	388	-	388
Other	-	993	993
<b>Sub-total investment funds and unit trusts</b>	<b>254,209</b>	<b>75,854</b>	<b>330,063</b>
<b>Derivatives – other</b>	<b>16</b>	<b>-</b>	<b>16</b>
<b>Cash and cash equivalents (all)</b>	<b>39,868</b>	<b>38,422</b>	<b>78,290</b>
<b>Totals</b>	<b>497,040</b>	<b>277,408</b>	<b>774,448</b>

At 31 March 2019

Asset category	Quoted Prices in Active Markets £000	Prices not quoted in Active Markets £000	2018-2019 Total £000
<b>Cash and cash equivalents</b>			
<b>Equity instruments:</b>			
Consumer	51,795	147	51,942
Manufacturing	41,966	127	42,093
Energy and utilities	10,812	-	10,812
Financial institutions	34,868	-	34,868
Health and Care	20,479	209	20,688
Information technology	26,656	6	26,662
<b>Sub-total equity</b>	<b>186,576</b>	<b>489</b>	<b>187,065</b>
<b>Debt securities</b> (corporate bonds non-investment grade)	<b>25,378</b>	<b>-</b>	<b>25,378</b>
<b>Private equity</b>	<b>-</b>	<b>96,650</b>	<b>96,650</b>
<b>Real estate (UK property)</b>	<b>-</b>	<b>73,230</b>	<b>73,230</b>
<b>Investment funds and unit trusts:</b>			
Equities	229,713	19,912	249,625
Bonds	35,371	58,272	93,643
Commodities	405	-	405
Other	-	1,037	1,037
<b>Sub-total investment funds and unit trusts</b>	<b>477,443</b>	<b>249,590</b>	<b>727,033</b>
<b>Derivatives - other</b>	<b>17</b>	<b>-</b>	<b>17</b>
<b>Cash and cash equivalents (all)</b>	<b>41,637</b>	<b>40,128</b>	<b>81,765</b>
<b>Totals</b>	<b>519,097</b>	<b>289,718</b>	<b>808,815</b>

## Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pension that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The Fund's liabilities have been assessed by Hymans Robertson, an independent firm of actuaries, and the estimates are based on the latest valuation of the Fund at 31 March 2020. The significant assumptions used by the actuary have been:

<b>Mortality assumptions:</b>	<b>2019-2020</b>	<b>2018-2019</b>
Longevity at 65 for current pensioners		
Male	20.7	21.4
Female	22.9	23.7
Longevity at 65 for future pensioners		
Male	22.2	23.4
Female	24.6	25.8
<b>Financial assumptions:</b>		
Rate of inflation/pension increase rate	1.9%	2.5%
Rate of increase in salaries	3.0%	3.7%
Rate for discounting scheme liabilities	2.3%	2.4%

The estimation of the defined benefit obligation is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis below has been determined based on reasonable possible changes of the assumptions occurring at the end of the reporting period and assumes for each change, that the assumptions analysed will change, while all the other assumptions remain constant

<b>Change in assumption at 31 March 2020</b>	<b>Approximate % increase to Employer Liability</b>	<b>Approximate monetary amount £000</b>
0.5% decrease in real discount rate	10%	82,763
0.5% increase in the salary increase rate	2%	14,253
0.5% increase in the pension increase rate	8%	67,228

## Asset and liability matching strategy

The Strathclyde Pension Fund has an asset and liability matching strategy (ALM) that matches, to the extent possible, the types of assets invested to the liabilities in the defined benefit obligation. The Fund has matched assets to the pensions' obligations by investing in long-term fixed interest securities and index linked gilt-edged investments with maturities that match the benefits payments, as they fall due. A large proportion of the assets relate to equities [65%] and bonds [15%]. The comparative year's figures are 65% and 15%. The scheme also invests in properties [9%], in cash [10%] and in other investment funds and unit trusts [1%]. The ALM strategy is monitored annually or more frequently if necessary.

## Impact on the Council's cash flow

The objectives of the Fund are to keep employers' contributions at as constant a rate as possible. The Fund has agreed a strategy to achieve a funding rate of 100% in the longer term. The Scheme is a multi-employer defined benefit plan and employers' contributions have been determined so that employee and employer rates are standard across all participating local authorities. Employer's contributions have been set at 19.3% for 2019-2020 based on the last triennial valuation completed on 31 March 2017.

The total contributions expected to be made by the Council to Strathclyde Pension Fund in the year to 31 March 2021 is £14.992m. The weighted average duration of the defined benefit obligation for Fund members is 18 years (This is different from the mortality assumptions quoted in the table above in "*Basis for estimating assets and liabilities*").

## **Note 31: Pensions schemes accounted for as defined contribution schemes**

Teachers employed by the Council are members of the Teachers Superannuation Scheme, administered by the Scottish Public Pension Agency. It provides teachers with defined benefits upon their retirement and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. The scheme is not able to identify each individual body's share of the underlying liabilities on a consistent and reasonable basis and as such this is accounted for as if it were a defined contribution scheme with service revenue accounts charged with contributions payable in the year by the Council.

- The scheme is an unfunded statutory public service pension scheme with benefits underwritten by the UK Government. The scheme is financed by payments from employers and from those current employees who are members of the scheme and paying contributions at progressively higher marginal rates based on pensionable pay, as specified in the regulations. The rate of employer contributions is set with reference to a funding valuation undertaken by the scheme actuary. The last four-yearly valuation was undertaken as at 31 March 2016, which set contribution rates from 1 April 2019 until 31 August 2019 at 17.2% and then to increase to 23% from 1 September 2019 and an anticipated yield of 9.4% employees contributions.
- The Council has no liability for other employer's obligations to the multi-employer scheme.
- As the scheme is unfunded there can be no deficit or surplus to distribute on the wind-up of the scheme or withdrawal from the scheme.
- i) The scheme is an unfunded multi-employer defined benefit scheme.  
ii) It is accepted that the scheme can be treated for accounting purposes as a defined contribution scheme in circumstances where the Council is unable to identify its share of the underlying assets and liabilities of the scheme.  
iii) The employer contribution rate from 1 April 2019 is 17.2% increasing from 1 September 2019 to 23% of pensionable pay. The employee rate applied is variable and it is anticipated to provide a yield of 9.4% of pensionable pay.  
iv) While a valuation was carried out as at 31 March 2016, it is not possible to say what deficit or surplus may affect future contributions. Work on the valuation was suspended by the UK Government pending the decision from the Court of Appeal (Judiciary scheme)/Sargeant (Firefighters' Scheme) cases that held that the transitional protections provided as part of the 2015 reforms was unlawfully discriminated on the grounds of age. The cost cap will be reconsidered once the final decision on a remedy and how this affects the Scottish Teachers' Pension Scheme is known and its impact fully assessed in relation to any additional costs to the scheme.  
v) Contributions collected in the year to 31 March 2020 will be published in November 2020.

The Council paid £9.820m (£7.349m 2018-2019) for employer's contributions. As a proportion of the total contributions into the Teachers Superannuation Scheme during the year ended 31 March 2019 (£438.8m), the Council's own contributions paid for the period ending 31 March 2019 equates to approximately 2.24%.

## **Note 32: Contingent assets and liabilities**

The Council has received notice of several potential insurance and other claims. It is recognised that the Council has a potential liability which may require to be met if the claims are successful and as such has agreed to meet any liability beyond any provisions made in the financial statements from uncommitted reserves if required.

In addition to the provision made in the financial statements for employee related claims, the Council recognises a contingent liability in relation to other employee related grievances and the potential costs that may arise as a result of further claims being pursued against the Council. The position in respect of these potential claims is still subject to a high degree of uncertainty and it is not clear that either an obligation or their value can be reliably established at this time.

## **Note 33: Nature and extent of risks arising from financial instruments**

The Council'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 Council.
- **liquidity risk** – the possibility that the Council might not have funds available to meet its commitments to make payments.
- **re-financing risk** – the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms.
- **market risk** – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

### **Overall procedures for managing risk**

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services.

The procedures for risk management are set out through a legal framework based on the Local Government (Scotland) Act 2003 and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management and the investment guidance (regulations – Scotland) issued through the Act.

These procedures require the Council to manage risk in the following ways:

- By formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- By adopting a Treasury Policy Statement and treasury management clauses within its financial regulations and standing orders; and
- By approving annually in advance prudential and treasury indicators for the following three years limiting:
  - (i) The Council's overall borrowing
  - (ii) The maximum and minimum exposures to fixed and variable interest rates
  - (iii) The maximum and minimum exposures to the maturity profile of its debt
  - (iv) The maximum annual exposures to investments maturing beyond a year
  - (v) By approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with Government guidance (regulations – Scotland).

The above are required to be reported and approved at or before the Council's annual Council Tax setting budget or before the start of the year to which they relate. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Council's financial instruments exposure.

Actual treasury performance is also reported following each year as an Annual Report and is also monitored throughout the year with a mid-year update.

Risk management is carried out by a central treasury team, under policies approved by South Ayrshire Council in the annual treasury management strategy. South Ayrshire Council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of cash.

### **Credit Risk**

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

The risks associated with banks and financial institutions are minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid down by Standard & Poor's, Fitch, and Moody's Credit Rating Services. The

Annual Investment Strategy also considers maximum amounts and time limits for investment in respect of each financial institution.

The Council uses the creditworthiness service provided by Link Asset Services. This service uses a sophisticated modelling approach with credit ratings from three credit rating agencies forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- credit watches and credit outlooks from credit rating agencies.
- credit default swap spreads to give early warning of likely changes in credit ratings.
- sovereign ratings to select counterparties from only the most creditworthy countries.

The full Treasury and Investment Strategy for 2019-2020 was approved by Council on 28 February 2019 and is available on the Council's website.

The Council's maximum exposure to credit risk in relation to its cash investments in banks and building societies of £51.975m cannot be assessed generally, as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at 31 March 2020 that this was likely to crystallise.

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The Expected Credit Loss calculation under IFRS9 does not recognise a loss allowance where the counterparty is central government or a local authority since relevant statutory provisions prevent default. For these instruments, the Expected Credit Loss will be nil.

The Council's gross debtor (excluding council tax and non-domestic rate income) was £23.983m against which a provision of £7.372m was made for bad and doubtful debts. Based on historical experience, the Council has therefore fully provided for its estimated maximum exposure to default and non-collectability.

The Council does not generally allow credit for customers, such that £12.229m of the £23.983m balance is past its due date for payment. The past due amount can be analysed by age as follows:

	<b>2019-2020</b>	<b>2018-2019</b>
	<b>£000</b>	<b>£000</b>
Less than three months	962	904
Three to six months	702	213
Six months to one year	6,254	1,699
More than one year	4,311	2,317
<b>Total</b>	<b>12,229</b>	<b>5,133</b>

## Liquidity Risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

The Council has ready access to borrowings from the money markets to cover any day to day cash flow need, and the Public Works Loan Board (PWLb) and money markets for access to longer term funding. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, 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.

All sums owing on money market deposit are repayable in less than one year.

## Refinancing and Maturity Risk

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer-term financial liabilities and longer term financial assets.

The approved treasury indicator limits for maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council's approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer-term investments provide stability of maturities and returns in relation to the longer-term cash needs.

The Council's main source of borrowing is HM Treasury's Public Works Loan Board. There is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments. The Council has safeguards in place to ensure that a significant proportion of its borrowing does not mature for repayment at any one time in the future to reduce the financial impact of re-borrowing at a time of unfavourable interest rates. The Council's policy is to ensure that not more than 25% of long-term loans are due to mature within any financial year and 50% within any rolling five-year period through a combination of prudent planning of new loans taken out and where it is economic to do so, making early repayments.

The indicator for maturing debt (within one year) is 3% below the indicator, due to the strategy in 2019/20 of borrowing in the short-term markets and longer term PWLB borrowing.

