South Ayrshire Council

Report by Head of Finance, ICT and Procurement to Audit and Governance Panel (Special) of 23 November 2022

Subject: Final Report on the 2021/22 Audit

1. Purpose

1.1 The purpose of this report is to submit the Annual Accounts for the financial year ended 31 March 2022 and the proposed independent auditor's report to Members of the Council, and to allow the auditor to communicate the matters raised during the audit to the Panel.

2. Recommendation

2.1 It is recommended that the Panel:

2.1.1 considers the 2021/22 Annual Audit Report by Deloitte LLP (Annex 1), and notes that the Annual Accounts and Charitable Trust Accounts have an unmodified audit opinion;

2.1.2 approves the Council's audited Annual Accounts (Annex 2) for signature and their subsequent issue by 30 November 2022; and

2.1.3 approves the Charitable Trusts' audited Annual Accounts (Annex 3) for signature and their subsequent issue by 30 November 2022.

3. Background

3.1 Deloitte LLP undertook its audit of the 2021/22 Annual Accounts of South Ayrshire Council in accordance with the requirements of the Local Government (Scotland) Act 1973, and the Code of Audit Practice approved by Audit Scotland.

3.2 A full and separate audit is also required for each registered charity where Elected Members of South Ayrshire Council are sole trustees. Members of South Ayrshire Council are sole trustees for three charitable trusts with total assets of £0.139m.

3.3 The Audit and Governance Panel, as stated in the Scheme of Delegation, acts as the Audit Committee of the Council within the remit and powers as set out in detail in the Audit Committee Handbook approved by Council. This includes the receiving and considering all reports of the external auditors including reports relating to charitable trusts administered by the Council and of which Councillors are Trustees.

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4. Proposals

4.1 Recognised best practice requires the Council, or a committee thereof, to consider the draft Council Annual Accounts (refer to Annex 2) and the Charitable Trust Annual Accounts (refer to Annex 3) and the proposed independent auditor's report, and to approve a recommendation that the Head of Finance, ICT and Procurement, the Chief Executive and the Leader of the Council sign the accounts.

4.2 The auditors are required under International Standard on Auditing 260 to communicate matters relating to the audit of the financial statements to those charged with governance of a body (for South Ayrshire Council, this is the Audit and Governance Panel) to enable appropriate action to be taken (this document, known as the Annual Audit Report, is attached at Annex 1).

4.3 Key issues for Members, as identified by the auditors, are as follows:

4.3.1 There is an unmodified audit opinion in the proposed independent auditor's report for the Council and Charitable Trusts.

4.3.2 One uncorrected misstatement was identified, in relation to IAS 19 pension valuations. This misstatement is not considered material by the auditor but is above their reporting threshold.

4.3.3 The accumulated surplus at 31 March 2022 is £39.877m, with an uncommitted general fund balance of £5.903m. This accumulated surplus position remains unchanged from the figures reported to the Audit and Governance Panel (Special) on 28 June 2022.

5. Legal and Procurement Implications

5.1 There are no legal implications arising from this report.

5.2 There are no procurement implications arising from this report.

6. Financial Implications

6.1 Not applicable.

7. Human Resources Implications

7.1 Not applicable.

8. Risk

8.1 ***Risk Implications of Adopting the Recommendations***

8.1.1 There are no risks associated with adopting the recommendations.

8.2 ***Risk Implications of Rejecting the Recommendations***

8.2.1 If the accounts are not signed by the Accounts Commission deadline of, then this may result in significant reputational damage for South Ayrshire Council.

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9. Equalities

9.1 The proposals in this report have been assessed through the Equality Impact Assessment Scoping process. There are no significant potential positive or negative equality impacts of agreeing the recommendations and therefore an Equalities Impact Assessment is not required. A copy of the Equalities Scoping Assessment is attached as Annex 4.

10. Sustainable Development Implications

10.1 ***Considering Strategic Environmental Assessment (SEA)*** **-** This report does not propose or seek approval for a plan, policy, programme or strategy or document otherwise described which could be considered to constitute a plan, programme, policy or strategy.

11. Options Appraisal

11.1 An options appraisal has not been carried out in relation to the subject matter of this report.

12. Link to Council Plan

12.1 The matters referred to in this report contribute to Commitment 1 of the Council Plan: Fair and Effective Leadership/ Leadership that promotes fairness.

13. Results of Consultation

13.1 There has been no public consultation on the contents of this report.

13.2 Consultation has taken place with Councillor Ian Davis, Portfolio Holder for Finance, Human Resources and ICT, and the contents of this report reflect any feedback provided.

Background Papers	**Report to Audit and Governance Panel (Special) of 28 June 2022 – Annual Accounts 2021/22**
Person to Contact	**Tim Baulk, Head of Finance, ICT and Procurement** **County Buildings, Wellington Square, Ayr, KA7 1DR** **Phone 01292 612620** **E-mail tim.baulk@south-ayrshire.gov.uk**

Date: 17 November 2022

Annex 1

Deloitte.

South Ayrshire Council

Report to the Audit and Governance Panel, Members of the Council and the Controller of Audit on the 2021/22 audit

Issued on 16 November for the meeting on 23 November 2022

Contents

Introduction

The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the Annual Accounts.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our final report to the Audit and Governance Panel ("the Committee") of the South Ayrshire Council ("the Council") for the year ending 31 March 2022 audit. The scope of our audit was set out within our planning report presented to the Committee in March 2022.

This report summarises our findings and conclusions in relation to:

- The audit of the **Annual Accounts**; and
- Consideration of the **four audit dimensions** that frame the wider scope of public sector audit requirements as illustrated in the following diagram. This includes our consideration of the Council's duty to secure best value.

Introduction (continued)

The key messages in this report (continued)

I would like to draw your attention to the key messages of this paper:

Conclusions from our testing

Based on our audit work completed to date we expect to issue an unmodified audit opinion for both the Council and charitable trusts.

Following updates made as agreed during the audit, the Management Commentary and Annual Governance Statement comply with the statutory guidance and proper practice and are consistent with the annual accounts and our knowledge of the Council.

The auditable parts of the Remuneration Report have been prepared in accordance with the relevant regulations.

A summary of our work on the significant risks is provided in the dashboard on page 10.

We have identified three corrected adjustments above our reporting threshold, which are included on page 31. This includes two material adjustments. One is in relation to the valuation of a specific group of assets that were not subject to a full valuation due to the 5-year rolling valuation process applied by the Council, arising as a result of increasing build costs linked to the significant rises in inflation over the last year. The other relates to the revaluation of Council Dwellings which had been omitted from the draft Annual Accounts in error. One uncorrected misstatement has also been reported.

Status of the Annual Accounts audit

Outstanding matters to conclude the audit include:

- Finalisation of internal quality control procedures and resolving any following up queries arising from this;
- Receipt of final signed Annual Accounts;
- Receipt of signed management representation letter; and
- Our review of events since 31 March 2022.

Conclusions on audit dimensions and best value

As set out on page 3, our audit work covered the four audit dimensions. Our separate detailed report presented to the Committee in June 2022 set out our findings and conclusions on each dimension. In accordance with the Code of Audit Practice, we have included our overall conclusions within this report on pages 27-28. Key highlights include:

Financial Management - The Council continues to have strong budget setting and monitoring arrangements in place. This is supported by an experienced finance team although recent changes had resulted in some temporary vacancies. We are pleased to note the approval of increased capacity in the finance team.

Financial sustainability - The Council has set a balanced budget for 2022/23 and holds unearmarked reserves at a level consistent with its Reserves Strategy, therefore is financially sustainable in the short term. However, it continues to be faced with significant financial challenges over the medium and longer-term, projecting a funding gap of between £6m and £20m by 2023/24, and a gap of between £108m and £172m over a ten year period.

We reported in our June report that it was positive to see the work progressing with the Strategic Change Programme with governance arrangements in place and the planned approach agreed. However, there is still insufficient detail against each project to be able to demonstrate that the plans are sufficient to meet the significant challenges that the Council is facing over the medium-to-longer term. We highlighted that it is critical that this work is progressed at pace and scale to ensure that both the plans are sufficient and that the planned benefits are realised.

Introduction (continued)
The key messages in this report (continued)

Conclusions on audit dimensions and best value (continued)

Governance and transparency – There continues to be good working relationships between officers and members, however, further work is required to be able to demonstrate that there is sufficient pace and focus on delivering improvements. The governance arrangements continue to be robust, with an effective Audit and Governance Panel. The Council continues to be open and transparent, with the introduction of live streaming of all meetings during the year enhancing that openness.

Value for money — The Council has a clear performance management framework which has been refreshed during 2021/22 in response to the recommendations in the Best Value Assurance Report (BVAR), with further changes planned in the next iteration of the Council Plan. It has continued to report its performance against the commitments within the Council Plan and also against the Local Government Benchmarking Framework (LGBF), with clear actions in place to address indicators that are adrift of target.

Best value - The Council has made good progress in starting to implement the recommendations and associated actions arising from the BVAR published in October 2021 and has a clear understanding of areas which require further development.

Next steps

An agreed Action Plan was included in the separate wider scope report that was presented to Audit and Governance Panel in June 2022 which confirmed all previous actions had been implemented or superseded with actions arising from the BVAR. Additional actions arising from the annual accounts audit are included in an agreed Action Plan included on pages 32-33 of this report, including a follow-up of progress against prior year actions.

Added value

Our aim is to add value to the Council by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas for improvement and recommending and encouraging good practice. In so doing, we aim to help the Council promote improved standards of governance, better management and decision making, and more effective use of resources.

In addition, we included our "sector developments" in the separate wider scope report that was presented to Audit and Governance Panel in June 2022 which covers our research, informed perspective and best practice from our work across the wider public sector that are specifically relevant to the Council.

During the year, we have also provided support as part of the induction programme for elected members.

Managing transition to 2022/23 audits

2021/22 is the final year of the current audit appointments. We will minimise disruption to all parties, and maximise the transfer of knowledge of the Council, by working in partnership with Audit Scotland and the incoming auditors.

We would like to put on record our thanks to the Elected Members, management and staff for the good working relationship over the period of our appointment.

Pat Kenny
Associate Partner

Annual Accounts Audit

Quality Indicators

Impact on the execution of our audit

Management and those charged with governance are in a position to influence the effectiveness of our audit, through timely formulation of judgements, provision of accurate information, and responsiveness to issues identified in the course of the audit. This slide summarises some key metrics related to your control environment which can significantly impact the execution of the audit. We consider these metrics important in assessing the reliability of your financial reporting and provide context for other messages in this report.

Area	Grading			Reason
	FY22	FY21	FY20	
Timing of key accounting judgements	●	●	●	Support for key accounting judgements such as property, plant and equipment ("PPE") valuations and net defined benefit pensions assets was provided on time.
Adherence to deliverables timetable	!	!	●	In the previous year audit we reported delays in providing audit working papers. This has continued in the current year audit with only 24% of the working papers requested for the start of the audit received on time. The Council agreed to a later audit timetable in the current year to accommodate audit resource availability, which we recognise has resulted in Council staff having competing priorities. In addition, both the Council finance team and audit team have been impacted by changes within teams and staff absence. Despite the delays and revised audit dates, we still remain on track to conclude the audit by the statutory deadline of 30 November 2022.
Access to finance team and other key personnel	●	!	●	Deloitte and the Council have worked together to facilitate remote communication during the audit. This has included effective use of such technologies as Microsoft Teams and Deloitte Connect. Whilst there were delays in receiving working papers, the finance team and key personnel were available throughout the audit for status meetings.
Quality and accuracy of management accounting papers	●	●	●	Accounting papers were substantially of an acceptable standard. This is borne out by the resubmission rate on requests for the audit being low, at 9%.
Quality of draft Annual Accounts	●	●	●	A full draft of the Annual Accounts was received for audit on 30 June 2022. We identified a number of minor amendments which have been updated in the Audited Accounts.

! Lagging ! Developing ● Mature

Quality Indicators (continued)

Impact on the execution of our audit (continued)

Area	Grading			Reason
	FY22	FY21	FY20	
Response to control deficiencies identified	Mature	Mature	Mature	One internal control finding has been made on page 21, which has been accepted by management.
Volume and magnitude of identified errors	Developing	Developing	Mature	We have identified three corrected adjustments from our audit work to date, including two material adjustments in relation to asset valuations, discussed further on page 14, and one uncorrected adjustment.

! Lagging ! Developing Mature

Our Audit Explained

We tailor our audit to your business and your strategy

Identify changes in your business and environment

In our planning report we identified the key changes in your business and articulated how these impacted our audit approach.

Scoping

Our planning report set out the scoping of our audit in line with the Code of Audit Practice. We have completed our audit in line with our audit plan.

Other findings

As well as our conclusions on the significant risks we are required to report to you our observations on the internal control environment as well as any other findings from the audit.

Determine materiality

When planning our audit we set our materiality at £9.001m (Council only £8.550m) based on forecast gross expenditure. We have updated this to reflect final figures and completed our audit to group materiality of £8.304m (Council only £8.299m), group performance materiality of £5.812m (Council only £5.809m) and report to you in this paper all misstatements above £250,000 (Council only £250,000).

Significant risk assessment

In our planning report we explained our risk assessment process and detailed the significant risks we have identified on this engagement. We report our findings and conclusions on these risks in this report.

Conclude on significant risk areas

We draw to the Audit and Governance Panel's attention our conclusions on the significant audit risks. In particular the Audit and Governance Panel must satisfy themselves that management's judgements are appropriate.

Our audit report

Based on the current status of our audit work, we envisage issuing an unmodified audit report.

Significant Risks
Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Page no.
Recognition of COVID-19 related income	✓	✓	D+I	Satisfactory	●	Satisfactory	11
Management override of controls	✓	✓	D+I	Satisfactory	●	Satisfactory	12

Overly prudent, likely to lead to future credit ⊖ ⊖ ● ⊕ ⊕ Overly optimistic, likely to lead to future debit.

D+I: Testing of the design and implementation of key controls

Significant Risks (continued)
Recognition of COVID-19 related income

Risk identified and key judgements

ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

We have assessed the income streams of the Council, the complexity of the recognition principles and the extent of any estimates used, and concluded that, with the exception of the funding received in 2021/22 in response to the COVID-19 pandemic, there is no significant risk of fraud.

During 2021/22, the Council has received additional funding of £5.614m in relation to COVID-19 mobilisation costs. In addition, there are a number of business support schemes designed to help eligible businesses during the COVID-19 pandemic that are being administered by Councils on behalf of the Scottish Government (£17.568m).

We have pinpointed the significant risk to the completeness and occurrence of the funding for COVID-19 mobilisation costs and the completeness and accuracy of the agency arrangement disclosures.

The key judgements for management are assessing:

- Any conditions associated with the mobilisation cost funding; and
- Whether the Council is acting as a principal or agent in administering the business support schemes.

Deloitte response and challenge

We have performed the following:

- Assessed the design and implementation of the controls in relation to the accounting treatment of all COVID-19 related funding;
- Tested a sample of funding for COVID-19 mobilisation costs and confirm these have been recognised in accordance with any conditions applicable; and
- Tested the agency arrangement disclosures to confirm, where it is concluded that the Council is acting as an agent, that:
  - Transactions have been excluded from the Comprehensive Income and Expenditure Statement;
  - The Balance Sheet reflects the debtor or creditor position at 31 March 2022 in respect of cash collected or expenditure incurred on behalf of the principal; and
  - The net cash position at 31 March 2022 is included in the financing activities in the Cash Flow Statement.

Deloitte view

We have concluded that income has been correctly recognised in accordance with the requirements of the Code of Practice on Local Authority Accounting and the "*Guidance on Accounting for Coronavirus (COVID-19) Grants/ Funding Streams*" issued by LASSAC.

Significant Risks (continued)

Management override of controls

Risk identified

Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Although management is responsible for safeguarding the assets of the entity, we planned our audit so that we had a reasonable expectation of detecting material misstatements to the Annual Accounts and accounting records.

Deloitte response and challenge

In considering the risk of management override, we have performed the following audit procedures that directly address this risk:

Journals

We have tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the Annual Accounts. In designing and performing audit procedures for such tests, we have:

- Tested the design and implementation of controls over journal entry processing;
- Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- Selected journal entries and other adjustments made at the end of a reporting period; and
- Considered the need to test journal entries and other adjustments throughout the period.

Accounting estimates and judgements

We have reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. In performing this review, we have:

- Evaluated whether the judgments and decisions made by management in making the accounting estimates included in the Annual Accounts, even if they are individually reasonable, indicate a possible bias on the part of the entity's management that may represent a risk of material misstatement due to fraud. From our testing we did not identify any indications of bias. A summary of the key estimates considered is provided on the following page; and

- Performed a retrospective review of management judgements and assumptions related to significant accounting estimates reflected in the Annual Accounts of the prior year.

Significant and unusual transactions

We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

Deloitte view

We have not identified any significant bias in the key judgements made by management.

We have not identified any instances of management override of controls in relation to the specific transactions tested.

Significant Risks (continued)

Management override of controls (continued)

Key judgements The key judgement in the Annual Accounts are those which we have selected to be the significant audit risks around the recognition of COVID-19 related income (page 11). While not considered to be significant audit risks, we have considered the assumptions used to calculate the pension liability (pages 16-17), the recognition of expenditure (page 19) and severance payments (page 20). In the table below, we set out our challenge of the assumptions used in the determination of provisions, property valuations and Public Private Partnership (PPP) projects.

Estimate / judgement	Details of management's position	Deloitte Challenge and conclusions
Provisions	The total provisions held within the Council's balance in the draft Annual Accounts decreased from £1.524m in 2020/21 to £1.476m in 2021/22 and as such are immaterial. They relate to ongoing legal cases and to outstanding payments for enterprise grants and grants to voluntary organisations.	We examined the rationale for each provision, including a retrospective review of amounts provided in 2020/21. We have consulted with the Council's legal experts to confirm completeness of the provisions. Based on the above, we can conclude that the provisions made were reasonable.
Public Private Partnership (PPP) and similar contracts	The Council currently has three PPP contracts • Education for Ayrshire (two secondary schools and three primary schools); • New Ayr Academy and New Queen Margaret Academy) Academy; and • Queen Margaret Academy. Each PPP liability is valued based on the value of the remaining lease payments under the relevant accounting standards. The minimum lease rental is split between interest and principal using the actuarial method.	We obtained and assessed the initial PPP agreements in place and reconciled to the payment schedules for each model. We have conducted a retrospective review of the prior year liability to assess accuracy, and have challenged any changes made to the model. We have assessed the value of the underlying buildings through our Valuations work. We are satisfied that the PPP liability recognised in the accounts is in line with the models and there is no indication of management bias. One classification error was identified from our testing resulting in an adjustment of £1.389m between short term and long term liabilities.

Significant Risks (continued)
Management override of controls (continued)

Estimate / judgement	Details of management's position	Deloitte Challenge and conclusions
Property valuations	The Council is required to hold property assets within Property, Plant and Equipment at existing use value provided that an active market for the asset exists. Where there is no active market, because of the specialist nature of the asset, a depreciated replacement cost approach may be needed which provides the current cost of replacing an asset with it modern equivalent asset. The valuations are, by nature, significant estimates based on specialist and management assumptions and which can be subject to material changes in value. The Council has had an independent valuation carried out at 31 March 2022 by a combination of internal and external valuers to include valuation of approximately 20% of all of the Council's land and property in accordance with its 5-year rolling programme. The valuation method has not changed from the prior year and is in line with International Financial Reporting Standards. The Council's revaluation had resulted in a net downward valuation to property values of £3.295m in the draft Annual Accounts.	We did not identify this as a significant risk in our Audit Plan as our property specialists, Deloitte Real Asset Advisory, reviewed the methodology and assumptions applied by the Council's valuer in previous years and concluded it was reasonable. We have confirmed that the valuer and the methodology applied has not changed in the year. We have tested a sample of revaluations in the year, by agreeing the revaluations recorded in the Annual Accounts to the independent valuers reports. As part of this testing, we have confirmed that the movements have been accounted for in accordance with the Code. From our initial review of the Annual Accounts we identified that the revaluation of Council Dwellings had not been reflected in the draft Annual Accounts. The revaluation had been performed and was an administrative error in drafting the Annual Accounts. This has resulted in a £14.4m adjustment as discussed on page 30. We have also tested a sample of the inputs used by the valuer, e.g. site sizes, back to supporting evidence, with no issues arising. We have challenged management's assessment for those assets not subject to valuation in the year and consulted with our internal property experts. • For those valued on Existing Use Value on a market comparable basis, our property experts have confirmed that minimal market value movement would be expected in 2021/22. • For those valued on a Depreciated Replacement Cost basis, which would be impacted by changes in build costs during the year, we have performed an analysis of changes in the Build Costs Information Service (BCIS) index and identified a potential increase which may suggest that a full valuation should be performed. Management has subsequently engaged with its estates team, resulting in an upward impairment adjustment of £9.672m, which has been adjusted in the final annual accounts, as disclosed on page 30. We have also recommended that the valuer incorporates this as part of the annual valuations to documentation their consideration of those assets not subject to valuation in the year to demonstrate that the carrying amount does not differ significantly from the current value.

Other Areas of Audit Focus
Defined benefits pension scheme

Background

The Council participates in two defined benefits schemes:

- Scottish Teachers' Superannuation Scheme, administered by the Scottish Government; and
- The Strathclyde Pension Fund, administered by Glasgow City Council.

The net pension liability has decreased from £117.523m in 2020/21 to £17.001m in 2021/22. The decrease is combination of a decrease of £71m in the fair value of the assets and a reduction of £3m in the liabilities as a result of demographic changes and financial assumptions.

Deloitte response

- We assessed the independence and expertise of the actuary supporting the basis of reliance upon their work;
- We reviewed and challenged the assumptions made by Hymans Robertson, including benchmarking against nine leading actuarial firms that we consider appropriate as shown the table below;
- We have obtained assurance from the auditor of the pension fund over the controls for providing accurate data to the actuary;
- We assessed the reasonableness of the Council's share of the total assets of the scheme with the Pension Fund Annual Accounts;
- We have reviewed and challenged the calculation of the impact of the McCloud and Goodwin cases on pension liabilities; and
- We reviewed the disclosures within the accounts against the Code.

	Council	Comments
Discount rate (% p.a.)	2.7	Within reasonable Range
RPI Inflation (% p.a.)	3.65	
CPI Inflation (% p.a.)	3.2	
Pension increase in payment (% p.a.)	3.2	
Salary increase (% p.a.)	3.9	In line with funding valuation
Mortality - Life expectancy of a male/ female pensioner from age 65 (currently aged 65)	19.6/ 22.4	Within reasonable range
Mortality - Life expectancy of a male/ female pensioner from age 65 (currently aged 45)	21/ 24.5	

Other Areas of Audit Focus (continued)
Defined benefits pension scheme (continued)

The Council's pension liability, along with other public sector bodies. continues to be impacted by the ongoing legal cases – known as McCloud and Goodwin, as well as the Guaranteed Minimum Pensions (GMP) indexation. Our pension specialists have considered the impact and concluded as follows:

- ***Goodwin*** – this is a legal challenge made against the Government in respect of unequitable benefits for male dependants of female members (based on service after 1988) following the earlier Walker ruling. The 31 March 2020 triennial funding valuation did not allow for the impact of Goodwin, therefore the Council's actuary has used the same percentage allowance that was used last year (0.1% of the liability). Given the lack of relative data available, we have concluded that the actuary's calculation approach is reasonable.
- **McCloud** – this case is in respect of possible discrimination in the implementation of transitional protections following the introduction of the reformed public services pension schemes from 1 April 2014 and 2015. The actuary has advised that an estimated allowance for McCloud has been included within the current service cost, consistent with the prior year. We have concluded that the allowance made and approach taken is reasonable. There is still uncertainty about the form of compensation that will be provided to members and therefore the final actual cost of complying with the ruling may be different to the estimate.
- **GMP indexation** – in order to ensure smooth transition to the single tier State pension and equalisation of GMP benefits between males and females, the Government introduced an interim solution in March 2016 in respect of people who are in public service pension schemes and who have a State Pension Age (SPA) between 6 April 2016 and 5 December 2018, whereby full inflationary increases will be provided by the LGPS. An announcement on 23 March 2021 confirmed that all public service pension schemes, including the LGPS, will need to provide full indexation to members with a SPA beyond 5 April 2021

  This is a permanent extension of the previous interim solution. We have confirmed that the 31 March 2020 funding valuation for the whole Fund included an allowance for the additional liability arising as a result of GMP indexation. As this valuation was used as the starting point for the 31 March 2022 valuation, this has also been included in the current year liability. We have concluded that the approach taken is reasonable.

From review of the draft actuary report, our pension specialists identified the following issue:

- The actuary has calculated an "experience loss" of £2.223m. Based on the data provided during the audit, we have estimated that this should be circa. £1.968m. In the absence of further information to justify the quantum of the experience loss, there is a potential misstatement of £0.265m.

Deloitte view

Subject to the potential immaterial difference above, we conclude that the pension liability in relation to the defined benefits pension scheme is projected to be misstated by the difference of £0.265m and have reported this as an uncorrected adjustment. As the pension liability is fully mitigated by statutory adjustments, the misstatement has no impact on the overall General Fund position.

Other Areas of Audit Focus (continued)
Infrastructure Assets

Background

Infrastructure assets are inalienable assets, expenditure on which is only recovered by continued use of the asset created. They include carriageways, structures, street lighting, street furniture and traffic management systems, and are measured in the accounting code at historical cost.

The CIPFA Code requires that where a component of an asset is replaced:

- the cost of the new component should be reflected in the carrying amount of the infrastructure asset; and
- the gross costs and accumulated depreciation of the old component should be derecognised to avoid double counting.

Auditors have identified that local authorities in the UK have not been properly accounting for infrastructure assets since the move to IFRS in 2010/11 due to information deficits. This is particularly the case in relation to roads, where the engineering records used for maintenance have not been created to map against identifiable components.

CIPFA/ LASAAC attempted to resolve the issues and undertook an urgent consultation on temporary changes to the accounting code. However, it was unable to agree an approach that addressed the concerns of all stakeholders whilst also supporting high quality financial reporting. The Scottish Government has therefore provided temporary statutory overrides while a permanent solution is developed.

Statutory override 1	For accounting periods commencing from 1 April 2021 until 31 March 2024, a local authority is not required to report the gross cost and accumulated depreciation for infrastructure assets.
Statutory override 2	For accounting periods commencing from 1 April 2010 until 31 March 2024, the carrying amount to be derecognised in respect of a replaced part of an infrastructure asset is to be taken to be and accounted for as a nil amount No subsequent adjustment shall be made to the carrying amount of the asset with respect to that part.

Deloitte response

- We have considered the statutory overrides issued by the Scottish Government and confirmed that the Council has opted to adopt both, as summarised above, due to not readily having the information to evidence the derecognition of replaced components of infrastructure assets.
- We have reviewed the updated Annual Accounts and revised disclosures and confirmed that it is compliant with the statutory overrides.
- We have assessed the reasonableness of the Useful Economic Lives (UEL's) applied by the Council in its depreciation calculation and concluded that the UELs are reasonable, in line with other similar Councils and the risk of a material misstatement on the depreciation charge is remote.

Deloitte view

We have assessed the impact of the adoption of the statutory overrides and confirmed the updated Annual Accounts correctly reflect the required disclosure. We are also satisfied that the depreciation charge for the year, based on UELs set out within the Council's accounting policy, is not materially misstated. The UEL applied by the Council is towards the top end when benchmarked against other similar Councils and different types of infrastructure assets are not separately distinguished. We therefore recommend that the Council should revisit its UEL policy to consider whether alternative UEL's should be set for different types of assets.

The Scottish Government expects that Councils will begin to address information deficits to ensure adequate accounting records for the measurement of infrastructure assets and timely adoption of the Code requirements once a more permanent solution is delivered.

Other Areas of Audit Focus (continued)
Expenditure recognition

Risk identified
In accordance with Practice Note 10 (*Audit of financial statements of public sector bodies in the United Kingdom*), in addition to the presumed risk of fraud in revenue recognition set out in ISA (UK) 240, as discussed further on page 11, auditors of public sector bodies should also consider the risk of fraud and error on expenditure. This is on the basis that most public bodies are net spending bodies, therefore the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatement due to fraud related to revenue recognition.

We have considered this risk for the Council and concluded that we are satisfied that the control environment is strong and there is no history of errors or audit adjustments. This was therefore not been assessed as a significant risk area, but continued to be an area of audit focus.

Deloitte response
We performed the following procedures to address the above risk:

- A review of the number and median value of invoices processed in the year. As illustrated in table opposite, based on the medium amount, the Council would need to omit over 76,843 invoices at year-end to result in a material error. We noted that in the month following the year-end, a total of 9,733 invoices were processed. We therefore concluded that a risk of material misstatement was remote.

- An analytical review to test the completeness and accuracy of year-end creditor balances was carried out. We are satisfied that the amount recorded is reasonable.

- Detailed testing of a sample of accruals.

	Invoice Analysis
Median invoice amount	£124.61
Average number of invoices processed per month	8,214.58
Number of invoices that would need to be unrecorded to cause a material misstatement	76,843
Total invoices processed in April 2022 (one month after year-end)	9,733 (total value £27.059m)

Deloitte view
We have concluded that expenditure has been correctly recognised in accordance with the requirements of the Code of Practice on Local Authority Accounting.

Other areas of focus (continued)

Severance payments and additional responsibility allowances

Risk identified and key judgements

As part of our planning work, we were made aware of potential issues relating to severance payments and additional responsibility allowances that had been made to Council employees who have since retired. As a result of our preliminary audit work, the following risks were identified and formed a key area of focus during the audit:

- There was a risk that additional responsibility allowances and changes in working patterns had been approved without a robust business case, taking into account value for money; and
- In approving additional responsibility allowances or changes to working patterns in a period before retiral, the financial implications for both the Council and the Pension Fund, had not been fully considered.

Deloitte response and challenge

We performed the following procedures to address the risk:

- Reviewed the outcome of any internal audit work being performed in the year in relation to severance payments and additional responsibility allowances;
- Considered the Council's current processes for approving additional responsibility allowances, changes to working patterns prior to retiral and severance payments to assess whether they are fit for purpose;
- Performed detailed sample testing of severance payments made during the year, as disclosed within the Remuneration Report; and
- Performed focussed testing of additional responsibility allowances awarded during the year to assess whether they are supported by a clear business case.

