south
AYRSHIRE
COUNCIL

Annual Accounts 2017-18

South Ayrshire Council
2017-2018 Annual Accounts

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Introduction – Leader of South Ayrshire Council

Douglas Campbell, Leader, South Ayrshire Council

Welcome to South Ayrshire Council's Annual Accounts for the financial year ended 31 March 2018.

These provide the public, stakeholders and interested parties with information about our administration, financial management, and performance during the financial year 2017-18.

With a change in political administration following the Council election in May 2017, these accounts not only reflect progress against the previous Council Plan and its strategic objectives, but also detail the developments made over the year to introduce and implement our new Council Plan 2018-2022 – which is called 'Our People, Our Place' – and its detailed objectives and outcomes.

That work will continue over the next four years and I look forward to seeing it make a real difference for our people and places across South Ayrshire.

Highlights

We want South Ayrshire to be the best it can be, and for all people and places to have the opportunity to reach their full potential.

Some of the key highlights delivered during 2017-18 to achieve this include:

- Continuing our exciting and extensive investment programme in our children, young people and communities, with the opening of the new £25 million Ayr Academy, completion of the £37 million Marr College transformation, £700,000 of improvement works at Southcraig School and the opening of the £2 million Troon primary extension – and progressing plans for a number of other transformational schools projects.
- Supporting community groups to help make a difference at a local level thanks to £640,000 of participatory budgeting funding that put money in the hands of local people who awarded 636 groups with much-needed investment.
- Undertaking the most successful budget consultation in the Council's history with almost 3,000 people actively taking part and having their say on a wide variety of savings proposals before Councillors set the budget for 2018-19.
- Putting in place record-breaking levels of funding to support arts, culture and events in South Ayrshire with investment in the likes of the Gaiety (£340,000 over three years) and the Scottish International Airshow (£450,000 for two events).
- Delivering a pilot programme in north Ayr to put schools at the heart of local service delivery and using the feedback from the 'Our People, Our Place' event to shape a next phase to take place in Girvan and South Carrick in June 2018.
- Starting on site with the new £1.4 million environmentally-friendly arrival hub at Belleisle Estate to help continue the positive trend in increasing visitor numbers and enhance the facilities available to them.
- Working in partnership with local organisations to introduce a free holiday lunch and activity programme in north Ayr and Girvan to provide support to families and ease the additional pressures that occur during the school holidays.
- Receiving a commitment from the Prime Minister for formal talks on our £350 million Ayrshire Growth Deals and progressing funding proposals for a Prestwick Spaceport in conjunction with our partners at Prestwick Airport.
- Working with the new South Ayrshire Champions Board to agree a Care Leavers Covenant and action plan that will make a real difference to young people in care, while opening the new £1.2 million modern and nurturing children's home in Coylton.
- Creating a new Council Plan and revising the Council's management structure to ensure the Council is structured in the best possible way to deliver services in a way that maximises the impact for those who need it most.
- Making a huge commitment to the future of South Ayrshire – and our planet – by pledging to remove all single-use plastics from use within the Council by 2022, with plastic straws already dropped from our shopping lists.

Plans for 2018 and beyond

We have spent our first year in office putting in place the building blocks for the changes we want to deliver for our people and places across South Ayrshire. Quite simply, we want South Ayrshire to be the best it can be and for all people and places to have the opportunity to reach their full potential. We know that's a big ambition – but we also know that we can deliver on it by making the most of the resources we have and working in partnership to target these where they are needed most.

To do this, we have already put in place a new Council Plan and a revised management structure, and agreed our first budget to support the delivery of the Plan. Thanks to our prudent and effective financial management, as well as better than expected funding from the Scottish Government, we were able to not only minimise the impact of necessary budget cuts on our people and places, but to deliver additional investment in key areas that support our vision.

These include:

- An additional £12 million for a new 'all-through' campus at Carrick Academy, taking the budget to more than £19 million as part of a total investment package of more than £74 million in the education estate.
- £3 million more in 2018-19 for road reconstruction and improvement, taking the overall, and unprecedented, budget for the roads network to almost £10 million.
- £1 million to support Maybole town centre regeneration.
- £855,000 to improve public toilet provision.
- More than £43 million strategic investment in ICT.

This is a significant achievement – particularly in the current financial climate – and while we know that the challenges and demands facing the Council will continue in the coming months and years, we're confident that what we have put in place leaves us in the best possible position to face these head on.

We have created the platform for a strengthened South Ayrshire that works for all, but especially the most in need and that will make life better for our people and our places.

About South Ayrshire

By 2041, the South Ayrshire population is projected to be 106,974, a decrease of 5% compared to the population in 2017. The population of Scotland as a whole is projected to increase by 5%.

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 12% and our working age population by 14%. The pensionable age population is, however, projected to increase by 19% by 2041. More dramatically, the South Ayrshire population aged 75+ is projected to increase by 77% by 2041.

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.

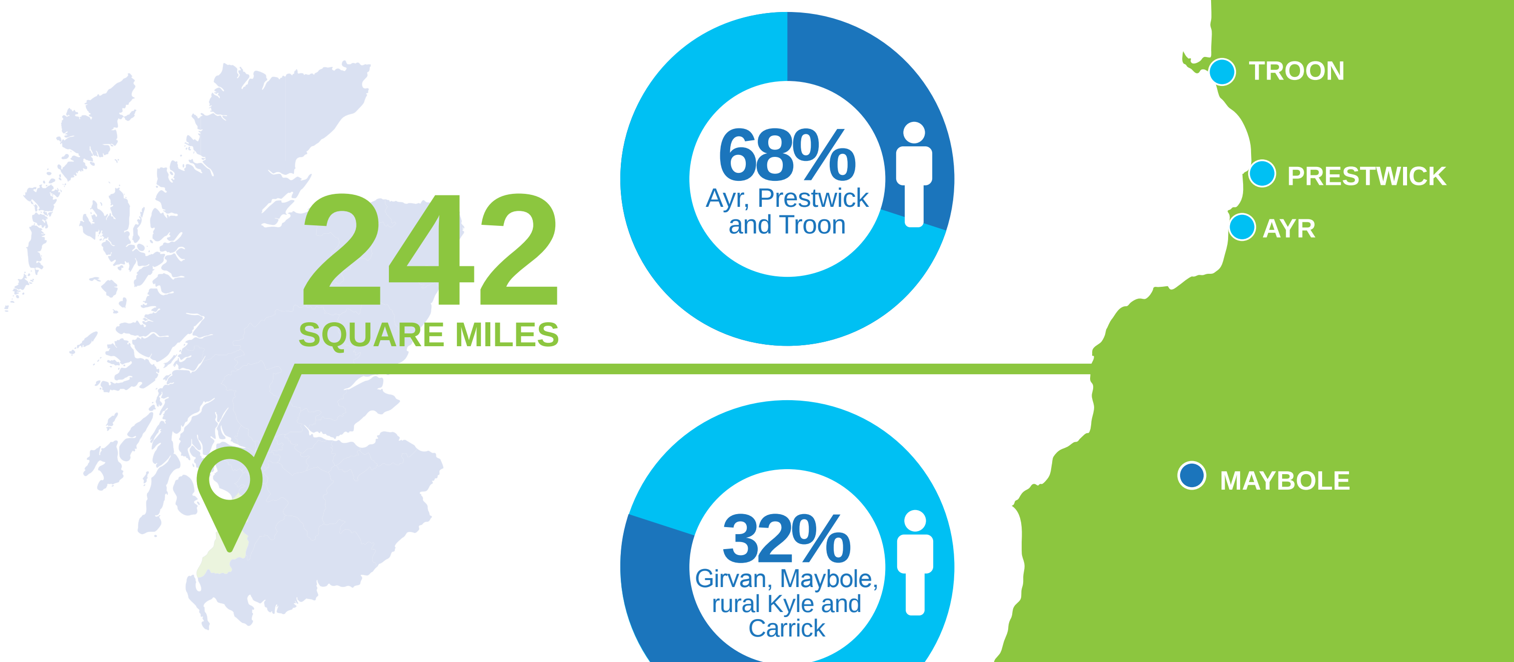
112,680 POPULATION

48% MALE **52%** FEMALE

25% over 65 (National average 19%)

16% under 16 (National average 17%)

(Source: National Records of Scotland, 2017 Mid-Year Population Estimates



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

About The Council

Elected Members

CONSERVATIVE **12**
SNP **9**
LABOUR **5**
INDEPENDENT **2**

Staff

4,230 full-time equivalent
(at 31 December 2017)

Council structure

A new direction for South Ayrshire Council was outlined in December 2017 which has since seen a new overarching structure put in place. Services are now delivered around two main directorates, People and Place, alongside the South Ayrshire Health and Social Care Partnership. The new structure was officially agreed on 1 March 2018, with the Comprehensive Income and Expenditure Statement (page 22) and the Expenditure and Funding Analysis note (page 25) reflecting the previous council operating structure which was in place for the majority of the financial year.

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; Customer Services; Employability and Skills; Employee Services; Human Resources; Information and Advice Hub; Organisational Development; Democratic Governance Services; Legal and Licensing Services; Insurance, Risk and Safety Management; Civil Contingencies and Business Continuity; Trading Standards and Environmental Health.

Eileen Howat, Chief Executive

People Directorate

Responsible for: Libraries, Arts, Culture, Sports and Leisure; 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; Public Affairs.

Douglas Hutchison, Director – People

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; Bereavement; Housing Development; Housing Management; Planning; Building Standards; professional Design Services; Property Maintenance; Tourism; Waste Management and Sustainability.

Donald Gillies, Director – Place

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

For the majority of the 2017-18 reporting period South Ayrshire Council worked to deliver against six strategic objectives.

The objectives highlighted a commitment to work in partnership to maximise the potential of:

- Adults and older people
- Local economy
- Communities
- Young people
- Environment
- Improve the way we work as a Council

Each of the strategic objectives was accompanied by a set of key actions and outcomes which were monitored through Service and Improvement Plans (SIPs) for each service area. These were developed and updated annually using self-evaluation (How Good is our Council) and the Council's Performance Management Framework. The SIPs feed into the overall Council Plan that was updated and approved on 1 March, 2018.

The Council's annual performance journey is undertaken through a 'Plan-Deliver-Review-Revise' framework. This helps assess not only what we have achieved, but how effective we are and where we have to improve. It reviews the outcomes we set out to achieve and uses a performance management system to report on our performance. Reports show at-a-glance whether we can demonstrate that issues are either: Completed; On Target; Not on Target – Some Concerns; or Not on Target – Major Concerns.

Progress against the Council Plan and the Service and Improvement Plans can be found at:
http://www.south-ayrshire.gov.uk/council-plans/.

Service changes and future developments

The new Council Plan for 2018-2022 sets out the Council's vision for the next four years, with a focus on 'Our People, Our Place', which has a vision for delivering services in the community.

The strategic objectives are:

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

Our People Our Place aims to make South Ayrshire the best it can be and for all people and places to have the opportunity to reach their full potential. To do that, we will tackle inequalities and injustice by making the best use of available resources and targeting these resources where they are needed most. At the heart of this ambition is the creation of local community hubs – based around schools – that bring our people and places together to provide access to a wide range of services 'on the doorstep', and support learning and development opportunities for those most in need.

This will be complemented by ensuring we make the most of the fantastic assets we have here in South Ayrshire such as our environment, our culture, our heritage to really put the area on the map. A recent development saw discounts of up to 50% offered to use our sports, leisure and golf facilities with the aim of making these sustainable in the long run through increased public use. We're supporting the development of place plans for the five towns and villages programme, with £100,000 for improved signage and community engagement. Community life will benefit too, with £20,000 to reinstate a fund to support community galas. These collective efforts will help improve local health and wellbeing, boost the local economy, enhance the local environment and give people the best possible life chances.

Ambitious plans to increase South Ayrshire's recycling rate are due to get underway. By April 2019, all properties will receive an additional two recycling bins to make it easier for people to sort their household and garden waste, while reducing contamination levels and current costs to the Council. Zero Waste Scotland has provided £2.34 million to help pay for infrastructure costs.

The Council's eight-year £237 million capital programme 2018-26 will see significant investment across South Ayrshire, with notable projects including a new Queen Margaret Academy which is already well underway, a new shared campus for primary schools in Prestwick (Glenburn and St Ninian's Primary Schools), an all-weather pitch for Girvan Academy and the new build Invergarven special needs school which opened in 2018.

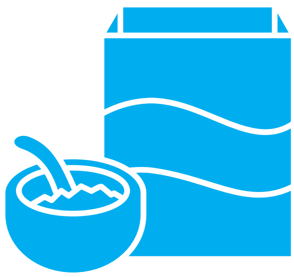
Our work takes place against an uncertain national political backdrop and maintaining core services and delivering the best possible outcomes for communities within the confines of available resources remains a significant challenge.

£2.34 million

Being invested to enhance recycling

£65,000

Invested to put schools at the heart of the community project



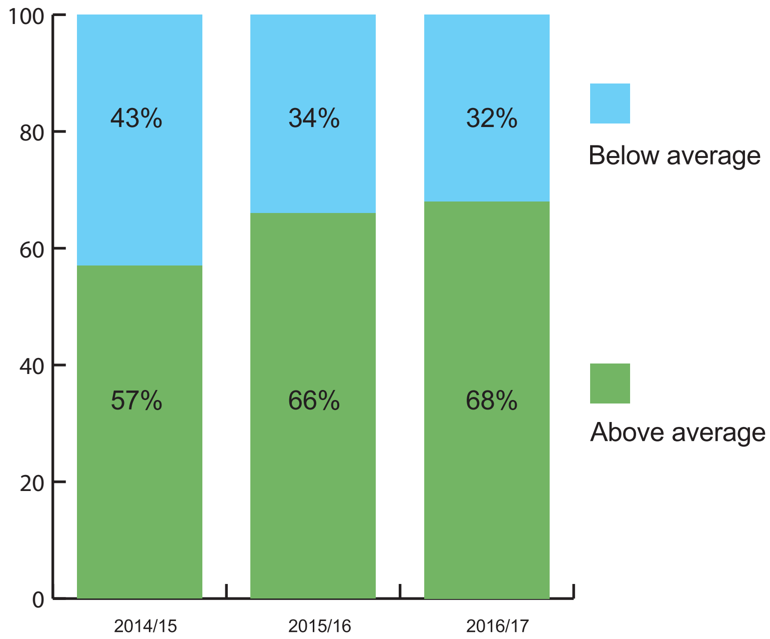
£17,000

Provided to cover the letting costs for breakfast clubs in our schools.

Performance

South Ayrshire's Performance against other councils

The percentage of indicators where the council's performance is above average increased from 57% in 2014-15 to 68% in 2016-17



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

Those services where our performance is poorest compared to others included the cost of refuse collection, the cost of residential care for looked after children, the condition of our roads and the condition of our buildings.

Services where our performance was amongst the best in Scotland included the educational attainment of our children, the proportion of looked after children being looked after in the community, the level of housing rent arrears and the cost of our libraries.

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

Financial Performance

Medium Term 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. In recognition of this, the Council had a five-year medium term Financial Strategy covering the period 2017-22 in place during 2017-18. An updated Financial Strategy covering the period 2018-2022 was approved at Leadership Panel on 12 June, 2018.

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.

Annual Budget and Setting of Council Tax

As part of the budget process for 2018-19, Councillors agreed a revenue budget of £186 million – as well as a delegated budget of £71 million for the South Ayrshire Health and Social Care Partnership. They also approved an eight-year capital investment programme of £237 million for 2018-19 to 2025-26. In setting the budget, Councillors agreed that Council Tax would rise by 3%, taking charges for an average band D property from £1,188.57 in 2017-18 to £1,224.23 per year.

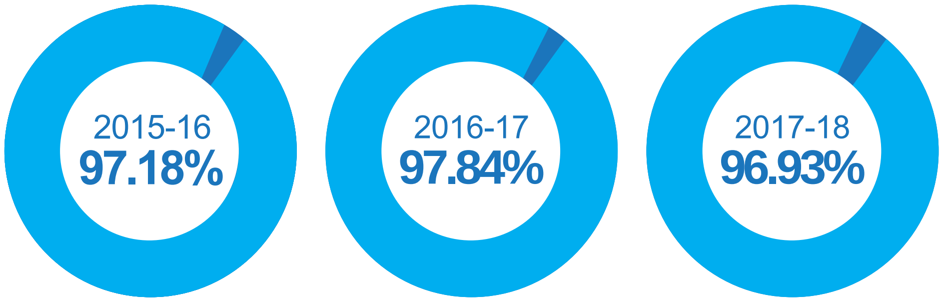
To achieve a balanced budget for 2018-19, Councillors agreed the use of £1.5 million of uncommitted reserves for revenue spending, and a further £3 million from uncommitted reserves split evenly between the Repairs and Renewals Fund and the Capital Fund. This will leave uncommitted reserves of £6.7m or 2.62% of annual budgeted spend which is in line with the Council's strategy of maintaining at least 2% of uncommitted reserves.