*The maturity of Lender Option/Borrower Option (LOBO) loans are disclosed in the undernoted table at original redemption date.*

	<b>Maturity limit %</b>	<b>Maturing debt Maturing in period %</b>	<b>Actual 2019-2020 £000</b>	<b>Actual 2018-2019 £000</b>
Less than one year	25	22	51,004	62,931
Between one and two years	25	2	5,724	6,004
Between two and five years	50	4	9,343	8,499
Between five and ten years	75	5	10,915	12,482
More than ten years	90	67	159,175	134,177
<b>Principal element of borrowing</b>		<b>100</b>	<b>236,161</b>	<b>224,093</b>

## Market Risk

### ***Interest rate risk***

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- borrowings at fixed rates – the fair value of the liabilities borrowings will fall (no impact on revenue balances);
- investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the surplus or deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the surplus or deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this strategy a treasury indicator is set which provides maximum limits for fixed and variable rate interest rate exposure. The central treasury team will monitor interest rates within the year to adjust exposures accordingly. For instance, during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long-term returns, similarly the drawing of longer-term fixed rate borrowing would be postponed.

According to this assessment strategy, at 31 March 2020, if all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

<b>Notional impact on the surplus or deficit on the provision of services:</b>	<b>Actual 2019-2020 £000</b>	<b>Actual 2018-2019 £000</b>
Increase in interest payable on variable rate borrowings	754	767
Increase in interest receivable on variable rate investments	(331)	(369)
	<b>423</b>	<b>398</b>
	<b>Actual 2019-2020 £000</b>	<b>Actual 2018-2019 £000</b>
Decrease in "fair value" of fixed rate borrowing liabilities (no impact on surplus or deficit on the provision of services)	<b>37,467</b>	<b>36,575</b>

The 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 use in Note 10 – Fair Value of Assets and Liabilities carried at Amortised Cost.

### **Price Risk**

The Council does not generally invest in equity shares but does have a shareholding to the value of £0.733m in Freepart (Scotland) Ltd, which allows the Council voting rights within the company. The Council is consequently exposed to losses arising from movements in the prices of the shares.

As the share-holding has arisen in the acquisition of specific interests, the Council is not in a position to limit its exposure to price movements by diversifying its portfolio. Instead it only acquires shareholdings in return for 'open book' arrangements with the company concerned so that the authority can monitor factors that might cause a fall in the value of specific shareholdings.

The shares have been classified as 'Fair Value through Other Comprehensive Income', meaning that all movements in price will impact on gains and losses recognised in the Financial Instrument Revaluation Reserve.

### **Foreign Exchange Risk**

The Council does not lend or borrow in foreign currencies and has no exposure to gains or losses arising from movements in exchange rates.

# Section 6: Policies, Judgements and Assumptions

## Note 34: Significant accounting policies

### 1. General principles

The Annual Accounts summarise the Council's transactions for the 2019/2020 financial year and its financial position at the year end of 31 March 2020. The Council is required to prepare Annual Accounts by the Local Authority Accounts (Scotland) Regulations 2014. Section 12 of the Local Government in Scotland Act 2003 requires such accounts to be prepared in accordance with proper accounting practices.

These practices primarily comprise the *Code of Practice on Local Authority Accounting in the United Kingdom 2019/20* and are supported by *International Financial Reporting Standards (IFRS)*.

*The Code* is issued jointly by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) and are designed to give a "true and fair view" of the financial performance of the Council and its Group. The accounting convention adopted in the Annual Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

### 2. Accruals of expenditure and income

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- All known specific and material sums payable to the Council have been brought into account. Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract, in line with *IFRS 15 Revenues from Contracts with Customers*;
- Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet;
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the service is received rather than when payments are made;
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract. Interest receivable and dividend income is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the Council;
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

### 3. Charges to revenue for non-current assets

Services and support services are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service;
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off;
- amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement equal to Loans Fund principal charges. Depreciation, impairment losses and amortisations are therefore replaced by Loans Fund principal charges in the General Fund balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

## **4. Cash and cash equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that are readily convertible to known amounts of cash with insignificant risk of change in value. In the Balance Sheet and Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

## **5. Employee benefits**

### **Benefits payable during employment**

Short term employee benefits such as salaries, wages, overtime and paid annual leave for current employees are recognised as an expense in the year in which employees render service to the Council. All salaries and wages earned during the year are included in the Annual Accounts irrespective of when payment was made. The Council has made provision for the costs of any potential employee related claims. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year end and which employees can carry forward into the next financial year.

### **Termination benefits**

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. These termination benefits are charged on an accruals basis as an expense in the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to a termination; when it has a detailed formal plan for the termination and it is without realistic possibility of withdrawal.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, rather than the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancements and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

### **Post-employment benefits**

As part of the terms and conditions of employment of its employees, South Ayrshire Council offers retirement benefits. The Council participates in two separate pension schemes, one exclusive to teachers and the other open to all of its other employees:

- The Scottish Teachers' Superannuation Scheme, administered by the Scottish Public Pensions Agency;
- The Local Government Pension Scheme, administered by Strathclyde Pension Fund.

Both schemes provide "defined benefits" to members (retirement lump sums and pensions), earned as employees work for the Council.

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot be identified specifically to the Council. The scheme is therefore accounted for as if it were a "defined contributions" scheme. No liability for future payments of benefits is recognised in the Balance Sheet and the Education service line in the Comprehensive Income and Expenditure Statements is charged with the employer's contributions payable to teachers' pensions in the year.

### ***The Local Government pension scheme***

The Local Government Pension Scheme (LGPS) is accounted for as a “defined benefits” scheme:

- The liabilities of the Strathclyde Pension Scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the “projected credit unit method” i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate used by the appointed actuaries to place a value on the liability.
- The assets of the Strathclyde Pension Fund attributable to South Ayrshire Council are included in the Balance Sheet at their fair value at current bid prices for quoted securities, estimated fair value for unquoted securities and market price for property.

The change in the net pension liability is analysed into the following components:

- Service cost comprising:
  - *Current service cost*: The increase in liabilities as a result of years of service earned this year, allocated in the Comprehensive Income and Expenditure Statement to the services for which the employee worked.
  - *Past service cost*: The increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years, charged to Non-Distributed Costs in the Comprehensive Income and Expenditure Statement.
  - *Net interest on the net defined benefit liability (asset), i.e. net interest expenses for the Council*: The change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period, taking into account any changes in the net defined liability (asset) during the period as a result of contribution and benefit payments.
- Re-measurements comprising:
  - *The return on plan assets*: Excluding amounts included in the net interest on the net defined benefit liability (asset), charged to the Pension Reserve as other comprehensive income and expenditure.
  - *Actuarial gains and losses*: Changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because actuaries have updated their assumptions, charged to the Pensions Reserve as other comprehensive income and expenditure.
  - *Contributions paid to the Strathclyde Pension Fund*: Cash paid as employer’s contributions to the pension fund in settlements of liabilities; not accounted for as an expense.

In relation to retirement benefits, Scottish Government regulations require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional charges and credits for retirement benefits and replace them with charges for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

### ***Discretionary benefits***

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Strathclyde Pension Fund.

## 6. Financial assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics.

There are three main classes of financial assets measured at:

- amortised cost;
- fair value through profit or loss (FVPL); and
- fair value through other comprehensive income (FVOCI)

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest i.e. where the cash flows do not take the form of a basic debt instrument.

### Financial assets measured at amortised cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principle received (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

When soft loans are made (loans to organisations at less than market rates), a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting a lower amortised cost than the outstanding principal.

Interest is credited to the Financing and Investment Income and Expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of the soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the CIES to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustments Account in the Movement in Reserves Statement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financial and Investment Income and Expenditure line in CIES.

### Financial assets measured at fair value through profit or loss

Financial assets that are measured at fair value through profit or loss are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- Instruments with quoted market prices – the market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis.

The outputs of the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.

- Level 3 inputs – unobservable inputs for the assets.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

The Council entered into a number of financial guarantees that are not required to be accounted for as financial instruments. These guarantees are reflected in the Statement of Accounts to the extent that provisions might be required or a contingent liability note is needed under the policies set out in Provisions, Contingent Liabilities and Contingent Assets.

### **Expected credit loss model**

The Council recognises expected credit losses on all of its financial assets held at amortised cost (or where relevant fair value through other comprehensive income) either on a 12 month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12 month expected losses.

## **7. Financial liabilities**

### **Borrowing**

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable plus accrued interest, and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, Scottish Government regulations permit the costs of restructuring to be released to revenue over the period of the replacement loan. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

## **8. Government grants and contributions**

Whether paid on account, by instalments or in arrears, government grants and third-party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- The Council will comply with the conditions attached to the payments; and
- The grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attaching to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient, as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (for revenue grants and contributions) or Taxation and Non-specific Income (for capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is held in the Capital Grants Unapplied Account. Where it has been applied, it is held in the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account once they have been applied.

## **9. Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

### ***The Council as Lessee***

#### **Finance leases**

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease fair value measured at the lease's inception (or the present value of the minimum lease payment, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment, applied to write down the lease liability; and
- a finance charge (debited to the Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement)

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life where ownership of the asset does not transfer to the Council at the end of the lease period.

The Council is not required to raise Council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and impairment losses are therefore substituted by a revenue contribution in the General Fund balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

#### **Operating leases**

Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals paid under operating leases are charged to the appropriate service account in the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property over the term of the lease. Charges are made on a straight-line basis over the life of the lease.

## ***The Council as Lessor***

### **Operating leases**

The Council as landlord has granted commercial leases of premises and sites to various tenants on a variety of lease terms. The arrangements are accounted for as operating leases. Where the Council grants an operating lease over a property, the asset is retained in the Balance Sheet. The rental income receivable is included in the Comprehensive Income and Expenditure Statement.

## **10. Prior period adjustments, changes in accounting policies and estimation and errors**

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment. There were no prior period adjustments in 2019-2020.

Changes in accounting policy 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 Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless otherwise stated) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

## **11. Property, plant and equipment**

Assets that have physical substance and are held for use in the supply of services, for rental to others or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

### **Recognition**

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Plant, furniture and computer equipment costing less than £6,000 are not treated as Property, Plant and Equipment and are charged to the appropriate service line in the Comprehensive Income and Expenditure Statement. This de minimis does not apply where certain categories of these assets are grouped together and form part of the approved capital programme.

In respect of Component accounting, the assessment of which components are recognised and depreciated separately is based upon the costs of each component. Significance will be determined by comparing the components cost against the overall cost of an asset. The threshold for a significant component shall be 25% of the overall cost of the asset but only where the overall value of the asset is in excess of £1.000m.

### **Measurement**

Assets are initially measured at cost, comprising:

- the purchase price; and
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets, and assets under construction: depreciated historical cost;

- dwellings: current value determined using the basis of existing use value for social housing (EUV-SH);
- council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV), except for a few offices that are situated close to the Council’s housing properties, where there is no market for office accommodation, and that are measured at depreciated replacement cost (instant build) as an estimate of current value;
- school buildings – current value, but because of their specialist nature, are measured at depreciated replacement cost which is used as an estimate of current value;
- surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant’s perspective; and
- all other assets: current value, determined by the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of current value because of the specialist nature of an asset, in a limited number of instances depreciated replacement cost or insurance replacement cost has been used as an estimate of fair value. Where non-property assets that have short useful lives or low values, depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are re-valued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end but as a minimum every five years.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance, up to the amount of the accumulated gains; and
- where there is no balance in the Revaluation Reserve, the carrying amount of the asset is written down against the relevant service lines in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Property valuations are carried out by The Royal Institution of Chartered Surveyors (RICS) professional staff within the Council’s Directorate of Resources, Governance and Organisation or their appointed agent.