From our testing, we have concluded the following:

- In the cases identified from our planning work, the payments of additional responsibility allowance and changes in working patterns were approved by the relevant Head of Service in line with the procedures in place at the time;
- The approval of these payments in the period prior to retirement have resulted in additional costs to both the Council and Pension Fund in both severance payments and pension benefits that were not taken into account when the approval was made. Additional costs to the Pension Fund of £30,000 in pension lump sum and £4,000 annual pension benefit, along with additional costs to the Council of £14,000 in severance payments were incurred, which may have impacted on the value for money of these decisions;
- Following these initial findings, internal audit has carried out a review of the procedures in place and worked with the service to update procedures to incorporate additional steps to ensure that all future decisions are properly documented and costs considered.
- Internal audit also performed an extended sample check and concluded that no similar cases had occurred. As part of our year-end audit testing, we have also performed sample testing of exit packages and concluded that there is no evidence that the above is a widespread issue.

Deloitte view

While Council procedures were followed in making these additional payments, the value for money implications were not fully considered. We have, however, confirmed from our testing that there is no indication of a more widespread issue. We are pleased to see that procedures are being updated to tighten controls to prevent similar instances occurring in the future.

Other Areas of Audit Focus (continued)

Charitable trusts

Risk identified

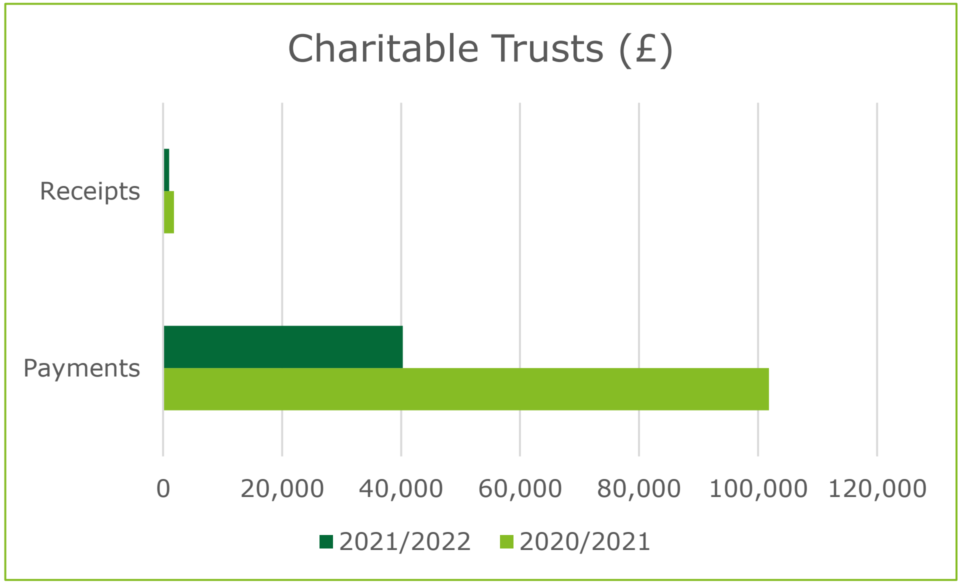
From 2013/14, all Scottish Councils who act as sole trustees for any registered charities have to fully comply with the Charities Accounts Regulations. This requires Charities SORP compliant accounts to be prepared for each charity, and a separate audit of each. South Ayrshire Council administers three such registered charities, disclosed in a single set of annual accounts. This is in accordance with the connected charities rules.

As the gross income of each of the Trusts is less than £100,000, the Council has opted to prepare the charitable trust accounts on a receipts and payments basis in accordance with The Charities Accounts (Scotland) Regulation 2006. Fully compliant Charities SORP accounts are therefore not required and disclosure is limited to that specified in the Regulations.

Deloitte response

We have assessed that the Statement of Receipts and Payments and the Statement of Balances to ensure these have been prepared in accordance with the Charities Accounts (Scotland) Regulations 2006.

A summary is provided in the table adjacent. From an initial review of draft annual accounts we note that there has been a large movement in payments which have decreased from £101,829 in 2020/21 to £40,282 in 2021/22. This is largely due to a higher level of disbursements from for Ayr Trust in prior year compared to current year.



Deloitte view

Our testing of the charitable trusts is complete with no issues arising. We anticipate issuing an unmodified opinion.

Other Significant Findings
Internal control and risk management

During the course of our audit we have identified one internal control findings, which we have included below for information.

Area	Observation	Priority
PPE Valuations	The CIPFA Code requires that, where assets are revalued (i.e. the carrying amount is based on current value), revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the current value at the end of the reporting period. A class of asset may be revalued on a rolling basis provided revaluation of the class of asset is completed within a short period of the revaluations. The code defines a "short period" as "once every 5 years". In line with other Councils, South Ayrshire Council operate a rolling programme of revaluations over a 5 year period. Given the increase in build costs as a result of inflation, property valued based on a depreciated replacement cost could significantly increase in value during this five year period and following additional work performed by the Council's estates team, the Council assets have increased in value by £9.672m and the Common Good assets have increased in value by £286,000. We therefore recommend that the property valuer should introduce a more detailed process as part of the annual valuations, similar to the exercise carried out as part of the audit, to documentation their consideration of those assets not subject to valuation in the year to demonstrate that the carrying amount does not differ significantly from the current value.	

The purpose of the audit was for us to express an opinion on the Annual Accounts. The audit included consideration of internal control relevant to the preparation of the Annual Accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you.

Low Priority

Medium Priority

High Priority

Other Significant Findings (continued)
Financial reporting findings

Below, we set out the findings from our audit surrounding your financial reporting process.

Qualitative aspects of your accounting practices:

The Council has prepared its Annual Accounts in line with the Code of Practice on Local Authority Accounting. We are satisfied that the Council's accounting practices are appropriate.

Significant matters discussed with management:

Significant matters discussed with management related primarily to the accounting treatment for infrastructure assets (discussed on page 19), and the judgements in relation to the property valuations (discussed on page 14).

Regulatory Change:

IFRS 16, Leases, was due to come into effect on 1 April 2022, however, has been deferred to be effective from 1 April 2024 and will be included in the 2024/25 Code. Local authorities may adopt it in preceding financial periods if deemed appropriate.

As the Council does not currently plan to implement this early in 2022/23, in accordance with the Code, this has not been disclosed as a standard issued but not yet adopted within the 2021/22 annual accounts.

Other matters relevant to financial reporting:

We have not identified other matters arising from the audit that, in the auditor's professional judgement, are significant to the oversight of the financial reporting process.

We will obtain written representations from the Council on matters material to the Annual Accounts when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the draft representations letter will be circulated separately.

Our Audit Report
Other matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.

Our opinion on the Annual Accounts

Based on our audit work completed to date, we expect to issue an unmodified audit opinion.

Material uncertainty related to going concern

We have not identified a material uncertainty related to going concern and will report by exception regarding the appropriateness of the use of the going concern basis of accounting.

Practice Note 10 provides guidance on applying ISA (UK) 570 Going Concern to the audit of public sector bodies. The anticipated continued provision of the service is relevant to the assessment of the continued existence of a particular body.

Emphasis of matter and other matter paragraphs

There are no matters we judge to be of fundamental importance in the Annual Accounts that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.

Other reporting responsibilities

The narrative parts of the Annual Accounts is reviewed in its entirety for material consistency with the annual accounts and the audit work performed and to ensure that they are fair, balanced and reasonable.

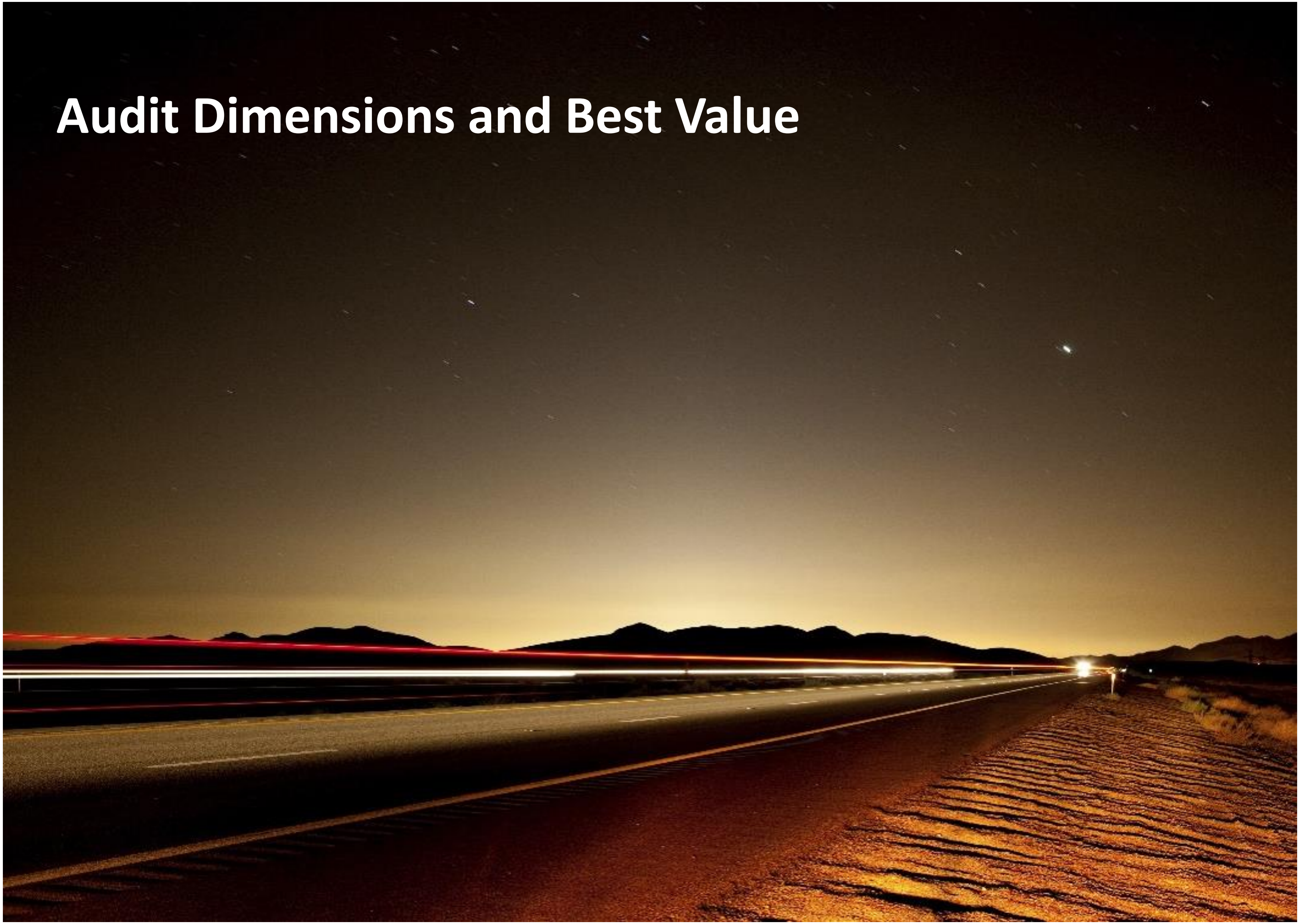
Our opinion on matters prescribed by the Controller of Audit is discussed further on page 24.

Your Annual Report

We are required to provide an opinion on the auditable parts of the Remuneration Report, the Annual Governance Statement and whether the Management Commentary is consistent with the disclosures in the accounts.

	Requirement	Deloitte response
Management Commentary	The management commentary comments on financial performance, strategy and performance review and targets. The commentary included both financial and non financial KPIs and made good use of graphs and diagrams. The Council also focuses on the strategic planning context.	We have assessed whether the management commentary has been prepared in accordance with the statutory guidance. We have also read the management commentary and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading. Following updates made as agreed during the audit, we are satisfied that the management commentary has been prepared in accordance with guidance, is consistent with our knowledge and is not otherwise misleading.
Remuneration Report	The remuneration report has been prepared in accordance with the 2014 Regulations, disclosing the remuneration and pension benefits of Senior councillors and Senior Employees of the Council.	We have audited the disclosures of remuneration and pension benefits, pay bands, and exit packages, and we can confirm that they have been properly prepared in accordance with the regulations.
Annual Governance Statement	The Annual Governance Statement reports that the Council's governance arrangements provide assurance, are adequate and are operating effectively.	We have assessed whether the information given in the Annual Governance Statement is consistent with the Annual Accounts and has been prepared in accordance with the Delivering Good Governance in Local Government Framework. Following updates made as agreed during the audit for minor improvements we can conclude that the Annual Governance Statement is consistent with the Annual Accounts, our knowledge and the accounts regulations.

Audit Dimensions and Best Value



Audit Dimensions and Best Value

Overview and conclusions

As set out in our audit plan and separate report on the "Audit Dimensions and Best Value" presented to the Committee in June 2022, public audit in Scotland is wider in scope than financial audits. Ours separate report sets out our findings and conclusions on our audit work covering the areas set out below.

In accordance with the Code of Audit Practice, our overall conclusions on each audit dimension and best value are summarised on the following page.

Financial management

The Council continues to have strong budget setting and monitoring arrangements in place. This is supported by an experienced finance team, although recent changes had resulted in some temporary vacancies during 2021/22. We are pleased to note the approval of increased capacity in the finance team.

We had reported that the internal audit function had experienced resourcing challenges in the year, with a revised Internal Audit Plan approved. We are pleased to note that the Internal Audit Annual Report for 2021/22, considered by the Audit and Governance Panel in June 2022, confirmed that the revised plan was substantially complete and that there were no limitations of scope to the issued audit opinion. The internal audit team are now fully staffed.

Financial sustainability

The Council has set a balanced budget for 2022/23 and holds unearmarked reserves at a level consistent with its Reserves Strategy, therefore is financially sustainable in the short term. However, in line with other bodies, it continues to be faced with significant financial challenges over the medium and longer-term, projecting a funding gap of between £6m and £20m by 2023/24 and a gap of between £108m and £172m over a ten year period. Additionally, the long term projection will be heavily impacted by the creation of the National Care Service and the financial implications for the Council that follow.

It is positive to see the work progressing with the Strategic Change Programme with governance arrangements in place and the planned approach agreed. However, at the time of our audit reporting in June 2022, there was still insufficient detail against each project to be able to demonstrate that the plans are sufficient to meet the significant challenges that the Council is facing over the medium-to-longer term. We highlighted that it was critical that this work is progressed at pace and scale to ensure that both the plans are sufficient and that the planned benefits are realised. Management has confirmed that work has progressed in this area since our June report, but this has not been reviewed as part of our 2021/22 audit.

Governance and transparency

There continues to be good working relationships between officers and members, however, further work is required to be able to demonstrate that there is sufficient pace and focus on delivering improvements. In September 2022, the Council agreed a Chief Officer restructure, with associated directorate structural changes being implemented for the 2022/23 financial year.

The governance arrangements continue to be robust, with an effective Audit and Governance Panel. The Council continues to be open and transparent, with the introduction of live streaming of all meetings during the year enhancing that openness.

Audit Dimensions and Best Value (continued)

Overview and conclusions (continued)

Value for money

The Council has a clear performance management framework which has been refreshed during 2021/22 in response to the recommendations in the BVAR, with further changes planned in the next iteration of the Council Plan. It has continued to report its performance against the commitments within the Council Plan and also against the LGBF, with clear actions in place to address indicators that are adrift of target.

The Council also continues to have appropriate arrangements in place to comply with the SPI Direction, including its public performance reporting requirements.

Deloitte view – Best Value

The Council has made good progress in starting to implement the recommendations and associated actions arising from the BVAR published in October 2021 and has a clear understanding of areas which require further development.

Purpose of our Report and Responsibility Statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit and Governance Panel and the Council discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (UK) 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Accounts;
- Our internal control observations; and
- Other insights we have identified from our audit.

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Audit and Governance Panel.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the procedures performed in fulfilling our audit plan.

The scope of our work

Our observations are developed in the context of our audit of the annual accounts.

We described the scope of our work in our audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.

Use of this report

This report has been prepared for the Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

Pat Kenny, CPFA

For and on behalf of Deloitte LLP

Glasgow | 16 November 2022

Appendices

Audit Adjustments
Corrected adjustments

The following adjustments have been identified up to the date of this report which have been corrected by management. We nonetheless communicate them to you to assist you in fulfilling your governance responsibilities, including reviewing the effectiveness of the system of internal control.

	Debit/(Credit) Comprehensive Income and Expenditure Statement (CIES) £	Debit/(Credit) in Net Assets £	Debit/(Credit) Reserves £	Debit/(Credit) in Income £	If applicable, control deficiency identified
Adjustments identified in current year					
[1] PPE – Assets not valued in year	(4,142,000)	9,672,000	(9,672,000)		Page 21
- Assets not valued in year (Common Good)		286,000	(286,000)		
[2] PPE – HRA Revaluation	1,018,000	(14,416,000)	14,416,000		
[3] PPP – Reclassification					
Short term liabilities		1,389,000			
Long Term Liabilities		(1,389,000)			
Total	**(3,124,000)**	**(4,458,000)**	**4,458,000**	**-**	

[1] As discussed on page 14, an adjustment has been made to reflect the change in build costs for those assets not subject to full revaluation in the year.

[2] An adjustment has been made to reflect the revaluation change for Council Dwellings not initially done by year end.

[3] This adjustment has been made to reclassify £1.389m worth of PPP Liabilities from Short Term to Long Term

Audit Adjustments (continued)
Uncorrected adjustments

The following uncorrected adjustment has been identified up to the date of this report which have been corrected by management. We nonetheless communicate them to you to assist you in fulfilling your governance responsibilities, including reviewing the effectiveness of the system of internal control.

	Debit/(Credit) Comprehensive Income and Expenditure Statement (CIES) £	Debit/(Credit) in Net Assets £	Debit/(Credit) Reserves £	Debit/(Credit) in Income £	If applicable, control deficiency identified
Adjustments identified in current year					
[1] Pensions – Pension liability (experience gain)	(265,000)	265,000			N/A
Total	**(265,000)**	**265,000**	**-**	**-**	

[1] As discussed on page 17, In the absence of further information to justify the quantum of the experience loss, there is a potential misstatement of £0.265m. As the pension liability is fully mitigated by statutory adjustments, the misstatement has no impact on the overall General Fund position.

Disclosure adjustments

No unadjusted disclosure misstatement had been identified

Action Plan
Recommendations for improvement

No.	Area	Recommendation	Management Response	Responsible person	Target Date	Priority
1	*PPE Valuations*	The property valuer should introduce as part of the annual valuations, similar to the exercise carried out as part of the audit to documentation their consideration of those assets not subject to valuation in the year to demonstrate that the carrying amount does not differ significantly from the current value.	A new step to be introduced to the year-end process to consider those assets not subject to valuation in the year.	Service Lead – Asset Management and Community Asset Transfer	31 March 2023	Medium
2	*Infrastructure Assets*	The Council should revisit its UEL policy to consider whether alternative UEL's should be set for different types of assets.	Useful Economic Lives for Infrastructure Assets will be considered alongside national guidance and initiatives on this matter.	Service Lead – Corporate Accounting	31 March 2023	High

Action Plan (continued)

Follow-up on previous year recommendations

Recommendation	Management Response	Priority	2021/22 update
1. Timely Provision of Working Papers Management should consider the capacity within the finance team and allocation of responsibilities during the year-end Annual Accounts and audit process to help improve the timeliness of the provision of working papers.	Management have accepted this recommendation, noting that the increased complexity in reporting requirements arising from Covid-19 allocations stretched the Team's capacity. ***Responsible Person:*** Head of Finance & ICT ***Target Date***: 31/03/2022	Medium	As discussed on page 7, support for working papers during the 2021/2022 audit was provided late, with only 24% of requests being provided on time. ***Updated management response:*** The limited performance in this area was as a direct result of the combination of two key staff leaving the organisation during the 2021-22 annual accounts process and the agreed delay in the commencement of the audit by Deloitte LLP. Both aspect created significant work pressures on staff who experienced long periods during the audit of competing priorities. Despite this the audit has been completed on schedule. Key posts have now been filled which should prevent this situation from recurring again. ***Responsible Person***: Service Lead – Corporate Finance ***Revised Target Date:*** Complete

Our Other Responsibilities Explained

Fraud responsibilities and representations

Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

As auditor, we obtain reasonable, but not absolute, assurance that the Annual Accounts as a whole are free from material misstatement, whether caused by fraud or error.

Required representations:

We have asked the Council to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the Annual Accounts may be materially misstated as a result of fraud and that you have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and that affects the entity or group.

We have also asked the Council to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

Audit work performed:

In our planning we identified the risk of fraud in relation to recognition of COVID-19 related income and management override of controls as a key audit risk for your organisation.

During course of our audit, we have had discussions with management and those charged with governance.

In addition, we have reviewed management’s own documented procedures regarding fraud and error in the Annual Accounts.

Deloitte view

No issues have been identified from our audit work.

Independence and Fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council and and our objectivity is not compromised.
Fees	The audit fee for 2021/22, in line with the expected fee range provided by Audit Scotland, is £295,160, as analysed below:

	£
Auditor remuneration	185,110
Audit Scotland fixed charges:	
Pooled costs	18,770
Contribution to AS Costs	9,610
Contribution to PABV	81,670
Total fee	**295,160**

In addition to the above, the audit fee for the charitable trusts audit is £1,000.

The above fee includes an additional £5,000 agreed in relation not the additional work required in relation to severance payments and additional responsibility allowance, discussed further on page 19.

No non-audit services fees have been charged for the period.

Non-audit services	In our opinion there are no inconsistencies between the FRC's Ethical Standard and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence. We are not aware of any relationships which are required to be disclosed.

Annex 2

Annual Accounts
2021-22

south-ayrshire.gov.uk

south AYRSHIRE COUNCIL
Comhairle Siorrachd Àir a Deas
Making a Difference Every Day

South Ayrshire Council 2021-22 Annual Accounts

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Policies, Judgements and Assumptions

Section 6

Other Reports

Additional Financial Information

Other Statements

Section 1: Management Commentary

Welcome to South Ayrshire Council's Annual Accounts for the financial year ended 31 March 2022.

These accounts will provide you with important and helpful information about our financial management and performance in the financial year 2021-22.

South Ayrshire is home to over 112,000 people and encompasses five towns and their surrounding villages – Troon, Prestwick, Ayr, Maybole and Girvan. The area is rich in heritage, with welcoming people, beautiful scenery and has a wide range of attractions suitable for all ages.

South Ayrshire Council is the main provider of essential services and facilities in the area. Our dedicated and hardworking staff go above and beyond to make sure that we provide high-quality services that meet the needs of our residents.

Councillor Martin Dowey, Leader of South Ayrshire Council.

Key Achievements of 2021-22 include:

- Three of our brand-new school campuses, Maybole Community Campus, Prestwick North Education Campus, and Sacred Heart Primary School in Girvan, progressed on track with Prestwick North Education Campus, incorporating Glenburn PS, St Ninian's PS and the new Prestwick North Early Years Centre opening in August 2022 followed by Sacred Heart Primary opening in September 2022, both providing first-class facilities for pupils and the surrounding communities;

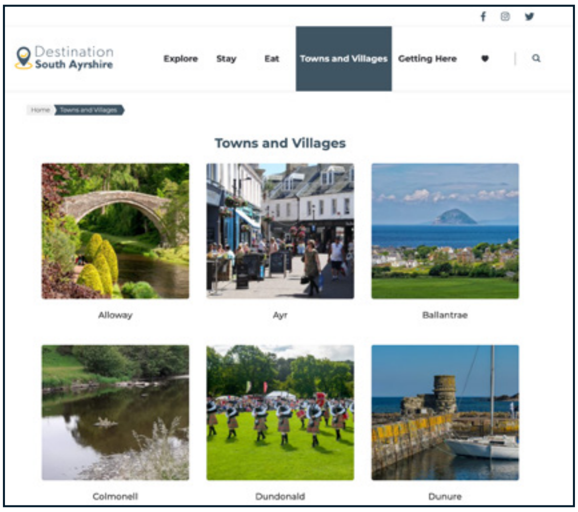
- 98.3% of school leavers in South Ayrshire moved on to positive destinations, demonstrating continued efforts to close the attainment gap in South Ayrshire (98.4% reported in 2020-21 and 94.0% in 2019-20);

- Continued investment and involvement in projects such as the Ayrshire Growth Deal and Maybole Regeneration Project which will help to boost the local economy;

- Exceeding our affordable homes target, providing quality homes across South Ayrshire that meet the needs of tenants with the Local Housing Strategy setting a target of 675 affordable homes over the 5 years of the strategy (2017 - 2022). So far, 677 units have been completed with a further 44 due to complete this calendar year;

- Supporting our communities through our Thriving Places project to identify local issues and developing plans to address these, ensuring our places are something we can all be proud of;

- The launch of our ‘Destination South Ayrshire’ website, which showcases everything the region has to offer, from long sandy beaches and market towns, to world-class golf, and award-winning local food and produce;



- Providing opportunities for 16-24-year olds in the area through jobs, apprenticeships, further and higher education, training programmes and volunteering;

- Achieving national recognition for the fantastic service provided by our Waste Management service who won the APSE Striving for Excellence Award for Waste and Recycling 2022 in May this year and the Property Maintenance team who won APSE’s best Property Maintenance provider in Dec 2021;

- The introduction of the Health and Social Care Partnership (HSCP) Strategic Plan, an ambitious ten-year vision for integrated health and social care services;

- Receiving high praise from Education Scotland and the Association of Directors of Education Scotland for our pioneering approach to reviewing work in the education authority;

- The introduction of a range of new services to support the mental health of our communities, including Togetherall, Shout, and the ‘Let’s Blether’ box;

- The launch of our South Ayrshire Way Strategic Change Programme, which will look at how we can deliver services differently as we move forward, putting customers at the heart of what we do and ensuring best value for money.

More information can be found by visiting our **website**. We also regularly share information on our social media channels **Facebook**, **Twitter** and **Instagram** and **LinkedIn**.

Plans for 2022 and Beyond

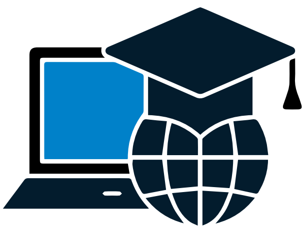
Following the Local Government Election on Thursday 5 May 2022, a new administration was elected and, as such, the current Council Plan was extended to 2023 to allow work to commence on drafting a new council plan during 2022-23.

We want South Ayrshire to be a great place to live, work, visit, and invest in, and the plan will outline our key ambitions for the future.

Following the Best Value Audit last year, we are taking forward plans and we will engage fully with partners, employees and local communities to deliver on the recommendations.
SAC best value assurance report

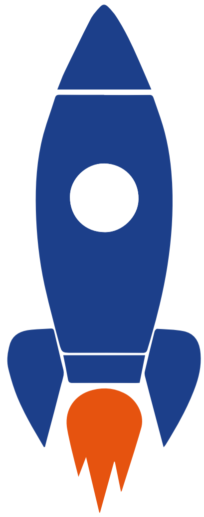
We are also developing workforce plans for 2022-2025 for both the Health and Social Care Partnership and South Ayrshire Council.

additional Investment of £6.6m in education



Investment of £88.175m for vital services delivered by the South Ayrshire Health and Social Care Partnership

Continued shared investment with the UK and Scottish Governments of £91.2m until 2030 in the Aerospace and Space Programme of the Ayrshire Growth Deal



About South Ayrshire

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

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

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

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.

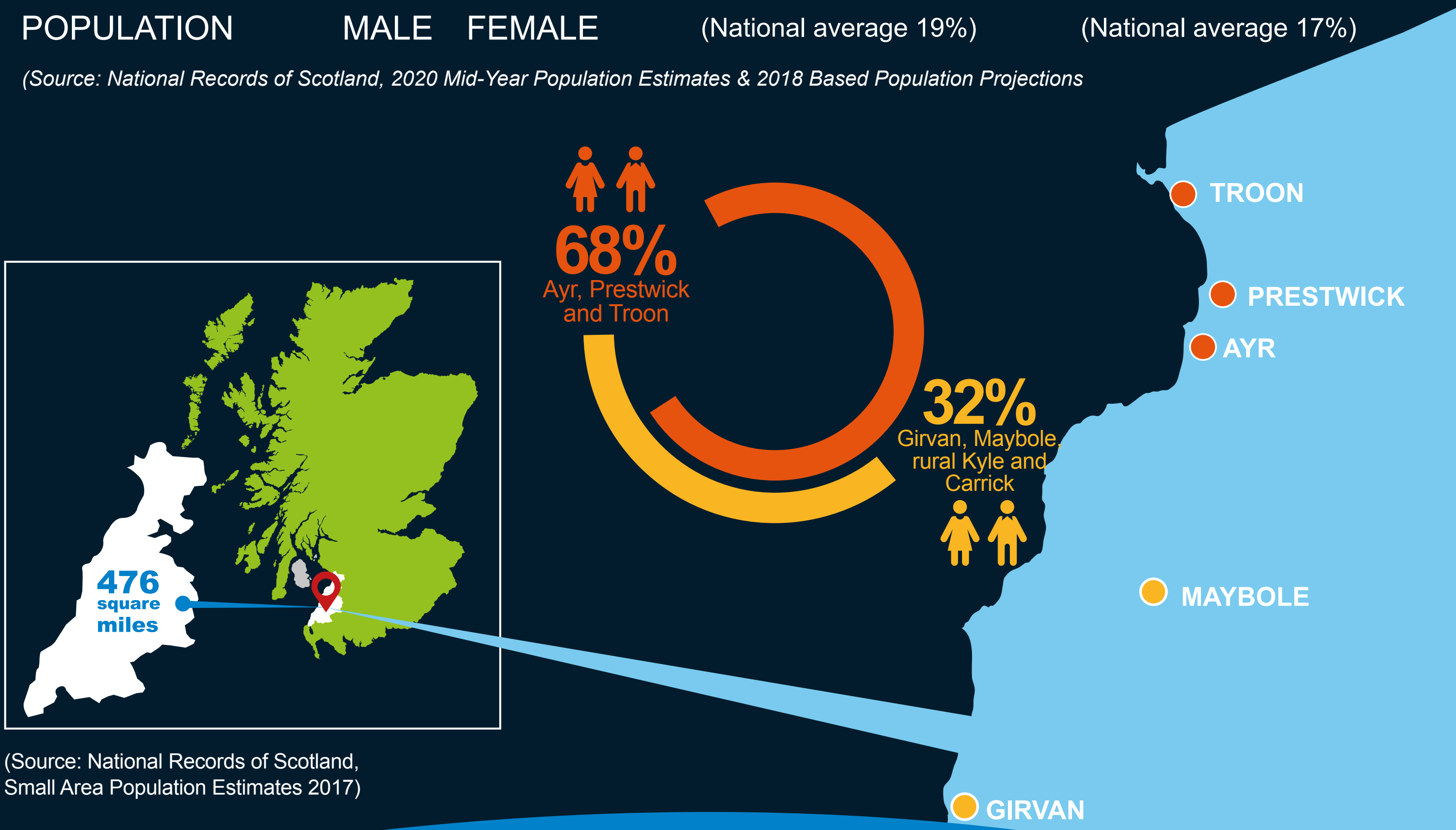
112,140 POPULATION

48% MALE **52%** FEMALE

26% over 65 (National average 19%)

16% under 16 (National average 17%)

(Source: National Records of Scotland, 2020 Mid-Year Population Estimates & 2018 Based Population Projections



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

About The Council

Elected Members (Pre 2022 Election)

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

Elected Members (Post 2022 Election)

CONSERVATIVE **10**
SNP **9**
LABOUR **5**
INDEPENDENT **4**

Staff

4,723 full-time equivalent (as at 31 March 2022)

Our Council Structure

The current structural arrangements reflecting the emerging changes and challenges that existed at that time were approved in December 2017 and updated in March 2021. In November 2021 following the resignation of Depute Chief Executive and Director – People who left to take up a post with another authority, the Council agreed to the creation of a Director of Education and that the Assistant Directors – People would report to Chief Executive. Lyndsay McRoberts took up the post of Director – Education in April 2022

The recent Best Value Assurance report recommended that 'the Council should assure itself that it has the capacity and skills required to increase its pace of improvement in key aspects of Best Value, such as community planning and empowerment, financial and workforce planning, and transformation' and the Chief Executive was remitted to bring forward structural revisions which reflect the current challenges and priorities.

