Annual Accounts 2015 - 16

South Ayrshire Council: Annual Accounts 2015-16

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Introduction by the Leader of South Ayrshire Council

Bill McIntosh, Leader, South Ayrshire Council

Welcome to South Ayrshire Council's Annual Accounts for the year ended 31 March 2016. These provide the public, stakeholders and interested parties with information about our administration, financial management, and performance in the financial year 2015-16.

This year, we're introducing a new-look report to make our information easier to read and more accessible while clearly telling the Council's story over the past year.

Highlights

Our aim is to make sure that every pound spent makes a difference for the people of South Ayrshire. In the past year I am proud to say that the Council has successfully delivered a lot under difficult circumstances, including:

- 450 jobs were saved and 447 jobs created thanks to business growth grants awarded to existing businesses.
- 94.3% of school leavers went to positive and sustained destinations, marking the fourth consecutive year of improvement.
- The South Ayrshire Health and Social Care Partnership was established on 1 April 2015 to deliver a full-range of services and six Locality Planning Groups have been established to support change and improvement at a local level.
- Completed 102 new build Council houses at Lochside in Ayr.
- Supported 213 business start-ups.
- Work began on the new £6 million community, sport and leisure centre 'The Quay Zone' in Girvan in January 2016.
- An additional £2 million was invested in South Ayrshire's roads network to help with additional maintenance.
- 50% of household waste was recycled, marking an increase from 44% in 2013 and above the national average of 43%.
- The Council's clear and effective leadership and positive improvement culture were recognised in the latest Best Value Report.

"Our aim is to make sure that every pound spent makes a difference for the people of South Ayrshire."

Plans for 2016-17

There's no doubt the next year will bring fresh challenges, and our success will depend on the way we respond for our communities. Our focus on the local economy, finding new opportunities for both the young and old, as well as in the wider community remains, while we'll also be working hard to change the way we deliver services to make sure we're constantly evolving. We will be well placed to continue to deliver quality services to high standards by integrating our services where possible, focusing on early intervention and prevention for key services and empowering communities to take more control of their lives.

Our programme for the coming year includes:

- Transforming the way the Council operates through an ongoing process of review which will include greater access to online services.
- Delivering an ambitious school building programme, which includes work at Marr College, Ayr Academy and Dailly and Tarbolton Primaries.
- Resurfacing more roads in the next 12 months as part of a £10 million five year programme.
- Building new affordable Council homes.
- Continuing to work with our partners to develop and implement integrated health and social care.
- Reviewing the use of our offices and premises to ensure we can continue to offer the best possible services in the most accessible and efficient way to residents, including a new office in Ayr.

A huge amount of work will be involved in making this happen and helping ensure we work with our partners and communities to make life better in South Ayrshire.

About South Ayrshire

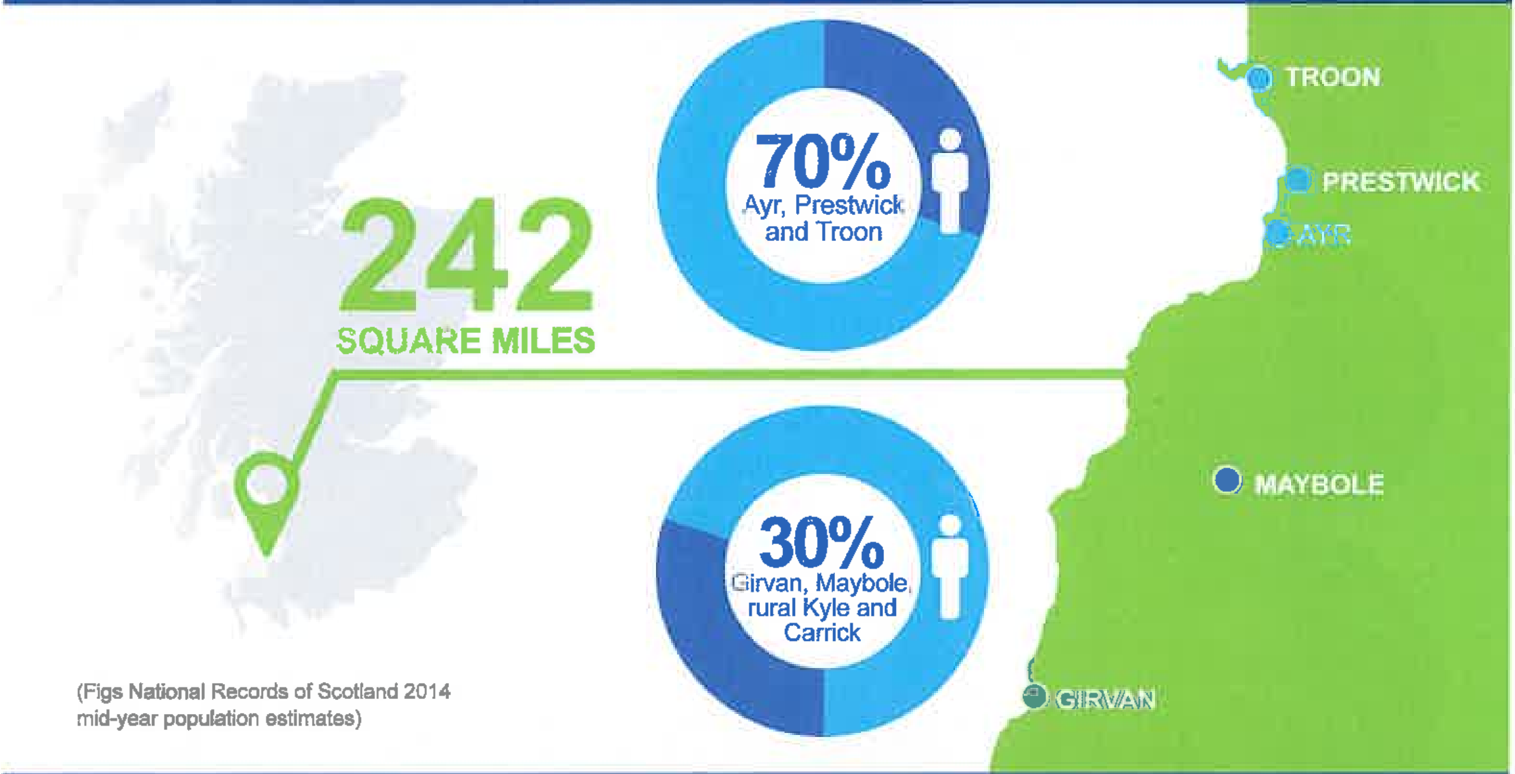
By 2037, the South Ayrshire population is projected to be 110,158, a decrease of 2% compared to the population in 2012. The population of Scotland as a whole is projected to increase by 9%. The projected change in South Ayrshire is not evenly spread across the different age groups. South Ayrshire's younger population (0-15 years) is projected to decrease by 7% and its working age population by 10%. The pensionable age population is, however, projected to increase by 17% by 2037. More dramatically, the number of people aged 75 and over is projected to increase by 79% to around 20,600 people. These anticipated changes to the population will have considerable consequences for the Council as it strives to ensure social, educational, housing and community services meet the needs of the community.

113,000 POPULATION

48% MALE **52%** FEMALE

26% over 65 (National average 20%)

17% under 16 (National average 18%)



(Figs National Records of Scotland 2014 mid-year population estimates)

About The Council

Elected Members

CONSERVATIVE 10
LABOUR 9
SNP 9
INDEPENDENT 2

Staff

4,362 full-time equivalent
(at 31 December 2015)

Directorates and Shared Services

Chief Executive's Office
The Chief Executive is responsible for the efficient and effective management of the Council. The Chief Executive's Office includes business improvement, internal audit, performance, policy and public affairs.

Chief Executive, Eileen Howat

Economy, Neighbourhood and Environment (ENE)
ENE is responsible for a wide-range of services including: building standards, burials and cremations, business support and enterprise, catering, cleaning, community planning, environmental health, events, facilities management, golf courses, housing and homeless services, libraries, museums and galleries, planning, property maintenance, recycling, sport and leisure, street cleaning, tourism support, waste collections, trading standards and youth & adult services, audit, performance, policy and public affairs.

Executive Director, Lesley Bloomer

Educational Services
Educational Services is responsible for school education for young people aged 5 to 18 as well as early years and childcare. The service also has responsibility for additional support needs, educational psychology, the instrumental music service, the Active Schools team and outdoor learning.

Director of Educational Services, Douglas Hutchison

Health and Social Care
The aim of integrated health and social care services, delivered through the South Ayrshire Health & Social Care Partnership reporting to an Integration Joint Board (IJB), is to ensure improved health and wellbeing for people across South Ayrshire. The IJB has a delegated social care budget from the Council of £66.16 million and a further £5.85 million from the Scottish Government for 2016-17.

Director of Health and Social Care, Tim Eltringham

Resources, Governance and Organisation (RGO)
RGO is responsible for the internal support functions of the Council, including: Finance & ICT, Human Resources, Legal & Democratic Services and managing the Council's assets and properties. It also includes frontline services such as registration of births, deaths and marriages, housing benefit administration and council tax collection and administration, licensing services and the Council's five Customer Service Centres and Customer Contact Centre.

Executive Director, Valerie Andrews

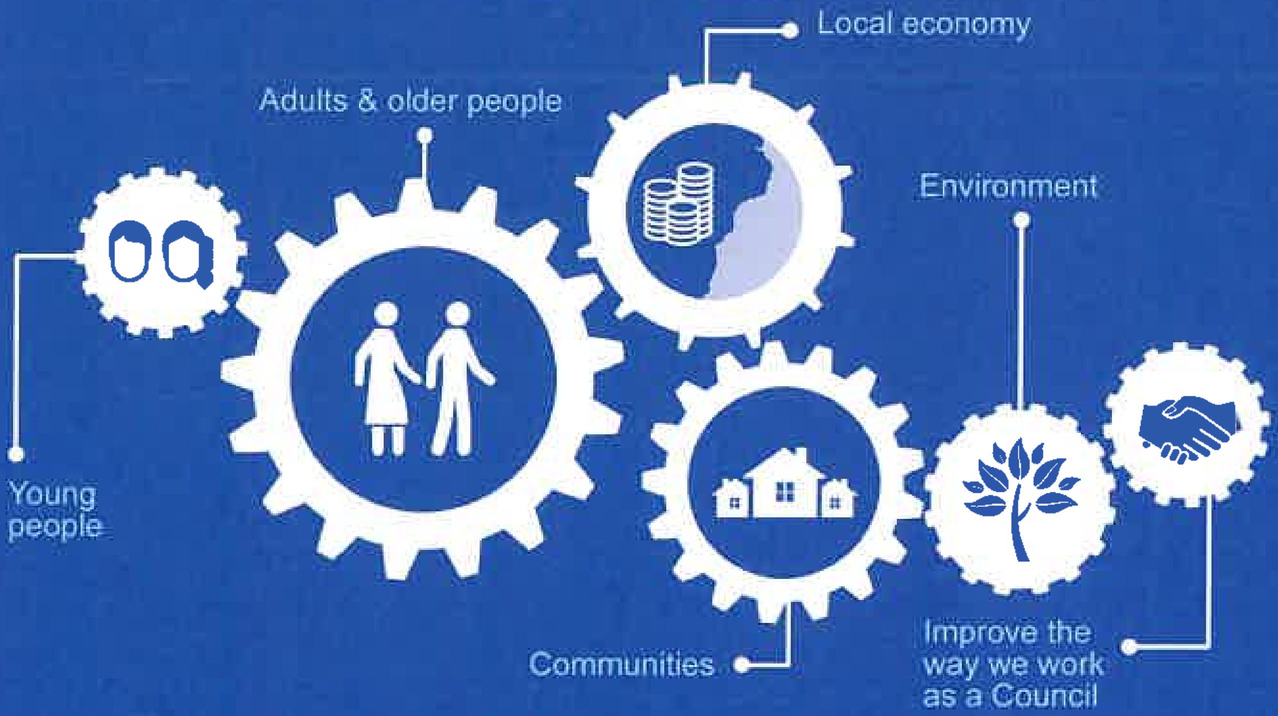
Ayrshire Roads Alliance
Scotland's most innovative public sector partnership, the Ayrshire Roads Alliance, delivers shared council roads and transportation services to communities across South and East Ayrshire. The Ayrshire Roads Alliance is responsible for: maintenance of public roads; bridges; footways and footpaths; street lighting; traffic calming and road safety; roads and structural design; parking enforcement and mobility; bus infrastructure, interchange facilities and winter maintenance.

Strategic Direction

'Working with our partners and communities to make life better in South Ayrshire.'

The Council has pledged to continue to deliver thriving public services by working closely with partners and local communities. The two year Council Plan for 2016-18 highlights priority areas and six strategic objectives:

Working in partnership to maximise the potential of our...



There is a clear relationship between these strategic objectives and the outcomes we want to achieve through the South Ayrshire Community Planning Partnership's Single Outcome Agreement and the Council's current plans and strategies. Details can be found at **www.south-ayrshire.gov.uk.**

We know that to maximise the impact we can make towards these strategic objectives, we need to continually review how we operate as both a Council and as a Partnership, so we can be as effective as possible and deliver best value.

We have therefore identified a number of themed approaches that will be reflected in the way that we work:

- **Integration:** working with partners to provide services that are effective, flexible and affordable.
- **Early intervention and prevention:** making sure we make a difference at the earliest opportunity to help reduce future demand on services.
- **Empowerment:** empowering communities to work with us to design and deliver locally-tailored solutions that will help ease future demands for services and lead to positive outcomes for individuals and families.
- **Redesigning and transforming service delivery:** improving the quality and efficiency of services by eliminating duplication, simplifying processes, making the best possible use of available technology, getting the most out of our assets and developing our workforce.

Each objective is accompanied by a set of key actions and outcomes and these are monitored through Service and Improvement Plans (SIPs) for each service area. These are developed and updated annually using self-evaluation (How Good is our Council) and the Council's Performance Management Framework. The SIPs feed into the overall Council Plan that was updated and approved on 12 May 2016. Details can be found at **www.south-ayrshire.gov.uk.**

Performance Management and Reporting

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

Latest progress against the refreshed 2016-2018 Service and Improvement Plans can be found at **http://www.south-ayrshire.gov.uk/council-plans/.**

Medium Term Financial Strategy

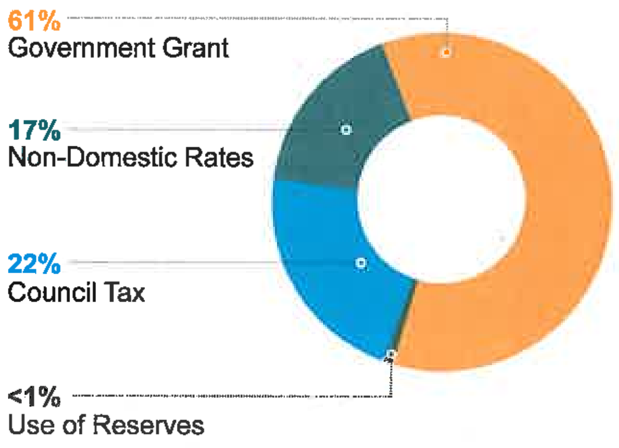
Every council in Scotland operates in a challenging economic climate and is faced with significant financial challenges due to the decreasing budgets and increasing demand for services. In recognition of this, the Council has a five year medium term Financial Strategy covering the period 2015-16 to 2019-20. This strategy provides a practical foundation to deliver the best possible value for money in the delivery of Council services in the longer term.

The value of a strategy like this is that it allows us to develop a better understanding of the wider policy and financial environment within which we operate, identify and respond flexibly to changing contributing factors, manage and mitigate risk, and ensure financial resources are directed towards achieving the Council's strategic objectives.

Annual Budget and setting of Council Tax

The Council's funding comes from Scottish Government grant funding, Non-Domestic Rates and Council Tax

Council Funding Sources 2015-16



Our original budget for 2015-16 was £252.3 million

Net Planned Service Expenditure 2015-16
(net of fees and charges)

The Council agreed the budget for 2015-2016 on 18 December 2014 with a further update agreed in March 2015. The budget was based on the Council Tax for band D remaining at £1,153 for the eighth consecutive year. The Council approved a revenue budget of £252.3 million – including spend on Health and Social Care – and a capital budget of £32.6 million for 2015-16, taking overall capital investment to £144.8 million in the next five years.

As part of the 2016-17 budget process, the Council sought community views – for the first time – on the impact of potential savings totalling £1.6 million to help gain a fuller understanding of local priorities. Feedback from that exercise was considered by elected members before any decisions were taken regarding these specific proposals. The Council approved its 2016-17 revenue budget of £187.1 million – excluding spend on Health and Social Care – and a capital budget of £49.8 million for 2016-17 on 3 March 2016, taking overall capital investment to £152.5 million in the next five years.

To balance the budget for 2016-17, elected members agreed total savings of £9.4 million.

Financial Performance 2015-16

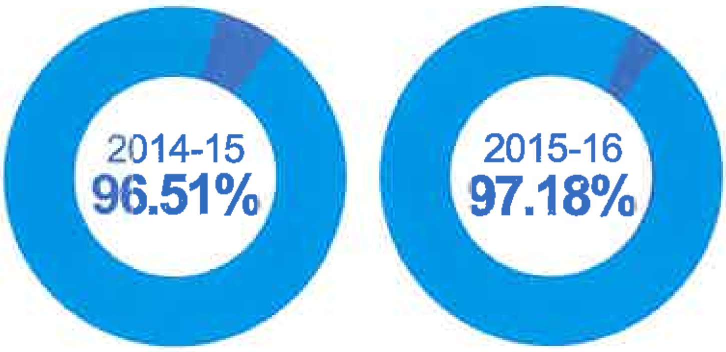
General Fund Revenue

The financial performance of the Council's General Fund for 2015-16 is contained within the Movement in Reserves Statement on page 28 which shows an increase on the balance of £6.726m, primarily due to underspends within service directorates and the return of employee related provisions to the revenue account from the balance sheet following a review of the amount required to meet estimated future liabilities. The Statement shows how the surplus/(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, resulted in a surplus for the year of £6.726m. A summary of the actual expenditure against the approved budget is shown in the following table below.

	Budget £m	**Actual £m**	**Under/(over) spend £m**
Chief Executive's Strategic Office	0.746	0.576	0.170
Educational Services	147.114	144.565	2.549
Economy, Neighbourhood & Environment	64.196	63.452	0.744
Resources, Governance & Organisation	10.869	10.297	0.572
Social Care Services	74.371	73.788	0.583
Other Miscellaneous Services	8.472	7.433	1.039
Financing costs	13.119	12.463	0.656
Year end accounting adjustments	(65.514)	(66.354)	0.840
Net Service Expenditure	**253.373**	**246.220**	**7.153**
General revenue grant	(163.697)	(163.697)	-
Council tax	(45.993)	(46.566)	0.573
Non domestic rate income	(42.683)	(42.683)	-
Planned use of reserves	(1.000)	-	(1.000)
Total Funding	**(253.373)**	**(252.946)**	**(0.427)**
Revised General Fund (surplus)/deficit for the year	-	**(6.726)**	**6.726**

When the in-year surplus of £6.726m is added to the accumulated reserves of £25.151m brought forward from 2014-15, this results in an accumulated General Fund balance to be carried forward to 2016-17 of £31.877m.