## **Impairment**

Where indications exist that an asset may be impaired and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance, up to the amount of the accumulated gains; and
- where there is no balance in the Revaluation Reserve, the carrying amount of the asset is written down against the relevant service lines in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

## **Disposals and non-current assets held for sale**

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is re-valued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is taken to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Any receipts from disposals are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal i.e. netted off against the carrying value of the asset at the time of disposal. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

The written off value of disposal is not a charge against the council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

## **Depreciation**

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. land and community assets), investment assets and assets that are not yet available for use (i.e. assets under construction).

Depreciation is charged on a straight-line basis over the useful life of the assets. Depreciation is charged in the year of acquisition but no depreciation is charged in the year of disposal. The periods of depreciation and categories of assets are detailed within Note 7 of the Annual Accounts.

Where a material item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately in accordance with the Council approved policy for material assets with a value in excess of £1.000m. Significant components are deemed to be those whose cost is 25% or more of the total cost of the asset.

## **12. Public Private Partnerships**

Public Private Partnership (PPP) contracts are agreements to receive services, where the responsibility for making available the assets needed to provide the services passes to the PFI operator. As the Council is deemed to control the services that are provided under its schools PFI scheme and as ownership of the schools will pass to the Council at the end of the contracts for no additional charge, the accounting regulations (*IFRIC12 Service Concession Arrangements*) require that the Council recognises the three primary schools, two secondary schools and an annex to an existing secondary school opened between 2007-2008 and 2009-2010, the new Ayr Academy opened in 2017-2018 and the new Queen Margaret Academy opened in 2019-2020, as part of Property, Plant and Equipment on its Balance Sheet.

The original recognition of the schools PFI assets at fair value (based on the cost of construction) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. The schools PFI assets are re-valued and depreciated in the same way as other non-current assets owned by the Council. The amounts payable to the PFI operators each year are analysed into five elements:

- fair value of the service received during the year – debited to the relevant service in the Income and Expenditure Statement;
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to Interest Payable and Similar Charges in the Income & Expenditure Statement;

- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to Interest Payable and Similar Charges in the Income & Expenditure Statement;
- payment towards liability – applied to write down the Balance Sheet liability towards the PPP contractor; and
- lifecycle replacement costs – recognised as fixed assets on the Balance Sheet.

## 13. Provisions, contingent assets and liabilities

### Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation and measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision held in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes less than probable that a transfer of economic benefits will be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

### Contingent assets and liabilities

A contingent asset or liability arises where an event has taken place that gives the Council a possible obligation or benefit whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities or assets also arise in circumstances where a provision would otherwise be made but, either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent assets and liabilities are not recognised in the Balance Sheet but disclosed in a note to the Accounts where they are deemed material.

## 14. Reserves

Reserves are created by appropriating amounts out of the General Fund balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year so as to be included within the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Reserves are classified under accounting regulations into two broad categories – **usable** which are available to support services and **unusable** which are unrealised and have a deferred impact on taxation.

### Usable reserves

The Council has several statutory reserve funds within this category. The Insurance Fund is earmarked for insurance purposes. The Repairs and Renewal Fund provides funds to facilitate asset improvements and efficiencies in future years. The Capital Fund is used to meet the costs of capital investment in assets and for the repayment of the principal element of borrowings. The Council also holds two further reserves within this category, the Capital Grants Unapplied Account which hold capital grants which have been received but have not yet been utilised to fund capital expenditure and the Capital Receipts Reserve which holds capital receipts which have not yet been used to fund capital expenditure.

## **Unusable reserves**

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments and retirement benefits that do not represent usable resources for the Council.

The two reserves arising from the system of capital accounting are the Revaluation Reserve and the Capital Adjustment Account. The former of these represents the store of gains on revaluation of fixed assets not yet realised through sales and the latter relates to amounts set aside from capital resources to meet past expenditure.

The two reserves arising from accounting for financial instruments are the Available for Sale Financial Instrument Reserve and the Financial Instruments Adjustment Account. The former contains the gains made by the Council arising from increases in the value of its investments and the latter is a balancing account to allow for differences in statutory requirements and proper accounting practices for lending and borrowing by the Council.

The Pensions Reserve arises from IAS19 accounting disclosures for retirement benefits and recognises the Council's share of actuarial gains and losses in the Strathclyde Pension Fund and the change in the Council's share of the Pension Fund liability chargeable to the Comprehensive Income and Expenditure Statement.

The Employee Statutory Adjustment Account absorbs the difference that would otherwise arise on the General Fund balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March each year.

## **15. Revenue expenditure funded from capital under statute**

Expenditure incurred during the year that may be capitalised under statutory provisions that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

## **16. VAT**

In general, income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to H.M. Revenue & Customs and all VAT paid is recoverable from it. The Council is not entitled to fully recover VAT paid on a very limited number of items of expenditure and for these items the cost of VAT paid is included within service expenditure to the extent that it is irrecoverable from H.M. Revenue and Customs.

## **17. Fair value measurement**

The Council measures some of its non-financial assets such as surplus assets and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly or indirectly;
- Level 3 – unobservable inputs for the asset or liability.

### **Note 35: Accounting standards issued not 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 2020-2021 Code:

**a) Standards, amendments and interpretations effective in the current year:** In the current year, the Council has applied a number of amendments to IFRS Standards and Interpretations that are effective for an annual period that begins on or after 1 January 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements:

- **IFRIC 23:** Uncertainty over Income Tax Treatment
- **Amendment to IFRS 9:** Prepayment Features with Negative Compensation
- **Amendments to IAS 28:** Long-Term Interest in Associates and Joint Ventures
- Annual Improvements to IFRS Standards 2015-2017 Cycle
- **Amendments to IAS 19:** Plan Amendment, Curtailment or Settlement

**b) Standards, amendments and interpretations early adopted this year:** There are no new standards, amendments or interpretations early adopted this year.

**c) Standards, amendments and interpretations issued but not adopted this year:** At the date of authorisation of these financial statements, the Council has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

- **IFRS 16: Leases** – HM Treasury have agreed to defer implementation until 1 April 2021
- **IFRS 17: Insurance Contracts** – applicable for periods beginning on or after 1 January 2021. Not yet endorsed for use in the EU.
- Amendments to References to the Conceptual Framework in IFRS Standards – applicable for period beginning on or after 1 January 2020
- **Amendment to IFRS 3** (Definition of a Business) – applicable for periods beginning on or after 1 January 2020
- **Amendments to IAS 1 and IAS 8** (Definition of Material) – applicable for periods beginning on or after 1 January 2020
- **Amendments to IFRS 9, IAS 29 and IFRS 7** (Interest Rate Benchmark Reform) – applicable for periods beginning on or after 1 January 2020
- **Amendment to IAS 1** (Classification of Liabilities as Current or Non-Current) – applicable for periods beginning on or after 1 January 2022. Not yet endorsed for use in the EU.

The Council does not expect that the adoption of the Standards listed above will have a material impact on the financial statements in future periods, except as noted below.

IFRS 16 Leases supersedes IAS 17 Leases and is being applied by the Local Government Accounting Code from 1 April 2021. IFRS 16 introduces a single lessee accounting model that results in a more faithful representation of a lessee's assets and liabilities, and provides enhanced disclosures to improve transparency of reporting on capital employed.

Under IFRS 16, lessees are required to recognise assets and liabilities for leases with a term of more than 12 months, unless the underlying asset is of low value. While no standard definition of 'low value' has been mandated, the Council have elected to utilise the capitalisation threshold of £10,000 to determine the assets to be disclosed. The Council expects that its existing finance leases will continue to be classified as leases. All existing operating leases will fall within the scope of IFRS 16 under the 'grandfathering' rules mandated in the Code for the initial transition to IFRS 16. In future years new contracts and contract renegotiations will be reviewed for consideration under IFRS 16 as implicitly identified right-of-use assets. Assets recognised under IFRS 16 will be held on the Balance Sheet as (i) right-of-use assets which represent the Council's right to use the underlying leased assets; and (ii) lease liabilities which represent the obligation to make lease payments.

The bringing of leased assets onto the Balance Sheet will require depreciation and interest to be charged on the right-of-use asset and lease liability, respectively. Cash repayments will also be recognised in the Statement of Cash Flows, as required by IAS 7.

Due to the need to reassess lease calculations, together with uncertainty on expected leasing activity from April 2021 and beyond, a quantification of the expected impact of applying the standard in 2021/22 is currently impracticable. However, the Council does expect the implementation of this standard to have a material impact on Property, Plant and Equipment.

### **Note 36: Critical judgements in applying accounting policies**

In applying the Significant Accounting Policies set out in Note 34 Section 6 to these accounts on pages 67 to 78, the Council 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:

**Future funding levels:** There is a degree of uncertainty about future levels of funding for local government in Scotland. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

**Provisions and Contingent liabilities:** The Council has considered its exposure to possible losses and made provision where it is probable that an outflow of resources will be required and can be measured reliably. Where it has not been possible to measure the obligation or it is not probable in the Council's opinion that a transfer of economic benefits will be required, material contingent liabilities have been disclosed in Note 32.

### **Note 37: Assumptions made about the future and other major sources of estimation uncertainty**

The Annual Accounts contain estimated figures that are based on assumptions made by the Council about the future or 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 Council's Balance Sheet at 31 March 2020, for which there is a significant risk of material adjustment in the forthcoming financial year, are as follows:

## **Pension liability**

*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 pay is projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Strathclyde Pension Fund has engaged a firm of consulting actuaries to provide expert advice about the assumptions to be applied.

*Effect if the results differ from assumption:* The effects on the net pension's liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate would result in an increase of £83.297m in the pension liability.

## **Property, plant and equipment: depreciation**

*Uncertainties:* Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate may create uncertainty around the valuations of the assets and their existing lives.

*Effect if results differ from assumptions:* If the useful life of assets is reduced, depreciation increases and the carrying amount of asset falls. It is estimated that the annual depreciation charge would increase and the carrying value would fall by £1.683m if useful lives were reduced by 1 year.

## **Property, plant and equipment: valuation**

*Uncertainties:* The outbreak of Covid-19, declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020, has impacted global financial markets. As a consequence, at the valuation date, less weight can be attached to previous market evidence for comparison purposes, to inform opinions of value for Property, Plant and Equipment. Indeed, the current response to Covid-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement. The outbreak has caused extensive disruption to businesses and economic activities and the uncertainties created have increased the estimation uncertainty over the fair value of the land and building portfolio at the balance sheet date. There remains a high degree of uncertainty in much of the property market, but so far the Council is not aware of a pattern of market evidence to suggest there has been any significant change in property values within South Ayrshire. We will continue to monitor the situation for a pattern of evidence that indicates values have changed as a result of the Covid-19 outbreak and reflect any changes as of 31 March 2021.

The Property, Plant and Equipment valuations which are undertaken on a five-year rolling programme of revaluations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to these values than would normally be the case.

*Effect if results differ from assumptions:* Given the unknown future impact that Covid-19 might have on the real estate market, valuations of these properties are being kept under review. The valuation report has been used to inform the measurement of assets in these financial statements. Although the valuer has declared a material valuation uncertainty, the valuer has continued to exercise professional judgement in preparing the valuation and, therefore, this is the best information available to South Ayrshire Council as at 31 March 2020 and can be relied upon.

At this stage it is impossible to predict how things are going to develop over the next 12 months in terms of property values but there may be a requirement to revalue the entire property portfolio once the full extent of the impact on property values comes to light.

## **Public Private Partnership (PPP)**

*Uncertainties:* The Council is deemed to control the services provided under the agreement for the provision of educational establishments. The accounting policies for PPP schemes and similar arrangements have been applied and the assets under the contract are included within Property, Plant and Equipment on the Council's Balance Sheet. In terms of financial modelling, RPI and RPIX indices are used.