General Fund Revenue

The Council's General Fund financial performance is presented in the Annual Accounts that follow this management commentary, where the Council reports its financial performance by individual service directorate. The General Fund is funded by Government Grant and Council Tax Revenues and the Movement in Reserves Statement on page 20 shows a deficit of £1.193million for the year.

Further details on service out-turns can be found in the Budget Management report submitted to the Leadership Panel meeting on 12 June 2018. This can be found at: **https://ww20.south-ayrshire.gov.uk/ext/committee/committeepapers2018**

Actual net service expenditure as a percentage of budget



Accumulated General Fund Reserves

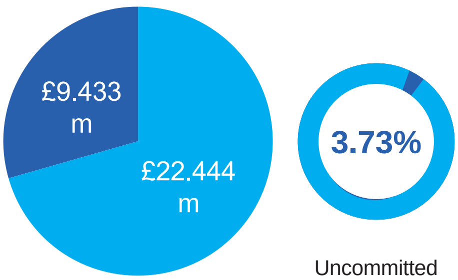
The Council holds General Fund balances to meet contingencies and for specific initiatives. Within the General Fund, certain balances are earmarked to be held for specific purposes – for example, efficiency and improvements or for workforce change purposes.

The Council brought forward accumulated reserves of £28.967 million from 2016-17 and agreed – as part of its original 2017-18 budget and through decisions taken during the year – to transfer £11.073 million from accumulated reserves to support £0.371 million of capital investment, £5.252 million of planned expenditure and £5.450 million of non-recurring revenue spend. When the accumulated reserves brought forward are combined with the planned draws and the 2017-18 in-year surplus of £9.881 million, a revised accumulated reserve of £27.774 million is available to be carried forward to 2018-19.

The charts below show the £27.774 million to be carried forward to 2018-19 compared to the two previous years and also the amount earmarked or committed to be used for specific purposes in 2018-19 or future years.

2015-2016

Committed funds
Uncommitted funds

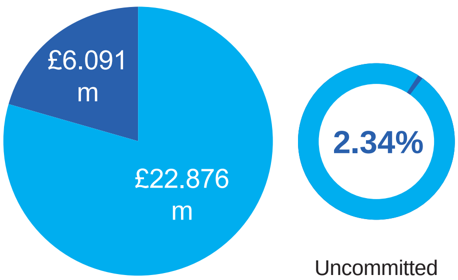


Total £31.877 million

Uncommitted funds as a percentage of annual budgeted expenditure

2016-2017

Committed funds
Uncommitted funds

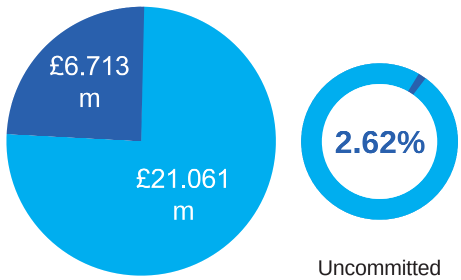


Total £28.967 million

Uncommitted funds as a percentage of annual budgeted expenditure

2017-2018

Committed funds
Uncommitted funds



Total £27.774 million

Uncommitted funds as a percentage of annual budgeted expenditure

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 £5.100 million. Any balance in excess of this provides additional flexibility until used or earmarked by the Council.

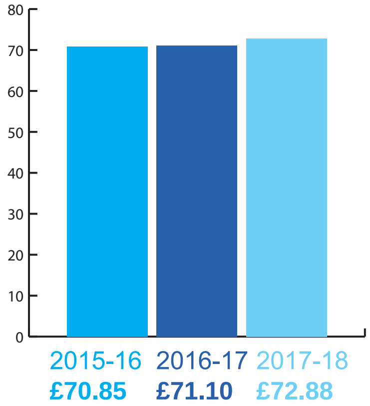
Housing Revenue Account

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 (£)

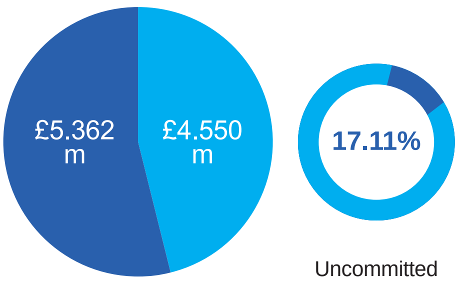


In the past 10 years, an average of 45% of the rental income has been used to improve our properties in line with the Scottish Housing Quality Standard, ensuring our homes are in a good condition, safe, and energy efficient, with modern facilities.

Accumulated Reserves

2015-2016

Earmarked funds
Uncommitted funds

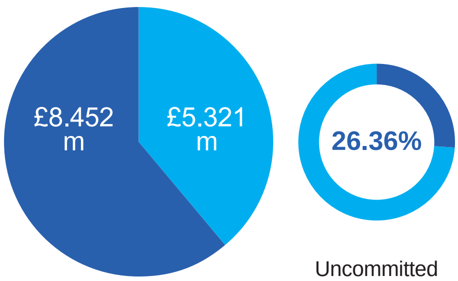


Total £9.912 million

Uncommitted funds as a percentage of annual budgeted expenditure

2016-2017

Earmarked funds
Uncommitted funds

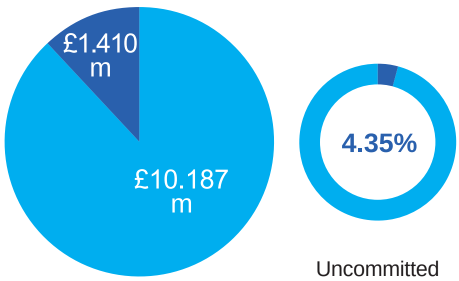


Total £13.773 million

Uncommitted funds as a percentage of annual budgeted expenditure

2017-2018

Earmarked funds
Uncommitted funds



Total £11.597 million

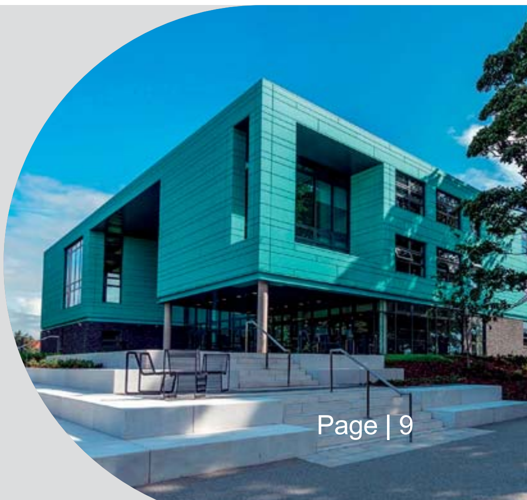
Uncommitted funds as a percentage of annual budgeted expenditure

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.

Spotlight Capital Projects

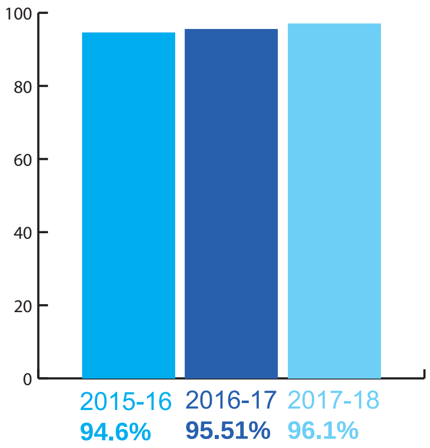
Ayr Academy

With a history dating back to 1233, the last incarnation of Ayr Academy was built in 1880 and closed last year, with the new replacement opening in August 2017. Construction of the £25 million school began at Ayr's Craigie Estate in January 2016 with the finished school having space for up to 1,000 pupils, and also features two learning plazas, a multi-use hall, two gyms and a fitness/movement room, and sports pitches.

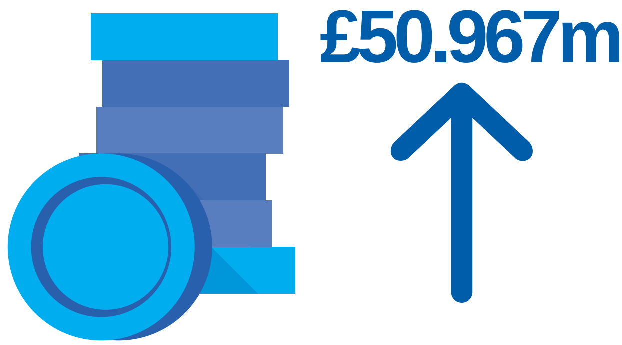


Council Tax Collections

In-year Collection Rate (%)



An in-year collection rate of **96.1%** was achieved in 2017-18

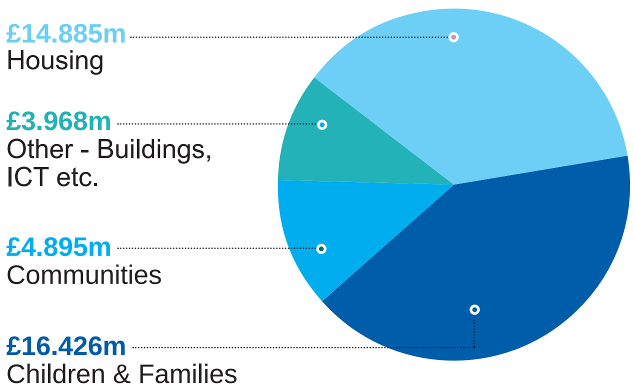


Expected Council Tax collection during 2017-2018. This equated to **19%** of the overall funding required to meet net expenditure for the year.

Capital Expenditure and Income

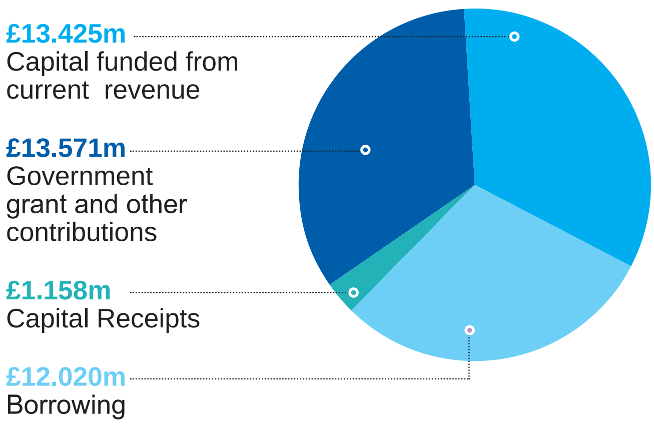
The Prudential Code for Capital Finance in Local Authorities governs the level of capital expenditure taking into account affordability and sustainability. The Council continued to make significant capital investment in Schools, Roads, Leisure, ICT, Housing and other capital projects during 2017-18 and spent in total £40.174 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



Total: £40.174m

Income



Total: £40.174m

Spotlight Capital Projects

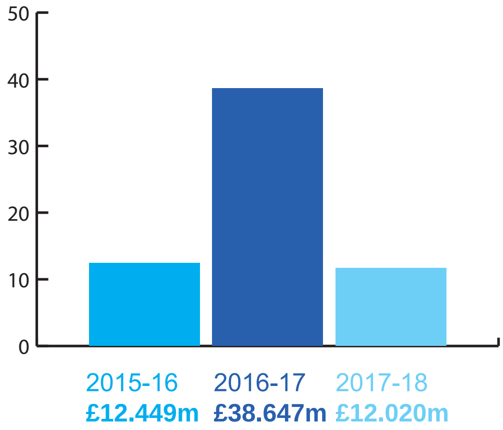
Marr College

The £37 million award-winning project to transform the 1935 building began in spring 2015 with new all-weather facilities. By December 2016 the new technical wing and the first phase of the refurbished Marr building became available. In November 2017 the final phase of the refurbishment and the new PE block opened, helping to adapt the 20th century building to meet modern needs.

New 2017-18 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.

New Borrowing (£m)



Balance Sheet

The Balance Sheet on page 23 summarises the Council's assets and liabilities at 31 March 2018. Total assets have increased from £718.063 million at 31 March 2017 to £756.571 million. This is primarily due to an increase in short term temporary investments 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 and completion of the new Ayr Academy. Total liabilities have decreased from £497.396 million to £427.197 million. This is primarily due to a significant decrease in the pension fund liability following the latest triennial valuation.

Financial Statements

The financial statements for 2017-18 are set out on pages 20 to 24 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.

Additional Information

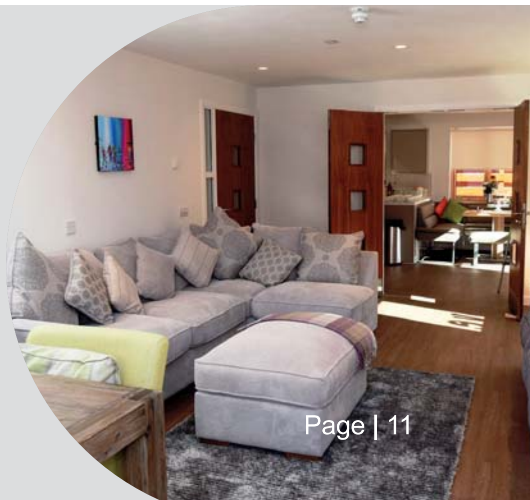
Pension Fund

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 2017-18 having taken place on 31 March 2017. The Council's Balance Sheet shows a pension liability of £84.143 million at 31 March 2018 compared with £192.343 million at 31 March 2017. 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.

Spotlight Capital Projects

Sundrum View Children's Home

With the older building in Coylton in need of major refurbishment the decision was taken to demolish the existing home in favour of a modern replacement. This modern single storey fully accessible development has six bedrooms, complete with offices, multiple kitchen areas, living spaces, breakout areas and independent living quarters. The £1 million project, which also includes a landscaped garden and car parking, was completed in April 2017.



Group Accounts

The Council has a material 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 £37.393 million, representing the Council's share of the net assets in these entities.

Financial Outlook and Key Risks

The financial pressure on public finances is set to continue during the course of the current UK parliament. The Scottish Government's grant settlement for 2018-19 was higher than Scottish local authorities had anticipated in their financial assumptions, however the still significant funding gap for South Ayrshire was addressed through the budget planning process by a combination of savings, Council Tax increase and the use of £1.5 million of reserves.

At the same time, the Council faces ongoing service and cost pressures arising from a range of issues, most significantly demographic and socio-economic factors which continue to play a major role in driving spending pressures, particularly in the South Ayrshire Health and Social Care Partnership. The UK Government's welfare reform agenda continues with changes to the benefits system providing challenges for the Council in terms of demand for services and support. The current working assumption for the 2019-20 financial year will see a budget gap of around £10.8 million which will mean the Council will face tough choices ahead to balance the books.

In addition to this, other factors will impact on future budgets in the medium term including the implementation of the Scottish Fiscal Framework, the re-emergence of pay and other inflationary pressures and the uncertainty surrounding the UK withdrawal from the European Union.

The principles agreed in the Council's medium term Financial Strategy continue to provide a framework to guide the strategic planning and management of the Council's financial resources. The Strategy recognises the continuing difficult economic climate and the need for tight fiscal constrain for the foreseeable future. The fundamental basis for the Financial Strategy is to support the Council's duty to set a prudent, sustainable budget and to maintain appropriate levels of service provision to the public, in line with the Council's legal obligations and agreed strategic objectives.

Conclusion and Acknowledgement

The Council's favourable financial position at 31 March 2018 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.

We would like to acknowledge the significant effort of all the staff across the Council 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 2018.

Eileen Howat	**Councillor Douglas Campbell**	**Tim Baulk BA Acc CPFA**
Chief Executive	**Leader of South Ayrshire Council**	**Head of Finance & ICT**
26 September, 2018	**26 September, 2018**	**26 September, 2018**

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). In 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 South Ayrshire Council at its meeting on 26 September 2018.

The Head of Finance and ICT's responsibilities

The Head of Finance and ICT, as s95 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 2018.

Councillor Douglas Campbell
Leader of the Council
26 September 2018

Tim Baulk BA Acc CPFA
Head of Finance and ICT
26 September 2018

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 and can also be obtained from the Service Lead - Corporate Planning and Improvement, 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 2010".* 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 CIPFA's *Public Sector Internal Audit Standards 2013 (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.

