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Foreword by the Executive Director - Corporate Services

Introduction

This foreword provides an overview of the financial performance of South Ayrshire Council (the Council) for the year ended 31 March 2009. The Statement of Accounting Policies on pages 7 to 11 explains the basis for the recognition, measurement and disclosure of transactions and other events in the Accounts, to ensure that they present a 'true and fair view' of the Council's financial performance. The financial statements for 2008/09 are set out on pages 12 to 59 and incorporate financial and other information required by the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (the SORP).

The Financial Statements

Core Financial Statements:

- The Income and Expenditure Account reports the income raised by the Council during the year and how it was spent on services, financing costs and contributions to or from reserves. The surplus or deficit on the Income and Expenditure Account is carried to the Balance Sheet.
- The Statement of Movement on the General Fund Balance shows how the Income and Expenditure Account reconciles to the movement on the Council's General Fund Balance.
- The Statement of Total Recognised Gains and Losses brings together all the gains and losses of the Council for the year and shows the aggregate increase or decrease in its net worth.
- The Balance Sheet provides a summary of the Council's assets, liabilities, reserves and balances at 31 March 2009. It is a statement on the Council's financial position at one particular point in time, a snapshot of its financial affairs at the end of the year expressed in accounting terms.
- The Cash Flow Statement summarises the Council's inflows and outflows of cash resulting from transactions with third parties during the year in respect of both revenue and capital activities.
- The Notes to the Core Financial Statements provide further information on the Council's core financial statements.

Supplementary Financial Statements:

- 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.
 - The HRA Income and Expenditure Account 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.
 - o The Statement of Movement on the HRA Balance shows how the HRA Income and Expenditure Account reconciles to the movement on the Housing Revenue Account Balance.
 - The Notes to the Housing Revenue Account provide further information on the Housing Revenue Account.
- The Council Tax and Non-Domestic Rate Income Accounts summarise the income raised through local taxation and non-domestic rates and also provide details of the number of taxable properties within South Ayrshire.
- The Common Good and Sundry Accounts summarise the financial performance of the Common Good, Trusts and other funds administered by the Council.

Group Accounts

The Council has an interest in six other entities, namely the Common Good Fund, Ayrshire Valuation Joint Board, The Board of Strathclyde Fire and Rescue, Strathclyde Partnership for Transport, Strathclyde Concessionary Travel Scheme Joint Board and Strathclyde Police Joint Board. Under accounting standards, the Council requires to include the results of these organisations in its Group Accounts due to its significant influence over their financial and operating practices.

The Council's Group Accounts comprise of the following statements:

- The Group Income and Expenditure Account combines the income and expenditure of the Council
 for the year with the Council's share of all subsidiary and associates' operating results.
- The Reconciliation of the Single Entity Balance for the Year to the Group Balance for the Year
 explains the contribution of the subsidiary and associates operating results to the overall group
 surplus or deficit.
- The Statement of Total Recognised Gains and Losses brings together all the gains and losses of the Council and its subsidiary and associates for the year and shows the aggregate change in the Group's net worth.
- The Group Balance Sheet combines the Council's assets and liabilities with its appropriate share of the subsidiary and associates' assets and liabilities.
- The Group Cash Flow Statement combines the Council's inflows and outflows of cash resulting from transactions with third parties with its appropriate share of the subsidiary and associates' cash inflows and outflows.
- The Notes to the Group Accounts provide further information on the Council's Group financial statements.

Statement of Responsibilities for the Statement of Accounts

This statement sets out the respective responsibilities of the Council and the Executive Director - Corporate Services, as the Council's Section 95 Officer, for the financial statements.

Statement on the System of Internal Financial Control

This statement sets out the framework within which financial control is managed and reviewed and the main components of the financial control system within the Council, including the arrangements for Internal Audit.

Corporate Governance Compliance Statement

This statement assesses the Council's compliance with its Local Code of Corporate Governance.

Financial Performance

General Fund

The Income and Expenditure Account on page 12 summarises the financial performance of the Council's General Fund and Housing Revenue Account during 2008/09. The Statement of Movement on the General Fund Balance, also on page 12, shows how the deficit for the year, when adjusted for contributions to and from funds and reserves held by the Council and other statutory and non-statutory adjustments, results in a surplus for the year of £4.710m. When added to the surplus of £2.743m brought forward from 2007/08, this results in a General Fund Balance of £7.453m at 31 March 2009. The financial out-turn reflects favourably on the financial stewardship arrangements across all Council services during 2008/09.

Of the accumulated surplus of £7.453m to be carried forward to 2009/10, £1.064m requires to be set aside to assist with the financing of the Council's Schools PPP project and £1.195m is being carried forward to be spent on specific Council projects during 2009/10. Council Tax income collected in respect of second homes totalling £0.895m is earmarked to be used in delivering the Council's affordable homes strategy in future years.

This leaves a balance of £4.299m (1.61% of the Council's total planned expenditure for 2009/10). Cipfa best practice recommends that councils should maintain reserves of at least 2% of annual running costs, equivalent to approximately £5.4m for South Ayrshire Council. The Council had an accumulated deficit of £0.507m at 31 March 2007 and, recognising this position was not in line with recommended best practice,

committed to achieving uncommitted reserves of at least £2.0m by 31 March 2010. £1.0m was therefore set aside from the 2007/08 surplus and a further £0.5m contribution was budgeted in 2008/09. A further £1.6m contribution to general reserves has been incorporated in the approved 2009/10 budget. The Council will further consider its general reserves strategy during 2009/10.

In 2005/06 the Council began the process of settling equal pay compensation claims from employees working in areas such as catering, cleaning and care services, in recognition of the historical pay inequality between these groups of staff and other comparable groups who received bonus payments and other allowances. Further payments were made during 2006/07 and 2007/08, pending the introduction of single status and job evaluation. The Council agreed its single status pay structure and revised terms and conditions of employment on 21 April 2009, effective from 16 August 2008. The 2008/09 Accounts therefore recognise further equal pay compensation payments due to appropriate staff groups to 15 August 2008 and the cost of implementing single status and job evaluation from 16 August 2008. Appropriate financial provision has also been made in the 2009/10 revenue budgets.

A significant number of claims have been lodged against the Council by employees who consider their job as being of 'equal value' to other specifically identified posts within the Council and who are seeking retrospective compensation. The Council has sought independent legal advice in respect of these claims and made appropriate financial provision within the 2008/09 Accounts.

In accordance with proper accounting practice, severance costs associated with 2009/10 revenue budget decisions have been charged to the 2008/09 Income and Expenditure Account where the decision to release the member of staff was made prior to the date of signing the balance sheet. The funding included in the 2009/10 revenue budget for these severance costs is therefore available for alternative use.

Housing Revenue Account

The Housing Revenue Account on page 40 shows an increase on the Housing Revenue Account balance of £0.829m for the year to 31 March 2009, which compares favourably to a budgeted reduction for the year of £1.232m. The planned reduction incorporated £1.832m expenditure to fund specific capital and revenue projects, to be financed from accumulated reserves at 31 March 2008. The underspend of £2.061m before use of reserves is primarily due to increased interest received on revenue balances, lower than budgeted revenue contributions to the HRA capital programme, savings on insurance premiums and increased rental income due to lower than budgeted house sales in the year. When added to the surplus brought forward from 2007/08 of £19.691m, this results in an accumulated surplus of £20.520m at 31 March 2009. The Council has already agreed that £0.550m should be held in reserve for weather emergencies and £6.825m is required to fund specific capital and revenue projects in future years. This leaves a balance of £13,145m. The HRA Business Plan which was established to meet Scottish Housing Quality Standards and used in setting the 2009/10 rents assumed the use of £9.811m from reserves between 2009/10 and 2013/14 to avoid the need for long-term borrowing to finance capital expenditure. The funding strategy will require to be reassessed during 2009/10 in light of the improved reserves position, as part of the annual review of the Business Plan. Consideration will also be given to establishing a level of uncommitted reserves to deal with unforeseen events beyond the £0.550m currently set aside for weather emergencies.

Trading Operations

The Local Government in Scotland Act requires Councils to maintain statutory trading accounts for 'significant trading operations'. These trading accounts require to at least break-even over a three-year rolling period. The Council operates one statutory trading account for Property and Design Trading, which achieved a surplus of £0.802m in 2008/09 and a cumulative surplus of £1.078m over the three-year period to 31 March 2009, thereby satisfying the statutory requirement to break-even.

Specific Capital and Revenue Funds

- The Repair and Renewal Fund balance increased from £0.130m at the start of the financial year to £0.137m at 31 March 2009 as a result of interest earned in the year. The Council currently has no plans for the use of this Fund.
- The Insurance Fund had a balance of £0.425m at 1 April 2008. Insurance premiums and payments
 in respect of uninsured losses totalling £1.022m were incurred during the year, offset by interest
 earned of £0.021m together with a contribution of £1.001m from the General Fund to ensure the
 Insurance Fund balance was maintained at the previously approved level of £0.425m. The Council
 will review the adequacy of the current balance during 2009/10.

• The Capital Fund was established during 2005/06, primarily to assist in funding the Council's Schools PPP project, with its main source of funding being capital receipts and interest earned. The balance on the Fund at 1 April 2008 was £3.706m. Capital receipts totalling £0.165m were invested in the Fund and interest of £0.188m was received. £2.596m was used to fund appropriate revenue expenditure during the year, leaving a balance of £1.463m at 31 March 2009. The Council has committed to using £0.510m to finance appropriate revenue expenditure during 2009/10, with a further significant draw on the Fund planned for 2010/11.

Pension Fund

Financial Reporting Standard 17: Retirement Benefits (FRS17) requires the disclosure of the Council's 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 having taken place on 31 March 2008. The Council's balance sheet shows a pension liability of £39.368m at 31 March 2009 compared to a pension asset of £1.959m at 31 March 2008. 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. The severe economic conditions experienced during 2008/09 have adversely affected pension fund investments, however the Pension Fund actuaries are comfortable that the assets currently held, together with increased employers' contributions and the introduction of a tiered employee's contribution rate in 2009/10, will provide sufficient returns to finance future pension commitments.

Balance Sheet

The Balance Sheet on page 14 summarises the Council's net worth at 31 March 2009. Total assets have reduced from £549.895m at 31 March 2008 to £540.330m at 31 March 2009, a reduction of £9.565m. This is primarily due to the sale of various assets during the year, the demolition of three schools as part of the Council's PPP project and the downward valuation of some properties, including £0.699m reduction as a direct consequence of the recession. Total liabilities have increased by £51.301m to £300.446m, of which £39.368m is due to the pension fund liability and £6.243m is due to an increase in deferred government grants.

Capital Expenditure and Income

Following the introduction of the Prudential Framework for local authority capital investment in 2003, the Council is able to determine its own programme for capital investment in fixed assets. Capital expenditure of £28.372m was incurred during the year, of which £11.293m was spent on Council housing, £1.294m on private sector housing grants, £8.364m on educational properties, £2.675m on roads and transport improvements and £4.746m on other council projects.

Funding of capital expenditure included £4.745m from the sale of assets, £9.986m government grants received and £5.412m revenue funding. Long-term borrowing of £8.229m was undertaken, the repayment of which will be fully supported by government grant in future years. No prudential borrowing was undertaken in 2008/09.

Major capital projects for 2008/09 included:

- Dalmilling Primary School recladding and refurbishment £0.977m
- Kincaidston Primary School refurbishment £0.578m
- ICT equipment for new PPP schools £0.421m
- Lochside housing regeneration £1,557m
- Internal component renewal within 200 houses £1.542m

The Council approved a one-year capital programme for 2009/10 in February 2009. The Council is currently developing its longer-term asset management strategy alongside reviewing its future educational provision. Key issues currently under consideration include modernisation of the schools estate, the need for substantial investment in roads infrastructure and the scope for rationalisation of office accommodation. The asset management strategy will require to be prepared and finalised alongside the financial strategy for 2010/11 and future years.

Public Private Partnership

In December 2006 the Council entered into a Public Private Partnership contract with Education for Ayrshire (E4a) for the construction and operation of two new secondary schools and three new primary schools, together with an annex to an existing secondary school. At 31 March 2009 all three new primary schools, one of the two secondary schools and the annex to the existing secondary school were fully operational, with the remaining secondary school expected to be fully available in December 2009. £5.772m was paid to the contractor in 'unitary charge' payments under the terms of the agreement during 2008/09. A further £0.122m was paid in respect of the purchase of additional equipment for the schools and £0.741m was charged to the 2008/09 Income and Expenditure Account in respect of the removal of asbestos from the old schools prior to demolition.

Treasury Management - Icelandic Bank Investment

During October 2008 the Icelandic banks, Landsbanki Islands hf, Kaupthing and Glitner collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander (KSF) went into administration. UK local authority deposits in these banks totalled approximately £954m. Similar to action taken by UK Treasury, Scottish Government passed emergency legislation to enable Scottish Councils to postpone recognising any potential losses on Icelandic deposits until 31 March 2011. The Council had two investments of £3.000m and £2.000m deposited in Landsbanki, with maturity dates of 13 November and 2 December 2008 respectively. The deposits are currently subject to the Icelandic administration process, with the amount and timing of repayments determined by the appointed administrators, Ernst and Young. Following extensive discussions between CIPFA, Audit Scotland, the Accounts Commission, COSLA and the Local Government Association, it has been agreed that, for those Councils with deposits in Landsbanki, the 2008/09 Accounts should be prepared based on information presented publicly by the Landsbanki Islands hf resolution committee to its creditors on 22 June 2009, i.e. a recovery of 83%. This level of recovery equates to a potential ultimate financial loss to the Council of £0.480m. The Council, alongside all other affected Scottish local authorities, has taken advantage of the Scottish Government legislation to defer the impact of this loss on the General Fund in 2008/09. The extent of the potential loss will require to be kept under review by the Council when considering its overall financial position during 2009/10.

As a consequence of the unprecedented events in the banking sector during the year, the Council reviewed its investment strategy and removed a number of banks and building societies from its approved lending list. The Council uses credit and support ratings to assess creditworthiness and this review will ensure only financial institutions with the highest ratings are included in the Council's approved list of borrowers. Further reviews will be undertaken during 2009/10 as financial markets stabilise and investors' confidence in the banking sector slowly returns.

Council Restructure

The Council approved revised Directorate structures in November 2008, reducing the number of Directorates from four to three. Three Executive Director posts were created, to be supported by twelve new Heads of Service posts. Two major statutory services, namely Education and Social Work, were brought together under one Directorate. Appointments to all fifteen Chief Officer posts were completed prior to 31 March 2009.

Common Good

The Common Good Fund comprises five distinct sub-funds representing the former burghs of Ayr, Prestwick, Troon, Maybole and Girvan. Overall the Fund achieved a surplus for the year of £0.326m which, when added to the surplus brought forward from 2007/08, contributes to an accumulated surplus at 31 March 2009 of £1.018m. Total assets reduced in value by £0.622m to £16.549m, primarily due to the downward revaluation of assets held.

Group Accounts

The Group Accounts on pages 48 to 55 consolidate the results of the Council with its share of the results of one subsidiary and five associates. The inclusion of the subsidiary and associates in the Group Balance Sheet reduces both the net assets and reserves by £129.290m, representing the Council's share of the net liabilities in these entities.