*Effect if results differ from assumptions:* Any increase in these indices above that which are set in the funding model will require the Council to identify and allocate additional funding to the scheme. For instance, a 0.5% increase in the index rate used in the model would result in an increase of £17.309m in unitary charge payments over the remaining term of the arrangements.

# Section 7: Remuneration Report

The Remuneration Report provides details of the local authority's remuneration policy for senior councillors and senior employees and details of any role the local authority has in determining the remuneration policy for any local authority subsidiary body.

## Introduction

The remuneration report has been prepared in accordance with the Local Authority Accounts (Scotland) Regulations 1985 (as amended by the Local Authority (Scotland) Regulations 2014). These Regulations require various disclosures about the remuneration and pension benefits of senior councillors and senior employees.

For completeness, the disclosure requirements under paragraph 3.4.4.1(5) (6) and 3.4.5.1 (1) of *The Code* have been included in separate tables for remuneration paid to councillors, remuneration of senior employees and remuneration of officers in excess of £50,000.

All information disclosed in the tables in this Remuneration Report will be audited by Deloitte. All other sections of the Remuneration Report will be reviewed by Deloitte to ensure that they are consistent with the financial statements.

## Arrangements for remuneration

South Ayrshire Council sets the remuneration levels for Senior Councillors and Senior Officers. Its role is to ensure the application and implementation of fair and equitable systems for pay and performance management within the guidelines of and as determined by the Scottish Ministers and the Scottish Government. In reaching its decisions, the Council has regard to the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities; the Council's policies for the improvement of the delivery of local public services and the funds available to the Council.

The remuneration of Councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007 (SSI No. 2007/183). Various amendments have been made since that time and the salaries payable to members were cited under the Local Governance (Scotland) Act 2004 (Remuneration) Amendment Regulations 2019 and came in to force on 1 April 2019. The regulations provide for the grading of Councillors for the purposes of remuneration arrangements, as either the Leader of the Council, the Provost, Senior Councillors or Councillors. The Leader of the Council and the Provost cannot be the same person for the purposes of payment of remuneration. The total remuneration that may be paid to the Leader and the Provost is set out in the regulations.

When determining the level of remuneration for councillors, the Scottish Ministers consider the recommendations of the Scottish Local Authority Remuneration Committee (SLARC). In accordance with the regulations South Ayrshire Council may have 1 Leader, 1 Provost and up to 14 Senior Councillors. The regulations set out the maximum that the Council may pay as remuneration of Senior Councillors. The Council is able to exercise local flexibility in the determination of the precise number of Senior Councillors and their salary grade within these maximum limits. In 2019-2020 South Ayrshire Council had 1 Leader, 1 Provost and 12 Senior Councillors. The regulations also permit the Council to pay contributions or other payments as required to the Local Government Pension Scheme in respect of those Councillors who elect to become councillor members of the pension scheme. Remuneration of elected members for 2019-2020, including the Leader, Provost, Depute Provost and Senior Councillors was agreed at a meeting of the South Ayrshire Council on 28 February 2019. All allowances and expenses paid to elected members follow policies and procedures and are reviewed regularly to ensure continued relevance and compliance with legislation.

The remuneration of senior employees is set by reference to national arrangements. The Scottish Joint Negotiating Committees (SJNC) for Local Authority Services sets the salaries for the Chief Executives of Scottish local authorities. SJNC circular CO/148 sets the amount of salary for the Chief Executive of South Ayrshire Council for the period. South Ayrshire Council does not pay bonuses or performance related pay. Chief Officers are eligible to join the Local Government Pension Scheme (LGPS).

## Remuneration

The following tables provide details of the remuneration of the Council's Senior Councillors, senior employees and the remuneration to the Managing Director of Ayr Renaissance LLP which is a subsidiary body. A subsidiary body is an entity, including an incorporated body such as a partnership that is controlled by the Council.

The term *remuneration* means gross salary, fees & allowances, taxable expenses and compensation for loss of employment. Amounts presented are on an accruals basis. It excludes pension contributions paid by the Council. Pension contributions made to a person's pension are disclosed as part of the pension benefits disclosure.

The annual return of councillors' salaries and total expenses paid for 2019-2020 is available for any member of the public to view in the Council's offices at County Buildings, Ayr during normal working hours and is also available on the Council's website by following the link:

<http://www.south-ayrshire.gov.uk/councillors/expenses/>

### a) Remuneration of Senior Councillors and Chair of Joint Boards (subject to audit)

Name	Post title	Gross salary & allowances	2019-2020 Total remuneration	2018-2019 Total remuneration
		£	£	£
*D Campbell	Leader of the Council	34,941	34,941	34,391
H Moonie	Provost	26,205	26,205	25,506
I Cochrane	Senior Councillor (2)	23,479	23,479	22,851
J Dettbarn	Senior Councillor (2)	23,479	23,479	20,541
W Grant	Senior Councillor (2)/Depute Provost	23,479	23,479	26,636
P Henderson	Senior Councillor (2)	23,479	23,479	22,851
B McGinley	Senior Councillor (2)	23,479	23,479	22,851
P Saxton	Senior Councillor (2)	23,479	23,479	23,999
I Cavana	Senior Councillor (1)	21,156	21,156	20,972
A Clark	Senior Councillor (1)	21,156	21,156	22,828
B Connolly	Senior Councillor (1)	21,156	21,156	21,676
**P Convery	Senior Councillor (1)	5,029	5,029	22,098
***M Dowey	Senior Councillor (1)	16,071	16,071	-
H Hunter	Senior Councillor (1)	21,156	21,156	21,167
C MacKay	Senior Councillor (1)	21,156	21,156	20,591
		328,900	328,900	328,958

There were no non-cash expenses & benefits-in-kind paid during 2019-20.

*\*D Campbell – held the post of Leader of the Council until 25/06/20*

*\*\*P Convery – held the post of Senior Councillor (1) until 27/06/19*

*\*\*\*M Dowey – held the post of Senior Councillor (1) from 27/06/19*

Note:

*Full post title and responsibilities relating to each councillor can be found in the Members' Allowances and Expenses Paid 2019-2020 Annual Return which is available on the Council's website.*

*The post of Senior Councillor (2) carries responsibilities of portfolio holder and Senior Councillor (1) carries responsibilities of Panel Chair and Depute Provost.*

Total remuneration is presented on an accruals basis. There are no taxable expenses or compensation for loss of office payments associated with the above posts.

## b) Remuneration paid to Councillors (subject to audit)

The Council paid the following salaries and expenses to all councillors (including the Senior Councillors above) during the year.

	2019-2020	2018-2019
	£	£
Salaries	576,785	561,041
Expenses	17,052	17,930
	<b>593,837</b>	<b>578,971</b>

The annual return of councillors' salaries and expenses for 2019-2020 is compiled under Scottish Local Authority Remuneration Committee (SLARC) guidance for public records whereas the Remuneration Report is compiled under a Scottish Statutory Instrument (SSI) which results in a minor difference.

## c) Remuneration of senior employees (subject to audit)

Name & post	Year ended 31 March 2020		2018-2019
	Gross salary & allowances	Total Remuneration	Total Remuneration
	£	£	£
E Howat – Chief Executive	136,530	<b>136,530</b>	<b>130,089</b>
T Eltringham - Director of Health & Social Care Partnership	115,514	<b>115,514</b>	<b>112,214</b>
D Hutchison - Director of People	117,514	<b>117,514</b>	<b>112,078</b>
D Gillies – Director of Place	104,291	<b>104,291</b>	<b>100,583</b>
T Baulk – Head of Finance & ICT	84,975	<b>84,975</b>	<b>82,550</b>
K O'Hagan – Head of Employee & Customer Services	84,975	<b>84,975</b>	<b>80,815</b>
C Caves – Head of Regulatory Services (i)	86,725	<b>86,725</b>	<b>66,608</b>
	730,524	<b>730,524</b>	<b>684,937</b>

(i) C Caves – Head of Regulatory Services employment commenced 11 June 2018

The above table includes election fees: E Howat £2,500, D Hutchison £2,000, C Caves £1,500.

Total remuneration is presented on an accruals basis. The senior employees in the table above include any Council employee who has responsibility for management of the Council to the extent that the person has power to direct or control the major activities of the Council (including activities involving the expenditure of money) or reports directly to the Chief Executive, during the year to which the report relates, whether solely or collectively with other persons. There were no Taxable expenses or Non-cash expenses & benefits in kind made during 2019-20. There were no compensation for loss of office payments associated with the senior employees of the Council.

## d) Remuneration of the Council's subsidiary/associate body (subject to audit)

This table sets out the total remuneration paid to the Managing Director of the Council's subsidiary/associate body.

Name & post	2019-2020	2018-2019
	£	£
D Bell - Managing Director of Ayr Renaissance LLP	<b>84,975</b>	<b>82,378</b>

Total remuneration represents gross salary. There are no allowances, taxable expenses, non-cash expenses, benefits in kind or compensation for loss of office payments associated with the above post.

## e) Officers' remuneration (subject to audit)

The Council's employees receiving more than £50,000 remuneration for the year, excluding pension contributions, were remunerated within the following bandings:

Remuneration Bands	Number of	Number of
	Employees	Employees
	2019-2020	2018-2019
£50,000 - £54,999	104	44
£55,000 - £59,999	72	33
£60,000 - £64,999	31	5
£65,000 - £69,999	13	6
£70,000 - £74,999	3	1
£75,000 - £79,999	4	2
£80,000 - £84,999	8	7
£85,000 - £89,999	2	-
£90,000 - £94,999	1	-
£95,000 - £99,999	-	1
£100,000 - £104,999	1	1
£110,000 - £114,999	2	2
£130,000 - £134,999	1	1
	<b>242</b>	<b>103</b>

## Pension benefits

Pension benefits for councillors and local government employees are provided through the Local Government Pension Scheme (LGPS). The term *pension benefits* covers in-year pension contributions for the employee or councillor by the Council and the named person's accrued pension benefits at the reporting date.

Councillors' and employees' pension benefits are based on a career average revalued earnings scheme and is for benefits earned after 6 April 2015. Pension benefits are built up in a year or part year ending 31 March at a rate of 1/49<sup>th</sup> of the actual pensionable pay received in that scheme year and added to the member's pension account. The pension account is adjusted annually in line with the cost of living as currently measured by the Consumer Price Index.

The scheme's normal retirement age for both councillors and employees is the same as their state pension age with a minimum age of 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' contribution rate for 2019-20 were as follows:

Full time pay	Contribution rate
	2019-2020
On earnings up to £21,800	5.50%
On earnings above £21,800 and up to £26,700	7.25%
On earnings above £26,700 and up to £36,600	8.50%
On earnings above £36,600 and up to £48,800	9.50%
On earnings above £48,800	12.00%

<b>Full time pay</b>	<b>Contribution rate 2018-2019</b>
On earnings up to £21,300	5.50%
On earnings above £21,300 and up to £26,100	7.25%
On earnings above £26,100 and up to £35,700	8.50%
On earnings above £35,700 and up to £47,600	9.50%
On earnings above £47,600	12.00%

If a person works part-time the contribution is based on the actual pensionable pay earned. This includes earnings of additional hours up to the post's full-time hours.

The pension figures shown relate to the benefits that the person has accrued as a consequence of their total local government service and not just their current employment.

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 HMRC. The accrual rate guarantees a pension account based on 1/49<sup>th</sup> of actual pensionable salary received and years of pensionable service (prior to 2015 the actual rate guaranteed a pension based on 1/60<sup>th</sup> of final pensionable salary and years of pensionable service; prior to 2009 the actual rate guaranteed based on 1/80<sup>th</sup> and a lump sum based on 3/80<sup>th</sup> 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.