The 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 2018 and up to the date of approval of this statement of accounts.

The Governance Framework

The Council's Framework is built around 6 principles and 18 aspects that set out the key building blocks of good governance. These are allocated to lead officers who set out and evidence how these are in place within South Ayrshire Council.

Principle:	Aspects:	Lead Officers:
1. Direction	Plans; Performance; Review	Service Lead - Corporate Planning and Improvement
2. Roles	Structures; Delegation; Research	Head of Regulatory Services Head of Employee & Customer Services Service Lead - Corporate Planning and Improvement
3. Values	Values; Behaviour	Head of Regulatory Services Head of Employee & Customer Services
4. Decision Making	Reporting Decisions; Quality of Information; Risk Management	Head of Regulatory Services Service Lead - Corporate Planning and Improvement
5. Skills	Competencies; Training; Development	Head of Regulatory Services Head of Employee & Customer Services Service Lead – Community Services and Facilities
6. Accountability	Reporting; Consultation; Communication; Partner Relationships	Service Lead - Corporate Planning and Improvement Head of Employee & Customer Services Service Lead – Community Services and Facilities

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 and of the work of Internal and External Audit in their annual report and other reports.

The Internal Audit function within South Ayrshire Council is responsible directly to the Chief Executive for the independent appraisal of the Council's internal systems of control. The Internal Audit function operates in accordance with the Public Sector Internal Audit Standards which came into force with effect from 1 April 2013. The function undertook an annual programme of work approved, for 2017-2018, by the Audit and Governance Panel. In addition in April 2018 the Audit and Governance Panel received an annual assurance statement from the Chief Internal Auditor which covered the 2017-2018 financial year which stated "Performance Appraisal and Audit can provide reasonable assurance that adequate controls were in place and were operating throughout the Council in 2017-2018".

All Internal Audit reports identifying system weaknesses and/or non-compliance with expected controls are brought to the attention of management and include appropriate recommendations and agreed action plans. It is management's responsibility to ensure that proper consideration is given to Internal Audit reports and that appropriate action is taken on audit recommendations. 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. Significant matters (including non-compliance with audit recommendations) arising from Internal Audit work are reported directly to the Chief Executive and the Council's Audit and Governance Panel.

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 and are operating effectively: 'Substantial assurance' is where the majority of controls are in place and working effectively; 'Limited assurance' is where controls are in place but more effective controls are required and 'No assurance' is where no effective controls are in place. Of 12 investigations carried out by Internal Audit during 2017-2018, none resulted in a 'No assurance' categorisation and 1 resulted in a limited assurance categorisation being applied. 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.

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 Heads of Service within the Council who have responsibility for the development and maintenance of the governance environment, Internal Audit's annual Statement on Internal Controls report, and also by comments made by the external auditor and other review agencies and inspectorates.

Reflecting this, a year-end assessment against each of the 18 aspects 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 Management Panel on 30 May 2018, the minutes of this meeting were put before full Council on 28 June 2018.

2017-18 Assessments of each aspect in the Delivering Good Governance Framework					
1.1 Plans	▶	1.2 Performance	▶	1.3 Review	⚠
2.1 Structures	▶	2.2 Delegation	▶	2.3 Research	⚠
3.1 Values	⚠	3.2 Behaviour	▶	4.1 Reporting of decisions	▶
4.2 Quality of information	▶	4.3 Risk Management	▶	5.1 Competencies	▶
5.2 Training	▶	5.3 Development	▶	6.1 Public Performance Reporting	▶
6.2 Consultation Strategy	⚠	6.3 Internal Communications	▶	6.4 Relationships with Partners	▶
Key: ▶ = Effective		⚠ = Some Concerns		⬣ = Major Concerns	

This assessment reflects a similar position to that reported for 2016-17, with 14 aspects now assessed as 'Effective' with 4 remaining as having 'Some Concerns' i.e. there are some areas that we recognise could be improved upon.

2017-2018 Governance Developments

Our 'Programme for Effective Governance 2017-2022' was translated into the Council Plan for 2018-2022 'Our People, Our Place'. Case studies were used in reporting to illustrate the impact services are having on individuals, families and communities. A fundamental review of 'Transform South Ayrshire' led to the commissioning of a new transformation agenda and service review process.

The Council's political decision making structures have been refined. A fundamental review of the Council's management structure has been undertaken. Roles and responsibilities have been updated accordingly. A proposal to enhance the capture of client satisfaction data was agreed.

A comprehensive induction programme was provided for Members following the Local Government Elections. The values and behaviours identified through the South Ayrshire Way have been embedded into our recruitment and appraisal systems and incorporated into our Performance Development Review system. Options were investigated to avoid confidential information provided to Members appearing in the local press.

Training was provided on 'Improving Public Services through Effective Scrutiny'. The Strategic Risk Register was formally reviewed. Risks are now grouped under three themes - Governance, Protection and Resources – with 10 strategic risks identified as having the potential to significantly threaten the achievement of the Council's overarching objectives.

A revised competency framework incorporating the values of the ‘South Ayrshire Way’ has been developed. A Corporate Workforce Plan has been prepared, representing the Council’s first steps to more fully align workforce planning with business and people strategies. All 6 locality planning groups continue to meet regularly and have been consulted on the next set of strategic plans for the Health and Social Care Partnership.

An infographic performance menu was developed as part of our public performance reporting, helping to tell the story behind what the Council had achieved. A new Consultation Protocol sets out how services should consult with communities, to ensure this is done effectively. The subsequent ‘Balancing the budget - Have your Say’ consultation generated almost 2,800 responses, which had a major influence on the decisions taken the Council’s budget for 2018-19.

During 2017-18, 12 Participatory Budgeting (Decision Days) were held, involving 315 community groups, with 4,411 people involved. Decisions on £638,500 of grants were made, equivalent to 0.33% of total Council net expenditure. A Local Outcomes Improvement Plan and Local Place Plans have been published and work has commenced on delivery planning.

2018-2019 Improvement Actions

1. **Direction**

- Corporate Plans to be developed to take forward the Council Plan 2018-22.
- Five Year Financial Strategy to be updated reflecting the direction of the Council Plan 2018-22.
- Performance Framework to be refined.
- Transformation Programme led by the Executive Managers to be agreed.

2. **Roles**

- Agree and conclude officer restructuring down to fourth tier manager arrangements.
- Revised roles for officer leadership meetings to be defined for the revised structure.
- Enhanced tools to capture client satisfaction data to be added to the Council’s Internet Site.
- Enhanced reporting of customer satisfaction data to flow through into reporting to Members.

3. **Values**

- Leadership and management development activities to take place.
- Solutions to eradicate leaks of confidential reports to be put before the Leadership Panel.
- Member survey to be undertaken assessing the Council’s governance arrangements.

4. **Decision Making**

No actions planned.

5. **Skills**

- Delivery of a programme of employee engagement activity aligned to the South Ayrshire Way.
- Recruitment of a cohort of graduate interns to support workforce planning.
- Development programme to be delivered to managers.

6. **Accountability**

- Refinement of Public Performance Reporting including digital alternatives to the Calendar.
- Development of a procedure to highlight the difference engagement has made.
- Development of a new communications strategy.
- Expanded use of modern communication tools to communicate effectively with employees.
- Preparation of an updated Delivering Good Governance Framework for the Council.

Assurance

Subject to the above, and on the basis of the assurance provided, we consider the governance and internal control environment operating during 2017-2018 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.

Eileen Howat

Eileen Howat
Chief Executive
26 September 2018

Douglas Campbell

Councillor Douglas Campbell
Leader of the Council
26 September 2018

Section 4: Core Financial Statements

I) Movement in Reserves Statement for the year ended 31 March 2018

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 88 to 90.

2017-2018	**Council Reserves**								**Share of Group**	**Total Group Reserve**
	General fund balance	Housing revenue account balance	Capital grants unapplied account	Repair and renewal fund	Insurance 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**
Balance at 31 March 2017	28,967	13,773	2,478	2,554	425	**48,197**	**172,470**	**220,667**	28,545	**249,212**
Movement in reserves during 2017-2018										
Surplus or (deficit) on the provision of services	(13,352)	(1,848)	-	-	-	**(15,200)**	-	**(15,200)**	4,296	**(10,904)**
Other comprehensive income and expenditure	-	-	-	-	-	**-**	**123,907**	**123,907**	4,552	**128,459**
Total comprehensive income and expenditure	(13,352)	(1,848)	-	-	-	**(15,200)**	**123,907**	**108,707**	8,848	**117,555**
Adjustments between accounting basis and funding basis (Note 5)	11,000	(328)	1,335	(98)	-	**11,909**	**(11,909)**	**-**	-	**-**
Net increase/ (decrease) before transfers	(2,352)	(2,176)	1,335	(98)	-	**(3,291)**	**111,998**	**108,707**	8,848	**117,555**
Transfers to/from earmarked reserves (Note 6)	1,159	-	-	(1,159)	-	**-**	**-**	**-**	-	**-**
Increase/ (decrease) in 2017-2018	(1,193)	(2,176)	1,335	(1,257)	-	**(3,291)**	**111,998**	**108,707**	8,848	**117,555**
Balance at 31 March 2018	27,774	11,597	3,813	1,297	425	**44,906**	**284,468**	**329,374**	37,393	**366,767**

2016-2017	Council Reserves								Share of Group	Total Group Reserve
	General fund balance	Housing revenue account balance	Capital grants unapplied account	Repair and renewal fund	Insurance 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**
Balance at 31 March 2016	31,877	9,912	1,690	3,609	425	**47,513**	**259,579**	**307,092**	29,535	**336,627**
Movement in reserves during 2016-2017										
Surplus or (deficit) on the provision of services	(43,915)	12,950	-	-	-	**(30,965)**	-	**(30,965)**	746	**(30,219)**
Other comprehensive income and expenditure	-	-	-	-	(1,342)	**(1,342)**	**(54,118)**	**(55,460)**	(1,736)	**(57,196)**
Total comprehensive income and expenditure	(43,915)	12,950	-	-	(1,342)	**(32,307)**	**(54,118)**	**(86,425)**	(990)	**(87,415)**
Adjustments between accounting basis and funding basis (Note 5)	41,347	(9,089)	889	(156)	-	**32,991**	**(32,991)**	**-**	-	**-**
Net increase/ (decrease) before transfers	(2,568)	3,861	889	(156)	(1,342)	**684**	**(87,109)**	**(86,425)**	(990)	**(87,415)**
Transfers to/from earmarked reserves (Note 6)	(342)	-	(101)	(899)	1,342	**-**	**-**	**-**	-	**-**
Increase/ (decrease) in 2016-2017	(2,910)	3,861	788	(1,055)	-	**684**	**(87,109)**	**(86,425)**	(990)	**(87,415)**
Balance at 31 March 2017	28,967	13,773	2,478	2,554	425	**48,197**	**172,470**	**220,667**	28,545	**249,212**

II) Comprehensive Income and Expenditure Statement for the year ended 31 March 2018

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 Expenditure and Funding Analysis and the Movement in Reserves Statement.

2016-2017					2017-2018			
Council			Group		Council			Group
Exp £000	Inc £000	Net £000	Net £000		Exp £000	Inc £000	Net £000	Net £000
1,609	1	1,608	1,608	Chief Executive's Strategic Office	1,452	4	1,448	1,448
122,943	2,857	120,086	120,086	Education Services	102,777	6,722	96,055	96,055
97,697	30,744	66,953	66,740	Economy Neighbourhood & Environment	91,180	34,388	56,792	56,579
19,070	31,374	(12,304)	(12,304)	Housing Revenue Account	32,604	32,243	361	361
68,401	-	68,401	68,401	Social Care: Contribution to IJB	73,359	-	73,359	73,359
90,086	92,302	(2,216)	(2,445)	Social Care: Provision of Services	95,593	99,114	(3,521)	(3,750)
74,782	43,121	31,661	31,681	Resources Governance & Organisation	73,438	41,005	32,433	32,448
2,938	1,865	1,073	1,063	Miscellaneous Services	4,929	2,392	2,537	2,530
-	-	-	670	Common Good Fund	-	-	-	425
477,526	**202,264**	**275,262**	**275,500**	**Cost of services**	**475,332**	**215,868**	**259,464**	**259,455**
		(231)	(231)	*(Gain) or loss on the disposal of non-current assets*			247	247
				Financing and Investment Income and Expenditure				
		13,124	13,124	*Interest payable and similar charges*		Note 10	13,759	13,759
		(445)	(445)	*Interest and investment income*		Note 10	(427)	(427)
		4,263	4,263	*Net interest on the net defined benefit liability*		Note 30	5,152	5,152
		-	(984)	*Share of the (surplus) or deficit on the provision of services by associates*			-	(4,287)
				Taxation and non-specific grant income		Note 24		
		(158,197)	(158,197)	*General revenue grant*			(156,390)	(156,390)
		(14,909)	(14,909)	*Recognised capital income*			(14,810)	(14,810)
		(40,785)	(40,785)	*Non domestic rates redistribution*			(39,756)	(39,756)
		(47,117)	(47,117)	*Council tax income*			(52,039)	(52,039)
		30,965	**30,219**	**Deficit on the provision of services**			**15,200**	**10,904**
		(9,942)	(9,942)	(Surplus) or deficit on the revaluation of property, plant and equipment assets			1,159	1,159
		(66)	(66)	(Surplus) or deficit on the revaluation of available for sale financial assets			(32)	(32)
		64,126	64,126	Actuarial (gains) or losses on pension fund assets and liabilities		Note 18	(125,034)	(125,034)
		1,342	1,342	Other unrealised (gains) or losses			-	-
		-	1,736	Share of other comprehensive income and expenditure of associates			-	(4,552)
		55,460	**57,196**	**Other comprehensive (income) and expenditure**			**(123,907)**	**(128,459)**
		86,425	**87,415**	**Total comprehensive (income) and expenditure**			**(108,707)**	**(117,555)**

III) Balance Sheet as at 31 March 2018

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 of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are 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. The second category of reserves is those that the Council is not able to use to provide services. This category of reserves includes 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".

31 March 2017				31 March 2018	
Council	**Group**			**Council**	**Group**
£000	**£000**		Note	**£000**	**£000**
642,516	660,933	Property, plant and equipment	7	673,546	693,343
3,332	3,332	Heritage assets	8	3,332	3,332
2,707	2,707	Intangible assets	9	2,658	2,658
735	910	Long-term investments	10	1,001	1,109
2	2	Long-term debtors	10	1	1
649,292	**667,884**	**Long-term assets**		**680,538**	**700,443**
15,086	15,086	Short-term investments	10	30,000	30,000
78	78	Assets held for sale	14	64	64
450	452	Inventories	11	438	440
20,944	21,195	Short-term debtors	12	23,480	23,723
32,213	32,213	Cash and cash equivalents	13	22,051	22,051
68,771	**69,024**	**Current assets**		**76,033**	**76,278**
(39,416)	(39,416)	Short-term borrowing	10	(52,636)	(52,636)
(48,608)	(48,783)	Short-term creditors	15	(47,208)	(47,489)
(514)	(514)	Provisions	16	(799)	(799)
(6,842)	(5,803)	Other short-term liabilities	17	(7,339)	(6,326)
(95,380)	**(94,516)**	**Current liabilities**		**(107,982)**	**(107,250)**
(2,141)	(2,141)	Provisions	16	(1,994)	(1,994)
-	8,908	Investment in associates		-	16,517
(152,170)	(152,170)	Long-term borrowing	10	(154,525)	(154,525)
(2,045)	(2,045)	Other long-term liabilities (finance leases)	27	(3,400)	(3,400)
(192,343)	(192,415)	Other long-term liabilities (pensions)	30	(84,143)	(84,149)
(53,317)	(53,317)	Other long-term liabilities	10	(75,153)	(75,153)
(402,016)	**(393,180)**	**Long-term Liabilities**		**(319,215)**	**(302,704)**
220,667	**249,212**	**Net assets**		**329,374**	**366,767**
48,197	48,197	Usable reserves		44,906	44,906
172,470	172,470	Unusable reserves	18	284,468	284,468
-	28,545	Group reserves		-	37,393
220,667	**249,212**	**Total reserves**		**329,374**	**366,767**

The unaudited Annual Accounts were issued on 26 June 2018 and the audited Annual Accounts were authorised for issue on 26 September 2018.

Tim Baulk BA Acc CPFA **26 September 2018**
Head of Finance and ICT

IV) Cash Flow Statement for the year ended 31 March 2018

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.