Actual expenditure as a percentage of budget

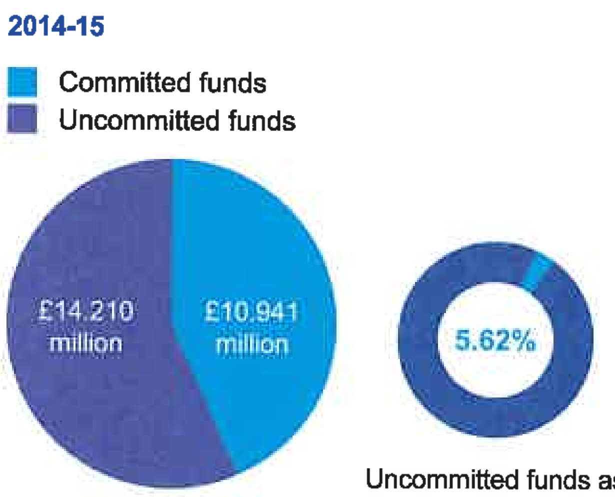


Further detail on service out-turns can be found in the annual accounts 2015-16 report submitted to the South Ayrshire Council meeting of 30 June 2016 using the following link: http://www.south-ayrshire.gov.uk/committees/agendas.aspx. In summary the most significant service expenditure variances are in relation to the following:

- The Chief Executive's Strategic Office underspend (£0.170m) was mainly as a result of savings within employee costs resulting from increased vacancy management and staff restructuring.
- The underspend within Educational Services (£2.549m) was due to a combination of factors, namely; underspends in energy costs which did not increase in line with budgeted expectations, partly due to a milder winter and reduced energy prices; delays in the implementation of nursery provision expansion plans where the facilities were not due to become operational yet and finally; the overachievement of the directorate's payroll management target when filling vacant posts.
- The underspend within Economy, Neighbourhood & Environment (£0.744m) was due to underspends across various services within the directorate. The most significant related to increased payroll management savings and increased income received from large building warrant fee applications. Within Housing and Facilities, the lower than anticipated uptake of free school meals (75%) compared to the 85% estimated also accounted for a significant proportion of the overall position.
- The underspend within Resources, Governance and Organisation (£0.572m) included employee costs which underspent due to increased staff turnover and continued staff restructuring that took place during the year and to underspends in Scottish Welfare and Discretionary Housing payments, both of which have been carried forward for continued use in 2016-2017.
- The underspend within Social Care Services (£0.583m) was due to a combination of factors, both over and under spends, the detail of which can be found within the year-end Financial Management Report presented to the Integrated Joint Board of 17 June 2016.
- The underspend within Miscellaneous/Financing costs (£1.695m) is primarily due to savings on debt management charges due to borrowing requirements linked to capital spend being below expectations in prior years and underspends in energy and insurance costs.

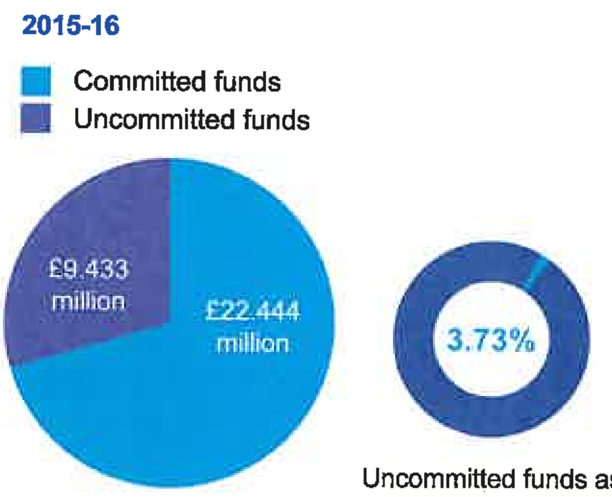
Accumulated General Fund Reserves

The Council holds General Fund balances to meet contingencies and for specific initiatives. Within the General Fund certain balances are earmarked to be held for specific purposes, for example efficiency and improvement or for workforce change purposes. The charts below show the £31.877m accumulated surplus to be carried forward to 2016-2017 compared to 2015-16 and also the amount that has been earmarked or committed to be used for specific purposes in 2016-2017 or future years.



Total £25.151 million

Uncommitted funds as a percentage of annual budgeted expenditure



Total £31.877 million

Uncommitted funds as a percentage of annual budgeted expenditure

The Council keeps its level of balances under review and aims to maintain a sum of between 2% and 4% of annual running costs to be held as a contingency in uncommitted funds, which is equivalent to between approximately £5.060m and £10.120m. Any balance in excess of this provides additional flexibility until used or earmarked by the Council.

Housing Revenue Account

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

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

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

For 2015-16, the HRA raised £30.7 million of income through rents and other income in order to meet its expenditure plans. The 2015-16 average weekly rent over a 52 week year was £68.61 an increase of £1.35 or 2% from the previous year, as agreed following consultation with tenants.

The Movement in Reserves Statement on page 28 shows a reduction on the HRA balance of £0.549m primarily due to a net draw from accumulated reserves to meet required contributions to housing capital projects.

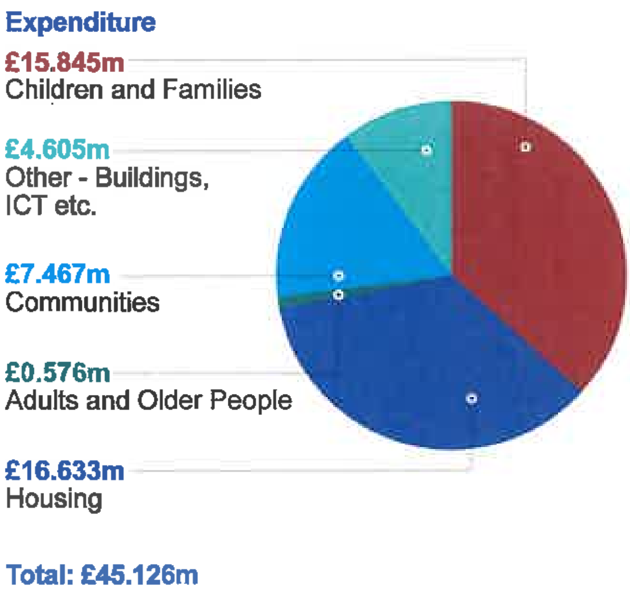
At the start of 2015-16 the HRA brought forward accumulated reserves of £10.461m which, following the in-year draw of £0.549m, has reduced to £9.912m. Of this accumulated amount, £4.550m has been earmarked for specific purposes leaving a balance of £5.362m, or 17% of planned expenditure, uncommitted. This uncommitted balance will be considered as part of the annual housing business plan update.

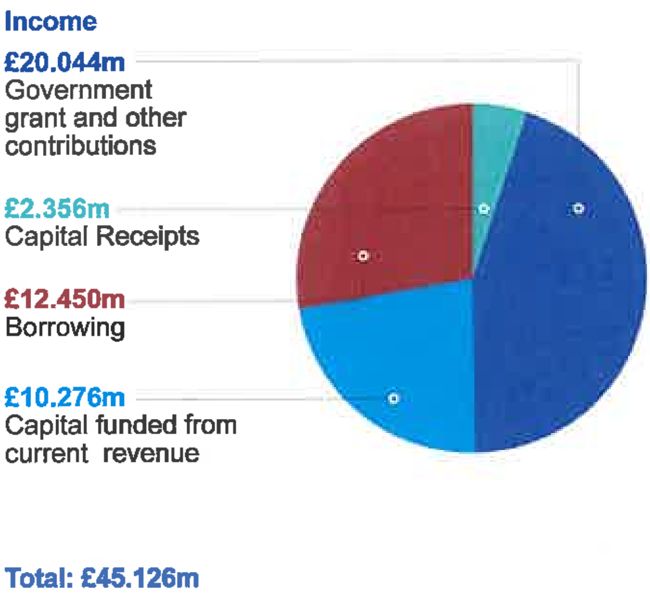
Council Tax Collections

The Council was expected to collect £45.993m in Council Tax (net of Council Tax adjustments) during 2015-2016. This equated to 18% of the overall funding required to meet net expenditure for the year. An in-year collection rate of 94.6% was achieved in 2015-2016, which was 1.1% higher than the targeted 93.5%.

Capital Expenditure and Income

The Prudential Code for Capital Finance in Local Authorities governs the level of capital expenditure taking into account affordability and sustainability. The Council continued to make significant capital investment in Schools, Roads, Leisure, ICT, Housing and other capital projects during 2015-16 and spent in total £45.126m during the year. The funding of this spend was financed through government grants and other contributions, capital receipts from the sale of assets, capital financed from current revenue sources and borrowing. The charts below show the breakdown of both spend and financing of the programme.

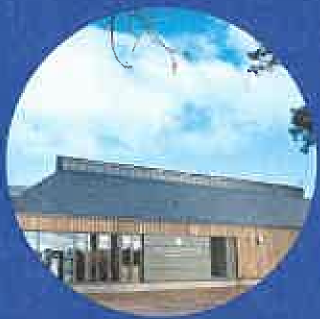




Major capital projects for 2015-2016

Lochside housing

58 new homes for South Ayrshire Council tenants have been created at Lochside in Ayr in the first phase of a 102 house development, with the remaining 44 completed in May 2016. The £6 million project is the Council's fifth new affordable housing development and is supported by Scottish Government funding. It comes as part of a £15 million investment in new affordable housing across South Ayrshire over the next two years where the Council will continue to work in partnership with the Scottish Government.



Belleisle Golf Clubhouse

Golfers from across the country are now enjoying first-class facilities at the now completed Belleisle Clubhouse in Ayr. Facilities include: modern changing accommodation, a new professional golf shop, new starter facilities, club rooms, lounge area, and a golf simulator room. The Belleisle and Seafield Golf Courses, designed by James Braid in 1927, are among the most popular golf courses in Scotland.

Marr College

Work on the £37 million modernisation and redevelopment programme at Marr College in Troon got underway in 2015 and is now well progressed. The project will see the iconic listed school building redeveloped and modernised internally. A new technical wing and sports block will also be built to significantly enhance facilities at the school, complementing the new recently opened all-weather sports pitches.

Borrowing

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

The current level of expenditure not yet repaid is the Capital Financing Requirement (CFR) of the Council, which at 31 March 2016 was £237.481m. This is in comparison to the net value of non-current assets owned which was £637.816m. In total the Council currently had external borrowing of £171.230m at 31 March 2016 which has reduced from £178.088m in 2014-15.

Balance Sheet

The Balance Sheet on page 31 summarises the Council's assets and liabilities at 31 March 2016. Total assets have decreased from £778.584m at 31 March 2015 to £721.100m. This is primarily due to a reduction in the value of education properties following a revaluation undertaken during the year combined with a reduction in cash and cash equivalents balances held at the end of the year. Total liabilities have decreased by £73.079m to £411.637m, of which the most significant reduction of £60.411m is due to pension fund liability movement.

Financial Statements

The financial statements for 2015-2016 are set out on pages 28 to 32 and incorporate financial and other information required by the Code of Practice on Local Authority Accounting in the United Kingdom (The Code). The Statement of Accounting Policies on pages 33 to 48 explains the basis for the recognition, measurement and disclosure of transactions and other events in the Annual Accounts, to ensure that they present a 'true and fair view' of the Council's financial performance. An explanation of each of the financial statements which follow, and their purpose, is shown at the top of each statement.

Additional Information

Provisions

The Council has provided for eventualities which may have a material effect on the financial position of the authority, primarily in relation to employee related pay claims. During 2015-16 a review of the employee related claims provision was undertaken and concluded that, based on all current known information, the overall amount held was in excess of the level required therefore £1.403m was returned to revenue thereby reducing the provision held in the balance sheet for employee related claims to £3.554m. Total provisions held in the balance sheet amount to £4.249m at 31 March 2016.

Pension fund

The Council requires to disclose its share of Strathclyde Pension Fund's assets and liabilities, both current and future. The disclosure information is provided to the Council by the Pension Fund actuaries following their annual valuation of the Fund. Formal valuations take place every three years, with the latest formal valuation applicable for 2015-16 having taken place on 31 March 2014. The Council's Balance Sheet shows a pension liability of £119.669m at 31 March 2016 compared to a pension liability of £180.080m at 31 March 2015. 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.

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, Belmont Academy and Prestwick Academy and three new primary schools, Alloway Primary, Barassie Primary and Monkton Primary, together with an annex to Kyle Academy. During 2015-2016, £10.501m was paid to the contractor in 'unitary charge' payments under the terms of the agreement.

Belmont Academy

Common Good

The Council administers the Common Good Fund which comprises five distinct sub-funds representing the former burghs of Ayr, Prestwick, Troon, Maybole and Girvan. Each sub-fund receives rental income annually to varying degrees depending on which properties it holds. This annual income is used for the maintenance and upkeep of properties within each former burgh area, such as the Town Hall and the Low Green in Ayr and Stumpy Tower in Girvan.

Further detail relating to the Common Good Fund is provided on pages 92 to 94.

Trust Funds

The Council administers a number of sundry trusts, some of which are registered charities. The 2015-2016 Code prescribes that, where a trust fund is a registered charity, it should follow the financial reporting requirements of the Office of the Scottish Charity Regulator (OSCR). In order to comply with The Code and OSCR requirements, the Council has opted to obtain independent verification of the financial statements of the registered charitable trusts by the Council's external auditors, Audit Scotland. During 2015-16 a restructure of 23 of the trusts; 16 charitable and 7 non charitable, has been agreed with The Scottish Charity Regulator, OSCR. This will take effect from the 1 April 2016. These trusts will be amalgamated into one Trust called "South Ayrshire Charitable Trust". Although this is one trust, the funds will be split into seven geographical areas and the funds for the specific areas will only be spent in those locations. The South Ayrshire Charitable Trust is set to improve the lives of people living in South Ayrshire who are in need as a result of poverty, age, ill-health, disability, financial hardship or other disadvantages. Funding is available to groups, organisations and individuals provided they can demonstrate to the satisfaction of the trustees that it will be used to help people in need.

Group Accounts

The Council has a material interest a number of other organisations and is therefore required to prepare Group Accounts. The Group Accounts on pages 98 to 105 consolidate the results of the Council with its share of the results of two subsidiaries, one joint venture and three associates. The inclusion of the subsidiary and associates in the Group Balance Sheet increases both the net assets and reserves by £29.535m, representing the Council's share of the net assets in these entities.

Highway and Network Assets (HNA's)

In common with other local authorities, HNA's such as carriageways, footpaths, traffic lights and street furniture are currently valued at Depreciated Historic Cost; cost written off in equal installments over the assessed useful life. This valuation method is not consistent with central governments' valuation method, that of Depreciated Replacement Cost (DRC); how much it would cost to replace the asset on a new for old basis, therefore from 2016-17 a revised valuation methodology, that of DRC, will be adopted by the Council. The most fundamental change resulting from this will be a significant increase in the value of transport infrastructure assets in the Annual Accounts. The expected increase in valuation does not impact on 2015-16 and when introduced there will be no direct effect upon reserves, council tax or the taxpayer as the impact will be absorbed by adjustments between the accounting basis and funding basis under regulations.

Financial Outlook and Key Risks

In March 2016 South Ayrshire Council agreed what was described as its 'most difficult budget' ever, with the programme including cuts to a number of non-essential services in order to balance the books following the financial settlement from the Scottish Government. This total amount of savings identified for 2016-17 (excluding Health and Social Care) came to £9.4 million – the highest amount of savings the Council has had to deliver in any one financial year. By taking the action early on, core services have been protected, providing the best deal possible to local people.

Our initial financial projections have indicated for 2017-18 an estimated budget gap in revenue terms of £5.4 million, not including the potential pressures likely to be experienced by the Council element of the Health and Social Care Partnership over the period. As new factors and new information becomes known this is likely to increase the budget gap further over the period. Managing this position to minimise the impact on services and respond to new and changing demands requires us to raise our ambitions and alter the approach we take.

At the same time, the Council faces on-going service and cost pressure arising from a range of issues, most significantly demographic and socio-economic factors which continue to play a major role in driving spending pressures within the Council, particularly in relation to social care services.

The UK Government's programme of welfare reforms also poses challenges for services and support. The Council, along with its key partners, remains committed to supporting residents prepare for and manage the impact of the changes for themselves, their families and communities.

The Council is currently in the second year of its five year financial strategy which was approved in December 2014. Early research suggested that further budget reductions of £23m would be required between 2016 and 2020. The approved five year financial strategy puts the Council in a position to forecast pressures and plan accordingly. It also provides greater flexibility in financial planning by establishing a robust framework for the role of reserves in supporting planned expenditure and also considering how these reserves will be replenished.

The economic and financial impact of the result of the European Union Referendum in June 2016 is unclear at this time and will be largely dependent on how the UK and Scottish Governments address emerging issues.

Service Changes and Future Developments

Health and Social Care Partnership

The South Ayrshire Health and Social Care Partnership and the South Ayrshire Integrated Joint Board were formally established on 1 April 2015 and now provide the operational and governance models for all health and social care services in South Ayrshire. Put simply, this brings services together in a way that will deliver coordinated care that is easy to access and is focused on the best outcome for the individual person. In practice, this means NHS and Council staff and those from the third and independent sectors working with service users, carers and community-based groups to plan and deliver care and support that is designed for the individual. In the first instance, the focus has been on establishing six Locality Planning Groups across South Ayrshire, which provide key input in the planning and delivery of local health and social care services.

Details of the localities, and their related neighbourhoods which were established after extensive consultation are available at **http://www.south-ayrshire.gov.uk/locality-planning/.**

Transformational change

The Council is currently undertaking a major transformation journey focused around service delivery, new ways of working and reviewing the use of all our offices and premises to ensure we can continue offering the best possible services in the most accessible and efficient way to all our residents. We're looking to identify different ways of delivering services with a major focus on maximising the use of technology and taking account of how people and communities engage with businesses and organisations. We're also making further improvements to our procurement processes to maximise our goal of becoming an efficient, modern and cost-effective organisation.

Conclusion

Faced with a reduced grant from the Scottish Government the Council has worked hard to balance its books while continuing to safeguard core services and jobs. The Council now places greater emphasis on risk assessment, while developing strategic partnerships and consulting with communities means the local authority is better placed to respond to needs in the current economic climate.

Our recent audit of Best Value recognised the improvements we've made over the last year and highlighted that we now have platforms to deliver service improvements that will lead to better outcomes for communities across South Ayrshire. It also stated that there is clear leadership by both officers and elected members, which is making a positive difference to how services demonstrate Best Value.

The Council's favourable financial position at 31 March 2016 reflects the collective efforts of elected members, service managers, directorate management teams and Corporate Finance staff in maintaining sound financial management processes during the year.

We would like to acknowledge the significant effort of all the staff across the Council who contributed to the preparation of the Annual Accounts and to the budget managers and support staff whose financial stewardship contributed to the financial position at 31 March 2016.

Eileen Howat	Councillor Bill McIntosh	Tim Baulk BA Acc CPFA
Chief Executive	Leader of the Council	Head of Finance and ICT
28 September 2016	28 September 2016	28 September 2016

Section 2: Statement of Responsibilities

This statement sets out the respective responsibilities of the Council and the Head of Finance and ICT, as the Council's Section 95 Officer, for the financial statements.

The Council's responsibilities

The Council is required to:

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

Councillor Bill McIntosh
Leader of the Council
28 September 2016

The Head of Finance and ICT's responsibilities

The Head of Finance and ICT, as s95 Officer, is responsible for the preparation of the Council's Annual Accounts in accordance with proper practices as required by legislation and as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (*The Code*).

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

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

The Head of Finance and ICT has also:

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

I certify that the financial statements give a "true and fair view" of the financial position of the Council at the reporting date and the transactions of South Ayrshire Council and its group for the year ended 31 March 2016.

Tim Baulk BA Acc CPFA
Head of Finance and ICT
28 September 2016

Section 3: Annual Governance Statement

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

Scope of Responsibility

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

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

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

The Council complies with the requirements of the CIPFA Statement on *"The Role of the Chief Financial Officer in Local Government 2010"*. The Council's Head of Finance & ICT (Section 95 Officer) has overall responsibility for the Council's financial arrangements, and is professionally qualified and suitably experienced to lead the Council's finance function and to direct finance staff.