Impact of the Recession

In February 2009, it was predicted that the Scottish economy would contract by between 1% and 2.6% during the coming year; the wide range of the estimates reflecting the uncertainty that surrounded the depth of recession at that time. In May 2009, the Chief Economic Adviser to the Scottish Office stated that forecasters were predicting that the Scottish Gross Domestic Product (GDP) would contract by 4.1% in 2009, before resuming modest growth in 2010.

Whilst there has been no notable impact in terms of the recession on the finances of the Council during 2008/09, the picture for 2009/10 is very mixed. Income from rents, investments, planning fees and property sales has fallen sharply. On the other hand, some of the anticipated increases in demand for services, such as those connected with the elderly and homeless, have not materialised. As a result, the immediate impact of the recession on the Council finances for 2009/10 may be less serious than projected in February 2009.

In looking ahead the council requires to recognize the well publicised squeeze on the Scottish Government budget post 2009/10. While the exact size and length of this squeeze will depend on a number of factors, there is little doubt that real term reductions in the resources available to the council will occur in the coming years and will result in the council facing strong challenges in attempting to accommodate these reductions.

Conclusion

The Council's financial position at 31 March 2009 compares favourably against the position brought forward at 1 April 2008 and reflects the collective efforts of service managers, Directorate management teams and Corporate Finance staff in maintaining sound financial and budget management processes during the year. I would like to acknowledge my appreciation of all the staff across the Council who contributed to the preparation of the Annual Accounts and to the budget managers and support staff whose financial stewardship contributed to the improved financial position at 31 March 2009.

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Eileen Howat BSc CPFA
Executive Director – Corporate Services
24 September 2009

Statement of Accounting Policies

1. General

The Statement of Accounts summarises the Council's transactions for the 2008/09 financial year and its position at the year-end of 31 March 2009. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008: A Statement of Recommended Practice (the SORP), and applying generally accepted accounting principles. The accounting convention adopted is historical cost, modified by the revaluation of certain categories of fixed assets.

In accordance with FRS 18: Accounting Policies, the Council regularly reviews its accounting policies to ensure that they remain the most appropriate and further ensure that the annual accounts present fairly the financial position of the Council.

2. Prior Period Adjustments

Where material adjustments applicable to prior years have arisen due to changes in accounting policies or from the correction of fundamental errors, these have been accounted for by restating the appropriate comparative figures for the preceding period.

3. Exceptional Item - Equal Pay Compensation/Single Status Implementation/VAT recovery

Exceptional items are items that are material in terms of an organisation's overall expenditure and are not expected to recur frequently or regularly. The cost to the Council of equal pay compensation payments, single status implementation and VAT output tax recovery have been classified as exceptional items and separately identified within the Net Cost of Services in the Income and Expenditure Account.

4. Accruals of Income and Expenditure

Transactions have been recorded on an accruals basis, whereby activity is accounted for in the year that it takes place, not simply when cash payments are made or received.

5. Provisions

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. Provisions are charged to the appropriate service revenue account in the year that the Council becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the balance sheet. Estimated settlements are reviewed at the end of each financial year and appropriate adjustments made to the level of provision.

6. Reserves

The Council sets aside specific amounts as reserves for future policy purposes. Reserves are created by appropriating amounts in the Statement of Movement on the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year and included within the Net Cost of Services in the Income and Expenditure Account. The reserve is then appropriated back into the General Fund Balance statement so that there is no net charge against council tax for the expenditure in that year.

Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies below.

7. Government Grants (Revenue)

Specific government grants and subsidies are recognised as income at the date that the Council satisfies the conditions for receipt, and have been matched with the expenditure to which they relate within the Net Cost of Services.

General government grants, comprising Revenue Support Grant and Non-Domestic Rate Income, are credited to the Income and Expenditure Account after Net Operating Expenditure.

8. Overheads and Central Support Service Costs

In accordance with the CIPFA Best Value Accounting Code of Practice 2008 (BVACOP), overheads and central support service costs have been allocated to those services that benefit from the supply or service. The costs have been allocated largely on the basis of time spent by staff. Office accommodation has been allocated on the basis of floor area occupied. Corporate and Democratic Core Costs and Non-Distributed Costs have been accounted for as separate headings in the Income and Expenditure Account, as part of the Net Cost of Services.

9. Leases

Annual rentals payable under operating leases are charged to the relevant service revenue account on a straight-line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

The Council had no finance lease agreements in place during 2008/09.

10. Tangible Fixed Assets

Tangible fixed assets are assets that have physical substance and are held for use in the provision of service or for administrative purposes on a continuing basis.

Recognition: expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it yields benefits to the Council for more than one financial year. Repairs and maintenance expenditure is charged to revenue as it is incurred.

Measurement: in accordance with the SORP, the following bases have been used for the valuation of fixed assets:

- Operational (specialised) properties depreciated replacement cost (MV-DRC/EUV where available)
- Operational (non-specialised) properties open market value in existing use (OMVEU/EUV)
- Non-operational properties open market value (OMV/MV)
- Local authority housing stock net realisable value (EUVSH Existing Use Value Social Housing)
- Infrastructure assets historical cost
- Community assets historical cost
- Vehicles net realisable value (NRV)

Housing stock, land and property are re-valued on a five-year rolling programme. The last five year revaluation programme was completed as at 31 March 2005. The valuations shown in these accounts reflect the third year of the latest five-year programme. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains may be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service account.

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

Property valuations were carried out by RICS professional staff within the Council's Department of Development, Safety and Regulation.

Impairment: where any category of fixed asset suffers an impairment loss in any financial period, this loss is recognised and charged to the Income and Expenditure Account as accelerated depreciation in that period.

Where an impairment loss is charged to the Income and Expenditure Account but where there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

Disposals: When an asset is disposed or decommissioned, the value of the asset in the balance sheet is written off to the Income and Expenditure account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure account as part of the gain or loss on disposal. Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account. The receipt is credited to the Useable Capital Receipts Reserve, and can then be used for new capital investment or set aside to reduce the council's underlying need to borrow. Receipts are appropriated to the Reserve from the Statement of Movement on the General Fund Balance.

Depreciation: depreciation is provided for on all assets with a determinable useful life by allocating the value of the assets in the balance sheet over the periods expected to benefit from their use.

No depreciation has been charged on land, non-operational investment properties, non-operational assets under construction and community assets.

Infrastructure assets have been depreciated using the 'straight-line' method over 40 years.

Depreciation is provided on vehicles on the 'straight-line' basis at a rate based on the estimated remaining useful life of each vehicle.

All other assets have been depreciated using the 'straight-line' method over the remaining useful life of the asset. Technical officers within the owning departments determine the remaining useful lives of non-property assets. The Estates Manager determines the remaining useful lives of property assets.

Grants and Contributions: Where grants and contributions are received that are identifiable to fixed assets with a finite life, the amount is credited to the Government Grants Deferred Account. The balance is then written down to revenue to offset depreciation charges made for the related assets in the relevant service revenue account, in line with the depreciation policies applied to them.

11. Intangible Assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council is capitalised when it will bring benefits to the Council for more than one financial year. The balance is amortised to the relevant service revenue account over the economic life of the investment to reflect the pattern of consumption of benefits.

Private sector housing grants are charged to the service revenue account in the year they are incurred and matched against the corresponding grant income.

12. Charges to Revenue for Fixed Assets

Service revenue accounts, support services and the trading account are debited with the following amounts to record the real cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service
- impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service
- 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 reduce its overall borrowing requirement. Depreciation, impairment losses and amortisations are therefore replaced by this revenue provision in the Statement of Movement on the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

13. Capital Financing

Receipts from the sale of assets, etc, are either used to fund capital expenditure or transferred to the Council's Capital Fund. Capital expenditure net of receipts, grants and contributions is financed by an advance from the Council's loans fund.

14. Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability of another. The term 'financial instrument' covers both financial liabilities and financial assets

a) Financial Assets

Trade Debtors: initially measured at fair value and carried at amortised cost in the Balance Sheet.

Loans Receivable, Bank Deposits and Investments: initially recognised at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

b) Financial Liabilities

Trade Creditors: initially measured at fair value and carried at amortised cost in the Balance Sheet.

Borrowings: initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

The Council actively takes advantage of prevailing interest rates in order to re-structure its debt and reduce interest charges to the revenue account. As a result of this strategy, premiums and discounts may be incurred and these are charged or credited to the General Fund in accordance with Statutory Guidance and Proper Accounting Practices. This is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

15. Impairment of Financial Assets and Liabilities

In accordance with FRS 26 Financial Instruments: Recognition and Measurement (FRS 26), FRS 29 Financial Instruments: Disclosures (FRS 29) and the SORP the Council, at each Balance Sheet date, makes an assessment as to whether there is objective evidence that financial assets or group of assets have been impaired. If such evidence exists then an appropriate impairment loss is calculated and is included in the Income and Expenditure Account.

16. Stocks and Work in Progress

Stocks are included in the balance sheet at either a weighted average price basis (computerised stock), or a 'first-in-first-out' (FIFO) basis. Work in progress is subject to an interim valuation at the year-end and recorded in the balance sheet at cost plus an appropriate proportion of overheads, together with attributable profits and allowances for foreseeable losses.

17. Interest in Companies and Other Entities

The council has material interest in companies and other entities that have the nature of subsidiaries, associates and joint ventures and therefore require it to prepare group accounts.

18. Retirement Benefits

Employees of the council have the option to join one of two separate pension schemes:

(a) Local Government Pension Scheme - the Council is a recognised 'employing authority' within the meaning of the Local Government Superannuation (Scotland) Regulations, and transfers sums collected from employee members and employer contributions to Glasgow City Council, which is the administering authority. The contributions are determined by a qualified actuary on the basis of triennial valuations using the 'projected accrued benefit' method. The scheme is a defined benefit scheme providing pension benefits and life assurance for all permanent staff and has been accounted for in accordance with the requirements of Financial Reporting Standard 17, Retirement Benefits (FRS 17). The increase in the present value of the liabilities of the scheme expected to arise from employee service in the period is charged to service revenue accounts in the year. An appropriation is made to/from the pension reserve so that the amount to be met from government grant and

local taxpayers excludes amounts relating to pension costs and returns. The net pension asset or liability is reflected in the Balance Sheet. Full disclosure in respect of pensions is contained within the notes to the core financial statements.

(b) Teachers Pension Scheme - 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.

19. VAT

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from them.

20. Foreign Currency Translation

The Council holds a Euro bank account. The balance on the bank account was translated into sterling currency and incorporated in the Council's Balance Sheet based on the exchange rate applicable at 31 March 2009.

21. Private Finance Transactions

On 18 December 2006 the Council signed a Public Private Partnership (PPP) contract agreement which provided for the construction of five new schools and an annex to an existing secondary school. In addition to the construction, the contractor will provide a range of hard and soft facilities management services, including the maintenance of the schools concerned, for a 30 year concession. The Council will, in turn, provide the contractor with an appropriate interest in land on the respective sites and a unitary charge payment based on the level of service provided by the contractor to the Council.

Building work commenced in January 2007, with two primary schools and the annex to the existing secondary school made available for use by the Council during 2007/08 and a further primary and secondary school made available for use during 2008/09. It is currently anticipated that the last school in the construction programme will become fully available in December 2009.

The Council has reflected the appropriate unitary charge payments to the contractor for services receivable in its Income and Expenditure Account from the date that they become due and payable.

Income and Expenditure Account

2007/08 net expenditure £'000	Service	2008/09 gross expenditure £'000	2008/09 gross income £'000	2008/09 net expenditure £'000
92,867	Education Services	117,192	4,878	112,314
1,381	Housing Revenue Account	24,292	22,783	1,509
1,937	General Fund Housing	34,867	31,546	3,321
52,608	Social Work Services	85,028	17,121	67,907
11,666	Culture and Related Services	21,597	8,940	12,657
11,184	Environmental Services	17,909	4,573	13,336
11,011	Roads and Transport Services	18,646	7,440	11,206
2,032	Planning and Development Services	6,374	3,110	3,264
3,807	Corporate and Democratic Core	3,261	166	3,095
4,645	Non Distributed Costs	3,571	484	3,087
3,501	Other Central Services to the Public	23,726	19,285	4,441
17,851	Precepts and Levies	18,099	0	18,099
2,880	Exceptional item - equal pay compensation/Single Status/ VAT output tax recovery (note 1)	2,847	2,357	490
217,370	Net Cost of Services	377,409	122,683	254,726
(1,009)	(Gain) or loss on the disposal of fixed assets			(440)
(164)	(Surplus) or deficit on Trading Services (note 4)			(824)
9,767	Interest payable and similar charges			9,646
(2,014)	Interest and investment income			(2,410)
(4,400)	Pension interest cost and expected return on pension assets (note 33)			(757)
219,550	Net Operating Expenditure			259,941
120,939	Revenue Support Grant			147,832
40,802	Non Domestic Rates redistribution			42,836
52,791	Council Tax and Community Charge income			52,682
214,532	Total Income from Government Grants and Local Taxation			243,350
5,018	(Surplus) or Deficit for the Year			16,591

Statement of Movement on the General Fund Balance

2007/08 £'000		2008/09 £'000
5,018	Deficit for the year on the Income and Expenditure Account	16,591
(8,268)	Net additional amount required by statute and non-statutory proper practice to be credited to the General Fund Balance for the year	(21,301)
(3,250)	(Increase) or Decrease in the General Fund Balance for the year	(4,710)
507	General Fund Balance brought forward	(2,743)
(2,743)	General Fund Balance carried forward	(7,453)

Supporting Analysis to the Statement of Movement on the General Fund Balance

2007/08 £'000		2008/09 £'000
	Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on General Fund Balance for the year	
(213)	Amortisation of intangible fixed assets	(220)
(20,485)	Depreciation and impairment of fixed assets	(34,080)
2,246	Government grants deferred amortisation	1,293
1,009	Net gain on sale of fixed assets	440
0	Revenue funded from capital under statute	(618)
677	Difference between amounts debited/credited to the Income & Expenditure Account and amounts payable/receivable to be recognised under statutory provisions relating to premiums and discounts on the early repayment of debt	(744)
(11,236)	Net charges made for retirement benefits in accordance with FRS17	(9,359)
	Amounts not included in the Income and Expenditure Account but required by statute to be included when determining the Movement on the General Fund Balance for the year	
2,717	Loans fund principal repayments	2,721
3,224	Capital expenditure charged in-year to the General Fund Balance	8,635
11,930	Employers contributions payable to the Strathclyde Pension Fund	12,202
	Transfers to or (from) the General Fund Balance that are required to be taken into account when determining the Movement on General Fund Balance for the Year	
1,956	Housing Revenue Account balance	829
(207)	Transfer to/ (from) Insurance Fund	0
7	Transfer to/ (from) Repairs & Renewals Fund	7
107	Transfer to/ (from) Capital Fund	(2,407)
(8,268)	Net additional amount required to be credited to the General Fund balance for the year	(21,301)

Statement of Total Recognised Gains and Losses

2007/08 £'000		2008/09 £'000
5,018	(Surplus) or deficit for the year on the Income and Expenditure Account for the year	16,591
(3,895)	(Surplus) or deficit arising on revaluation of fixed assets	(710)
0	(Surplus) or deficit arising on revaluation of available-for-sale financial assets	(523)
(42,206)	Actuarial (gains) and losses on pension fund assets and liabilities (note 33)	44,170
15,231	Any other (gains) or losses	1,338
(25,852)	Total recognised (gains) or losses for the year	60,866