2016-2017				2017-2018	
Council	**Group**			**Council**	**Group**
£000	**£000**		Note	**£000**	**£000**
30,965	**30,219**	**Deficit on the provision of services**		**15,200**	**10,904**
		Adjustments to net surplus or deficit on the provision of services for non-cash movements:			
(11,314)	(11,314)	Depreciation of fixed assets	7	(23,506)	(23,506)
(49,408)	(49,408)	Impairment of fixed assets		(9,399)	(9,399)
(272)	(272)	Amortisation of intangible assets	9	(259)	(259)
4,722	4,378	(Increase)/decrease in creditors		1,549	1,349
(1,150)	(1,150)	Increase/(decrease) in debtors		3,004	3,004
15	15	Increase/(decrease) in inventories	11	(12)	(12)
(8,548)	(8,548)	Pension liability	5	(16,834)	(16,834)
(4,123)	(4,123)	Carrying amount of non-current assets sold		(1,405)	(1,405)
879	879	Other non-cash items		(129)	(129)
(69,199)	(69,543)	**Adjustments to net surplus or deficit on the provision of services for non-cash movements**		(46,991)	(47,191)
4,354	5,338	Adjustment for items included in the net deficit on the provision of services that are investing or financing activities		15,882	20,169
(33,880)	(33,986)	**Net cash flows from operating activities**		(15,909)	(16,118)
28,550	28,656	Investing activities	20	38,459	38,668
(17,854)	(17,854)	Financing activities	21	(12,388)	(12,388)
(23,184)	(23,184)	**Net (increase) or decrease in cash and cash equivalents**		10,162	10,162
(9,029)	(9,029)	Cash and cash equivalents at the beginning of the reporting period		(32,213)	(32,213)
(32,213)	**(32,213)**	**Cash and cash equivalents at the end of the reporting period**	13	**(22,051)**	**(22,051)**

Section 5: Notes to the Core Financial Statements

Note 1: Expenditure & 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.

2016-2017				2017-2018		
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**
1,555	53	1,608	Chief Executive's Strategic Office	1,309	139	1,448
85,822	34,264	120,086	Educational Services	84,783	11,272	96,055
47,794	19,159	66,953	Economy, Neighbourhood & Environment	48,496	8,296	56,792
(6,603)	(5,701)	(12,304)	Housing Revenue Account	(166)	527	361
68,401	-	68,401	Social Care: Contribution to IJB	73,359	-	73,359
(2,964)	748	(2,216)	Social Care: Provision of Services	(5,577)	2,056	(3,521)
24,264	7,397	31,661	Resources, Governance & Organisation	26,077	6,356	32,433
13,484	(12,411)	1,073	Miscellaneous Services	10,686	(8,149)	2,537
231,753	**43,509**	**275,262**	**Net Cost of Services**	**238,967**	**20,497**	**259,464**
(233,046)	(11,251)	(244,297)	Other Income and Expenditure	(234,439)	(9,825)	(244,264)
(1,293)	**32,258**	**30,965**		**4,528**	**10,672**	**15,200**
41,789			**Opening General Fund and HRA Balance**	**42,740**		
1,293			**Less/Plus Surplus or (Deficit) on General Fund and HRA Balance in the Year**	**(4,528)**		
(342)			**Transfer (to)/from earmarked reserves**	**1,159**		
42,740			**Closing General Fund and HRA Balance As at 31 March 2018**	**39,371**		

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.

2017-2018	Adjustments for capital purposes (Note 1)	Net changes for the pensions adjustment (Note 2)	Other differences (Note 3)	Total adjustments
	£000	**£000**	**£000**	**£000**
Chief Executive's Strategic Office	-	156	(17)	139
Educational Services	9,569	1,795	(92)	11,272
Economy, Neighbourhood & Environment	5,292	3,342	(338)	8,296
Housing Revenue Account	178	384	(35)	527
Social Care: Contribution to IJB	-	-	-	-
Social Care: Provision of Services	-	2,292	(236)	2,056
Resources, Governance & Organisation	4,267	2,270	(181)	6,356
Miscellaneous Services	(9,590)	1,441	-	(8,149)
Net Cost of services	**9,716**	**11,680**	**(899)**	**20,497**
Other Income and Expenditure from the Expenditure and funding analysis	(14,563)	5,154	(416)	(9,825)
Difference between the General Fund surplus or deficit and Comprehensive Income and Expenditure Statement	**(4,847)**	**16,834**	**(1,315)**	**10,672**

2016-2017	Adjustments for capital purposes (Note 1)	Net changes for the pensions adjustment (Note 2)	Other differences (Note 3)	Total adjustments
	£000	**£000**	**£000**	**£000**
Chief Executive's Strategic Office	-	57	(4)	53
Educational Services	33,833	602	(171)	34,264
Economy, Neighbourhood & Environment	18,105	1,128	(74)	19,159
Housing Revenue Account	(5,840)	149	(10)	(5,701)
Social Care: Contribution to IJB	-	-	-	-
Social Care: Provision of Services	-	770	(22)	748
Resources, Governance & Organisation	6,784	632	(19)	7,397
Miscellaneous Services	(13,358)	947	-	(12,411)
Net Cost of services	**39,524**	**4,285**	**(300)**	**43,509**
Other Income and Expenditure from the Expenditure and funding analysis	(15,141)	4,263	(373)	(11,251)
Difference between the General Fund surplus or deficit and Comprehensive Income and Expenditure Statement	**24,383**	**8,548**	**(673)**	**32,258**

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:

	2017-2018	2016-2017
	£000	£000
Expenditure		
Employee benefit expenses	174,089	161,417
Other service expenses	273,231	259,378
Depreciation, amortisation, impairment	33,164	60,994
Interest payments	13,759	13,124
Loss on the disposal of assets	247	(231)
Total Expenditure	**494,490**	**494,682**
Income		
Fees, charges and other service income	(215,868)	(202,264)
Interest & investment income	(427)	(445)
Income from Council Tax, non-domestic rates	(91,795)	(87,902)
Government grants and contributions	(171,200)	(173,106)
Total Income	**(479,290)**	**(463,717)**
(Surplus) or Deficit in the provision of services	**15,200**	**30,965**

Note 2: Prior period adjustment

The Significant Accounting Policies provided in Note 1 of Section 6 to these accounts on pages 60 to 71 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 made during 2017-2018.

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 2017-2018 there were no material item of income and expense requiring additional disclosure.

Note 4: Events after the Balance Sheet date

The Annual Accounts were signed by the Head of Finance and ICT on 26 June 2018. Where events which took place before this date provided information about conditions which existed at 31 March 2018, the financial statements and notes have been adjusted in all material respects to reflect the impact of this information. Events taking place after this date have not been reflected in the financial statements and notes.

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.

Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets which are restricted from being used other than to fund new capital expenditure or to be set aside to finance historic capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year end.

2017-2018

	General fund balance £000	Housing revenue account balance £000	Capital grants unapplied account £000	Repairs & renewals fund £000	Net movement £000
Adjustments primarily involving the capital grants unapplied account:					
Application of grants to capital financing transferred to the capital adjustment account	-	-	28	98	**(126)**
Adjustments primarily involving the capital adjustment account:					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:					
Charges for depreciation and impairment of non-current assets	(19,432)	(13,473)	-	-	**32,905**
Amortisation of intangible assets	(259)	-	-	-	**259**
Capital grants and contributions applied	13,881	929	(1,363)	-	**(13,447)**
Revenue expenditure funded from capital under statute	-	-	-	-	**-**
Net gain or (loss) on sale of non-current assets	(225)	(22)	-	-	**247**
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement					
Statutory provision for the financing of capital investment	9,429	1,193	-	-	**(10,622)**
Capital expenditure charged against the general fund and HRA balances	723	12,103	-	-	**(12,826)**
Adjustments primarily involving the financial instruments adjustment account: 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	299	117	-	-	**(416)**
Adjustments primarily involving the employee benefit statutory mitigation account:					
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	864	35	-	-	**(899)**
Adjustments primarily involving the pensions reserve: Reversal of items in relation to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (Note 30)	(16,280)	(554)	-	-	**16,834**
Total adjustments	**(11,000)**	**328**	**(1,335)**	**98**	**11,909**

Figures for 2016-2017 are provided in an additional table below for the purposes of comparison.

2016-2017	General fund balance £000	Housing revenue account balance £000	Capital grants unapplied account £000	Repairs & renewals fund £000	Net movement £000
Adjustments primarily involving the capital grants unapplied account:					
Application of grants to capital financing transferred to the capital adjustment account	-	-	53	156	**(209)**
Adjustments primarily involving the capital adjustment account:					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:					
Charges for depreciation and impairment of non-current assets	(59,132)	(1,590)	-	-	**60,722**
Amortisation of intangible assets	(272)	-	-	-	**272**
Capital grants and contributions applied	11,859	3,051	(942)	-	**(13,968)**
Revenue expenditure funded from capital under statute	(184)	-	-	-	**184**
Net gain or (loss) on sale of non-current assets	(137)	368	-	-	**(231)**
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement					
Statutory provision for the financing of capital investment	9,975	2,167	-	-	**(12,142)**
Capital expenditure charged against the general fund and HRA balances	4,249	5,263	-	-	**(9,512)**
Adjustments primarily involving the financial instruments adjustment account: 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	256	117	-	-	**(373)**
Adjustments primarily involving the employee benefit statutory mitigation account: 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	290	10			**(300)**
Adjustments primarily involving the pensions reserve: Reversal of items in relation to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (Note 30)	(8,251)	(297)	-	-	**8,548**
Total adjustments	**(41,347)**	**9,089**	**(889)**	**156**	**32,991**

Note 6: Transfers to or from other statutory reserves

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 2017-2018. Figures for 2016-2017 are provided in an additional table below for the purposes of comparison.

2017-2018

		Transfers to or from Other Statutory Reserves		
	General Fund Balance	Repairs and Renewals Fund	Insurance Fund	Capital Fund
	£000	£000	£000	£000
Contribution from Repair & Renewal Fund to General Fund	1,159	(1,159)	-	-
Total adjustments	**1,159**	**(1,159)**	**-**	**-**

2016-2017 comparative information

		Transfers to or from Other Statutory Reserves		
	General Fund Balance	Repair and Renewals Fund	Insurance Fund	Capital Fund
	£000	£000	£000	£000
Contribution from Repair & Renewal Fund to General Fund	899	(899)	-	-
Contribution to Insurance Fund from General Fund	(1,342)	-	1,342	-
Total adjustments	**(443)**	**(899)**	**1,342**	**-**

Movements on the fund balances and reserves during 2017-2018 are summarised in the table below.

	Repairs and Renewals fund	Insurance Fund	Capital Fund
	£000	£000	£000
Opening balance as at 1 April 2017	2,554	425	-
Appropriations (to)/from revenue/capital	(1,257)	-	-
Closing balance as at 31 March 2018	**1,297**	**425**	**-**

Note 7: Property, plant and equipment

Movement on balances

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

2017-2018

	Council Dwellings	Other Land & Buildings	Schools PPP 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
Cost or valuation									
At 1 April 2017	270,478	272,982	74,386	24,593	67,926	541	2,367	6,092	**719,365**
Additions in year	12,300	12,336	25,388	873	2,594	-	-	6,513	**60,004**
Disposals in year	(938)	(485)	-	-	-	-	-	-	**(1,423)**
Revaluation adjustments to revaluation reserve	-	(6,013)	-	-	-	-	651	-	**(5,362)**
Revaluation adjustments to CIES	-	(5,260)	(374)	-	-	(1)	(75)	-	**(5,710)**
Other reclassifications	2,270	(2,097)	462	(45)	-	-	3,888	(4,506)	**(28)**
At 31 March 2018	**284,110**	**271,463**	**99,862**	**25,421**	**70,520**	**540**	**6,831**	**8,099**	**766,846**
Depreciation and impairment									
At 1 April 2017	-	31,325	5,574	18,805	21,112	-	36	-	**76,852**
Depreciation charge for the year	12,294	6,758	1,569	1,184	1,696	-	5	-	**23,506**
Depreciation/Impairment written to revaluation reserve	22	(4,212)	-	-	-	-	(14)	-	**(4,204)**
Impairment losses to CIES	-	(2,771)	-	-	-	-	(50)	-	**(2,821)**
On disposals	-	(33)	-	-	-	-	-	-	**(33)**
Other reclassifications	-	(2,070)	-	(5)	-	-	2,075	-	**-**
At 31 March 2018	**12,316**	**28,997**	**7,143**	**19,984**	**22,808**	**-**	**2,052**	**-**	**93,300**
Balance Sheet amount at 31 March 2018	**271,794**	**242,466**	**92,719**	**5,437**	**47,712**	**540**	**4,779**	**8,099**	**673,546**
Nature of asset holding									
Owned	271,794	239,228	-	5,106	47,712	540	4,779	8,099	**577,258**
Finance lease	-	3,238	-	331	-	-	-	-	**3,569**
PPP	-	-	92,719	-	-	-	-	-	**92,719**
	271,794	**242,466**	**92,719**	**5,437**	**47,712**	**540**	**4,779**	**8,099**	**673,546**

2016-2017 comparative movements

	Council Dwellings	Other Land & Buildings	Schools PPP 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
Cost or valuation									
At 1 April 2016	263,603	254,092	73,641	23,256	64,681	530	3,005	28,038	**710,846**
Additions in year	9,172	40,290	745	1,158	3,219	-	79	4,808	**59,471**
Disposals in year	(1,746)	(559)	-	-	-	-	(39)	-	**(2,344)**
Revaluation adjustments to revaluation reserve	(3,147)	(1,316)	-	26	-	13	(596)	-	**(5,020)**
Revaluation adjustments to CIES	(100)	(40,217)	-	(1,147)	-	(2)	(105)	(32)	**(41,603)**
Other reclassifications	2,696	20,692	-	1,314	26	-	23	(26,722)	**(1,971)**
At 31 March 2017	**270,478**	**272,982**	**74,386**	**24,607**	**67,926**	**541**	**2,367**	**6,092**	**719,379**
Depreciation and impairment									
At 1 April 2016	23,655	13,404	4,005	18,205	19,418	-	36	-	**78,723**
Depreciation charge for the year	-	6,777	1,569	1,267	1,696	-	5	-	**11,314**
Impairment losses to revaluation reserve	(23,655)	9,558	-	(61)	-	-	2	-	**(14,156)**
Impairment losses to CIES	-	1,512	-	(489)	-	-	(5)	-	**1,018**
On disposals	-	(34)	-	-	-	-	(2)	-	**(36)**
Other reclassifications	-	103	-	(103)	-	-	-	-	**-**
At 31 March 2017	**-**	**31,320**	**5,574**	**18,819**	**21,114**	**-**	**36**	**-**	**76,863**
Balance Sheet amount at 31 March 2017	**270,478**	**241,662**	**68,812**	**5,788**	**46,812**	**541**	**2,331**	**6,092**	**642,516**
Nature of asset holding									
Owned	270,478	239,911	-	5,380	46,812	541	2,331	6,092	**571,545**
Finance lease	-	1,751	-	408	-	-	-	-	**2,159**
PPP	-	-	68,812	-	-	-	-	-	**68,812**
	270,478	**241,662**	**68,812**	**5,788**	**46,812**	**541**	**2,331**	**6,092**	**642,516**

Depreciation

As highlighted in Significant Accounting Policies, Note 1 Section 6 to these accounts on pages 60 to 71 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:

Category	*Sub Category*	*Useful life (years)*	*Valuer*	*Basis of Valuation*	*Date of last full valuation*
Other land and buildings	Specialised buildings	10 to 40	Estates Co-ordinator	Current Value	31-Mar-16
	Buildings	5 to 40	Estates Co-ordinator	Current Value / Fair Value / Historic Cost	31-Mar-13
	Land	Up to 999	Estates Co-ordinator	Current Value / Fair Value / Historic Cost	31-Mar-13
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
Schools PPP assets	~	40	Estates Co-ordinator	Current Value	31-Mar-14

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 1 Section 6 to these accounts on pages 60 to 71 under "Property, plant and equipment".

Commitments under capital contracts

The Council approved capital investment programmes for General Services and Housing for 2018-2019 for construction or enhancement of property, plant and equipment, as outlined in the table below.