This process concluded with the approval of a revised Council structure at a Special Council in September 2022. The pre and post structure is provided below and more detail can be found by clicking here.

Interim Structure in place during 2021-22

Directorate	Service
Chief Executives Office	Finance & ICT Legal, HR and Regulatory Services Remaining former People Services
Education (formerly part of People Directorate)	Early years, Primary and Secondary Education services
Health and Social Care Partnership	Children's Health, Care and Justice Service Community Health & Care Services
Place	Professional Design Services, Planning and Building Standards, Asset Management and Community Asset Transfer, Special Property Projects, Economy and Regeneration, Ayrshire Growth Deal Housing Services, Procurement, Neighbourhood Services, Property Maintenance, Facilities Management, Ayrshire Roads Alliance

Structure from September 2022

Directorate	Service
Chief Executives Office	Finance, ICT & Procurement HR Advisor Internal Audit & Corporate Fraud Legal & Regulatory Services
Education	Early years, Primary and Secondary Education services
Health and Social Care Partnership	Children's Health, Care and Justice Service Community Health & Care Services
Housing, Operations and Development	Housing and Operations Planning and Development
Strategic Change and Communities	Communities Strategic Change

Strategic Direction

The Council Plan 2018-22 sets out the Council's vision and details the high level objectives and outcomes we want to achieve. The Council plan was due to expire in March 22 but members agreed to extend the plan by a year, allowing for the local government election to take place and give new members the opportunity to shape the next strategic plan. Officer's will support the new administration to develop the next iteration of the Council Plan before March 23.

Our six strategic objectives are:

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

LOIP	- Closing the poverty-related outcome gap for children and young people in South Ayrshire - Supporting older pople to live in good health
Council Plan	- Fair and effective leadership - Closing the gap - Live well, grow well, age well - South ayrshire works - Stand up for South Ayrshire - A better place to live
Ambition Statements	- 21 Ambition Statements
Outcomes	- Actions that set out how outcomes will be improved
Service Plans	- Service and Recovery Plans

Progress against these plans is monitored in line with our Performance Management Framework which was updated in February 2022 with performance reported to managers, elected members, stakeholders and members of the public through the Council's governance arrangements.

Progress against the Council Plan is reported quarterly. The latest update report can be found here. Other strategic planning documents also link closely to the national performance framework including the Local Outcome Improvement Plan (LOIP) reporting to the Community Planning Partnership.

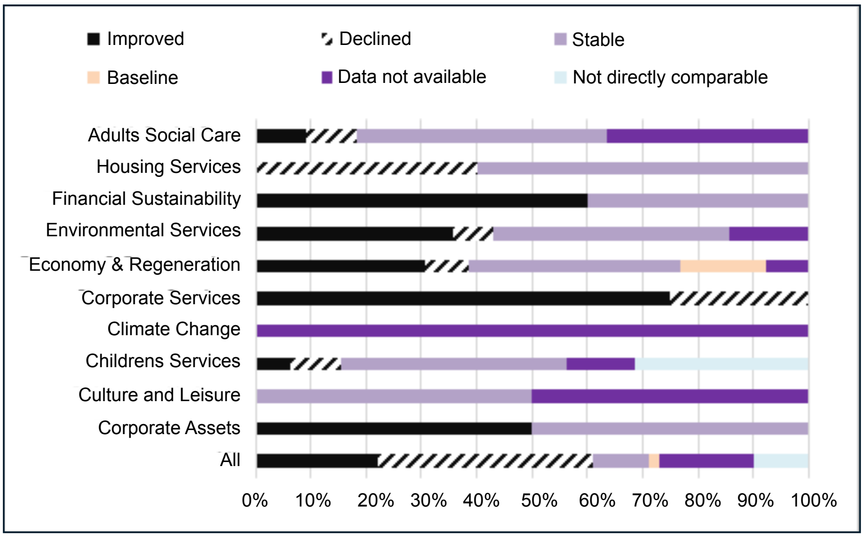
South Ayrshire's Performance against other Council 2020-21

This analysis groups services as to whether they performed higher or lower than the average performance of all 32 Scottish Councils. The data is gathered by the Improvement Services who produce a National Benchmarking Overview report, the 2020-21 report, the latest published Local Government Benchmarking Framework information, can be accessed here.

The data relating to 2020-21 has been impacted by the Covid-19 pandemic therefore many of the indicators cannot be directly compared with performance in previous years or with other councils. As such, this data should be treated with caution and is best accompanied with the narrative provided by managers and presented to the Service and Performance Panel in June 2022.

	Total Number of Indicators	Improved	Stable (less than 1 pp change)	Decline	Baseline	Data not available	Not directly comparable
All Services	100	22	10	39	2	17	10

Breakdown by Framework Area:



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

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

The service areas where performance was among the best were school leaver destinations with 98.3% of young people moving to positive destinations compared with 95.3% nationally, placing us 2nd of the 32 local authorities. The average time in weeks taken to deliver a commercial planning application decision increased on the previous year from 7.6 weeks to 7.9 weeks, this compares to 9.2 weeks for the family group and 11.1 nationally and remains within the national target time of 8 weeks. It is also noted that this excellent performance was delivered during the pandemic working environment. Also, the percentage of the Council's procurement spent on local small/medium enterprises increased from 25% to 27.2%. The drive to increase local spend within South Ayrshire is on the increase with projects underway to identify areas of spend that local businesses can apply for. Work has progressed in terms of communicating national framework opportunities with local suppliers in conjunction with the Community Wealth Building Team.

The services area where performance was poorest was in the % of unemployed people assisted into work from Council operated / funded Employability Programmes which fell from 19.6% in 2019-20 to 7.9% in 2020-21, compared to 6.0% nationally, this was due to Covid-19 as employability programmes paused during the pandemic. Although officers supported clients there was limited opportunities for progression. The adult 65+ home care costs increased by 20% which is in line with the family group average of 19% but far higher than the Scottish average (6.4%). It is anticipated that this will need to rise further given the significant workforce challenges with recruitment and retention in the care sector. In addition, re-admission to hospital with 28 days continue to be a problem. Investment in reablement, support around care homes, enhanced intermediate care and teams around the practice during 2020-21 were aimed at strengthening community supports. System pressures due to Covid-19 during 2020-21 had a negative impact on this measure across Scotland. During 2022-23 South Ayrshire HSCP is working with NHS Ayrshire & Arran to implement a Hospital at Home team to provide an alternative to acute admission.

Financial Statements

Introduction

The financial statements for 2021-22 and associated notes are set out on pages 31 to 69 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.

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. The Council's current Long Term Financial Outlook (LTFO), published in October 2021, covers the period 2022-2032 and, using a scenario-based planning approach, indicated a potential budget gap of between £36.2 million and £171.5 million over the the ten-year period of the plan. Taking this longer-term approach enables the Council to give early consideration to forecasting pressures in later years and take a measured approach to addressing them. It will also provide greater flexibility in financial planning by establishing a robust framework for the role of reserves in supporting planned expenditure and also considering how these reserves will be replenished.

Alongside this LTFO, a Medium-Term Financial Plan (MTFP) was also published. The MTFP (2022 to 2025), using a scenario-based planning approach, indicated a potential budget gap of between £8.6 million and £52.3 million over the the three-year period of the plan. The purpose of the MTFP, through an eight point budget strategy, is to provide a clear direction on how the Council will manage its financial resources in the short to medium term to ensure they are deployed effectively to achieve Council Priorities and objectives. It plays a vital part of decision-making and forms the basis of the Council's stewardship over taxpayer's funds. It is an integral part of the Council's financial framework and draws much of its supporting context and evidence from the LTFO. The LTFO and MTFP can be found here:

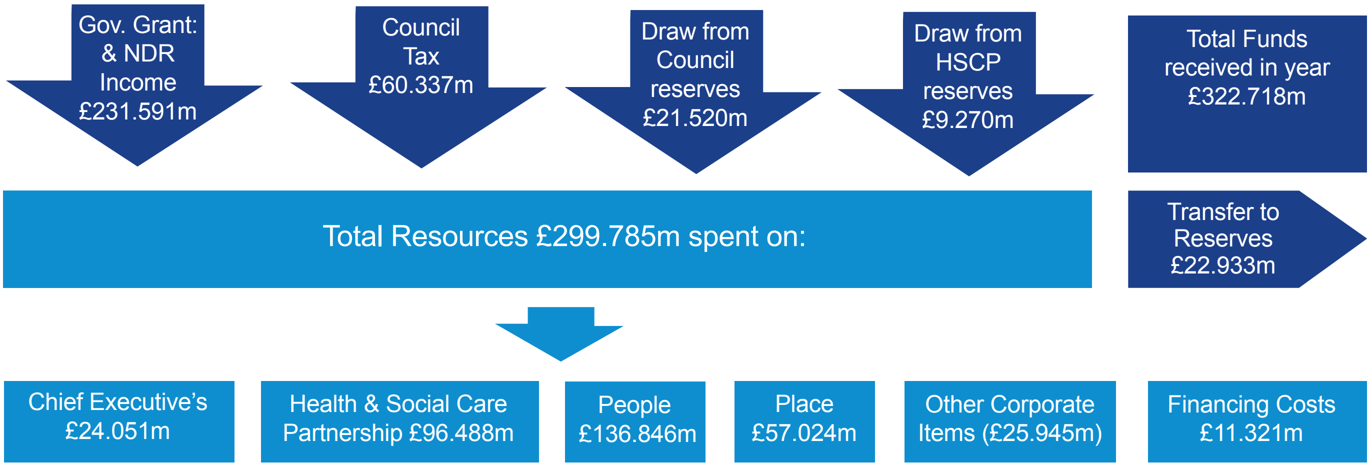
Financial Performance

Financial Performance Monitoring

Financial information is a key element of the Council's performance management framework with regular reporting to the Council's Cabinet. The Council's General Fund financial performance is presented in the Annual Accounts that follow this management commentary. The Comprehensive Income and Expenditure account Statement (CIES) on Page 31 sets out the Council's funding and spending in accordance with accounting requirements which is different to the way we report performance internally. The Expenditure and Funding Analysis (EFA) on page 36 provides the link between the budget management reports and the CIES.

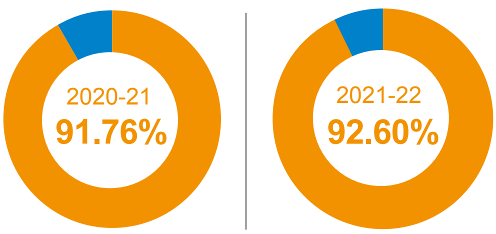
General Fund Revenue

The General Fund is funded by Government Grant, Council Tax Revenues and draws from accumulated reserves. The analysis below shows how the resources were used during 2021-22.



The Councils contribution to the Health and Social Care Partnership (HSCP) included an additional £3.277 million in 2018-19 which was drawn down from reserves to offset an in year overspend. A repayment of £0.291 million was made in 2019-20 followed by further repayments of £1.092 million in both 2020-21 and 2021-22, leaving a remaining balance of £0.802 million to be repaid in 2022-23. Further details on service out-turns can be found in the Budget Management report submitted to Council of 29th June 2022 and can be found at: Committee Agendas, Papers and Minutes

Actual net service expenditure as a percentage of budget



Although the actual % spend against budget is greater in 2021-22 than 2020-21 it is much less than in the years prior to the impact of Covid-19 (97.73% in 2019-20). This is primarily due to the additional funding provided by the Scottish Government. A proportion of which is being carried forward as part of the Covid-19 reserves for use in 2022-23.

Covid-19 - Impact on General Fund Revenue

The initial indications at the start of 2020-21 were that the pandemic presented a significant risk to the finances of the Council which could result in reductions to services. This risk lessened considerably in 2020-21 and lessened further in 2021-22 as the Scottish Government reacted to the unprecedented events by providing support to local businesses and local communities across Scotland through substantial financial support packages to, and administered by, Councils.

South Ayrshire administered during 2021-22, on an agency basis, over £17.6 million (2020-21: £42.5 million) of combined business support grants to local businesses and payments to communities and individual households for various national support schemes such as child bridging payments, received £3.9 million (2020-21: £13.9 million) of grants for specific Covid-19 support programme activity such as Local Authority Covid-19 Economic Recovery and Education recovery activity. The council also received £5.5 million of un-ringfenced funds via general revenue grant increases to compensate for Covid-19 cost impacts and loss of income encountered in Council service provision during the pandemic.

The financial impact on revenue budgets has been carefully monitored throughout the year with regular reports being presented to the Leadership Panel detailing the ongoing impact on Council finances. It is recognised that there will continue to be additional costs incurred in supporting the recovery and renewal process as we continue to transition out of the crisis during 2022-23.

The detailed impact on Council expenditure and income can be found in the 2021-22 Budget Management Out-turn report considered at the Council meeting of 29 June 2022. this can be accessed at Committee Agendas, Papers and Minutes.

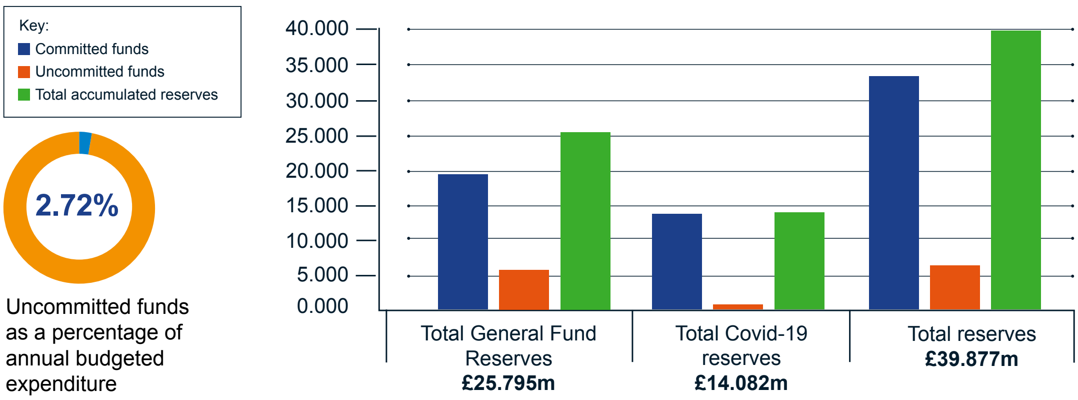
Accumulated General Fund Reserves

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 £37.373 million from 2020-21 and the movement during the year on this balance, agreed as part of the original 2021-22 budget and through decisions taken during the year, was as follows:

Opening balance		£37.373m
Drawn from reserves during the year £21.520m for:	2021-22 earmarked spend	(£20.894m)
	Capital expenditure contributions	(£0.626m)
HSCP partial repayment		£1.092m
2021-22 surplus		£22.933m
Closing balance carried forward		£39.877m

The chart below shows a breakdown of the £39.877m million accumulated reserves held at the end of 2021-22 between committed and uncommitted funds broken down in to General Fund and Covid-19 funds.

2021-22



Further detail on the reserve balances held can be found in Note 6 on page 42 and in the 2021-22 General Service Budget Management Out-turn report which can be found at: Committee Agendas, Papers and Minutes

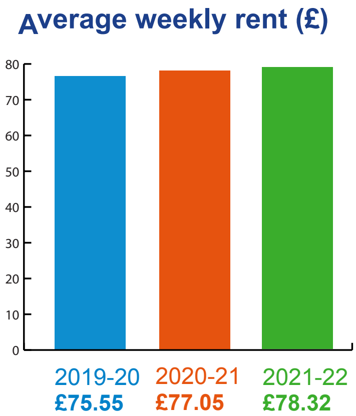
The South Ayrshire HSCP is holding it's own reserves of £24.768 million, encompassing £11.713 million of Scottish Government Covid-19 funding received in advance of spend plus £7.850 million of general earmarking of funds for use in future years and £5.205 million of a general unallocated reserve. The reserves held by the partnership are not included with the Council's £39.877 million shown above.

The Council keeps its level of balances under review and, as per the approved Council Financial Strategy, aims to maintain an uncommitted balance of generally between 2% and 4%, but as a minimum at least 2% of annual running costs. Any balance in excess of this provides additional flexibility until used or earmarked by the Council. The Council plans to re-assess its level of reserves as part of its Financial planning processes during 2022-23.

Housing Revenue Account

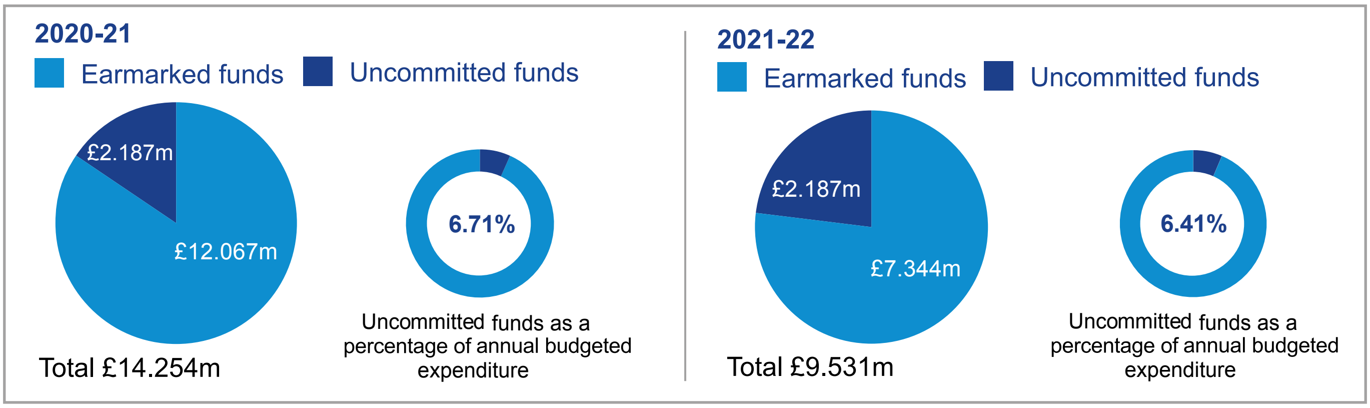
In addition to Government funding, Non-Domestic Rates and Council Tax income, the Council also receives income each year from Council house rents. There is a legal requirement for Councils to maintain a Housing Revenue Account (HRA) – separate from all other Council services – for all housing stock held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



The Council continues to make ongoing capital investment in its' housing stock to improve and maintain properties in line with the Scottish Housing Quality Standard and the Energy Efficiency Standards for Social Housing. Levels of investment are informed through assumptions contained in the Housing Revenue Account (HRA) Business Plan and the HRA Capital and Revenue budget is approved annually by Council. In Late 2020, the Council carried out a rent setting consultation with tenants and in January 2021, the Council approved a rent increase of 1.5% each year for the 3 year period from 2021-22 to 2023-24

In 2021-22, gross rent arrears were £1.242 million which was 3.92% of the rent due in the reporting year. This was an increase on £1.192 million (3.8%) in 2020-21. Despite the increase of £0.050 million, the Council remained the second best performing Scottish local authority for gross rent arrears and the best performing Local Authority in respect of current tenant arrears which stood at 1.96% of the rent due. During 2021-22, the recovery of income and provision of support to households has been challenging. The Council has continued to manage rent arrears, taking account of relevant temporary Covid-19 legislation and associated restrictions on legal recovery action. Following the introduction of the Scottish Government's Tenants Hardship Grant, the Council identified tenants who were eligible for support and has assisted 84 council tenants with awards totalling £0.091 million. During the first reporting quarter of 2022-23, there has been a rise in rent arrears, with an increase in the number of tenants in arrears and an increase in the number of tenants claiming Universal Credit. The management of rent arrears and recovery of rental income is an area that is closely scrutinised within the Housing Service, and Officers continue to actively reach out to households at early stages to provide advice, information and support to tenants in managing their ongoing rent obligations and making affordable repayment arrangements for arrears.

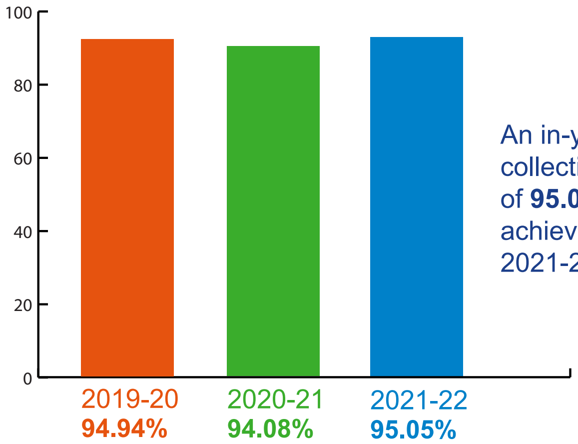


Earmarked reserves have reduced during 2021-22 mainly due to the draw down of funds to support capital investment previously approved for that purpose. A significant proportion of the remaining reserves held by the HRA are committed to assist in future capital investment in the Council's housing stock.

Further detail on the uncommitted balances held can be found in the 2021-22 HRA Budget Management Out-turn report which can be found at: Committee Agendas, Papers and Minutes.

Council Tax Collections

In-year Collection Rate (%)



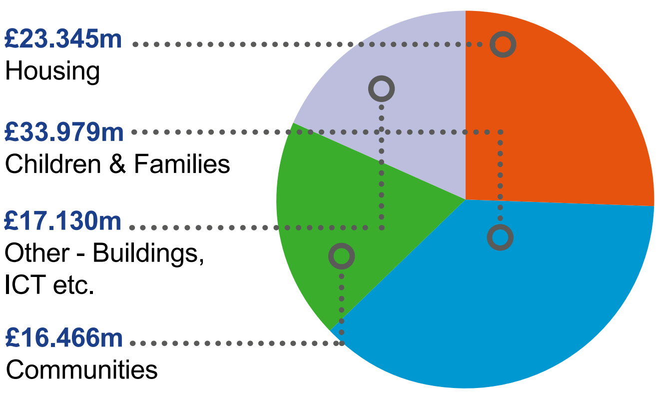
An in-year collection rate of **95.05%** was achieved in 2021-22

Actual Council Tax collected during 2021-2022. This equated to **19%** of the overall funding required to meet net expenditure for the year (2020-21: £60.328m or 20%).

Capital Expenditure and Income

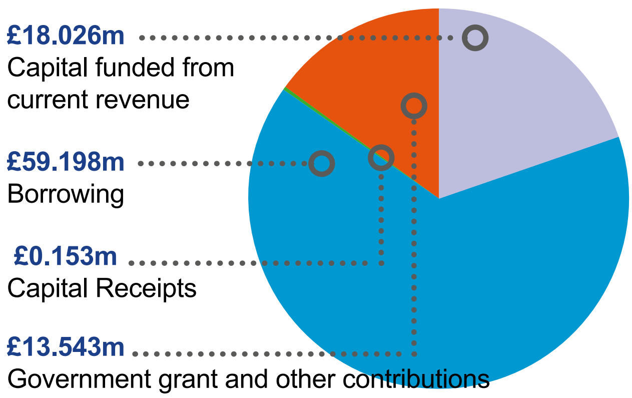
The Prudential Code for Capital Finance in Local Authorities governs the level of capital expenditure taking into account affordability and sustainability. The Council continued to make significant capital investment in schools, roads, leisure, ICT, housing and other capital projects during 2021-22 and spent in total £90.920 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: £90.920m

Income



Total: £90.920m

Capital Investment 2021-22

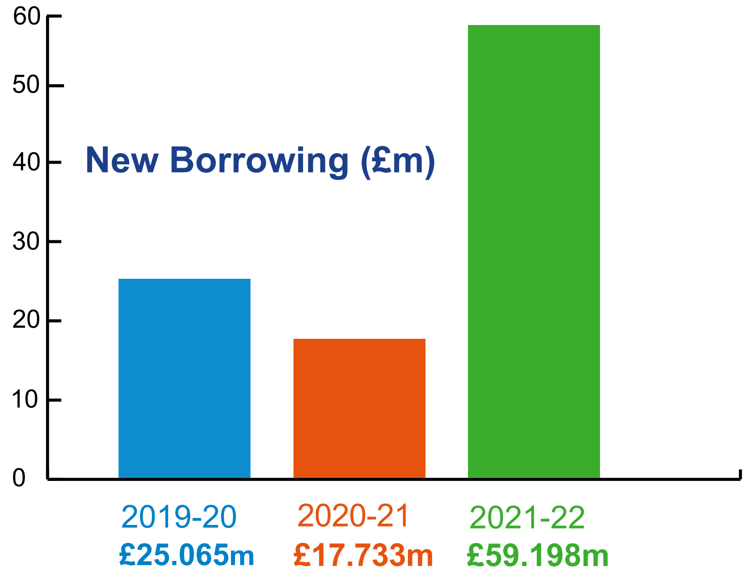
During 2021-22, the gradual easing of Covid-19 restrictions by Government has meant that the Capital Investment Programme has been able to be progressed as contractors have re-mobilised to undertake works.

However, construction inflation has been steadily rising due to material scarcity and a buoyant market. Construction costs returned through recent tendering exercises are showing significant increases. In October 2021, Leadership Panel approved a paper which adjusted the General Services Capital Programme for 2021-22 and future years to reflect construction inflation as a result of Brexit and for the re-profiling of a number of projects to reflect current projections. The programme was also extended by two years until 2032-33 resulting in a 12-year capital programme.

Moving forward into 2022-23, the major risk to the Programme relates to the supply of materials and the cost of these. The UK's departure from the EU and recent world events, including the conflict in Ukraine, are also impacting on the construction industry.

The Annual Treasury Management and Investment Strategy applicable for the 2021-22 financial year was approved by Council on 4 March 2021. The information contained in the Strategy provides the detailed information, and narrative on the authority's capital investment plans, treasury management (borrowing and investments), prudential indicators and the loans fund liabilities. Where that capital investment is financed from borrowing this is required to be prudent, affordable and sustainable. The 2021-22 Strategy can be found at Committee Agendas, Papers and Minutes

The 2021-22 Treasury and Investment annual report, which compares the actual performance against the plan was considered by the Audit and Governance Panel on 22 June 2022 and remitted to Cabinet for approval.



New 2021-22 Borrowing

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

Balance Sheet

The Balance Sheet on page 34 summarises the Council's assets and liabilities at 31 March 2022. Total assets have increased from £855.410 million at 31 March 2021 to £933.290 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. Total liabilities have decreased from £526.528 million to £496.455 million. This is primarily due to a significant decrease in the pension fund liability following the latest valuation.

Additional Information

Pension Fund

The Council is required to disclose its share of Strathclyde Pension Fund's assets and liabilities, both current and future. The disclosure information is provided to the Council by the Pension Fund actuaries following their annual valuation of the Fund. Formal valuations take place every three years, with the latest formal valuation applicable for 2021-22 having taken place on 31 March 2020. The Council's Balance Sheet shows a pension liability of £17.001 million at 31 March 2022 compared with £117.523m at 31 March 2021. The movement is mainly due to changes in valuation assumptions made by the Council's actuary. The valuation is only applicable at the Balance Sheet date and fluctuates on a daily basis, primarily due to its reliance on stock market movements.

Group Accounts

The Council has an interest in a number of other organisations and is therefore required to prepare Group Accounts. The Group Accounts are included separately in the Council's core statements and consolidate the results of the Council with its share of the results of two subsidiaries and four associates. The inclusion of the subsidiaries and associates in the Group Balance Sheet increases both the net assets and reserves by £55.811 million (£44.417 million in 2020-21), representing the Council's share of the net assets in these entities.

Common Good and Trust Funds

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

The Council also administers several Trust Funds, some of which are registered charities. Details of income and expenditure accounts and balance sheets can be found on page 102 of these accounts.

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

Outlook and Key Risks

Financial Outlook

The financial outlook has never been more uncertain for Local Government due to a number of factors such as rising inflation and the cost of living crisis; the impact of the crisis in Ukraine on the world economy; high levels of ring-fenced funding for specific national government priorities; the unknown financial consequences associated with implementation of a National Care Service and the continuing one year annual basis for Scottish Government settlements. Meanwhile it is still unclear what the long-term financial impact of the pandemic will be.

The Scottish Government published its first Resource Spending Review since 2011 in May 2022 highlighting rising inflation and a need for greater investment to aid Covid-19 recovery and to shield people from the impact of the cost of living crisis. The review stated the need for the public sector to reform to become more efficient, focussing on:

- Digitalisation;
- Maximising revenue through public sector innovation;
- Reform of the public sector estate;
- Reform of the public body landscape; and
- Improving public procurement.

The review outlined the commitment to increase social care investment over the next 5 years as well as establishing a National Care Service but was also clear in its message that there will be a freeze on Local Government funding for the next few years. This will be a significant challenge for the Council and Local Government as a whole. If a significant proportion of our funding remains fixed, and our costs continue to rise, either the burden of this funding gap will fall to be met by the local Council Taxpayer or services will need to contract within the funding available.

The Council's 2022-2032 Long Term Financial Outlook (LTFO) and 2022-23 to 2024-25 Medium Term Medium-Term Financial Plan (MTFP) published in October 2021, included assumptions around various factors including amongst other things, Scottish Government funding levels, levels of inflation, including pay increases and the impact of demographic changes.

The purpose of the MTFP is to provide a clear understanding of the expected resources that will be available in the short and medium term to deliver Council Priorities and objectives. It plays a vital part of decision-making and forms the basis of the Council's stewardship over taxpayer's funds. It is an integral part of the Council's financial framework and draws much of its supporting context and evidence from the LTFO.