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

Elected Members and officers of the Council are committed to the concept of sound governance and the effective delivery of Council services. The Audit and Governance Panel, which acts as the Council's Audit Committee, operates in accordance with CIPFA's *Audit Committee Principles in Local Authorities in Scotland* and *Audit Committees: Practical Guidance for Local Authorities.* During 2015-16 the Audit and Governance Panel was presided over by an externally appointed Chair.

The Audit and Governance Panel performs a scrutiny role in relation to the application of CIPFA's *Public Sector Internal Audit Standards 2013 (PSIAS)* and regularly monitors the performance of the Council's Internal Audit service. The Council's Chief Internal Auditor has responsibility to review independently and report to the Audit Committee annually, to provide assurance on the adequacy and effectiveness of conformance with the PSIAS.

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

The Purpose of the Governance Framework

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

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

The governance framework has been in place at South Ayrshire Council for the year ended 31 March 2016 and up to the date of approval of this statement of accounts.

The Governance Framework

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

Principle:	Aspects:	Lead Officers:
1. Direction	Plans; Performance; Review	Head of Policy & Performance
2. Roles	Structures; Delegation; Research	Heads of Legal & Democratic Services and Policy & Performance
3. Values	Values; Behaviour	Heads of Employee & Customer Services and Legal & Democratic Services
4. Decision Making	Reporting Decisions; Quality of Information; Risk Management	Heads of Legal & Democratic Services; Policy & Performance and Property & Risk
5. Skills	Competencies; Training; Development	Heads of Communities and Employee & Customer Services.
6. Accountability	Reporting; Consultation; Communication; Partner Relationships	Heads of Communities; Customer & Employee Services and Policy & Performance

Internal Financial Control

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

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

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

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

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

The system of financial control is reviewed to ensure continued effectiveness of the work of managers in the Council and of the work of Internal and External Audit in their annual report and other reports.

The Internal Audit function within South Ayrshire Council is responsible directly to the Chief Executive for the independent appraisal of the Council's internal systems of control. The Internal Audit section operates in accordance with the Public Sector Internal Audit Standards which came into force with effect from 1 April 2013. The section undertook an annual programme of work approved, for 2015-2016, by the Audit and Governance Panel. In addition in June 2016 the Audit and Governance Panel received an annual assurance statement from the Chief Internal Auditor which covered the 2015-16 financial year which stated "Performance Appraisal and Audit can provide reasonable assurance that adequate controls were in place and were operating throughout the Council in 2015-16".

All Internal Audit reports identifying system weaknesses and/or non-compliance with expected controls are brought to the attention of management and include appropriate recommendations and agreed action plans. It is management's responsibility to ensure that proper consideration is given to Internal Audit reports and that appropriate action is taken on audit recommendations. Internal Audit is required to ensure that appropriate arrangements are made to determine whether action has been taken on Internal Audit recommendations or that management has understood and assumed the risk of not taking action. Significant matters (including non-compliance with audit recommendations) arising from Internal Audit work are reported directly to the Chief Executive and the Council's Audit and Governance Panel.

During 2015-16 there were two investigations carried out by Internal Audit which resulted in 'red' reports being considered by the Audit and Governance Panel, both relating to contract commissioning. The reports highlighted instances of poor commissioning practices and internal controls and were detrimental to good governance. Management have reacted well to the audit reports and have given assurance that measures will be, or already have been, put in place to prevent recurrence of such issues.

Management have continued to react positively to all audit reports and have, in the main, implemented audit recommendations in order to enhance internal controls and to minimise the risks associated with audit findings.

Review of Effectiveness

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

Reflecting this, a year-end assessment against each of the 18 aspects within the Council's Framework has been undertaken and signed off by each of the lead Heads of Service. These assessments have been scrutinised by the Audit and Governance Management Panel on 9 June 2016. The minutes of this meeting were put before full Council on 30 June 2016.

2015-16 Assessments of each aspect in the Delivering Good Governance Framework					
1.1 Plans	△	1.2 Performance	▶	1.3 Review	▶
2.1 Structures	▶	2.2 Delegation	▶	2.3 Research	△
3.1 Values	△	3.2 Behaviour	△	4.1 Reporting of Decisions	△
4.2 Quality of Information	▶	4.3 Risk Management	▶	5.1 Competencies	▶
5.2 Training	▶	5.3 Development	△	6.1 Public Performance Reporting	△
6.2 Consultation Strategy	△	6.3 Internal Communications	▶	6.4 Relationships with Partners	▶

Key:

Effective	▶	Some Concerns	△	Major Concerns	●

These assessments continue to show that the Council has the main building blocks in place to deliver good governance, but we recognise that there is scope for improvement across a number of aspects.

2015-16 Governance Developments

Evaluative reporting was introduced against the Council's strategic objectives and strategic outcomes, alongside six monthly exception reporting against the Council's Service and Improvement Plans. These helped support the refresh of the Council Plan for 2016-18, to provide continuity over the period of the next Local Government Elections in May 2017.

Nine service reviews were completed during the course of the year: Communities; Grants; Additional Support for Learning; Out of School Care; ICT; Property Maintenance; Democratic Services; Trading Standards & Environmental Health and Public Affairs. Reflecting on the experience of undertaking these, a revised two tier service review framework has been introduced, with the programme being extended from three to five years.

Reflecting the importance of values to the governance of the organisation and feedback from our employee survey, work was undertaken by, and with, employees to agree and adopt a set of values and behaviours, entitled 'The South Ayrshire Way' to promote a positive, supportive and respectful working environment for employees and customers.

Recognising the significance of having an effective workforce, three major new employee strategies were developed and agreed during the year, these being a new Workforce Strategy, a Capability Policy and a Framework for Employee Development.

Work continued to roll out the Council's strategic approach to community engagement, with regular updates on progress to the Public Processes Panel. Engagement has been enhanced by the establishment of six locality planning groups, to help inform the thinking and approach of the Health and Social Care Partnership.

2016-17 Improvement Actions

1. **Direction**
   - Bring forward a refreshed Council Plan and Service and Improvement Plans for 2016-18.
   - Continue to refine the Council's Performance Framework.
   - Continue to deliver the Council's service review programme.

2. **Roles**
   - Continue to review the Council's current scrutiny arrangements.
   - Review arrangements for various democratic and administrative issues in preparation for the next Local Government Election in May 2017.
   - Continue the annual review of Standing Orders and Scheme of Delegation.
   - Implement a framework to monitor how the Council and its services are perceived.

3. **Values**
   - Implement 'The South Ayrshire Way'.

4. **Decision Making**
   - Continue to ensure residents, customers, service users and stakeholders are well informed about Council decisions, policies, services and activities.
   - Develop the Strategic and Operational Risk Registers in line with current methodology and reporting framework.

5. **Skills**
   - Facilitate the implementation of the workforce strategy.
   - Facilitate the implementation of the employee development framework.
   - Develop a programme of capacity building for locally based community groups and representative structures.
   - Continue to deliver a comprehensive Leadership and Management Development Programme.

6. **Accountability**
   - Refresh the Council's approach to Public Performance Reporting.
   - Support and develop locality planning groups and put in place support arrangements for local groups and communities to participate.
   - Improve communications with non-office based staff and elected members.
   - Ensure the new Community Partnership Forum made up of representatives from locality level is established and functioning effectively.

Assurance

Subject to the above, and on the basis of the assurance provided, we consider the governance and internal control environment operating during 2015-2016 provides reasonable and objective assurance that any significant risk impacting on our principal objectives will be identified and actions taken to avoid or mitigate their impact. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Eileen Howat

Eileen Howat
Chief Executive

28 September 2016

Councillor Bill McIntosh
Leader of the Council

28 September 2016

Section 4: Remuneration Report

The Remuneration Report provides details of the local authority's remuneration policy for senior councillors and senior employees and details of any role the local authority has in determining the remuneration policy for any local authority subsidiary body. The report is subject to audit and forms part of the 2015-2016 annual audit by the Council's external auditors, Audit Scotland.

Introduction

The remuneration report has been prepared in accordance with the Local Authority Accounts (Scotland) Regulations 1985 (as amended by the Local Authority (Scotland) Amendment Regulations 2011). These Regulations require various disclosures about the remuneration and pension benefits of senior councillors and senior employees.

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

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

Arrangements for remuneration

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

The remuneration of Councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007 (SSI No. 2007/183). The regulations provide for the grading of Councillors for the purposes of remuneration arrangements, as either the Leader of the Council, the Provost, Senior Councillors or Councillors. The Leader of the Council and the Provost cannot be the same person for the purposes of payment of remuneration. The total remuneration that may be paid to the Leader and the Provost is set out in the regulations.

When determining the level of remuneration for councillors the Scottish Ministers consider the recommendations of the Scottish Local Authority Remuneration Committee (SLARC). SLARC is an advisory Non-Departmental Public Body set up in 2005 to advise Scottish Ministers on the remuneration, allowances and expenses incurred by local authority councillors. In accordance with the regulations South Ayrshire Council may have 1 Leader, 1 Provost and up to 14 Senior Councillors. The regulations set out the maximum that the Council may pay as remuneration of Senior Councillors. The Council is able to exercise local flexibility in the determination of the precise number of Senior Councillors and their salary grade within these maximum limits. In 2015-2016 South Ayrshire Council had 1 Leader, 1 Provost and 14 Senior Councillors. The regulations also permit the Council to pay contributions or other payments as required to the Local Government Pension Scheme in respect of those Councillors who elect to become councillor members of the pension scheme. Remuneration of elected members for 2015-2016, including the Leader, Provost, Depute Provost and Senior Councillors was agreed at a meeting of the South Ayrshire Council on 1 April 2015. All allowances and expenses paid to elected members follow policies and procedures and are reviewed regularly to ensure continued relevance and compliance with legislation.

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

Chief Officers are eligible to join the Local Government Pension Scheme (LGPS). The scheme is described in the Pension Benefits section below.

Remuneration

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

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

The annual return of councillors' salaries and total expenses paid for 2015-2016 is available for any member of the public to view in the Council's offices at County Buildings, Ayr during normal working hours and is also available on the Council's website by following the link: http://www.south-ayrshire.gov.uk/councillors/expenses/

a) Remuneration of Senior Councillors and Chair of Joint Boards

Name	**Post title**	Gross salary & allowances	Non-cash expenses & benefits-in-kind	**2015-2016 Total remuneration**	**2014-2015 Total remuneration**
		£	£	£	£
Councillor W McIntosh	Leader of the Council	33,447	-	**33,447**	**33,131**
Councillor H Moonie	Provost	25,085	-	**25,085**	**24,842**
Councillor B Grant	Senior Councillor (2)	22,140	-	**22,140**	**22,007**
Councillor J McDowall	Senior Councillor (2)	22,140	870	**23,010**	**22,695**
Councillor R Miller	Senior Councillor (2)	22,140	-	**22,140**	**21,926**
Councillor R Reid	Senior Councillor (2)	22,140	-	**22,140**	**21,969**
Councillor P Saxton	Senior Councillor (2)	22,140	1,715	**23,855**	**23,087**
Councillor M Toner	Senior Councillor (2)	22,140	436	**22,576**	**22,121**
Councillor I Cavana	Senior Councillor (1)	19,977	442	**20,419**	**19,969**
Councillor P Convery	Senior Councillor (1)	19,977	1,821	**21,798**	**20,792**
Councillor K Darwent	Senior Councillor (1)	19,977	-	**19,977**	**19,783**
Councillor A Galbraith	Senior Councillor (1)	19,977	1,181	**21,158**	**20,494**
Councillor J Hampton	Senior Councillor (1)	19,977	-	**19,977**	**19,783**
Councillor M Kilpatrick	Senior Councillor (1)/ Depute Provost	19,977	-	**19,977**	**19,783**
Councillor B McGinley	Senior Councillor(1)	19,977	-	**19,977**	**19,783**
		331,211	6,465	337,676	**332,165**

(i) –Full post title and responsibilities relating to each councillor can be found in the Members' Allowances and Expenses Paid 2015-2016 Annual Return which is available on the Council's website.

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

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

b) Remuneration paid to Councillors

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

	2015-2016 Total remuneration	2014-2015 Total remuneration
	£	£
Salaries	578,359	579,210
Expenses	28,475	30,585
	606,834	609,795

The annual return of councillors' salaries and expenses for 2015-2016 is compiled under Scottish Local Authority Remuneration Committee (SLARC) guidance for public records whereas the Remuneration Report is compiled under a Scottish Statutory Instrument (SSI) which results in a minor difference.

c) Remuneration of Senior Employees

		Year ended 31 March 2016				2014-2015
Name	**Post title**	Gross salary & allowances	Taxable expenses	Non-cash expenses & benefits-in-kind	**Total Remuneration**	**Total Remuneration**
		£	£	£	**£**	**£**
E Howat	Chief Executive	128,517	-	-	**128,517**	**126,352**
V Andrews	Executive Director-Resources, Governance & Organisation	109,642	-	-	**109,642**	**108,995**
L Bloomer	Executive Director-Economy, Neighbourhood & Environment	108,392	-	-	**108,392**	**106,745**
T Eltringham (i)	Director of Health & Social Care Partnership	108,392	136	-	**108,528**	**84,700**
D Hutchison (ii)	Director of Educational Services	94,156	46	-	**94,202**	**92,737**
M Baker (iii)	Head of Policy and Performance	78,155	135	-	**78,290**	**24,018**
H McLaughlin (iv)	Audit Services - Programme Review Manager (full year equivalent £50,785)	18,031	-	-	**18,031**	**50,159**
M Leonard (v)	Acting Audit Services - Programme Review Manager (full year equivalent £49,316)	45,550	-	-	**45,550**	-
		690,835	317	-	691,152	593,706

The above table includes election fees: E Howat £1,250 and V Andrews £1,250

(i) Tim Eltringham was appointed to the role of Director of Health and Social Care Partnership on 16 June 2014.

(ii) Douglas Hutchison held the post of Head of Education until he was appointed to the new role of Director of Educational Services on 3 July 2014.

(iii) Mark Baker was appointed to the post of Head of Policy & Performance on 8 December 2014.

(iv) Hugh McLaughlin left the employment of South Ayrshire Council on 9 August 2015.

(v) Maureen Leonard held the post of Auditor until taking up the post of Acting Audit Services - Programme Review Manager from 10 August 2015.

The senior employees in the table on page 22 include any Council employee who has responsibility for management of the Council to the extent that the person has power to direct or control the major activities of the Council (including activities involving the expenditure of money) or reports directly to the Chief Executive, during the year to which the report relates, whether solely or collectively with other persons.

Total remuneration is presented on an accruals basis.

There were no compensation for loss of office payments associated with the senior employees of the Council.

d) Remuneration of the Council's subsidiary/associate body

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

Name	Post title	Total remuneration 2015-2016	Total remuneration 2014-2015
		£	£
D Bell	Managing Director of Ayr Renaissance LLP	78,155	76,967

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

e) Officers' Remuneration

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

Remuneration Bands	Number of Employees 2015-2016	Number of Employees 2014-2015
£50,000 - £54,999	65	62
£55,000 - £59,999	20	17
£60,000 - £64,999	3	4
£65,000 - £69,999	3	4
£70,000 - £74,999	4	5
£75,000 - £79,999	10	5
£90,000 - £94,999	1	1
£100,000 - £104,999	-	1
£105,000 - £109,999	3	2
£120,000 - £124,999	-	1
£125,000 - £129,999	1	1
	110	103

Pension benefits

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

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

The scheme's normal retirement age for both councillors and employees is the same as their state pension age with a minimum age of 65.

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

The tiers and members' contribution rate for 2015-2016 were as follows:

Full time pay	Contribution rate 2015-2016
On earnings up to £20,500	5.50%
On earnings above £20,500 and up to £25,000	7.25%
On earnings above £25,000 and up to £34,400	8.50%
On earnings above £34,400 and up to £45,800	9.50%
On earnings above £45,800	12.00%

Full time pay	Contribution rate 2014-2015
On earnings up to £13,500	5.50%
On earnings above £13,500 and up to £21,000	5.80%
On earnings above £21,000 and up to £34,000	6.50%
On earnings above £34,000 and up to £43,000	6.80%
On earnings above £43,000 and up to £60,000	8.50%
On earnings above £60,000 and up to £85,000	9.90%
On earnings above £85,000 and up to £100,000	10.50%
On earnings above £100,000 and up to £150,000	11.40%
On earnings above £150,000	12.50%

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

There is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for lump sum up to the limit set by HMRC. The accrual rate guarantees a pension account based on 1/49th of actual pensionable salary received and years of pensionable service (prior to 2015 the actual rate guaranteed a pension based on 1/60th of final pensionable salary and years of pensionable service; prior to 2009 the actual rate guaranteed a pension based on 1/80th and a lump sum based on 3/80th of final pensionable salary and years of pensionable service).

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

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

a) Pension benefits of senior councillors

The pension entitlements for senior councillors for the year to 31 March 2016 are shown in the table below, together with the contribution made by the Council to each senior councillor's pension during the year.

		In-year pension contributions			Accrued pension benefits	
Name	**Post title**	**For year to 31 March 2016 £**	**For year to 31 March 2015 £**		**As at 31 March 2016 £**	**Difference from 31 March 2015 £**
Councillor H Moonie	Provost	4,841	4,794	Pension	3,215	604
				Lump sum	1,563	53
Councillor B Grant	Senior Councillor(2)	4,273	4,232	Pension	1,149	355
				Lump sum	-	-
Councillor R Miller	Senior Councillor(2)	4,273	4,232	Pension	1,518	470
				Lump sum	-	-
Councillor R Reid	Senior Councillor(2)	4,273	4,232	Pension	1,508	371
				Lump sum	-	-
Councillor P Saxton	Senior Councillor(2)	4,273	4,232	Pension	2,825	533
				Lump sum	1,372	47
Councillor M Toner	Senior Councillor(2)	4,273	4,232	Pension	3,360	475
				Lump sum	1,682	14
Councillor I Cavana	Senior Councillor(1)	3,856	3,818	Pension	2,837	450
				Lump sum	1,404	24
Councillor K Darwent	Senior Councillor(1)	3,856	3,818	Pension	1,371	424
				Lump sum	-	-
Councillor J Hampton	Senior Councillor(1)	3,046	3,818	Pension	1,994	1,252
				Lump sum	-	-
Councillor M Kilpatrick	Senior Councillor(1)	3,856	3,818	Pension	3,029	429
				Lump sum	1,516	13
Councillor B McGinley	Senior Councillor(1)	3,856	3,818	Pension	1,371	424
				Lump sum	-	-
		44,676	45,044		31,714	5,938

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

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

b) Pension benefits of senior employees

The pension entitlements of senior employees for the year to 31 March 2016 are shown in the table below, together with the contribution made by the Council to each senior employee's pension during the year.