	General Services	**Housing**	**Total**
Expenditure	**£000**	**£000**	**£000**
Capital investment	48,778	24,021	**72,799**
	48,778	**24,021**	**72,799**
Sources of finance			
Prudential borrowing	35,329	8,510	**43,839**
Capital grants, contributions and other receipts	13,449	6,234	**19,683**
Capital funded from current revenue	-	9,277	**9,277**
	48,778	**24,021**	**72,799**

Note 8: Heritage assets

Valuation	Fine Arts	Other Heritage Assets	Civic Regalia	Total Heritage Assets
	£000	**£000**	**£000**	**£000**
1 April 2017	**2,115**	**1,066**	**151**	**3,332**
Revaluation adjustments to the revaluation reserve	-	-	-	**-**
Revaluation charged to the CIES	-	-	-	**-**
31 March 2018	**2,115**	**1,066**	**151**	**3,332**
1 April 2016	**1,516**	**1,001**	**34**	**2,551**
Transfer between category	(955)	989	(34)	**-**
Revaluation adjustments to the revaluation reserve	1,582	(924)	151	**809**
Revaluation charged to the CIES	(28)	-	-	**(28)**
31 March 2017	**2,115**	**1,066**	**151**	**3,332**

Museum and art gallery collections

The collections of Rozelle House Galleries and McKechnie Institute museums and art galleries form the major part of the heritage assets held by the Council.

Existing collections consist of fine arts, history of science, archaeology, coins, culture, domestic life, decorative & applied art, industry & commerce, photography, natural sciences, maritime, society, transport, warfare & defence, weapons & accessories and world culture.

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 specialising in valuation of fine art, antiques - 2016.

Civic regalia and other civil effects

The civic regalia are the chains and pendants of office of the Provost and the Deputy Provost. The Provost, who is the figurative and ceremonial head of the Council, wears the gold chain and pendant of office at meetings of the full Council and other appropriate civic and ceremonial events.

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 specialising in valuation of fine art, antiques - 2016.

Preservation and management

Assets are collated, preserved and managed in accordance with professional museum guidelines and the Museum Accreditation Standard.

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:

	31 March 2018	31 March 2017
	£000	£000
Balance at start of year:		
Gross carrying amounts	3,903	937
Accumulated amortisation	(1,196)	(924)
Net carrying amount at start of year	2,707	13
Additions:		
Purchases	182	1,009
Reclassifications	28	1,957
Amortisation for the period	(259)	(272)
Net carrying amount at end of the year	**2,658**	**2,707**
Comprising:		
Gross carrying amounts	4,113	3,903
Accumulated amortisation	(1,455)	(1,196)
	2,658	**2,707**

Note 10: Financial instruments

Categories of financial instrument

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

	Long Term		Current	
	31 March 2018	31 March 2017	31 March 2018	31 March 2017
	£000	£000	£000	£000
Investments				
Loans and receivables	234	-	30,000	15,086
Available for sale financial assets	767	735	-	-
Total investments	**1,001**	**735**	**30,000**	**15,086**
Debtors				
Loans and receivables	1	2	-	-
Financial assets carried at contract amounts	-	-	15,728	13,030
Total debtors	**1**	**2**	**15,728**	**13,030**
Borrowings				
Financial liabilities (principal amount) *Note1**	(153,656)	(151,293)	(52,636)	(39,416)
Other accounting adjustments *Note 2***	(869)	(877)	-	-
Total borrowings	**(154,525)**	**(152,170)**	**(52,636)**	**(39,416)**
Other long term liabilities				
Finance lease liabilities	(3,400)	(2,045)	(205)	(115)
PPP	(75,153)	(53,317)	(4,846)	(4,392)
Total other long term liabilities	**(78,553)**	**(55,362)**	**(5,051)**	**(4,507)**
Creditors				
Financial liabilities carried at contract amount			(43,463)	(44,436)
Total Creditors			**(43,463)**	**(44,436)**

**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.

***Note 2* 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.

Reclassifications between categories

The Council did not reclassify any financial assets or liabilities between categories during the year.

Income, expense, gains and losses

The income, expense, gains and losses for financial instruments recognised in the Comprehensive Income and Expenditure Statement are made up as follows:

	2017-2018				2016-2017			
	Financial Liabilities (Liabilities measured at amortised cost)	Loans and Receivables	Available-for-sale Assets	Total	Financial Liabilities (Liabilities measured at amortised cost)	Loans and Receivables	Available-for-sale Assets	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Interest expense	13,759	-	-	13,759	13,124	-	-	13,124
Interest payable and similar charges in surplus or deficit on the provision of services	**13,759**	**-**	**-**	**13,759**	**13,124**	**-**	**-**	**13,124**
Interest income	-	(427)	-	(427)	-	(445)	-	(445)
Interest and investment income in surplus or deficit on the provision of services	-	**(427)**	**-**	**(427)**	-	**(445)**	**-**	**(445)**
(Gains) or losses on revaluation	-	-	(32)	(32)	-	-	(66)	(66)
Surplus or deficit arising from revaluation of financial assets in other comprehensive income and expenditure	**-**	**-**	**(32)**	**(32)**	**-**	**-**	**(66)**	**(66)**
Net (gain) or loss for the year	**13,759**	**(427)**	**(32)**	**13,300**	**13,124**	**(445)**	**(66)**	**12,613**

Fair values of assets and liabilities

Except for the financial assets carried at fair value, all other financial assets and liabilities represented by loans and receivables 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 are also provided setting out the fair value measurement and highlighting the impact of the alternative 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 2018, the fair values of financial assets and financial liabilities are calculated as follows:

Table 1	31 March 2018		31 March 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Liabilities	**£000**	**£000**	**£000**	**£000**
PWLB	110,088	157,170	114,504	164,224
LOBO (Option)	36,200	54,230	36,200	55,464
Market Debt	10,005	12,744	5,005	7,850
Short Term Borrowing	50,000	50,068	35,000	35,012
Sub Total Borrowing	**206,293**	**274,212**	**190,709**	**262,550**
PPP liability	79,999	110,457	57,709	80,613
Short Term Finance Lease Liability	118	118	115	115
Long Term Finance Lease Liability	1,927	1,927	2,045	2,045
Short Term Creditors	47,208	47,208	48,608	48,608
	129,252	**159,710**	**108,477**	**131,381**
Total Liabilities	**335,545**	**433,922**	**299,186**	**393,931**

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

Table 2	31 March 2018		31 March 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Liabilities	**£000**	**£000**	**£000**	**£000**
PWLB	110,088	183,909	114,504	192,078
LOBO (Option)	36,200	66,293	36,200	66,638
Market Debt	10,005	15,423	5,005	10,261
Short Term Borrowing	50,000	50,068	35,000	35,030
Sub Total Borrowing	**206,293**	**315,693**	**190,709**	**304,007**
PPP liability	79,999	122,166	57,709	89,334
Short Term Finance Lease Liability	118	118	115	115
Long Term Finance Lease Liability	1,927	1,927	2,045	2,045
Short Term Creditors	47,208	47,208	48,608	48,608
	129,252	**171,419**	**108,477**	**140,102**
Total Liabilities	**335,545**	**487,112**	**299,186**	**444,109**

The fair value of the liabilities is higher 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 in the market at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2018) arising from a commitment to pay interest to lenders above current market rates.

The fair value of PWLB loans of £157.170m 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 2018 Carrying Amount £000	31 March 2018 Fair Value £000	31 March 2017 Carrying Amount £000	31 March 2017 Fair Value £000
Financial Assets				
Long-term investments	1,001	1,318	735	735
Investments	30,000	30,044	15,000	15,038
Soft Loans	-	-	86	86
Long term debtors	1	1	2	2
Current asset debtors	23,480	23,480	20,944	20,944
	54,482	**54,843**	**36,767**	**36,805**

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 2018) arising from a commitment to pay interest to lenders above current market rates.

Note 11: Inventories

	Consumable Stores		Maintenance Materials		Client Services Work in Progress		Property Acquired or Constructed for Sale		Total	
As at 31 March	**2018 £000**	**2017 £000**	**2018 £000**	**2017 £000**	**2018 £000**	**2017 £000**	**2018 £000**	**2017 £000**	**2018 £000**	**2017 £000**
Balance outstanding at start of year	128	105	258	248	-	-	64	82	450	435
Purchases	938	993	1,110	1,054	37	-	1,500	1,349	3,585	3,396
Recognised as an expense in year	(947)	(970)	(1,118)	(1,041)	(24)	-	(1,499)	(1,357)	(3,588)	(3,368)
Written off balances	(12)	-	(17)	(28)	-	-	-	(10)	(29)	(38)
Reversals of write-offs in previous years	-	-	20	25	-	-	-	-	20	25
Balance outstanding at year end	**107**	**128**	**253**	**258**	**13**	-	**65**	**64**	**438**	**450**

Note 12: Debtors

	31 March 2018 £000	31 March 2017 £000
Central government bodies	7,745	5,281
Other local authorities	291	1,110
NHS bodies	753	576
Trade debtors	8,075	8,037
Other entities and individuals	4,127	3,797
Council tax	2,436	2,102
Accrued interest on investments	53	41
Total	**23,480**	**20,944**

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

	31 March 2018	31 March 2017
	£000	£000
Cash held by the authority	45	46
Bank current accounts	(5,092)	(1,833)
Short term/Callable deposits held with UK banks	14,598	34,000
Callable deposits held in Money Market Funds	7,500	-
Short term deposit held with Local Authorities	5,000	-
Total cash and cash equivalents	**22,051**	**32,213**

Note 14: Assets held for sale

	31 March 2018	31 March 2017
	£000	£000
Balance outstanding at start of year	**78**	**1,813**
Additions	-	55
Assets declassified/disposed	(13)	(1,813)
Revaluation increase/(losses)	(1)	10
Reclassified as held for sale	-	13
Balance outstanding at year end	**64**	**78**

Note 15: Creditors

	31 March 2018	31 March 2017
	£000	£000
Central government bodies	4,092	3,643
Other local authorities	1,752	1,379
NHS bodies	169	201
Trade creditors	33,372	35,264
Other entities and individuals	3,504	3,505
Non domestic rates	1,131	1,541
Council tax	1,000	1,069
Accrued interest on borrowings	2,188	2,006
Total	**47,208**	**48,608**

Note 16: Provisions

	Total
	£000
Balance as at 1 April 2017	**2,655**
Additional/(reduced) provisions made in 2017-2018	293
Amounts used in 2017-2018	(155)
Balance as at 31 March 2018	**2,793**

The Council has made a provision in respect of a number of employee related potential claims outstanding at 31 March 2018. 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 is expected over the next 12 - 24 months.

Note 17: Other short term liabilities

	31 March 2018	31 March 2017
	£000	£000
Public Private Partnership (PPP)	4,846	4,392
Amounts owed to Common Good	1,013	1,039
Amounts owed to Trusts and others	1,275	1,296
Finance Lease	205	115
	7,339	**6,842**

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:

	31 March 2018	31 March 2017
	£000	£000
Revaluation reserve	161,165	169,158
Capital adjustment account	222,924	212,481
Financial Instrument adjustment account	(12,232)	(12,648)
Available for sale financial instruments reserve	727	694
Pension reserve	(84,143)	(192,343)
Employee statutory mitigation account	(3,973)	(4,872)
	284,468	**172,470**

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.

	2017-2018 £000	2016-2017 £000
Balance at 1 April	**169,158**	**163,477**
Upward revaluation of assets	7,267	44,864
Downward valuation of assets and impairment losses not charged to the surplus/(deficit) on the Provision of Services	(8,426)	(34,922)
Surplus or (deficit) on revaluation of non-current assets not posted to the surplus or (deficit) on the Provision of Services	**(1,159)**	**9,942**
Difference between fair value depreciation and historical cost depreciation	(6,326)	(1,718)
Accumulated gains on assets sold or scrapped	(508)	(2,543)
Amount written off to the Capital Adjustment Account	**(6,834)**	**(4,261)**
Balance at 31 March	**161,165**	**169,158**

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 28 details the source of all the transactions posted to the account, apart from those involving the Revaluation Reserve.

	2017-2018 £000	2016-2017 £000
Balance at 1 April	**212,481**	**233,335**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
Charges for depreciation and impairment of non-current assets	(32,905)	(60,722)
Amortisation of intangible assets	(259)	(272)
Revenue expenditure funded from capital under statute	-	(184)
Amounts of non-current assets written off on disposal or sale as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	(247)	231
	(33,411)	(60,947)
Adjusting amounts written out of the revaluation reserve	6,832	4,262
Net written out amount of the cost of non-current assets consumed in the year	(26,579)	(56,685)
Capital financing applied in the year:		
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	13,447	13,968
Application of grants to capital financing from the capital grants unapplied account/repairs and renewals fund	126	209
Statutory provision for the financing of capital investment charged against the general fund and HRA balances	10,623	12,142
Capital expenditure charged against the general fund and HRA balances	12,826	9,512
Balance at 31 March	**222,924**	**212,481**

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.

	2017-2018 £000	2016-2017 £000
Balance at 1 April	**(12,648)**	**(13,021)**
Proportion of premiums incurred in previous financial years to be charged against the general fund balance in accordance with statutory requirements	408	366
Fair value effective interest rate adjustment in line with statutory requirements	8	7
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement	**416**	**373**
Balance at 31 March	**(12,232)**	**(12,648)**

Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments 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

	2017-2018 £000	2016-2017 £000
Balance at 1 April	**694**	**628**
Upward/(downward) revaluation of investments	33	66
Balance at 31 March	**727**	**694**

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 employers 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.

	2017-2018 £000	2016-2017 £000
Balance at 1 April	**(192,343)**	**(119,669)**
Re-measurement of the net defined benefit asset	125,034	(64,126)
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	(32,704)	(23,800)
Employer's pension contributions and direct payments	15,870	15,252
Balance at 31 March	**(84,143)**	**(192,343)**

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.

	2017-2018 £000	2016-2017 £000
Balance at 1 April	**(4,872)**	**(5,171)**
Settlement or cancellation of accrual made at the end of the preceding year	4,872	5,171
Amounts accrued at the end of the current year	(3,973)	(4,872)
Balance at 31 March	**(3,973)**	**(4,872)**

Note 19: Cash Flow Statement – operating activities

The cash flows from operating activities included the following items:

	2017-2018 £000	2016-2017 £000
Interest received	(415)	(237)
Interest paid	13,586	12,121
Net cash flows used in operating activities	**13,171**	**11,884**

Note 20: Cash Flow Statement – investing activities

	2017-2018 £000	2016-2017 £000
Property, plant and equipment, investment property and intangible assets	39,662	61,427
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(1,158)	(4,354)
Purchase(proceeds) from short-term investments	15,000	(13,614)
Purchase from long-term investments	234	-
Other receipts from investing activities	(15,279)	(14,909)
Net cash flows used in investing activities	**38,459**	**28,550**

Note 21: Cash Flow Statement – financing activities

	2017-2018 £000	2016-2017 £000
Cash receipts from short-term and long-term borrowing	(17,364)	(35,000)
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	2,786	2,250
Repayments of short and long term borrowing	1,780	14,636
Other payments for financing activities	410	260
Net cash flows used in financing activities	**(12,388)**	**(17,854)**

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 2017-2018 the Council collected £19.164m and paid over £18.759m and received £0.405m for providing this service. The Council also bills and collects Non-Domestic Rates on behalf of the Scottish Government. During 2017-2018 the Council billed £41.498m on their behalf and received £39.756m in income from the Non-Domestic Rates Pool.

Note 23: External audit cost

The Council has incurred costs of £0.270m in 2017-2018 in respect of fees payable to Audit Scotland with regard to external audit services carried out under The Code of Practice (£0.269m 2016-2017).

Note 24: Grant income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2017-2018:

Credited to taxation and non-specific grant income	31 March 2018 £000	31 March 2017 £000
General revenue grant	156,390	158,197
Receipted capital income	14,810	14,909
Non-domestic rates income	39,756	40,755
Council tax income	52,039	47,117
Total	**262,995**	**260,978**

Credited to services	31 March 2018 £000	31 March 2017 £000
Burns Festival	25	40
Department of Work and Pensions	34,881	36,418
Education	5,781	1,742
Education Maintenance Allowance	25	25
Health Authorities	81	83
Leader	910	222
Modern Apprentices	194	75
NHS Alcohol & Drug Misuse	18	28
Other Grants and Contributions	434	650
Police	30	30
Scheme of Assistance Grant	-	50
School Milk	52	70
Social Work	3,591	1,838
Townscape Heritage Initiative	121	147
Zero Waste	1,687	-
Total	**47,830**	**41,418**

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 framework 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).

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 2017-2018 are shown in the Remuneration Report. During 2017-2018 works and services to the value of £3.97m were commissioned from organisations in which three members had an interest. Contracts were entered into in full compliance with the Council's Standing Orders. During 2017-2018 there were no grants paid to voluntary organisations wherein Members of the Council had an interest. Details of the transactions during 2017-2018 are available for any member of the public to view in the Council's offices at County Buildings, Ayr during normal working hours.