Contained within the MTFP is a medium-term budget strategy that sets out the key principles to ensure a more robust and strategic approach to financial planning is in place that will facilitate the preparation of a revenue budget for the next three years.

The effects of Covid-19, Brexit, general inflation and the cost of living have all changed since the publication of the LTFO and MTFP in October 2021. The Council's MTFP needs to be an evolving document and therefore it will be updated in 2022-23 and will consider additional funding pressures, provide an update on funding arrangements, as well as savings requirements and update various financial assumptions.

It is essential that to manage the risks identified that effective planning and managing of resources is prioritised and therefore following the recent local Government Election in May 2022, a new Cross Party Working Group has been established by the Councils Administration to consider in detail the financial sustainability of the Council going forward during 2022-23.

The refresh of the Medium-Term Financial Plan is key to understanding availability of financial resources alongside expected demand and service redesign, this will be developed in conjunction with the workforce plan and will incorporate the output from the Strategic Change programme that is now well established within the Council.

Strategic Change Programme

The Councils Strategic Change Programme 'The South Ayrshire Way Strategic Change Programme – Preparing for the Future' , first introduced in March 2020, has gathered pace during 2021-22 with the establishment of a Strategic Change Executive, Chaired by the Director – Place. Regular update reports were presented to Leadership Panel through out 2021-22, with the latest update presented to Cabinet in June 2022.

The overarching high-level themes of the programme are:

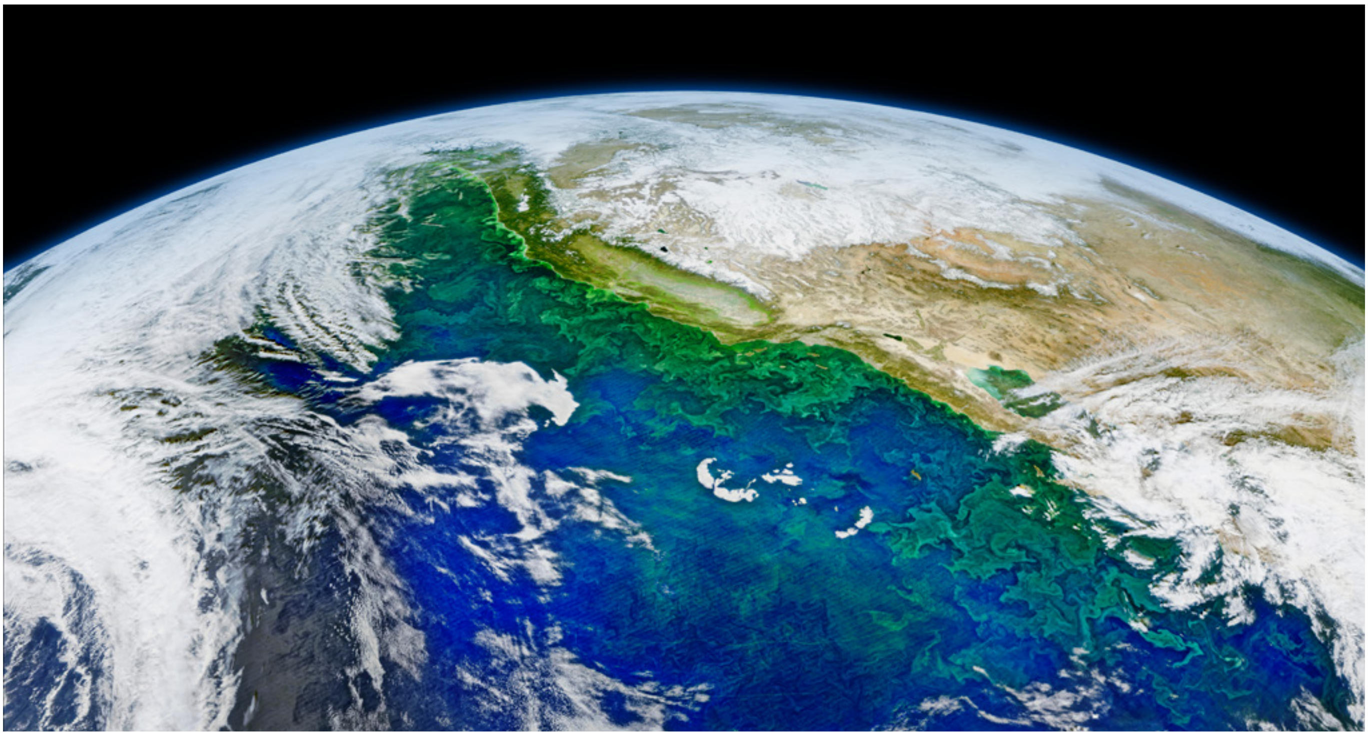
- Delivering Council Plan priorities – focusing our services and expenditure on activities that support the Council Plan priorities.
- Services which are designed to be fit for purpose and sustainable - ensuring that we carry out systemic and structural reviews of our services which will seek to identify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

As the programme has progressed, more projects have moved into delivery. There are currently 23 projects on the Programme; 18 projects at implementation stage; 4 are in planning and 1 project has completed and moved into benefits realisation.

Engagement with the Improvement Service and other local authorities informs and validates South Ayrshire Council's approach to measuring and evidencing productivity. Internal engagement across services, with Human Resources, staff and Trade Unions will continue as we develop our approach to managing productivity gains.

Climate Change

In June 2019, South Ayrshire Council adopted its first Sustainable Development and Climate Change Strategy. The strategy set out the Council's overall goal for sustainable development and climate change that: 'People in South Ayrshire enjoy a good quality of life while working to reduce greenhouse gas emissions to avoid the worst effects of climate change and build resilience to adapt to its impacts'.



In October 2020 South Ayrshire Council adopted stretching targets for the reduction of the organisation's greenhouse gas emissions, with the aim of delivering against the council's public sector climate change duties as well as its moral and ethical obligations in this area. At the same time the council also committed to make a green recovery from Covid-19. This commitment intends to ensure that the disruption brought by the pandemic is harnessed as an opportunity for positive change while leaving the negative behaviours, habits and impacts of both the pre Covid-19 era and the pandemic in the past. By moving forward in ways which build and develop on the positives we will be best placed to deliver a resilient and low carbon future with a focus on wellbeing and future generations.

Climate change has been identified as a strategic risk and as such features in the Council's Strategic Risk Register as one of the four strategic risks classified within the Protection Theme.

In 2021-22 the Council introduced it's first Carbon Budget alongside its Financial Budget and continued this approach with the introduction of a second carbon budget in 2022-23. This comes in the context of a nationally declared Climate and Ecological Emergency and following COP26 held in Glasgow last year. The clear need for action has never been greater or more compelling.

This approach is in its infancy and there are many unknowns about potential future opportunities and indeed challenges in relation to climate change solutions in the years between now and our 2030 and 2045 target dates. However, it is only with improved understanding of how our emissions relate to the services we provide and the levels that we need to be aiming for that we can begin to adapt to deliver in a way that is fit for a resilient low carbon future. This is what the carbon budget seeks to do, taking our engagement and consideration of this critical agenda to new levels with its introduction. All services continue to be involved in the development of our annual carbon budget, and all will be central to the delivery of our climate change and sustainable development targets and ambitions going forward.

Delivering the carbon budget will undoubtedly require financial investment and changes to the way in which we deploy our resources. The carbon budget processes are intended to help the Council to meet requirements in a way which is planned and structured, recognising the financial costs but striving to meet them in the most resource efficient way possible.

The full costs of becoming net zero carbon are not known at this point, and many variables, including technology and energy prices, will change over the period between now and 2030 and 2045. The Council will seek and pursue external funding opportunities where possible, however it is important for the Council to be aware that investments from within the Council's own budgets will also be required.

Each year, in line with the Climate Change (Scotland) Act 2009, the Council reports on and makes available publicly via submission to the Scottish Government its Annual Climate Duty Report. The report covers a variety of information on climate change activity, governance arrangements and emissions data. The most recent report was considered by the Leadership Panel in November 2021 and can be found at Committee Agendas, Papers and Minutes.

Brexit/EU withdrawal

The Council continues to carefully monitor the impact of the United Kingdom's withdrawal from the European Union on the local economy and the Council's financial plans. The agreement of a trade deal between the UK and the EU has resulted in the reduction or removal of many of the potential short-term risks, particularly those arising from the imposition of tariffs, port congestion and supply chain difficulties, which could have resulted in business failure and higher unemployment however recent developments in this area require careful monitoring to consider any new emerging impacts.

Key Risks

The top risks for the Council are set out in our Strategic Risk Register which is reviewed and updated by the Council's Corporate Leadership Team (CLT). The Strategic Risk Register is regularly presented to the Audit and Governance Panel for review and scrutiny and thereafter presented to Leadership panel for approval. The register contains twelve strategic risks broken down across three risk themes; Governance, Protection and Resources.

The Strategic Risk Register was updated during 2021-22 to ensure that any new and emerging risks were recognised and mitigating actions identified.

The information overleaf summarises the top strategic risk under each risk theme facing the Council, as determined during 2021-22, alongside the mitigating actions. The most up to date Strategic Risk Register, as presented to the Audit and Governance Panel in September 2022, can be found here:

In addition to the key risks shown overleaf a further significant risk is recognised in terms of Local Government funding and the significant budget gaps identified in the Financial Strategy section on Page 8. Further details to maintain our financial sustainability will be presented in the updated Medium Term Financial Plan to be brought to Cabinet in the coming months.

Risk theme	Governance	Protection	Resources
Risk title	External change	Child and Adult Protection	ICT - Digital Resilience, Protection and Capability
Potential risk	External factors out with the Council's control such as Covid-19 or Brexit may adversely impact on ability to fulfill objectives and deliver critical services	Council and HSCP fail to provide adequate protection of children and adults There are increased levels of hidden harm in our community as a result of lockdown and reduced community presence of services.	Major or widespread ICT failure will adversely affect delivery of Council services. ICT failure risks include non-compliance, failure of business systems, cyber-attack, and failure of ICT equipment.
Potential effect	Requirement to re-allocate resources, failure to deliver services to an acceptable level or drive desired improvements. Restrictions on budget, reputational damage	Accident, incident or crime resulting in harm or abuse to child or adult. Legal prosecution/civil litigation. Reputational damage. Financial impact of any prosecution or claims	Inability to provide key services and recover quickly. Reputational damage, financial loss, litigation.
Mitigations	- Horizon scanning. - Watching brief on national environment. - Risk and Safety team supports Ayrshire Local Resilience Partnership (ALRP) - Chief Executive attends Strategic ALRP - Interaction between Health / Councils and partners has increased in response to COVID-19 and allows for increasingly efficient collaboration partnership working that can be used in all emergency planning.	- There are monthly Chief Officer Group (COG) meetings to monitor the impact of Covid-19 on public protection matters. - monthly Public Protection sub groups (Child Protection; Adult Protection; Violence Against Women/ Criminal Justice and Alcohol and Drugs Partnership) - Established governance in place via Clinical and Care Governance	- Resilient infrastructure in place with dual data centres, duplicated network communication paths, internet links, and server hardware - External contracts established with service providers for technical support and expertise across critical technologies. - Disaster Recovery Plan (DRP) in place for critical systems. - Bespoke ICT Risk Register in place, which is subject to review as part of standard operating practice. - Integrity Group meets regularly to consider cyber security issues and develop further mitigations as required. - Compliance standards established as part of technology and process governance framework.

A full copy of the Strategic Risk Register presented the Audit and Governance Panel in November 2021 can be found at: Committee Agendas, Papers and Minutes.

The next Strategic Risk update will be considered at the Audit & Governance Panel in September 2022.

Conclusion and Acknowledgement

The Council's favourable financial position at 31 March 2022 reflects the collective efforts of elected members, service managers, directorate management teams and their staff, and Corporate Finance staff in maintaining sound financial management processes during another extremely challenging year. This favourable position shows another strong performance over the year and demonstrates longer term stability in service delivery going forward. The continuing impact of the Covid-19 pandemic and subsequent recovery process continues to provide significant uncertainty for the Council, however through our Council governance arrangement for responding to the emergency, and resilience plans we aim to manage and mitigate risks in a robust way to protect the sustainability of Council finances.

We would like to acknowledge the significant effort of all the staff across the Council, especially during this unprecedented lockdown period who contributed to the preparation of the Annual Accounts and to the budget managers and support staff whose financial stewardship contributed to the financial position at 31 March 2022.

Eileen Howat
Chief Executive

Councillor Martin Dowie
Leader of South Ayrshire Council

Tim Baulk BA Acc CPFA
Head of Finance, ICT and Procurement

Section 2: Statement of Responsibilities

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

The Council's responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to ensure that the proper officer of the Council has responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). For South Ayrshire Council that officer is the Head of Finance and ICT;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003); and
- approve the Annual Accounts for signature.

I confirm that these Annual Accounts were approved for signature by the Audit and Governance Panel at its meeting on 23 November 2022.

The Head of Finance and ICT's responsibilities

The Head of Finance and ICT, as Section 95 Officer, is responsible for the preparation of the Council's Annual Accounts in accordance with proper practices as required by legislation and as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (*The Code*).

In preparing these Annual Accounts, the Head of Finance and ICT has:

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

The Head of Finance and ICT has also:

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

I certify that the Annual Accounts statements give a "true and fair view" of the financial position of the Council at the reporting date and the transactions of South Ayrshire Council and its group for the year ended 31 March 2022.

Councillor Martin Dowey
Leader of the Council

23 November 2022

Tim Baulk BA Acc CPFA
Head of Finance and ICT

23 November 2022

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. 2021-22 is the first full year of compliance with the CIPFA Financial Management Code 2019 (FM Code). The FM Code provides guidance for good and sustainable financial management in local authorities to provide assurance that authorities are managing resources effectively. We have assessed our compliance and are satisfied that our governance and related processes meet the requirements of the Code. 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 – Democratic Governance, South Ayrshire Council, County Buildings, Wellington Square, Ayr, KA7 1DR.

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

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

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

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

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

The Purpose of the Governance Framework

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

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

The governance framework has been in place at South Ayrshire Council for the year ended 31 March 2022 and up to the date of approval of this statement of accounts.

The Governance Framework

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

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

Internal Financial Control

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

In particular the system includes:

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

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

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

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

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

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

The Chief Internal Auditor prepares an annual internal audit plan which outlines the programme of work to be undertaken. The plan is developed utilising a risk-based methodology and takes into account the requirement placed upon the Chief Internal Auditor to deliver an annual internal audit opinion. The plan needs to be flexible to reflect the changing risks and priorities of the organisation. The plan, and any material changes to the plan during the year, is approved by the Audit and Governance Panel. The annual assurance statement from the Chief Internal Auditor for the 2021-2022 financial year states "Internal Audit can provide reasonable assurance over the framework of governance, risk management and control and that adequate controls were in place, and were operating throughout the Council in 2021-2022".

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

Internal Audit use a system of common definitions in internal audit engagement opinions, as set out by CIPFA in their guidance of April 2020. Definitions are broadly in line with those already used. This aids the reader of the report in understanding control weaknesses. 'Substantial assurance' is where a sound system of control exists and is operating effectively; 'Reasonable assurance' is where controls are generally in place but some issues are identified. 'Limited assurance' is where significant gaps are identified, and improvements are required to achieve the objectives in that area. 'No assurance' is where immediate action is required to address fundamental gaps or weaknesses in the system. Of the seventeen reviews carried out by Internal Audit during 2021-2022, ten resulted in a 'substantial assurance' opinion, five resulted in a 'reasonable assurance' opinion and two resulted in a 'limited assurance' opinion. Management have continued to react positively to all audit reports and have, in the main, implemented audit recommendations in order to enhance internal controls and to minimise the risks associated with audit findings.

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

Review of Effectiveness

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

Relating this, a year-end assessment against each of the 21 sub principles within the Council's Framework has been undertaken and signed off by the respective Service Leads / Heads of Service. These assessments were scrutinised by the Audit and Governance Panel in June 2022, ahead of formal consideration of the Council's unaudited Annual Accounts also in June 2022 as agreed with the Council's external auditor.

2021-22 Assessments of each aspect in the Delivering Good Governance Framework					
Behaving with integrity	▶	Sustainable economic, social and environmental benefits	△	Managing performance	▶
Demonstrating strong commitment to ethical values	△	Determining actions	▶	Robust internal control	▶
Respecting the rule of law	▶	Planning actions	△	Managing data	▶
Openness	▶	Optimising achievement of intended outcomes	▶	Strong public financial management	▶
Engaging comprehensively with institutional stakeholders	▶	Developing the Council's capacity	△	Implementing good practice in transparency	▶
Engaging with individual citizens and service users effectively	▶	Developing the capability of the Council's leadership	▶	Implementing good practices in reporting	▶
Defining outcomes	▶	Managing risk	▶	Assurance and effective accountability	▶
Key: ▶	Effective	△	Effective but scope for improvement	●	Requiring improvement

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

Review of 2021-22 Planned Improvement Actions

The following improvement actions were identified in the 2020-21 Annual Governance Statement and progress is shown against each action in the table below. These Actions, where not fully implemented, have rolled over to the 2022-23 Improvement Action Programme:

Core Principle	2021-22 Improvement Action	Progress
Ensuring openness	Enhanced tools to capture client satisfaction data to be added to the Council's Internet Site	New page templates now include enhanced tools to capture client satisfaction data as standard. Old website now being migrated to digital services platform and, as they are recreated, the necessary tools are added. Around 90% of old site now successfully migrated (substantially implemented).
	Procurement and installation of an audio and visual solution for remote and hybrid Council meetings which will enable public access to those meetings	New microphones now installed within County Hall, procurement and installation complete (implemented).
	Review of governance arrangements for the Integrated Joint Board (IJB) and Ayrshire Roads Alliance (ARA)	There are two aspects to the governance review - the first was dictated by the review of the Scheme of Integration which was led by the Director of Health and Social Care Partnership, and which completed to allow the recommendation on the required changes to be made by the parties to the Scottish Government. The second part of the review is how the governance of the IJB is currently working regarding its relationship with the Council. Here the consideration is where both Strategic and operational matters and reports require to be considered by both the IJB and Council in terms of both the IJB Scheme and the Council's Scheme of Delegations. This action for the IJB governance has been completed (implemented). The Place Directorate have reviewed the list of assets which ARA had advised were not part of the Agreement reached with them. Place have agreed a maintenance and repairs schedule for these assets with ARA. These include footpaths, cycle lanes, carparks and most recently a pier. These arrangements and amendments to the legal arrangements for areas of work carried out by ARA have been captured in a Variation Agreement. ARA also carried out a service review which was reported to members in South and East Ayrshire Councils and to the Shared Services Committee. The governance arrangements in the agreements by both parties were considered by the monitoring officers in both Councils. It was noted that the governance provisions continued to be followed and allowed members to be informed and for decisions to be taken by the Joint Committee and separately to the respective Councils decision making Panels where additional budget was required. The performance reports for ARA continue to be reported to the Shared Service Committee. These performance criteria can be revisited in terms of the information or presentation format if there are instructions to do so by the Place Directorate. This was considered by the Assistant Director of Place but there was no

		instruction to change these arrangements at this point (implemented).
	Development of a procedure to highlight the difference engagement has made	Officers are currently concluding the Consultation Institute training programme, made up of colleagues from across the council who are responsible for consultation in their service area. A new Consultation Officers group has been established with the first meeting in mid May 2022. This was the final action from the Community Engagement Strategy. This group will be tasked with carrying forward this action as part of their wider remit. (implemented).
	Development of an integrated assessment tool incorporating equalities, health in all policies, Fairer Scotland Duty etc. to ensure key strategic priorities are considered at the start of the policy development process	Aberdeenshire Council advised their online integrated impact assessment (IIA) process is successful on SharePoint. As the Council has this platform in place, we checked with Digital Services that Equalities can work with ICT Service Advisors to implement our Integrated Impact Assessment (IIA) tool process on SharePoint in South Ayrshire Council. However, as part of the M365 programme, there is a pilot of another system awaiting sign off. This should be finalised by late summer 2022. At this stage the Equalities IIA should be able to be designed and developed on SharePoint. Training will be provided by the M365 Project Team/ICT Services/Equalities to deliver this toolkit to officers by December 2022 (not fully implemented).
Defining outcomes	Business cases to be developed to include details as to how Ayrshire Growth deal projects will address Inclusive Growth	Inclusive Growth is core to each of the business cases that have been submitted to Government. Once approved, the full business cases will be developed, and benefits realisation plans come into force. This will provide monitoring tool for inclusive growth (not fully implemented).
	Governance to ensure Climate Change considerations in line with delivery of the Council's Climate Change Strategy and Climate Change Policy	The Sustainable Scottish Network (SSN) Local Authority Forum is taking forward work to agree a climate change impact assessment or reporting tool to allow consistency across all local authorities (not fully implemented).
Managing risk and performance	The conclusion and outcomes from the review of the financial and associated operating systems will directly inform subsequent workstreams to improve the flow of financial management information to budget holders	As development of the system has progressed, some changes to the original perception of how the system would work have become evident. For example, due to the prohibitive cost of licences, budget holders will not be able to access the system directly but will instead liaise closely with Finance staff to provide and receive information to and from the system. The system will promote the adoption of best practice and help drive further improvement in financial management (not fully implemented).

Other 2021-2022 Governance Developments

Members and senior officers use performance management information as part of a consistent and well-managed approach to scrutiny and reporting. The Service and Performance Panel is becoming effective at demonstrating the use of performance management information, data and benchmarking, linked to service planning. Improvements in performance management and scrutiny are leading to a greater level of change and improvement.

Due to the Council Elections in May 2022, Leadership Panel agreed that the Council Plan should be extended by one year to 31 March 2023. The Performance Management Framework was updated in February 2022 following the Best Value Audit. This update included quarterly reporting on performance data, where this is available, from April 2022 and the inclusion of targets. Targets have been set for Local Government Benchmarking Framework indicators where appropriate.

The Council's political decision-making structures continue to be refined. During 2021-22 the Council's management structure supported delivery of the Council's strategic objectives. Chief Officers continue to work in conjunction with service leads to refine responsibilities to focus on service delivery and enhancements, as well as achieving balanced budgets.

To ensure the approved level of governance is in place for the change programme, reports providing updates on the success of the change programme were delivered to Leadership Panel in October 2021 and February 2022.

Council commitments to the Council's purpose, vision and values and to highlighting employees' contribution to the Council's wider ambitions continued throughout 2021-22.

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

Council approved the majority of proposals for the Council's Future Operating Model in March 2022. An Implementation Group, chaired by an Assistant Director - Place, has been established to take this work forward.

The 2021 Best Value Audit recommended that 'the Council should improve and embed workforce planning, so that service workforce plans are developed consistently across the Council. The plans should include clear links to the Council's priorities and to its Strategic Change Programme'. In 2022 services completed a workforce planning template which will inform the Council's 2022-25 workforce plan. The Chief Executive established and chairs a Strategic Workforce Planning Group. This will be supported by an implementation team, taking a strategic and evidence-based approach to workforce planning. The implementation team will comprise representatives from across the Council and from Trade Unions. It is anticipated the related action plan will be extensive and require ongoing development and oversight during the life of the workforce plan (and beyond 2025). Aspects of the workforce plan will evolve, reflecting new and changing demands. On that basis, the implementation team will be viewed as a long-term working group, meeting on a regular basis to review progress, providing annual updates to the Council's Service and Performance Panel.

The Health and Social Care Partnership's six Locality Planning Partnerships have continued to meet over the past year. From June to August 2022, they will have a sabbatical period to allow for the potential development of a wider Community Planning Partnership based expression of Locality Planning.

The Locality Planning Partnerships have continued to consider local issues and priorities and engaged in consultation processes - nationally re. the National Care Service and locally re. the new Learning Disability Strategy. They also supported the allocation process of small grant monies - Health and Social Care Partnership monies linked to the Wellbeing Pledge and some Covid related monies, effectively around £13k per locality. Of the total funding that was committed for the small grants funding, £12,000 (£2,000 for each locality) came from the Community Planning Partnership, this was allocated via South Ayrshire Council Covid funding.

Unfortunately, due to Covid-19 restrictions the decision was taken to cancel the in-person 'Decision Day' events and a small grants process was undertaken by each locality. Local groups could apply for grants for up to and not exceeding £1,000. The spirit of the Decision Day funding was to allow smaller grass roots organisations to access modest amounts of money to support local projects. Funding applications were aligned to one or more of the Locality Planning Partnership priorities. Overall, 87 organisations applied for funding and 72 were successful.

An annual report on the Local Outcomes Involvement Plan (LOIP) was presented to the Community Planning Board in October 2021 and work continues on the delivery of outcomes for the strategic themes.

The Council has clear arrangements in place to support good governance and accountability. All performance reports, including the Council's Performance Management Framework and Annual Performance Report, are available on the Council's Public Performance Reporting area of the website. We have improved how we publicly report on the Council's performance as part of our statutory duty to make performance information available to citizens and communities and involve them more in improving services.

A digital community engagement platform has been developed with the assistance of the Convention of Scottish Local Authorities which will allow open, transparent and democratic engagement between the community and the Council.

Council Services now have access to Microsoft 365 which gives them the ability to create their own surveys and engage with the public using the M365 Forms application via the Council's consultations web page.

In line with Scottish Government Guidance, all Panel and Council meetings took place remotely due to Covid-19. Remote Panel and Council meetings have been live webcast since September 2021.

The Council's performance management framework ensures regular monitoring of progress against local and national objectives; trends over time; performance against appropriate benchmarks, authorities and comparative data. The Service and Performance Panel plays a key role in scrutiny by Elected Members.

In February 2021, the Council agreed further actions which set out the different roles and responsibilities performed by the Integrated Joint Board (IJB) and the Council in the delivery of Health and Social Care Services. This detailed the process for consultation and scrutiny followed by the Council. It also satisfied the requirements of the Ministerial Strategic Group (MSG) Action Plan by reviewing and illustrating 4 further steps the IJB were taking to finalise the matters raised on its governance processes in the MSG Action Plan. During 2021-22 all actions of relevance to the Council were completed.

During 2021-22, the Council's Delivering Good Governance Framework continued to be refined, working in conjunction with Chief Officers and service leads, reporting the outcome to Elected Members. The supporting improvement actions from this year's assessment form part of a rolling programme to address any recognised areas for development and emerging priorities.

Covid-19

In line with Scottish Government Guidance, Panel and Council meetings continued to take place remotely during 2021-22 due to Covid-19. Legislation temporarily revoked the right of the public to attend meetings on public health grounds during the pandemic. However, work was undertaken to install an audio and visual solution for remote and hybrid Council meetings to enable public access to these meetings. Remote Panel and Council meetings have now been live webcast since September 2021.

The response to the Covid-19 pandemic has been managed during 2021-22 by the Council's Strategic Recovery Group, chaired by the Chief Executive, which meets twice weekly. The Group acts as a forum for tactical operational decision making.

The Head of Legal, HR and Regulatory Services continues to attend the Ayrshire Local Resilience Partnership which was activated in response to the pandemic. The multi-agency forum helps ensure a whole system approach to the response and subsequent recovery to the pandemic.

The Council continues to support the NHS and the Health and Social Care Partnership in the delivery of Immunisation and Community Testing Programmes as required.

As adjustments to lockdown restrictions were relaxed during 2021-22, more Council services have been made available to communities and the public at large. The Council has put in place protective measures and follows Government and NHS advice in terms of the being mindful of the continuing Covid-19 pandemic risks, to allow Council business and service delivery to be maintained.

2022-23 Improvement Actions

	Core Principle	Improvement Action
A	**Behaving with integrity**	No actions planned.
B	**Ensuring openness**	Development of an integrated assessment tool incorporating equalities, health in all policies, Fairer Scotland Duty etc. to ensure key strategic priorities are considered at the start of the policy development process with review of effectiveness and relevance reported to Panel before 31 August 2021 (Link to A and C).
C	**Defining outcomes**	Business cases to be developed to include details as to how Ayrshire Growth Deal projects will address Inclusive Growth.
		Governance to ensure Climate Change considerations in line with delivery of the Council's Climate Change Strategy and Climate Change Policy.
		Revision of the Council's Land and Property Asset Management Plan.
D	**Determining the actions**	Review of the Health and Social Care Partnership Adult Mental Health Strategy.
		Contribute to the development and implementation of the Regional Economic Strategy being led by North Ayrshire Council.
		Develop new Council Plan in partnership with Elected Members and Corporate Leadership Team, which will include refreshing the Council's corporate evaluatory tool 'How Good is our Council'.
E	**Developing the Council's capacity**	Review workforce planning to better align it to service planning.
F	**Managing risks and performance**	The new Enterprise Resource Planning system will promote the adoption of best practice and help drive further improvement in financial management.
G	**Deliver effective accountability**	No actions planned.

Assurance

Subject to the above, and on the basis of the assurance provided, we consider the governance and internal control environment operating during 2021-2022 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
Chief Executive
23 November 2022

Councillor Martin Dowey
Leader of the Council
23 November 2022

Section 4: Core Financial Statements

I) Comprehensive Income and Expenditure Statement for the year ended 31 March 2022

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation or rents. Authorities raise taxation and rents to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Movement in Reserves Statement and the Expenditure and Funding Analysis.

2020-2021					2021-2022			
	Council		Group			Council		Group
Expend	Income	Net	Net		Expend	Income	Net	Net
£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000
49,434	(29,234)	20,200	20,200	Chief Executive's Strategic Office	50,694	(28,197)	22,497	22,497
176,014	(27,327)	148,687	148,474	People	161,465	(30,031)	131,434	131,221
59,703	(10,312)	49,391	49,141	Place	68,704	(12,069)	56,635	56,385
31,121	(32,322)	(1,201)	(1,201)	Housing Revenue Account	36,082	(32,832)	3,250	3,250
79,216	-	79,216	79,216	Social Care: Contribution to IJB	97,281	-	97,281	97,281
119,587	(120,382)	(795)	(795)	Social Care: Provision of Services	143,265	(144,057)	(792)	(792)
4,101	(433)	3,668	3,671	Miscellaneous Services	7,043	(9,491)	(2,448)	(2,440)
-	-	-	393	Common Good Funds	-	-	-	495
519,176	**(220,010)**	**299,166**	**299,099**	**Cost of services**	**564,534**	**(256,677)**	**307,857**	**312,897**
		57	57	Loss on disposal of non-current assets			483	483
				Financing and investment income and expenditure:				
		15,753	15,753	Interest payable and similar charges			15,475	15,475
		(352)	(352)	Interest and investment income		*Note 10*	(272)	(272)
		2,464	2,464	Net interest on the net defined benefit liability		*Note 27*	2,627	2,627
		-	(5,574)	Share of (surplus) on provision of services by associates			-	(9,443)
		(311,682)	(311,682)	**Taxation and non-specific grant income**		*Note 21*	(307,208)	(307,208)
		5,406	**(235)**	**Deficit on the provision of services**			**18,962**	**19,002**
		(477)	(477)	(Surplus) on the revaluation of property, plant and equipment			3,960	3,960
		(40)	(40)	Deficit/(surplus) on financial assets measured at fair value			62	62
		8,353	8,353	Actuarial (gains)/ losses on pension fund assets and liabilities		*Note 18*	(130,937)	(130,937)
		-	85	Share of other comprehensive income and expenditure of associates			-	(1,991)
		7,836	**7,921**	**Other comprehensive (income) and expenditure**			**(126,915)**	**(123,090)**
		13,242	**7,686**	**Total comprehensive (income) and expenditure**			**(107,953)**	**(119,347)**

II) Movement in Reserves Statement for the year ended 31 March 2022

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 97 to 99.