		In-year pension contributions			Accrued pension benefits	
Name	**Post title**	**For year to 31 March 2016 £**	**For year to 31 March 2015 £**		**As at 31 March 2016 £**	**Difference from 31 March 2015 £**
E Howat	Chief Executive	24,563	23,952	Pension	54,121	3,329
				Lump Sum	116,760	1,703
V Andrews	Executive Director – Resources,	20,920	20,602	Pension	20,497	2,486
	Governance & Organisation			Lump Sum	22,357	340
L Bloomer	Executive Director - Economy,	20,920	20,602	Pension	27,416	2,591
	Neighbourhood & Environment			Lump Sum	51,293	780
T Eltringham	Director of Health & Social Care	20,920	16,305	Pension	46,005	5,245
	Partnership			Lump Sum	98,879	6,855
D Hutchison	Director of Educational Services	18,172	17,888	Pension	4,755	1,983
				Lump Sum	-	-
M Baker	Head of Policy and Performance	15,084	4,633	Pension	13,682	13,338
				Lump Sum	13,278	13,278
H McLaughlin	Audit Services - Programme Review Manager	3,480	9,681	Pension	5,384	(9,225)
				Lump Sum	24,313	(1,485)
M Leonard	Acting Audit Services - Programme	8,791	-	Pension	20,814	20,814
	Review Manager			Lump Sum	44,856	44,856
		132,850	113,663		564,410	106,888

c) Pension benefits of the Council's subsidiary bodies

		In-year pension contributions			Accrued pension benefits	
Name	**Post title**	**For year to 31 March 2016 £**	**For year to 31 March 2015 £**		**As at 31 March 2016 £**	**Difference from 31 March 2015 £**
D Bell	Managing Director of Ayr Renaissance LLP	17,447	14,855	Pension	9,524	1,713
				Lump Sum	353	5
		17,447	14,855		9,877	1,718

Exit packages of employees

The table below sets out the number and costs of exit packages for both 2015-2016 and 2014-2015 financial years. The in-year costs include redundancy, pay in lieu of notice, pension strain costs and compensatory lump sums. The table also includes notional values for Compensatory Added Years (CAY) pension payments, which represents the estimated present value of all future payments until death. This value is based on pension providers' actuarial assumptions on pensioner longevity and other factors. As such, these figures are subject to change and will not reflect actual costs incurred. Exit packages exclude any costs in relation to ill health retirements.

	2015-2016			2014-2015		
Exit package cost band (including special payments)	**Number of exit packages**	**Cost**	**Notional CAY cost**	**Number of exit packages**	**Cost**	**Notional CAY cost**
		£	£		£	£
£0 - £20,000	22	100,743	22,449	75	466,863	69,106
£20,001 - £40,000	5	119,794	22,873	13	234,999	124,420
£40,001 - £60,000	4	85,329	106,200	12	338,653	224,302
£60,001 - £80,000	2	43,395	87,485	5	261,821	86,791
> £80,001	-	-	-	5	515,724	212,806
Total	**33**	**349,261**	**239,007**	**110**	**1,818,060**	**717,425**

There were no compulsory redundancies during 2015-2016 or 2014-2015.

Eileen Howat

Eileen Howat
Chief Executive

28 September 2016

Councillor Bill McIntosh
Leader of the Council

28 September 2016

Section 5: Core Financial Statements

I) Movement in Reserves Statement for the year ended 31 March 2016

This statement shows the movement in the year on the different reserves held by the Council, analysed into "Usable Reserves" (i.e. those that can be applied to fund expenditure or reduce local taxation) and "Unusable Reserves". The surplus or (deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the *Comprehensive Income and Expenditure Statement*. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting. The Net Increase or Decrease before Transfers to Earmarked Reserves shows the statutory General Fund Balance before any discretionary transfers to and from the earmarked reserves of the Council.

2015-2016	General fund balance	Housing revenue account balance	Capital Grants unapplied account	Capital receipts reserve	Repair and renewal fund	Insurance fund	Capital fund	**Total usable reserve**	**Unusable reserves**	**Total reserves**
	£000	£000	£000	£000	£000	£000	£000	**£000**	**£000**	**£000**
Balance at 31 March 2015	25,151	10,461	749	-	5,354	425	-	**42,140**	**251,728**	**293,868**
Movement in reserves during 2015-2016										
Surplus or (deficit) on the provision of services	(46,222)	(9,243)	-	-	-	-	-	**(55,465)**	-	**(55,465)**
Other comprehensive income and expenditure	-	-	-	-	-	(1,152)	-	**(1,152)**	**72,212**	**71,060**
Total comprehensive income and expenditure	(46,222)	(9,243)	-	-	-	(1,152)	-	**(56,617)**	**72,212**	**15,595**
Adjustments between accounting basis and funding basis (Note 7)	53,416	8,694	941	-	(1,061)	-	-	**61,990**	**(61,990)**	-
Net Increase/(decrease) before transfer to earmarked reserves	7,194	(549)	941	-	(1,061)	(1,152)	-	**5,373**	**10,222**	**15,595**
Transfers to/from earmarked reserves (Note 8)	(468)	-	-	-	(684)	1,152	-	-	-	-
Increase/(decrease) in 2015-2016	6,726	(549)	941	-	(1,745)	-	-	**5,373**	**10,222**	**15,595**
Balance at 31 March 2016	31,877	9,912	1,690	-	3,609	425	-	**47,513**	**261,950**	**309,463**

2014-2015 Comparative figures	General fund balance £000	Housing revenue account balance £000	Capital Grants unapplied account £000	Capital receipts reserve £000	Repair and renewal fund £000	Insurance fund £000	Capital fund £000	**Total usable reserve £000**	**Unusable reserves £000**	**Total reserves £000**
Revised Opening Balance as at 31 March 2014	22,926	13,445	857	-	6,312	425	-	**43,965**	**244,150**	**288,115**
Movement in reserves during 2014-2015										
Surplus or (deficit) on the provision of services	6,628	(13,214)	-	-	-	-	-	**(6,586)**	-	**(6,586)**
Other comprehensive income and expenditure	-	-	-	-	-	(1,463)	-	**(1,463)**	**13,802**	**12,339**
Total comprehensive income and expenditure	6,628	(13,214)	-	-	-	(1,463)	-	**(8,049)**	**13,802**	**5,753**
Adjustments between accounting basis and funding basis (Note 7)	(3,456)	10,230	(108)	-	(442)	-	-	**6,224**	**(6,224)**	-
Net increase/(decrease) before transfer to earmarked reserves	3,172	(2,984)	(108)	-	(442)	(1,463)	-	**(1,825)**	**7,578**	**5,753**
Transfers to/from earmarked reserves (Note 8)	(947)	-	-	-	(516)	1,463	-	-	-	-
Increase/(decrease) in 2014-2015	2,225	(2,984)	(108)	-	(958)	-	-	**(1,825)**	**7,578**	**5,753**
Balance at 31 March 2015	25,151	10,461	749	-	5,354	425	-	**42,140**	**251,728**	**293,868**

II) Comprehensive Income and Expenditure Statement for the year ended 31 March 2016

This statement shows the accounting cost in the year of providing the Council's services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Local authorities raise taxation to cover expenditure in accordance with regulations and this is different from the accounting cost. The taxation position is shown in the *Movement in Reserves Statement.*

2014-2015					2015-2016		
Gross Expenditure £000	**Gross Income £000**	**Net Expenditure £000**		*Note*	**Gross Expenditure £000**	**Gross Income £000**	**Net Expenditure £000**
16,402	14,585	1,817	Central Services to the Public		16,873	14,036	2,837
22,223	6,695	15,528	Cultural and Related Services		23,311	6,720	16,591
108,382	4,121	104,261	Education Services		158,486	4,032	154,454
17,924	3,267	14,657	Environmental Services		17,928	3,028	14,900
28,994	29,333	(339)	Housing Services		32,466	31,189	1,277
49,817	42,515	7,302	General Fund Housing		48,353	41,602	6,751
6,729	3,907	2,822	Planning and Development Services		6,263	2,885	3,378
12,690	69	12,621	Roads and Transportation		13,027	15	13,012
-	-	-	Social Work - Contribution to Integration Joint Board		70,071	-	70,071
88,574	15,175	73,399	Social Work - Provision of Services		94,103	88,144	5,959
3,445	126	3,319	Corporate and Democratic Core		3,926	125	3,801
3,325	211	3,114	Non Distributed Costs		5,604	214	5,390
358,505	**120,004**	**238,501**	**Cost of services**		**490,411**	**191,990**	**298,421**
		13,286	*(Gain) or loss on the disposal of non-current assets*				9,947
			Financing and Investment Income and Expenditure				
		14,408	*Interest payable and similar charges*				13,629
		(499)	*Interest and investment income*				(503)
		6,026	*Net interest on the net defined benefit liability*	*33*			5,877
			Taxation and non-specific grant income	27			
		(159,766)	*Revenue support grant*				(163,697)
		(17,010)	*Recognised capital income*				(18,960)
		(43,134)	*Non domestic rates redistribution*				(42,683)
		(45,226)	*Council tax income*				(46,566)
		6,586	**(Surplus) or deficit on the provision of services**				**55,465**
		(45,484)	(Surplus) or deficit on the revaluation of property, plant and equipment assets				1,202
		(60)	(Surplus) or deficit on the revaluation of available for sale financial assets				87
		31,742	Actuarial (gains) or losses on pension fund assets and liabilities	*20*			(73,501)
		1,463	Other unrealised (gains) or losses				1,152
		(12,339)	**Other comprehensive (income) and expenditure**				**(71,060)**
		(5,753)	**Total comprehensive income and expenditure**				**(15,595)**

III) Balance Sheet as at 31 March 2016

The Balance Sheet is a snapshot of the value at the reporting date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Reserve may only be used to fund capital expenditure or repay loan charges). The second category of reserves is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains or losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the *Movement in Reserves Statement* line "Adjustments between accounting basis and funding basis".

31 March 2015 £000		Note	£000	31 March 2016 £000
681,454	Property, plant and equipment	9	634,498	
2,549	Heritage assets	10	2,551	
29	Intangible assets	11	9	
756	Long-term investments	12	669	
62	Long-term debtors	12	89	
684,850	**Long-term assets**			**637,816**
50,000	Short-term investments	12	50,000	
3,157	Assets held for sale	16	1,813	
423	Inventories	13	435	
17,743	Short-term debtors	14	22,007	
22,411	Cash and cash equivalents	15	9,029	
93,734	**Current assets**			**83,284**
(6,851)	Short-term borrowing	12	(14,636)	
(51,836)	Short-term creditors	17	(51,679)	
(1,240)	Provisions	18	(675)	
(7,846)	Other short-term liabilities	19	(7,028)	
(67,773)	**Current liabilities**			**(74,018)**
(5,221)	Provisions	18	(3,574)	
(171,237)	Long-term borrowing	12	(156,594)	
(2,415)	Other long-term liabilities (finance leases)	30	(2,160)	
(180,080)	Other long-term liabilities (pensions)	33	(119,669)	
(57,990)	Other long-term liabilities	12	(55,622)	
(416,943)	**Long-term Liabilities**			**(337,619)**
293,868	**Net assets**			**309,463**
42,140	Usable reserves			47,513
251,728	Unusable reserves	20		261,950
293,868	**Total reserves**			**309,463**

The unaudited Annual Accounts were issued on 24 June 2016 and the audited Annual Accounts were authorised for issue on 28 September 2016.

Tim Baulk BA Acc CPFA

Head of Finance and ICT

28 September 2016

IV) Cash Flow Statement for the year ended 31 March 2016

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

2014-2015 £000		*Note*	2015-2016 £000	2015-2016 £000
6,586	**Net (surplus) or deficit on the provision of services**			55,465
	Adjustments to net surplus or deficit on the provision of services for non-cash movements			
(22,498)	Depreciation & impairment of fixed assets		(79,511)	
(26)	Amortisation of intangible assets		(20)	
(9,408)	(Increase)/decrease in creditors		4,454	
(3,966)	Increase/(decrease) in debtors		4,291	
(258)	Increase/(decrease) in inventories		12	
(10,161)	Pension liability		(13,090)	
(15,437)	Carrying amount of non-current assets sold		(12,160)	
17,915	Other non-cash items		19,808	
(43,839)	**Adjustments for items in the net surplus or deficit on the provision of services that are investing or financing activities**			(76,216)
2,151	Proceeds from sale of property, plant and equipment, investment property and intangible assets			2,214
(35,102)	**Net cash flows from operating activities**			(18,537)
17,792	Investing activities	*22*		22,259
6,839	Financing activities	*23*		9,660
(10,471)	**Net (increase) or decrease in cash and cash equivalents**			13,382
(11,940)	Cash and cash equivalents at the beginning of the reporting period			(22,411)
(22,411)	**Cash and cash equivalents at the end of the reporting period**	*15*		(9,029)

Section 6: Notes to the Core Financial Statements

Note 1: Accounting policies

1. General principles

The Annual Accounts summarise the Council's transactions for the 2015-16 financial year and its financial position at the year end of 31 March 2016. The Council is required to prepare Annual Accounts by the Local Authority Accounts (Scotland) Regulations 2014. Section 12 of the Local Government in Scotland Act 2003 requires such accounts to be prepared in accordance with proper accounting practices.

These practices primarily comprise the *Code of Practice on Local Authority Accounting in the United Kingdom 2015-2016* and the *Service Reporting Code of Practice for local authorities* (SeRCoP), supported *by International Financial Reporting Standards* (IFRS).

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

2. Accruals of expenditure and income

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

- All known specific and material sums payable to the Council have been brought into account. Revenue from the sale of goods or the provision of services is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser or can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

- Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the service is received rather than when payments are made.

- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract. Interest receivable and dividend income is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the Council.

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

3. Carbon reduction commitment

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme and is currently in the initial year of its second phase which ends on 31st March 2019. The Council is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the costs of the Council's services.

4. Cash and cash equivalents

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

5. Charges to revenue for non-current assets

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

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

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

6. Employee benefits

Benefits payable during employment

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

Termination benefits

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

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

Post-employment benefits

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

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

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

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

The Local Government pension scheme

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

- The liabilities of the Strathclyde Pension Scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the "projected credit unit method" i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate used by the appointed actuaries to place a value on the liability.

- The assets of the Strathclyde Pension Fund attributable to South Ayrshire Council are included in the Balance Sheet at their fair value at current bid prices for quoted securities, estimated fair value for unquoted securities and market price for property.

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

- Service cost comprising:

  - *Current service cost*: The increase in liabilities as a result of years of service earned this year, allocated in the Comprehensive Income and Expenditure Statement to the services for which the employee worked.
  - *Past service cost*: The increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years, charged to Non Distributed Costs in the Comprehensive Income and Expenditure Statement.
  - *Net interest on the net defined benefit liability (asset), i.e. net interest expenses for the Council*: The change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period, taking into account any changes in the net defined liability (asset) during the period as a result of contribution and benefit payments.

- Re-measurements comprising:

  - *The return on plan assets*: Excluding amounts included in the net interest on the net defined benefit liability (asset), charged to the Pension Reserve as other comprehensive income and expenditure.
  - *Actuarial gains and losses*: Changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because actuaries have updated their assumptions, charged to the Pensions Reserve as other comprehensive income and expenditure.
  - *Contributions paid to the Strathclyde Pension Fund*: Cash paid as employer's contributions to the pension fund in settlements of liabilities; not accounted for as an expense.

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

Discretionary benefits

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

7. Events after the reporting period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Annual Accounts are authorised for issue. Two types of events can be identified:

- *Adjusting events*: Those that provide evidence of conditions that existed at the end of the reporting period. The Annual Accounts are adjusted to reflect such events.

- *Non-adjusting events*: Those that are indicative of conditions that arose after the reporting period and the Statements are not adjusted to reflect such events. Where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

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

8. Exceptional items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

9. Financial assets

Financial assets are classified into two types:

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

Loans and receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For the Council's short term deposits and most of its other lending, this means that the amount presented in the Balance Sheet is the outstanding principal receivable plus accrued interest, and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

When soft loans are made (loans to organisations at less than market rates), a loss is recorded in the Comprehensive Income and Expenditure Statement for the present value of the interest that will be forgone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the organisation, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year. The reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

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

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

Available-for-Sale assets

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

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

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

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

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

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

10. Financial liabilities

Borrowing

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

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

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

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

11. Foreign currency translation

Where the Council has entered into transactions denominated in a foreign currency, the transaction is converted into sterling at the exchange rate on the date the transaction was effective. Where material amounts in foreign currency are outstanding at the year end, they are converted at the exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the comprehensive Income and Expenditure Statement.

12. Government grants and contributions

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

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

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

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

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

13. Heritage assets

The Council holds and conserves heritage assets for future generations in support of the primary objective of increasing the knowledge, understanding and appreciation of the history of the area of South Ayrshire.

Heritage assets are recognised and measured in accordance with the Council's accounting policy on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below. The accounting policies in relation to heritage assets that are deemed to include elements of intangible heritage assets are also presented below.

Heritage assets shall be measured at historic cost or fair value. Where the Council considers that it is not practicable to obtain a valuation at a cost commensurate with the benefits to users of the financial statements, and that reliable cost or valuation information cannot be obtained, the asset shall not be recognised on the Balance Sheet.

Where assets are measured at fair value, valuations shall be made by any method that is appropriate. This shall include valuations for insurance purposes. Individual valuations shall be made of the most important artefacts; otherwise a global figure shall be determined for similar categories of asset, where appropriate. Valuations have a cost implication and decisions can and will be made not to seek valuations on certain artefacts or categories of artefacts. Surpluses or deficits in valuation shall be recognised in the Comprehensive Income and Expenditure Statement.

The heritage asset collections are accounted for as follows:

Museum and art gallery collections

The Council's collections of objects at the Rozelle House Galleries, Ayr and McKechnie Institute, Girvan form the major part of the heritage assets held by the Council and have been developed over a number of years for the purposes of reference, research and education.

The figure disclosed in the Balance Sheet is based on the assessment by the Council's insurers of the replacement value for the combined collections. No depreciation shall be charged on any heritage asset in view of the indeterminate life and high residual value.

The collections are largely stagnant in nature with very little turnover in objects. The museum occasionally makes available on loan objects to national and international exhibitions and accepts objects on loan in association with various projects. Since the Council's inception, donations are included at current valuation. Purchases are at cost. Donations prior to inception are held at historic cost where this information is available. It is the policy of the Council not to ordinarily accept any donations with attached conditions. Disposals are rare and require the prior approval of the Council and are subject to restrictions. Further information is available in the Museum's acquisitions and disposals policy document.

Civic regalia and other civic effects

The civic regalia and other civic effects in the County Buildings and Rozelle House Galleries are reported in the Balance Sheet at a replacement cost insurance valuation by external valuers.

Heritage assets not recognised in the balance sheet

A considerable number of heritage assets (such as collections that have primarily a scientific and cultural value rather than a financial one, public space statues, monuments, memorials, fountains, and outdoor artworks) are not recognised in the Balance Sheet. The Council does not consider that reliable cost of valuation information can be obtained for the vast majority of items held. This is because of the diverse nature of assets held, the number of assets held and the lack of comparable market values.

Heritage assets – general

The carrying amount of heritage assets are reviewed where there is evidence of impairment for heritage assets. Any impairment is recognised and measured in accordance with the Council's general policies on impairment. The Council will occasionally dispose of heritage assets that have a doubtful provenance or are unsuitable for public display. The proceeds of any items disposed of are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment.

14. Intangible assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that it will bring benefits to the Council for more than twelve months. Intangible assets are measured initially at cost. Amounts are not re-valued, as the fair value of the assets held by the Council cannot be determined by reference to an active market. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service lines in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

15. Interest in companies and other entities

The Council has material interests in companies and other entities that have the nature of associates and jointly controlled entities requiring the preparation of Group Accounts.

16. Inventories

Inventories include consumable stock and work-in-progress. Consumable stock brought into account is included in the Balance Sheet at the lower of cost and net realisable value. The valuation of work-in-progress has been made at cost plus an appropriate proportion of overheads, together with attributable profits and allowances for foreseeable losses.

17. Investment property

Investment properties are those that are used solely to earn rentals or for capital appreciation or both. The definition is not met if the property (land and buildings, or part of a building or both) is used in any way in the delivery of services or for administrative purposes or is held for sale in the normal course of operations. The Council has no such properties that meet these criteria.

18. Leases

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

The Council as lessee

Finance Leases

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

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment, applied to write down the lease liability, and

- a finance charge (debited to the Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement).