Officers of the Council – During 2017-2018 Donald Gillies, Director – Place (former Head of Property and Risk), and Jim Johnstone, Service Lead – Economic Development (former Enterprise Manager) 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 in which there was no lease income received during 2017-18. There was no management fee received during 2017-2018.

South Ayrshire Integration Joint Board – The South Ayrshire Integration Joint Board was established on 1st 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 2017-2018 the following South Ayrshire Council financial transactions were made with South Ayrshire Integration Joint Board relating to the integrated and social care functions:

	£000
Contribution made to South Ayrshire Integration Joint Board	73,359
Commissioning income received from South Ayrshire Integration Joint Board	92,973

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 £21.358m during 2017-2018.

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.

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. Up until 4 May 2017 the Council's Executive Director - Economy, Neighbourhood and Environment sat on the board along with three councillors and five private sector members. From 18 May 2017, following the recent local government elections, the Council's Chief Executive was appointed to the Board to replace the Executive Director – Economy, Neighbourhood and Environment. The organisations' running costs were met by way of a contribution of £0.224m.

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 2018 £000	31 March 2017 £000
Opening capital financing requirement	**266,993**	**239,688**
Capital investment		
Property, plant and equipment	39,992	66,506
Intangible assets	182	-
PPP/Finance lease	24,877	-
	65,051	66,506
Sources of finance		
Capital Receipts	(1,158)	(4,354)
Government grant and other contributions	(13,571)	(14,294)
Capital funded from current revenue	(13,425)	(9,211)
Repayment of PPP/finance lease	(1,141)	(2,250)
Loans fund principal repayments	(7,238)	(9,092)
Closing capital financing requirement	**295,511**	**266,993**
Explanation of movements during the year		
Increase in the underlying need to borrow	4,782	29,555
Decrease in finance lease obligations	1,446	(255)
Increase/(decrease) in PPP finance lease creditor	22,290	(1,995)
Increase(decrease) in capital financing requirement	**28,518**	**27,305**

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 2018 £000	31 March 2017 £000
Property, plant and equipment	**3,569**	**2,121**

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 2018 £000	31 March 2017 £000
Finance lease liabilities (net present value of minimum lease payments):		
Current	205	115
Non-Current	3,400	2,045
Finance costs payable in future years	1,033	37
Minimum lease payments	**4,638**	**2,197**

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

	Minimum lease payments		Finance lease liabilities	
	31 March 2018	31 March 2017	31 March 2018	31 March 2017
	£000	£000	£000	£000
No later than one year	289	127	205	115
Later than one year and not later than five years	1,064	507	790	482
Later than five years	3,285	1,563	2,611	1,563
	4,638	**2,197**	**3,606**	**2,160**

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 2018	31 March 2017
	£000	£000
No later than one year	1,560	1,291
Later than one year and not later than five years	3,126	3,223
Later than five years	-	-
	4,686	**4,514**

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 2018	31 March 2017
	£000	£000
Minimum lease payments	1,360	1,300
	1,360	**1,300**

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 2018	31 March 2017
	£000	£000
No later than one year	810	832
Later than one year and not later than five years	1,013	957
Later than five years	10,887	10,910
	12,710	**12,699**

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 the Council took occupation of the New Ayr Academy, which was 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, at which time 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 and the new Ayr Academy contract at 31 March 2018 (assuming an average inflation rate of 2.50% and excluding any estimation of availability and performance deductions) are as follows:

	Payment of services	Reimbursement of capital expenditure	Interest	Total
	£000	£000	£000	£000
Payable within one year	4,555	2,889	5,831	**13,275**
Payable within two to five years	21,042	11,387	22,879	**55,308**
Payable within six to ten years	30,971	15,583	27,873	**74,427**
Payable within eleven to fifteen years	39,882	15,665	25,308	**80,855**
Payable within sixteen to twenty years	41,114	21,547	25,265	**87,926**
Payable within twenty-one to twenty-five years	13,236	12,928	8,418	**34,582**
Total	**150,800**	**79,999**	**115,574**	**346,373**

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:

	2017-2018	2016-2017
	£000	£000
Balance outstanding at start of year	**57,709**	**59,704**
New liability (Ayr Academy)	24,877	-
Increases/(reductions) during the year	(2,587)	(1,995)
Balance outstanding at year end	**79,999**	**57,709**

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 2017-18, incurring liabilities of £2.178m (£1.002m 2016-17). The total is payable to 74 employees from directorates detailed in the analysis provided. Termination benefits exclude ill health retirals'.

Number	Directorate
1	Chief Executive's Strategic Office
18	Economy, Neighbourhood and Environment
26	Education Services
12	Health and Social Care
17	Resources, Governance and Organisation

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.

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 2017-2018 and the prior year 2016-2017.

Comprehensive Income and Expenditure Statement (CIES)	**2017-2018 £000**	**2016-2017 £000**
Cost of Services:		
Service cost comprising:		
Current service cost	26,705	18,797
Past service cost (including curtailments)	847	740
Financing and investment income and expenditure:		
Net interest expense/ (income)	5,152	4,263
Total post-employment benefit charged to the surplus or deficit on the provision of services	**32,704**	**23,800**
Other post-employment benefits charged to the CIES:		
Re-measurement of the net defined benefit liability comprising:		
Return on the plan assets	3,240	(119,294)
Actuarial (gains) and losses arising on changes in demographic assumptions	(1,676)	-
Actuarial (gains) and losses arising on changes in financial assumptions	(40,210)	182,914
Other	(79,908)	506
Total post-employment benefit charged to the CIES	**(85,850)**	**87,926**
Movement in Reserves Statement (MiRS)		
Reversal of net charge made to the surplus or deficit on the provision of services for post-employment benefits in accordance with the Code	**101,720**	**(72,674)**
Actual amount charged against the General Fund balance for pensions in the year:		
Employers' contribution payable to the scheme	**15,870**	**15,252**

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:

	2017-2018 £000	**2016-2017 £000**
Present value of the defined benefit obligation: funded	(812,216)	(899,797)
Present value of the defined benefit obligation: unfunded	(35,703)	(36,228)
Fair value of pension fund assets	763,776	743,682
Net Liability arising from defined benefit obligations	**(84,143)**	**(192,343)**

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

	2017-2018 £000	2016-2017 £000
Opening balance at 1 April	**936,025**	**726,075**
Current service cost	26,705	18,797
Past service cost	847	740
Interest cost	24,456	25,432
Contributions by scheme participants	4,151	4,065
Re-measurement gains and (losses):		
Actuarial (gains) and losses arising on changes in demographic assumptions	(1,676)	-
Actuarial (gains) and losses arising from changes in financial assumptions	(40,210)	182,914
Other losses/ (gains)	(79,908)	506
Benefits paid	(20,619)	(20,608)
Unfunded benefits paid	(1,852)	(1,896)
Closing balance at 31 March	**847,919**	**936,025**

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

	2017-2018 £000	2016-2017 £000
Opening fair value of the scheme assets	**743,682**	**606,406**
Interest income	19,304	21,169
Re-measurement gains and (losses):		
Return on the plan assets	3,240	119,294
Contributions from employers	14,018	13,356
Contributions from employees in the scheme	4,151	4,065
Benefits paid	(20,619)	(20,608)
Closing fair value of the scheme assets	**763,776**	**743,682**

Analysis of pension fund assets

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

At 31 March 2018

Asset category	Quoted Prices in Active Markets £000	Prices not quoted in Active Markets £000	2017-2018 Total £000
Cash and cash equivalents			
Equity instruments:			
Consumer	48,911	139	49,050
Manufacturing	39,629	120	39,749
Energy & Utilities	10,210	-	10,210
Financial Institutions	32,926	-	32,926
Health and Care	19,338	198	19,536
Information Technology	25,171	6	25,177
Sub-total equity	**176,185**	**463**	**176,648**
Debt securities (corporate bonds non-investment grade)	**23,964**	**1**	**23,965**
Private equity	**-**	**91,268**	**91,268**
Real estate (UK property)	**-**	**69,153**	**69,153**
Investment funds and unit trusts:			
Equities	216,922	18,803	235,725
Bonds	33,401	55,027	88,428
Commodities	383	-	383
Other	-	979	979
Sub-total investment funds and unit trusts	**450,855**	**235,694**	**686,549**
Derivatives – other	**16**	**-**	**16**
Cash and cash equivalents (all)	**39,319**	**37,892**	**77,211**
Totals	**490,190**	**273,586**	**763,776**

At 31 March 2017

Asset category	Quoted Prices in Active Markets £000	Prices not quoted in Active Markets £000	2016-2017 Total £000
Cash and cash equivalents			
Equity instruments:			
Consumer	70,334	4	70,338
Manufacturing	55,710	117	55,827
Energy and utilities	22,102	-	22,102
Financial institutions	51,753	1	51,754
Healthcare	30,243	4	30,247
Information technology	42,762	15	42,777
Sub-total equity	**272,904**	**141**	**273,045**
Debt securities (corporate bonds non-investment grade)	**-**	**7**	**7**
Private equity	**-**	**61,315**	**61,315**
Real estate (UK property)	**-**	**89,701**	**89,701**
Investment funds and unit trusts:			
Equities	7,197	231,906	239,103
Bonds	-	41,754	41,754
Commodities	500	-	500
Other	938	9,146	10,084
Sub-total investment funds and unit trusts	**8,635**	**282,806**	**291,441**
Derivatives (other)	**62**	**-**	**62**
Derivatives – Foreign Exchange	**-**	**99**	**99**
Cash and cash equivalents (all)	**26,775**	**1,236**	**28,011**
Totals	**308,376**	**435,305**	**743,681**

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 full valuation of the Fund at 31 March 2018. The significant assumptions used by the actuary have been:

Mortality assumptions:	**2017-2018**	**2016-2017**
Longevity at 65 for current pensioners		
Male	21.4	22.1
Female	23.7	23.6
Longevity at 65 for future pensioners		
Male	23.4	24.8
Female	25.8	26.2
Financial assumptions:		
Rate of inflation/pension increase rate	2.40%	2.40%
Rate of increase in salaries	3.60%	4.40%
Rate for discounting scheme liabilities	2.70%	2.60%

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 change, while all the other assumptions remain constant.

Change in assumption at 31 March 2018	**Approximate % increase to Employer Liability**	**Approximate monetary amount £000**
0.5% decrease in real discount rate	9%	77,932
0.5% increase in the salary increase rate	2%	14,889
0.5% increase in the pension increase rate	7%	61,625

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 78% and 6%. 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 2017-2018 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 2019 is £13.353m.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 a 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 2012. The next valuation will be as at 31 March 2016 and this will set contribution rates from 1 April 2019.
- 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 2015 was 14.9% of pensionable pay. This was increased to 17.2% from 1 September 2015. While the employee rate applied is a variable it will provide an actuarial yield of 9.6% of pensionable pay.
  iv) At the last valuation a shortfall of £1.3billion was identified in the notional fund which will be repaid by a supplementary rate of 4.5% of employer's pension contributions for fifteen years from 1 April 2015. This contribution is included in the 17.2% employer's contribution rate.
  v) Contributions collected in the year to 31 March 2018 will be published in November 2018.

The Council paid £7.242m (£7.099m 2016-2017) for employer's contributions. As a proportion of the total contributions into the Teachers Superannuation Scheme during the year ended 31 March 2017 (£409.8m), the Council's own contributions paid for the period ending 31 March 2018 equates to approximately 1.77%.

Note 32: Contingent assets and liabilities

The Council has received notice of several potential insurance and other claims during 2017-2018. 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.

Following a recent ruling by the Court of Justice of the European Union (CJEU) in relation to VAT on sports service, a VAT recovery claim is being prepared for submission to HMRC. There is a degree of uncertainty regarding the outcome of this claim however the Council recognises a contingent asset for the potential recoveries receivable.

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 reporting; 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 surplus 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 Investment Strategy for 2017-2018 was approved by Council on 3 March 2017 and is available on the Council's website.

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by South Ayrshire Council.

The Council's maximum exposure to credit risk in relation to its cash investments in banks and building societies of £57.100m 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 2018 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 it's counterparties in relation to deposits.

The Council's gross debtor (excluding council tax and non-domestic rate income) was £22.643m against which a provision of £5.097m 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 uncollectability.

The Council does not generally allow credit for customers, such that £3.785m of the £22.643m balance is past its due date for payment. The past due amount can be analysed by age as follows:

	2017-2018	**2016-2017**
	£000	**£000**
Less than three months	741	1,440
Three to six months	382	760
Six months to one year	1,539	1,804
More than one year	1,123	3,127
	3,785	**7,131**

Liquidity Risk

The Council manages its liquidity position through the risk management procedures within its setting 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 which seeks to ensure cash liquidity is available as required.

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 combined with prudent planning and timing of new loans taken out.

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

	Maturity limit	Maturing debt	Actual	Actual
	%	%	2017-2018	2016-2017
			£000	£000
Less than one year	25	25	52,636	39,416
Between one and two years	25	3	7,489	2,636
Between two and five years	50	2	3,778	4,218
Between five and ten years	75	6	12,204	12,849
More than ten years	90	64	130,186	131,589
Principal element of borrowing		**100**	**206,293**	**190,708**

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.

To illustrate the financial impact of interest changes on the Council, the following tables show the financial effect if interest rates had been 1% higher at 31 March 2018.

	Actual 2017-2018 £000	**Actual 2016-2017 £000**
Increase in interest payable on variable rate borrowings	687	474
Increase in interest receivable on variable rate investments	(441)	(350)
	246	**124**

Other presentational changes	**Actual 2017-2018 £000**	**Actual 2016-2017 £000**
Decrease in "fair value" of fixed rate borrowing liabilities (no impact on surplus or deficit on the provision of services)	**33,851**	**34,155**

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Price Risk

The Council does not generally invest in equity shares but does have a shareholding to the value of £0.767m in Freeport (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 £0.767m shares are all classified as 'available for sale', meaning that all movements in price will impact on gains and losses recognised in the Comprehensive Income and Expenditure Statement.

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 Assumption

Note 1: Significant accounting policies

1. General principles

The Annual Accounts summarise the Council's transactions for the 2017-2018 financial year and its financial position at the year end of 31 March 2018. 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 2017-2018* 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 the sale of goods or the provision of services is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser or can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- 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 into two types:

- ***Loans and receivables:*** Assets that have fixed or determinable payments but are not quoted in an active market
- ***Available–for-sale assets:*** Assets that have a quoted market price and/or do not have fixed or determinable payments

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council 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 line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For the Council's short term deposits and most of its other lending, this means that the amount presented in the Balance Sheet is the outstanding principal receivable plus accrued interest, and interest credited to the Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement for the present value of the interest that will be forgone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the organisation, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year. The reconciliation of amounts debited and credited to the Comprehensive income and Expenditure Statement to the net gain 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.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains or losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.

Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Available-for-sale assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices – the market price;
- other instruments with fixed and determinable payments – discounted cash flow analysis; and
- equity shares with no quoted market prices – appraisal of company valuation.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

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

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain or loss is recognised in the Surplus or Deficit on Revaluation of Available-for-sale Financial Asset. The exception is where impairment losses have been incurred. These are debited to the Financing and Investing Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

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.

Costs associated with debt restructuring (premiums and discounts) are charged to the Financing and Investment Income and Expenditure line in the Income and Expenditure Account in the year of extinguishment of the original debt in accordance with accounting regulations.

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 benefitting 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.

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 finance initiative

Public Finance initiative (PFI) 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 and the new Ayr Academy opened in 2017-18, under the contract 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 2: 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 2018-2019 Code:

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

The Code requires implementation from 1 April 2018 however based on an assessment of the accounting standards, there is no impact on the 2017-18 financial statements.

Note 3: Critical judgements in applying accounting policies

In applying the Significant Accounting Policies set out in Note 1 Section 6 to these accounts on pages 60 to 71, 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:

- 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.
- The Council has entered into several Public Private Partnerships agreements for the provision of educational buildings, their maintenance and related facilities. The Council is deemed to control the services provided under the agreement and ownership of the schools will pass to the Council at the end of the contract for no additional charge. The assets used to provide services are recognised on the Council's Balance Sheet.
- The Council has considered its exposure to possible losses and made adequate provision where it is probable that an outflow of resources will be required and the amount of the obligation 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.
- The Council has entered into commercial lease agreements, both as landlord and tenant for land and buildings on a variety of lease terms. These arrangements are accounted for as operating leases. The Council has considered the tests under IAS17 and concluded that there is no transfer of the risks and rewards of ownership.
- The Council has no investment properties. All property, plant and equipment are used in the delivery of services, either for administrative purposes or as part of the Council's strategy for economic development in South Ayrshire.
- Unused holiday entitlement earned at 31 March 2018 but not taken at that date has been quantified on the basis of a 5% sample of all non-term-time council employees. The calculation in respect of unused holidays for term time staff in schools is based on actual leave entitlement earned as at 31 March and no estimation is required for these staff. The liability included in the 2017-2018 financial statements in respect of this is £3.973m.