2021-2022	Council Reserves								**Share of Group**	**Total Group Reserve**
	General fund balance	Housing revenue account balance	Capital grants unapplied account	Other Statutory Funds	Capital fund	**Total usable reserve**	**Unusable reserves**	**Total Council reserves**	Usable and unusable	**Usable and unusable**
	£000	£000	£000	£000	£000	**£000**	**£000**	**£000**	£000	**£000**
Balance at 31 March 2021	37,373	14,254	3,697	1,845	2,744	**59,913**	**268,969**	**328,882**	44,417	**373,299**
Movement in reserves during 2021-2022										
(Deficit)/ surplus on the provision of services	(14,590)	(4,372)	-	-	-	**(18,962)**	-	**(18,962)**	9,403	**(9,559)**
Other comprehensive income and expenditure	-	-	-	-	-	**-**	**126,915**	**126,915**	1,991	**128,906**
Total comprehensive income and expenditure	(14,590)	(4,372)	-	-	-	**(18,962)**	**126,915**	**107,953**	11,395	**119,347**
Adjustments between accounting basis and funding basis (Note 5)	15,833	(351)	2,682	(174)	-	**17,990**	**(17,990)**	**-**	-	**-**
Net increase/ (decrease) before transfers	1,243	(4,723)	2,682	(174)	-	**(972)**	**108,925**	**107,953**	11,394	**119,347**
Transfers to/from earmarked reserves (Note 6)	1,261	-	-	11	(1,272)	**-**	**-**	**-**	-	**-**
Increase/ (decrease) in 2021-2022	2,504	(4,723)	2,682	(163)	(1,272)	**(972)**	**108,925**	**107,953**	11,394	**119,347**
Balance at 31 March 2022	39,877	9,531	6,379	1,682	1,472	**58,941**	**377,894**	**436,835**	55,811	**492,646**

2020-2021	Council Reserves								Share of Group	Total Group Reserve
	General fund balance	Housing revenue account balance	Capital grants unapplied account	Other Statutory funds	Capital fund	**Total usable reserve**	**Unusable reserves**	**Total Council reserves**	Usable and unusable	**Usable and unusable**
	£000	£000	£000	£000	£000	**£000**	**£000**	**£000**	£000	**£000**
Balance at 31 March 2020	18,399	11,329	2,774	2,135	3,228	**37,865**	**304,259**	**342,124**	38,861	**380,985**
Movement in reserves during 2020-2021										
(Deficit)surplus on the provision of services	(8,304)	2,898	-	-	-	**(5,406)**	-	**(5,406)**	5,641	**235**
Other comprehensive income and expenditure	--	-	-	-	-	**-**	**(7,836)**	**(7,836)**	(85)	**(7,921)**
Total comprehensive income and expenditure	(8,304)	2,898	-	-	-	**(5,406)**	**(7,836)**	**(13,242)**	5,556	**(7,686)**
Adjustments between accounting basis and funding basis (Note 5)	26,887	27	923	(383)	-	**27,454**	**(27,454)**	**-**	-	**-**
Net increase/ (decrease) before transfers	18,583	2,925	923	(383)	-	**22,048**	**(35,290)**	**(13,242)**	5,556	**(7,686)**
Transfers to/from earmarked reserves (Note 6)	391	-	-	93	(484)	**-**	**-**	**-**	-	**-**
Increase/ (decrease) in 2020-2021	18,974	2,925	923	(290)	(484)	**22,048**	**(35,290)**	**(13,242)**	5,556	**(7,686)**
Balance at 31 March 2021	37,373	14,254	3,697	1,845	2,744	**59,913**	**268,969**	**328,882**	44,417	**373,299**

III) Balance Sheet as at 31 March 2022

The Balance Sheet is a snapshot of the value at the reporting date of the assets and liabilities recognised by the Council. The net assets (assets less liabilities) of the Council are matched by the reserves held. Reserves are reported in two categories: (i) usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use; and (ii) unusable reserves, i.e. those reserves that the Council is not able to use to provide services. These include reserves that hold unrealised gains or losses, where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the *Movement in Reserves Statement* line "Adjustments between accounting basis and funding basis".

2020-2021				2021-2022	
Council £'000	**Group £'000**		*Note*	**Council £'000**	**Group £'000**
742,702	757,348	Property, plant and equipment	*7*	794,093	808,101
3,332	3,332	Heritage assets	*8*	6,175	6.175
7,508	7,508	Intangible assets	*9*	8,930	8,930
6,339	6,339	Long-term investments	*10*	6,424	6,424
759,881	**774,527**	**Long-term assets**		**815,622**	**829,630**
40,000	40,000	Short-term investments	*10*	50,000	50,000
-	-	Assets held for sale	*14*	-	-
522	524	Inventories	*11*	727	729
29,851	29,851	Short-term debtors	*12*	50,249	50,249
25,156	25,156	Cash and cash equivalents	*13*	16,692	16,692
95,529	**95,531**	**Current assets**		**117,668**	**117.670**
(50,725)	(50,725)	Short-term borrowing	*10*	(64,049)	(64,049)
(66,956)	(66,961)	Short-term creditors	*15*	(89,962)	(90,125)
(513)	(513)	Short-term provisions	*16*	(677)	(697)
(7,146)	(5,985)	Other short-term liabilities	*17*	(5,792)	(4,605)
(125,340)	**(124,184)**	**Current liabilities**		**(160,480)**	**(159,476)**
(924)	(924)	Long-term provisions	*16*	(799)	(799)
-	28,644	Investments in associates/joint ventures		-	40,828
(188,275)	(188,275)	Long-term borrowing	*10*	(226,217)	(226,217)
(2,756)	(2,756)	Other long-term liabilities (finance leases)	*24*	(2,615)	(2,615)
(117,523)	(117,523)	Other long-term liabilities (pensions)	*27*	(17,001)	(17,001)
(91,710)	(91,741)	Other long-term liabilities	*10*	(89,343)	(89,374)
(401,188)	**(372,575)**	**Long-term liabilities**		**(335,975)**	**(295,178)**
328,882	**373,299**	**Net assets**		**436,835**	**492,646**
59,913	59,913	Usable reserves		58,941	58,941
268,969	268,969	Unusable reserves	*18*	377,894	377,894
-	44,417	Group reserves		-	55,811
328,882	**373,299**	**Total reserves**		**436,835**	**492,646**

The unaudited annual Accounts were issued on 28 June 2022 and the audited annual accounts were authorised for issue on 23 November 2022.

Tim Baulk BA Acc CPFA
Head of Finance and ICT

23 November 2022

IV) Cash Flow Statement for the year ended 31 March 2022

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.

2020-2021				2021-2022	
Council	**Group**			**Council**	**Group**
£'000	**£'000**		*Note*	**£'000**	**£'000**
5,406	**(235)**	**Deficit on the provision of services**		**18,962**	**9,559**
		Adjustments to deficit on the provision of services for non-cash movements:			
(27,809)	(27,809)	Depreciation of property, plant and equipment	*7*	(27,550)	(27,550)
(26,028)	(26,028)	Impairment of property, plant and equipment		(1,894)	(1,894)
(905)	(905)	Amortisation of intangible assets	*9*	(1,225)	(1,225)
(16,533)	(16,525)	(Increase) in creditors		(17,699)	(17,771)
4,868	4,868	Increase in debtors		18,794	18,794
(17)	(17)	Increase/ (decrease) in inventories	*11*	205	205
(15,080)	(15,080)	(Increase) in pension liability	*5*	(30,415)	(30,415)
(206)	(206)	Carrying amount of non-current assets sold		(636)	(636)
427	427	Other non-cash items		(31)	(31)
(81,283)	(81,275)			(60,451)	(60,523)
		Adjustment for items included in the deficit on the provision of services that are investing or financing activities			
-	5,574	Net (increase)/ decrease in short term investments		-	9,443
149	149	Proceeds from sale of Non-current assets		153	153
20,937	20,937	Capital grants received		15,279	15,279
21,086	26,660			15,432	24,875
(54,791)	**(54,850)**	**Net cash flows used in operating activities**		**(26,057)**	**(26,089)**
		Investing activities			
50,331	50,331	Purchase of Non-current assets		85,687	85,687
20,174	20,174	Purchase of short-term investments		10,147	10,147
(149)	(149)	Proceeds from sale of Non-current assets		(153)	(153)
(19,211)	(19,152)	Other receipts from investing activities		(15,723)	(15,691)
51,145	51,204			79,958	79,990
		Financing activities			
(6,996)	(6,996)	Cash receipts from short-term and long-term borrowing		(51,274)	(51,274)
3,640	3,640	Cash payments for the reduction of outstanding liabilities relating to finance leases and on-Balance-Sheet PFI contracts		3,789	3,789
5,000	5,000	Repayments of short- and long-term borrowing		-	-
(266)	(266)	Other payments for financing activities		2,048	2,048
1,378	1,378			(45,437)	(45,437)
52,523	**52,582**	**Net cash flows from Investing and Financing activities**		**34,521**	**34,553**
(2,268)	**(2,268)**	**Net decrease/(increase) in cash and cash equivalents**		**8,464**	**8,464**
(22,888)	(22,888)	Cash and cash equivalents at the beginning of the reporting period		(25,156)	(25,156)
(25,156)	**(25,156)**	**Cash and cash equivalents at the end of the reporting period**	*13*	**(16,692)**	**(16,692)**

Section 5: Notes to the Core Financial Statements

Note 1: Expenditure and Funding analysis

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

2020-2021				2021-2022		
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**
15,851	4,349	20,200	Chief Executive's Strategic Office	16,474	6,023	22,497
113,587	35,100	148,687	People	120,788	10,646	131,434
41,034	8,357	49,391	Place	43,826	12,809	56,635
(5,302)	4,101	(1,201)	Housing Revenue Account	2,431	819	3,250
79,216	-	79,216	Social Care: Contribution to IJB	97,281	-	97,281
(3,721)	2,926	(795)	Social Care: Provision of Services	(6,802)	6,010	(792)
12,756	(9,088)	3,668	Miscellaneous Services	5,790	(8,238)	(2,448)
253,421	**45,745**	**299,166**	**Net Cost of Services**	**279,789**	**28,068**	**307,857**
(274,929)	(18,831)	(293,760)	Other Income and Expenditure	(276,308)	(12,587)	(288,895)
(21,508)	**26,914**	**5,406**		**3,481**	**15,481**	**18,962**
29,728			**Opening General Fund and HRA balance**	**51,627**		
21,508			**Less/Plus (deficit)/surplus on General Fund and HRA balance in the year**	**(3,481)**		
391			**Transfer from earmarked reserves**	**1,262**		
51,627			**Closing General Fund and HRA balance as at 31 March**	**49,408**		

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.

2021-2022	**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	2,929	3,245	(151)	6,023
People	3,197	8,068	(619)	10,646
Place	6,893	6,192	(276)	12,809
Housing Revenue Account	(24)	882	(40)	818
Social Care: Contribution to IJB	-	-	-	-
Social Care: Provision of Services	-	6,272	(262)	6,010
Miscellaneous Services	(11,367)	3,129	-	(8,238)
Net cost of services	**1,628**	**27,788**	**(1,348)**	**28,068**
Other Income and Expenditure from the Expenditure and Funding Analysis	(14,797)	2,627	(417)	(12,587)
Difference between the General Fund surplus or deficit and Comprehensive Income and Expenditure Statement	**(13,169)**	**30,415**	**(1,765)**	**15,481**

2020-2021	**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	2,683	1,542	124	4,349
People	30,188	3,722	1,190	35,100
Place	5,261	2,860	236	8,357
Housing Revenue Account	3,669	401	31	4,101
Social Care: Contribution to IJB	-	-	-	-
Social Care: Provision of Services	2	2,690	234	2,926
Miscellaneous Services	(10,489)	1,401	-	(9,088)
Net cost of services	**31,314**	**12,616**	**1,815**	**45,745**
Other Income and Expenditure from the Expenditure and Funding Analysis	(20,879)	2,464	(416)	(18,831)
Difference between the General Fund surplus or deficit and Comprehensive Income and Expenditure Statement	**10,435**	**15,080**	**1,399**	**26,914**

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:

	2021-2022	2020-2021
	£000	£000
Expenditure		
Employee benefit expenses	228,369	204,208
Other service expenses	308,122	262,690
Depreciation, amortisation and impairment	30,670	54,742
Interest payments	15,475	15,753
Loss on the disposal of assets	483	57
Total Expenditure	**583,119**	**537,450**
Income		
Fees, charges and other service income	(256,677)	(220,010)
Interest & investment income	(272)	(352)
Income from Council Tax, non-domestic rates	(83,695)	(88,929)
Government grants and contributions	(223,513)	(222,753)
Total Income	**(564,157)**	**(532,044)**
Deficit on the provision of services	**18,962**	**5,406**

Note 2: Prior period adjustment

The Significant Accounting Policies provided in Note 31 of Section 6 to these accounts on pages 70 to 81 state that prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. There were no prior period adjustments in 2021-22 or 2020-21.

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 2021-2022 there were no material items of income and expense requiring additional disclosure.

Note 4: Events after the Balance Sheet date

The unaudited Annual Accounts were authorised for issue on 28 June 2022. The audited Annual Accounts were authorised for approval by the Head of Finance, ICT and Procurement, being the responsible officer for Council's financial affairs, on 23 November 2022.

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date the Statement of Accounts is authorised for issue. There are two distinct types: those that existed at the balance sheet date where the accounts should be adjusted to reflect these (an adjusting event); and those which arose after the balance sheet date which require disclosure in the notes to the accounts if material (a non-adjusting event).

In September 2022 the Council agreed a Chief officer restructure with associated directorate structural changes being implemented for the 2022-23 financial year. This has been treated as a non-adjusting event after the balance sheet date for the 2021-22 accounts.

Note 5: Adjustments between accounting basis and funding basis under regulations

This note details the adjustments that are made to the total Comprehensive Income and Expenditure Statement recognised by the Council in the year in accordance with proper accounting practice, to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure. The following sets out a description of the usable reserves that the adjustments are made against.

General Fund

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

Housing Revenue Account balance

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

Capital Grants Unapplied Account

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

Repairs and Renewals Fund

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

2021-2022

	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	-	-	115	174	**(289)**
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	(13,730)	(15,715)	-	-	**29,445**
Amortisation of intangible assets	(1,225)	-	-	-	**1,225**
Capital grants and contributions applied	14,140	1,139	(2,797)	-	**(12,482)**
Net gain or (loss) on sale of non-current assets	(482)	(1)	-	-	**483**
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement					
Statutory provision for the financing of capital investment	8,985	1,249	-	-	**(10,234)**
Capital expenditure charged against the general fund and HRA balances	4,319	14,489	-	-	**(18,808)**
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	301	116	-	-	**(417)**
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	1,309	39	-	-	**(1,348)**
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 27)	(29,450)	(965)	-	-	**30,415**
Total adjustments	**(15,833)**	**351**	**(2,682)**	**174**	**17,990**

Figures for 2020-2021 are provided in an additional table below for the purposes of comparison.

2020-2021	**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	-	-	135	383	**(518)**
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	(39,575)	(14,262)	-	-	**53,837**
Amortisation of intangible assets	(905)	-	-	-	**905**
Capital grants and contributions applied	16,902	4,035	(1,058)	-	**(19,879)**
Net gain or (loss) on sale of non-current assets	(56)	(1)	-	-	**57**
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement					
Statutory provision for the financing of capital investment	9,147	1,282	-	-	**(10,429)**
Capital expenditure charged against the general fund and HRA balances	3,687	9,311	-	-	**(12,998)**
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	297	119	-	-	**(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	(1,784)	(31)	-	-	**1,815**
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 27)	(14,600)	(480)	-	-	**15,080**
Total adjustments	**(26,887)**	**(27)**	**(923)**	**383**	**27,454**

Note 6: Accumulated General Fund reserves and Transfers to or from other statutory reserves

Accumulated General Fund Reserves - This note details the breakdown between committed and uncommitted Accumulated General Reserves held by the Council at 31 March 2022, along with the purpose of each committed fund and the movement during the year.

	31 March 2021	Movements during the year	31 March 2022	Purpose
	£000	**£000**	**£000**	
General Fund balance uncommitted	8,950	(3,007)	5,943	This balance represents 2.72% of future budgeted expenditure.
Affordable Housing	1,319	163	1,482	Contributes towards the provision of new build social housing.
Efficiency & Improvement Fund	1,794	(305)	1,489	Used to provide short-term enabling funding to promote and support service redesign.
Workforce Change Fund	998	129	1,127	Used to meet the severance and other employee related costs arising from any Council's workforce service redesign measures.
Earmarked Funds	6,652	9,102	15,754	Various projects for which funds have been identified prior to 31 March 2022 but where spending plans exist in future years.
Covid-19	17,660	(3,578)	14,082	Covid-19 funds received up to 31 March 2022 but where spending plans exist in future years.
General Fund Balance	**37,373**	**2,504**	**39,877**	

Transfer to and from 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 2021-2022. Figures for 2020-2021 are provided in an additional table below for the purposes of comparison.

2021-2022	General Fund Balance	Repairs and Renewals Fund	Insurance Fund	Capital Fund
	£000	**£000**	**£000**	**£000**
Contribution to Repair and Renewal Fund from General Fund	11	(11)	-	-
Contributions from Insurance Fund to General Fund	-	-	-	-
Contribution from Capital Fund to General Fund	(1,273)	-	-	1,273
Total adjustments	**(1,262)**	**(11)**	**-**	**1,273**

2020-2021	General Fund Balance	Repairs and Renewals Fund	Insurance Fund	Capital Fund
	£000	**£000**	**£000**	**£000**
Contribution to Repair and Renewal Fund from General Fund	518	(518)	-	-
Contributions from Insurance Fund to General Fund	(425)	-	425	-
Contribution to Capital Fund from General Fund	(484)	-	-	484
Total adjustments	**(391)**	**(518)**	**425**	**484**

Note 7: Property, Plant and equipment

Movement on balances

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

2021-2022

	Council Dwellings	Other Land & Buildings	Schools PPP Assets	Vehicles, Plant & Equipment	Infrastructure Assets (Note 1)	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 2021	**324,971**	**248,469**	**113,010**	**34,451**	-	**653**	**2,354**	**42,606**	**766,514**
Additions in year	16,812	7,112	1,357	3,663	7,573	620	-	50,562	**87,699**
Disposals in year	(48)	(190)	-	-	-	-	-	-	**(238)**
Revaluation adjustments to revaluation reserve	(80,883)	321	665	-	-	-	28	(6)	**(79,875)**
Revaluation adjustments to CIES	-	(6,184)	302	-	-	-	85	(11)	**(5,808)**
Other reclassifications*	17,601	4,615	-	(24)	245	735	-	(23,670)	**(498)**
At 31 March 2022	**278,453**	**253,143**	**115,334**	**38,090**	**-**	**2,008**	**2,467**	**69,481**	**767,794**
Depreciation and impairment									
At 1 April 2021	**52,760**	**5,762**	**-**	**24,897**	-	**-**	**77**	**259**	**83,755**
Depreciation charge for the year	14,479	5,845	2,825	2,162	2,208	-	31	-	**27,550**
Depreciation/Impairment written to revaluation reserve	(67,239)	(3,869)	(1,941)	(2)	-	-	(108)	-	**(73,159)**
Impairment losses to CIES	-	(3,798)	(884)	-	-	-	-	194	**(4,488)**
On disposals	-	(2)	-	-	-	-	-	-	**(2)**
Other reclassifications	-	35	-	(24)	(1)	-	-	(22)	**(12)**
At 31 March 2022	**-**	**3,973**	**-**	**27,033**	**-**	**-**	**-**	**431**	**33,644**
Net book value at 31 March 2022	**278,453**	**250,170**	**115,334**	**11,057**	**65,554**	**2,008**	**2,467**	**69,050**	**794,093**
Nature of asset holding									
Owned	278,453	247,452	-	11,057	65,554	2,008	2,467	69,050	**670,041**
Finance lease	-	2,718	-	-	-	-	-	-	**2,718**
PPP	-	-	115,334	-	-				**115,334**
	278,452	**250,170**	**115,334**	**11,057**	**65,554**	**2,008**	**2,467**	**69,050**	**794,093***

*PPE assets shown in the Group Balance sheet on page 34 total £808.101m and include £14.008m of Group assets relating to subsidiaries on consolidation that are not included in the above balances.

2020-2021

comparative movements

	Council Dwellings	Other Land & Buildings	Schools PPP Assets	Vehicles, Plant & Equipment	Infrastructure Assets (Note 1)	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 2020	**318,591**	**267,657**	**126,961**	**33,866**	**-**	**605**	**5,900**	**35,068**	**788,648**
Additions in year	5,190	9,193	2,231	1,251	5,352	-	-	26,901	**50,118**
Disposals in year	(12)	(112)	-	-	-	-	(1,008)	-	**(1,132)**
Revaluation adjustments to revaluation reserve	-	(6,805)	(4,082)	(3)	-	51	122	97	**(10,620)**
Revaluation adjustments to CIES	-	(40,731)	(12,900)	(24)	-	(3)	10	(343)	**(53,991)**
Other reclassifications	1,202	19,267	800	(639)	87	-	(2,670)	(19,117)	**(1,070)**
At 31 March 2021	**324,971**	**248,469**	**113,010**	**34,451**	**-**	**653**	**2,354**	**42,606**	**771,953**
Depreciation and impairment									
At 1 April 2020	**38,678**	**29,826**	**3,775**	**22,958**	-	**-**	**3,386**	**-**	**98,623**
Depreciation charge for the year	14,082	5,955	3,345	2,320	2,077	-	30	-	**27,809**
Impairment losses to revaluation reserve	-	(9,053)	(2,043)	-	-	-	-	-	**(11,096)**
Impairment losses to CIES	-	(23,671)	(5,078)	(24)	-	-	-	259	**(28,514)**
On disposals	-	(10)	-	-	-	-	(980)	-	**(990)**
Other reclassifications	-	2,715	1	(357)	-	-	(2,359)	-	**-**
At 31 March 2021	**52,760**	**5,762**	**-**	**24,897**	**-**	**-**	**77**	**259**	**85,832**
Net book value at 31 March 2021	**272,211**	**242,707**	**113,010**	**9,554**	**59,943**	**653**	**2,277**	**42,347**	**742,702**
Nature of asset holding									
Owned	272,211	239,829	-	9,482	59,943	653	2,277	42,347	**626,742**
Finance lease	-	2,878	-	72	-	-	-	-	**2,950**
PPP	-	-	113,010	-	-	-	-	-	**113,010**
	272,211	**242,707**	**113,010**	**9,554**	**59,943**	**653**	**2,277**	**42,347**	**742,702**

Note 1 - Infrastructure asset values have been disclosed in accordance with the Scottish Government's Finance Circular 9/2022 Statutory Override - Accounting for Infrastructure Assets. The council has applied both statutory overrides set out in the circular which are as follows:

- For accounting periods commencing from 1 April 2021 until 31 March 2024, a local authority is not required to report the gross carrying amount and accumulated depreciation for infrastructure assets.
- For the accounting periods from 1 April 2010 to 31 March 2024, the carrying amount to be derecognised in respect of a replaced part of an infrastructure asset is to be accounted for as a nil amount, and no subsequent adjustment can be made to the carrying amount of the asset with respect to that part.

Depreciation

As highlighted in Significant Accounting Policies, Note 31 Section 6 to these accounts on pages 70 to 81 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*
Schools PPP assets	~	40	Estates Co-ordinator	Current Value	Valued on a 5-year rolling programme
Other land and buildings	Buildings	5 to 40	Estates Co-ordinator	Current Value / Fair Value / Historic Cost	Valued on a 5-year rolling programme
	Land	Up to 999	Estates Co-ordinator	Current Value / Fair Value / Historic Cost	Valued on a 5-year rolling programme
	Specialised buildings	10 to 40	Estates Co-ordinator	Current Value	31-Mar-21
Council dwellings	~	19-23	DVS Property Specialists	Existing Use Value – Social Housing 'Beacon Principle' (EUVSH)	31-Mar-22
Vehicles	~	0 to 7	Transport Manager	Net Realisable Value (NRV)	Not Applicable
Equipment	~	5 to 20	Not applicable	Historical Cost	Not Applicable
Infrastructure assets	~	Up to 40	Not applicable	Historical Cost	Not Applicable
Assets under construction	~	5 to 99	Not applicable	Historical Cost	Not Applicable
Community assets	~	99 to 999	Not applicable	Historical Cost	Not Applicable

Effect of changes in estimates

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

Revaluation programme

The Council's programme for the revaluation of property, plant and equipment, ensures all such assets required to be measured at fair value are re-valued at least every five years. The measurement basis used for determining the gross carrying amount, the valuers and the significant assumptions applied in estimating the fair values are disclosed separately in Significant Accounting Policies, Note 31 Section 6 to these accounts on pages 70 to 81 under "Property, plant and equipment".

Commitments under capital contracts

The Council approved capital investment programmes for General Services and Housing for 2022-2023 for construction or enhancement of property, plant and equipment, as outlined in the table below.

	General Services	**Housing**	**2022-23 Total**	**2021-22 Total**
Expenditure	**£000**	**£000**	**£000**	**£000**
Capital investment	131,329	66,153	197,482	122,348
	131,329	**66,153**	**197,482**	**122,348**
Sources of finance				
Prudential borrowing	108,419	55,668	164,087	91,476
Capital grants, contributions and other receipts	22,910	1,580	24,490	22,408
Capital funded from current revenue	-	8,905	8,905	8,464
	131,329	**66,153**	**197,482**	**122,348**

Note 8: Heritage assets

Valuation	Fine Arts	Other Heritage Assets	Civic Regalia	Total Heritage Assets
	£000	**£000**	**£000**	**£000**
1 April 2021	2,115	1,066	151	3,332
Revaluations during the year	90	2,711	42	2,843
31 March 2022	**2,205**	**3,777**	**193**	**6,175**
1 April 2020	2,115	1,066	151	3,332
Revaluations during the year	-	-	-	-
31 March 2021	**2,115**	**1,066**	**151**	**3,332**

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 Turnball 21 December 2021

Christie's December 5 January 2022

Civic regalia and other civil effects

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

Lyon and Turnball 21 December 2021

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 2022	31 March 2021
	£000	**£000**
Balance at start of year:		
Gross carrying amounts	10,618	7,946
Accumulated amortisation	(3,110)	(2,205)
Net carrying amount at start of year	7,508	5,741
Additions:		
Purchases	2,647	1,602
Reclassifications*	-	1,070
Amortisation for the period	(1,225)	(905)
Net carrying amount at end of the year	**8,930**	**7,508**
Comprising:		
Gross carrying amounts	13,265	10,618
Accumulated amortisation	(4,335)	(3,110)
	8,930	**7,508**

*Net reclassifications from Property, plant & equipment to Intangible assets in 2020-21.

Note 10: Financial instruments

Categories of financial instrument

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

Financial Assets

	Non-Current				Current			
	Investments		Debtors		Investments		Debtors	
	31 March 2022	31 March 2021	31 March 2022	31 March 2021	31 March 2022	31 March 2021	31 March 2022	31 March 2021
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Amortised Cost	5,706	5,559	-	-	50,000	40,000	50,249	29,851
Fair value through other comprehensive income - other	718	780	-	-	-	-	-	-
Total financial assets	6,424	6,339	-	-	50,000	40,000	50,249	29,851
Non-financial assets	-	-	-	-	-	-	-	-
Total	**6,424**	**6,339**	**-**	**-**	**50,000**	**40,000**	**50,249**	**29,851**

Financial Liabilities	Non-Current				Current			
	Borrowings		Creditors		Borrowings		Creditors	
	31 March 2022 £000s	31 March 2021 £000s	31 March 2022 £000s	31 March 2021 £000s	31 March 2022 £000s	31 March 2021 £000s	31 March 2022 £000s	31 March 2021 £000s
Amortised Cost *Note 1**	(226,217)	(188,275)	-	-	(64,049)	(50,725)	(89,962)	(66,956)
Total financial liabilities	(226,217)	(188,275)	-	-	(64,049)	(50,725)	(89,962)	(66,956)
Finance lease liabilities	(2,615)	(2,756)	-	-	(141)	(221)	-	-
PPP	(89,342)	(91,710)	-	-	(3,685)	(4,886)	-	-
Total Non-financial liabilities	(91,957)	(94,466)	-	-	(3,826)	(5,107)	-	-
Total	**(318,174)**	**(282,741)**	**-**	**-**	**(67,875)**	**(55,832)**	**(89,962)**	**(66,956)**

**Note 1*

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

Income, expense, gains and losses

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

	2021-2022		2020-2021	
	(Surplus)/deficit on the provision of services	Other comprehensive income and expenditure	(Surplus)/deficit on the provision of services	Other comprehensive income and expenditure
	£000s	£000s	£000s	£000s
Net (gains)/losses on:				
Financial assets measured at amortised cost	(272)	-	(352)	-
Financial assets measured at fair value through other comprehensive income	-	62	-	(40)
Financial liabilities measured at amortised cost	15,518	-	15,745	-
Total net losses/(gains)	**15,246**	**62**	**15,393**	**(40)**
Interest revenue:				
Financial assets measured at amortised cost	(272)	-	(352)	-
Financial assets measured at fair value through other comprehensive income	-	62	-	(40)
	(272)	**62**	**(352)**	**(40)**
Interest expense	**15,518**	**-**	**15,745**	**-**

Fair values of assets and liabilities

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

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

Fair value of financial assets and financial liabilities

As at 31 March 2022, the fair values of financial assets and financial liabilities are calculated as follows:

Table 1	31 March 2022		31 March 2021	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Liabilities	**£000s**	**£000s**	**£000s**	**£000s**
PWLB	178,232	206,118	143,958	194,208
LOBO (Option)	33,200	48,254	33,200	53,084
Market Debt	16,000	18,532	16,000	19,762
Short Term Borrowing	62,000	61,888	45,000	45,121
Sub Total Borrowing	**289,432**	**334,792**	**238,158**	**312,175**
PPP Liability	93,027	121,831	96,596	136,749
Short Term Finance Lease Liability	141	141	221	221
Long Term Finance Lease Liability	2,615	2,615	2,756	2,756
Short Term Creditors	89,962	89,962	56,899	56,899
	185,745	**214,549**	**156,472**	**196,625**
Total Liabilities	**475,177**	**549,341**	**394,630**	**508,800**

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

Table 2	31 March 2022		31 March 2021	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Liabilities	**£000s**	**£000s**	**£000s**	**£000s**
PWLB	178,232	245,736	143,958	229,996
LOBO (Option)	33,200	58,608	33,200	65,083
Market Debt	16,000	20,983	16,000	22,796
Short Term Borrowing	62,000	61,894	45,000	45,129
Sub Total Borrowing	**289,432**	**387,221**	**238,158**	**363,004**
PPP Liability	93,027	133,144	96,596	150,592
Short Term Finance Lease Liability	141	141	221	221
Long Term Finance Lease Liability	2,615	2,615	2,756	2,756
Short Term Creditors	89,962	89,962	56,899	56,899
	185,745	**225,862**	**156,472**	**210,468**
Total Liabilities	**475,177**	**613,083**	**394,630**	**573,472**

The fair value of the liabilities is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates for similar loans in the market at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2022) arising from a commitment to pay interest to lenders above current market rates.