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

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

Operating leases

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

The Council as lessor

Operating leases

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

19. Overheads and support services

The cost of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2015-2016 (SeRCoP). The total absorption costing principle is used i.e. the full cost of overheads and support services are shared in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core: costs relating to the Council's status as a multi-functional, democratic organisation.
- Non-Distributed Costs: cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

These two cost categories are defined in the CIPFA *Service Reporting Code of Practice 2015-2016* and are accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of the Cost of Services. All overheads not defined as corporate and democratic core or non-distributable costs are fully charged to service expenditure headings. A proportion of the costs of support services are recharged to capital projects.

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

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policy are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless otherwise stated) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

21. Property, plant and equipment

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

Recognition

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

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

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

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

Impairment

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

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

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance, up to the amount of the accumulated gains.

- where there is no balance in the Revaluation Reserve, the carrying amount of the asset is written down against the relevant service lines in the Comprehensive Income and Expenditure Statement.

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

Disposals and non-current assets held for sale

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

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

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

Depreciation

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

Depreciation is charged on a straight line basis over the useful life of the assets. Depreciation is charged in the year of acquisition but no depreciation is charged in the year of disposal.

The periods of depreciation and categories of assets are detailed within Note 9 on page 55 of the Annual Accounts.

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

22. Public finance initiative

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

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

The amounts payable to the PFI operators each year are analysed into five elements:

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

23. Provisions, contingent assets and liabilities

Provisions

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

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

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

Contingent assets and liabilities

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

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

24. Reserves

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

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

Usable reserves

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

Unusable reserves

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

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

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

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

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

25. Revenue expenditure funded from capital under Statute

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

26. VAT

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

Note 2: Accounting standards issued not adopted

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2016-2017 Code:

- Amendments to IAS 19 Employee Benefits (Defined Benefit Plans: Employee Contributions)
- Annual Improvements to IFRSs 2010-2012 Cycle
- Amendment to IFRS 11 Joint Arrangements (Accounting for Acquisitions of Interests in Joint Operations)
- Amendment to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (Clarification of Acceptable Methods of Depreciation and Amortisation
- Annual Improvements to IFRSs 2012-14 Cycle
- Amendment to IAS 1 Presentation of Financial Statements (Disclosure Initiative)
- Changes to format of Comprehensive Income and Expenditure Statement, Movement in Reserves Statement and the introduction of new Expenditure and Funding Analysis
- Changes to the format Pension Fund Account and Net Assets Statement

The Code requires implementation from 1 April 2016 and there is therefore no impact on the 2015-2016 financial statements.

Note 3: Critical judgements in applying accounting policies

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

The critical judgements made in the Annual Accounts are:

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

- The Council has entered into a Public Private Partnership (PPP) for the provision of educational buildings, their maintenance and related facilities. The Council is deemed to control the services provided under the agreement and ownership of the schools will pass to the Council at the end of the contract for no additional charge. The assets used to provide services at the schools are recognised on the Council's Balance Sheet.

- The Council has considered its exposure to possible losses and made adequate provision where it is probable that an outflow of resources will be required and the amount of the obligation can be measured reliably. Where it has not been possible to measure the obligation, or it is not probable in the Council's opinion that a transfer of economic benefits will be required, material contingent liabilities have been disclosed in Note 35.

- The Council has entered into commercial lease agreements, both as landlord and tenant for land and buildings on a variety of lease terms. These arrangements are accounted for as operating leases. The Council has considered the tests under IAS17 and concluded that there is no transfer of the risks and rewards of ownership.

- The Council has no investment properties. All Property, plant and equipment is used in the delivery of services, either for administrative purposes or as part of the Council's strategy for economic development in South Ayrshire.

- Unused holiday entitlement earned at 31 March 2016 but not taken at that date has been quantified on the basis of a 5% sample of all non term-time council employees. The calculation in respect of unused holidays for term time staff in schools is based on actual leave entitlement earned as at 31 March and no estimation is required for these staff. The liability included in the 2015-2016 financial statements in respect of this is £5.171m.

Note 4: Assumptions made about the future and other major sources of estimation uncertainty

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

The items in the Council's Balance Sheet at 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Employee related claims

Uncertainties: The Council has made a provision of £3.554m for the potential outcome of outstanding employee related claims.

Effect if the results differ from assumptions: An increase over the forthcoming year of 10% in either the total number of claims or the estimated average settlement would each have the effect of adding £0.355m to the provision needed.

Pension liability

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

Effect if the results differ from assumption: The effects on the net pension's liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate would result in an increase of £73.714m in the pension liability, equating to a 10% increase.

Property, plant and equipment

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

Effect if results differ from assumptions: If the useful life of assets is reduced, depreciation increases and the carrying amount of asset falls.

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

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

Public Private Partnership (PPP)

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

Effect if results differ from assumptions: Any increase in these indices above that are set in the funding model will require the Council to identify and allocate additional funding to the scheme.

Bad debts

Uncertainties: At 31 March 2016, the Council had a balance of gross debtors (excluding council tax and non-domestic rate income) of £25.478m. A review of significant balances suggested that an allowance for doubtful debts of £5.722m representing 22.5% was appropriate.

Effect if results differ from assumptions: In terms of financial modelling a 1% increase in the allowance would lead to an additional cost to the Council of £0.255m.

Note 5: Material items of income and expense

Where material items are not disclosed on the face of the Comprehensive Income and Expenditure Statement (CIES), *The Code* requires a disclosure of the nature and amount of material items. In 2015-2016 there was one material item of income and expense requiring additional disclosure relating to a review of employee related provisions which were reassessed during the year resulting in £1.403m being returned from the provision to revenue.

Note 6: Events after the Balance Sheet date

The Annual Accounts were signed by the Head of Finance and ICT on 24 June 2016. Where events which took place before this date provided information about conditions which existed at 31 March 2016, the financial statements and notes have been adjusted in all material respects to reflect the impact of this information. Events taking place after this date have not been reflected in the financial statements and notes.

Note 7: Adjustments between accounting basis and funding basis under regulations

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

General Fund

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

Housing Revenue Account balance

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

Capital Grants Unapplied Account

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

Capital Receipts Reserve

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

2015-16	General fund balance £000	Housing revenue account balance £000	Capital grants unapplied account £000	Capital receipts reserve £000	Repairs & renewals fund £000	Net movement £000
Adjustments primarily involving the capital grants unapplied account:						
Application of grants to capital financing transferred to the capital adjustment account	-	-	-	-	1,061	**(1,061)**
Adjustments primarily involving the capital adjustment account: *Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:*	-	-	-	-	-	-
Charges for depreciation and impairment of non-current assets	(64,732)	(14,779)	-	-	-	**79,511**
Amortisation of intangible assets	(20)	-	-	-	-	**20**
Capital grants and contributions applied	16,023	2,937	(787)	-	-	**(18,173)**
Revenue expenditure funded from capital under statute	(342)	-	-	-	-	**342**
Net gain or (loss) on sale of non-current assets	(2,426)	(7,521)	-	-	-	**9,947**
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement						
Statutory provision for the financing of capital investment	9,508	2,164	-	-	-	**(11,672)**
Capital expenditure charged against the general fund and HRA balances	1,894	8,878	(154)	-	-	**(10,618)**
Adjustments primarily involving the financial instruments adjustment account: Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	245	128	-	-	-	**(373)**
Adjustments primarily involving the employee benefit statutory mitigation account: Amount by which employees' remuneration charged to the Comprehensive Income and Expenditure Statement on an accrual basis is different from remuneration chargeable in the year in accordance with statutory requirements	(959)	(18)	-	-	-	**977**
Adjustments primarily involving the pensions reserve: Reversal of items in relation to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (Note 34)	(12,607)	(483)	-	-	-	**13,090**
Total adjustments	(53,416)	(8,694)	(941)	-	1,061	61,990

Figures for 2014-2015 are provided in an additional table below for the purposes of comparison.

2014-2015 comparative information	**General fund balance £000**	**Housing revenue account balance £000**	**Capital grants unapplied account £000**	**Capital receipts reserve £000**	**Repairs & renewals fund £000**	**Net movement £000**
Adjustments primarily involving the capital grants unapplied account:						
Application of grants to capital financing transferred to the capital adjustment account	-	-	108	-	442	**(550)**
Adjustments primarily involving the capital adjustment account: *Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:*						
Charges for depreciation and impairment of non-current assets	(10,394)	(12,104)	-	-	-	**22,498**
Amortisation of intangible assets	(26)	-	-	-	-	**26**
Capital grants and contributions applied	13,892	3,118	-	-	-	**(17,010)**
Revenue expenditure funded from capital under statute	(375)	-	-	-	-	**375**
Net gain or (loss) on sale of non-current assets	(91)	(13,195)	-	-	-	**13,286**
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement			-	-	-	
Statutory provision for the financing of capital investment	9,291	2,108	-	-	-	**(11,399)**
Capital expenditure charged against the general fund and HRA balances	837	10,073	-	-	-	**(10,910)**
Adjustments primarily involving the financial instruments adjustment account: Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	248	125	-	-	-	**(373)**
Adjustments primarily involving the employee benefit statutory mitigation account: Amount by which employees' remuneration charged to the Comprehensive Income and Expenditure Statement on an accrual basis is different from remuneration chargeable in the year in accordance with statutory requirements	(108)	(12)	-	-	-	**120**
Adjustments primarily involving the pensions reserve: Reversal of items in relation to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (Note 34)	(9,818)	(343)	-	-	-	**10,161**
Total adjustments	**3,456**	**(10,230)**	**108**	**-**	**442**	**6,224**

Note 8: Transfers to or from other statutory reserves

This note sets out the amounts set aside from the General Fund in statutory reserves established under Schedule 3 of the Local Government (Scotland) Act 1975 to provide financing for future expenditure plans and the amounts transferred back to meet General Fund expenditure in 2015-2016. Figures for 2014-2015 are provided in an additional table below for the purposes of comparison.

2015-2016

		Transfers to or from Other Statutory Reserves		
	General Fund Balance	Repairs and Renewals Fund	Insurance Fund	Capital Fund
	£000	£000	£000	£000
Contribution to Repair & Renewal Fund from General Fund	684	(684)	-	-
Contribution to Insurance Fund from General Fund	(1,152)	-	1,152	-
Total adjustments	(468)	(684)	1,152	-

2014-2015 comparative information

		Transfers to or from Other Statutory Reserves		
	General Fund Balance	Repair and Renewals Fund	Insurance Fund	Capital Fund
	£000	£000	£000	£000
Contribution to Repair & Renewal Fund from General Fund	516	(516)	-	-
Contribution to Insurance Fund from General Fund	(1,463)	-	1,463	-
Total adjustments	(947)	(516)	1,463	-

Movements on the fund balances and reserves during 2015-2016 are summarised in the table below.

	Repairs and Renewals fund £000	Insurance Fund £000	Capital Fund £000
Opening balance as at 1 April 2015	5,354	425	-
Appropriations (to)/from revenue/capital	(1,745)	-	-
Closing balance as at 31 March 2016	3,609	425	-

Note 9: Property, plant and equipment

Movement on balances

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

2015-2016

	Council Dwellings	Other Land & Buildings	Schools PPP Assets	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets not for Sale	Assets Under Construction	Total PPE
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation									
At 1 April 2015	258,709	322,196	75,231	22,586	61,760	397	4,357	10,164	**755,400**
Additions in year	13,728	3,709	-	506	2,921	-	-	21,907	**42,771**
Disposals in year	(10,052)	(1,212)	-	-	-	-	(2,081)	-	**(13,345)**
Revaluation adjustments to revaluation reserve	235	(7,866)	659	139	-	163	2,037	-	**(4,633)**
Revaluation adjustments to CIES	(1,520)	(65,542)	(2,250)	-	-	(30)	(26)	(102)	**(69,470)**
Other reclassifications	2,503	1,433	-	-	-	-	90	(3,931)	**95**
At 31 March 2016	**263,603**	**252,718**	**73,640**	**23,231**	**64,681**	**530**	**4,377**	**28,038**	**710,818**
Depreciation and impairment									
At 1 April 2015	11,760	24,025	3,082	16,939	17,813	-	327	-	**73,946**
Depreciation charge for the year	12,343	4,736	1,520	1,345	1,605	-	52	-	**21,601**
Impairment losses to revaluation reserve	-	(6,354)	-	-	-	-	-	-	**(6,354)**
Impairment losses to CIES	(35)	(11,056)	(597)	-	-	-	-	-	**(11,688)**
On disposals	(818)	(114)	-	-	-	-	(253)	-	**(1,185)**
Other reclassifications	-	-	-	-	-	-	-	-	-
At 31 March 2016	**23,250**	**11,237**	**4,005**	**18,284**	**19,418**	**-**	**126**	**-**	**76,320**
Balance Sheet amount at 31 March 2016	**240,353**	**241,481**	**69,635**	**4,947**	**45,263**	**530**	**4,251**	**28,038**	**634,498**
Nature of asset holding									
Owned	240,353	239,692	-	4,321	45,263	530	4,251	28,038	**562,448**
Finance lease	-	1,789	-	626	-	-	-	-	**2,415**
PPP	-	-	69,635	-	-	-	-	-	**69,635**
	240,353	**241,481**	**69,635**	**4,947**	**45,263**	**530**	**4,251**	**28,038**	**634,498**

2014-2015 comparative movements

	Council Dwellings	Other Land & Buildings	Schools PPP Assets	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets not for Sale	Assets Under Construction	Total PPE
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation									
At 1 April 2014	260,738	310,555	75,140	21,990	60,186	397	4,357	2,969	**736,332**
Additions in year	12,154	7,619	-	654	1,559	-	-	8,556	**30,542**
Disposals in year	(15,733)	(870)	-	-	-	-	-	-	**(16,603)**
Revaluation adjustments to revaluation reserve	921	4,338	91	-	-	-	-	-	**5,350**
Revaluation adjustments to CIES	629	(785)	-	(37)	-	-	-	(28)	**(221)**
Other reclassifications	-	1,339	-	(21)	15	-	-	(1,333)	-
At 31 March 2015	**258,709**	**322,196**	**75,231**	**22,586**	**61,760**	**397**	**4,357**	**10,164**	**755,400**
Depreciation and impairment									
At 1 April 2014	40,688	18,853	1,549	15,456	16,279	-	273	-	**93,098**
Depreciation charge for the year	12,299	5,229	1,533	1,483	1,534	-	54	-	**22,132**
Impairment losses to revaluation reserve	(40,196)	(27)	-	-	-	-	-	-	**(40,223)**
Impairment losses to CIES	105	-	-	-	-	-	-	-	**105**
On disposals	(1,136)	(30)	-	-	-	-	-	-	**(1,166)**
Other reclassifications	-	-	-	-	-	-	-	-	-
At 31 March 2015	**11,760**	**24,025**	**3,082**	**16,939**	**17,813**	**-**	**327**	**-**	**73,946**
Balance Sheet amount at 31 March 2015	**246,949**	**298,171**	**72,149**	**5,647**	**43,947**	**397**	**4,030**	**10,164**	**681,454**
Nature of asset holding									
Owned	246,949	296,344	-	4,737	43,947	397	4,030	10,164	606,568
Finance lease	-	1,827	-	910	-	-	-	-	2,737
PPP	-	-	72,149	-	-	-	-	-	72,149
	246,949	298,171	72,149	5,647	43,947	397	4,030	10,164	681,454

Depreciation

As highlighted in Note 1 Accounting policies under "Property, plant and equipment" on page 43, depreciation is provided for all assets with a determinable life on a straight-line basis inclusive of the year of acquisition. The period for each applicable category is shown in the table below:

Category	*Sub Category*	*Useful life (years)*	*Valuer*	*Basis of Valuation*	*Date of last full valuation*
Other land and buildings	Specialised buildings	10 to 40	Estates Co-ordinator	Depreciated Replacement Cost /Existing use (MV-DRC/EUV)	31-Mar-16
	Buildings	5 to 99	Estates Co-ordinator	Market Value / Existing Use Value / Depreciated Replacement Cost / Historic Cost (MV/EUV/DRC/HIST)	31-Mar-13
	Land	Up to 999	Estates Co-ordinator	Market Value / Existing Use Value / Depreciated Replacement Cost / Historic Cost (MV/EUV/DRC/HIST))	31-Mar-13
Council dwellings	-	22	DVS Property Specialists	Net Realisable Value 'Beacon Principle' (EUVSH)	31-Mar-15
Vehicles	-	0 to 7	Transport Manager	Net Realisable Value (NRV)	Not Applicable
Equipment	-	5 to 20	Not applicable	Historical Cost	Not Applicable
Infrastructure assets	-	Up to 40	Not applicable	Historical Cost	Not Applicable
Assets under construction	-	5 to 99	Not applicable	Historical Cost	Not Applicable
Community assets	-	99 to 999	Not applicable	Historical Cost	Not Applicable
Schools PPP assets	-	40	Estates Co-ordinator	Depreciated replacement cost/existing use (MV-DRC/EUV)	31-Mar-14

Effect of changes in estimates

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

Commitments under capital contracts

The Council approved capital investment programmes for General Services and Housing for 2016-2017 for construction or enhancement of property, plant and equipment, as outlined in the table below.

Expenditure	**General Services £000**	**Housing £000**	**Total £000**
Capital investment	49,752	18,279	**68,031**
	49,752	18,279	68,031
Sources of finance			
Prudential borrowing	36,834	6,731	**43,565**
Capital grants, contributions and other receipts	12,918	3,850	**16,768**
Capital funded from current revenue	-	7,698	**7,698**
	49,752	**18,279**	**68,031**

Revaluation programme

The following statement shows the progress of the Council's programme for the revaluation of property, plant and equipment, which ensures all such assets required to be measured at fair value are re-valued at least every five years. The measurement bases used for determining the gross carrying amount; the valuers and the significant assumptions applied in estimating the fair values are disclosed separately in Note 1 Accounting policies under "Property, plant and equipment" on page 43.

	Council dwellings	Other land and buildings	School PPP assets	Vehicles, plant & equipment	Infrastructure assets	Community assets	Surplus assets not for sale	Assets under construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Carried at historic cost:	231	47,645	1,002	23,211	64,681	300	564	28,038	**165,672**
Valued at fair value as at:									
31 March 2016	-	158,046	12,922	-	-	171	2,067	-	**173,206**
31 March 2015	263,372	52	-	-	-	-	-	100	**263,524**
31 March 2014	-	24,167	59,716	-	-	25	1,522	-	**85,430**
31 March 2013	-	8,932	-	20	-	32	34	-	**9,018**
31 March 2012	-	13,876	-	-	-	2	90	-	**13,968**
	263,603	252,718	73,640	23,231	64,681	530	4,277	28,138	710,818

Note 10: Heritage assets

Valuation	Fine Arts	Other Heritage Assets	Civic Regalia	Total Heritage Assets
	£000	£000	£000	£000
1 April 2015	**1,514**	**1,001**	**34**	**2,549**
Movements during the year	2	-	-	2
31 March 2016	1,516	1,001	34	2,551
1 April 2014	**1,514**	**1,001**	**34**	**2,549**
Movements during the year	-	-	-	-
31 March 2015	1,514	1,001	34	2,549

Fine arts and other heritage assets

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

Thomas R Callan, April 2010

AXA Art, March 2011

Civic regalia and other civil effects

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

Robert Horn, March 2010

Note 11: Intangible assets

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

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

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

	31 March 2016 Purchased Software Licenses £000	31 March 2015 Purchased Software Licenses £000
Balance at start of year:		
Gross carrying amounts	937	937
Accumulated amortisation	(908)	(883)
Net carrying amount at start of year	29	54
Additions:		
Purchases	-	-
Reclassifications	-	-
Amortisation for the period	(20)	(25)
Net carrying amount at end of the year	9	29
Comprising:		
Gross carrying amounts	937	937
Accumulated amortisation	(928)	(908)
	9	29

Note 12: Financial instruments

Categories of financial instrument

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

	Long Term		Current	
	31 March 2016 £000	31 March 2015 £000	31 March 2016 £000	31 March 2015 £000
Investments				
Loans and receivables	-	-	50,000	50,000
Available for sale financial assets	669	756	-	-
Total Investments	669	756	50,000	50,000
Debtors				
Loans and receivables	89	62	-	-
Financial assets carried at contract amounts	-	-	22,007	17,743
Total debtors	89	62	22,007	17,743
Borrowings				
Financial liabilities (principal amount) *Note1**	155,708	170,344	14,636	6,851
Other accounting adjustments *Note 2***	886	893	-	-
Total borrowings	156,594	171,237	14,636	6,851
Other long term liabilities				
Finance lease liabilities	2,160	2,415	255	322
PPP	55,622	57,990	4,082	3,900
Total other long term liabilities	57,782	60,405	4,337	4,222
Creditors				
Financial liabilities carried at contract amount			51,679	51,836
Total Creditors			51,679	51,836

**Note 1* Under accounting requirements the carrying value of the financial instrument value is shown in the balance sheet which includes the principal amount borrowed or lent and further adjustments for breakage costs or stepped interest loans (measured by an effective interest rate calculation) including accrued interest.