Balance Sheet as at 31 March 2009

2008 £'000			£'000	2009 £'000
	Fixed assets	(note 13)		
426	Intangible fixed assets		227	
	Tangible fixed assets:			
	Operational assets:			
191,068	Council dwellings		191,618	
225,307	Other land and buildings		205,665	
2,757	Vehicles, plant and equipment		4,263	
40,965	Infrastructure assets		42,749	
945	Community assets		951	
	Non-operational assets:			30
17,758	Investment properties		15,092	
392	Assets under construction		439	
			8,261	
1,850	Surplus assets held for disposal		6,261	400.00
481,468	Total fixed assets	/ 00)		469,26
41	Long-term investments	(note 23)		56
184	Long term debtors	(note 24)		2,78
1,959	Asset related to defined benefit pension scheme			
483,652	Total long-term assets			472,61
	Current assets:		E04	
508	Stocks and work in progress	(t- 86)	501	
44,173	Debtors	(note 26)	45,654	
(24,638)	Provision for bad and doubtful debts	(note 26)	(26,294)	67.74
46,200	Investments		47,851	67,71
549,895	Total assets			540,33
	Current liabilities:			
(333)	Borrowing repayable on demand or within 12 months		(169)	
(33,209)	Creditors	(note 26)	(36,889)	<u> </u>
(3,210)	Cash overdrawn		(4,000)	
(5,018)	Due to Common Good/ sundry accounts	(note 28)	(4,785)	(45,84
508,125	Total assets less current liabilities			494,4
	Long term liabilities:			
(187,708)	Borrowing repayable within a period in excess of 12 months	(note 29)		(187,50
(5,821)	Provisions	(note 27)		(7,63
(13,846)	Government grants – deferred			(20,08
0	Liability related to defined benefit pension scheme	(note 33)		(39,36
300,750	Total assets less liabilities			239,8
	Financed by:	(note 30)		
4,015	Revaluation reserve			7,3
281,950	Capital adjustment account			257,5
(16,022)	Financial instruments adjustment account			(16,76
2,153	Capital receipts reserve			5
0	Available for sale financial instruments reserve			- 5
130	Repair & renewal fund			1
3,706	Capital fund			1,4
425	Insurance fund			4
1,959	Pension reserve			(39,3
2,743	General Fund balance			7,4
19,691	Housing Revenue Account balance			20,5
300,750	Total net worth			239,8

The unaudited accounts were issued on 29 June 2009 and the audited accounts were authorised for issue on 24 September 2009.

Elleen Howat BSc, CPFA
Executive Director - Corporate Services

Cash Flow Statement

2007/08 £'000			2008/09 £'000
	Revenue activities		
	Cash outflows:		
145,242	Cash paid to or on behalf of employees	142,864	
171,405	Other operating cash payments	170,610	
10,537	Housing benefit paid out	11,859	
35,482	National non-domestic rates payments to national pool	33,544	
17,851	Precepts paid	18,099	
380,517		376,976	
	Cash inflows:		***
6,444	Rents (after rebates)	6,949	
60,466	Council tax receipts	60,767	
40,802	National non-domestic rates receipts from national pool	42,836	
34,485	Non-domestic rates receipts	33,366	
121,069	Revenue support grant	147,657	
9,928	DWP grants for benefits	11,908	
48,017	Other government grants	29,566	
15,605	Cash received for goods and services	15,460	
52,861	Other operating cash receipts	42,823	
389,677		391,332	
(9,160)	Net cash outflow/ (inflow) from revenue activities (note 34)		(14,35
11000	Returns on investments and servicing of finance		
	Cash outflows:		
10,595	Interest paid	10,534	
	Cash inflows:		
1,977	Interest received	2,882	
8,618	Net cash outflow/ (inflow) from returns on investments and servicing of finance		7,6
	Capital expenditure and financial investment		
	Cash outflows:		
13,273	Purchase of fixed assets	25,349	
1,773	Other capital cash payments	165	
15,046		25,514	
	Cash inflows:	20,014	
5,357	Sale of fixed assets	4,568	
10,363	Other capital cash receipts	8,431	
1,991	Capital grant received	7,229	
17,711		20,228	
(2,665)	Net cash outflow/ (inflow) from capital activities	20,220	5,2
(3,207)	Net cash outflow/ (inflow) before financing		(1,41
	Management of liquid resources		
6,625	Net increase in short-term deposits	1,845	
6,625			1,8
	Financing		
	Cash outflows:		
140	Repayments of amounts borrowed	1,042	5390 S 1540 D 1 1 1 2 -
140		1,042	Ti organia de
	Cash inflows:	.,,,,,	
(4,593)	New loans raised	(679)	
(4,593)		(679)	-
(4,453)	Net cash outflow/ (inflow) from financing	(013)	3
(4,400)			.31

Notes to the Core Financial Statements

1. Prior Year Adjustments and Exceptional Items

Prior Year Adjustments

Changes required by SORP – The 2009 SORP is expected to require authorities to present the current portion of long term assets or liabilities (including accrued interest) within current liabilities or assets. This amendment is in line with the expected requirements under International Reporting Standards (IFRS) which will apply for 2010/11. Previously the Council has included accrued interest within long term loans or investments. The Council has voluntarily applied the new principle in 2008/09 and as a result the comparative figures for 2007/08 in the Balance Sheet on page 14 have been restated.

Changes required by FRS17 – The Accounting Standards Board issued an amendment to FRS17 in December 2006, which replaced the existing disclosures with those of the International Accounting Standard IAS 19 and changed the definition of the fair value of quoted securities from mid market value to bid value. The amendments took effect for accounting periods beginning on or after 6 April 2007 and therefore apply for employers with 31 March year ends, for the first time this year. The Council has applied this principle in 2008/09 and all 2007/08 disclosure comparatives for retirement benefits have been restated accordingly.

Soft loan transitional adjustment – The 2007 SORP introduced various accounting requirements in terms of FRS 25 *Financial Instruments: Presentation and Disclosures*, FRS 26 *Financial Instruments: Recognition and Measurement* and FRS 29 *Financial Instruments: Disclosures*. A review of long term investments held in the balance sheet at 31 March 2008 determined that the £0.100m West of Scotland Loans Fund investment should be treated as a soft loan and as such, under transitional arrangements, be transferred to the Financial Instrument Adjustment Account (FIAA). The opening balance on Long term investments and the FIAA has been restated accordingly.

Exceptional Item:

Equal Pay and Job Evaluation/ Single Status - the Income and Expenditure Account includes an exceptional expenditure item of £2.847m in respect of an adjustment to the provision for equal pay claims dating from 2001/02 and planned implementation of single status.

VAT output tax recovery – the Income and Expenditure Account includes an exceptional income item of £2.357m in respect of a number of voluntary disclosures of overpaid output tax made to Her Majesty's Revenue and Customs.

Icelandic bank investment – During October 2008 the Icelandic banks, Landsbanki Islands hf, Kaupthing and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander went into administration. The Council had two investments of £3.000m and £2.000m deposited with Landsbanki, with the following maturity dates and interest rates:

	Date invested	Maturity date	Amount invested £'000	Interest rate	Carrying amount £'000	Impairment £'000
Investment 1	13 Aug 2008	13 Nov 2008	3,000	5.85%	2,426	872
Investment 2	2 Sept 2008	2 Dec 2008	2,000	5.82%	1,600	573

All monies within the various institutions are currently subject to the respective administration and receivership processes. The amounts and timing of payments to depositors such as the Council will be determined by the administrators/receivers.

The current situation with regard to recovery of the sums deposited varies between each institution. Based on the latest information available the Council considers that it is appropriate to consider an impairment adjustment for the deposits, and has taken the action outlined below. As available information is not definitive as to the amounts and timings of payments to be made by the administrators/receivers, it is likely that further adjustments will be made in future years.

Landsbanki Islands hf is an Icelandic entity. Following steps taken by the Icelandic Government in October 2008 its domestic assets and liabilities transferred to a new bank (new Landsbanki) with the management of the affairs of Old Landsbanki being placed in the hands of a resolution committee. Old Landsbanki's affairs are being administered under Icelandic law. Old Landsbanki's latest public presentation of its affairs was made to creditors on 22 June 2009 and can be viewed on its website. This and other relevant information indicates that a recovery of 83% could be achieved by 2012. The Council has therefore decided to recognise an impairment based on it recovering 83 pence in the pound.

Recovery is subject to the following uncertainties and risks:

- confirmation that deposits enjoy preferential creditor status which is likely to have to be tested through Icelandic courts,
- the impact of exchange rate fluctuations on the value of assets recovered by the resolution committee and on the settlement of the Council's claim, which may be denominated wholly or partly in currencies other than sterling,
- settlement of the terms of a 'bond' which will allow creditors of Old Landsbanki to enjoy rights in New Landsbanki,
- the impact (if any) of the freezing order made by the UK Government over Landsbanki's London branch assets.

Failure to secure preferential creditor status would have a significant impact upon the amount of the deposit that is recoverable. The total assets of the bank only equate to one third of its liabilities, assuming that the bond remains at its current value. Therefore, if preferential creditor status is not achieved the recoverable amount may only be 33 pence in the pound.

No information has been provided by the resolution committee about the timing of any payments to depositors. Because it is anticipated that all the assets of Landsbanki Islands will need to be realised to repay priority creditors, settlement in a single sum is unlikely. Therefore in calculating the impairment, the Council has used the estimated repayment timetable for Heritable and Kaupthing Singer and Friedlander as a basis for its assumption about the timing of recoveries. It is therefore assumed that the repayment will be split evenly between March 2010, December 2010, December 2011 and December 2012.

Recoveries are expressed as a percentage of the Council's claim in the administration, which it is expected may validly include interest accrued up to 22 April 2009.

The Council has taken advantage of the Capital Financing regulations to defer the impact of the impairment on the General Fund and a sum of £1.048m has been transferred to the Financial Instruments Adjustment Account.

The carrying amounts of the investments included in the Balance Sheet have been calculated using the present value of the expected repayments, discounted using the investment's original interest rate. The expected repayments have been estimated as follows, based on the statements made by the administrator:

Date	Loan 1 £'000	Loan 2 £'000
March 2010	700	462
December 2010	700	462
December 2011	700	462
December 2012	667	440

Interest credited to the Income and Expenditure Account in respect of the investments is as follows:

	Credited 2008/09 £'000	Received 2008/09 £'000
Investment 1	297	0
Investment 2	173	0
Total	470	0

2. Undischarged Obligations arising from Long Term Contracts

South Ayrshire Council has entered into a Public Private Partnership 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 2007/08. The final unitary charge payment will be made in 2039/40, at which time the schools will transfer to Council ownership.

3. Departmental Service Expenditure Analysis

The Income and Expenditure Account on page 12 has been prepared in accordance with the Best Value Accounting Code of Practice (BVACOP), which prescribes the categories against which all expenditure and income must be classified to enable comparability with other local authorities in the United Kingdom. The Council comprised four service departments during 2008/09. The following table summarises departmental and corporate expenditure for the year and how this contributed to the increase in the general fund balance at 31 March 2009:

	2008/09 Actual Out-turn £'000
Chief Executive's Department	3,786
Development, Safety and Regulation	52,418
Education, Culture and Lifelong Learning	120,442
Social Work Housing & Health	69,812
Miscellaneous Services, debt charges, contributions etc	(7,818)
Total Expenditure to be Funded	238,640
Less: Aggregate External Finance	190,668
Council Tax & Community Charge income	52,682
Net (surplus)/ deficit	(4,710)

4. Trading Services

The Local Government in Scotland Act 2003 introduced a statutory duty of Best Value on local authorities in Scotland with effect from April 2003. As part of the package of reforms within the Act, the legislation governing compulsory competitive tendering (CCT) was repealed. The repeal of CCT legislation removed the requirement to achieve a prescribed annual financial objective for defined local authority services and replaced it with the requirement to identify and report the results of 'significant trading operations'. Significant trading operations are required to achieve a break-even position over a rolling three-year period.

The Council previously maintained statutory trading accounts for seven activities. As part of a review of its departmental structures in December 2005, it was concluded that, with effect from 1 April 2006, the only statutory trading account to be maintained should be that of Property and Design Trading (formerly Building and Works Trading).

The 2008 SORP requires that notional interest should no longer be applied to Council services, including trading services. Instead they now only receive a depreciation charge. However, to ensure comparability with external companies, a notional interest charge still requires to be applied to trading services to reflect their use of Council assets, as an explanatory note to the financial statements.

The table below shows the favourable financial position for Property and Design Trading for the threeyear period ended 31 March 2009.

Property and Design Trading	Turnover £'000	Expenditur e £'000	Original (Surplus) / Deficit £'000	Apply notional interest on assets held at loans fund interest rate £'000	Revised (surplus)/ deficit £'000
2006/07	(13,324)	13,169	(155)	20	(135)
2007/08	(11,137)	10,973	(164)	23	(141)
2008/09	(11,154)	10,330	(824)	22	(802)
3 Year (Surplus)/ Deficit			(1,143)	65	(1,078)

Property and Design Trading employs 194 tradesmen and general labourers. Operations are based at two depots, Ayr and Girvan, with a 24 hour emergency service provided 365 days a year. The

workload consists of maintaining the Council's 8,294 houses and around 600 other buildings. During the year Property and Design Trading carried out in the order of 37,240 repairs to the housing stock. Approximately 1,100 properties belonging to South Ayrshire Homes are also maintained by this operation.

There was a significant increase in the surplus achieved by Property and Design Trading during 2008/09 when compared to previous years. This was due to a combination of reduced support cost being charged to the trading operation resulting from revisions to charging methodologies and also due to increased income from contracts.

5. Section 5 - Local Government (Scotland) Act 1986 - Publicity Account

Expenditure on publicity and advertising during 2008/09 amounted to £0.388m as follows:

2007/08 £'000		2008/09 £'000
136	Recruitment	91
251	Publicity of Services	283
6	Publicity of Events	13
5	Other	1
398	Total	388

6. Agency Income - Scottish Water

The Council received £0.425m (£0.315m in 2007/08) from Scottish Water as an agency fee in respect of water and sewerage charges collected by the Council on their behalf.

7. Local Authorities (Goods and Services) Act 1970

The Local Authority (Goods and Services) Act 1970 specifies the conditions under which the Council can provide goods and services to other public bodies.

The main services provided by the Council to other public bodies in 2008/09 were:

2007/08 £'000	Public Body	South Ayrshire Council Department/ service provided	2008/09 £'000
	10 to	Chief Executive's Department	
202	Ayrshire Valuation Joint Board	Administrative services	186
146	Scottish Enterprise Ayrshire	Skillseeker training	152
		Development, Safety & Regulation	
56	Ayrshire and Arran Health Board	CCTV monitoring	78
112	North Ayrshire Council	CCTV monitoring	129
4	Ayrshire and Arran Health Board	Archive services	4
24	East Ayrshire Council	Archive services	26
24	North Ayrshire Council	Archive services	26
176	Scottish Government	Trunk roads maintenance	135
DE-AL SAV-AMERICA		Education, Culture & Lifelong Learning	-
167	Strathclyde Police	Cleaning	167
		Social Work, Housing & Health	2 2 2 3 7 7 2 -
163	East Ayrshire Council	Addiction services	168
0	East Ayrshire Council	Criminal justice services	22
0	North Ayrshire Council	Criminal justice services	10
107	Strathclyde Police	Building repairs	292
1,181		Total	1,395

8. Summary of Members' Allowances Paid in the Year

The total amount paid in 2008/09 in respect of Members' allowances and salaries was £0.589m (£0.573m in 2007/08). This total comprised basic salary, basic allowances and special responsibility allowances of £0.549m (£0.532m in 2007/08) paid to Members for carrying out their duties, and a further amount of £0.040m (£0.041m in 2007/08) paid as reimbursement of expenses.