The fair value of PWLB loans of £206,118m (using new loan rate) measures the economic effect of the terms agreed with PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. The difference between the carrying amount and the fair value measures the additional interest that the Council will pay over the remaining terms of the loans under the agreements with PWLB, against what would be paid if the loans were at prevailing market rates.

The fair values of financial assets are calculated as follows:

Table 3	31 March 2022		31 March 2021	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets	**£000s**	**£000s**	**£000s**	**£000s**
Long term investments	6,424	6,798	6,339	6,845
Investments	50,000	49,813	40,000	40,148
Current asset debtors	50,249	50,249	29,851	29,851
	106,673	**106,860**	**76,190**	**76,844**

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 2022) arising from a commitment to receive interest from lenders above current market rates.

Note 11: Inventories

	Consumable Stores		Maintenance Materials		Client Services Work in Progress		Property Acquired or Constructed for Sale		Total	
As at 31 March	**2022 £000**	**2021 £000**	**2022 £000**	**2021 £000**	**2022 £000**	**2021 £000**	**2022 £000**	**2021 £000**	**2022 £000**	**2021 £000**
Balance outstanding at start of year	131	162	348	318	-	10	43	49	522	539
Purchases	1,356	957	1,558	1,021	-	(10)	1,293	905	4,207	2,873
Recognised as an expense in year	(1,145)	(988)	(1,565)	(991)	-	-	(1,290)	(909)	(4,000)	(2,888)
Written off balances	(1)	-	-	-	-	-	(1)	(2)	(2)	(2)
Reversals of write-offs in previous years	-	-	-	-	-	-	-	-	-	-
Balance outstanding at year end	**341**	**131**	**341**	**348**	**-**	**-**	**45**	**43**	**727**	**522**

Note 12: Debtors

	2021-2022	2020-2021
	£000	**£000**
Trade receivables	38,325	13,729
Prepayments	3,344	3,643
Other receivable amounts	8,580	12,479
Total	**50,249**	**29,851**

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.

	2021-2022	2020-2021
	£000	£000
Cash held by the authority	46	47
Bank current accounts	(459)	(3,281)
Short term/Callable deposits held with UK banks	17,105	28,390
Total cash and cash equivalents	**16,692**	**25,156**

Note 14: Assets held for sale

	2021-2022	2020-2021
	£000	£000
Balance outstanding at start of year	-	64
Assets declassified/disposed	-	(64)
Balance outstanding at year end	**-**	**-**

Note 15: Creditors

	2021-2022	2020-2021
	£000	£000
Trade Creditors	69,940	56,407
Other payable amounts	20,022	10,549
Total	**89,962**	**66,956**

Note 16: Provisions

	Short	Long	Total
	£000	£000	£000
Balance as at 1 April 2021	**513**	**924**	**1,437**
Additional/(reduced) provisions made in 2021-22	424	(22)	402
Amounts used in 2021-22	(260)	(103)	(363)
Balance as at 31 March 2022	**677**	**799**	**1,476**

The Council has made a provision in respect of a number of employee related potential claims outstanding at 31 March 2022. Provisions are also held in relation to outstanding payments for enterprise grants and grants to voluntary organisations.

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

Note 17: Other short-term liabilities

	31 March 2022	31 March 2021
	£000	£000
Public Private Partnership (PPP)	3,685	4,886
Amounts owed to Common Good	1,057	1,083
Amounts owed to Trusts and others	909	956
Finance Lease	141	221
	5,792	**7,146**

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:

	2021-2022	2020-2021
	£000	£000
Revaluation reserve	141,976	153,096
Capital adjustment account	268,219	250,399
Financial Instrument adjustment account	(10,567)	(10,984)
Financial instruments measured at fair value reserve	678	740
Pension reserve	(17,001)	(117,523)
Employee statutory mitigation account	(5,411)	(6,759)
	377,894	**268,969**

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:

	2021-2022	2020-2021
	£000	£000
Balance at 1 April	**153,096**	**158,921**
Upward revaluation of assets	12,898	14,978
Downward valuation of assets and impairment losses not charged to the deficit on the provision of services	(16,858)	(14,500)
Surplus on revaluation of non-current assets not posted to the deficit on the provision of services	**(3,960)**	**478**
Difference between fair value depreciation and historical cost depreciation	(6,344)	(6,297)
Accumulated gains on assets sold or scrapped	(816)	(6)
Amount written off to the Capital Adjustment Account	**(7,160)**	**(6,303)**
Balance at 31 March	**141,976**	**153,096**

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

	2021-2022 £000	2020-2021 £000
Balance at 1 April	**250,399**	**255,071**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement (CIES):		
Charges for depreciation and impairment of non-current assets	(29,445)	(53,837)
Amortisation of intangible assets	(1,225)	(905)
Amounts of non-current assets written off on disposal or sale as part of the (loss) on disposal to the CIES	(483)	(57)
Adjusting amounts written out of the revaluation reserve	7,160	6,303
Net written out amount of the cost of non-current assets consumed in the year	(23,993)	(48,496)
Capital financing applied in the year:		
Capital grants and contributions credited to the CIES that have been applied to capital financing	12,483	19,879
Application of grants to capital financing from the capital grants unapplied account/repairs and renewals fund	288	518
Statutory provision for the financing of capital investment charged against the general fund and HRA balances	10,234	10,429
Capital expenditure charged against the general fund and HRA balances	18,808	12,998
Balance at 31 March	**268,219**	**250,399**

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.

	2021-2022 £000	2020-2021 £000
Balance at 1 April	**(10,984)**	**(11,400)**
Proportion of premiums incurred in previous financial years to be charged against the general fund balance in accordance with statutory requirements	407	407
Fair value effective interest rate adjustment in line with statutory requirements	10	9
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement	**417**	**416**
Balance at 31 March	**(10,567)**	**(10,984)**

Financial Assets Measured at Fair Value

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

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

	2021-2022 £000	2020-2021 £000
Balance at 1 April	**740**	**700**
(Downward)/upward revaluation of investments	(62)	40
Balance at 31 March	**678**	**740**

Pensions Reserve

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

	2021-2022 £000	2020-2021 £000
Balance at 1 April	**(117,523)**	**(94,090)**
Re-measurement of the net defined benefit asset	130,937	(8,353)
Reversal of items relating to retirement benefits debited or credited to the deficit on the provision of services in the Comprehensive Income and Expenditure Statement	(49,709)	(33,532)
Employer's pension contributions and direct payments	19,294	18,452
Balance at 31 March	**(17,001)**	**(117,523)**

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.

	2021-2022 £000	2020-2021 £000
Balance at 1 April	**(6,759)**	**(4,943)**
Settlement or cancellation of accrual made at the end of the preceding year	6,759	4,943
Amounts accrued at the end of the current year	(5,411)	(6,759)
Balance at 31 March	**(5,411)**	**(6,759)**

Note 19: Agency services

The Council billed and collected domestic water and sewerage charges on behalf of Scottish Water with its own Council Tax. During 2021-2022 the Council collected £20.577m (£19.903m 2020-2021) and paid over £20.177m (£19.503m 2020-2021) and received £0.400m (£0.400m 2020-2021) for providing this service. The Council also bills and collects Non-Domestic Rates on behalf of the Scottish Government. During 2021-2022 the Council billed £27.640m (£20.169m 2020-2021) on their behalf and received £23.358m (£28.601m 2020-2021) in income from the Non-Domestic Rates Pool.

Business Support grants were administered on behalf of the Scottish Government in 2021-2022 to local businesses in response to the Covid-19 pandemic which amounted to £17.568m (2020-2021: £42.508m).

Note 20: External audit cost

The Council has incurred costs of £0.290m in 2021-2022 in respect of fees payable with regard to external audit services carried out under the Code of Practice (£0.284m 2020-2021).

Note 21: Grant income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2021-2022:

	31 March 2022	31 March 2021
Credited to taxation and non-specific grant income	**£000**	**£000**
General revenue grant	204,345	177,907
Covid-19 grants	3,888	23,910
Receipted capital income	15,280	20,936
Non-domestic rates income	23,358	28,601
Council tax income	60,337	60,328
Total	**307,208**	**311,682**

	31 March 2022	31 March 2021
Credited to services	**£000**	**£000**
Covid-19	1,726	3,218
Department of Work and Pensions	24,748	26,422
Education	19,747	18,470
Education Maintenance Allowance	332	394
Electric Vehicles	68	92
Health Authorities	127	125
Leader	329	79
Modern Apprentices	144	122
NHS Alcohol & Drug Misuse	-	17
Other Grants and Contributions	1,563	1,767
Police	30	30
School Milk	9	7
Social Work	44,609	39,497
Townscape Heritage Initiative	38	78
Zero Waste	90	-
Total	**93,560**	**90,318**

Note 22: 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). Details of grants received from the Scottish Government are included in Note 21 above.

Members of the Council - Members of the Council have direct control over the Council's financial and operating policies. The total members' allowances paid in 2021-22 are shown in the Remuneration Report. During 2021-22 works and services to the value of £7.602m (of which £0.006m remained unpaid at 31 March 2021) (2020-21 £4.291m of which £0.339m remained unpaid at 31 March 2021) were commissioned from organisations in which four members had an interest. Contracts were entered into in full compliance with the Council's standing orders. During 2021-22 there were no grants paid to voluntary organisations wherein

Members of the Council had an interest (Nil in 2020-21). Details of the transactions during 2021-22 are available by emailing CFTenquires@south-ayrshire.gov.uk.

Officers of the Council - During 2021-2022 Donald Gillies, Director – Place and Theo Leijser, Service Lead – Economic Development and Regeneration 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. Both officers were appointed by The Council as directors of the company and the Council has a 37% share in the company. The Council received a dividend payment of £0.083m in the year ended 31 March 2022. The Council did not receive any lease income during 2021-22 (Nil in 2020-21) and there was no management fee received during 2021-2022.

In addition, Donald Gillies was appointed by Council and B Shareholders (Public Sector Shareholders) as Public Sector Director on Hub South West Scotland Ltd which is a Company established by the Scottish Government as a development partner to deliver Public Sector Infrastructure. This appointment ended in December 2021. The Council received a payment of £0.012m in respect of this appointment. During 2021-22 works and services to the value of £44.291m (of which £0.245m was unpaid at 31 March 2022) was commissioned from the HUB South West Scotland Ltd (2020-21 £21.166m of which £0.475m remained unpaid at 31 March 2021).

South Ayrshire Integration Joint Board – The South Ayrshire Integration Joint Board was established on 1 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 2021-2022 the following South Ayrshire Council financial transactions were made with South Ayrshire Integration Joint Board relating to the integrated and social care functions:

	2021-22 £000	**2020-21 £000**
Contribution made to South Ayrshire Integration Joint Board	93,602	79,216
Commissioning income received from South Ayrshire Integration Joint Board	111,149	120,382

The Council funded an in year overspend of £3.277m in 2018-19 financial year for the Health and Social Care Partnership (HSCP). Of the amount owed, £0.291m was repaid in 2019-20, with a further £1.092m being repaid in 2020-21 and 2021-22 in line with the revised agreed repayment plan, leaving a remaining balance of £0.802m to be repaid in 2022-23.

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 £39.256m during 2021-2022 (£35.806m 2020-2021).

Assisted organisations – the Council provided funding to organisations including Grants to Voluntary Organisations, Rural Communities Fund and funding for Business Advice, which are all made up of small donations to small organisations, none of which exceeded 50% of those organisations' total funding. No material balances were outstanding on these contracts as at 31 March 2022.

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. The contribution from the Council to the LLP's running costs for the year ended 31 March 2022 was £0.006m (2020-21: £0.007m). No material balances were outstanding as at 31 March 2022 or 31 March 2021. The LLP is expected to be wound up during 2022-23.

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 23: 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 2022 £000	31 March 2021 £000
Opening capital financing requirement	**350,044**	**341,751**
Capital investment		
Property, plant and equipment	88,273	49,674
Intangible assets	2,647	1,602
PPP/Finance lease	-	993
	90,920	52,269
Sources of finance		
Capital Receipts	(153)	(149)
Government grant and other contributions	(12,771)	(20,396)
Capital funded from current revenue	(18,798)	(12,998)
Repayment of PPP/finance lease	(3,790)	(3,644)
Loans fund principal repayments	(6,445)	(6,789)
Closing capital financing requirement	**399,007**	**350,044**
Explanation of movements during the year		
Increase in the underlying need to borrow	52,753	10,944
(Decrease) in finance lease obligations	(221)	(213)
(Decrease) in PPP finance lease creditor	(3,569)	(2,434)
Increase in capital financing requirement	**48,963**	**8,297**

Note 24: 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 2022 £000	31 March 2021 £000
Property, plant and equipment	**2,718**	**2,950**

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 2022 £000	31 March 2021 £000
Finance lease liabilities (net present value of minimum lease payments):		
Current	141	221
Non-Current	2,615	2,756
Finance costs payable in future years	728	793
Minimum lease payments	**3,484**	**3,770**

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

	Minimum lease payments		Finance lease liabilities	
	31 March 2022	**31 March 2021**	**31 March 2022**	**31 March 2021**
	£000	**£000**	**£000**	**£000**
No later than one year	199	286	141	221
Later than one year and not later than five years	798	798	614	595
Later than five years	2,487	2,686	2,001	2,161
	3,484	**3,770**	**2,755**	**2,977**

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 2022	**31 March 2021**
	£000	**£000**
No later than one year	1,526	1,392
Later than one year and not later than five years	1,678	1,525
Later than five years	-	-
	3,204	**2,917**

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 2022	**31 March 2021**
	£000	**£000**
Minimum lease payments	1,718	1,871
	1,718	**1,871**

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 2022	**31 March 2021**
	£000	**£000**
No later than one year	786	753
Later than one year and not later than five years	1,364	1,336
Later than five years	10,909	11,050
	13,059	**13,139**

Note 25: Public private partnerships and similar contracts

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

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

Property, plant and equipment

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

Remaining payments under the agreements

The Council makes an agreed payment each year, which is increased each year by inflation and can be reduced if the provider fails to meet availability and performance standards in any year but which is otherwise fixed. Payments remaining to be made under the original PPP contract, the new Ayr Academy and new Queen Margaret academy contract at 31 March 2022 (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	6,038	3,685	7,091	**16,814**
Payable within two to five years	26,771	15,409	27,665	**69,845**
Payable within six to ten years	42,344	19,679	31,500	**93,523**
Payable within eleven to fifteen years	45,967	25,288	29,831	**101,086**
Payable within sixteen to twenty years	25,520	23,750	16,023	**65,293**
Payable within twenty-one to twenty-five years	2,326	5,216	756	**8,298**
Total	**148,966**	**93,027**	**112,866**	**354,859**

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:

	2021-2022	2020-2021
	£000	£000
Balance outstanding at start of year	**96,596**	**99,030**
New liability (Queen Margaret Academy)	-	993
(Reductions) during the year	(3,569)	(3,427)
Balance outstanding at year end	**93,027**	**96,596**

Note 26: Termination benefits

The Council terminated the contracts (or agreed to terminate prior to the financial year end) of a number of employees in 2021-22, incurring liabilities of £0.437m (£0.793m 2020-21). The total is payable to 10 (2020-21: 14) employees from directorates detailed in the analysis provided. Termination benefits exclude ill health retirals'. Further detail can be found within the Exit packages note contained in the Remuneration report on page 84.

Number	Directorate
10	People

Note 27: Defined benefit pension schemes

Participation in pension schemes

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

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 2021-2022 and the prior year 2020-2021.

Comprehensive Income and Expenditure Statement (CIES)	**2021-2022 £000**	**2020-2021 £000**
Cost of Services:		
Service cost comprising:		
Current service cost	46,585	30,594
Past service cost (including curtailments)	497	474
Financing and investment income and expenditure:		
Net interest expense/ (income)	2,627	2,464
Total post-employment benefit charged to the deficit on the provision of services	**49,709**	**33,532**
Other post-employment benefits charged to the CIES:		
Re-measurement of the net defined benefit liability comprising:		
Return on the plan assets	(53,693)	(176,107)
Actuarial (gains) arising on changes in demographic assumptions	(6,445)	(17,140)
Actuarial (gains) and losses arising on changes in financial assumptions	(73,032)	214,549
Other	2,233	(12,949)
Total post-employment benefit charged to the CIES	**(81,228)**	**41,885**
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	**(30,415)**	**(15,080)**
Actual amount charged against the General Fund balance for pensions in the year:		
Employers' contribution payable to the scheme	**19,294**	**18,452**

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:

	2021-2022 £000	**2020-2021 £000**
Present value of the defined benefit obligation: funded	(1,001,507)	(1,027,817)
Present value of the defined benefit obligation: unfunded	(31,829)	(34,335)
Fair value of pension fund assets	1,016,335	944,629
Net Liability arising from defined benefit obligations	**(17,001)**	**(117,523)**

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

	2021-2022 £000	2020-2021 £000
Opening balance at 1 April	**1,062,152**	**868,538**
Current service cost	46,585	30,594
Past service cost	497	474
Interest cost	21,511	20,247
Contributions by scheme participants	5,266	5,040
Re-measurement gains and (losses):		
Actuarial (gains) arising on changes in demographic assumptions	(6,445)	(17,140)
Actuarial (gains) and losses arising from changes in financial assumptions	(73,032)	214,549
Other losses/ (gains)	2,233	(34,089)
Benefits paid	(23,575)	(24,137)
Unfunded benefits paid	(1,856)	(1,924)
Closing balance at 31 March	**1,033,336**	**1,062,152**

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

	2021-2022 £000	2020-2021 £000
Opening fair value of the scheme assets	**944,629**	**774,448**
Interest income	18,884	17,783
Re-measurement gains and (losses):		
Return on the plan assets	53,693	176,107
Contributions from employers	17,438	16,528
Contributions from employees in the scheme	5,266	5,040
Other losses/(gains)	-	(21,140)
Benefits paid	(23,575)	(24,137)
Closing fair value of the scheme assets	**1,016,335**	**944,629**

Analysis of pension fund assets

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

At 31 March 2022

Asset category	**Quoted Prices in Active Markets £000**	**Quoted Prices not in Active Markets £000**	**2021-2022 Total £000**
Cash and cash equivalents			
Equity instruments:			
Consumer	47,567	45	47,612
Manufacturing	44,630	154	44,784
Energy and Utilities	10,497	80	10,577
Financial Institutions	27,892	98	27,990
Health and Care	33,856	106	33,962
Information Technology	59,016	-	59,016
Sub-total equity	**223,458**	**483**	**223,941**
Debt securities (corporate bonds incl. non-investment grade)	**-**	**-**	**-**
Private equity	**-**	**198,961**	**198,961**
Real estate (UK property)	**-**	**85,711**	**85,711**
Investment funds and unit trusts:			
Equities	5,638	370,695	376,333
Bonds	-	102,649	102,649
Commodities	-	349	349
Infrastructure	-	892	892
Other	-	1,637	1,637
Sub-total investment funds and unit trusts	**5,638**	**476,222**	**481,860**
Derivatives – other	**-**	**-**	**-**
Cash and cash equivalents (all)	**25,518**	**344**	**25,862**
Totals	**254,614**	**761,721**	**1,016,335**

At 31 March 2021

Asset category	Quoted Prices in Active Markets £000	Prices not quoted in Active Markets £000	2020-2021 Total £000
Cash and cash equivalents			
Equity instruments:			
Consumer	54,391	-	54,391
Manufacturing	53,439	445	53,884
Energy and utilities	9,704	163	9,867
Financial institutions	33,438	-	33,438
Health and Care	25,945	408	26,353
Information technology	43,709	-	43,709
Sub-total equity	**220,626**	**1,016**	**221,642**
Debt securities (corporate bonds non-investment grade)	**-**	**-**	**-**
Private equity	**-**	**168,957**	**168,957**
Real estate (UK property)	**-**	**76,535**	**76,535**
Investment funds and unit trusts:			
Equities	8,890	321,498	330,388
Bonds	-	127,758	127,758
Commodities	-	400	400
Infrastructure	-	955	955
Other	-	1,966	1,966
Sub-total investment funds and unit trusts	**8,890**	**452,577**	**461,467**
Derivatives - other	**170**	**-**	**170**
Cash and cash equivalents (all)	**15,218**	**640**	**15,858**
Totals	**244,904**	**699,725**	**944,629**

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pension that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The Fund's liabilities have been assessed by Hymans Robertson, an independent firm of actuaries, and the estimates are based on the latest valuation of the Fund at 31 March 2022. The significant assumptions used by the actuary have been:

Mortality assumptions:	**2021-2022**	**2020-2021**
Longevity at 65 for current pensioners		
Male	19.6	19.8
Female	22.4	22.6
Longevity at 65 for future pensioners		
Male	21.1	21.2
Female	24.5	24.7
Financial assumptions:		
Rate of inflation/pension increase rate	3.2%	2.9%
Rate of increase in salaries	3.9%	3.6%
Rate for discounting scheme liabilities	2.7%	2.0%

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

Change in assumption at 31 March 2022	**Approximate % increase to Employer Liability**	**Approximate monetary amount £000**
0.1% decrease in real discount rate	2%	19,730
0.1% increase in the salary increase rate	0%	2,591
0.1% increase in the pension increase rate	2%	16,970

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 investment funds and unit trusts 47% (2020-21 49%), equities 22% (2020-21 23%) and private equity 20% (2020-21 18%). The scheme also invests in properties 8% (2020-21 8%) and in cash 3% (2020-21 2%). 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 2021-2022 based on the last triennial valuation completed on 31 March 2020.

The total contributions expected to be made by the Council to Strathclyde Pension Fund in the year to 31 March 2023 is £17.438m. The weighted average duration of the defined benefit obligation for Fund members is 19 years (This is different from the mortality assumptions quoted in the table above in "*Basis for estimating assets and liabilities")*.

Note 28: Pensions schemes accounted for as defined contribution schemes

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

- The scheme is an unfunded statutory public service pension scheme, with benefits underwritten by the UK Government. The scheme is financed by payments from employers and from those current employees who are members of the scheme and paying contributions at progressively higher marginal rates based on pensionable pay, as specified in the regulations. The rate of employer contributions is set with reference to a funding valuation undertaken by the scheme actuary. The last four-yearly valuation was undertaken as at 31 March 2016, which set contribution rates from 1 April 2019 until 31 August 2019 at 17.2% and then to increase to 23% from 1 September 2019 and an anticipated yield of 9.4% employees contributions.
- The Council has no liability for other employer's obligations to the multi-employer scheme.
- As the scheme is unfunded, there can be no deficit or surplus to distribute on the wind-up of the scheme or withdrawal from the scheme.
- i) The scheme is an unfunded multi-employer defined benefit scheme.

  ii) It is accepted that the scheme can be treated for accounting purposes as a defined contribution scheme in circumstances where the Council is unable to identify its share of the underlying assets and liabilities of the scheme.

  iii) The employer contribution rate for the period from 1 April 2021 is 23% of pensionable pay. The employee rate applied is variable and is anticipated to provide a yield of 9.4% of pensionable pay.

  iv) While a valuation was carried out as at 31 March 2016, it is not possible to say what deficit or surplus may affect future contributions. Work on the valuation was suspended by the UK Government pending the decision from the Court of Appeal (Judiciary scheme)/Sargeant (Firefighters' Scheme) cases that held that the transitional protections provided as part of the

2015 reforms was unlawfully discriminated on the grounds of age. Following consultation and an announcement in February 2021 on proposals to remedy the discrimination, the UK Government has also asked the Government Actuary to review whether, and to what extent, the cost control mechanism is meeting its original objectives. The 2020 actuarial valuations will take the report's findings into account. The interim report is complete (restricted) and is currently being finalised with a consultation. Alongside these announcements, the UK Government confirmed that current employer contribution rates would stay in force until 1 April 2024.

v) Contributions collected in the year to 31 March 2022 will be published in October 2022.

The Council paid £10.9m (£11.3m 2020-2021) for employer's contributions. As a proportion of the total contributions into the Teachers Superannuation Scheme during the year ended 31 March 2021 (£654.6m), the Council's own contributions paid for the period ending 31 March 2021 equates to approximately 1.67%. The total expected Employer's contributions for the period to 31 March 2023 is £11.2m.

Note 29: Contingent assets and liabilities

At the 31st of March 2022 the Council has no material contingent assets but has the following contingent liabilities:

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

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

Note 30: Nature and extent of risks arising from financial instruments

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

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

Overall procedures for managing risk

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

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

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

- By formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- By adopting a Treasury Policy Statement and treasury management clauses within its financial regulations and standing orders; and

- By approving annually in advance prudential and treasury indicators for the following three years limiting:
  - (i) The Council's overall borrowing
  - (ii) The maximum and minimum exposures to fixed and variable interest rates
  - (iii) The maximum and minimum exposures to the maturity profile of its debt
  - (iv) The maximum annual exposures to investments maturing beyond a year
  - (v) By approving an investment strategy for the forthcoming year, setting out its criteria for both investing and selecting investment counterparties in compliance with Government guidance (regulations – Scotland).

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

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

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

Credit Risk

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

The risks associated with banks and financial institutions are minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid down by Standard & Poor's, Fitch and Moody's Credit Rating Services. The Annual Investment Strategy also considers maximum amounts and time limits for investment in respect of each financial institution.

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

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

The full Treasury and Investment Strategy for 2021-22 was approved by Council on 4 March 2021 and is available on the Council's website.

The Council's maximum exposure to credit risk in relation to its cash investments in banks and building societies of £72.105m 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 2022 that this was likely to crystallise.

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

The Expected Credit Loss calculation under IFRS 9 does not recognise a loss allowance where the counterparty is central government or a local authority since relevant statutory provisions prevent default. For these instruments, the Expected Credit Loss will be nil.

The Council's gross debtor (excluding council tax and non-domestic rate income) was £51.749m (2020-21 £30.991m) against which a provision of £8.755m (2020-21 £7.474m) was made for bad and doubtful debts. Based on historical experience, the Council has therefore fully provided for its estimated maximum exposure to default and non-collectability.

The Council does not generally allow credit for customers, such that £6.253m of the £51.749m gross debtor balance is past its due date for payment. The past due amount can be analysed by age as follows:

	2021-2) 022	2020-2021
	£000	£000
Less than three months	407	4,621
Three to six months	72	509
Six months to one year	2,130	4,102
More than one year	3,644	10,601
Total	**6,253**	**19,833**

Liquidity Risk

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

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

There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

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

Refinancing and Maturity Risk

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

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

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

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

The indicator for maturing debt (within one year) is 3% below the indicator, due to the strategy in 2021-22 of borrowing in the short-term markets and longer term PWLB borrowing.

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

	Maturity limit %	Maturing debt Maturing in period %	Actual 2021-2022 £000	Actual 2020-2021 £000
Less than one year	25	22	64,049	50,725
Between one and two years	25	5	13,725	2,049
Between two and five years	50	2	5,075	12,297
Between five and ten years	75	5	15,410	13,912
More than ten years	90	66	191,174	159,175
Principal element of borrowing		**100**	**289,433**	**238,158**

Market Risk

Interest rate risk

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

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

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

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this strategy, a treasury indicator is set which provides maximum limits for fixed and variable rate interest rate exposure. The central treasury team will monitor interest rates within the year to adjust exposures accordingly. For instance, during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long-term returns, similarly the drawing of longer-term fixed rate borrowing would be postponed. According to this assessment strategy, at 31 March 2022, if all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

Notional impact on the surplus or deficit on the provision of services:	**Actual 2021-2022 £000**	**Actual 2020-2021 £000**
Increase in interest payable on variable rate borrowings	796	721
Increase in interest receivable on variable rate investments	(223)	(265)
	573	**456**

Other presentational changes	Actual 2021-2022 £000	Actual 2020-2021 £000
Decrease in "fair value" of fixed rate borrowing liabilities (no impact on surplus or deficit on the provision of services)	**42,624**	**41,574**

The impact of a 1% fall in interest rates would be as above but with the movements being reversed. These assumptions are based on the same methodology as used in Note 10 – Fair Value of Assets and Liabilities carried at Amortised Cost.

Price Risk

The Council does not generally invest in equity shares but does have a shareholding to the value of £0.718m 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 shares have been classified as 'Fair Value through Other Comprehensive Income', meaning that all movements in price will impact on gains and losses recognised in the Financial Instrument Revaluation Reserve.

Foreign Exchange Risk

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

Section 6: Policies, Judgements and Assumptions

Note 31: Significant accounting policies

1. General principles

The Annual Accounts summarise the Council's transactions for the 2021-2022 financial year and its financial position at the year end of 31 March 2022. 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 2021-22* and are supported *by International Financial Reporting Standards* (IFRS).

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

2. Accruals of expenditure and income

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

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

3. Charges to revenue for non-current assets

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

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

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

4. Cash and cash equivalents

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

5. Employee benefits

Benefits payable during employment

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

Termination benefits

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

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

Post-employment benefits

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

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

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

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

The Local Government pension scheme

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

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

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

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

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

Discretionary benefits

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

6. Financial assets

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

There are three main classes of financial assets measured at:

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

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

Financial assets measured at amortised cost

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

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

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

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

Financial assets measured at fair value through profit or loss

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

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

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

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

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

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

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

Expected credit loss model

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

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

7. Financial liabilities

Borrowing

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

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

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

8. Government grants and contributions

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

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

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

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

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

9. Leases

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

The Council as Lessee

Finance leases

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

Lease payments are apportioned between:

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

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

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

Operating leases

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

The Council as Lessor

Operating leases

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

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

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment. There were no prior period adjustments relating to the financial year 2020-2021.