***Note 2* Accrued interest is not required for instruments measured at EIR, as this adjustment covers a full year's interest.

Accrued interest is shown separately in current assets/liabilities where the payments/receipts are due within one year. The effective interest rate is effectively accrued interest receivable under the instrument adjusted for the amortisation of any premiums or discounts reflected in the purchase price.

Reclassifications between categories

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

Income, expense, gains and losses

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

	2015-2016				2014-2015			
	Financial Liabilities (Liabilities measured at amortised cost)	Loans and Receivables	Available-for-sale Assets	Total	Financial Liabilities (Liabilities measured at amortised cost)	Loans and Receivables	Available-for-sale Assets	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Interest expense	13,629	-	-	13,629	14,408	-	-	14,408
Interest payable and similar charges in surplus or deficit on the provision of services	**13,629**	**-**	**-**	**13,629**	**14,408**	**-**	**-**	**14,408**
Interest income	-	(503)	-	(503)	-	(499)	-	(499)
Interest and investment income in surplus or deficit on the provision of services	-	**(503)**	**-**	**(503)**	-	**(499)**	**-**	**(499)**
(Gains) or losses on revaluation	-	-	87	87	-	-	(61)	(61)
Surplus or deficit arising from revaluation of financial assets in other comprehensive income and expenditure	**-**	**-**	**87**	**87**	**-**	**-**	**(61)**	**(61)**
Net (gain) or loss for the year	13,629	(503)	87	13,213	14,408	(499)	(61)	13,848

Fair values of assets and liabilities

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

- For loans from the Public Works Loan Board (PWLB) new borrowing rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures (Table 1). As the Debt Management Office provides a transparent approach allowing the exit cost to be calculated without undertaking a repayment or transfer it is appropriate to disclose the exit price. As an alternative we have also assessed fair value of PWLB loans at premature redemption rates (Table 2) applicable to existing loans on Balance Sheet;
- For non PWLB loans payable prevailing market rates have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable prevailing benchmark market rates have been used to provide their fair value;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount; and
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

Fair value of financial instruments

As at 31 March 2016 the Council held £62.700m financial assets and £171.229m financial liabilities for which Level 2 valuations apply.

All the financial assets are classed as Loans Receivables and held with Money Market Funds and Notice Accounts. The financial liabilities are held with PWLB and Market Lenders. All of these investments and borrowings were not quoted on an active market and a Level 1 valuation is not available. To provide a fair value which provides a comparison to the carrying amount, we have used a financial model valuation provided by Capita Asset Services. This valuation applies the Net Present Value approach which provides an estimate of the value of payments in the future in todays terms as at the balance sheet date. This is a widely accepted valuation technique commonly used by the private sector. Our accounting policy uses new borrowing rates to discount the future cash flows.

The fair values based on new borrowing rates are calculated as follows:

	31 March 2016		31 March 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Liabilities	**£000**	**£000**	**£000**	**£000**
PWLB	122,139	160,803	128,991	167,564
Market Debt	48,205	62,192	48,205	60,916
Sub Total Borrowing	**170,344**	**222,995**	**177,196**	**228,480**
PPP liability	59,704	59,704	61,890	61,890
Short Term Finance Lease Liability	255	255	322	322
Long Term Finance Lease Liability	2,160	2,160	2,415	2,415
Short Term Creditors	51,679	51,679	51,836	51,836
	113,798	**113,798**	**116,463**	**116,463**
Total Liabilities	**284,142**	**336,793**	**293,659**	**344,943**

The fair value of the liabilities is higher than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates in the market at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2016) arising from a commitment to pay interest to lenders above current market rates.

The fair value of PWLB loans of £160.803m measures the economic effect of the terms agreed with PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. The difference between the carrying amount and the fair value measures the additional interest that the Council will pay over the remaining terms of the loans under the agreements with PWLB, against what would be paid if the loans were at prevailing market rates.

	31 March 2016		31 March 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£000	**£000**	**£000**	**£000**
Financial Assets				
Long-term investments:				
Freeport	669	669	756	756
Investments	50,000	50,162	50,000	50,199
Long term debtors	89	89	62	62
Current asset debtors	22,007	22,007	17,743	17,743
	72,765	**72,927**	**68,561**	**68,760**

The fair value of the assets is higher than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates in the market at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2016) arising from a commitment to pay interest to lenders above current market rates.

The fair values based on premature redemption rates are calculated as follows:

	31 March 2016 Carrying Amount £000	31 March 2016 Fair Value £000	31 March 2015 Carrying Amount £000	31 March 2015 Fair Value £000
Financial Liabilities				
PWLB	122,139	185,903	128,991	192,793
Market Debt	48,205	75,132	48,205	60,916
Sub Total Borrowing	**170,344**	**261,035**	**177,196**	**253,709**
PPP liability	59,704	59,704	61,890	61,890
Short Term Finance Lease Liability	255	255	322	322
Long Term Finance Lease Liability	2,160	2,160	2,415	2,415
Short Term Creditors	51,679	51,679	51,836	51,836
	113,798	**113,798**	**116,463**	**116,463**
Total Liabilities	**284,142**	**374,833**	**293,659**	**370,172**

Note 13: Inventories

	Consumable Stores		Maintenance Materials		Property Acquired or Constructed for Sale		Total	
	31 March 2016	31 March 2015	31 March 2016	31 March 2015	31 March 2016	31 March 2015	31 March 2016	31 March 2015
	£000	£000	£000	£000	£000	£000	£000	£000
Balance outstanding at start of year	129	308	217	285	77	88	423	681
Purchases	931	1,132	1,189	1,017	1,444	1,325	3,564	3,474
Recognised as an expense in year	(955)	(1,258)	(1,173)	(1,078)	(1,439)	(1,336)	(3,567)	(3,672)
Written off balances	-	(53)	15	(7)	-	-	15	(60)
Reversals of write-offs in previous years	-	-	-	-	-	-	-	-
Balance outstanding at year end	105	129	248	217	82	77	435	423

Note 14: Debtors

	31 March 2016	31 March 2015
	£000	£000
Central government bodies	4,499	4,352
Other local authorities	338	656
NHS bodies	2,865	102
Trade debtors	8,182	7,370
Other entities and individuals	3,726	2,983
Council tax	2,251	2,106
Accrued interest on investments	146	174
Total	22,007	17,743

Note 15: Cash and cash equivalents

	31 March 2016	31 March 2015
	£000	£000
Cash held by the authority	46	47
Bank current accounts	(3,717)	(3,336)
Short term deposits with banks and other local authorities	12,700	25,700
Total cash and cash equivalents	**9,029**	**22,411**

Note 16: Assets held for sale

	31 March 2016	31 March 2015
	£000	£000
Balance outstanding at start of year	**3,157**	**3,157**
Assets declassified as held for sale		
Property, Plant & Equipment	(95)	-
Revaluation losses	(1,249)	-
Balance outstanding at year end	**1,813**	**3,157**

Note 17: Creditors

	31 March 2016	31 March 2015
	£000	£000
Central government bodies	4,296	4,048
Other local authorities	3,406	1,893
NHS bodies	224	553
Trade creditors	36,866	35,618
Other entities and individuals	2,403	2,415
Non domestic rates	2,153	4,821
Council tax	169	150
Accrued interest on borrowings	2,162	2,338
Total	**51,679**	**51,836**

Note 18: Provisions

	Employee related claims	Business and other grant payments outstanding	Outstanding insurance costs	Total
	£000	£000	£000	£000
Balance as at 1 April 2015	**5,102**	**1,240**	**119**	**6,461**
Additional/(reduced) provisions made in 2015-2016	(1,403)	241	(68)	(1,230)
Amounts used in 2015-2016	(145)	(806)	(31)	(982)
Balance as at 31 March 2016	**3,554**	**675**	**20**	**4,249**

Employee related claims

The Council has made a provision in respect of a number of employee related potential claims outstanding at 31 March 2016.

Business and other grant payments outstanding

This provision includes outstanding payments for enterprise grants and grants to voluntary organisations.

Insurance costs

The provision relates to the Council's share of the former Strathclyde Regional Council's insurance claims.

Note 19: Other short term liabilities

	31 March 2016 £000	31 March 2015 £000
Public Private Partnership (PPP)	4,082	3,901
Amounts owed to Common Good	1,240	2,157
Amounts owed to Trusts and others	1,451	1,466
Finance Lease	255	322
	7,028	7,846

Note 20: Unusable reserves

Summary of year-end balances

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

	31 March 2016 £000	31 March 2015 £000
Revaluation reserve	166,091	174,039
Capital adjustment account	233,092	274,641
Financial Instrument adjustment account	(13,021)	(13,394)
Available for sale financial instruments reserve	628	715
Pension reserve	(119,669)	(180,080)
Employee statutory mitigation account	(5,171)	(4,193)
	261,950	251,728

Revaluation Reserve

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

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

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

	2015-2016 £000	2014-2015 £000
Balance at 1 April	**174,039**	**131,850**
Upward revaluation of assets	32,705	51,184
Downward valuation of assets and impairment losses not charged to the surplus/(deficit) on the Provision of Services	(33,906)	(5,702)
Surplus or deficit on revaluation of non-current assets not posted to the surplus or (deficit) on the Provision of Services	**(1,201)**	**45,482**
Difference between fair value depreciation and historical cost depreciation	(5,624)	(1,687)
Accumulated gains on assets sold or scrapped	(1,123)	(1,606)
Amount written off to the Capital Adjustment Account	**(6,747)**	**(3,293)**
Balance at 31 March	**166,091**	**174,039**

Capital Adjustment Account

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

The account contains accumulated gains and losses on investment properties and gains recognised on donated assets that have yet to be consumed by the Council. The account also contains revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date that the revaluation reserve was created to hold such gains.

Note 7 on page 51 details the source of all the transactions posted to the account, apart from those involving the Revaluation Reserve.

	2015-2016 £000	2014-2015 £000
Balance at 1 April	**274,641**	**267,663**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
Charges for depreciation and impairment of non-current assets	(79,511)	(22,498)
Amortisation of intangible assets	(20)	(25)
Revenue expenditure funded from capital under statute	(342)	(375)
Amounts of non-current assets written off on disposal or sale as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	(9,947)	(13,286)
	(89,820)	(36,184)
Adjusting amounts written out of the revaluation reserve	6,747	3,293
Net written out amount of the cost of non-current assets consumed in the year	(83,073)	(32,891)
Capital financing applied in the year:		
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	18,173	17,010
Application of grants to capital financing from the capital grants unapplied account/repairs and renewals fund	1,061	550
Statutory provision for the financing of capital investment charged against the general fund and HRA balances	11,672	11,399
Capital expenditure charged against the general fund and HRA balances	10,618	10,910
Balance at 31 March	**233,092**	**274,641**

Financial Instruments Adjustment Account

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

	2015-2016 £000	2014- 2015 £000
Balance at 1 April	**(13,394)**	**(13,767)**
Proportion of premiums incurred in previous financial years to be charged against the general fund balance in accordance with statutory requirements	366	366
Fair value effective interest rate adjustment in line with statutory requirements	7	7
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement	**373**	**373**
Balance at 31 March	(13,021)	(13,394)

Available for Sale Financial Instruments Reserve

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

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

	2015-2016 £000	2014- 2015 £000
Balance at 1 April	**715**	**654**
Upward/(downward) revaluation of investments	(87)	61
Balance at 31 March	628	715

Pensions Reserve

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

	2015-2016 £000	2014-2015 £000
Balance at 1 April	**(180,080)**	**(138,177)**
Re-measurement of the net defined benefit asset	73,501	(31,742)
Reversal of items relating to retirement benefits debited or credited to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement	(27,365)	(25,212)
Employer's pension contributions and direct payments	14,275	15,051
Balance at 31 March	(119,669)	(180,080)

Employee Statutory Mitigation Account

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

	2015-2016 £000	2014-2015 £000
Balance at 1 April	**(4,193)**	**(4,073)**
Settlement or cancellation of accrual made at the end of the preceding year	4,193	4,073
Amounts accrued at the end of the current year	(5,171)	(4,193)
Balance at 31 March	**(5,171)**	**(4,193)**

Note 21: Cash Flow Statement – operating activities

The cash flows from operating activities included the following items:

	2015-2016 £000	2014-2015 £000
Interest received	(476)	(479)
Interest paid	12,933	13,592
Total cash and cash equivalents	**12,457**	**13,113**

Note 22: Cash Flow Statement – investing activities

	2015-2016 £000	2014-2015 £000
Property, plant and equipment, investment property and intangible assets	43,433	28,977
Purchase of short term and long term investments	-	8,000
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(2,214)	(2,151)
Proceeds from short term and long term investments	-	(24)
Other receipts from investing activities	(18,960)	(17,010)
Net cash flows from investing activities	**22,259**	**17,792**

Note 23: Cash Flow Statement – financing activities

	2015-2016 £000	2014-2015 £000
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	211	151
Repayments of short and long term borrowing	2,598	2,622
Other payments for financing activities	6,851	4,066
Net cash flows from financing activities	**9,660**	**6,839**

Note 24: Amounts reported for resource allocation decisions

The standard service groups shown on the face of the Comprehensive Income and Expenditure Statement are prescribed by the *Service Reporting Code of Practice* and are designed to make inter-authority comparisons more meaningful. These nation-wide generic groups do not reflect the local management of service delivery and budgetary responsibilities as determined by the Council.

The management of South Ayrshire Council was led by the Chief Executive. The operational structure of the Council is divided into the Chief Executive's Strategic Office, four service directorates plus the Miscellaneous Services Account which encompasses areas of expenditure that, due to their corporate nature, are not included within individual services' budgetary control responsibilities. Financial reports to management are prepared on a different basis from the accounting policies used in the Annual Accounts.

2015-2016	Chief Executive's Strategic Office £000	Educational Services £000	Economy, Neighbourhood & Environment £000	Social Care £000	Resources, Governance & Organisation £000	Miscellaneous Services £000	Total £000
Grants, fees, charges & other service income	(1,231)	(2,262)	(31,000)	(17,376)	(64,124)	(16,572)	**(132,565)**
Total Income							
Employee expenses	1,647	68,469	36,661	24,728	18,821	700	**151,026**
Other service expenses	160	76,156	34,557	8,092	15,664	(32,066)	**102,563**
Payments to third parties	-	2,032	22,654	58,246	1,982	1,480	**86,394**
Transfer payments	-	170	580	98	37,954	-	**38,802**
Total Expenditure	**1,807**	**146,827**	**94,452**	**91,164**	**74,421**	**(29,886)**	**378,785**
Net expenditure	**576**	**144,565**	**63,452**	**73,788**	**10,297**	**(46,458)**	**246,220**

2014-2015	Chief Executive's Strategic Office £000	Educational Services £000	Economy, Neighbourhood & Environment £000	Social Care £000	Resources, Governance & Organisation £000	Miscellaneous Services £000	Total £000
Grants, fees, charges & other service income	(912)	(2,442)	(32,354)	(15,169)	(64,870)	(25,202)	**(140,949)**
Total Income	**(912)**	**(2,442)**	**(32,354)**	**(15,169)**	**(64,870)**	**(25,202)**	**(140,949)**
Employee expenses	1,273	66,636	34,612	22,411	18,329	3,076	**146,337**
Other service expenses	264	28,336	31,701	8,704	13,850	31,063	**113,918**
Payments to third parties	-	2,165	24,022	56,899	2,230	1,406	**86,722**
Transfer payments	-	190	845	65	38,772	-	**39,872**
Total Expenditure	**1,537**	**97,327**	**91,180**	**88,079**	**73,181**	**35,545**	**386,849**
Net expenditure	**625**	**94,885**	**58,826**	**72,910**	**8,311**	**10,343**	**245,900**

Reconciliation of directorate income and expenditure to "Net Cost of Services" in the Comprehensive Income and Expenditure Statement

The table below shows how the figures in the above analysis of Directorate Income and Expenditure reconcile to the amounts included in the Comprehensive Income and Expenditure Statement.

	31 March 2016 £000	31 March 2015 £000
Net expenditure in the directorate analysis	246,220	245,900
Amounts included in the analysis not included in the Comprehensive Income and Expenditure Statement	52,201	(7,399)
Cost of Services in the Comprehensive Income and Expenditure Statement	298,421	238,501

The table below shows how the figures in the analysis of directorate income and expenditure reconcile to a subjective analysis of the "Surplus or Deficit on the Provision of Services" included in the Comprehensive Income and Expenditure Statement.

2015-2016	Directorate Analysis £000	Amounts not included in Income and Expenditure £000	Cost of Services £000	Corporate amounts £000	Total £000
Grants, fees, charges and other service income	(132,565)	(15,892)	(148,457)	-	(148,457)
Interest and investment Income	-	-	-	(503)	(503)
Income from council tax	-	-	-	(46,566)	(46,566)
Government grants and contributions	-	-	-	(225,340)	(225,340)
Total income	(132,565)	(15,892)	(148,457)	(272,409)	(420,866)
Employee expenses	151,026	4,135	155,161	-	155,161
Other service expenses	102,563	63,743	166,306	-	166,306
Payments to third parties	86,394	69	86,463	-	86,463
Transfer payments	38,802	146	38,948	-	38,948
Interest Payments	-	-	-	13,629	13,629
Pension interest cost and expected return on	-	-	-	5,877	5,877
(Gain) or loss on the disposal of fixed assets	-	-	-	9,947	9,947
Total expenditure	378,785	68,093	446,878	29,453	476,331
(Surplus)/deficit on the provision of services	246,220	52,201	298,421	(242,956)	55,465

2014-2015	Directorate Analysis £000	Amounts not included in Income and Expenditure £000	Cost of Services £000	Corporate amounts £000	Total £000
Grants, fees, charges and other service income	(140,949)	(16,161)	(157,110)	-	(157,110)
Interest and investment Income	-	-	-	(499)	(499)
Income from council tax	-	-	-	(45,226)	(45,226)
Government grants and contributions	-	-	-	(219,909)	(219,909)
Total Income	(140,949)	(16,161)	(157,110)	(265,634)	(422,744)
Employee expenses	146,337	3,736	150,073	-	150,073
Other service expenses	113,917	4,834	118,751	-	118,751
Payments to third parties	86,723	107	86,830	-	86,830
Transfer payments	39,872	85	39,957	-	39,957
Interest Payments	-	-	-	14,407	14,407
Pension interest cost and expected return on pension	-	-	-	6,026	6,026
(Gain) or loss on the disposal of fixed assets	-	-	-	13,286	13,286
Total Expenditure	386,849	8,762	395,611	33,719	429,330
(Surplus)/deficit on the provision of services	245,900	(7,399)	238,501	(231,915)	6,586

Note 25: Agency services

The Council billed and collected domestic water and sewerage charges on behalf of Scottish Water with its own Council Tax. During 2015-2016 the Council collected £18.325m and paid over £17.920m and received £0.405m for providing this service.