Note 4: 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 2018, for which there is a significant risk of material adjustment in the forthcoming financial year, are as follows:

Employee related and Insurance claims

Uncertainties: The Council has made provisions for the potential outcome of outstanding employee related claims and other potential insurance claims made against the Council.

Effect if the results differ from assumptions: If the estimation is understated or additional claims are received then further funding may be required.

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 £77.932m in the pension liability.

Property, plant and equipment

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.

Uncertainties: Council dwellings are valued at fair value, determined using the basis of existing use value for social housing (EUV-SH). The introduction of International Financial Reporting Standards requires that council dwellings are initially valued at market value and thereafter adjusted for the difference between private sector rental values and those rentals charged by the Council.

Effect if results differ from assumptions: Asset valuations could be misstated.

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.

Bad debts

Uncertainties: At 31 March 2018, the Council had a balance of gross debtors (excluding council tax and non-domestic rate income) of £22.643m. A review of significant balances suggested that an allowance for doubtful debts of £5.097m representing 22.5% was appropriate.

Effect if results differ from assumptions: In terms of financial modelling a 1% increase in the allowance would lead to an additional cost to the Council of £0.224m.

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. Elements of the report are subject to audit (indicated where applicable) by the Council's external auditor, Deloitte LLP.

Introduction

The remuneration report has been prepared in accordance with the Local Authority Accounts (Scotland) Regulations 1985 (as amended by the Local Authority (Scotland) Amendment Regulations 2011). 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 have been 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 2017 and came in to force on 4 May 2017. 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 2017-2018 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 2017-2018, including the Leader, Provost, Depute Provost and Senior Councillors was agreed at a meeting of the South Ayrshire Council on 18 May 2017. 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 2017-2018 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	Non-cash expenses & benefits-in-kind	**2017-2018 Total remuneration**	**2016-2017 Total remuneration**
		£	£	**£**	**£**
*D Campbell	Leader of the Council	31,678	-	**31,678**	**16,893**
***H Moonie	Provost	25,086	-	**25,086**	**25,341**
*I Cochrane	Senior Councillor (2)	21,999	-	**21,999**	**16,893**
*P Henderson	Senior Councillor (2)	20,432	-	**20,432**	**-**
" W Grant	Senior Councillor (2)/Depute Provost	20,039	-	**20,039**	**16,893**
*J Dettbarn	Senior Councillor (2)	20,432	-	**20,432**	**-**
***P Saxton	Senior Councillor (2)	22,507	-	**22,507**	**22,717**
***M Toner	Senior Councillor (2)	17,433	-	**17,433**	**22,408**
*A Clark	Senior Councillor (1)	20,039	-	**20,039**	**16,893**
*B Connolly	Senior Councillor (1)	20,039	-	**20,039**	**16,893**
*H Hunter	Senior Councillor (1)	20,039	-	**20,039**	**16,893**
****C MacKay	Senior Councillor (1)	18,212	-	**18,212**	**-**
***I Cavana	Senior Councillor (1)	20,344	-	**20,344**	**20,304**
***P Convery	Senior Councillor (1)	20,344	-	**20,344**	**20,181**
**M Kilpatrick	Senior Councillor (1)/Depute Provost	17,230	-	**17,230**	**20,181**
***B McGinley	Senior Councillor (2)	22,304	-	**22,304**	**20,181**
* W McIntosh	Left – 04/05/17	3,135	-	**3,135**	**33,789**
** B Grant	Left – 04/05/17	2,075	-	**2,075**	**22,366**
**J McDowall	Left – 04/05/17	2,075	-	**2,075**	**22,366**
**R Miller	Left – 04/05/17	2,075	-	**2,075**	**22,366**
**R Reid	Left – 04/05/17	2,075	-	**2,075**	**22,366**
**K Darwent	Left – 04/05/17	1,872	-	**1,872**	**20,181**
**A Galbraith	Left – 04/05/17	1,872	-	**1,872**	**20,181**
**J Hampton	Left – 04/05/17	1,872	-	**1,872**	**20,181**
		355,208	-	**355,208**	**436,467**

**denotes now holds the post of Leader of the Council, Depute Provost, Senior Councillor (2) and Senior Councillor (1) following the local election in May 2017*

***denotes no longer holds the post of Leader of the Council, Depute Provost, Senior Councillor (2) or Senior Councillor (1) following the local election May 2017*

****denotes part year the post held as Councillor from 04/05/17-18/05/17 following the local election May 2017*

*****C MacKay- start date 04/05/17 following the local election May 2017* *(i) –Full post title and responsibilities relating to each councillor can be found in the Members' Allowances and Expenses Paid 2017-2018 Annual Return which is available on the Council's website.*

(ii) –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.

	2017-2018	2016-2017
	£	£
Salaries	556,112	587,990
Expenses	24,090	27,935
	580,202	**615,925**

The annual return of councillors' salaries and expenses for 2017-2018 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)

	Year ended 31 March 2018				2016-2017
Name & post	Gross salary & allowances	Taxable expenses	Non-cash expenses & benefits-in-kind	**Total Remuneration**	**Total Remuneration**
	£	£	£	**£**	**£**
E Howat – Chief Executive	130,422	-	-	**130,422**	**130,224**
V Andrews - Executive Director - Resources, Governance & Organisation	111,232	-	-	**111,232**	**110,930**
L Bloomer - Executive Director - Economy, Neighbourhood & Environment	109,111	-	-	**109,111**	**109,430**
T Eltringham - Director of Health & Social Care Partnership	110,547	-	-	**110,547**	**109,770**
D Hutchison - Director of Educational Services	98,453	-	-	**98,453**	**95,059**
M Baker - Head of Policy and Performance	80,008	-	-	**80,008**	**78,903**
A McGregor – Chief Internal Auditor	16,258 (full year equivalent £50,425)	-	-	**16,258**	**-**
M Leonard - Audit Services – Acting Programme Review Manager	42,693 (full year equivalent £51,939)	-	-	**42,693**	**50,722**
	698,724	-	-	**698,724**	**685,038**

(i) A McGregor – Chief Internal Auditor (Temporary) started employment 4 December 2017
(ii) M Leonard – Acting Programme Review Manager ended this temporary role on 31 August 2017.

The above table includes election fees: E Howat £1,900, V Andrews £1,900, M Baker £300.

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 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	2017-2018	2016-2017
	£	£
D Bell - Managing Director of Ayr Renaissance LLP	**79,708**	**78,903**

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 Employees 2017-2018	Number of Employees 2016-2017
£50,000 - £54,999	46	66
£55,000 - £59,999	38	31
£60,000 - £64,999	6	4
£65,000 - £69,999	3	4
£70,000 - £74,999	1	1
£75,000 - £79,999	10	13
£80,000 - £84,999	1	2
£85,000 - £89,999	1	-
£90,000 - £94,999	1	-
£95,000 - £99,999	-	1
£100,000 - £104,999	1	-
£105,000 - £109,999	2	3
£120,000 - £124,999	1	-
£125,000 - £129,999	1	1
	112	**126**

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 1/49th 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 2017-18 were as follows:

Full time pay	**Contribution rate 2017-2018**
On earnings up to £20,700	5.50%
On earnings above £20,700 and up to £25,300	7.25%
On earnings above £25,300 and up to £34,700	8.50%
On earnings above £34,700 and up to £46,300	9.50%
On earnings above £46,300	12.00%

Full time pay	**Contribution rate 2016-2017**
On earnings up to £20,500	5.50%
On earnings above £20,500 and up to £25,000	7.25%
On earnings above £25,000 and up to £34,400	8.50%
On earnings above £34,400 and up to £45,800	9.50%
On earnings above £45,800	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 1/49th of actual pensionable salary received and years of pensionable service (prior to 2015 the actual rate guaranteed a pension based on 1/60th of final pensionable salary and years of pensionable service; prior to 2009 the actual rate guaranteed based on 1/80th and a lump sum based on 3/80th of final pensionable salary and years of pensionable service).

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

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 2018 are shown in the table below, together with the contribution made by the Council to each senior councillor's pension during the year.

		In-year pension contributions			Accrued pension benefits	
Name	**Post title**	**For year to 31 March 2018**	**For year to 31 March 2017**		**As at 31 March 2018**	**Difference from 31 March 2017**
		£	£		£	£
*D Campbell	Leader of the Council	6,114	-	Pension	4,146	4,146
				Lump sum	1,632	1,632
***H Moonie	Provost	4,842	4,891	Pension	4,354	492
				Lump sum	1,698	65
*I Cochrane	Senior Councillor (2)	4,246	-	Pension	2,210	2,210
				Lump sum	-	-
**B Grant	Senior Councillor (2)	400	4,317	Pension	2,050	527
				Lump sum	-	-
*W Grant	Senior Councillor (2)/ Depute Provost	3,867	-	Pension	2,198	2,198
				Lump sum	-	-
*P Henderson	Senior Councillor (2)	3,943	-	Pension	397	397
				Lump sum	-	-
***B McGinley	Senior Councillor (2)	4,305	3,895	Pension	2,286	468
				Lump sum	-	-
**R Miller	Senior Councillor (2)	400	4,317	Pension	2,056	42
				Lump sum	-	-
**R Reid	Senior Councillor (2)	400	4,317	Pension	2,050	47
				Lump sum	-	-
***P Saxton	Senior Councillor (2)	4,344	4,317	Pension	3,886	488
				Lump sum	1,495	60
**M Toner	Senior Councillor (2)	-	3,503	Pension	3,793	(513)
				Lump sum	1,707	(27,001)
***I Cavana	Senior Councillor (1)	3,926	3,895	Pension	3,887	536
				Lump sum	1,503	44
*A Clark	Senior Councillor (1)	3,867	-	Pension	2,047	2,047
				Lump sum	-	-
*B Connolly	Senior Councillor (1)	3,867	-	Pension	2,047	2,047
				Lump sum	-	-
**K Darwent	Senior Councillor (1)	361	3,895	Pension	1,891	73
				Lump sum	-	-
*J Dettbarn	Senior Councillor (1)	3,943	-	Pension	397	397
				Lump sum	-	-
*H Hunter	Senior Councillor (1)	3,867	-	Pension	4,108	4,108
				Lump sum	1,535	1,535
**M Kilpatrick	Senior Councillor (1)	3,325	3,895	Pension	3,973	462
				Lump sum	1,566	15
****C MacKay	Senior Councillor (1)	3,514	-	Pension	536	536
				Lump sum	-	-
		59,531	**41,242**		**59,448**	**(2,942)**

**denotes now holds the post of Leader of the Council, Depute Provost, Senior Councillor (2) or Senior Councillor (1) following the local election May 2017*

***denotes no longer holds the post of Leader of the Council Depute Provost, Senior Councillor (2) or Senior Councillor (1) following the local election May 2017*

****denotes part year the post held as Councillor from 04/05/17 – 18/05/17 following the local election May 2017*

*****C MacKay – start date 04/05/17 as Councillor, Senior Councillor (1) from 14/06/17*

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.

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 2018 are shown in the table below, together with the contribution made by the Council to each senior employee's pension during the year.

	In-year pension contributions			Accrued pension benefits	
Name & Post	**For year to 31 March 2018**	**For year to 31 March 2017**		**As at 31 March 2018**	**Difference from 31 March 2017**
	£	**£**		**£**	**£**
E Howat – Chief Executive	25,171	24,844	Pension	60,787	3,423
			Lump Sum	119,182	1,180
V Andrews - Executive Director – Resources, Governance & Organisation	20,888	21,120	Pension	29,745	6,788
			Lump Sum	72,929	50,349
L Bloomer - Executive Director - Economy, Neighbourhood & Environment	20,888	21,120	Pension	36,803	6,858
			Lump Sum	108,173	56,367
T Eltringham - Director of Health & Social Care Partnership	21,336	21,120	Pension	51,619	2,900
			Lump Sum	100,867	999
D Hutchison - Director of Educational Services	19,001	18,346	Pension	9,015	2,254
			Lump Sum	-	-
M Baker - Head of Policy and Performance	15,384	15,228	Pension	17,339	1,894
			Lump Sum	13,545	134
A McGregor – Chief Internal Auditor (Temporary) (i)	3,305	-	Pension	300	300
			Lump Sum	-	-
M Leonard - Audit Services – Acting Programme Review Manager (ii)	8,585	9,789	Pension	21,084	(1,305)
			Lump Sum	40,824	(5,207)
	134,558	131,567		682,212	126,934

(i) A McGregor – Chief Internal Auditor (Temporary) started employment 04/12/17.

(ii) M Leonard – Acting Programme Review Manager ended this temporary role on 31/08/17

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 2018	For year to 31 March 2017		As at 31 March 2018	Difference from 31 March 2017
	£	£		£	£
D Bell - Managing Director of Ayr Renaissance LLP	17,595	17,516	Pension	13,097	1,852
			Lump Sum	360	4
	17,595	**17,516**		**13,457**	**1,856**

Exit packages of employees (subject to audit)

The table below sets out the number and costs of exit packages for both 2017-2018 and 2016-2017 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)	2017-2018 Number of exit packages	2017-2018 Cost	2017-2018 Notional CAY cost	2016-2017 Number of exit packages	2016-2017 Cost	2016-2017 Notional CAY cost
		£	£		£	£
£0 - £20,000	51	198,327	-	40	243,725	-
£20,001 - £40,000	4	122,160	-	5	117,524	26,425
£40,001 - £60,000	4	170,994	32,085	4	158,886	32,326
£60,001 - £80,000	5	299,706	65,015	7	481,390	342,956
> £80,001	10	1,386,474	436,842	-	-	-
Total	**74**	**2,177,661**	**533,942**	**56**	**1,001,525**	**401,707**

There were no compulsory redundancies during 2017-2018 or 2016-2017.

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:

Number 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	Number	FTE
0%	-	-
1 – 50%	46	31.45
51 – 99%	-	-
100%	-	-
	46	**31.45**

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 0.2%. Approximately 28% 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.

Eileen Howat
Chief Executive
26 September 2018

Councillor Douglas Campbell
Leader of the Council
26 September 2018

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 2018

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.

2016-17 £000	Expenditure		2017-18 £000
10,309	Repairs and maintenance	11,134	
5,784	Supervision and management	6,197	
1,590	Depreciation and impairment of fixed assets	13,473	
1,322	Other expenditure	1,428	
159	Increase in bad debt provision	257	
19,164	**Total expenditure**		**32,489**
	Income		
(30,232)	Dwelling rents	(30,819)	
(430)	Non dwelling rents	(409)	
(931)	Other income	(1,015)	
(31,593)	**Total income**		**(32,243)**
125	HRA share of Corporate and Democratic Core		115
(12,304)	**Net (income)/expenditure from HRA service as included in the Council Comprehensive Income and Expenditure statement**		**361**
	Other Operating Expenditure		
(368)	(Gain) or loss on sale of HRA non-current assets		22
2,731	Interest payable and similar charges		2,340
(106)	Interest and investment income		(115)
148	Net interest on the net defined benefit liability		169
(3,051)	Non-specific grant income		(929)
(12,950)	**(Surplus)/Deficit for the year on HRA services**		**1,848**

II) Movement on the HRA Statement for the year ended 31 March 2018

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.

2016-2017 £000		2017-2018 £000
(9,912)	**Balance on the HRA at the end of the previous year**	**(13,773)**
(12,950)	(Surplus) or deficit for the year on the HRA Income and Expenditure Statement	1,848
9,089	Adjustments between accounting basis and funding basis under statute*	328
(3,861)	**Net (Increase)/Decrease in HRA balance**	**2,176**
(13,773)	**Balance on the HRA at the end of the current year**	**(11,597)**

*Represents net movement of all adjustments

Note 1: Provisions

A provision of £0.540m (2016-2017: £0.571m) is included in the Balance Sheet for doubtful debts in respect of mainstream housing rents. During 2017-2018, a total of £0.197m was written off in respect of housing rent arrears. A further provision of £0.265m (2016-2017: £0.213m) is included in the Balance Sheet for doubtful debts in respect of homeless arrears. During the year, a total of £0.037m was written off in respect of homeless arrears.