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.

Disposal and Derecognition of Infrastructure Assets

When a component of an infrastructure asset is disposed of or decommissioned, the carrying amount of the component 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. Receipts from disposals (if any) 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 the disposal).

The written-off amounts of disposals is not a charge against the council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are transferred to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Where any part of infrastructure assets are replaced, an adaptation provided in a separate update to the Code assumes that from the introduction of the IFRS based Code when parts of an asset are replaced or restored the carrying amount of the derecognised part will be zero because parts of infrastructure assets are rarely replaced before the part has been fully consumed.

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 not charged in the year of acquisition but is charged in the year of disposal. The periods of depreciation and categories of assets are detailed within Note 7 of the Annual Accounts.

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

12. Public Private Partnerships

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

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

- fair value of the service received during the year – debited to the relevant service in the Income and Expenditure Statement;

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

13. Provisions, contingent assets and liabilities

Provisions

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

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

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

Contingent assets and liabilities

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

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

14. Reserves

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

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

Usable reserves

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

Unusable reserves

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

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

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

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

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

15. Revenue expenditure funded from capital under statute

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

16. VAT

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

17. Fair value measurement

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

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

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

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

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

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

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

Note 32: 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 2021-2022 Code:

a) **Standards, amendments and interpretations effective in the current year:** In the current year, the Council has applied a number of amendments to IFRS Standards and Interpretations that are effective for an annual period that begins on or after 1 January 2021. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements:

   - **Amendment to IFRS 3:** Definition of a Business.
   - **Amendments to IAS 39, IFRS 4, IFRS 7 and IFRS 9:** Interest Rate Benchmark Reform (Phase 1).
   - **Amendments to IAS 39, IFRS 4, IFRS 7 and IFRS 9:** Interest Rate Benchmark Reform (Phase 2).

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

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

   - **IFRS 16:** Leases. HM Treasury have agreed to defer implementation until 1 April 2024.
   - **IFRS 17:** Insurance Contracts. Applicable for periods beginning on or after 1 January 2023.
   - **Amendment to IAS 1**: Classification of Liabilities as Current or Non-Current. Applicable for periods beginning on or after 1 January 2023.
   - **Amendment to IAS 1**: Disclosure of Accounting Policies. Applicable for periods beginning on or after 1 January 2023.
   - **Amendment to IAS 8**: Definition of Accounting Estimates. Applicable for periods beginning on or after 1 January 2023.
   - **Amendments to IAS 16:** Property, Plant and Equipment proceeds before intended use. Applicable for periods beginning on or after 1 January 2022.
   - **Amendments to IAS 37:** Onerous Contracts, cost of fulfilling a contract. Applicable for periods beginning on or after 1 January 2022.
   - Annual Improvements to IFRS Standards 2018-2020 Cycle. Applicable for periods beginning on or after 1 January 2022.

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

IFRS 16 Leases supersedes IAS 17 Leases and is being applied by the Local Government Accounting Code from 1 April 2024. IFRS 16 introduces a single lessee accounting model that results in a more faithful representation of a lessee's assets and liabilities, and provides enhanced disclosures to improve transparency of reporting on capital employed.

Under IFRS 16, lessees are required to recognise assets and liabilities for leases with a term of more than 12 months, unless the underlying asset is of low value. While no standard definition of 'low value' has been mandated, the Council have elected to utilise the capitalisation threshold of £6,000 to determine the assets to be disclosed. The Council expects that its existing finance leases will continue to be classified as leases. All existing operating leases will fall within the scope of IFRS 16 under the 'grandfathering' rules mandated in the Code for the initial transition to IFRS 16. In future years new contracts and contract renegotiations will be reviewed for consideration under IFRS 16 as implicitly identified right-of-use assets. Assets recognised under IFRS 16 will be held on the Balance Sheet as (i) right of-use assets which represent the Council's right to use the underlying leased assets; and (ii) lease liabilities which represent the obligation to make lease payments.

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

It is the Council's intention to adopt IFRS 16 early, on 1 April 2023. Due to the need to reassess lease calculations, together with uncertainty around expected future leasing activity, a quantification of the expected impact of applying the standard in 2022-23 is currently impracticable. However, the Council does not expect the implementation of this standard to have a material impact on the financial statements.

Note 33: Critical judgements in applying accounting policies

In applying the Significant Accounting Policies set out in Note 31 Section 6 to these accounts on pages 70 to 81, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Annual Accounts are:

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

Provisions and Contingent liabilities: The Council has considered its exposure to possible losses and made provision where it is probable that an outflow of resources will be required and can be measured reliably. Where it has not been possible to measure the obligation or it is not probable in the Council's opinion that a transfer of economic benefits will be required, material contingent liabilities have been disclosed in Note 29.

Note 34: 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 2022, for which there is a significant risk of material adjustment in the forthcoming financial year, are as follows:

Pension liability

*Uncertainties***:** estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which pay is projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Strathclyde Pension Fund has engaged a firm of consulting actuaries to provide expert advice about the assumptions to be applied.

Effect if the results differ from assumption: The effects on the net pension's liability of changes in individual assumptions can be measured. For instance, a 0.1% decrease in the real discount rate would result in an increase of £19.730m in the pension liability.

Public Private Partnership (PPP)

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

Effect if results differ from assumptions: Any increase in these indices above that which are set in the funding model will require the Council to identify and allocate additional funding to the scheme. For instance, a 0.5% increase in the index rate used in the model would result in an increase of £14.033m in unitary charge payments over the remaining term of the arrangements.

Section 7: Remuneration Report

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

Introduction

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

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

All information disclosed in the tables in this Remuneration Report will be audited by Deloitte (unless where it is stated that the information is not subject to audit). 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 2020 and came into force on 1 April 2020. 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 2021-2022 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 2021-2022, including the Leader, Provost, Depute Provost and Senior Councillors was agreed at a meeting of the South Ayrshire Council on 3 March 2022. 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/150 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 and Senior Employees.

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 2021-2022 is available on the Council's website by following the link: https://www.south-ayrshire.gov.uk/Councillors expenses 2021-2022

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

Name	Post title	Gross salary & allowances	**2021-2022 Total remuneration**	**2020-2021 Total remuneration**
		£	**£**	**£**
*P Henderson	Leader of the Council/Senior Councillor (2)	37,223	**37,223**	**32,990**
H Moonie	Provost	27,917	**27,917**	**26,797**
**S Brown	Senior Councillor (2)	3,838	**3,838**	**18,417**
I Cochrane	Senior Councillor (2)	25,012	**25,012**	**24,008**
J Dettbarn	Senior Councillor (2)	25,012	**25,012**	**24,008**
W Grant	Senior Councillor (2)/Depute Provost	25,012	**25,012**	**24,008**
B McGinley	Senior Councillor (2)	25,012	**25,012**	**24,008**
P Saxton	Senior Councillor (2)	25,012	**25,012**	**24,008**
***C Cullen	Senior Councillor (2)	21,169	**21,169**	**-**
I Cavana	Senior Councillor (1)	22,537	**22,537**	**21,632**
A Clark	Senior Councillor (1)	22,537	**22,537**	**21,632**
B Connolly	Senior Councillor (1)	22,537	**22,537**	**21,632**
M Dowey	Senior Councillor (1)	22,537	**22,537**	**21,632**
C MacKay	Senior Councillor (1)	22,537	**22,537**	**21,632**
****H Hunter	Senior Councillor (1)	15,621	**15,621**	**21,632**
*****A Spurling	Senior Councillor (1)	6,915	**6,915**	**-**
		350,428	**350,428**	**328,036**

There were no non-cash expenses & benefits-in-kind paid during 2021-22 or 2020-21.

**P Henderson – held the post of Senior Councillor (2) until 25 June 2020 when he was appointed Leader of the Council*
*** S Brown – held the post of Senior Councillor (2) from 25 June 2020 until 27 May 2021*
**** C Cullen – held the post of Senior Councillor (2) from 27 May 2021*
***** H Hunter – held the post of Senior Councillor (1) until 10 December 2021*
****** A Spurling – held the post of Senior Councillor (1) from 10 December 2021*

Note:

Full post title and responsibilities relating to each councillor can be found in the Members' Allowances and Expenses Paid 2021-2022 Annual Return which is available on the Council's website.
The post of Senior Councillor (2) carries responsibilities of portfolio holder and Senior Councillor (1) carries responsibilities of Panel Chair and Depute Provost.
The full year equivalent salaries for the above members in post for only part of the year are as follows; Leader £37,233, Senior Councillor (2) £25,012 and Senior Councillor (1) £22,537.

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.

	2021-2022	**2020-2021**
	£	**£**
Salaries	610,425	589,045
Expenses	4,892	6,877
	615,317	**595,922**

The annual return of councillors' salaries and expenses for 2021-2022 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 2022		**2020-2021**
Name & post	Gross salary & allowances	**Total Remuneration**	**Total Remuneration**
	£	**£**	**£**
E Howat – Chief Executive	140,547	140,547	**137,964**
T Eltringham - Director of Health & Social Care Partnership (i)	119,976	119,976	**119,405**
D Hutchison - Director of People (ii)	*95,895	*95,895	**118,905**
D Gillies – Director of Place	108,197	108,197	**107,352**
T Baulk – Head of Finance & ICT	88,522	88,522	**87,469**
C Caves – Head of Legal, HR and Regulatory Services	89,022	89,022	**87,469**
J Bradley – Assistant Director of People	88,522	88,522	**87,469**
M Newall – Assistant Director of People	88,522	88,522	**87,469**
C McGhee – Chief Internal Auditor (iii)	**16,869	**16,869	**-**
	836,072	**836,072**	**833,502**

(i) Remuneration for 2020-2021 includes a one off 'Thank You' payment of £500 for all Health and Social Care staff
(ii) D Hutchison left the employment of South Ayrshire Council on 16 January 2022
(iii) C McGhee commenced employment with South Ayrshire Council on 13 December 2021

* £119,976 full year equivalent
** £55,918 full year equivalent

Figures relating to 2021-2022 include the following election fees: E Howat £1,500, D Hutchison £750 and C Caves £500.

Total remuneration is presented on an accruals basis. The senior employees in the table above include any Council employee who has responsibility for management of the Council to the extent that the person has power to direct or control the major activities of the Council (including activities involving the expenditure of money) or reports directly to the Chief Executive, during the year to which the report relates, whether solely or collectively with other persons. There were no Taxable expenses or Non-cash expenses & benefits in kind made during 2021-22. There were no compensation for loss of office payments associated with the senior employees of the Council.

d) 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 2021-2022	Number of Employees 2020-2021
£50,000 - £54,999	153	131
£55,000 - £59,999	60	58
£60,000 - £64,999	46	43
£65,000 - £69,999	20	20
£70,000 - £74,999	3	3
£75,000 - £79,999	4	6
£80,000 - £84,999	2	1
£85,000 - £89,999	7	7
£90,000 - £94,999	-	1
£95,000 - £99,999	1	-
£105,000 - £109,999	1	2
£115,000 - £119,999	1	2
£135,000 - £139,999	-	1
£140,000 - £144,999	1	-
	299	**275**

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 2021-22 were as follows:

Full time pay	Contribution rate 2021-2022
On earnings up to £22,300	5.50%
On earnings above £22,301 and up to £27,300	7.25%
On earnings above £27,301 and up to £37,400	8.50%
On earnings above £37,401 and up to £49,900	9.50%
On earnings above £49,901	12.00%

Full time pay	Contribution rate 2020-2021
On earnings up to £22,200	5.50%
On earnings above £22,200 and up to £27,100	7.25%
On earnings above £27,100 and up to £37,200	8.50%
On earnings above £37,200 and up to £49,600	9.50%
On earnings above £49,600	12.00%

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

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

There is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for lump sum up to the limit set by HMRC. The accrual rate guarantees a pension account based on 1/49th 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.

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

The pension entitlements for senior councillors for the year to 31 March 2022 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 2022**	**For year to 31 March 2021**		**As at 31 March 2022**	**Difference from 31 March 2021**
		£	**£**		**£**	**£**
*P Henderson	Leader of the Council/ Senior Councillor (2)	7,184	6,367	Pension	2,981	921
				Lump sum	-	-
H Moonie	Provost	5,388	5,172	Pension	7,374	1,099
				Lump sum	2,010	179
**S Brown	Senior Councillor (2)	740	3,555	Pension	2,003	348
				Lump sum	-	-
I Cochrane	Senior Councillor (2)	4,827	4,634	Pension	4,666	779
				Lump sum	-	-
J Dettbarn	Senior Councillor (2)	4,827	4,634	Pension	2,473	635
				Lump sum	-	-
W Grant	Senior Councillor (2)/ Depute Provost	4,827	4,634	Pension	4,597	776
				Lump sum	-	-
B McGinley	Senior Councillor (2)	4,827	4,634	Pension	4,655	772
				Lump sum	-	-
P Saxton	Senior Councillor (2)	4,827	4,634	Pension	6,579	963
				Lump sum	1,771	152
***C Cullen	Senior Councillor (2)	4,084	-	Pension	1,754	599
				Lump sum	-	-
I Cavana	Senior Councillor (1)	4,350	4,175	Pension	4,286	821
				Lump sum	566	122
A Clark	Senior Councillor (1)	4,350	4,175	Pension	4,238	700
				Lump sum	-	-
B Connolly	Senior Councillor (1)	4,350	4,175	Pension	4,204	695
				Lump sum	-	-
M Dowey	Senior Councillor (1)	4,350	4,175	Pension	2,107	568
				Lump sum	-	-
C MacKay	Senior Councillor (1)	4,350	4,175	Pension	1,916	561
				Lump sum	-	-
****H Hunter	Senior Councillor (1)	-	281	Pension	-	-
				Lump sum	-	-
*****A Spurling	Senior Councillor (1)	-	-	Pension	-	-
				Lump sum	-	-
		63,281	**59,420**		**58,180**	**10,690**

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.

**P Henderson – held the post of Senior Councillor (2) until 25 June 2020 when he was appointed Leader of the Council*
*** S Brown – held the post of Senior Councillor (2) from 25 June 2020 until 27 May 2021*
**** C Cullen – held the post of Senior Councillor (2) from 27 May 2021*
***** H Hunter – held the post of Senior Councillor (1) until 10 December 2021*
****** A Spurling – held the post of Senior Councillor (1) from 10 December 2021*

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 employees (subject to audit)

The pension entitlements of senior employees for the year to 31 March 2022 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-Mar-22 £**	**For year to 31-Mar-21 £**		**As at 31-Mar-22 £**	**Difference from 31-Mar-21 £**
E Howat – Chief Executive	27,126	26,627	Pension	76,486	3,319
			Lump Sum	128,757	902
T Eltringham - Director of Health & Social Care Partnership	23,155	22,949	Pension	65,358	2,903
			Lump Sum	109,287	866
D Hutchison - Director of People *(i)*	*18,363	22,949	Pension	20,297	3,195
			Lump Sum	-	-
D Gillies – Director of Place	20,924	20,719	Pension	41,720	2,510
			Lump Sum	50,577	437
T Baulk – Head of Finance & ICT	17,085	16,882	Pension	41,707	2,161
			Lump Sum	61,523	634
C Caves – Head of Legal, HR and Regulatory Services	17,085	16,882	Pension	22,008	17,124
			Lump Sum	10,590	10,590
J Bradley – Assistant Director of People	17,085	16,882	Pension	31,804	2,067
			Lump Sum	35,879	370
M Newall – Assistant Director of People	17,085	16,882	Pension	50,277	2,249
			Lump Sum	87,230	898
C McGhee – Chief Internal Auditor *(ii)*	**3,256	-	Pension	19,503	-
			Lump Sum	26,881	-
	161,164	**160,772**		**879,884**	**50,225**

(i) D Hutchison left the employment of South Ayrshire Council on 16 January 2022
(ii) C McGhee commenced employment with South Ayrshire Council on 13 December 2021

* £23,155 full year equivalent ** £10,792 full year equivalent

Exit packages of employees (subject to audit)

The table below sets out the number and costs of exit packages for both 2021-2022 and 2020-2021 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.

	2021-2022			2020-2021		
Exit package cost band (including special payments)	**Number of exit packages**	**Cost £**	**Notional CAY cost £**	**Number of exit packages**	**Cost £**	**Notional CAY cost £**
£0 - £20,000	2	9,727	-	2	17,105	-
£20,001 - £80,000	6	167,386	65,435	9	312,991	-
£80,001 - £100,000	2	194,334	-	-	-	-
£100,001 - £150,000	-	-	-	3	355,823	107,039
Total	**10**	**371,447**	**65,435**	**14**	**685,919**	**107,039**

There were no compulsory redundancies during 2021-2022 or 2020-2021.

Trade union facility time (not subject to audit)

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

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

Percentage of working hours spent on Trade Union facility time	No	FTE
0%	-	-
1 – 50%	-	-
51 – 99%	40	38.05
100%	-	-
	40	**38.05**

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 0.01%. Approximately 0.01% 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

23 November 2022

Councillor Martin Dowey
Leader of the Council

23 November 2022

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 2022

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.

2020-21 £000	Expenditure	2021-22 £000	2021-22 £000
9,360	Repairs and maintenance	11,969	
6,456	Supervision and management	6,938	
14,262	Depreciation and impairment of property, plant and equipment	15,715	
566	Other expenditure	1,141	
350	Increase in bad debt provision	187	
30,994	**Total expenditure**		**35,950**
	Income		
(31,671)	Dwelling rents	(31,926)	
(333)	Non-dwelling rents	(349)	
(317)	Other income	(557)	
(32,321)	**Total income**		**(32,832)**
126	HRA share of Corporate and Democratic Core		132
(1,201)	**Net expenditure/(income) from HRA service as included in the Council Comprehensive Income and Expenditure statement**		**3,250**
	Other Operating Expenditure		
1	(Gain) or loss on sale of HRA non-current assets		1
2,369	Interest payable and similar charges		2,244
(110)	Interest and investment income		(67)
78	Net interest on the net defined benefit liability		83
(4,035)	Non-specific grant income		(1,139)
(2,898)	**Deficit/(surplus) for the year on HRA services**		**4,372**

II) Movement on the HRA Statement for the year ended 31 March 2022

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.

2020-2021 £000		2021-2022 £000
(11,329)	**Balance on the HRA at the end of the previous year**	**(14,254)**
(2,898)	Deficit/(surplus) for the year on the HRA Income and Expenditure Statement	4,372
(27)	Adjustments between accounting basis and funding basis under statute*	351
(2,925)	**Net decrease/(increase) in HRA balance**	**4,723**
(14,254)	**Balance on the HRA at the end of the current year**	**(9,531)**

*Represents net movement of all adjustments

Note 1: Provisions

A provision of £0.985m (2020-2021: £0.942m) is included in the Balance Sheet for doubtful debts in respect of mainstream housing rents. During 2021-2022, a total of £0.144m (2020-2021: £0.136m) was written off in respect of housing rent arrears.

Note 2: Accommodation

At 31 March 2022, the Council held various types of accommodation and had the following number and types of houses:

	2021-2022	2020-2021
Type of accommodation		
One and two apartment	2,599	2,509
Three apartment	3,503	3,468
Four apartment	1,981	1,978
Five or more apartment	171	171
	8,254	**8,126**

	2021-2022	2020-2021
Area of accommodation		
Ayr	4,933	4,798
Troon	965	969
Prestwick	732	724
Maybole	700	694
Girvan	924	941
	8,254	**8,126**

Note 3: Rent arrears & void property lost rent

At 31 March 2022, rent arrears amounted to £1.587m (2020-2021: £1.405m), being 4.86% (2020-2021: 4.28%) of gross rent collectable. The rental income lost due to void properties amounted to £0.559m in 2021-22 (2020-2021: £0.548m).

Note 4: HRA surplus/ (deficit)

The deficit for the year of £3.353m, when combined with the accumulated surplus brought forward from 2020-2021 of £14.254m, results in a final 2021-22 accumulated surplus of £9.531m at 31 March 2022. £7.344m is required to fund specific capital and revenue projects in future years leaving an uncommitted balance of £2.187m to be held as contingency for future unexpected or emergency situations (a minimum working balance of £2.000m is recommended to be held for this purpose).

Section 9: Collection of Council Tax

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

Council Tax Income Account

2020-2021 £000		2021-2022 £000
80,018	Gross council tax levied and contributions in lieu	80,575
	Deduct:	
(8,712)	Council tax benefits/reduction (net of government grants)	(8,424)
(8,979)	Other discounts and reductions	(9,197)
(1,888)	Write-off of uncollectable debts and allowances for impairment	(2,071)
60,439	**In year council tax income**	**60,883**
(111)	Adjustment to prior years' council tax	(546)
60,328	Transfer to General Fund	**60,337**

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 valuation as at 1 April 1991. 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 is only one resident aged 18 or over living in a property, or in some other circumstances where residents can be disregarded. Individuals in care, students and people who are severely mentally impaired are some examples where council tax would not be applicable. Reductions in council tax payable are also granted for disabled people in certain circumstances.

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

Valuation band	2021-22 Charge per band £
A	896.64
B	1,046.08
C	1,195.52
D	1,344.96
E	1,767.13
F	2,185.56
G	2,633.88
H	3,295.15

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

Additional income of £1.482m (2020-2021: £1.319m) is included within the general fund reserves and earmarked for use in relation to the affordable homes strategy.

Note 2: Calculation of the Council tax charge base 2021-2022

	Valuation band								
Council tax band	**A**	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**Total**
Total number of properties	7,258	12,745	8,959	8,455	9,703	5,132	3,241	300	**55,793**
Less exemptions/deductions	392	394	298	166	186	74	39	8	**1,557**
Less adjustment for single discount	943	1,336	877	708	689	273	145	5	**4,976**
Less adjustment for double discount	99	172	148	115	114	54	31	6	**739**
Reduction in tax base due to Council Tax Reduction	2,433	2,804	1,413	652	379	109	33	1	**7,824**
Effective number of properties	**3,391**	**8,039**	**6,223**	**6,814**	**8,335**	**4,622**	**2,993**	**280**	**40,697**
Band D equivalent factor (D)	**240**	**280**	**320**	**360**	**473**	**585**	**705**	**882**	
Band D equivalent number of properties	2,260	6,253	5,531	6,814	10,951	7,511	5,861	687	**45,868**
Class 17 & 24 dwellings				2					**2**
Total	**2,260**	**6,253**	**5,531**	**6,816**	**10,951**	**7,511**	**5,861**	**687**	**45,870**
Less provision for non-collection 3.25 per cent (adjusted for impact of Council Tax Reduction)									1,491
Council tax base 2021-2022									**44,379**

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.

2020-2021 £000		2021-2022 £000
59,667	Gross rates levied and contributions in lieu	58,241
	Deduct:	
(36,150)	Reliefs and other deductions	(27,561)
(473)	Write-off of uncollectable debts and allowance for impairment	(614)
23,044	**Net non-domestic rate income**	**30,066**
(2,875)	Adjustment to previous years' national non-domestic rates	(2,426)
20,169	**Total non-domestic rate income**	**27,640**
	National non-domestic rate pool:	
28,601	Non-domestic rate income retained by the authority	23,358
(20,169)	Contribution (to)/ from national non-domestic rate pool	(27,640)
8,432		**(4,282)**

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 2021-2022

Commercial subjects	**Number**	**Rateable Value £000**
Shops	1,404	33,567
Public houses	114	3,467
Offices (Including banks)	825	9,016
Hotels, boarding houses, etc.	78	5,551
Industrial and freight transport subjects	1,005	21,573
Leisure, entertainment, caravans and holiday sites	625	7,200
Garages and petrol stations	92	1,271
Cultural	31	794
Sporting subjects	545	1,056
Education and training	72	9,719
Public service subjects	178	6,561
Communications (non-formula)	18	1,854
Quarries, mines etc.	8	365
Petrochemical	3	56
Religious	89	1,019
Health medical	88	4,344
Other	203	1,219
Care facilities	53	3,098
Advertising	34	68
Undertaking	22	3,460
Total all subjects	**5,487**	**115,258**

Rate levied 2021-2022: Rateable value greater than £95,001 – 51.60p, between £51,001 and £95,000 – 50.30p less than or equal to £51,000 – 49.00p

Section 11: Group Accounts

Introduction

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

Combining entities

The Council has an interest in two subsidiaries, three associates and one joint venture entity. Further information on each entity are detailed in the notes to the Group Accounts below on pages 98 to 99 The subsidiary, associate and joint venture entities share a common accounting period ending 31 March 2022.

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 in the process of being wound up, which is expected to be concluded during 2022-2023. Until this process is completed Ayr Renaissance LLP is still being treated as a subsidiary for the purposes of the Group Accounts.

The associate entities incorporated are:

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

The joint venture is:

- South Ayrshire Integration Joint Board.

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

Nature of combination

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

Financial impact of consolidation

The inclusion of the subsidiary, associate entities and joint venture in the group Balance Sheet increases both the reserves and net assets by £55.811m (2020-21: increase net assets by £44,417m), 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 31 to 35.

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 36 to 69. 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 31 Section 6 to these accounts on pages 70 to 81.

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 31 to 35, the accounting regulations require specific disclosures about the combining entities and the nature of their business.

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

Strathclyde Partnership for Transport is the statutory body responsible for formulating the public transport policy on behalf of the twelve local authorities in the West of Scotland. The majority of its funding comes directly from the Scottish Government to fund the Rail Franchise payment and to ensure the delivery of rail services within the Board's area as specified in the rail franchise agreement. In 2021-2022, South Ayrshire Council contributed £1.799m or 5.03% (2020-21: £1.790m) of the Board's estimated running costs. Its share of the year-end net asset of £24.398m (2020-2021: £22.318m) is included in the Group Balance Sheet. Copies of Strathclyde Partnership for Transport accounts may be obtained from the Treasurer of Strathclyde Partnership for Transport, 131 St Vincent Street, Glasgow G2 5JF.

Strathclyde Concessionary Travel Scheme Joint Board comprises the twelve local authorities in the West of Scotland and oversees the operation of the concessionary fares scheme for public transport within its area. The costs of the scheme are met by the twelve local authorities and by a grant from the Scottish Executive. The Strathclyde Passenger Transport Executive administers the scheme on behalf of the Board. In 2021-2022, South Ayrshire Council contributed £0.265m or 6.51% (2020-21: £0,263m) of the Board's estimated running costs. Its share of the year-end net asset of £0.300m (2020-2021: £0.226m) is included in the Group Balance Sheet. Copies of Strathclyde Concessionary Travel Scheme's accounts may be obtained from the Treasurer to Strathclyde Concessionary Travel Scheme, 131 St Vincent Street, Glasgow G2 5JF.

Ayrshire Valuation Joint Board was established in 1996 at local government re-organisation by Act of Parliament. The Board maintains the electoral, council tax and non-domestic rates registers for the three Councils of East, North and South Ayrshire. The Board's running costs are met by the three-member Councils. Surpluses or deficits on the Board's operations are shared between the Councils. In 2021-2022, South Ayrshire Council contributed £0.859m or 33.33% (2020-21: £0.868m) of the Board's estimated running costs. Its share of the year-end net asset of £1.778m (2020-2021: £0.997m) is included in the Group Balance Sheet. Copies of Ayrshire Valuation Joint Board's accounts may be obtained from the Treasurer to Ayrshire Valuation Joint Board, County Buildings, Wellington Square, Ayr KA7 1DR.

Ayr Renaissance LLP was established by South Ayrshire Council as a separate arm's length, Limited Liability Partnership, with the purpose of regenerating Ayr Town Centre. It has two members, namely the Council (which is entitled to 99.999% share of profits) and SAC (LLP Nominees) Limited, a nominee company wholly owned by South Ayrshire Council. The organisation's running costs were met by South Ayrshire Council by way of an annual revenue contribution. South Ayrshire Council contributed £0.006m for running costs during 2021-2022 (2020-21: £0.007m).

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 controlled 50% of the Boards resources in 2021-2022 on a Joint Venture equity basis.

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 2021-2022

	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	14,407	25,380	335	1,829	690	14,352
Share of liabilities	(109)	(982)	(35)	(51)	(105)	-
Share of revenues	(730)	(3,820)	(266)	(865)	(6)	(137,677
Share of (surplus)/deficit	40	(362)	(9)	177	-	(9,249)

Share of Subsidiary and Associate - Assets and Liabilities 2020-2021

	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	15,115	23,450	239	1,060	695	5,103
Share of liabilities	(36)	(1,132)	(13)	(63)	-	-
Share of revenues	(738)	(3,689)	(263)	(993)	(7)	(128,378)
Share of (surplus)/deficit	(67)	(438)	(178)	(60)	-	(4,898)

Note 4: Contingent liabilities

At 31 March 2022 the Council had no share of contingent liabilities in any of its associate entities.