The pension figures shown relate to the benefits that the person has accrued as a consequence of their total local government service and not just their current employment.

**a) Pension benefits of senior councillors (subject to audit)**

The pension entitlements for senior councillors for the year to 31 March 2020 are shown in the table below, together with the contribution made by the Council to each senior councillor's pension during the year.

Name	Post title	In-year pension contributions			Accrued pension benefits	
		For year to 31 March 2020 £	For year to 31 March 2019 £		As at 31 March 2020 £	Difference from 31 March 2019 £
*D Campbell	Leader of the Council	6,744	6,563	Pension	5,971	889
				Lump sum	1,822	102
H Moonie	Provost	5,058	4,923	Pension	5,628	625
				Lump sum	1,798	52
I Cochrane	Senior Councillor (2)	4,531	4,410	Pension	3,326	525
				Lump sum	-	-
W Grant	Senior Councillor (2)/ Depute Provost	4,531	4,787	Pension	3,260	525
				Lump sum	-	-
P Henderson	Senior Councillor (2)	4,531	4,410	Pension	1,374	479
				Lump sum	-	-
B McGinley	Senior Councillor (2)	4,531	4,410	Pension	3,334	512
				Lump sum	-	-
P Saxton	Senior Councillor (2)	4,531	4,410	Pension	5,034	562
				Lump sum	1,587	48
I Cavana	Senior Councillor (1)	4,083	3,974	Pension	2,829	611
				Lump sum	353	104
A Clark	Senior Councillor (1)	4,083	3,974	Pension	3,039	467
				Lump sum	-	-
B Connolly	Senior Councillor (1)	4,083	3,974	Pension	3,017	429
				Lump sum	-	-
J Dettbarn	Senior Councillor (1)	4,531	3,964	Pension	1,326	479
				Lump sum	-	-
**M Dowey	Senior Councillor (1)	3,102	-	Pension	1,079	410
				Lump sum	-	-
H Hunter	Senior Councillor (1)	4,083	3,974	Pension	6,754	2,162
				Lump sum	1,819	82
C MacKay	Senior Councillor (1)	4,083	3,974	Pension	898	431
				Lump sum	-	-
		<b>62,505</b>	<b>57,747</b>		<b>54,248</b>	<b>9,494</b>

*Note – the above table details the councillors previously listed in table a) “Remuneration of Senior Councillors” who are also members of the council pension scheme.*

*\*D Campbell – held the post of Leader of the Council until 25/06/20*

*\*\*M Dowey – held the post of Councillor (1) from 27/06/19*

The pension benefits shown relate to the benefits that the individual has accrued as a consequence of their total local government service including any service with a Council subsidiary body, and not just their current appointment.

**b) Pension benefits of senior employee (subject to audit)**

The pension entitlements of senior employees for the year to 31 March 2020 are shown in the table below, together with the contribution made by the Council to each senior employee's pension during the year.

Name & Post	In-year pension contributions			Accrued pension benefits	
	For year to 31 March 2020	For year to 31 March 2019		As at 31 March 2020	Difference from 31 March 2019
	£	£		£	£
E Howat – Chief Executive	26,350	25,100	Pension	69,551	5,363
			Lump Sum	126,449	5,847
T Eltringham - Director of Health & Social Care Partnership	22,294	21,631	Pension	58,430	3,683
			Lump Sum	105,264	3,001
D Hutchison - Director of People	22,294	21,631	Pension	14,387	2,454
			Lump Sum	-	-
D Gillies – Director of Place	20,128	19,527	Pension	36,061	2,887
			Lump Sum	48,679	1,391
T Baulk – Head of Finance & ICT	16,400	15,932	Pension	36,771	2,559
			Lump Sum	59,116	1,734
K O'Hagan – Head of Customer & Employee Services	16,294	15,597	Pension	36,424	2,277
			Lump Sum	58,787	1,185
C Caves – Head of Regulatory Services	16,400	12,856 (full year equivalent £15,383)	Pension	3,048	1,732
			Lump Sum	-	-
	<b>140,160</b>	<b>132,274</b>		<b>652,967</b>	<b>34,113</b>

(i) C Caves – Head of Regulatory Services employment commenced 11 June 2018

**c) Pension benefits of the Council's subsidiary bodies (subject to audit)**

Name & Post	In-year pension contributions			Accrued pension benefits	
	For year to 31 March 2020	For year to 31 March 2019		As at 31 March 2020	Difference from 31 March 2019
	£	£		£	£
D Bell - Managing Director of Ayr Renaissance LLP	16,400	15,899	Pension	17,194	1,985
			Lump Sum	384	12
	<b>16,400</b>	<b>15,899</b>		<b>17,578</b>	<b>1,997</b>

## Exit packages of employees (subject to audit)

The table below sets out the number and costs of exit packages for both 2019-2020 and 2018-2019 financial years. The in-year costs include redundancy, pay in lieu of notice, pension strain costs and compensatory lump sums. The table also includes notional values for Compensatory Added Years (CAY) pension payments, which represents the estimated present value of all future payments until death. This value is based on pension providers' actuarial assumptions on pensioner longevity and other factors. As such, these figures are subject to change and will not reflect actual costs incurred. Exit packages exclude any costs in relation to ill health retirements.

Exit package cost band (including special payments)	2019-2020			2018-2019		
	Number of exit packages	Cost £	Notional CAY cost £	Number of exit packages	Cost £	Notional CAY cost £
£0 - £20,000	30	255,649	-	41	341,961	66,791
£20,001 - £40,000	9	208,168	-	14	398,477	14,992
£40,001 - £60,000	5	110,048	137,904	9	424,031	4,747
£60,001 - £80,000	2	86,720	58,429	3	211,823	4,747
£80,001 - £100,000	8	619,196	107,356	4	347,902	8,433
£100,001 - £150,000	2	222,535	-	5	627,451	5,116
£150,001 +	2	297,012	149,042	1	213,288	-
<b>Total</b>	<b>58</b>	<b>1,799,328</b>	<b>452,731</b>	<b>77</b>	<b>2,564,933</b>	<b>104,826</b>

There were no compulsory redundancies during 2019-2020 or 2018-2019.

## Trade union facility time

The Trade Union (Facility Time Publication Requirements) Regulations 2017 came into force on 1 April 2017 and require the Council to collate and publish the following information:

### No of employees (and full-time equivalent) who were relevant trade union officials during the year

Percentage of working hours spent on Trade Union facility time	No	FTE
0%	-	-
1 – 50%	44	42.45
51 – 99%	-	-
100%	-	-
	<b>44</b>	<b>42.45</b>

### Percentage of total pay spent on trade union facility time and trade union activities

Based on the above information, the percentage of the Council's total pay spent on Trade Union facility time is estimated at 0.1%. Approximately 0% of total paid Trade Union facility time is spent on Trade Union activities, as defined by section 170 (1)(b) of the Trade Union and Labour Relations (Consolidation) Act 1992.

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*Eileen Howat*

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**Eileen Howat**  
Chief Executive

24 September 2020

DocuSigned by:

*Peter Henderson*

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**Councillor Peter Henderson**  
Leader of the Council

24 September 2020

## Section 8: Housing Revenue Account

The Housing Revenue Account (HRA) reflects the statutory requirement to account separately for local authority housing provision, as specified in the Housing (Scotland) Act 1987. Any surplus or deficit on the HRA is ring-fenced for carry forward as part of the HRA accumulated financial position.

### I) HRA Income and Expenditure Statement for the year ended 31 March 2020

The HRA Income and Expenditure Statement summarises expenditure on repairs, maintenance and management of the Council's housing stock and how this was funded by rental income and other charges for services during the year.

2018-19 £000	Expenditure	2019-20 £000	2019-20 £000
10,588	Repairs and maintenance	10,810	
6,298	Supervision and management	6,378	
13,669	Depreciation and impairment of property, plant and equipment	13,733	
1,326	Other expenditure	980	
281	Increase in bad debt provision	256	
<b>32,162</b>	<b>Total expenditure</b>		<b>32,157</b>
	<b>Income</b>		
(30,666)	Dwelling rents	(31,435)	
(409)	Non-dwelling rents	(419)	
(1,144)	Other income	(614)	
<b>(32,219)</b>	<b>Total income</b>		<b>(32,468)</b>
115	HRA share of Corporate and Democratic Core		121
<b>58</b>	<b>Net (income)/expenditure from HRA service as included in the Council Comprehensive Income and Expenditure statement</b>		<b>(190)</b>
	<b>Other Operating Expenditure</b>		
7	(Gain) or loss on sale of HRA non-current assets		(2)
2,245	Interest payable and similar charges		2,380
(134)	Interest and investment income		(135)
86	Net interest on the net defined benefit liability		128
(3,686)	Non-specific grant income		(3,931)
<b>(1,424)</b>	<b>(Surplus)/Deficit for the year on HRA services</b>		<b>(1,750)</b>

## II) Movement on the HRA Statement for the year ended 31 March 2020

The Movement on the HRA Statement shows the movement in the year on the HRA usable reserves. The surplus or (deficit) on the provision of HRA services shows how the HRA Income and Expenditure Statement reconciles to the movement on the HRA Reserve.

2018-2019 £000		2019-2020 £000
(11,597)	<b>Balance on the HRA at the end of the previous year</b>	(9,357)
(1,424)	(Surplus) or deficit for the year on the HRA Income and Expenditure Statement	(1,750)
3,664	Adjustments between accounting basis and funding basis under statute*	(222)
<b>2,240</b>	<b>Net decrease/(increase) in HRA balance</b>	<b>(1,972)</b>
<b>(9,357)</b>	<b>Balance on the HRA at the end of the current year</b>	<b>(11,329)</b>

\*Represents net movement of all adjustments

### Note 1: Provisions

A provision of £0.728m (2018-2019: £0.655m) is included in the Balance Sheet for doubtful debts in respect of mainstream housing rents. During 2019-2020, a total of £0.182m was written off in respect of housing rent arrears. A further provision of £0.224m (2018-2019: £0.222m) is included in the Balance Sheet for doubtful debts in respect of homeless arrears. During the year, a total of £0.029m was written off in respect of homeless arrears.

### Note 2: Accommodation

At 31 March 2020, the Council held various types of accommodation and had the following number and types of houses:

Type of accommodation	2019-2020	2018-2019
One and two apartment	2,503	2,498
Three apartment	3,460	3,464
Four apartment	1,975	1,975
Five or more apartment	170	168
	<b>8,108</b>	<b>8,105</b>

### Note 3: Rent arrears & void property lost rent

At 31 March 2020, rent arrears amounted to £1.243m (2018-2019 £1.127m), being 3.89% (2018-2019 3.60%) of gross rent collectable. The rental income lost due to void properties amounted to £0.478m in 2019-20 (2018-2019 £0.466m).

### Note 4: HRA surplus/ (deficit)

The surplus for the year of £1.972m, when combined with the accumulated surplus brought forward from 2018-2019 of £9.357m, results in a final 2019-20 accumulated surplus of £11.329m at 31 March 2020. £6.514m is required to fund specific capital and revenue projects in future years leaving an uncommitted balance of £4.815m to be held as contingency for future unexpected or emergency situations.

## Section 9: Collection of Council Tax

The Council Tax Income Account (Scotland) shows the gross income raised from council tax levied and deductions made under Statute. The resultant net income is transferred to the Comprehensive Income and Expenditure Statement of the Council.

### Council Tax Income Account

2018-2019 £000		2019-2020 £000
72,229	Gross council tax levied and contributions in lieu	76,045
	Deduct:	
(8,059)	Council tax benefits/reduction (net of government grants)	(8,163)
(8,473)	Other discounts and reductions	(8,297)
(1,562)	Write-off of uncollectable debts and allowances for impairment	(1,800)
<b>54,135</b>	<b>In year council tax income</b>	<b>57,785</b>
420	Adjustment to prior years' council tax	(379)
<b>54,555</b>	<b>Transfer to General Fund</b>	<b>57,406</b>

#### Note 1: Council tax income

Council tax is based on the value of a domestic property, together with a personal element which takes into account the number of the property's occupants and their circumstances.