Note 2: Accommodation

At 31 March 2018, the Council held various types of accommodation and had the following number and types of houses:

	2017-2018	2016-2017
Type of accommodation		
One and two apartment	2,492	2,469
Three apartment	3,448	3,451
Four apartment	1,972	1,985
Five or more apartment	170	170
	8,082	**8,075**

Note 3: Rent arrears & Void property lost rent

At 31 March 2018, rent arrears amounted to £1.044m (2016-2017 £1.023m), being 3.22% (2016-2017 3.21%) of gross rent collectable. The rental income lost due to void properties amounted to £0.494m in 2017-2018 (2016-2017 £0.599m).

Note 4: HRA surplus/ (deficit)

The deficit for the year of £2.176m, when combined with the accumulated surplus brought forward from 2016-2017 of £13.773m, results in a final 2017-18 accumulated surplus of £11.597m at 31 March 2018. £10.187m is required to fund specific capital and revenue projects in future years leaving an uncommitted balance of £1.410m 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 authority.

Council Tax Income Account

2016-2017 £000		2017-2018 £000
64,025	Gross council tax levied and contributions in lieu	69,738
	Deduct :	
(7,838)	Council tax benefits/reduction (net of government grants)	(8,144)
(7,816)	Other discounts and reductions	(8,369)
(1,352)	Write off of uncollectable debts and allowances for impairment	(1,473)
47,019	**In year council tax income**	**51,752**
98	Adjustment to prior years' council tax	287
47,117	Transfer to General Fund	**52,039**

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. Discounts of 50 per cent are made for unoccupied property. In certain circumstances, individuals may be exempt for council tax purposes. Individuals in detention, students and people with mental health issues are some examples where council tax would not be applicable. Reductions in council tax payable are also granted for disabled people.

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

Valuation band	2017-18 Charge per band £
A	792.38
B	924.44
C	1,056.51
D	1,188.57
E	1,561.65
F	1,931.43
G	2,327.62
H	2,912.00

Councils can vary the rate of council tax discount for unoccupied homes within their area in accordance with the Council Tax (Discount for Unoccupied Dwellings) (Scotland) Regulations 2004. The Council agreed to grant a discount of 25 per cent to second homes and long term empty properties from 1 September 2005. Previously the discount awarded was 50 per cent and since 1 April 2011 the discount was set at 10 per cent. The additional council tax income collected due to the reduced level of discount requires to be transferred for the provision of new-build, affordable social housing in areas determined by the Council.

Additional income of £1.580m is included within the general fund and earmarked for use in relation to the affordable homes strategy.

Note 2: Calculation of the Council Tax charge base 2017-2018

	Valuation band								
Council tax band	**A**	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**Total**
Total number of properties	7,289	12,629	8,863	8,395	9,552	4,882	3,071	291	**54,972**
Less exemptions/deductions	325	427	283	208	174	77	42	4	**1,540**
Less adjustment for single discount	1,000	1,328	867	690	670	260	130	5	**4,950**
Less adjustment for double discount	94	137	119	86	99	52	28	7	**622**
Reduction in tax base due to Council Tax Reduction	2,673	3,064	1,511	660	385	98	26	1	**8,418**
Effective number of properties	**3,197**	**7,673**	**6,083**	**6,751**	**8,224**	**4,395**	**2,845**	**274**	**39,442**
Band D equivalent factor (D)	**240**	**280**	**320**	**360**	**473**	**585**	**705**	**882**	
Band D equivalent number of properties	2,131	5,968	5,407	6,751	10,805	7,142	5,572	671	**44,447**
Class 17 & 24 dwellings	-	-	-	9	-	-	-	-	**9**
Total	**2,131**	**5,968**	**5,407**	**6,760**	**10,805**	**7,142**	**5,572**	**671**	**44,456**
Less provision for non-collection 2.75 per cent (adjusted for impact of Council Tax Reduction)									1,257
Council tax base 2017-2018									**43,199**

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.

2016-2017		2017-2018
£000		**£000**
56,992	Gross rates levied and contributions in lieu	57,500
	Deduct :	
(12,863)	Reliefs and other deductions	(13,632)
(883)	Write-off of uncollectable debts and allowance for impairment	(877)
43,246	**Net non-domestic rate income**	**42,991**
(800)	Adjustment to previous years' national non-domestic rates	(1,493)
42,446	**Total non-domestic rate income**	**41,498**
	National non-domestic rate pool:	
40,785	Non-domestic rate income retained by the authority	39,756
(42,446)	Contribution (to)/ from national non-domestic rate pool	(41,498)
(1,661)		**(1,742)**

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 2017-2018

Commercial subjects	**Number**	**Rateable Value £000**
Shops	1,401	37,650
Public houses	114	3,223
Offices (Including banks)	748	9,163
Hotels, boarding houses, etc.	88	4,476
Industrial and freight transport subjects	934	18,166
Leisure, entertainment, caravans and holiday sites	506	5,814
Garages and petrol stations	89	1,243
Cultural	31	581
Sporting subjects	149	646
Education and training	69	9,329
Public service subjects	181	5,396
Communications (non-formula)	17	1,873
Quarries, mines etc.	8	388
Petrochemical	4	63
Religious	90	1,082
Health medical	88	4,171
Other	177	1,105
Care facilities	53	2,649
Advertising	36	70
Undertaking	21	2,345
Total all subjects	**4,804**	**109,433**

Rate levied 2017-2018:
Rateable value greater than £51,000 – 49.20p, less than or equal to £51,000 – 46.60p

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 details of each entity are detailed in the notes to the Group Accounts on pages 88 to 90. The subsidiary, associate and joint venture entities share a common accounting period ending 31 March 2018.

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. Ayr Renaissance LLP is operated by an independent board whose function is to deliver the Council's regeneration strategy for Ayr Town Centre. The board consists of nine members in total; four Council members and five private sector members. Currently the Council members are the Chief Executive and three councillors.

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 £37.393m, 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 20 to 24.

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 25 to 73. 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 1 Section 6 to these accounts on pages 60 to 71.

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 20 to 24, 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. All required disclosures are detailed on pages 91 to 92 of these Accounts.

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 2017-2018, South Ayrshire Council contributed £1.767m or 4.82% of the Board's estimated running costs. Its share of the year-end net asset of £15.849m (2016-2017 £9.051m) 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, Consort House,12 West George Street, Glasgow G2 1HN.

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 2017-2018, South Ayrshire Council contributed £0.259m or 6.21% of the Board's estimated running costs. It's share of the year-end net asset of £0.097m (2016-2017 £0.105m) 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, Consort House, 12 West George Street, Glasgow G2 1HN.

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 2016-2017, South Ayrshire Council contributed £0.697m or 33.33% of the Board's estimated running costs. It's share of the year-end net asset of £0.571m (2016-2017 £0.248m – net liability) 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 Chief Executive of South Ayrshire Council sits on the board along with three councillors and five private sector members. The organisation's running costs are met by South Ayrshire Council by way of an annual revenue contribution. South Ayrshire Council contributed £0.224m for running costs and £0.730m as a capital grant during 2017-2018.

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 £73.359m or 34.4% of the Boards income in 2017-2018.

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 2017-2018

	Common Good fund	Strathclyde Passenger for Transport	Strathclyde Concessionary Travel Scheme	Ayrshire valuation Joint board	Ayr Renaissance LLP	South Ayrshire IJB
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Share of assets	16,610	18,700	153	613	4,553	-
Share of liabilities	(64)	(2,851)	(56)	(42)	(223)	-
Share of revenues	(665)	(6,798)	(259)	(748)	(224)	73,359
Share of (surplus)/deficit	(9)	(4,402)	8	107	-	(484)

Share of Subsidiary and Associate - Assets and Liabilities 2016-2017

	Common Good fund	Strathclyde Passenger for Transport	Strathclyde Concessionary Travel Scheme	Ayrshire Valuation Joint Board	Ayr Renaissance LLP	South Ayrshire IJB
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Share of assets	16,571	13,642	169	361	3,312	-
Share of liabilities	(16)	(4,591)	(64)	(609)	(231)	-
Share of revenues	(701)	(3,920)	(264)	(777)	(459)	68,401
Share of (surplus)/deficit	238	(1,040)	(1)	57	-	(640)

Note 4: Contingent liabilities

At 31 March 2018 the Council had no share of contingent liabilities in any of its associate entities.

Section 12: Common Good Fund

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 2018

2017-2018	Revenue reserve	Capital receipts reserve	**Total usable reserve**	Revaluation reserve	**Total unusable reserve**	**Total reserves**
	£000	£000	**£000**	£000	**£000**	**£000**
Balance at 31 March 2017	357	1,071	**1,428**	15,128	**15,128**	**16,556**
Movement in reserves during 2017-2018						
Surplus or (deficit) on the provision of services	9	-	**9**	-	**-**	**9**
Other comprehensive income and expenditure	-	(151)	**(151)**	132	**132**	**(19)**
Increase/(decrease) in 2017-2018	9	(151)	**(142)**	132	**132**	**(10)**
Balance at 31 March 2018	366	920	**1,286**	15,260	**15,260**	**16,546**

2016-2017	Revenue reserve	Capital receipts reserve	**Total usable reserve**	Revaluation reserve	**Total Unusable reserve**	**Total reserves**
	£000	£000	**£000**	£000	**£000**	**£000**
Balance at 31 March 2016	595	1,109	**1,704**	16,405	**16,405**	**18,109**
Movement in reserves during 2016-2017						
Surplus or (deficit) on the provision of services	(238)	-	**(238)**	-	**-**	**(238)**
Other comprehensive income and expenditure	-	(38)	**(38)**	(1,277)	**(1,277)**	**(1,315)**
Increase/(decrease) in 2016-2017	(238)	(38)	**(276)**	(1,277)	**(1,277)**	**(1,553)**
Balance at 31 March 2017	357	1,071	**1,428**	15,128	**15,128**	**16,556**

II) Common Good Income and Expenditure Account for the year ended 31 March 2018

2016-2017		**Ayr**	**Troon**	**Prestwick**	**Maybole**	**Girvan**	**2017-2018**
£000		**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
	Expenditure						
612	Property costs	545	-	30	-	44	**619**
280	Donations and contributions	1	-	-	-	-	**1**
47	Other expenditure	36	-	-	-	-	**36**
939		**582**	**-**	**30**	**-**	**44**	**656**
	Income						
691	Rents and other income	589	-	25	-	44	**658**
10	Interest on loans	6	-	1	-	-	**7**
701		**595**	**-**	**26**	**-**	**44**	**665**
(238)	**Surplus/(deficit) for year**	**13**	**-**	**(4)**	**-**	**-**	**9**
595	Surplus brought forward	49	33	264	2	9	**357**
357	**Accumulated surplus**	**62**	**33**	**260**	**2**	**9**	**366**

III) Common Good Balance Sheet as at 31 March 2018

31 March 2017		31 March 2018
£000		£000
15,335	Long term assets	15,467
175	Long term investments	108
15,510	**Non-current assets**	**15,575**
2	Inventory	2
20	Debtors and prepayments	20
1,039	Loans fund investment	1,013
1,061	**Current assets**	**1,035**
(15)	Creditors	(64)
(15)	**Current liabilities**	**(64)**
16,556	**Net assets**	**16,546**
1,428	Usable Reserves - Revenue and Capital reserves	1,286
15,128	Unusable Reserve - Revaluation Reserve	15,260
16,556	**Net reserves**	**16,546**

Note 1: Valuation of fixed assets

Property valuations were carried out by RICS professional staff within the Council's Directorate of Place and are at valuation dates between 2013-2014 and 2017-2018, dependent on the category of asset.

Note 2: Movement in fixed assets

2017-2018 Movements	**Ayr**	**Prestwick**	**Troon**	**Girvan**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
Value as 1 April 2017	**14,594**	**699**	**31**	**11**	**15,335**
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Revaluations and impairments	137	(5)	-	-	132
Value as at 31 March 2018	**14,731**	**694**	**31**	**11**	**15,467**

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 fixed assets and the valuations adjusted for disposals.

Section 13: Trust Funds

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 2018 was 56; 51 of which are under the control of South Ayrshire Councillors (ex-officio) and 5 which are controlled in part by external trustees. The following tables summarise the trusts which are controlled only by South Ayrshire Councillors:

2016-2017		Registered charitable trusts	Other trusts	2017-2018
£000	**Revenue accounts**	**£000**	**£000**	**£000**
1,050	Opening balance	625	257	882
9	Income for year	4	4	8
(177)	Expenditure during year	(124)	(8)	(132)
882	**Closing balance**	**505**	**253**	**758**
	Balance Sheet as at 31 March			
	Assets			
94	Investments	19	77	96
922	Current assets	509	288	797
1,016	**Total assets**	**528**	**365**	**893**
	Reserves			
882	Revenue	505	253	758
41	Available for sale financial instrument reserve	3	39	42
93	Capital reserve	20	73	93
1,016	**Total reserves**	**528**	**365**	**893**

The table below provides information on the original purpose of various trusts or bequests and the value of investments held at 31 March 2018, 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.	467	16	483
South Ayrshire Council Charitable Trust (SC025088)	Various educational purposes; prizes/bursaries; social purposes; war memorial maintenance.	38	-	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
Total charitable trusts		**509**	**19**	**528**

Non-charitable Trusts

Name	Original Purpose	Loans Fund Investment £000	External Investment £000	Total £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.	173	77	250
Sundry Mortifications	Maintenance of lairs in perpetuity.	46	-	46
Various	Non-Charitable Trusts with closing balances of less than £25,000.	69	-	69
Total non-charitable trusts		**288**	**77**	**365**
Total trusts		**797**	**96**	**893**

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 2017 £000 Capital	31 March 2017 £000 Revenue	Income £000 Capital	Income £000 Revenue	Expenditure £000 Capital	Expenditure £000 Revenue	31 March 2018 £000 Capital	31 March 2018 £000 Revenue	31 March 2018 £000 Total
New SACT (SC045677)	16	586	-	4	-	123	16	467	483
South Ayrshire Council Charitable Trusts (SC025088)	4	35	-	-	-	1	4	34	38
McKechnie Trust (SC012759)	3	4	-	-	-	-	3	4	7
Total charitable trusts	**23**	**625**	**-**	**4**	**-**	**124**	**23**	**505**	**528**

Non-charitable Trusts

Capital and Revenue	31 March 2017 £000 Capital	31 March 2017 £000 Revenue	Income £000 Capital	Income £000 Revenue	Expenditure £000 Capital	Expenditure £000 Revenue	31 March 2018 £000 Capital	31 March 2018 £000 Revenue	31 March 2018 £000 Total
John McMaster Bursary Fund	75	178	1	4	-	8	76	174	250
Sundry Mortifications	20	26	-	-	-	-	20	26	46
Non-charitable trusts with a closing balance of less than £25,000	16	53	-	-	-	-	16	53	69
Total non-charitable trusts	**111**	**257**	**1**	**4**	**-**	**8**	**112**	**253**	**365**
Total	**134**	**882**	**1**	**8**	**-**	**132**	**135**	**758**	**893**

Other trusts and bequests

The Council also administers the funds of a further five trusts or bequests which are controlled in part by external trustees. The value held in these funds at 31 March 2018 amounts to £0.788m. These trusts or bequests are not included in the foregoing accounts and are not covered by the external audit certificate.

Section 14: Independent Auditor's Report

Independent auditor's report to the members of South Ayrshire Council and the Accounts Commission

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 2018 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the combined Group and Council only Movement in Reserves Statement, Comprehensive Income and Expenditure Statements, Balance Sheet, and Cash-Flow Statement, as well as the Housing Revenue Account, the Council Tax Income Account, and the Non-domestic Rate Account, the Common Good Fund, the Trust Funds 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 2017/18 (the 2017/18 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2017/18 Code of the state of affairs of the council and its group as at 31 March 2018 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 2017/18 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)). 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 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

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.

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 achieve 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.

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. 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.

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 approved by the Accounts Commission, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

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

26 September 2018

Section 15: Glossary of Terms

While the terminology used in this report is intended to be self-explanatory, it may be useful 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.

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.

Exceptional Items
Material items which derive from events or transactions that fall within the ordinary activities of the Council and which need to be disclosed separately by virtue of their size or incidence to give a fair presentation of the Annual Accounts.

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.

South Ayrshire Council
County Buildings
Wellington Square
Ayr
KA7 1DR

0300 123 0900
south-ayrshire.gov.uk