9. Officers' Remuneration – the number of employees whose remuneration, excluding pension contributions, was £50,000 or more in bands of £10,000 were:

2007/08 Number	Remuneration Band	2008/09 Number	Left During Year
24	£50,000 - £59,999	39	2
15	£60,000 - £69,999	12	0
5	£70,000 - £79,999	6	2
3	£80,000 - £89,999	1	0
1	£90,000 - £99,999	2	1
3	£100,000 - £109,999	3	1
0	£110,000 - £119,999	2	2
0	£120,000 - £149,999	0	0
0	£150,000 - £159,999	1	1
51	Total	66	9

Remuneration includes gross salary (exclusive of employers pension contributions), taxable expenses, the money value of benefits and any severance payments.

10. Related Party Transactions

Central Government - has effective control over the general operations of the Council, providing the statutory framework within which the Council operates, providing the terms of many transactions that the Council has with other parties (e.g. housing benefits) and also providing the majority of funding in the form of grants. Details of transactions with government departments are set out in note 34 relating to the cash flow statement and notes to the capital account.

Members of the Council - have direct control over the Council's financial and operating policies. During 2008/09, works and services to the value of £0.401m were commissioned from companies in which three members had an interest. Contracts were entered into in full compliance with the Council's standing orders.

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 other income from Ayrshire and Arran Health Board in 2008/09 totalling £10.311m.

Assisted Organisations – during 2008/09 the Council provided funding to organisations including grants to voluntary organisations, Rural Communities grant funding and business grants. None of these grants exceeded 50% of the organisations' total funding, on terms that gave the Council effective control over their operations.

11. External Audit Fees

In 2008/09 the Council incurred the following fees relating to external audit and inspection services from the appointed auditor:

2007/08 £'000		2008/09 £'000
220	Fee payable to Audit Scotland with regard to external audit services carried out by appointed auditor	226
100	Notified fixed charge element payable	105
320	Total	331

12. Assets held under Leases

Operating lease expenditure during 2008/09 amounted to £1.554m (£1.673m in 2007/08).

The authority was committed at 31 March 2009 to making payments of £1.106m under operating leases in 2008/09, comprising the following elements:

2007/08 £'000	Vehicles, Plant & Equipment	2008/09 £'000
309	Leases expiring within one year	215
1,043	Leases expiring between one and five years	891
6	Leases expiring after five years	0
1,358	Total due in next financial year	1,106

13. Summary of Capital Expenditure and Fixed Asset Disposals

(i) Movement on Intangible Fixed Assets

Intangible assets relate wholly to software licenses purchased during the year and are shown at cost. The asset is amortised to the Income and Expenditure Account over the economic life of the licenses, assessed as three years. The movement in intangible assets during 2008/09 was:

	Intangible assets £'000
Opening balance at 1 April 2008	426
Movement 2008/09	
Additions	21
Amortised to Income and Expenditure Account	(220)
Net book value at 31 March 2009	227

(ii) Movement on Tangible Fixed Assets

The tables below illustrate the movement in tangible fixed assets, analysed by asset category, arising from the additions, disposals, revaluations and depreciation during the year. As a result of these movements, the net book value of tangible fixed assets held at 31 March 2009 was £469.038m.

Operational assets	Council dwellings £'000	Other land and buildings £'000	Vehicles, plant, etc £'000	Infrastructure £'000	Community assets £'000	Total £'000
Gross book value at 1 April 2008	219,275	236,630	9,944	48,774	945	515,568
Accumulated depreciation	(28,207)	(11,323)	(7,187)	(7,809)	0	(54,526)
Net book value at 1 April 2008	191,068	225,307	2,757	40,965	945	461,042
Movement 2008/09:						
Additions	10,308	9,118	2,383	3,080	0	24,889
Revaluations	0	299	23	0	6	328
Transfers	(2,064)	(7,344)	6	0	0	(9,402)
Depreciation	(7,694)	(1,203)	(778)	(1,296)	0	(10,971)
Impairment	0	(20,512)	(128)	0	0	(20,640)
Net book value at 31 March 2009	191,618	205,665	4,263	42,749	951	445,246

Non-operational assets	Investment properties £'000	Assets under construction £'000	Surplus assets £'000	Total £'000
Gross book value at 1 April 2008	17,826	392	1,791	20,009
Accumulated depreciation	0	0	(9)	(9)
Net book value at 1 April 2008	17,826	392	1,782	20,000
Movement 2008/09:				
Additions	0	439	0	439
Disposals	0	0	(4,413)	(4,413)
Revaluations	191	0	75	266
Transfers	(2,131)	(307)	11,840	9,402
Depreciation	0	0	(713)	(713)
Impairment	(794)	(85)	(310)	(1,189)
Net book value at 31 March 2009	15,092	439	8,261	23,792

(iii) Capital Expenditure and Financing

The Local Government Scotland Act 2003 introduced the new "Prudential Framework" for local authority capital investment replacing the former Section 94 consent. The Prudential Code plays a key role in capital finance in local authorities. Local authorities determine their own programmes for capital investment in fixed assets that are central to the delivery of quality services.

The Prudential Code was developed by CIPFA, the Chartered Institute of Public Finance and Accountancy, as a professional code of practice to support local authorities in taking their decisions. Local authorities are required by Regulation to have regard to the Prudential Code when carrying out their duties in Scotland under part 7 of the Local Government in Scotland Act 2003.

The undernoted table shows the capital investment for General Services and Housing for 2008/09 together with the sources of finance used to fund the investment.

2007/08 £'000		2008/09 £'000
V.	Capital investment by service:	
11,565	General Services	15,473
8,458	Housing Revenue Account	11,293
20,023	Capital expenditure additions	26,766
140	Covenant	312
1,434	Private sector housing grants	1,294
21,597	Total capital investment	28,372
	Financed by:	
15,833	Capital receipts, grants and contributions	14,731
5,764	Net funding from external borrowing and capital funded from current revenue (CFCR)	13,641
21,597	Total financing	28,372

Not all capital expenditure necessarily increases the value of the Council's fixed assets in the year in which the expenditure occurs. Certain expenditure may maintain current values, work-in-progress may result in a further increase in value and other expenditure may not result in an equivalent enhancement of value.

Private sector housing grants (PSHG) expenditure does not result in the creation of a fixed asset for the Council, nor does the Council control the economic benefit arising from the expenditure therefore, as stated in the Statement of Accounting Policies, all PSHG expenditure is charged to revenue in the year in which it is incurred and matched against the corresponding grant income.

14. Capital Commitments in Future Years

The following table shows the approved capital investment programmes for both General Services and Housing for 2009/10.

	General Services £'000	Housing £'000	Total £'000
Expenditure:			
Capital investment	6,844	9,195	16,039
Externally funded projects	9,933	0	9,933
	16,777	9,195	25,972
Sources of finance:			
Supported borrowing	6,844	0	6,844
Capital grants and contributions	9,933	5,321	15,254
Capital funded from current revenue	0	3,874	3,874
	16,777	9,195	25,972

15. Information on Assets held

The undernoted table shows a summary of the assets held by the Council which were used in the wide range of services provided during 2009/10.

Number as at 31 March 2008		Number as at 31 March 2009
8,380	Council dwellings	8,294
838	Operational assets	776
821	Non-operational assets	830
	Infrastructure assets:	
1,151	Road lengths (km)	1,154
335	Bridges	336
19,158	Street lighting units	19,254
1	Pontoons	1
	Community assets:	
49	Cemeteries	49
38	Parks, open spaces and estates	39
1,268	Works of art	1,269
83	Other community assets	82
174	Vehicles and equipment	184

16. Valuation Information

The following table shows the progress on the Council's rolling programme for the revaluation of fixed assets. The financial year 2008/09 is the fourth year of the latest five-year rolling programme cycle. Additional information will be added as the programme progresses. The valuations are carried out by RICS professional staff within the Council's Department of Development, Safety and Regulation.

Valued at current value in:	Other Land & Buildings £'000	Vehicles, Plant & Equipment £'000	Non Operational £'000	Total £'000
2005/06	229,789	30	1,242	231,061
2006/07	1,529	0	15,307	16,836
2007/08	21,244	0	38	21,282
2008/09	4,042	0	2,174	6,216

17. Information about Depreciation Methodologies

As highlighted in the Accounting Policies on page 9, depreciation is provided for on all assets with a determinable useful life on a straight-line basis inclusive of the year of acquisition. The period for each applicable category is shown in the table below.

Useful life	Category	Valuer	Basis of Valuation	Date of last Full Valuation
10 to 40 years	Operational (specialised) Properties	Estates Manager	Depreciated Replacement Cost /Existing use (MV- DRC/EUV)	31 March 2006
5 to 99 years for buildings/ up to 999 years for land	Operational (non-specialised) Properties	Estates Manager	Open Market Value Existing Use (OMVEU/EUV)	31 March 2008
10 to 99 years for buildings/ up to 999 years for land	Non-operational Properties	Estates Manager	Market Value (OMV/MV)	31 March 2007
30 years	Local Authority Housing Stock	Estates Manager	Net Realisable Value (EUVSH)	31 March 2005
Up to 40 years	Infrastructure Assets	Not applicable	Historical Cost	Not Applicable
99 to 999 years	Community Assets	Not applicable	Historical Cost	Not Applicable
0 to 7 years	Vehicles	Transport Manager	Net Realisable Value (NRV)	Not Applicable

18. Analysis of Net Assets Employed

The undernoted table shows the net assets employed by the various operations of the Council.

31 March 2008 £'000		31 March 2009 £'000
171,908	General Fund	117,592
128,373	Housing Revenue Account	122,832
469	Trading Operation	(540)
300,750	Total	239,884

19. Categories of Financial Instruments

Financial instruments are defined as the investments, lending and borrowing of the Council and include investments, bank deposits, borrowings, debtors and creditors. These are shown on the face of the Balance Sheet and the following table analyses them into prescribed categories.

31 March 2008			31 Marc	h 2009
Long-term £'000	Current £'000		Long-term £'000	Current £'000
		Investments and Lending:		
185	65,735	Loans and receivables	2,790	67,211
40	0	Available-for-sale financial assets	563	0
225	65,735	Total Investments and Lending	3,353	67,211
		Borrowing:		
187,708	36,752	Financial liabilities amortised at cost	187,509	41,058

20. Gains and Losses on Financial Instruments

The following table analyses the gains and losses on financial instruments recognised in the Income and Expenditure Account and STRGL.

	Financial	Assets	Financial Liabilities	
2009	Loans and Receivables £'000	Available- for-sale Assets £'000	Liabilities Measured at Amortised Cost £'000	Total £'000
Interest income	2,160	0	0	2,160
Interest expense	0	0	(9,949)	
Impairment losses	(1,445)	0	0	
Interest payable and similar charges	(1,445)	0	(9,949)	(11,394)
Gains on revaluation	0	523	0	
Net gain/(loss) for the year	715	523	(9,949)	
2008	Loans and Receivables £'000	Available- for-sale Assets £'000	Liabilities Measured at Amortised Cost £'000	Total
Interest income	1,859	0	0	1,859
Interest expense	0	0	(10,444)	
Impairment losses	0	0	0	
Interest payable and similar charges	0	0	(10,444)	(10,444)
Gains on revaluation	0	0	0	
Net gain/(loss) for the year	1,859	0	(10,444)	

21. Fair Value of Assets and Liabilities carried at Amortised Cost

Financial assets and liabilities are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- For HM Treasury's Public Works Loans Board (PWLB) and other loans receivable and payable, fair values have been calculated on comparable new borrowing rates from comparable lenders for similar financial instruments;
- No early repayment is recognised; and
- the fair value of trade and other receivables and payables is taken to be the invoiced or billed amount.

The fair values are calculated in the following two tables:

31 Marc	h 2008	31 March 2009		h 2009
Carrying Amount £'000	Fair Value £'000	Investments and Lending:	Carrying Amount £'000	Fair Value £'000
65,960	65,959	Loans and receivables	70,564	70,767

The fair value is more than the carrying amount because the Council's lending figure includes a number of loans where the interest rate receivable is higher than the rates available for similar loans at 31 March 2009. The commitment to receive interest above current market rates increases the amount that the Council would receive if it agreed to early repayment of the loans. The carrying amount and fair value of loans and receivables includes the impact of the impairment of deposits held with Landsbanki.

31 Marc	h 2008		31 Marc	31 March 2009	
Carrying Amount £'000	Fair Value £'000	Borrowing:	Carrying Amount £'000	Fair Value £'000	
224,460	238,737	Financial liabilities	228,567	244,443	

The fair value is more than the carrying amount because the Council's borrowing figure includes a number of loans where the interest rate payable is higher than the rates available for similar loans at 31 March 2009. The commitment to pay interest above current market rates increases the amount that the Council would pay if it agreed to early repayment of the loans.

22. 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; and
- 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.

The Council's management of treasury risks actively works to minimise the Council's exposure to the unpredictability of financial markets and to protect the financial resources available to fund services. The Council has fully adopted CIPFAs Code of Treasury Management Practices and has written principles for overall risk management as well as written policies and procedures covering specific areas such as credit risk, liquidity risk and market risk.

(i) Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. The Council's policy is to place deposits only with banks and financial institutions whose credit ratings are independently assessed by the Council's treasury advisers as sufficiently secure, and to restrict lending to a prudent maximum amount for each institution.

The following table summarises the Council's potential maximum exposure to credit risk, based on past experience and current market conditions. No credit limits were exceeded during the financial year and the Council expects full repayment on the due date of deposits placed with its counterparties.

	31 March 2009 £'000	Historical Experience of Default adjusted for Market Conditions %	Estimated Maximum Exposure to Default and Uncollectability £'000
Deposits with banks and financial institutions – net of impairment	47,851	0.00	0
Customers (excluding Council Tax, Community Charge and Non-Domestic Rate Income) – net of provision	16,180	0.00	0
			0

In relation to deposits held with Landsbanki, failure to secure preferential creditor status would have a significant impact on the amount of the deposit that is recoverable (refer to note 1 on page 16 of the Statement of Accounts).

The Council's gross debtor (excluding Council Tax, Community Charge and Non-Domestic Rate Income) was £18.291m against which a provision of £2.111m was made for bad and doubtful debts. Based on historical experience, the Council has therefore fully provided for its estimated maximum exposure to default and uncollectability.