The Council also bills and collects Non-Domestic Rates on behalf of the Scottish Government. During 2015-2016 the Council billed £40.068m on their behalf and received £42.683m in income from the Non-Domestic Rates Pool.

Note 26: External audit cost

The Council has incurred costs of £0.274m in respect of fees payable to Audit Scotland with regard to external audit services carried out in 2015-2016 (£0.274m 2014-2015).

Note 27: Grant income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2015-2016:

Credited to taxation and non-specific grant income	31 March 2016 £000	31 March 2015 £000
Revenue support grant	163,697	159,766
Receipted capital income	18,960	17,010
Non-domestic rates income	42,683	43,134
Council tax income	46,566	45,226
Total	271,906	265,136

Credited to services	31 March 2016 £000	31 March 2015 £000
Burns Festival	32	83
Department of Work and Pensions	37,428	38,596
Education	1,136	1,650
Education Maintenance Allowance	25	25
Health Authorities	106	130
Leader	129	744
Modern Apprentices	124	184
NHS Alcohol & Drug Misuse	171	599
Other Grants and Contributions	359	405
Police	30	30
Scheme of Assistance Grant	50	50
School Milk	56	46
Social Work	2,821	3,505
Townscape Heritage Initiative	469	244
Food Waste	38	229
Total	42,974	46,520

Note 28: Related parties

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

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

Members of the Council – Members of the Council have direct control over the Council's financial and operating policies. The total members' allowances paid in 2015-16 are shown in the Remuneration Report. During 2015-2016 works and services to the value of £3.95m were commissioned from organisations in which three members had an interest. Contracts were entered into in full compliance with the Council's standing orders. During 2015-16 there were no grants paid to voluntary organisations wherein Members of the Council had an interest. Details of the transactions during 2015-16 are available for any member of the public to view in the Council's offices at County Buildings, Ayr during normal working hours.

Officers of the Council – During 2015-16 Donald Gillies, Head of Property and Risk, Mark Hastings, Enterprise Manager until 23rd August 2015 and Jim Johnstone, Enterprise Manager from 16th November 2015 declared an interest in Freeport Scotland Ltd as directors. Freeport Scotland is a joint venture by a number of prominent organisations both within Ayrshire and beyond. Donald Gillies, Mark Hastings and Jim Johnstone were appointed by The Council as directors of the company and the Council has a 37% share in the company in which lease income of £2,251 was received during 2015-16.

There was no management fee received during 2015-16.

South Ayrshire Integration Joint Board – The South Ayrshire Integration Joint Board was established on 1st April 2015 as a partnership between South Ayrshire Council and NHS Ayrshire and Arran Health Board and is responsible for planning and overseeing the delivery of a full range of community health and social work/social care services, including those for older people, adults, children and families, people in the Criminal Justice System and allied health professions. In the year 2015-16 the following South Ayrshire Council financial transactions were made with South Ayrshire Integration Joint Board relating to the integrated and social care functions:

	£000
Contribution made to South Ayrshire Integration Joint Board	70,071
Commissioning income received from South Ayrshire Integration Joint Board	81,892
South Ayrshire Integration Joint Board debtor	-
South Ayrshire Integration Joint Board creditor	-

Other public bodies – the Council has substantial interests in other public bodies, details of which are disclosed in the Group Balance Sheet. In addition, the Council received grants and income from NHS Ayrshire & Arran of £12.322m during 2015-16.

Assisted organisations – the Council provided funding to organisations including Grants to Voluntary Organisations, Rural Communities Fund and funding for Business Advice, which are all made up of small donations to small organisations, none of which exceeded 50% of those organisations total funding.

Ayr Renaissance LLP - established by the Council as a separate arms-length, Limited Liability Partnership, with the purpose of regenerating Ayr Town Centre. It has two members, namely the Council (which is entitled to 99.999% share of profits) and SAC (LLP Nominees) Limited, a nominee company wholly owned by the Council. The Council's Executive Director - Economy, Neighbourhood and Environment sits on the board along with three councillors and five private sector members. The organisations' running costs are met by the Council by way of an annual contribution, details of which are contained within the Group Accounts on pages 98 to 105.

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

The Councillors and Officers of the Council also exert significant influence in the administration and decision making of several trusts where the Councillors do not have sole control. For further details please see Section 11 Trust Funds on pages 95 to 97.

Note 29: Capital expenditure and capital financing

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

	31 March 2016 £000	31 March 2015 £000
Opening capital financing requirement	**236,302**	**247,282**
Capital Investment		
Property, plant and equipment	44,174	30,575
	44,174	30,575
Sources of finance		
Capital Receipts	(2,215)	(2,151)
Government grant and other contributions	(19,234)	(17,560)
Capital funded from current revenue	(10,276)	(10,535)
Repayment of PPP/finance lease	(2,508)	(2,713)
Loans fund principal repayments	(8,762)	(8,596)
Closing capital financing requirement	**237,481**	**236,302**
Explanation of movements during the year		
Increase/(reduction) in the underlying need to borrow	3,687	(8,267)
Increase/(decrease) in finance lease obligations	(322)	(315)
Increase/(decrease) in PPP finance lease creditor	(2,186)	(2,398)
Increase/(decrease) in capital financing requirement	**1,179**	**(10,980)**

Note 30: Leases

Authority as lessee

Finance leases

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

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

	31 March 2016 £000	31 March 2015 £000
Property, plant and equipment	2,369	2,682

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

	31 March 2016 £000	31 March 2015 £000
Finance lease liabilities (net present value of minimum lease payments):		
Current	255	322
Non-Current	2,160	2,415
Finance costs payable in future years	57	83
Minimum lease payments	2,472	2,820

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

	Minimum lease payments		Finance lease liabilities	
	31 March 2016 £000	31 March 2015 £000	31 March 2016 £000	31 March 2015 £000
No later than one year	275	348	255	348
Later than one year and not later than five years	510	657	475	657
Later than five years	1,687	1,815	1,685	1,815
	2,472	2,820	2,415	2,820

Operating leases

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

	31 March 2016 £000	31 March 2015 £000
No later than one year	249	90
Later than one year and not later than five years	711	540
Later than one year and not later than five years	36	-
	996	630

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

	31 March 2016 £000	31 March 2015 £000
Minimum lease payments	1,368	1,334
	1,368	1,334

Authority as lessor

Finance leases

The Council has not entered into any finance lease arrangements.

Operating leases

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

	31 March 2016 £000	31 March 2015 £000
No later than one year	747	885
Later than one year and not later than five years	976	1,308
Later than five years	11,012	11,330
	12,735	**13,523**

Note 31: Public private partnerships and similar contracts

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

Property, plant and equipment

The assets used to provide services at the schools are recognised on the Council's Balance Sheet. Movements in value over the year are detailed in the analysis of the movement in Note 9 Property, plant and equipment on page 55.

Remaining payments under the agreement

The Council makes an agreed payment each year, which is increased each year by inflation and can be reduced if the provider fails to meet availability and performance standards in any year but which is otherwise fixed. Payments remaining to be made under the PPP contract at 31 March 2016 (assuming an average inflation rate of 2.50% and excluding any estimation of availability and performance deductions) are as follows:

	Payment of services £000	Reimbursement of capital expenditure £000	Interest £000	Total £000
Payable within one year	4,281	1,995	4,418	**10,694**
Payable within two to five years	18,089	8,736	17,966	**44,791**
Payable within six to ten years	27,441	10,846	22,518	**60,805**
Payable within eleven to fifteen years	33,436	11,221	21,984	**66,641**
Payable within sixteen to twenty years	36,635	13,785	22,626	**73,046**
Payable within twenty-one to twenty-five years	23,826	13,121	17,002	**53,949**
Total	**143,708**	**59,704**	**106,514**	**309,926**

Liabilities from PPP arrangements

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

	2015-2016	2014-2015
	£000	£000
Balance outstanding at start of year	**61,890**	**64,288**
Increases/(reductions) during the year	(2,186)	(2,398)
Balance outstanding at year end	59,704	61,890

Note 32: Termination benefits

The Council terminated the contracts (or agreed to terminate prior to the financial year end) of a number of employees in 2015-2016, incurring liabilities of £0.349m (£1.818m 2014-2015). This total is payable to 33 employees from the following directorates:

Number	Directorate
-	Chief Executive's Strategic Office
13	Economy, Neighbourhood and Environment
11	Educational Services
4	Health and Social Care
5	Resources, Governance and Organisation

Termination benefits exclude ill health retirals.

Note 33: Defined benefit pension schemes

Participation in pension schemes

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

Benefits

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

The pension's accrual rate guarantees a pension based on 1/60th of final pensionable salary and years of pensionable services. (Prior to 2009, the accrual rate guaranteed a pension based on 1/80th and a lump sum based on 3/80th of final pensionable salary and years of pensionable service.) There is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for lump sum up to the limit set by the Finance Act 2004. The scheme's normal retirement age is 65. Pensions are increased annually in line with changes to the Pensions (Increases) Act 1971 and Section 59 of the Social Security Pensions Act 1975.

Governance

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

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

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

Principal risks

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

Discretionary post-employment benefits

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

Transactions relating to post-employment benefits

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

The following transactions have been made in the accounting statements in 2015-2016 and the prior year 2014-2015.

Comprehensive Income and Expenditure Statement (CIES)	**2015-2016 £000**	**2014-2015 £000**
Cost of Services:		
Service cost comprising:		
Current service cost	20,656	17,062
Past service cost (including curtailments)	830	2,124
Financing and investment income and expenditure:		
Net interest expense/ (income)	5,877	6,026
Total post-employment benefit charged to the surplus or deficit on the provision of services	**27,363**	**25,212**
Other post-employment benefits charged to the CIES:		
Re-measurement of the net defined benefit liability comprising:		
Return on the plan assets	3,566	(36,520)
Actuarial gains and losses arising on changes in demographic assumptions		19,461
Actuarial gains and losses arising on changes in financial assumptions	(68,299)	75,730
Other	(8,768)	(26,929)
Total post-employment benefit charged to the CIES	**(46,138)**	**56,954**
Movement in Reserves Statement (MiRS)		
Reversal of net charge made to the surplus or deficit on the provision of services for post-employment benefits in accordance with the Code	**60,413**	**(41,903)**
Actual amount charged against the General Fund balance for pensions in the year:		
Employers' contribution payable to the scheme	14,275	15,051

Pension assets and liabilities recognised in the Balance Sheet

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

	2015-2016 £000	2014-2015 £000
Present value of the defined benefit obligation: funded	(693,239)	(740,422)
Present value of the defined benefit obligation: unfunded	(32,836)	(35,663)
Fair value of pension fund assets	606,406	596,005
Net Liability arising from defined benefit obligations	(119,669)	(180,080)

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

	2015-2016 £000	2014-2015 £000
Opening balance at 1 April	**776,087**	**676,384**
Current service cost	20,656	17,062
Past service cost	830	2,124
Interest cost	24,869	29,114
Contributions by scheme participants	3,872	3,687
Re-measurement gains and (losses):		
Actuarial gains and losses arising on changes in demographic assumptions	-	19,461
Actuarial losses/ (gains) arising from changes in financial assumptions	(68,299)	75,730
Other losses/ (gains)	(8,768)	(26,929)
Benefits paid	(21,249)	(18,496)
Unfunded benefits paid	(1,923)	(2,050)
Closing balance at 31 March	726,075	776,087

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

	2015-2016 £000	2014-2015 £000
Opening fair value of the scheme assets	**596,005**	**538,205**
Interest income	18,992	23,088
Re-measurement gains and (losses):		
Return on the plan assets	(3,566)	36,520
Contributions from employers	12,352	13,001
Contributions from employees in the scheme	3,872	3,687
Benefits paid	(21,249)	(18,496)
Closing fair value of the scheme assets	606,406	596,005

Analysis of pension fund assets

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

At 31 March 2016

Asset category	Quoted Prices in Active Markets £000	Prices not quoted in Active Markets £000	2015-2016 Total £000
Cash and cash equivalents			
Equity instruments:			
Consumer	56,860	13	56,873
Manufacturing	45,038	394	45,432
Energy and utilities	17,868	-	17,868
Financial institutions	41,838	4	41,842
Healthcare	24,449	14	24,463
Information technology	34,570	52	34,622
Sub-total equity	**220,623**	**477**	**221,100**
Debt securities (corporate bonds non-investment grade)	-	**1**	**1**
Private equity	-	**58,986**	**58,986**
Real estate (UK property)	-	**65,145**	**65,145**
Investment funds and unit trusts:			
Equities	5,275	152,126	157,401
Bonds	-	74,012	74,012
Commodities	207	-	207
Other	-	8,511	8,511
Sub-total investment funds and unit trusts	**5,482**	**234,649**	**240,131**
Derivatives (other)	**147**	-	**147**
Cash and cash equivalents (all)	20,249	647	20,896
Totals	246,501	359,906	606,406

At 31 March 2015

Asset category	Quoted Prices in Active Markets £000	Prices not quoted in Active Markets £000	2014-2015 Total £000
Cash and cash equivalents			
Equity instruments:			
Consumer	56,311	13	56,324
Manufacturing	44,603	371	44,974
Energy and utilities	17,695	-	17,695
Financial institutions	41,435	3	41,438
Healthcare	24,214	13	24,227
Information technology	34,236	50	34,286
Sub-total equity	**218,494**	**450**	**218,944**
Debt securities (corporate bonds non-investment grade)	-	**3**	**3**
Private equity	-	**57,996**	**57,996**
Real estate (UK property)	-	**54,453**	**54,453**
Investment funds and unit trusts:			
Equities	6,268	164,731	170,999
Bonds	-	75,461	75,461
Commodities	226	-	226
Infrastructure	-	2,014	2,014
Other	-	1,083	1,083
Sub-total investment funds and unit trusts	**6,494**	**243,289**	**249,783**
Derivatives (other)	**182**	-	**182**
Cash and cash equivalents (all)	-	14,644	14,644
Totals	225,170	370,835	596,005

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pension that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The Fund's liabilities have been assessed by Hymans Robertson, an independent firm of actuaries, and the estimates are based on the latest full valuation of the Fund at 31 March 2016. The significant assumptions used by the actuary have been:

Mortality assumptions:	**2015-2016**	**2014-2015**
Longevity at 65 for current pensioners		
Male	22.1	22.1
Female	23.6	23.6
Longevity at 65 for future pensioners		
Male	24.8	24.8
Female	26.2	26.2
Financial assumptions:		
Rate of inflation/pension increase rate	2.20%	2.40%
Rate of increase in salaries	4.20%	4.30%
Expected return on assets	3.50%	3.20%
Rate for discounting scheme liabilities	3.50%	3.20%

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

Change in assumption at 31 March 2016	**Approximate % increase to Employer Liability**	**Approximate monetary amount £000**
0.5% decrease in real discount rate	10%	73,714
1 year increase in member life expectancy	3%	21,782
0.5% increase in the salary increase rate	4%	26,522
0.5% increase in the pension increase rate	6%	45,655

Asset and liability matching strategy

The Strathclyde Pension Fund has an asset and liability matching strategy [ALM] that matches, to the extent possible, the types of assets invested to the liabilities in the defined benefit obligation. The Fund has matched assets to the pensions' obligations by investing in long-term fixed interest securities and index linked gilt edged investments with maturities that match the benefits payments, as they fall due. A large proportion of the assets relate to equities [72%] and bonds [12%]. The comparative year's figures are 75% and 13%. The scheme also invests in properties [11%] and in cash [3%]. The ALM strategy is monitored annually or more frequently if necessary.

Impact on the Council's cash flow

The objectives of the Fund are to keep employers' contributions at as constant a rate as possible. The Fund has agreed a strategy to achieve a funding rate of 100% in the longer term. The Scheme is a multi-employer defined benefit plan and employers' contributions have been determined so that employee and employer rates are standard across all participating local authorities. Employer's contributions have been set at 19.3% for 2015-2016 based on the last triennial valuation completed on 31 March 2014.

The total contributions expected to be made by the Council to Strathclyde Pension Fund in the year to 31 March 2017 is £12.266m.

The weighted average duration of the defined benefit obligation for Fund members is 18 years (This is different from the mortality assumptions quoted in the table above in "*Basis for estimating assets and liabilities*").

Note 34: Pensions schemes accounted for as a defined contribution schemes

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

- The scheme is an unfunded statutory public service pension scheme with benefits underwritten by the UK Government. The scheme is financed by payments from employers and from those current employees who are members of the scheme and paying contributions at progressively higher marginal rates based on pensionable pay, as specified in the regulations. The rate of employer contributions is set with reference to a funding valuation undertaken by the scheme actuary. The last four-yearly valuation was undertaken as at 31 March 2012. The next valuation will be as at 31 March 2016 and this will set contribution rates from 1 April 2019.
- The Council has no liability for other employers obligations to the multi-employer scheme.
- As the scheme is unfunded there can be no deficit or surplus to distribute on the wind-up of the scheme or withdrawal from the scheme.
- i) The scheme is an unfunded multi-employer defined benefit scheme.

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

  iii) The employer contribution rate from 1 April 2015 was 14.9% of pensionable pay. This was increased to 17.2% from 1 September 2015. While the employee rate applied is a variable it will provide an actuarial yield of 9.6% of pensionable pay.

  iv) At the last valuation a shortfall of £1.3billion was identified in the notional fund which will be repaid by a supplementary rate of 4.5% of employer's pension contributions for fifteen years from 1 April 2015. This contribution is included in the 17.2% employer's contribution rate.

  v) Contributions collected in the year to 31 March 2016 will be published in November 2016.

The Council paid £6.744m (£6.244m 2014-2015) for employer's contributions. As a proportion of the total contributions into the Teachers Superannuation Scheme during the year ended 31 March 2015 (£350.7m), the Council's own contributions paid for the period ending 31 March 2016 equates to approximately 1.9%.

Note 35: Contingent assets and liabilities

The Council has received notice of several potential insurance and other claims during 2015-2016. It is recognised that the Council has a potential liability which may require to be met if the claims are successful and as such has agreed to meet any liability from uncommitted reserves if required.

In addition to the £3.554m provision made in the financial statements for employee related claims, the Council recognises a contingent liability in relation to other employee related grievances and the potential costs that may arise as a result of further claims being pursued against the Council. The position in respect of these potential claims is still subject to a high degree of uncertainty and it is not clear that either an obligation or their value can be reliably established at this time.

Note 36: Scheme of delegation for schools

The Council approved a revised Scheme of Delegation for Schools on 16 June 2015. The scheme supports the development planning and improvement agenda by providing for the carry-forward of individual school budget surpluses or deficits. Funds totalling £3.838m have been earmarked by directorates to be spent in 2016-2017 on planned service expenditure items, of which £0.158m relates to schools.

Note 37: 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 meets its commitments to make payments
- **re-financing risk** – the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms.
- **market risk** – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements

Overall procedures for managing risk

The Council's overall risk management procedures focus on the unpredictability of financial markets and seek to minimise potential adverse effects on the resources available to fund services. The procedures for risk management are set out through a legal framework based on the Local Government (Scotland) Act 2003 and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management and the investment guidance (regulations – Scotland) issued through the Act.

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

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

The above are required to be reported and approved at or before the Council's annual Council Tax setting budget or before the start of the year to which they relate. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Council's financial instruments exposure. Actual treasury performance is also reported following each year as an Annual Report and is also monitored throughout the year with quarterly update reports.

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

Credit risk

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

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

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

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

The full Investment Strategy for 2015-16 was approved by Council on 5 March 2015 and is available on the Council's website.