Section 12: Common Good Fund Accounts

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

I) Movement in Common Good Reserves Statement for the year ended 31 March 2022

2021-2022	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 2021	395	938	**1,333**	13,744	**13,744**	**15,077**
Movement in reserves during 2021-2022						
(Deficit) on the provision of services	(40)	-	**(40)**	-	**-**	**(40)**
Other comprehensive income and expenditure	-	(7)	**(7)**	(632)	**(632)**	**(639)**
(Decrease) in 2021-2022	(40)	(7)	**(47)**	(632)	**(632)**	**(679)**
Balance at 31 March 2022	355	931	**1,286**	13,112	**13,112**	**14,398**

2020-2021	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 2020	328	940	**1,268**	15,699	**15,699**	**16,967**
Movement in reserves during 2020-2021						
Surplus on the provision of services	67	-	**67**	-	**-**	**67**
Other comprehensive income and expenditure	-	(2)	**(2)**	(1,955)	**(1,955)**	**(1,957)**
Increase/(decrease) in 2020-2021	67	(2)	**65**	(1,955)	**(1,955)**	**(1,890)**
Balance at 31 March 2021	395	938	**1,333**	13,744	**13,744**	**15,077**

II) Common Good Income and Expenditure Account for the year ended 31 March 2022

2020-2021		**Ayr**	**Troon**	**Prestwick**	**Maybole**	**Girvan**	**2021-2022**
£000		**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
	Expenditure						
628	Property costs	627	30	-	-	44	**701**
1	Donations and contributions	1	-	-	-	-	**1**
41	Other expenditure	67	-	-	-	-	**67**
670		**695**	**30**	**-**	**-**	**44**	**769**
	Income						
726	Rents and other income	649	29	-	-	44	**722**
11	Interest on loans	6	1	-	-	-	**7**
737		**655**	**30**	**-**	**-**	**44**	**729**
67	**(Deficit)/surplus for year**	**(40)**	**-**	**-**	**-**	**-**	**(40)**
328	Surplus brought forward	96	35	253	2	9	**395**
395	**Accumulated surplus**	**56**	**35**	**253**	**2**	**9**	**355**

III) Common Good Balance Sheet as at 31 March 2022

31 March 2021		31 March 2022
£000		£000
13,951	Property, plant and equipment	13,318
13,951	**Non-current assets**	**13,318**
2	Inventory	2
1,161	Loans fund investment	1,187
1,163	**Current assets**	**1,189**
(6)	Creditors	(58)
-	Provisions	(20)
(31)	Deferred income	(31)
(37)	**Current liabilities**	**(109)**
15,077	**Net assets**	**14,398**
1,333	Usable Reserves - Revenue and Capital reserves	1,286
13,744	Unusable Reserve - Revaluation Reserve	13,112
15,077	**Net reserves**	**14,398**

Note 1: Valuation of Property, Plant and Equipment

Property valuations were carried out by RICS professional staff within the Council's Directorate of Place and are at valuation dates between 2017-2018 and 2021-2022, dependent on the category of asset. Further detail on the property valuation methodology is as described in Accounting Policy 11 contained in Section 6: Policies, Judgements and Assumptions, Note 31 of the Council annual accounts

Note 2: Movement in Property, Plant and Equipment

2021-2022 Movements	**Ayr**	**Prestwick**	**Troon**	**Girvan**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
Value as 1 April 2021	**13,375**	**534**	**31**	**11**	**13,951**
Revaluations, impairments and transfers	(864)	99	131	-	(633)
Value as at 31 March 2022	**12,511**	**633**	**162**	**11**	**13,318**

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

Note 3: Usable capital receipts reserve

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

Note 4: Revaluation reserve

This represents the difference between the costs of Property, plant and equipment and the valuations adjusted for disposals.

Section 13: Trust Fund Accounts

The Council administers Trust Funds and Bequests from local benefactors from which payments are made for specific purposes. The number of Trusts at 31 March 2022 was 56, of which 51 are under the control of South Ayrshire Councillors (ex-officio) and five are partly controlled by external trustees. The following tables summarise those Trusts which are controlled solely by South Ayrshire Councillors:

2020-2021		Registered charitable trusts	Other trusts	2021-2022
£000	**Revenue accounts**	**£000**	**£000**	**£000**
504	Opening balance	157	243	400
7	Income for year	1	4	5
(111)	Expenditure during year	(41)	(8)	(49)
400	**Closing balance**	**117**	**239**	**356**
	Balance Sheet as at 31 March			
	Assets			
115	Investments	18	105	123
439	Current assets	121	274	395
554	**Total assets**	**139**	**379**	**518**
	Reserves			
400	Revenue	117	239	356
61	Available for sale financial instrument reserve	2	67	69
93	Capital reserve	20	73	93
554	**Total reserves**	**139**	**379**	**518**

The table below provides information on the original purpose of various trusts or bequests and the value of investments held at 31 March 2022, split between those trusts with charitable status and those without.

Charitable Trusts

Name	Original Purpose	Loans Fund Investment	External Investment	Total
		£000	**£000**	**£000**
South Ayrshire Charitable Trust (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.	79	15	94
South Ayrshire Council Charitable Trusts (SC025088)	Various educational purposes; prizes/bursaries; social purposes; war memorial maintenance.	38	-	38
McKechnie Trust (SC012759)	Founding and operation of 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		**121**	**18**	**139**

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 Universities for three to five years per conditions of scheme.	157	105	262
Sundry Mortifications	Maintenance of lairs in perpetuity.	47	-	47
Various	Non-charitable Trusts with closing balances of less than £25,000.	70	-	70
Total non-charitable trusts		**274**	**105**	**379**
Total trusts		**395**	**123**	**518**

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 2021 £000 Capital	31 March 2021 £000 Revenue	Income £000 Capital	Income £000 Revenue	Expenditure £000 Capital	Expenditure £000 Revenue	31 March 2022 £000 Capital	31 March 2022 £000 Revenue	31 March 2022 £000 Total
South Ayrshire Charitable Trust (SC045677)	15	119	-	1	-	(41)	15	79	94
South Ayrshire Council Charitable Trusts (SC025088)	4	34	-	-	-	-	4	34	38
McKechnie Trust (SC012759)	3	4	-	-	-	-	3	4	7
Total charitable trusts	**22**	**157**	**-**	**1**	**-**	**(41)**	**22**	**117**	**139**

Non-charitable Trusts

Capital and Revenue	31 March 2021 £000 Capital	31 March 2021 £000 Revenue	Income £000 Capital	Income £000 Revenue	Expenditure £000 Capital	Expenditure £000 Revenue	31 March 2022 £000 Capital	31 March 2022 £000 Revenue	31 March 2022 £000 Total
John McMaster Bursary Fund	96	161	8	4	-	(8)	104	157	261
Sundry Mortifications	20	27	-	-	-	-	20	27	47
Non-charitable trusts with closing balances of less than £25,000	16	55	-	-	-	-	16	55	71
Total non-charitable	**132**	**243**	**8**	**4**	**-**	**(8)**	**140**	**239**	**379**
Total	**154**	**400**	**8**	**5**	**-**	**(49)**	**162**	**356**	**518**

Other trusts and bequests

The Council also administers the funds of a further five trusts or bequests that are controlled in part by external trustees with a combined value at 31 March 2022 of £0.913m (2020/21: £0.862m). These trusts or bequests are not included in the above accounts and are not covered by the independent auditor's report at Section 14.

Section 14: Independent Auditor's Report to the members of South Ayrshire Council and the Accounts Commission

Reporting 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 2022 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and council-only Comprehensive Income and Expenditure Statements, Movement in Reserves Statements, Balance Sheets, and Cash Flow Statements, the council-only Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Council Tax Income Account, and the Non-domestic Rate Account, the Common Good Fund Accounts, the Trust Fund Accounts and any other disclosures presented as financial statements and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the 2021/22 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2021/22 Code of the state of affairs of the council and its group as at 31 March 2022 and of the income and expenditure of the council and its group for the year then ended;

- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2021/22 Code; and

- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We were appointed by the Accounts Commission on 31 May 2016. The period of total uninterrupted appointment is 6 years. We are independent of the council and its group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern basis of accounting

We have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the ability of the council and its group to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

These conclusions are not intended to, nor do they, provide assurance on the current or future financial sustainability of the council and its group. However, we report on the council's arrangements for financial sustainability in a separate Annual Audit Report available from the Audit Scotland website.

Risks of material misstatement

We report in our Annual Audit Report the most significant assessed risks of material misstatement that we identified and our judgements thereon.

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

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

In preparing the financial statements, the Head of Finance and ICT is responsible for assessing the ability of the council and its group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to discontinue the operations of the council and its group.

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

Auditor's responsibilities for the audit of the financial statements

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- considering the nature of the council's control environment and reviewing the council's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired with management, internal audit and those charged with governance about their own identification and assessment of the risks of irregularities;

- obtaining an understanding of the applicable legal and regulatory framework and how the council is complying with that framework;

- identifying which laws and regulations are significant in the context of the council;

- assessing the susceptibility of the financial statements to material misstatement, including how fraud might occur; and

- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

We obtained an understanding of the legal and regulatory framework that the body operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. This included the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014, the Local Government in Scotland Act 2003 and the Public Bodes (Joint Working) Scotland Act 2014.

- do not have a direct effect on the financial statements but compliance with which may be fundamental to the body's ability to operate or to avoid a material penalty. These included the Data Protection Act 2018 and relevant employment legislation.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of the performing the above, we identified the greatest potential for fraud was in relation to the recognition of COVID-19 related income. The risks are that the COVID-19 related income is incorrected recorded where grant conditions exist and has not been correctly assessed and disclosed as either a principal or agency relationship. In response to this risk, we tested a sample of COVID-19 funding to confirm that it has been recognised in accordance with any conditions applicable. In addition, we have tested the agency arrangement disclosures to confirm that they have been correctly assessed and disclosed.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;

- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;

- enquiring of management, internal audit and internal legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and

- reading minutes of meetings of those charged with governance and reviewing internal audit reports.

The extent to which our procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the council's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

Reporting on other requirements

Opinion prescribed by the Accounts Commission on the audited part of the Remuneration Report

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

Other information

The Head of Finance and ICT is responsible for other information in the annual accounts. The other information comprises the Management Commentary, Annual Governance Statement, Statement of Responsibilities and the unaudited part of the Remuneration Report.

Our responsibility is to read all the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

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 the Management Commentary and Annual Governance Statement to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

Opinions prescribed by the Accounts Commission on the Management Commentary and Annual Governance Statement

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

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and

- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept; or

- the financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records; or

- we have not received all the information and explanations we require for our audit; or

- there has been a failure to achieve a prescribed financial objective.

We have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

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

Use of our report

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

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

23 November 2022

Section 15: Glossary of Terms

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

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

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

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

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

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

Audit of accounts
An independent examination of the Council’s financial affairs.

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

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

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

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

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

CIPFA
The Chartered Institute of Public Finance and Accountancy.

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

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

Contingent asset/liability

A Contingent Asset/Liability is either:

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

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

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

Covid-19
Declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020

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

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

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

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

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

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

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

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

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

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

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

IAS
International Accounting Standards.

IFRIC
International Financial Reporting Interpretations Committee.

IFRS
International Financial Reporting Standards.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Public Works Loan Board (PWLB)
A Central Government Agency, which provides loans for one year and over to councils at interest rates only marginally higher than those at which the Government can borrow.

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

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

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

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

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

Revenue expenditure
The day-to-day expenses of providing services.

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

Temporary borrowing
Money borrowed for a period of less than one year.

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

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

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

South Ayrshire Council
County Buildings
Wellington Square
Ayr
KA7 1DR

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Comhairle Siorrachd Àir a Deas
Making a Difference Every Day

Annex 3

South Ayrshire Council
Charitable Trust Funds

2021/22 Trustees' Annual Report and Financial Statements

South Ayrshire Council Charitable Trust Funds

Contents

South Ayrshire Council Charitable Trust Funds

Trustees’ Annual Report

The Trustees present their Annual Report and Financial Statements in respect of the following charitable trusts, registered with the Office of the Scottish Charity Regulator (OSCR) and administered on behalf of the Trustees by South Ayrshire Council:

SC012759 McKechnie Library Trust (McKechnie)
SC025088 South Ayrshire Council Charitable Trusts (SAC CT)
SC045677 South Ayrshire Charitable Trust (SACT)

Principal address

South Ayrshire Council
County Buildings
Wellington Square
Ayr
KA7 1DR

Auditor

Deloitte LLP
110 Queen Street
Glasgow
United Kingdom
G1 3BX

Trustees

SAC CT; SACT:

Kenneth Bell (appointed 6 May 2022)
Laura Brennan-Whitefield
Siobhian Brown (resigned 5 May 2022)
Andy Campbell (resigned 5 May 2022)
Douglas Campbell (resigned 5 May 2022)
Iain Campbell
Ian Cavana
Alec Clark
Ian Cochrane
Brian Connolly
Peter Convery (resigned 5 May 2022)
Chris Cullen
Ian Davis
Julie Dettbarn
Martin Dowey
Mark Dixon (appointed 6 May 2022)
Stephen Ferry (appointed 6 May 2022)
Ian Fitzsimmons (resigned 5 May 2022)
William Grant
Peter Henderson
Hugh Hunter
Martin Kilbride (appointed 6 May 2022)
Mary Kilpatrick
Lee Lyons
Craig Mackay
Derek McCabe (resigned 5 May 2022)
Brian McGinley
Helen Moonie (resigned 5 May 2022)
Bob Pollock
Cameron Ramsay (appointed 6 May 2022)
Philip Saxton
Gavin Scott (appointed 6 May 2022)
Bob Shields (appointed 6 May 2022)
Arthur Spurling (resigned 5 May 2022)
Margaret Toner (resigned 5 May 2022)
Duncan Townson (appointed 6 May 2022)
George Weir (appointed 6 May 2022)

Trustees' Annual Report (continued)

Trustees (continued)

McKechnie:

Alec Clark	Peter Henderson
Ian Fitzsimmons (resigned 5 May 2022)	Gavin Scott (appointed 6 May 2022)

The resignation and appointment of Trustees as noted above was as a consequence of the local government election held on 5 May 2022.

Founding documents and purpose

McKechnie:
The founding document is a Disposition and Settlement by Thomas McKechnie dated 7 May 1886. The purpose was the founding and operation of a library and reading rooms in Dalrymple Street, Girvan. This purpose was superseded by the establishment of a local authority public library and the McKechnie Institute building owned by the Trust is now a museum and exhibition centre.

SAC CT:
The Trust was set up from Trust document. The purposes of the Trust are to fund maintenance of the War Memorial at Turnberry golf course and prizes/ bursaries for specific schools in South Ayrshire.

SACT:
The Trust was established by the approval of the South Ayrshire Charitable Trust Deed by South Ayrshire Council on 18 December 2014. The purposes of the Trust are:

a) the prevention and relief of poverty; and
b) the relief of those in need by reason of age, ill-health, disability, financial hardship or other disadvantage in South Ayrshire.

Within this Trust, funds are restricted by geographical area (refer below). A further restrictive purpose (for relieving ill-health) was previously in place over certain funds within the Troon area; however these funds have now been fully disbursed.

Trustee recruitment and appointment

McKechnie:
Per the Trust's founding deed, the Trustees are the "Chief Magistrate of Girvan along with the Factor of Bargany Estate". The Trustees are now deemed to be the elected councillors of Girvan and South Carrick ex-officio.

SAC CT; SACT:
The Trustees are Elected Members of South Ayrshire Council ex-officio. Training is provided to Elected Members on the role and responsibilities of Trustees, both in general and specifically related to the objectives of the Trusts. Training is refreshed following local government elections.

Summary of main achievements of the Trusts during the financial year

McKechnie:
The McKechnie Institute building is leased to South Ayrshire Council indefinitely, subject to tacit relocation, for the sum of £10 per annum which is not normally requested.

The Trust made no disbursements during the financial year. Funds are held for maintenance of the McKechnie Institute which is leased to South Ayrshire Council on a tenant repairing lease. Accordingly, opportunities for disbursement of the Trust's funds do not frequently present themselves. However, further consideration will be given as to how these funds can best be utilised in the future for the purpose of the Trust.

SAC CT; SACT:
Decisions for the disbursement of funds are delegated to committees of Trustees comprising councillors for the areas of Ayr; Prestwick and Monkton; Troon; Coylton; Maybole; Girvan; and Barr. All funds for Troon, Maybole and Barr are now exhausted and funds remaining for Girvan are held as external investments that South Ayrshire Council officers are working to realise. The remaining committees convene at least annually and through an application process approved the following disbursements in 2021/22:

	Number	Amount £
Ayr	6	25,802
Prestwick and Monkton	2	5,236
Coylton	1	500
Total	**9**	**31,538**

All disbursements were made to various community groups including schools, churches and foodbanks for a range of projects determined by the committees to be in keeping with the purposes of the Trusts. No disbursements were made to individuals during the year.

Reserves policy

The Trusts have the ability to spend all funds as approved by the Trustees, restricted by the appropriate geographical area or school. The Trustees' intent is to reduce the Trusts' reserves through the awarding of grants, prizes and bursaries which meet the Trusts' objectives.

At the end of the financial year, unrestricted reserves and reserves with restrictions totalled £121,281 (2020/21: £160,538). A combined deficit of £39,257 was recorded for the financial year (2020/21: deficit of £100,021), primarily due to the decisions taken by the Trustees to expend the Trusts' reserves on their stated objectives and to a lesser extent, the costs of administering the Trusts being greater than income from investments as a result of low interest rates.

The Trusts' reserves are held within South Ayrshire Council's loans fund and external investments.

Trustees' Annual Report (continued)

Other information

The Head of Finance and ICT for South Ayrshire Council is the designated officer with responsibility for the proper administration of the Trusts' financial affairs and is also responsible for keeping proper accounting records that are up to date and which ensure that financial statements comply with the Charities Accounts (Scotland) Regulations 2006.

The administration of predecessor trusts in the Girvan area to South Ayrshire Charitable Trust transferred to South Ayrshire Council during 2012/13. Difficulties – not least due to Covid-19 restrictions since March 2020 – continue to be encountered in transferring these predecessor trusts' assets, as investments continue to be held in the names of former Trustees on behalf of those trust. The transfer of shareholdings to the current Trustees remains ongoing.

At 31 March 2022, £1,622 of income was received but remained uncashed and not accounted for in the Statement of Receipts and Payments on page 5. When the transfer of shareholdings is complete, all uncashed income will be appropriately accounted for in the Statement of Receipts and Payments in that financial year.

The investment in 3½% War Stock was redeemed but not received as the stock is still held in the names of former trustees. Accordingly, this is shown in the Statement of Balances on page 6 as the stock held remains an asset of South Ayrshire Charitable Trust.

Martin Dowey
Trustee

23 November 2022

Peter Henderson
Trustee

23 November 2022

South Ayrshire Council Charitable Trust Funds

Statement of Receipts and Payments for the year ended 31 March 2022

	Note	SC012759 (McKechnie): Unrestricted £	SC025088 (SAC CT): Restricted £	SC045677 (SACT): Restricted £	Total 2022 £
Receipts:					
Investment income	6, 9	18	181	826	1,025
Total receipts		**18**	**181**	**826**	**1,025**
Payments:					
Grants	7	-	-	(31,538)	(31,538)
Governance costs	10	(114)	(226)	(8,404)	(8,744)
Total payments		**(114)**	**(226)**	**(39,942)**	**(40,282)**
Deficit for the year		**(96)**	**(45)**	**(39,116)**	**(39,257)**

Comparative information	Note	SC012759 (McKechnie): Unrestricted £	SC025088 (SAC CT): Restricted £	SC045677 (SACT): Restricted £	Total 2021 £
Receipts:					
Investment income	6, 9	25	244	1,539	1,808
Total receipts		**25**	**244**	**1,539**	**1,808**
Payments:					
Grants	7	-	-	(92,810)	(92,810)
Governance costs	10	(118)	(196)	(8,705)	(9,019)
Total payments		**(118)**	**(196)**	**(101,515)**	**(101,829)**
Surplus/(deficit) for the year		**(93)**	**48**	**(99,976)**	**(100,021)**

South Ayrshire Council Charitable Trust Funds

Statement of Balances as at 31 March 2022

	Note	SC012759 McKechnie £	SC025088 SAC CT £	SC045677 SACT £	Total 2022 £
Investments	9	**2,586**	**-**	**14,972**	**17,558**
Bank and cash:					
Unrestricted funds		3,627	-	-	3,627
Restricted funds	2	-	34,327	79,559	113,886
Permanent endowment funds	3	-	3,768	-	3,768
Total current assets		**3,627**	**38,095**	**79,559**	**121,281**
Total assets		**6,213**	**38,095**	**94,531**	**138,839**

Comparative information	Note	SC012759 McKechnie £	SC025088 SAC CT £	SC045677 SACT £	Total 2021 £
Investments	9	**2,586**	**-**	**15,577**	**18,163**
Bank and cash:					
Unrestricted funds		3,723	-	-	3,723
Restricted funds	2	-	34,372	118,675	153,047
Permanent endowment funds	3	-	3,768	-	3,768
Total current assets		**3,723**	**38,140**	**118,675**	**160,538**
Total assets		**6,309**	**38,140**	**134,252**	**178,701**

The unaudited financial statements were issued on 28 June 2022. The audited financial statements were authorised for issue and signed on behalf of the Trustees on 23 November 2022.

Martin Dowey
Trustee

23 November 2022

Peter Henderson
Trustee

23 November 2022

South Ayrshire Council Charitable Trust Funds

Notes to the Financial Statements

1 Basis of financial statements

These financial statements have been prepared on a receipts and payments basis in accordance with the Charities and Trustee Investment (Scotland) Act 2005 and Charities Accounts (Scotland) Regulations 2006 (as amended).

2 Restricted funds

The Trusts' restricted funds are analysed as follows:

	2022 £	2021 £
SC025088 SAC CT	**34,327**	**34,372**
SC045677 SACT:		
Ayr	76,280	109,648
Prestwick	436	5,736
Coylton	465	1,053
Girvan	2,378	2,238
Total SC045677 SACT	**79,559**	**118,675**
Total restricted funds	**113,886**	**153,047**

3 Permanent endowment funds

Permanent endowment funds are held with South Ayrshire Council for the benefit of the Trusts as a capital fund. In keeping with the Trusts' reserves policy, redeemed investments continue to be effectively held as a permanent endowment. Income earned from these funds is available for the charitable purposes and is added to unrestricted funds.

4 Taxation

The Trusts are not liable to either income or capital gains tax on their charitable activities. Irrecoverable VAT is included as part of the expense to which it relates.

5 Trustees' remuneration and expenses

No remuneration or expenses were paid to the Trustees or any connected persons during either the current or prior financial year.

South Ayrshire Council Charitable Trust Funds

Notes to the Financial Statements (continued)

6 Related party transactions

The McKechnie Institute is leased to South Ayrshire Council on a full tenant repairing lease. The rental charge of £10 per annum is not currently requested from the lessee.

The South Ayrshire Charitable Trust awarded one grant to related parties: STEM grants to Prestwick schools (£4,736).

The Trusts received interest income of £691 from South Ayrshire Council during the financial year (2020/21: £1,482) as analysed below. All financial transactions are made through South Ayrshire Council's bank accounts.

	2022 £	2021 £
SC012759 McKechnie	**18**	**25**
SC025088 SAC CT:		
Interest on revenue balances	169	223
Interest on capital balances	12	21
Total SC025088 SAC CT	**181**	**244**
SC045677 SACT:		
Ayr	470	1,147
Prestwick and Monkton	6	43
Coylton	4	7
Girvan	12	16
Total SC045677 SACT	**492**	**1,213**
Total income from related party transactions	**691**	**1,482**

7 Grants

	2022 £	2021 £
SC045677 SACT:		
Ayr	25,802	92,810
Prestwick and Monkton	5,236	-
Coylton	500	-
Total grants	**31,538**	**92,810**

South Ayrshire Council Charitable Trust Funds

Notes to the Financial Statements (continued)

8 Bank and cash balances

During the financial year the Trusts' bank and cash balances were held and administered by South Ayrshire Council on behalf of the Trustees.

9 External investments

	2022 £	2021 £
SC012579 McKechnie:		
£2,586.46 nom value 3½% War Stock (redeemed but not received)	**2,586**	**2,586**
SC045677 SACT:		
2088 BMO UK High Income Trust plc (Comp 3A Ordinary and 1B Ordinary)	7,016	7,621
£1,100 nominal value 3% London County Consolidated Stock	616	616
£7,340 nominal value 3½% War Stock (redeemed but not received)	7,340	7,340
Total SACT investments	**14,972**	**15,577**
Total investments	**17,558**	**18,163**

Investments are entirely in respect of the Girvan area and are valued at market value.

	2022 £	2021 £
Interest received on external investments:		
SC045677 SACT	**334**	**326**

South Ayrshire Council Charitable Trust Funds

Notes to the Financial Statements (continued)

10 Governance costs

	2022	2021
	£	£
SC012759 McKechnie:		
Preparation of financial statements	64	68
Audit fee	50	50
Total SC012759 McKechnie	**114**	**118**
SC025088 SAC CT:		
Preparation of financial statements	176	146
Audit fee	50	50
Total SC025088 SAC CT	**226**	**196**
SC045677 SACT:		
Legal and administrative costs	4,250	5,055
Preparation of financial statements	3,254	2,750
Audit fee	900	900
Total SC045677 SACT	**8,404**	**8,705**
Total governance costs	**8,744**	**9,019**

Governance costs are allocated based on a combination of staff time spent on legal, administrative and financial tasks and the volume of transactions for each Trust.

11 McKechnie Institute

The McKechnie Institute is heritage asset and it is the opinion of the Trustees that it is neither practicable to obtain a valuation at a cost commensurate with the benefits to the users of the financial statements, nor possible to obtain a reliable cost or valuation. Accordingly, the asset is not presently recognised on the Trust's Balance Sheet.

South Ayrshire Council Charitable Trust Funds

Independent Auditor’s Report to the Trustees of South Ayrshire Council Charitable Trust Funds and the Accounts Commission

Reporting on the audit of the financial statements

Opinion on financial statements

We certify that we have audited the financial statements in the statement of accounts of South Ayrshire Council Charitable Trust Funds for the year ended 31 March 2022 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Receipts and Payments, the Statement of Balances and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and a receipts and payments basis

In our opinion the accompanying financial statements:
- properly present the receipts and payments of the charities for the year ended 31 March 2022 and their statement of balances at that date; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulations 9(1),(2) and (3) of The Charities Accounts (Scotland) Regulations 2006.

Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Our responsibilities under those standards are further described in the auditor’s responsibilities for the audit of the financial statements section of our report. We are independent of the charities 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.

Responsibilities of the trustees for the financial statements

The trustees are 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 trustees determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s responsibilities for the audit of the financial statements

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

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.

South Ayrshire Council Charitable Trust Funds

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- considering the nature of the charity's control environment and reviewing the charity's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired with management and those charged with governance about their own identification and assessment of the risks of irregularities;
- obtaining an understanding of the applicable legal and regulatory framework and how the charity is complying with that framework;
- identifying which laws and regulations are significant in the context of the charity;
- assessing the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

We obtained an understanding of the legal and regulatory framework that the body operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. This included the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006.
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the body's ability to operate or to avoid a material penalty. These included the Scottish Charity Regulator (OSCR) regulations.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of the performing the above, we identified the greatest potential for fraud was in relation to the grant payments. The risk is that grants are paid to external bodies by the charity that do not satisfy the charity's objectives. In response to this risk, we tested a sample of grant payments made in the year to confirm that they have been made in accordance with the charity's objectives.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and internal legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

The extent to which our procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the charity's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

Reporting on other requirements

Other information

The trustees are responsible for other information in the statement of accounts. The other information comprises the Trustees' Annual Report.

Our responsibility is to read all the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

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 the Trustees' Annual Report to the extent explicitly stated in the following opinion prescribed by the Accounts Commission.

Opinions prescribed by the Accounts Commission on the Trustees' Annual Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Trustees' Annual Report 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 Charities SORP (FRS 102).

Matters on which we are required to report by exception

We are required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

South Ayrshire Council Charitable Trust Funds

Use of our report

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

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

23 November 2022

Pat Kenny, CPFA (for and on behalf of Deloitte LLP) is eligible to act as an auditor in terms of Part VII of the Local Government (Scotland) Act 1973.

South Ayrshire Council
Equality Impact Assessment
Scoping Template

Equality Impact Assessment is a legal requirement under the Public Sector Duty to promote equality of the Equality Act 2010. Separate guidance has been developed on Equality Impact Assessment's which will guide you through the process and is available to view here: https://www.south-ayrshire.gov.uk/equalities/impact-assessment.aspx

Further guidance is available here: https://www.equalityhumanrights.com/en/publication-download/assessing-impact-and-public-sector-equality-duty-guide-public-authorities/

The Fairer Scotland Duty ('the Duty'), Part 1 of the Equality Act 2010, came into force in Scotland from 1 April 2018. It places a legal responsibility on Councils to actively consider ('pay due regard to') how we can reduce inequalities of outcome caused by socio-economic disadvantage, when making strategic decisions. FSD Guidance for Public Bodies in respect of the Duty, was published by the Scottish Government in March 2018 and revised in October 2021. See information here: https://www.gov.scot/publications/fairer-scotland-duty-guidance-public-bodies/

1. Policy details

Policy Title	Final Report on the 2021/22 Audit
Lead Officer (Name/Position/Email)	Tim Baulk, Head of Finance, ICT and Procurement – tim.baulk@south-ayrshire.gov.uk

2. Which communities, groups of people, employees or thematic groups do you think will be, or potentially could be, impacted upon by the implementation of this policy? Please indicate whether these would be positive or negative impacts

Community or Groups of People	Negative Impacts	Positive impacts
Age – men and women, girls & boys	-	-
Disability	-	-
Gender Reassignment (Trans/Transgender Identity)	-	-
Marriage or Civil Partnership	-	-
Pregnancy and Maternity	-	-
Race – people from different racial groups, (BME) ethnic minorities and Gypsy/Travellers	-	-
Religion or Belief (including lack of belief)	-	-
Sex – (issues specific to women & men or girls & boys)	-	-
Sexual Orientation – person's sexual orientation i.e. LGBT+, lesbian, gay, bi-sexual, heterosexual/straight	-	-

Community or Groups of People	Negative Impacts	Positive impacts
Thematic Groups: Health, Human Rights & Children's Rights	-	-

3. What likely impact will this policy have on people experiencing different kinds of social disadvantage i.e. The Fairer Scotland Duty (This section to be completed for any Strategic Decisions). Consideration must be given particularly to children and families.

Socio-Economic Disadvantage	Negative Impacts	Positive impacts
Low Income/Income Poverty – cannot afford to maintain regular payments such as bills, food, clothing	-	-
Low and/or no wealth – enough money to meet Basic living costs and pay bills but have no savings to deal with any unexpected spends and no provision for the future	-	-
Material Deprivation – being unable to access basic goods and services i.e. financial products like life insurance, repair/replace broken electrical goods, warm home, leisure/hobbies	-	-
Area Deprivation – where you live (rural areas), where you work (accessibility of transport)	-	-
Socio-economic Background – social class i.e. parent's education, employment and income	-	-

4. Do you have evidence or reason to believe that the policy will support the Council to:

General Duty and other Equality Themes **Consider the 'Three Key Needs' of the Equality Duty**	**Level of Negative and/or Positive Impact** **(High, Medium or Low)**
Eliminate unlawful discrimination, **harassment and victimisation**	Low
Advance equality of opportunity between people who share a protected characteristic and those who do not	Low
Foster good relations between people who share a protected characteristic and those who do not. (Does it tackle prejudice and promote a better understanding of equality issues?)	Low
Increase participation of particular communities or groups in public life	Low
Improve the health and wellbeing of particular communities or groups	Low
Promote the human rights of particular communities or groups	Low
Tackle deprivation faced by particular communities or groups	Low

5. Summary Assessment

Is a full Equality Impact Assessment required? (A full Equality Impact Assessment must be carried out if impacts identified as **Medium and/or High**)	~~**YES**~~ **NO**
Rationale for decision: **This report submits accounts for the financial year to 31 March 2022 and the proposed independent auditor's report to Members. Their decision on this has no specific equality implications**	
Signed : Tim Baulk **Head of Service** **Date:** 17 November 2022	