The Council does not generally allow credit for customers, such that £6.454m of the £18.291m balance is past its due date for payment. The past due amount is analysed by age in the following table:

31 March 2008 £'000		31 March 2009 £'000
7,845	Less than three months	2,256
490	Three to six months	774
1,275	Six months to one year	1,699
528	More than one year	1,725
10,138		6,454

(ii) Liquidity Risk

The Council's main source of borrowing is PWLB. 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 no more than 25% of loans are due to mature within any financial year and 50% within any rolling five-year period through a combination of careful planning of new loans taken out and, where it is economic to do so, making early repayments.

The following table shows the maturity analysis of financial liabilities.

31 March 2008 £'000		31 March 2009 £'000
36,752	Less than one year	41,058
340	Between one and two years	135
406	Between two and five years	406
186,393	More than five years	186,257
223,891		227,856

All trade and other payables are due to be paid in less than one year.

(iii) Market Risk

Interest Rate Risk - Changes in market interest rates influence the interest payable on financial liabilities and the interest receivable on financial assets. For example, an increase in interest rates would mean an increase in the interest charged on borrowing at variable rates and an increased cost to the taxpayer. An increase in interest rates would also mean an increase in the interest income received on lending at variable rates and a reduced cost to the taxpayer.

Changes in market rates also affect the notional fair value of financial assets and liabilities. For example, an increase in interest rates would reduce the fair value of both lending and borrowing at fixed rates. Changes in the fair value of lending and borrowing do not impact upon the taxpayer.

The Council has a number of strategies for managing interest rate risk. The Council has a policy to limit its exposure to variable rate borrowing to a maximum of 25% of its total borrowings. During periods of falling interest rates and where it is economically advantageous to do so, the Council will consider the repayment and restructuring of fixed interest rate debt. The Council takes daily advice from its specialist treasury advisers and actively monitors changes in interest rates to inform decisions on the lending of surplus funds, new borrowings and the restructure of existing borrowings. The risk of loss remains fully with the Council, however in the longer term the Scottish Government reviews the grant support it provides for local authority borrowing every three years. At this review stage the Scottish Government may, at its discretion, provide more or less support to recognise underlying changes in interest rates.

As the Council is not party to any variable rate borrowing or lending there is no impact to taxpayers and rent payers of changes in interest rates. The following table shows the financial effect on fair values if rates had been 1% higher at 31 March 2009, with all other variables held constant.

	31 March 2009 £'000
Decrease in fair value of fixed rate lending (disclosed in STRGL)	68
Decrease in fair value of fixed rate borrowing (no impact on Income and Expenditure Account or STRGL)	27,305

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

Price Risk - The Council does not generally invest in equity shares but does have a shareholding to the value of £0.563m in Freeport (Scotland) Ltd, which exists to allow the Council voting rights within the company. As the shareholding has arisen in the acquisition of a specific interest, the Council is not in a position to limit its exposure to price movements by diversifying its portfolio. Although the shares are not openly traded they are classified as available for sale, meaning that the Council is exposed to losses arising from a movement in the value of these shares below the original acquisition cost.

Foreign Exchange Risk - The Council holds one bank account denominated in Euros for the purposes of an economic development project. During the year the account balance was transferred to a Sterling account and at 31 March 2009 a negligible balance remained in respect of interest received. Accordingly, the Council is not materially exposed to gains or losses arising from movements in exchange rates.

23. Long Term Investments

31 March 2008 £'000		31 March 2009 £'000
40	Freeport (Scotland) Ltd (74,000 ordinary shares)	563
1	SC Enterprise Fund	1
41		564

Freeport (Scotland) Ltd – The Council's shareholding in Freeport (Scotland) Ltd. was revalued during the year. In the absence of an active market share price, the valuation was based on the proportion of the company's shareholders' funds attributable to the Council at 31 March 2009. Although these shares are classified as available for sale, the Council's shareholding exists to retain voting rights within the company and as such the Council does not intend to trade them.

24. Long Term Debtors

31 March 2008 £'000		31 March 2009 £'000
120	PPP residual value	2,725
64	Home loans	64
184		2,789

PPP residual value – It is estimated that at the end of the schools PPP contract the fair value of the premises transferring to the Council will be £176.617m. PPP accounting arrangements require this sum to be recognised in the Council's balance sheet over the life of the contract, initially as long term debtor with the full value building up over the period of the agreement and transferring to fixed assets at the end of the contract.

25. Deferred Premium on the Early Repayment of Debt

In accordance with the SORP, all premiums and discounts on the early repayment of debt are treated as unattached to existing loans. This allows the premiums and discounts to be held in a new Financial Instruments Adjustment Account within the balance sheet and charged to the General Fund as originally planned.

26. Debtors and Creditors

Debtors - the Statement of Accounts includes debtors totalling £45.654m at 31 March 2009 and provisions against these debtors totalling £26.294m, analysed as follows:

31 March 2008 Net Debtor £'000		Gross Debtor £'000	Bad Debt Provision £'000	31 March 2009 Net Debtor £'000
2,429	Council Tax/ Community Charge	24,492	22,057	2,435
1,658	Department of Works & Pensions	604	0	604
549	Non-Domestic Rates	2,871	2,126	745
387	Council House Rents	1,099	627	472
0	Revenue Support Grant	175	0	175
1,667	Her Majesty's Revenue and Customs	4,100	0	4,100
12,845	Sundry Debtors	12,313	1,484	10,829
19,535	Total	45,654	26,294	19,360

Creditors - the Statement of Accounts includes creditors totalling £36.889m at 31 March 2009, analysed as follows:

31 March 2008 £'000		31 March 2009 £'000
1,963	Scottish Government	1,425
3,245	Her Majesty's Revenue and Customs	3,017
2,334	Other Public Bodies	2,709
2,536	Loan Interest	2,508
23,131	Trade and Other Creditors	27,230
33,209	Total	36,889

27. Provisions

Total provisions for liabilities amount to £7.637m, representing provisions made in respect of equal pay claims outstanding at 31 March 2009, provision for the cost of implementing single status with effect from 16 August 2008, provision for the asbestos works within PPP Schools, provision for

business and other grant payments outstanding at 31 March 2009 and insurance costs in respect of South Ayrshire Council's share of the former Strathclyde Regional Council's insurance claims.

28. Due to Common Good/ Sundry Accounts

The net creditor shown in the balance sheet of £4.785m is made up of deposits by the Common Good, Trusts and various Sundry Accounts with the Council's loans fund. An analysis of these accounts is provided on pages 45 to 47 of the financial statements.

29. Borrowing Repayable Within a Period in Excess of 12 Months

31 March 2008 £'000		31 March 2009 £'000
	Analysis of loan by type	
172	Covenant	0
143,733	Public Works Loan Board	143,598
43,774	Market loans	43,911
29	European Investment Bank	0
187,708	Total outstanding	187,509
	Analysis of loan by maturity	
340	1 to 2 years	135
406	2 to 5 years	406
20,104	5 to 10 years	22,606
36,614	10 to 25 years	40,978
130,244	25+ years	123,384
187,708	Total outstanding	187,509

The former Kyle and Carrick District Council entered into a covenant scheme financing arrangement for the acquisition of six new sports halls. The capital costs were fully repaid during 2008/09. The sports halls are included within fixed assets in the Balance Sheet.

30. Reserves

The tables below detail the movement on reserves in the year:

	Opening balance at 1 April 2008 £'000	Gains/(losses) on the fund £'000	Net amount transferred between reserves £'000	Closing Balance at 31 March 2009 £'000
Revaluation reserve	4,015	3,200	115	7,330
Capital adjustment account	281,950	(34,421)	10,069	257,598
Financial instruments adjustment account	(16,022)	(745)	0	(16,767)
Capital receipts reserve	2,153	8,766	(10,349)	570
Available-for –sale financial instrument reserve	0	523	0	523
Repair & renewal fund	130	7	0	137
Capital fund	3,706	(2,408)	165	1,463
Insurance fund	425	0	0	425
Pension reserve	1,959	(41,327)	0	(39,368)
General fund balance	2,743	4,710	0	7,453
HRA balance	19,691	829	0	20,520
Total	300,750	(60,866)	0	239,884

Revaluation Reserve and Capital Adjustment Account

- Revaluation Reserve Store of gains on revaluation of fixed assets not yet realised through sales.
- Capital Adjustment Account Store of capital resources set aside to meet past expenditure.

Financial Instruments Adjustment Account

The 2007 SORP introduced the requirement to maintain a Financial Instruments Adjustment Account to allow for differences in statutory requirements and proper accounting practices for borrowings and investments.

Regulations issued in March 2009 allow the Council not to charge amounts relating to impaired investments to the General Fund. Such amounts are instead transferred to the Financial Instruments Adjustment Account.

The movement on the account is analysed as follow:

	£'000	£'000
Opening balance at 1 April 2008		(16,022)
Standard adjustments		
Effective interest rate adjustment	(142)	entropie s
Net premium/discount release to revenue	445	303
Impaired Investment adjustments		
Impairment transferred from General Fund	(1,445)	
Interest earned transferred from General Fund	470	
Original interest due transferred from General Fund	(73)	(1,048)
Closing balance at 31 March 2009		(16,767)

Under the regulations, the Council must transfer the balance on the Financial Instrument Adjustment Account to the General Fund no later than 31 March 2011, and must also credit the account with interest earned until such time as the balance has been transferred to the General Fund. The Council estimates that the following credits will be made to the Financial Instruments Adjustment Account:

Financial Instrument Adjustment Account	Balance at 31 March 2009 £'000	Transfers during 2009/10 £'000	Transfers during 2010/11 £'000	Balance at 31 March 2011 £'000
Impaired investment	(1,048)	242	806	0

Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds of fixed asset sales and other contributions available to finance capital investment. The balance on the reserve at 1 April 2008 was £2.153m, £18.411m was added to the reserve during 2008/09, £19.829m was applied to fund capital investment and £0.165m transferred to the Capital Fund.

Available-for-Sale Financial Instruments Reserve

The Available-for-sale Financial Instrument Reserve holds the gains on revaluation of investments not yet realised through sales. During 2008/09 the shares in Freeport (Scotland) Ltd. held by the Council were revalued from cost to fair value resulting in a gain of £0.523m.

Repair and Renewal Fund

The balance on the Repair and Renewal Fund at 1 April 2008 was £0.130m. Interest of £0.007m was applied to the fund during 2008/09 resulting in a balance at 31 March 2009 of £0.137m. There are no commitments against this balance for financial year 2009/10.

Capital Fund

The Council's Capital Fund was established during 2005/06, primarily to assist in funding the Council's Schools PPP project. The balance on the fund at 1 April 2008 was £3.706m. Capital receipts during 2008/09 of £0.165m were invested in the fund and interest of £0.188m was applied, with contributions of £2.596m made from the fund during 2008/09 to fund appropriate expenditure, resulting in a balance at 31 March 2009 of £1.463m. The Council plans to make further investment to the fund throughout the lifetime of the Schools PPP project.

Insurance Fund

The balance on the Insurance Fund at 1 April 2008 was £0.425m. During 2008/09 payments for premiums and uninsured losses of £1.022m were paid from the fund with contributions of £1.022m being made by the Council to maintain the balance in the fund at the previously ascertained level of £0.425m.

Pension Reserve

The Pension Reserve is a balancing account which allows the inclusion of the Pension asset in the balance sheet as detailed in note 33.

General Fund Balance

The accumulated General Fund surplus at 31 March 2009 is £7.453m. As explained in the Foreword by the Executive Director - Corporate Services on pages 1 to 6 of the financial statements, a total of £3.154m requires to be set aside for various projects and initiatives, leaving an uncommitted balance of £4.299m.

Housing Fund Balance

The accumulated Housing Revenue Account surplus at 31 March 2009 is £20.520m. As explained in the Foreword by the Executive Director - Corporate Services on pages 1 to 6 of the financial statements, £7.375m has been set-aside for specific purposes. Options for the use of the remaining £13.145m will be considered as part of the annual review of the HRA 30 year business plan during 2009/10.

31. Contingent Liabilities and Contingent Assets

Contingent Liability

In February 2009, following the outcome of an agreed independent arbitration process, the Council was served a summons in the Court of Session, Edinburgh, in respect of a claim made by Education 4 Ayrshire Ltd in the sum of £0.816m for a works compensation event relating to a delay in the construction of a new school arising from the discovery of asbestos at Prestwick Academy. The Council have contested this claim, which is pending settlement, through the due legal process.

Contingent Asset

The Council has no material contingent assets at 31 March 2009.

32. Scheme of Delegation for Schools

The Council approved a revised Scheme of Delegation for Schools on 9 June 2004. The scheme supports the development planning and improvement agenda by providing for the carry-forward of individual school budget surpluses or deficits. As detailed in the Foreword by the Executive Director - Corporate Services on pages 1 to 6, funds totalling £1.195m have been earmarked by departments to be spent in 2009/10, of which £0.183m relates to schools.

33. Retirement Benefits

The Council contributes to two pension schemes:

• Local Government Superannuation (Scotland) Scheme - The Council subscribes to the Strathclyde Pension Fund, a funded defined benefits scheme. The scheme is supported by contributions from both employer and employee. The Council's contribution to the Fund is expressed as a percentage of employees' contributions and for 2008/09 was set at 280%. During 2008/09 the Council made employers' contributions of £9.627m (£8.991m in 2007/08). The increase in contributions arises mainly from the increase in levels from 270% to 280%. In accordance with FRS 17, the £9.627m contribution meets the obligation on the Council for the year to 31 March 2009.

The employers' contribution rate is determined by the Fund's Actuary based upon triennial actuarial valuations which determine whether employers are contributing sufficiently to maintain the Fund's solvency, the most recent formal valuation being carried out as at 31 March 2009. The employers' contribution will increase to 288% in 2009/10.

Change of Accounting Policy – Under the 2008 SORP the council has adopted the amendment to FRS17. As a result, quoted securities held as assets in the defined benefit pension scheme are now valued at bid price rather than mid-market value. The effect of this change is that the value of scheme assets at 31 March 2009 has been restated from £299.507m to £297.854m, a decrease of £1.653m, resulting in an increase in the pension deficit of £1.653m. This movement has been reflected in the opening balances in the balance sheet for 2008/09 and is included in the pension liability as at 31 March 2009. Current and prior year surpluses have been unaffected by this change.

In accordance with FRS17 the Council is required to disclose certain information concerning assets, liabilities, income and expenditure related to pension schemes for its employees. All prior year information stated in the following tables has been restated in accordance with the change in accounting policy highlighted above.

(i) Analysis of Amount Charged to Operating Profit

2007/08 £'000		2008/09 £'000
	Amount charged to Net Cost of Services	
11,743	Current service costs	8,479
1,173	Past service costs	298
2,720	Curtailment and settlements	1,339
15,636		10,116
	Amount credited to Net Operating Expenditure	
(27,799)	Expected return on employers assets	(27,065)
23,399	Interest on pension liabilities	26,308
(4,400)		(757)
11,236	Net Charge to the Income and Expenditure Account	9,359

In addition to the recognised gains and losses included in the Income and Expenditure Account, actuarial losses of £44.170m, inclusive of the £1.653m resulting form the change in accounting policy, (£42.235m gain in 2007/08 as restated) were included in the Statement of Total Recognised Gains and Losses. The cumulative amount of actuarial losses recognised in the Statement of Total Recognised Gains and Losses is £11.926m.