Each property is placed in one of eight valuation bands (A to H) in accordance with their value as at 1 April 1993. The council tax charge levied for each property is calculated in proportion to the council tax charge for a Band D property by applying fractions. A discount of 25 per cent on the council tax charge is made where there are fewer than two residents of a property. Individuals in care, students and people who are Severely Mentally Impaired are some examples where council tax would not be applicable. Reductions in council tax payable are also granted for disabled people in certain circumstances.

The valuation bands used in calculating the council tax payable for each valuation band are set out in the adjacent table.

Valuation band	2019-20 Charge per band £
A	855.25
B	997.79
C	1,140.33
D	1,282.87
E	1,685.55
F	2,084.66
G	2,512.29
H	3,143.03

Councils can vary the rate of council tax discount for unoccupied homes within their area in accordance with the Council Tax (Variation for Unoccupied Dwellings) (Scotland) Regulations 2013. From 1 April 2019 owners will pay 200% Council Tax for an empty property that is unoccupied for more than 12 months or up to 2 years if actively marketed for sale or rent. Councils can also vary the rate of council tax discount for second homes in accordance with The Council Tax (Variation for Unoccupied Dwellings) (Scotland) Regulations 2016. From 1 April 2018 owners of second home will pay 100% Council Tax for their second property. An element of the additional income collected from the reduction of discounts for empty properties requires to be transferred for the provision of new-build, affordable social housing in areas determined by the Council.

Additional income of £2.045m is included within the general fund reserves and earmarked for use in relation to the affordable homes strategy.

## Note 2: Calculation of the Council tax charge base 2019-2020

Council tax band	Valuation band								Total
	A	B	C	D	E	F	G	H	
Total number of properties	7,297	12,686	8,908	8,407	9,650	5,064	3,179	295	<b>55,486</b>
Less exemptions/deductions	376	447	277	192	179	86	34	4	<b>1,595</b>
Less adjustment for single discount	1,033	1,386	905	713	691	270	140	5	<b>5,143</b>
Less adjustment for double discount	97	161	130	92	103	49	29	6	<b>667</b>
Reduction in tax base due to Council Tax Reduction	2,556	2,972	1,483	641	386	106	23	-	<b>8,167</b>
<b>Effective number of properties</b>	<b>3,235</b>	<b>7,720</b>	<b>6,113</b>	<b>6,769</b>	<b>8,291</b>	<b>4,553</b>	<b>2,953</b>	<b>280</b>	<b>39,914</b>
<b>Band D equivalent factor (D)</b>	<b>240</b>	<b>280</b>	<b>320</b>	<b>360</b>	<b>473</b>	<b>585</b>	<b>705</b>	<b>882</b>	-
Band D equivalent number of properties	2,157	6,004	5,434	6,769	10,893	7,398	5,782	685	<b>45,122</b>
Class 17 & 24 dwellings	-	-	-	7	-	-	-	-	<b>7</b>
<b>Total</b>	<b>2,157</b>	<b>6,004</b>	<b>5,434</b>	<b>6,776</b>	<b>10,893</b>	<b>7,398</b>	<b>5,782</b>	<b>685</b>	<b>45,129</b>
Less provision for non-collection 2.75 per cent (adjusted for impact of Council Tax Reduction)									1,241
<b>Council tax base 2019-2020</b>									<b>43,888</b>

## Section 10: Non-Domestic Rate Account

The Non-Domestic Rate Account (Scotland) is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Non-Domestic Rate Account. The statement shows the gross income from the rates and deductions made under statute. The net income is paid to the Scottish Government as a contribution to the national non-domestic rate pool.

2018-2019		2019-2020
£000		£000
59,695	Gross rates levied and contributions in lieu	59,409
	<i>Deduct:</i>	
(14,077)	Reliefs and other deductions	(14,107)
(912)	Write-off of uncollectable debts and allowance for impairment	(906)
<b>44,706</b>	<b>Net non-domestic rate income</b>	<b>44,396</b>
(264)	Adjustment to previous years' national non-domestic rates	(2,958)
<b>44,442</b>	<b>Total non-domestic rate income</b>	<b>41,438</b>
	<b>National non-domestic rate pool:</b>	
38,299	Non-domestic rate income retained by the authority	42,818
(44,442)	Contribution (to)/ from national non-domestic rate pool	(41,438)
<b>(6,143)</b>		<b>1,380</b>

### Note 1: Non-Domestic rate income/contribution from national non-domestic rate pool

With effect from 1993-1994, all non-domestic rate income collected by local authorities (from non-domestic ratepayers) is paid into a national pool and redistributed to levying authorities (unitary and island councils) by the Scottish Government.

### Note 2: Rateable subjects and values 2019-2020

Commercial subjects	Number	Rateable Value
		£000
Shops	1,405	35,499
Public houses	116	3,863
Offices (Including banks)	787	9,056
Hotels, boarding houses, etc.	86	6,120
Industrial and freight transport subjects	968	21,155
Leisure, entertainment, caravans and holiday sites	576	7,066
Garages and petrol stations	92	1,429
Cultural	30	750
Sporting subjects	551	1,140
Education and training	72	10,057
Public service subjects	178	6,785
Communications (non-formula)	18	2,035
Quarries, mines etc.	8	382
Petrochemical	4	108
Religious	90	1,027
Health medical	87	4,467
Other	192	1,249
Care facilities	59	3,033
Advertising	35	78
Undertaking	21	3,024
<b>Total all subjects</b>	<b>5,375</b>	<b>118,323</b>

Rate levied 2019-2020: Rateable value greater than £51,000 – 51.60p, less than or equal to £51,000 – 49.00p

# Section 11: Group Accounts

## Introduction

*The Code of Practice* requires local authorities to consider their interest in all types of entity. This includes other local authorities or similar bodies defined in section 106 of the Local Government (Scotland) Act 1973 e.g. statutory bodies such as Valuation Boards. Local authorities are required to prepare a full set of Group Accounts in addition to their own Council's Accounts where they have a material interest in such entities.

## Combining entities

The Council has an interest in two subsidiaries, three associates and one joint venture entity. Further information on each entity are detailed in the notes to the Group Accounts on pages 95 to 96 The subsidiary, associate and joint venture entities share a common accounting period ending 31 March 2020.

The subsidiaries are The Common Good Fund and Ayr Renaissance LLP. The Council effectively controls 100% of the Common Good Fund, which is overseen by elected members through the appropriate Council panel. Following the resignations of four private sector board members during September 2018, from 14 February 2019 a variation of the LLP Agreement for Ayr Renaissance LLP has resulted in the membership of the LLP board consisting of four South Ayrshire councillors and the Council's Chief Executive The organisation is in the process of being wound up, which is expected to be concluded during 2020-2021. Until this process is completed Ayr Renaissance LLP is still being treated as a subsidiary for the purposes of the Group Accounts.

The associate entities incorporated are:

- Strathclyde Partnership for Transport;
- Strathclyde Concessionary Travel Scheme Joint Board; and
- Ayrshire Valuation Joint Board.

The joint venture is:

- South Ayrshire Integration Joint Board.

The associate and joint venture entities are independent joint boards whose function is to provide services on behalf of its constituent councils. The representative members of each board are elected Councillors appointed by constituent authorities. The Council has one member representing its interests on each of the Transport Authority and Concessionary Travel Scheme Joint Boards, five members on the Ayrshire Valuation Joint Board and four voting members on the South Ayrshire Integration Joint Board.

## Nature of combination

The Council inherited its 100% interest in the Common Good Fund from Kyle & Carrick District Council following the re-organisation of local government in 1996. Ayr Renaissance LLP was established by South Ayrshire Council as a separate arm's length, Limited Liability Partnership, with the purpose of regenerating Ayr Town Centre. The subsidiaries have been consolidated into the Group Accounts on an acquisition basis. Shares of the associate companies have also been accounted for on an acquisition basis using the equity method – the Council's share of the net assets or liabilities of each entity is incorporated and adjusted each year by the Council's share of the entities' results (recognised in the Group Reserve), and its share of other gains & losses. The Council has not paid any consideration for its interests and thus there is no goodwill involved in the acquisitions. The joint venture has been consolidated in the Group Accounts on a gross equity basis.

## Financial impact of consolidation

The inclusion of the subsidiary and associate entities in the group Balance Sheet increases both the reserves and net assets by £38.861m, representing the Council's share of the net assets or liabilities of the entities. The Core Financial Statements of the Group have been incorporated as additional columns in the main financial statements of South Ayrshire Council contained on pages 27 to 31.

## Notes to the Group Accounts

The notes required for the Annual Accounts of South Ayrshire Council as the holding entity are disclosed separately within the financial statements on pages 32 to 80. The following notes provide additional information in relation to other combining entries.

### Note 1: Accounting policies

The Group financial statements are prepared in accordance with the policies set out in the Significant Accounting Policies, Note 34 Section 6 to these accounts on pages 67 to 78.

### Note 2: Balances held between the Council and its associates

In accordance with UK accounting standards, no adjustments have been made in the Group Accounts for transactions conducted and balances held between the Council and its associates.

### Note 3: Details of combining entities

In addition to the information contained in the Group Accounts element of South Ayrshire's Core Financial Statements on pages 27 to 31, the accounting regulations require specific disclosures about the combining entities and the nature of their business.

**The Common Good Fund** was inherited by South Ayrshire Council from Kyle & Carrick District Council following the 1996 local government re-organisation. The Fund comprises five distinct sub-funds, Ayr, Prestwick, Troon, Maybole and Girvan. The Council controls 100% of the fund and administers it for the interest and benefit of the people in the aforementioned areas. All expenditure is met from annual income or reserves.

**Strathclyde Partnership for Transport** is the statutory body responsible for formulating the public transport policy on behalf of the twelve local authorities in the West of Scotland. The majority of its funding comes directly from the Scottish Government to fund the Rail Franchise payment and to ensure the delivery of rail services within the Board's area as specified in the rail franchise agreement. In 2019-2020, South Ayrshire Council contributed £1.801m or 4.82% of the Board's estimated running costs. Its share of the year-end net asset of £20.591m (2018-2019 £15.971m) is included in the Group Balance Sheet. Copies of Strathclyde Partnership for Transport accounts may be obtained from the Treasurer of Strathclyde Partnership for Transport, 131 St Vincent Street, Glasgow G2 5JF.

**Strathclyde Concessionary Travel Scheme Joint Board** comprises the twelve local authorities in the West of Scotland and oversees the operation of the concessionary fares scheme for public transport within its area. The costs of the scheme are met by the twelve local authorities and by a grant from the Scottish Executive. The Strathclyde Passenger Transport Executive administers the scheme on behalf of the Board. In 2019-2020, South Ayrshire Council contributed £0.263m or 6.21% of the Board's estimated running costs. Its share of the year-end net asset of £0.045m (2018-2019 £0.078m) is included in the Group Balance Sheet. Copies of Strathclyde Concessionary Travel Scheme's accounts may be obtained from the Treasurer to Strathclyde Concessionary Travel Scheme, 131 St Vincent Street, Glasgow G2 5JF.

**Ayrshire Valuation Joint Board** was established in 1996 at local government re-organisation by Act of Parliament. The Board maintains the electoral, council tax and non-domestic rates registers for the three Councils of East, North and South Ayrshire. The Board's running costs are met by the three-member Councils. Surpluses or deficits on the Board's operations are shared between the Councils. In 2019-2020, South Ayrshire Council contributed £0.739m or 33.33% of the Board's estimated running costs and a £0.025m capital grant. Its share of the year-end net asset of £0.563m (2018-2019 £0.143m) is included in the Group Balance Sheet. Copies of Ayrshire Valuation Joint Board's accounts may be obtained from the Treasurer to Ayrshire Valuation Joint Board, County Buildings, Wellington Square, Ayr KA7 1DR.