(ii) Reconciliation of defined benefit obligation

2007/08 £'000		2008/09 £'000
428,999	Opening Defined Benefit Obligation	379,333
11,743	Current service cost	8,479
23,399	Interest cost	26,308
3,425	Contributions by members	3,577
(81,809)	Actuarial losses/ (gains)	(66,682)
1,173	Past service costs	298
2,720	Losses/(gains) on curtailments	1,339
(1,822)	Unfunded benefits paid	(1,553)
(8,495)	Benefits paid	(13,877)
379,333	Surplus/ (deficit) at end of year	337,222

(iii) Reconciliation of fair value of employer assets

31 March 2008 £'000		31 March 2009 £'000
386,376	Opening fair value of employers assets	379,639
27,799	Expected return on assets	27,065
3,425	Contributions by members	3,577
10,108	Contribution by the employer	10,649
1,822	Contribution in respect of unfunded benefits	1,553
(39,574)	Actuarial gains/(losses)	(109,199)
(1,822)	Unfunded benefits paid	(1,553)
(8,495)	Benefits paid	(13,877)
379,639	Closing fair value of employers assets	297,854

The expected return on assets is based on the long-term expected investment return for each asset class as at the beginning of the period.

(iv) Analysis of the Council's Assets and Liabilities in respect of Strathclyde Pension Fund

31 March 2008 £'000	%		%	31 March 2009 £'000
275,621	72.6	Equity investments	73.0	217,433
54,649	14.4	Bonds	16.0	47,657
37,359	9.9	Property	8.0	23,828
12,010	3.1	Cash	3.0	8,936
379,639	100.00	Share of assets	100.00	297,854
(357,785)	94.3	Scheme liabilities	93.9	(316,683)
(21,548)	5.7	Unfunded liabilities	6.1	(20,539)
(379,333)	100.00	Share of estimated liabilities	100.00	(337,222)
306		Net assets/ (liabilities) in Strathclyde Pension Fund		(39,368)

(v) Basis for estimating assets and liabilities

The valuations are as at 31 March 2009, and are provided by Hymans Robertson, the independent actuaries to Glasgow City Council Fund.

The pension scheme assets are valued at bid value. The liabilities represent the Council's underlying long-term commitment to pay retirement benefits to current and former employees.

Liabilities are valued on an actuarial basis using the projected unit method, which assesses the future liabilities of the fund based on assumptions about future financial experience – principally investment return, salary growth and inflation – and discounts them to their present value.

The main assumptions used in the calculations are:

31 March 2008		31 March 2009
	Long-term expected rate of return on assets in the scheme	
7.7%	- Equity investments	7.0%
5.7%	- Bonds	5.4%
5.7%	- Property	4.9%
4.8%	- Cash	4.0%
	Mortality assumptions (prior year not available)	
	Longevity at 65 for current pensioners (years):	
	- Men	20.3
	- Women	23.2
	Longevity at 65 for future pensioners (years):	
*****	- Men	21.7
	- Women	24.6
	Financial assumptions	
3.6%	Rate of inflation/pension increase rate	3.1%
5.1%	Rate of increase in salaries	4.6%
7.1%	Expected return on assets	6.5%
6.9%	Rate for discounting scheme liabilities	6.9%

The Hymans Robertson actuarial valuation at 31 March 2009 includes the financial impact of the assumption that 50% of pension fund members retiring after that date will elect to take an additional tax-free lump sum in lieu of part of their pension (25% at 31 March 2008).

(vi) Scheme history

The overall movement of the schemes assets, liabilities and actuarial gains and losses can be analysed into the following categories at 31 March 2009.

	2008/09	2007/08	2006/07	2005/06	2004/05
	£'000	£'000	£'000	£'000	£'000
Fair value of employers assets	297,854	379,639	386,376	357,041	274,572
Present value of defined benefit obligation	(337,222)	(379,333)	(428,999)	(435,866)	(364,048)
Surplus/(deficit) in pension reserve	(39,368)	306	(42,623)	(78,825)	(89,476)
Experience gains/(losses) on assets	(109,199)	(39,574)	(4,682)	56,360	9,265
Percentage of the fair value of assets	<i>(36.7%)</i>	(10.4%)	(1.2%)	15.8%	3.4%
Experience gains/(losses) on liabilities	41,751	(849)	925	8,019	(847)
Percentage of the fair value of assets	<i>14</i> .0%	(0.2%)	0.2%	2.25	(0.3%)

• Scottish Teachers' Pension Scheme – the teachers' pension scheme is administered directly by the Scottish Government. The Council is not required to record information related to the teachers' scheme as the liability for payment of pensions rests ultimately with the Scottish Government. During 2008/09 the employer's contribution was set at 13.5% of the employees' contribution rate. The Council paid £5.651m (£5.554m in 2007/08) for employer's contributions to the Scottish Government.

34. Notes relating to Cash Flow

(i) Reconciliation of Net Surplus or Deficit on the Income and Expenditure Account to the Revenue Activities Net Cash Flow in the Cash Flow Statement

2007/08 £'000			2008/09 £'000
5,018	General Fund (surplus)/ deficit	16,591	
(8,268)	Net additional amount required by statute and non-statutory proper practice to be credited to the General Fund Balance for the year	(21,301)	
(3,250)	(Increase)/Decrease in the General Fund balance for the year		(4,710
2,089	Housing Revenue Account (surplus)/ deficit	836	
(4,045)	Net additional amount required by statute and non-statutory proper practice to be credited to the HRA Balance for the year	(1,665)	
(1,956)	Increase in the HRA balance for the year		(829
(5,206)	Net (increase)/ decrease in the General Fund and HRA balance for the year		(5,539
	Adjust surplus for items accounted for elsewhere in cash flow statement:		
(8,618)	Loans fund interest	(7,652)	
(2,717)	Loans fund principal	(2,721)	
1,991	Capital grant received	7,229	
(3,104)	Capital financed from current revenue	(5,412)	
(12,448)			(8,556
	Adjust surplus for internal items:		
(1,924)	Contributions to funds	(360)	
10,936	Use of funds	4,703	
(635)	Other internal items	(2,509)	
8,377			1,83
	Adjust surplus for movements in working capital		
3,494	Increase/ (decrease) in debtors	3,175	
26	Increase/ (decrease) in stock and work in progress	(7)	
(67)	Increase/ (decrease) in loans to other parties	0	
(4,400)	(Increase)/ decrease in sundry creditors	(5,496)	
1,064	(Increase)/ decrease in other creditors	233	
117			(2,095
(9,160)	Net cash outflow/ (inflow) from revenue activities		(14,356

(ii) Reconciliation of Movement in Cash to Movement in Net Debt

	Balance at 1 April 2008 £'000	2008/09 Movement £'000	Balance at 31 March 2009 £'000
Cash on hand	0	0	0
Overdrafts	3,210	790	4,000
(Increase)/ decrease in cash	3,210	790	4,000
Debt due within 1 year	333	(164)	169
Debt due after 1 year	187,536	(27)	187,509
Covenant scheme	172	(172)	0
Increase/ (decrease) in debt	188,041	(363)	187,678
Short term investments	(46,200)	(1,845)	(48,045)
(Increase)/ decrease in liquid resources	(46,200)	(1,845)	(48,045)
Movement in Net Debt	145,051	(1,418)	143,633

(iii) Reconciliation of Relevant Movements in Financing and Management of Liquid Resources to the Balance Sheet

	Balance at 1 April 2008 £'000	2008/09 Movement £'000	Balance at 31 March 2009 £'000
Management of Liquid Reso	urces		
Short term investments	46,200	1,845	48,045
Management of Financing			
Short-term borrowing	333	(164)	169
Covenant Loans	172	(172)	0
Local Bonds/EIB Loans	43,232	679	43,911
PWLB Loans	144,304	(706)	143,598
	188,041	(363)	187,678

Liquid resources include short term lending by the Council. Any lending is in accordance with Treasury Management policies which have been amended to account for the significant changing market conditions which occurred during 2008/09. These changes have been agreed by the Council.

(iv) Analysis of Other Government Grants

2007/08 £'000		2008/09 £'000
100	Education, Culture and Lifelong Learning	
100	Determined to succeed	40
63	School of Ambition	8.
2 404	English as a second language	4:
3,404 1,158	School fund New teachers	
771	Probationer teachers	
658 538	New community schools Inclusion	
487		
387	Hungry for Success Additional support staff	
316	Support for teachers	
298	Continuous professional development	
292	Study support	
259	Additional support for learning	
253	Alternatives to exclusion	
222	Discipline Task Group	
184	Supporting parents	
165	Early years Childcare	
155	Curriculum for Excellence	
154	In service training	
130	Workforce expansion	
117	Job sizing – teachers	
109	National grid for learning	
87	Language learning and teaching	
63	Free fruit for schools	
52	Chartered Teachers programme	
9		
	Assessment for learning Development, Safety and Regulation	
899	Strategic Waste Fund	
0	Leader Leader	37
0	Ayrshire and Arran Training Consortium	26
70	Anti-social behaviour noise unit	4
176	Local roads	2
	Social Work, Housing and Health	-
1,207	Criminal justice management	4.46
0	Fairer Scotland Fund	1,49
315	Housing Support Grant	1,23
93	New Futures Fund Successor Fund	21
590	Changing Children's Services Fund	21
157	Telecare	7
0	NASSO/ SOLO	7
62	Registered social Landlords	
7,976	Supporting People	
674	Homeless strategy	
301	Mental illness	
130	Fostering & adoption	
116	Social work training	
	Chief Executive's	
13,808	Rent rebates benefit subsidy	15,34
7,966	Council tax benefit subsidy	8,05
583	Council tax benefit administration	55
583	Rent rebate administration	55
0	Local Housing Allowance	35
73	Discretionary Housing Grant	7
. 0	Employment Support Allowance	- '
	Other	
380	Sundry Grants	17
	Capital grants	- 1 /
0	L General Capital Grant	
0 1 427	General Capital Grant Private Sector Housing Grant	
1,427	Private Sector Housing Grant	5,73 1,48
1,427 182	Private Sector Housing Grant 20mph	1,48
1,427 182 1,108	Private Sector Housing Grant 20mph Additional capital grant	1,48
1,427 182 1,108 338	Private Sector Housing Grant 20mph Additional capital grant Contaminated Land	1,48
1,427 182 1,108	Private Sector Housing Grant 20mph Additional capital grant	1,48

HRA Income and Expenditure Account

2007/08	10 10 10 10 10 10 10 10 10 10 10 10 10 1	2008/09
£'000		£'000
	Income	
(20,361)	Dwelling rents	(21,126)
(1,327)	Non dwelling rents	(1,346)
(157)	Housing Estate Regeneration Fund grant	0
(281)	Other income	(311)
(22,126)	Total Income	(22,783)
	Expenditure	
9,829	Repairs and maintenance	9,702
5,082	Supervision and management	5,193
7,692	Depreciation and impairment of fixed assets	8,255
787	Other expenditure	1,013
117	Increase in bad debt provision	129
23,507	Total Expenditure	24,292
1,381	Net Cost of HRA Services as included in the Council Income and Expenditure Account	1,509
212	HRA share of Corporate and Democratic Core	166
1,593	Net Cost of HRA Services	1,675
(927)	(Gain) or Loss on disposal of fixed assets	(2,463)
3,052	Interest payable and similar charges	3,092
(132)	Amortisation of premiums and discounts	(136
(1,343)	Interest and investment income	(1,298
(154)	Pension interest cost and expected return on pension assets	(34
2,089	(Surplus) or deficit for the year on HRA services	830

Statement of Movement on the HRA Balance

2007/08 £'000		2008/09 £'000
2,089	(Surplus) or deficit for the year on the HRA Income and Expenditure Account	836
363	Additional amounts required by statute and non-statutory proper practice to be taken into account when determining the increase or decrease in the HGRA balance	
285	Difference between any item of income and expenditure determined in accordance with the SORP and determined in accordance with statutory requirements	180
927	Gain or loss on sale of HRA fixed assets	2,463
24	HRA share of contributions to or from the Pension Reserve	128
3,104	Capital expenditure funded by the Housing Revenue Account	5,289
(8,385)	Transfer to or from the Capital Adjustment Account	(9,725)
(1,956)	(Increase) or decrease in the Housing Revenue Account Balance	(829)
(17,735)	Housing Revenue Account surplus brought forward	(19,691)
(19,691)	Housing Revenue Account surplus carried forward	(20,520)

Notes to the Housing Revenue Account

- 1. A provision of £0.627m is included in the balance sheet for doubtful debts on housing rents.
- 2. At 31 March 2009, the Council held various types of accommodation and had the following number and types of houses.

31 March 2008 Number of Houses	Type of accommodation	31 March 2009 Number of houses
2,502	1 and 2 apartment	2,494
3,630	3 apartment	3,586
2,074	4 apartment	2,043
174	5 or more apartment	171
8,380	Total	8,294

31 March 2008 Number of Houses	By area	31 March 2009 Number of houses
4,812	Ауг	4,766
1,035	Troon	1,019
737	Prestwick	733
785	Maybole	779
1,011	Girvan	997
8,380	Total	8,294

- 3. At 31 March 2009, rent arrears amounted to £0.837m, being 3.7% of gross rent collectable (£0.767m in 2007/08, being 3.5% of gross rent collectable).
- 4. The surplus for the year of £0.829m, when added to the surplus brought forward from 2007/08 of £19.691m, results in an accumulated surplus of £20.520m at 31 March 2009. Members have already agreed that £0.550m should be held in reserve for weather emergencies and £6.825m should be used to fund capital and revenue expenditure in future years. This leaves a revenue surplus of £13.145m which is required for future capital investment as the HRA Business Plan used for setting the 2009/10 rents assumed a full use of reserves.
- 5. The rental income lost due to void properties amounted to £0.343m in 2008/09 (£0.334m in 2007/08).

Collection of Council Tax, Rates and Community Charge

Council Tax Income Account

2007/08 £'000			2008/09 £'000
61,281	Gross coun	cil tax levied	61,520
(1,849)	Deduct:	Exemptions	(1,802)
(86)		Disabled relief	(89)
(5,455)		Discounts	(5,541)
53,891	Net Council	tax	54,088
(8,088)	Deduct:	Council tax benefits	(8,147)
8,090		Less government grants	8,161
15		Other items	14
(1,152)	Provision for	r bad debts	(1,170
27	(Gain)/loss o	on benefits to be transferred to Miscellaneous Services	31
(124)	Grant on cla	imant error transferred to cost of collection	(104
52,659	In year Cou	incil tax income	52,873
125	Prior year a	djustments	(197
52,784	Transfer to	General Fund	52,67

Notes to the Council Tax Income Account

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 8 valuation bands (A to H) in accordance with their value as at 1 April 1993. The council tax charge levied for each property is calculated in proportion to the council tax charge for a Band D property by applying fractions. A discount of 25 per cent on the council tax charge is made where there are fewer than 2 residents of a property. Discounts of 50 per cent are made for unoccupied property. Persons in detention, students, people with mental disabilities, etc, are disregarded for council tax purposes. Reductions in council tax payable are also granted for disabled people.

The valuation bands, and the fractions used in calculating the council tax payable for each valuation band, are set out below:

Valuation band	Property valuation range	Fractions	
Α	£0 - £27,000	6/9	
В	£27,001 - £35,000	7/9	
С	£35,001 - £45,000	8/9	
D	£45,001 - £58,000	9/9	
Е	£58,001 - £80,000	11/9	
F	£80,001 - £106,000	13/9	
G	£106,001 - £212,000	15/9	
Н	Over £212,000	18/9	

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

Additional income of £0.895m is included within the general fund and earmarked for use by registered social landlords.

2. Calculation of the Council Tax Charge Base 2008/09

razale				V	aluation ban	d			
Council tax band	А	В	С	D	Ε	F	G	н	Total
Total number of properties	7,520	12,503	8,418	8,306	9,205	4,475	2,816	243	53,486
Less exemptions/ deductions	404	374	231	114	107	50	26	2	1,308
Less adjustment for single discount	1,001	1,294	820	651	603	234	112	6	4,721
Less adjustment for double discount	61	104	88	81	100	45	33	7	519
Effective number of properties	6,054	10,731	7,279	7,460	8,395	4,146	2,645	228	46,938
Band D equivalent factor (ratio)	6	7	8	9	11	13	15	18	
Band D equivalent number of properties	4,036	8,346	6,470	7,460	10,261	5,989	4,408	456	47,426
Class 17 & 24 Dwellings	0	0	0	13	0	0	0	0	13
Total	4,036	8,346	6,470	7,473	10,261	5,989	4,408	456	47,439
Less provision for non- collection 2.5 per cent									1,186
Council tax base 2008/09	equivalent	o a Band D	Council tax	of £1,153.	95)				46,253

3. Council Tax Properties and Council Tax Charges

Valuation band	Number of chargeable properties	Total Council tax charge
Α	6,054	£769.30
В	10,731	£897.52
С	7,279	£1,025.73
D	7,473	£1,153.95
Е	8,395	£1,410.38
F	4,146	£1,666.82
G	2,645	£1,923.25
Н	228	£2,307.90
Total	46,951	

Non-Domestic Rate Income Account

2007/08 £'000		2008/09 £'000
41,715	Gross charge	43,413
(6,205)	Deduct: Reliefs & Remissions	(7,493)
(1)	Payment of Interest	(4)
(709)	Provision for bad debts	(1,071)
34,800	Net non-domestic rate income	34,845
(588)	Prior year adjustments	(1,301)
34,212	Total non-domestic rate income	33,544
	National non-domestic rate pool (NNDRP):	
40,802	NDRI Distributable	42,836
(34,212)	Contribution to NNDRP	(33,544)
6,590	Net contribution from NNDRP	9,292

Notes to the Non-Domestic Date Income Account

1. Non-Domestic Rate Income / Contribution from National Non-Domestic Rate Pool - with effect from 1993/94, 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). The non-domestic rate income is redistributed from the national pool in proportion to the resident population of each local authority concerned, and therefore bears no direct relationship to the amount collected by those authorities.

2. Rateable Subjects and Values 2008/09

Commercial Subjects	Number	Rateable Value £'000
Shops	1,373	32,597
Public Houses	120	2,928
Offices (Including Banks)	654	9,072
Hotels, Boarding Houses, etc	97	4,088
Industrial & Freight Transport subjects	854	17,528
Leisure, Entertainment, Caravans and Holiday sites	493	5,425
Garages and petrol stations	99	1,278
Cultural	29	341
Sporting subjects	145	447
Education and Training	78	6,631
Public Service Subjects	202	4,573
Communications (non-formula)	5	119
Quarries, Mines, etc	9	356
Petrochemical	4	45
Religious	94	844
Health Medical	89	3,351
Other	172	871
Care Facilities	52	1,723
Advertising	45	65
Undertaking	29	3,106
Total all subjects	4,643	95,388

Rate levied 2008/09:

46.20p (rateable value greater than £29,000)

45.80p (rateable value less than or equal to £29,000)

Community Charge - Years prior to 31 March 1993

2007/08 £'000		2008/09 £'000
7	Arrears written off now recovered	5

Common Good

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.

Common Good Income and Expenditure Account

Total 2007/08 £'000		Ayr £'000	Troon £'000	Prestwick £'000	Maybole £'000	Girvan £'000	Total 2008/09 £'000
	Expenditure						
483	Property costs	281	0	24	0	0	305
260	Donations & contributions	127	0	0	0	0	127
62	Other expenditure	55	0	1	0	0	56
805		463	0	25	0	0	488
	Income		***************************************				
514	Rents	604	0	17	0	0	621
235	Interest on loans	147	2	35	0	0	184
16	Other Income	8	0	0	1	0	9
765		759	2	52	1	0	814
(40)	Surplus/(deficit) for year	296	2	27	1	0	326
732	Surplus brought forward	319	31	338	1	3	692
692	Accumulated surplus	615	33	365	2	3	1,018

Balance Sheet as at 31 March 2009

2008 £'000		2009 £'000
13,763	Fixed assets	13,138
	Current assets	
0	Loans	0
2	Stock	2
3	Debtors and Prepayments	0
3,429	Loans Fund investment	3,410
3,434	2000	3,412
17,197	Total assets	16,550
	Less: Current liabilities	
26	Creditors	1
17,171	Total assets less liabilities	16,549
	Financed by:	
692	Revenue Reserve	1,018
2,924	Usable Capital Receipts Reserve	2,600
13,555	Revaluation Reserve	12,931
17,171	Total net worth	16,549

Notes to the Common Good Account

1. Valuation of Fixed Assets

Property valuations were carried out by RICS professional staff within the Council's Department of Development, Safety and Regulation and are at valuation dates between 2004/05 and 2008/09 dependant on the category of asset.

2. Movement in Fixed Assets

	Gross Book Value at 1 April 2008 £'000	Revaluations/ Impairments £'000	Disposals £'000	Gross Book Value at 31 March 2009 £'000
Land	2000	2000	- 2000	2000
Ayr	3,135	(403)	0	2,732
Prestwick	443	(86)	(10)	347
Total Land	3,578	(489)	(10)	3,079
Buildings				
Ауг	9,784	(123)	0	9,661
Prestwick	335	(3)	0	332
Total Buildings	10,119	(126)	0	9,993
Community Assets				
Ayr	66	0	0	66
Total Community Assets	66	0	0	66
Total Common Good Assets	13,763	(615)	(10)	13,138

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

3. Usable Capital Receipts Reserve

This reserve represents the proceeds of disposals of Common Good assets.

4. Revaluation Reserve

This represents the difference between the costs of fixed assets and the valuations adjusted for disposals.

Trust Funds

The Council currently administers 101 trust funds from local benefactors from which payments are made for specified purposes. It is proposed to amalgamate 99 of these trusts into three trusts to ensure they can be used effectively and beneficially for the residents of South Ayrshire.

Of the 101 trusts held, eleven are registered with the Office of the Scottish Charity Regulator (OSCR) and have charitable status. These charitable Trusts are separately identified in the table below:

2007/08 Total £'000	Revenue accounts	Registered Charitable Trusts £'000	Other Trusts £'000	2008/09 Total £'000
1,546	Balance at 1 April 2007	848	672	1,520
80	Income for year	53	33	86
(106)	Expenditure during year	(23)	(27)	(50)
1,520	Balance at 31 March 2009	878	678	1,556

2008 Total £'000	Balance Sheet as at 31 March	Registered Charitable Trusts £'000	Other Trusts £'000	2009 Total £'000
	Assets			
190	Investments	139	51	190
1,330	Current assets – temporary deposit in Loans Fund	739	627	1,366
1,520	Total assets	878	678	1,556
	Reserves			
1,094	Revenue	598	532	1,130
426	Capital	280	146	426
1,520	Total reserves	878	678	1,556

Other Funds

The Council maintains additional funds in respect of the Sports Council and the Provost's Fund as shown in the table below:

2008 £'000		2009 £'000
	Assets	
259	Balance due by Loans Fund	8
3	Investments	3
262	Total assets	11
	Reserves	
262	Revenue	11
262	Total reserves	11

The Development of Active Regional Tourism (DART) project has now concluded and funds held in that respect were transferred during the year to the Council's Balance Sheet.

Group Accounts

Introduction

The 2008 SORP 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 Police, Fire and Valuation Boards. 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 one subsidiary and five associate entities. Further details of each entity are detailed in the notes to the Group Accounts on pages 53 to 55. The subsidiary and associate entities share a common accounting period ending 31 March 2009.

The subsidiary incorporated is The Common Good Fund.

The Council controls 100% of the fund, which is overseen by elected members through the appropriate Council committee/ panel.

The associate entities incorporated are:

- Strathclyde Police Joint Board
- The Board of Strathclyde Fire & Rescue
- Strathclyde Partnership for Transport
- Strathclyde Concessionary Travel Scheme Joint Board, and
- Ayrshire Valuation Joint Board.

Each of these five associate entities is an independent joint board 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. South Ayrshire Council has two appointed members on each of the Strathclyde Police, Fire, and Transport Authority Joint Boards. The Council has one member representing its interests on the Concessionary Travel Scheme Joint Board and five members on the Ayrshire Valuation Joint Board.

Nature of Combination

The Council inherited its 100% interest in the subsidiary company from Kyle & Carrick District Council following the re-organisation of local government in 1996. The subsidiary has 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.

Financial Impact of Consolidation

For two of the six entities, the Council has a share in a net liability. The net liabilities of Police and Fire arise from the inclusion of liabilities related to the defined benefit pension scheme as required by FRS17.

The inclusion of the subsidiary and associate entities in the group Balance Sheet reduces both the reserves and net assets by £129.290m, representing the Council's share of the net assets or liabilities of the entities.

Group Income and Expenditure Account Year ended 31 March 2009

2007/08 net expenditure £'000	Service	2008/09 gross expenditure £'000	2008/09 gross income £'000	2008/09 net expenditure £'000
92,867	Education Services	117,192	4,878	112,314
1,381	Housing Revenue Account	24,292	22,783	1,509
1,929	General Fund Housing	34,859	31,546	3,313
52,608	Social Work Services	85,028	17,121	67,907
11,496	Culture and Related Services	21,416	8,940	12,476
11,184	Environmental Services	17,909	4,573	13,336
11,011	Roads and Transport Services	18,646	7,440	11,206
2,032	Planning and Development Services	6,374	3,110	3,264
3,572	Corporate and Democratic Core	3,077	166	2,911
4,645	Non Distributed Costs	3,571	484	3,087
3,433	Other Central Services to the Public	23,508	19,241	4,267
2,880	Exceptional item - equal pay compensation/Vat recovery	2,847	2,357	490
17,851	Precepts and levies	18,099	0	18,099
521	Common Good fund	444	223	221
1,872	Share of operating results of associates	247	2,564	(2,317)
219,282	Net Cost of Services	377,509	125,426	252,083
(969)	(Profit) or loss on disposal of assets			(426)
(164)	Trading Services			(824)
9,767	Interest payable and similar charges			9,646
590	Share of interest payable of associates			552
(2,014)	Interest and investment Income		333	(2,410)
(453)	Share of interest and investment income of associates			(353)
(4,400)	Pension interest cost and expected return on pension assets	150		(757)
9,431	Share of pension interest cost and expected return on pension assets of associates			10,729
231,070	Net Operating Expenditure			268,240
120,939	Revenue Support Grant			147,832
40,802	Non Domestic Rates redistribution			42,836
52,791	Council Tax and Community Charge income			52,682
214,532	Total income from government grants and local taxation			243,350
16,538	Group Income and Expenditure (surplus)/ deficit for year			24,890

Reconciliation of the Single Entity Surplus/ Deficit to the Group Surplus/ Deficit

2007/08 £'000		2008/09 £'000
5,018	(Surplus)/ deficit for the year on the Council's Income and Expenditure Account	16,591
28/19	Surplus/ deficit in the Group Income and expenditure account attributable to group entities (adjusted for intra-group transactions):	
40	Subsidiaries	(326
11,480	Associates	8,625
16,538	(Surplus)/ deficit for the year on the Group Income and Expenditure Account	24,890

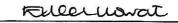
Statement of Total Recognised Gains and Losses

2007/08 £'000		2008/09 £'000
16,538	(Surplus)/ deficit for the year on the Group Income and Expenditure Account	24,890
(6,883)	(Surplus) or deficit arising on revaluation of fixed assets	(2,071)
0	(Surplus) or deficit on the revaluation of available for sale financial assets	(523)
(77,059)	Actuarial (gains) or losses on pension fund assets and liabilities	40,103
15,167	Any other (gains) or losses	1,369
(52,237)	Total recognised (gains) or losses for the year	63,768

Group Balance Sheet as at 31 March 2009

31 March 2008 £'000			31 March 2009 £'000
	Fixed assets		
426	Intangible fixed assets	227	
	Tangible fixed assets:	*-	
	Operational assets:		
191,068	Council dwellings	191,618	
239,004	Other land and buildings	218,737	
2,757	Vehicles, plant etc	4,263	
40,965	Infrastructure assets	42,749	
1,011	Community assets	1,017	
	Non-operational assets:		
17,758	Investment properties	15,092	
392	Assets under construction	439	
1,850	Surplus assets held for disposal	8,261	
495,231	Total fixed assets		482,403
41	Long term investments		564
184	Long term debtors		2,789
13,352	Share of investment in associates		15,942
1,959	Asset related to defined benefit pension scheme		. (
510,767	Total long-term assets		501,698
	Current assets:		
510	Stocks and work in progress	503	220
44,176	Debtors	45,654	
(24,638)	Provision for bad and doubtful debts	(26,294)	(A)
46,200	Short term investments	47,851	67,714
577,015	Total assets		569,412
	Current liabilities:		
(333)	Borrowing repayable on demand or within 12 months	(169)	500 5410
(33,235)	Creditors	(36,890)	
(3,210)	Bank overdraft	(4,000)	
(1,589)	Due to sundry accounts	(1,375)	(42,434
538,648	Total assets less current liabilities		526,978
14	Long term liabilities		•
(187,708)	Borrowing repayable within a period in excess of 12 months		(187,509
(5,821)	Provision for liabilities		(7,637
(13,846)	Government grant deferred		(20,089
(156,911)	Liability related to defined benefit pension scheme		(201,149
174,362	Total assets less liabilities		110,59
	Financed by:		
21,830	Revaluation reserve		26,79
287,176	Capital adjustment account		263,53
(16,022)	Financial instruments adjustment account		(16,807
0	Available–for-sale financial instruments reserve		523
5,566	Capital receipts reserve		3,70
(154,952)	Pension reserves		(201,149
4,069	Group reserves		3,990
130	Repair & renewal fund		13
425	Insurance fund		42
3,706	Capital fund		1,46
2,743	General fund balance		7.45
19,691	Housing Revenue Account balance		20,520
174,362	Total net worth		110,594

The unaudited accounts were issued on 29 June 2009 and the audited accounts were authorised for issue on 24 September 2009.