**Ayr Renaissance LLP** was established by South Ayrshire Council as a separate arm's length, Limited Liability Partnership, with the purpose of regenerating Ayr Town Centre. It has two members, namely the Council (which is entitled to 99.999% share of profits) and SAC (LLP Nominees) Limited, a nominee company wholly owned by South Ayrshire Council. The organisation's running costs were met by South Ayrshire Council by way of an annual revenue contribution. South Ayrshire Council contributed £0.201m for running costs during 2019-2020.

**South Ayrshire Integration Joint Board** was established following the submission of three Integration Schemes from Ayrshire, the Cabinet Secretary for Health, Wellbeing and Sport signed the Parliamentary Order in March 2015 which enabled the establishment of new Health and Social Care Partnerships. The new integrated partnerships combine the resources and expertise from local Councils, the NHS and a number of other stakeholders to deliver key health and social care services where they are needed most. The South Ayrshire Integration Joint Board was formally established on 1 April 2015. South Ayrshire Council delegated resources of £76.585m or 33% of the Boards income in 2019-2020.

The following table details the main elements of South Ayrshire Council's share of assets, liabilities and revenues of its Subsidiary and Associates entities.

**Share of Subsidiary and Associate - Assets and Liabilities 2019-2020**

	<b>Common Good fund</b>	<b>Strathclyde Passenger for Transport</b>	<b>Strathclyde Concessionary Travel Scheme</b>	<b>Ayrshire valuation Joint board</b>	<b>Ayr Renaissance LLP</b>	<b>South Ayrshire IJB</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Share of assets	17,011	21,698	114	609	703	-
Share of liabilities	(44)	(1,107)	(69)	(46)	(8)	-
Share of revenues	(668)	(4,619)	(251)	(811)	(201)	76,585
Share of (surplus)/deficit	50	(3,088)	34	77	-	-

**Share of Subsidiary and Associate - Assets and Liabilities 2018-2019**

	<b>Common Good fund</b>	<b>Strathclyde Passenger for Transport</b>	<b>Strathclyde Concessionary Travel Scheme</b>	<b>Ayrshire Valuation Joint Board</b>	<b>Ayr Renaissance LLP</b>	<b>South Ayrshire IJB</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Share of assets	17,067	20,633	132	382	705	-
Share of liabilities	(62)	(4,662)	(54)	(239)	(10)	-
Share of revenues	(736)	(123)	(254)	(771)	(255)	76,760
Share of (surplus)/deficit	(12)	(592)	18	176	-	-

**Note 4: Contingent liabilities**

At 31 March 2020 the Council had no share of contingent liabilities in any of its associate entities.

## Section 12: Common Good Fund Accounts

The Common Good Fund was inherited by the Council from Kyle and Carrick District Council in 1996 following local government re-organisation. The Fund comprises five distinct sub-funds; Ayr, Troon, Prestwick, Maybole and Girvan. The Council controls 100% of the Fund and administers it for the interest and benefit of the people in the aforementioned areas. All expenditure is met from income or reserves.

### I) Movement in Common Good Reserves Statement for the year ended 31 March 2020

#### 2019-2020

	Revenue reserve £000	Capital receipts reserve £000	Total usable reserve £000	Revaluation reserve £000	Total unusable reserve £000	Total reserves £000
<b>Balance at 31 March 2019</b>	378	930	<b>1,308</b>	15,697	<b>15,697</b>	<b>17,005</b>
<b>Movement in reserves during 2019-2020</b>						
Surplus or (deficit) on the provision of services	(50)	-	<b>(50)</b>	-	-	<b>(50)</b>
Other comprehensive income and expenditure	-	10	<b>10</b>	2	<b>2</b>	<b>12</b>
<b>Increase/(decrease) in 2019-2020</b>	<b>(50)</b>	<b>10</b>	<b>(40)</b>	<b>2</b>	<b>2</b>	<b>(38)</b>
<b>Balance at 31 March 2020</b>	<b>328</b>	<b>940</b>	<b>1,268</b>	<b>15,699</b>	<b>15,699</b>	<b>16,967</b>

#### 2018-2019

	Revenue reserve £000	Capital receipts reserve £000	Total usable reserve £000	Revaluation reserve £000	Unusable reserve £000	Total reserves £000
<b>Balance at 31 March 2018</b>	366	920	<b>1,286</b>	15,260	<b>15,260</b>	<b>16,546</b>
<b>Movement in reserves during 2018-2019</b>						
Surplus or (deficit) on the provision of services	12	-	<b>12</b>	-	-	<b>12</b>
Other comprehensive income and expenditure	-	10	<b>10</b>	437	<b>437</b>	<b>447</b>
<b>Increase/(decrease) in 2018-2019</b>	<b>12</b>	<b>10</b>	<b>22</b>	<b>437</b>	<b>437</b>	<b>459</b>
<b>Balance at 31 March 2019</b>	<b>378</b>	<b>930</b>	<b>1,308</b>	<b>15,697</b>	<b>15,697</b>	<b>17,005</b>

### II) Common Good Income and Expenditure Account for the year ended 31 March 2020

2018-2019 £000	Ayr £000	Troon £000	Prestwick £000	Maybole £000	Girvan £000	2019-2020 £000
<b>Expenditure</b>						
667	566	-	35	-	44	645
1	-	-	-	-	-	-
57	72	-	-	-	1	73
<b>725</b>	<b>638</b>	<b>-</b>	<b>35</b>	<b>-</b>	<b>45</b>	<b>718</b>
<b>Income</b>						
726	580	-	31	-	45	656
11	9	-	3	-	-	12
<b>737</b>	<b>589</b>	<b>-</b>	<b>34</b>	<b>-</b>	<b>45</b>	<b>668</b>
12	(49)	-	(1)	-	-	(50)
366	77	33	257	2	9	378
<b>378</b>	<b>28</b>	<b>33</b>	<b>256</b>	<b>2</b>	<b>9</b>	<b>328</b>

### III) Common Good Balance Sheet as at 31 March 2020

31 March 2019		31 March 2020	
£000		£000	
15,904	Property, Plant and Equipment	15,906	
47	Long term investments	-	
<b>15,951</b>	<b>Non-current assets</b>	<b>15,906</b>	
2	Inventory	2	
-	Debtors and prepayments	-	
1,114	Loans fund investment	1,103	
<b>1,116</b>	<b>Current assets</b>	<b>1,105</b>	
(31)	Creditors	(13)	
(31)	Deferred income	(31)	
<b>(62)</b>	<b>Current liabilities</b>	<b>(44)</b>	
<b>17,005</b>	<b>Net assets</b>	<b>16,967</b>	
1,308	Usable Reserves - Revenue and Capital reserves	1,268	
15,697	Unusable Reserve - Revaluation Reserve	15,699	
<b>17,005</b>	<b>Net reserves</b>	<b>16,967</b>	

#### Note 1: Valuation of Property, Plant and Equipment

Property valuations were carried out by RICS professional staff within the Council's Directorate of Place and are at valuation dates between 2015-2016 and 2019-2020, dependent on the category of asset.

#### Note 2: Movement in Property, Plant and Equipment

2019-2020 Movements	Ayr	Prestwick	Troon	Girvan	Total
	£000	£000	£000	£000	£000
Value as 1 April 2019	15,168	694	31	11	15,904
Revaluations and impairments	2	-	-	-	2
<b>Value as at 31 March 2020</b>	<b>15,170</b>	<b>694</b>	<b>31</b>	<b>11</b>	<b>15,906</b>

In accordance with the Council's accounting policies, no depreciation is charged on Common Good assets as they comprise land, investment buildings and community assets.

#### Note 3: Usable capital receipts reserve

This reserve represents the proceeds of disposals of Common Good assets less any capital expenditure.

#### Note 4: Revaluation reserve

This represents the difference between the costs of Property, Plant and Equipment and the valuations adjusted for disposals.

## Section 13: Trust Fund Accounts

The Council administers trust funds and bequests from local benefactors from which payments are made for specific purposes. The number of trusts at 31 March 2020 was 56; 51 of which are under the control of South Ayrshire Councillors (ex-officio) and five which are controlled in part by external trustees. The following tables summarise those trusts that are controlled solely by South Ayrshire Councillors:

2018-2019		Registered charitable trusts	Other trusts	2019-2020
£000	Revenue accounts	£000	£000	£000
758	Opening balance	406	250	656
9	Income for year	4	6	10
(111)	Expenditure during year	(153)	(9)	(162)
<b>656</b>	<b>Closing balance</b>	<b>257</b>	<b>247</b>	<b>504</b>
<b>Balance Sheet as at 31 March</b>				
<b>Assets</b>				
101	Investments	17	80	97
695	Current assets	260	282	542
<b>796</b>	<b>Total assets</b>	<b>277</b>	<b>362</b>	<b>639</b>
<b>Reserves</b>				
656	Revenue	257	247	504
47	Available for sale financial instrument reserve	-	43	43
93	Capital reserve	20	72	92
<b>796</b>	<b>Total reserves</b>	<b>277</b>	<b>362</b>	<b>639</b>

The table below provides information on the original purpose of various trusts or bequests and the value of investments held at 31 March 2020, split between those trusts with charitable status and those without.

### Charitable Trusts

Name	Original Purpose	Loans Fund Investment	External Investment	Total
		£000	£000	£000
New SACT (SC045677)	The prevention and relief of poverty and relief of those in need by reason of age, ill health, disability, financial hardship or other disadvantages.	218	14	232
South Ayrshire Council Charitable Trust (SC025088)	Various educational purposes; prizes/bursaries; social purposes; war memorial maintenance.	38	0	38
McKechnie Trust (SC012759)	Founding and operation of a library and reading rooms in Dalrymple Street, Girvan. (Purpose superseded by establishment of local authority public library); McKechnie Institute building is now a museum and exhibition centre	4	3	7
<b>Total charitable trusts</b>		<b>260</b>	<b>17</b>	<b>277</b>

## Non-charitable Trusts

Name	Original Purpose	Loans Fund	External	Total
		Investment	Investment	
		£000	£000	£000
John McMaster Bursary Fund	Bursaries for pupils of Girvan Academy to attend Glasgow or Edinburgh University for three to five years per conditions of scheme.	165	80	245
Sundry Mortifications	Maintenance of lairs in perpetuity.	47	0	47
Various	Non-Charitable Trusts with closing balances of less than £25,000.	70	0	70
<b>Total non-charitable trusts</b>		<b>282</b>	<b>80</b>	<b>362</b>
<b>Total trusts</b>		<b>542</b>	<b>97</b>	<b>639</b>

The table below provides a reconciliation of the movement on investments held by trusts, analysed between those trusts with charitable status and those without.