Group Cash Flow Statement

2007/08 £'000			2008/09 £'000
(9,143)	Net cash outflow/ (inflow) from revenue activities		(14,683)
	Returns on investments and servicing of finance		
10,595	Interest paid	10,534	
(2,212)	Interest received	(3,066)	- 100
8,383	Net cash outflow/ (inflow) from returns on investments and servicing of finance		7,468
= oc . <u>s</u>	Capital expenditure and financial investment		
	Cash outflows:	-	
13,273	Purchase of fixed assets	25,349	- N. W. W. W.
3,056	Other capital cash payments	550	
16,329		25,899	
	Cash inflows:		
5,357	Sale of fixed assets	4,618	
10,378	Capital cash receipts	8,441	
1,991	Capital grants	7,229	3000 3000 A
17,726		20,288	
(1,397)	Net cash outflow/ (inflow) from capital activities		5,611
(2,157)	Net cash outflow/ (inflow) before financing		(1,604)
	Management of liquid resources		
5,334	(Decrease)/ increase in investments	1,826	
5,334			1,826
	Financing		£:
2.22	Cash outflows		
140	Repayments of amounts borrowed	1,042	
		1,042	
	Cash inflows	4000	
(4,593)	New loans raised	(679)	
		(679)	
(4,453)	Net cash outflow/ (inflow) from financing		363
(1,276)	(Increase)/ decrease in cash		585

Notes to Group Accounts

The notes required for the accounts of South Ayrshire Council as the holding company are disclosed separately within the financial statements on pages 16 to 39. The following notes provide additional information in relation to other combining entries.

1. Accounting Policies

The financial statements in the Group Accounts are prepared in accordance with the policies set out in the Statement of Accounting Policies on pages 7 to 11.

Prior Year Adjustments

As a result of the introduction of the Statement of Recommended Practice (SORP 2006), for accounting periods ending on or after 31 March 2007 all group entities financial statements are now fully UK GAAP compliant. No adjusting entries are therefore required to align South Ayrshire Council's accounts, in terms of UK GAAP requirements, with those of the other group entities in 2008/09.

There were six prior year adjustments required to various single entity accounts as detailed below:

- South Ayrshire Council voluntary adoption of changes required by 2009 SORP in relation to accrued interest;
- Strathclyde Police Joint Board amendments to police retirement benefits in respect of commutations;
- Strathclyde Police Joint Board revision of South Ayrshire Council's percentage contribution from 4.20% in 2007/08 to 3.95% in 2008/09;
- Strathclyde Partnership for Transport revision of South Ayrshire Council's percentage contribution from 4.98% in 2007/08 to 4.84% in 2008/09;
- Ayrshire Valuation Joint Board changes in accounting policy in relation to carrying forward a surplus or deficit on the general fund; and
- Ayrshire Valuation Joint Board revision of South Ayrshire Council's percentage contribution from 32.98% in 2007/08 to 33.35% in 2008/09.

Further detail on the South Ayrshire Council adjustments can be found in note 1 on page 16, Notes to the Core Statements. All of the above adjustments have been fully incorporated in to the prior year comparators contained in the Group statements on pages 49 to 52.

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.

2. Details of Combining Entities

In addition to the information included in the consolidated Group Accounts on pages 49 to 52, 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 5 distinct subfunds, Ayr, Prestwick, Troon, Maybole and Girvan. The Council controls 100% of the fund and administers it for the interest and benefit of the people in the aforementioned areas. All expenditure is met from annual income or reserves. All required disclosures are detailed on pages 45 to 46 of these accounts.

Strathclyde Police Joint Board is the statutory body established under the Strathclyde Combined Police Area Amalgamation Scheme Order 1995 and provides a range of policing on behalf of the 12 local authorities in the West of Scotland. In 2008/09, South Ayrshire Council contributed £10.154m or 3.95% of the Board's estimated revenue running costs and contributed a further £0.420m in terms of a capital contribution. Its share of the year-end net liability of £117.340m (2007/08 £114.082m) is included in the Group Balance Sheet. Copies of Strathclyde Police Service's accounts may be obtained from the Treasurer to Strathclyde Police Joint Board, Glasgow City Chambers, Glasgow G2 1DU.

The Board of Strathclyde Joint Police Board has elected to accept a qualification on its audit certificate. The financial statements do not reflect the retrospective charges of all FRS17 pension costs for police officers that accrued from April 2006. The effect of these charges is £11.2m and is considered by its external auditor to be a material amount.

The police service nationally implemented a new pension scheme from April 2006. The Local Government Pension Reserve Fund (Scotland) provides the statutory basis for local authorities and Police Boards to charge to a pension reserve the difference between retirement benefit costs as calculated under FRS 17 and the actual employer's pension contributions paid by the councils and boards. There is currently no legislation that permits this in respect of the New Police Pension Scheme which commenced from 6 April 2006.

This is a national problem affecting all Police and Fire authorities across the UK and clearly was not intended when the new pension schemes were devised. The UK Government and devolved administrations have undertaken to make the necessary changes to regulations to ensure that this issue is resolved for next year's financial statements.

Accordingly, the information for Strathclyde Joint Police Board (that is included as an associate within the group accounts of South Ayrshire Council) does not include the costs of the FRS17 pension costs under the New Police Pension Scheme. South Ayrshire Council's share of these charges is approximately £0.442m (3.95%).

The Board of Strathclyde Fire & Rescue is the statutory body responsible for overseeing the activities of Strathclyde Fire & Rescue, which provides emergency cover on behalf of the 12 local authorities in the West of Scotland. In 2008/09, South Ayrshire Council contributed £7.208m or 4.80% of the Board's estimated running costs. Its share of the year-end net liability of £32.607m (2007/08 £33.716m) is included in the Group Balance Sheet. Copies of Strathclyde Fire Service's accounts may be obtained from the Treasurer to the Board of Strathclyde Fire & Rescue, Bothwell Road, Hamilton ML03 OEA.

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 2008/09, South Ayrshire Council contributed £1.806m or 4.84% of the Board's estimated running costs. Its share of the year-end net asset of £3.334m (2007/08 £2.999m) is included in the Group Balance Sheet. Copies of Strathclyde Partnership for Transport accounts may be obtained from the Treasurer to Strathclyde Partnership for Transport, Consort House, 12 West George Street, Glasgow G2 1HN.

Strathclyde Concessionary Travel Scheme Joint Board comprises the twelve local authorities in the West of Scotland and oversees the operation of the concessionary fares scheme for public transport within its area. The costs of the scheme are met by the twelve local authorities and by a grant from the Scottish Executive. The Strathclyde Passenger Transport Executive administers the scheme on behalf of the Board. In 2008/09, South Ayrshire Council contributed £0.157m or 6.21% of the Board's estimated running costs. Its share of the year-end net asset of £0.410m (2007/08 £0.575m) is included in the Group Balance Sheet. Copies of Strathclyde Concessionary Travel Scheme's accounts may be obtained from the Treasurer to Strathclyde Concessionary Travel Scheme, Consort House, 12 West George Street, Glasgow G2 1HN.

Ayrshire Valuation Joint Board was established in 1996 at local government re-organisation by Act of Parliament. The Boards 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 2008/09, South Ayrshire Council contributed £0.737m or 33.35% of the Board's estimated running costs. Its share of the year-end net assets of £0.364m (2007/08 £0.665m) 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.

The following additional disclosures are required under accounting regulations for the Ayrshire Valuation Joint Board due to the Council's share of the net assets exceeding 25%.

2007/08 £'000	Council's Share (33.35%) of AVJB	2008/09 £'000
763	Gross income	745
(34)	Net operating expenditure (surplus)/deficit	15
178	Fixed assets	172
99	Current assets	86
(39)	Liabilities due within one year	(67)
(427)	Liabilities due after one year	(173)
(665)	Capital and reserves	(364)

3. Financial Impact of Combination

The effect of the inclusion of the above bodies on the group Balance Sheet is to reduce both the reserves and net assets by £129.290m, representing the Council's share of the net liabilities of the entities.

4. Group Cash Flow Statement

The incorporation of the Common Good Fund as a subsidiary within the group cash flow statement increases the net cash inflow position by £0.327m and increases the net fund position for the year by £0.326m. The incorporation of the associate companies has no effect on the Group Cash Flow statement. A reconciliation of the surplus for the year of £5.865m to the net cash inflow from revenue activities of £14.683m is as follows:

2007/08 £'000			2008/09 £'000
(3,250)	(Increase)/ decrease in South Ayrshire Council General Fund balance for year	(4,710)	
(1,956)	(Increase)/ decrease in HRA balance for year	(829)	
40	(Increase)/ decrease in Common Good Fund balance for year	(326)	
(5,166)			(5,865)
3,521	Movement in current assets	3,165	
(3,424)	Movement in current liabilities	(5,238)	
8,377	Movement in fund balances	1,834	C-111
(12,451)	Adjustment for non-cash transactions	(8,579)	
(3,977)			(8,818)
(9,143)	Net Cash outflow/ (inflow) from revenue activities		(14,683)

Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The Council is required:

- to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has responsibility for the administration of those affairs. In South Ayrshire Council the designated officer is the Executive Director - Corporate Services; and
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

The Executive Director - Corporate Services Responsibilities

The Executive Director - Corporate Services is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/ LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the code of practice').

In preparing this Statement of Accounts, the Executive Director - Corporate Services has:

- selected suitable accounting policies and then applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the Code of Practice.

The Executive Director - Corporate Services has also:

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

Statement on the System of Internal Financial Control

This statement applies to the 2008/09 Statement of Accounts for South Ayrshire Council. The statement also covers the other bodies whose activities have been incorporated into the group accounts, as detailed on pages 48 to 55, where reliance has been placed on the individual bodies' Statements of Internal Financial Control and their Chief Internal Auditors' Annual Reports. We acknowledge our responsibility for ensuring that an effective system of internal financial control is maintained and operated in connection with the resources concerned.

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

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 Internal Audit function within South Ayrshire Council is responsible directly to the Chief Executive for the independent appraisal of the Council's internal systems of control. The Internal Audit section operates in accordance with the Chartered Institute of Public Finance and Accountancy's Code of Practice for Internal Audit in Local Government in United Kingdom. The section undertakes an annual programme of work approved by the Council and is based on a five-year strategic audit plan. The strategic audit plan is based on a formal risk assessment process and is revised as required to reflect evolving risks and changes within the Council.

All internal audit reports identifying system weaknesses and/or non-compliance with expected controls are brought to the attention of management and include appropriate recommendations and agreed action plans. It is management's responsibility to ensure that proper consideration is given to internal audit reports and that appropriate action is taken on all audit recommendations. An ongoing review process is in place to monitor the progress on the implementation of those issues and to assist managers in the performance of their duties and responsibilities in these areas. Significant matters (including non-compliance with audit recommendations) arising from internal audit work are reported directly to the Chief Executive and the Council.

The effectiveness of internal financial control is dependent on the actions of officers of South Ayrshire Council and on the work of Internal and External Audit. No system of control can ever give an absolute assurance that all transactions are properly processed, or that all errors have been prevented, and to that end the Council is continually seeking to improve the effectiveness of its system of internal financial control.

Rulerwort

Eileen Howat BSc, CPFA
Executive Director - Corporate Services
24 September 2009

South Ayrshire Council - Local Code of Corporate Governance

Compliance Statement for South Ayrshire Council for 2008/09

In December 2002, the Council's Policy and Resources Committee approved the adoption of a Local Code of Corporate Governance, which took effect from 1 April 2003.

This statement is the sixth full year assessment of compliance for the Council alone, and is based on appraisals made by each of its executive directors and corporate lead officers in relation to their specific responsibilities. The statement does not relate to any of the other bodies whose activities have been incorporated into our group accounts, as detailed on pages 48 to 55.

Background:

The Code is based on the CIPFA national model and aims to promote openness, inclusiveness, integrity, accountability and effective leadership, both within the Council and within the community that it serves. The Code sets out clear responsibilities against its 5 overall 'dimensions' of:

- Community Focus
- Service Delivery Arrangements
- · Structures and Processes
- Risk Management and Internal Control
- · Standards of Conduct

The South Ayrshire Code identifies 127 'criteria' that help support the achievement of the 36 'requirements' as identified by CIPFA. Responsibility for delivering each of these criteria rests either with executive directors, corporate lead officers, or both. Each is clear of their particular responsibilities through them being defined in an individual template for their directorate or corporate function. Each completes their template on an annual basis, to show what arrangements they have in place to deliver on each criteria, what evidence they can offer to support this assessment and what actions are proposed to address any areas of shortfall.

Assessment for 2008/09:

The exercise undertaken for this sixth assessment involved:

- (1) reviewing progress against the improvement actions identified at the end of 2007/08; and
- (2) re-appraising the directorate and corporate positions against the templates as at 31 March 2009

A summary of this assessment has been prepared for Members, which will be discussed at the Scrutiny and Governance Management Panel on 30 June 2009 and the full Council Meeting on 9 July 2009.

The overall position is that all 36 requirements were met, with only a degree of shortfall being identified in the detailed analysis of 17 of these requirements.

This position reflects the fact that during 2008/09, whilst areas were targeted for improvement, there remain a number of aspects that require to be dealt with. These will be addressed as part of the South Ayrshire Council Improvement Agenda, whereby the aspects that require improvement from both a Best Value and Corporate Governance perspective will be addressed as part of a prioritised three year improvement programme, that will be embedded within the Council's Directorate Plans.

Improvement Actions for 2009/10 to 2011/12:

As indicated above, the improvement programme over the next three years will be delivered through the South Ayrshire Council Improvement Agenda. Progress against this will be reviewed by the Corporate Management Team, the Leadership Panel and the Scrutiny and Governance Management Panel.

Also during 2009/10, the Council will be preparing to move to the Delivering Good Governance in Local Government Framework. To assist with this, the Scrutiny and Governance Management Panel will undertake three workshops to assess the Council's position, these being scheduled for 30 June, 29 September and 8 December 2009. The aim is to move to the new Framework from 1 April 2010.

Assurance for 2008/09:

Each of the executive directors and corporate lead officers has confirmed that their assessments of the Council's arrangements are correct as at the end of 2008/09.

We, on behalf of the Council, confirm that this statement represents an accurate overall picture of the Council's Corporate Governance arrangements.

We also confirm the Council's commitment to following through on its South Ayrshire Council Improvement Agenda for 2009/10 to 2011/12.

Signed: Day J. Andus.

Date: 24 September 2009

David Anderson, Chief Executive

Signed: Hugh K Houth

Date: 24 September 2009

Hugh Hunter, Leader of the Council

Independent Auditor's Report

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

I certify that I have audited the financial statements of South Ayrshire Council and its group for the year ended 31 March 2009 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Statement of Total Recognised Gains and Losses, Balance Sheet, Cash Flow Statement, the HRA Income and Expenditure Account, Statement of Movement on the HRA Balance, the Council Tax Income Account, the Non-Domestic Rate Income Account, Common Good and Sundry Accounts, the Group Accounts and the related notes and the Statement of Accounting Policies. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Executive Director, Corporate Services and auditor

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

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

I report my opinion as to whether the financial statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2008 SORP, of the financial position of the local authority and its group and its income and expenditure for the year, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

I also report to you if, in my opinion, the local government body has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the Statement on the System of Internal Financial Control and the Corporate Governance Compliance Statement reflect compliance with the SORP, and I report if, in my opinion, they do not. I am not required to consider whether these statements covers all risk and controls, or form an opinion on the effectiveness of the local government body's corporate governance procedures or its risk and control procedures.

I read the other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In my opinion the financial statements:

- give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2008 SORP, of the financial position of South Ayrshire Council and its group as at 31 March 2009 and its income and expenditure for the year then ended
- have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

Peter Tait CPFA

Assistant Director of Audit (Local Government)

Audit Scotland 7th Floor

Plaza Tower

East Kilbride

G74 1LW

24 September 2009



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