## Charitable Trusts

Capital and Revenue	31 March 2019		Income		Expenditure		31 March 2020		
	£000 Capital	£000 Revenue	£000 Capital	£000 Revenue	£000 Capital	£000 Revenue	£000 Capital	£000 Revenue	£000 Total
New SACT (SC045677)	15	368	-	4	2	153	13	219	232
South Ayrshire Council Charitable Trusts (SC025088)	4	34	-	-	-	-	4	34	38
McKechnie Trust (SC012759)	3	4	-	-	-	-	3	4	7
<b>Total charitable trusts</b>	<b>22</b>	<b>406</b>	<b>-</b>	<b>4</b>	<b>2</b>	<b>153</b>	<b>20</b>	<b>257</b>	<b>277</b>

## Non-charitable Trusts

Capital and Revenue	31 March 2019		Income		Expenditure		31 March 2020		
	£000 Capital	£000 Revenue	£000 Capital	£000 Revenue	£000 Capital	£000 Revenue	£000 Capital	£000 Revenue	£000 Total
John McMaster Bursary Fund	82	169	-	6	3	9	79	166	245
Sundry Mortifications	20	27	-	-	-	-	20	27	47
Non-charitable trusts with a closing balance of less than £25,000	16	54	-	-	-	-	16	54	70
<b>Total non-charitable</b>	<b>118</b>	<b>250</b>	<b>-</b>	<b>6</b>	<b>3</b>	<b>9</b>	<b>115</b>	<b>247</b>	<b>362</b>
<b>Total</b>	<b>140</b>	<b>656</b>	<b>-</b>	<b>10</b>	<b>5</b>	<b>162</b>	<b>135</b>	<b>504</b>	<b>639</b>

## Other trusts and bequests

The Council also administers the funds of a further five trusts or bequests that are controlled in part by external trustees with a combined value at 31 March 2020 of £0.870m. These trusts or bequests are not included in the above accounts and are not covered by the independent auditor's report at Section 14.

# Section 14: Independent Auditor's Report

## Report on the audit of the financial statements

### Opinion on financial statements

We certify that we have audited the financial statements in the annual accounts of South Ayrshire Council and its group for the year ended 31 March 2020 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and council-only Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet, and Cash Flow Statement, the council-only Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Council Tax Income Account, the Non-Domestic Rate Account, the Movement in Common Good Reserves Statement, the Common Good Income and Expenditure Account, the Common Good Balance Sheet, the Trust Funds Account and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the 2019/20 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2019/20 Code of the state of affairs of the council and its group as at 31 March 2020 and of the income and expenditure of the council and its group for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

### Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We were appointed by the Accounts Commission on 31 May 2016. The period of total uninterrupted appointment is four years. We are independent of the council and its group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Emphasis of matter – valuation of land and buildings

We draw attention to notes 7 and 37 in the financial statements, which describe the effects of the uncertainties created by the coronavirus (COVID-19) pandemic on the valuation of the Council's property portfolio. As noted by the Council's valuers, the outbreak has caused extensive disruption to businesses and economic activities and the uncertainties created have increased the estimation uncertainty over the fair value of the land and buildings portfolio (Council Dwellings and Other Land and Buildings) at the balance sheet date. Our opinion is not modified in respect of this matter.

### Conclusions relating to going concern basis of accounting

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Head of Finance and ICT has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### **Risks of material misstatement**

We report in a separate Annual Audit Report, available from the [Audit Scotland website](#), the most significant assessed risks of material misstatement that we identified and our conclusions thereon.

### **Responsibilities of the Head of Finance and ICT and South Ayrshire Council for the financial statements**

As explained more fully in the Statement of Responsibilities, the Head of Finance and ICT is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Head of Finance and ICT determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Head of Finance and ICT is responsible for assessing the council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

The South Ayrshire Council is responsible for overseeing the financial reporting process.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skillfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved. We therefore design and perform audit procedures which respond to the assessed risks of material misstatement due to fraud.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Other information in the annual accounts**

The Head of Finance and ICT is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements, the audited part of the Remuneration Report, and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with our audit of the financial statements, our responsibility is to read all the other information in the annual accounts and, in doing so, consider whether the other information is materially inconsistent with

the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Report on other requirements

### Opinions on matters prescribed by the Accounts Commission

In our opinion, the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

### Matters on which we are required to report by exception

We are required by the Accounts Commission to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- there has been a failure to achieve a prescribed financial objective.

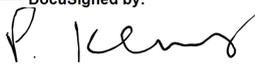
We have nothing to report in respect of these matters.

### Conclusions on wider scope responsibilities

In addition to our responsibilities for the annual accounts, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, are set out in our Annual Audit Report.

### Use of our report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

DocuSigned by:  
  
3377FE03D94848A...

Pat Kenny, CPFA (for and on behalf of Deloitte LLP)  
110 Queen Street  
Glasgow  
G1 3BX  
United Kingdom  
24 September 2020

# Section 15: Glossary of Terms

Although the terminology used in the Annual Accounts is intended to be self-explanatory, it may be helpful to readers to provide additional definition and interpretation of the terms used.

## **Accounting period**

The period of time covered by the Annual Accounts, normally a period of twelve months commencing on 1 April. The end of the accounting period is the Balance Sheet date.

## **Accruals**

The concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

## **Actuarial gains and losses (pensions)**

For a defined benefit scheme, the changes in actuarial deficits or surpluses that arise because events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses), or changes in the actuarial assumptions themselves.

## **Asset**

An item having value to the Council in monetary terms. Assets are categorised as either current or non-current. A current asset will be consumed or cease to have material value within the next financial year (e.g. cash and stock). A non-current asset provides benefits to the Council and to the services it provides for a period of more than one year.

## **Associates**

These are entities (other than a subsidiary or joint venture) in which the Council has a participating interest or over whose operating and financial policies the Council is able to exercise significant influence.

## **Audit of accounts**

An independent examination of the Council's financial affairs.

## **Balance sheet**

A statement of the recorded assets, liabilities and other balances at the end of the accounting period.

## **Capital expenditure**

Expenditure on the acquisition of a non-current asset, which will be used in providing services beyond the current accounting period, or expenditure which adds to and not merely maintains the value of an existing non-current asset.

## **Capital financing**

Funds raised to pay for capital expenditure. There are various methods of financing capital expenditure including: borrowing, leasing, capital receipts, grants, and revenue funding.

## **Capital programme**

The capital schemes the Council intends to carry out over a specified period of time.

## **Capital receipt**

The proceeds from the disposal of land or other non-current assets.

## **CIPFA**

The Chartered Institute of Public Finance and Accountancy.

## **Community assets**

Assets that the Council intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are municipal parks.

## **Consistency**

The concept that the accounting treatment of like terms within an accounting period and from one period to the next are the same.

## **Contingent asset/liability**

A Contingent Asset/Liability is either:

- A possible benefit/obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain events not wholly within the Council's control; or
- A present benefit/obligation arising from past events where it is not probable that a transfer of economic benefits will be required, or the amount of the obligation cannot be measured with sufficient reliability.

## **Corporate and Democratic Core**

The Corporate and Democratic Core comprises all activities which local authorities engage in specifically because they are elected multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same service.

**Creditor**

Amounts owed by the Council for work done, goods received or services rendered within the accounting period, but for which payment has not been made by the end of that accounting period.

**Covid-19**

Declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020

**Current service cost (pension)**

The increase in the present value of a defined benefit scheme's liabilities, expected to arise from employee service in the current period.

**Debtor**

Amount owed to the Council for works done, goods received or services rendered within the accounting period, but for which payment has not been received by the end of that accounting period.

**Defined benefit pension scheme**

Pension scheme in which the benefits received by the participants are independent of the contributions paid and are not directly related to the investments of the scheme.

**Depreciation**

The measure of the cost of wearing out, consumption or other reduction in the useful economic life of the Council's non-current assets during the accounting period, whether from use, the passage of time or obsolescence through technical or other changes.

**Discretionary benefits (pensions)**

Retirement awards which the employer has no legal, contractual or constructive obligation to make. These are awarded under the Council's discretionary powers.

**Entity**

A body corporate, partnership, trust, unincorporated association or statutory body that is delivering a service or carrying on a trade or business with or without a view to profit. It should have a separate legal personality and is legally required to prepare its own single entity accounts.

**Events after the Balance Sheet date**

Events after the Balance Sheet date are those events, favourable or unfavourable, that occur between the Balance Sheet date and the date when the Annual Accounts are authorised for issue.

**Fair value**

The fair value of an asset is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date less, where applicable, any grants receivable towards the purchase of a useable asset.

**Finance lease**

A lease that transfers substantially all the risks and rewards of ownership of a non-current asset to the lessee.

**Government grants**

Grants made by the Government towards either revenue or capital expenditure in return for past or future compliance with certain conditions relating to the activities of the Council. These grants may be specific to a particular scheme or may support the revenue spend of the Council in general.

**Heritage asset**

A tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

**IAS**

International Accounting Standards.

**IFRIC**

International Financial Reporting Interpretations Committee.

**IFRS**

International Financial Reporting Standards.

**Impairment**

A reduction in the value of a non-current asset to below its carrying amount on the Balance Sheet.

**Infrastructure assets**

Non-current assets belonging to the Council that cannot be transferred or sold, on which expenditure is only recoverable through the continued use of the asset created.

**Intangible assets**

An intangible (non-physical asset) item may be defined as an asset when access to the future economic benefits it represents is controlled by the Council. This Council's intangible assets comprise solely of computer software licences.

**Interest cost (pensions)**

For a defined benefit scheme, the expected increase during the period of the scheme liabilities as benefits are one period closer to settlement.

**Inventories**

Items of raw materials and stores the Council has procured and holds in expectation of future use. Examples are consumables stores, raw materials and products and services in intermediate stages of completion.

**Liability**

A liability is where the Council owes payment to an individual or another organisation. A current liability is an amount which will become payable or could be called in within the next accounting period e.g. creditors or cash overdrawn. A non-current liability is an amount which by arrangement is payable beyond the next year at some point in the future or will be paid off by an annual sum over a period of time.

**Net book value**

The amount at which non-current assets are included in the Balance Sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

**National non domestic rates pool**

All non-domestic rates collected by local authorities are remitted to the national pool and thereafter distributed to councils by the Scottish Government.

**Non distributed costs**

These are overheads from which no user now benefits and as such are not apportioned to services.

**Operating lease**

Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals paid under operating leases are charged to the appropriate service account in the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property over the term of the lease. Charges are made on a straight line basis over the life of the lease.

**Past service cost (pensions)**

For a defined benefit scheme, the increase in the present value of the scheme liabilities relating to employee service in prior periods as a result of the introduction of, or improvement to retirement benefits.

**Pension scheme liabilities**

The liabilities of a defined benefit pension scheme for outgoings due after the valuation date. The scheme liabilities, measured using the "projected unit method", reflect the benefits that the employer is committed to provide for service up to the valuation date.

**Post-employment benefits**

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment e.g. pensions in retirement.

**Prior year adjustment**

Material adjustments applicable to previous years arising from changes in accounting policies or from the correction of fundamental errors. This does not include normal recurring corrections or adjustments of accounting estimates made in prior years.

**Provisions**

An amount put aside in the accounts for future liabilities or losses which are certain or very likely to occur but the amounts or dates of when they will arise are uncertain.

**Public Works Loan Board (PWLB)**

A Central Government Agency, which provides loans for one year and over to councils at interest rates only marginally higher than those at which the Government can borrow.

**Rateable value**

The annual assumed rental of a hereditament, which is for national non-domestic rates purposes.

**Related parties**

Bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. For the Council's purposes, related parties are deemed to include Elected Members, the Chief Executive, the Executive Directors and their close family and household members.

**Remuneration**

All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as these sums are chargeable to UK income tax) and the monetary value of any other benefits received other than in cash.

**Reserves**

The accumulation of surpluses, deficits and appropriation over past years. Reserves of a revenue nature are available and can be spent or earmarked at the discretion of the Council. Some capital reserves such as Fixed Asset Restatement Account cannot be used to meet current expenditure.

**Residual value**

The net realisable value of an asset at the end of its useful life.

**Revenue expenditure**

The day-to-day expenses of providing services.

**Significant interest**

The reporting authority is actively involved and is influential in the direction of an entity through its participation in policy decisions.

**Temporary borrowing**

Money borrowed for a period of less than one year.

**The Code**

The Code of Practice on Local Authority Accounting in the United Kingdom.

**Trust funds**

Funds administered by the Council for such purposes as prizes, charities and specific projects.

**Useful economic life**

The period over which the local authority will derive benefits from the use of a non-current asset.

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