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

The Council's maximum exposure to credit risk in relation to its cash investments in banks and building societies of £62.700m cannot be assessed generally, as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at 31 March 2016 that this was likely to crystallise.

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

The Council's gross debtor (excluding council tax and non-domestic rate income) was £25.478m against which a provision of £5.722m 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. In terms of financial modelling, a 1% increase in the allowance would lead to an additional cost to the Council of £0.256m.

The Council does not generally allow credit for customers, such that £6.849m of the £25.478m balance is past its due date for payment. The past due amount can be analysed by age as follows:

	31 March 2016 £000	31 March 2015 £000
Less than three months	1,422	1,733
Three to six months	825	399
Six months to one year	2,160	2,087
More than one year	2,442	4,393
	6,849	8,612

Collateral

South Ayrshire Council has in the past provided loans to residents who have bought their homes under "Right To Buy" legislation. In such cases the Council takes a standard security over the property. As at 31 March 2016 the outstanding value of loans advanced by the Council was £0.056m.

Liquidity risk

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

The Council has ready access to borrowings from the money markets to cover any day to day cash flow need, and the Public Works Loan Board (PWLB) and money markets for access to longer term funding. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

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

Refinancing and Maturity Risk

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

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

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

The maturity analysis of the principal element of borrowing is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period (approved by Council in Treasury Management and Investment Strategy).

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

	Maturity limit %	Maturing debt %	Actual 31 March 2016 £000	Actual 31 March 2015 £000
Less than one year	25	8.59	14,636	6,851
Between one and two years	25	2.59	4,416	14,636
Between two and five years	50	3.60	6,130	9,542
Between five and ten years	75	7.09	12,071	11,073
More than ten years	90	78.13	133,091	135,094
Principal element of borrowing			170,344	177,196

Market risk

Interest rate risk

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

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

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

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

To illustrate the financial impact of interest changes on the Council, the following tables show the financial effect if interest rates had been 1% higher at 31 March 2016.

	Actual 31st March 2016 £000	Actual 31st March 2015 £000
Increase in interest payable on variable rate borrowings	286	297
Increase in interest receivable on variable rate investments	(183)	(219)
	103	78

Other presentational changes	Actual 31st March 2016 £000	Actual 31st March 2015 £000
Decrease in "fair value" of fixed rate borrowing liabilities (no impact on surplus or deficit on the provision of services)	30,545	30,481

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 £0.669m in Freeport (Scotland) Ltd, which allows the Council voting rights within the company. The Council is consequently exposed to losses arising from movements in the prices of the shares.

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

The £0.669m shares are all classified as 'available for sale', meaning that all movements in price will impact on gains and losses recognised in the Comprehensive Income and Expenditure Statement.

Foreign Exchange Risk

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

Note 38: Heritage assets – information on museum collections

Museum and art gallery collections

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

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

The fine arts collection is one of the largest held by the Museums and Galleries Service. It is made up from the collections of the former Burghs of Prestwick, Maybole, Girvan, Troon and the Royal Burgh of Ayr. These collections are made up from individual purchases and gifts or bequests from local people. These major bequests include works bequeathed by Allan Forest Stark, Dr McGregor, G.B. Dunlop, R.C. Roy, Richard Edmiston Senior and Junior, Thomas Davidson, William McDowall and William Bell Scott Valentine.

There is a considerable proportion of the collection which is made up of local scenes of work by local artists. In particular there is a group of works by Robert Bryden, William Bell Scott Valentine and original artists of the Ayr Sketch Club. There is also a considerable number of pieces relating to various artists, and in particular pieces relating to Robert Burns, including some 200 pieces, which formed part of the Tam O'Shanter museum collection and 54 works of 'Tam O'Shanter' by the artist Alexander Goudie.

The photography collection includes artistic photography, historic studio portrait photography and images of historic events, which are held throughout various locations across South Ayrshire including Carnegie Library, the Museums and Galleries Service and the Ayrshire Archives Centre.

A number of local interest pieces are included in the various collections, including Robert Burns related literature and a significant collection of formal regalia from the former Burghs of Troon, Prestwick, Maybole, Girvan and the Royal Burgh of Ayr. A considerable amount of the ceramic ware has images of Robert Burns themes or local scenes.

Civic regalia and other civil affects

The civic regalia are the chains and pendants of office of the Provost and the Deputy Provost. The Provost, who is the figurative and ceremonial head of the Council, wears the gold chain and pendant of office at meetings of the full Council and other appropriate civic and ceremonial events. Other civic effects consist of robes and a number of ornaments. The civic regalia and effects not worn are held securely in Council buildings.

Preservation and management

Assets are collated, preserved and managed in accordance with professional museum guidelines and the Museum Accreditation Standard. The Executive Director - Economy, Neighbourhood and Environment is responsible for making arrangements for the proper administration of the museum collections. The professional officer in charge of the collections is the Libraries and Museums Co-ordinator, under the direction of the Culture and Sport Manager.

Section 7: Housing Revenue Account

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

I) Movement on the HRA Statement for the year ended 31 March 2016

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

2014-2015 £000		£000	2015-2016 £000
(13,445)	**Balance on the HRA at the end of the previous year**		**(10,461)**
13,214	(Surplus) or deficit for the year on the HRA Income and Expenditure Statement		9,243
	Adjustments between accounting basis and funding basis under statute		
(12,104)	Depreciation and impairment of non-current assets	(14,779)	
3,118	Capital grants and contributions credited to the comprehensive income and expenditure statement	2,937	
(13,195)	Net gain or (loss) on sale of non-current assets	(7,521)	
125	Amount by which finance costs calculated in accordance with *The Code* are different from the amount of finance costs calculated in accordance with statutory requirements	128	
(343)	Amount by which pension costs calculated in accordance with *The Code* (i.e. in accordance with IAS 19) are different from the contributions due under the pension scheme regulations	(483)	
2,108	Statutory repayment of debt (Loans Fund advances)	2,164	
10,073	Capital expenditure charged to the HRA balance (CFCR)	8,878	
(12)	Net transfer (to) or from earmarked reserves required by legislation	(18)	
(10,230)			(8,694)
2,984	**Decrease in HRA balance**		**549**
(10,461)	**Balance on the HRA at the end of the current year**		**(9,912)**

II) HRA Income and Expenditure Statement for the year ended 31 March 2016

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

2014-2015 £000		£000	2015-2016 £000
	Expenditure		
10,676	Repairs and maintenance	10,525	
5,422	Supervision and management	5,857	
12,104	Depreciation and impairment of fixed assets	14,779	
625	Other expenditure	664	
167	Increase in bad debt provision	155	
28,994	**Total expenditure**		**31,980**
	Income		
(28,794)	Dwelling rents	(29,493)	
(417)	Non dwelling rents	(431)	
(122)	Other income	(780)	
(29,333)	**Total income**		**(30,704)**
(339)	**Net (income)/expenditure from HRA services as included in the Council Comprehensive Income and Expenditure statement**		**1,276**
126	HRA share of Corporate and Democratic Core		125
(213)	**Net (income)/expenditure from HRA Service**		1,401
	Other Operating Expenditure		
13,195	(Gain) or loss on sale of HRA non-current assets		7,521
3,271	Interest payable and similar charges		3,144
(125)	Interest and investment income		(103)
204	Net interest on the net defined benefit liability		217
(3,118)	Non-specific grant income		(2,937)
13,214	**Deficit for the year on HRA services**		9,243

Notes to the Housing Revenue Account

Note 1: Provisions

A provision of £0.583m (2014-2015: £0.540m) is included in the Balance Sheet for doubtful debts in respect of housing rents. During 2015-16, a total of £0.076m was written off in respect of housing rent arrears. A further provision of £0.193m (2014-2015: £0.187m) is included in the Balance Sheet for doubtful debts in respect of homeless arrears. During the year, a total of £0.030m was written off in respect of homeless arrears.

Note 2: Accommodation

At 31 March 2016, the Council held various types of accommodation and had the following number and types of houses:

31 March 2015 Number of houses	Type of accommodation	31 March 2016 Number of houses
2,466	One and two apartment	2,468
3,471	Three apartment	3,454
2,000	Four apartment	2,015
165	Five or more apartment	169
8,102		**8,106**

31 March 2015 Number of houses	By area	31 March 2016 Number of houses
4,652	Ayr	4,697
1,004	Troon	998
726	Prestwick	731
756	Maybole	749
964	Girvan	931
8,102		**8,106**

Note 3: Rent arrears

At 31 March 2016, rent arrears amounted to £1.022m (2014-2015 £0.994m), being 3.30% (2014-2015 3.29%) of gross rent collectable.

Note 4: HRA surplus/ (deficit)

The deficit for the year of £0.549m, when added to the surplus brought forward from 2014-2015 of £10.461m, results in an accumulated surplus of £9.912m at 31 March 2016. £4.550m is required to fund specific capital and revenue projects in future years leaving a balance of £5.362m which will be held as a contingency for future unexpected or emergency situations.

Note 5: Void property lost revenue

The rental income lost due to void properties amounted to £0.548m in 2015-2016 (2014-2015 £0.568m).

Section 8: Collection of Council Tax

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

Council Tax Income Account

2014-2015 £000		2015-2016 £000
63,284	Gross council tax levied and contributions in lieu	63,543
	Deduct :	
(8,559)	Council tax benefits/reduction (net of government grants)	(8,123)
(7,675)	Other discounts and reductions	(7,691)
(1,305)	Write off of uncollectable debts and allowances for impairment	(1,322)
45,745	**In year council tax income**	**46,407**
(519)	Adjustment to prior years' council tax	159
45,226	Transfer to General Fund	**46,566**

Notes to the Council Tax Income Account

Note 1: Council tax income

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

Each property is placed in one of eight valuation bands (A to H) in accordance with their value as at 1 April 1993. The council tax charge levied for each property is calculated in proportion to the council tax charge for a Band D property by applying fractions. A discount of 25 per cent on the council tax charge is made where there are fewer than 2 residents of a property. Discounts of 50 per cent are made for unoccupied property. In certain circumstances, individuals may be exempt for council tax purposes. Individuals in detention, students and people with mental health issues are some examples where council tax would not be applicable. Reductions in council tax payable are also granted for disabled people.

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

Valuation band	Property valuation range	Fractions
A	£0 - £27,000	6/9
B	£27,001 - £35,000	7/9
C	£35,001 - £45,000	8/9
D	£45,001 - £58,000	9/9
E	£58,001 - £80,000	11/9
F	£80,001 - £106,000	13/9
G	£106,001 - £212,000	15/9
H	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 agreed to grant a discount of 25 per cent to second homes and long term empty properties from 1 September 2005. Previously the discount awarded was 50 per cent and since 1 April 2011 the discount was set at 10 per cent. The additional council tax income collected due to the reduced level of discount requires to be transferred for the provision of new-build, affordable social housing in areas determined by the Council.

Following the introduction in 2013-2014 of the Council Tax Reduction Scheme as part of welfare reform, council tax benefit subsidy was replaced by additional general revenue grant funding. This is shown in the council tax income account on page 89 as an increase in the council tax benefits (net of government grants) figure. The cost to the Council of the Council Tax Reduction Scheme in 2015-2016 was £7.978m.

Additional income of £1.154m is included within the general fund and earmarked for use in relation to the affordable homes strategy.

Note 2: Calculation of the council tax charge base 2015-2016

	Valuation band								
Council tax band	**A**	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**Total**
Total number of properties	7,327	12,572	8,798	8,536	9,466	4,802	2,965	285	**54,751**
Less exemptions/deductions	317	363	260	163	132	57	33	2	**1,327**
Less adjustment for single discount	991	1,317	870	690	673	258	125	6	**4,930**
Less adjustment for double discount	68	116	90	78	80	55	23	5	515
Effective number of properties	**5,951**	**10,776**	**7,578**	**7,605**	**8,581**	**4,432**	**2,784**	**272**	**47,979**
Band D equivalent factor (D)	**6**	**7**	**8**	**9**	**11**	**13**	**15**	**18**	-
Band D equivalent number of properties	3,965	8,381	6,736	7,605	10,488	6,402	4,640	544	**48,761**
Class 17 & 24 dwellings	-	-	-	8	-	-	-	-	8
Total	3,965	8,381	6,736	7,613	10,488	6,402	4,640	544	48,769
Less provision for non-collection 2.75 per cent									1,341
Council tax base 2015-2016 (equivalent to a Band D council tax of £1,153.95)									**47,428**

Note 3: Council tax properties and council tax charges

	Valuation band								
	A	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**Total**
Number of chargeable properties	5,951	10,776	7,578	7,605	8,581	4,432	2,784	272	**47,979**
Total council tax charge	£769.30	£897.52	£1,025.73	£1,153.95	£1,410.38	£1,666.82	£1,923.25	£2,307.90	

Section 9: Non-Domestic Rate Account

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

2014-2015 £000		2015-2016 £000
53,405	Gross rates levied and contributions in lieu	53,739
	Deduct :	
(11,934)	Reliefs and other deductions	(12,337)
-	Payment of interest	-
(830)	Write-off of uncollectable debts and allowance for impairment	(828)
40,641	**Net non-domestic rate income**	**40,574**
(849)	Adjustment to previous years' national non-domestic rates	(506)
39,792	**Total non-domestic rate income**	**40,068**
	National non-domestic rate pool:	
43,134	Non-domestic rate income retained by the authority	42,683
(39,792)	Contribution (to)/ from national non-domestic rate pool	(40,068)
3,342		**2,615**

Notes to the Non-Domestic Rate Account

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

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

Note 2: Rateable subjects and values 2015-2016

Commercial subjects	Number	Rateable value £000
Shops	1,399	37,462
Public houses	114	3,219
Offices (Including banks)	735	10,874
Hotels, boarding houses, etc.	92	3,727
Industrial and freight transport subjects	950	18,277
Leisure, entertainment caravans and holiday sites	499	5,845
Garages and petrol stations	92	1,302
Cultural	31	561
Sporting subjects	149	646
Education and training	69	9,128
Public service subjects	185	5,356
Communications (non-formula)	17	1,822
Quarries, mines etc.	8	395
Petrochemical	4	63
Religious	90	1,082
Health medical	90	4,216
Other	181	1,116
Care facilities	53	2,708
Advertising	37	71
Undertaking	18	1,736
Total all subjects	**4,813**	**109,606**

Rate levied 2015-2016:
Rateable value greater than £35,000 – 49.30p
Rateable value less than or equal to £35,000 – 48.00p

Section 10: Common Good Fund

The Common Good Fund was inherited by South Ayrshire Council from Kyle and Carrick District Council in 1996 following the local government re-organisation. The Fund comprises five distinct sub-funds; Ayr, Troon, Prestwick, Maybole and Girvan. The Council controls 100 per cent 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.

I) Movement in Common Good Reserves Statement for the year ended 31 March 2016

2015-2016	Revenue reserve	Capital receipts reserve	**Total usable reserve**	Revaluation reserve	Available for sale financial instruments reserve	**Total Unusable reserve**	**Total reserves**
	£000	£000	**£000**	£000	£000	**£000**	**£000**
Balance at 31 March 2015	795	1,848	**2,643**	16,041	-	**16,041**	**18,684**
Movement in reserves during 2015-2016							
Surplus or (deficit) on the provision of services	(200)	-	**(200)**	-	-	-	**(200)**
Other comprehensive income and expenditure	-	(739)	**(739)**	364	-	**364**	**(375)**
Increase/(decrease) in 2015-2016	(200)	(739)	**(939)**	364	-	**364**	**(575)**
Balance at 31 March 2016	595	1,109	**1,704**	16,405	-	**16,405**	**18,109**

2014-2015	Revenue reserve	Capital receipts reserve	**Total usable reserve**	Revaluation reserve	Available for sale financial instruments reserve	**Total Unusable reserve**	**Total reserves**
	£000	£000	**£000**	£000	£000	**£000**	**£000**
Balance at 31 March 2014	900	2,032	**2,932**	16,139	6	**16,145**	**19,077**
Movement in reserves during 2014-2015							
Surplus or (deficit) on the provision of services	(105)	-	**(105)**	-	-	-	**(105)**
Other comprehensive income and expenditure	-	(184)	**(184)**	(98)	(6)	**(104)**	**(288)**
Increase/(decrease) in 2014-2015	(105)	(184)	**(289)**	(98)	(6)	**(104)**	**(393)**
Balance at 31 March 2015	795	1,848	**2,643**	16,041	-	**16,041**	**18,684**

II) Common Good Income and Expenditure Account for the year ended 31 March 2016

2014-2015		Ayr	Troon	Prestwick	Maybole	Girvan	2015-2016
£000		£000	£000	£000	£000	£000	£000
	Expenditure						
594	Property costs	559	1	30	-	44	634
120	Donations and contributions	232	-	-	-	-	232
141	Other expenditure	48	-	-	-	-	48
855		**839**	**1**	**30**	**-**	**44**	**914**
	Income						
677	Rents	614	-	23	-	-	637
18	Interest on loans	15	-	2	-	-	17
55	Other income	16	-	-	-	44	60
750		**645**	**-**	**25**	**-**	**44**	**714**
(105)	**Surplus/(deficit) for year**	**(194)**	**(1)**	**(5)**	**-**	**-**	**(200)**
900	Surplus brought forward	475	34	275	2	9	795
795	**Accumulated surplus**	**281**	**33**	**270**	**2**	**9**	**595**

III) Common Good Balance Sheet as at 31 March 2016

31 March 2015		31 March 2016
£000		£000
16,248	**Long-term assets**	**16,612**
263	Long term investments	243
263	**Total long term investment**	243
	Current assets	
2	Inventory	2
20	Debtors and prepayments	20
2,158	Loans fund investment	1,240
2,180		1,262
18,691	**Total assets**	**18,117**
	Less: current liabilities	
(7)	Creditors	(8)
18,684	**Total assets less liabilities**	18,109
	Financed by:	
795	Revenue reserve	595
1,848	Usable capital receipts reserve	1,109
16,041	Revaluation Reserve	16,405
18,684	**Total reserves**	18,109

Notes to Common Good Fund Statements

Note 1: Valuation of fixed assets

Property valuations were carried out by RICS professional staff within the Council's Directorate of Resources, Governance and Organisation and are at valuation dates between 2011-2012 and 2015-2016, dependent on the category of asset.

Note 2: Movement in fixed assets

2015-2016 Movements

	Gross book value at 1 April 2015	Additions	Revaluations and impairments	Disposals	Gross book value at 31 March 2016
	£000	£000	£000	£000	£000
Land					
Ayr	4,393	-	(708)	-	3,685
Prestwick	403	-	(22)	-	381
Troon	2	-	-	-	2
Girvan	51	-	-	-	51
Total land	4,849	-	(730)	-	4,119
Buildings					
Ayr	10,842	-	1,082	(1)	11,923
Prestwick	296	-	13	-	309
Troon	3	-	-	-	3
Girvan	7	-	-	-	7
Total buildings	11,148	-	1,095	(1)	12,242
Community assets					
Ayr	251	-	-	-	251
Total community assets	251	-	-	-	251
Total Common Good assets	16,248	-	365	(1)	16,612

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

Note 3: Usable capital receipts reserve

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

Note 4: Revaluation reserve

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

Section 11: Trust Funds

At 1 April 2015 the Council administered 73 trust funds and bequests from local benefactors from which payments were made for specified purposes. During the year one trust was transferred to East Ayrshire Council.

A restructure has been agreed with the Scottish Charity Regulator (OSCR) with effect from 1 April 2016, which will amalgamate 23 trusts; 16 charitable and 7 non-charitable, into one new trust to be known as "South Ayrshire Charitable Trust". The funds attributable to this trust will be allocated among seven geographical areas, to be spent only in these locations.

The following tables detail the trusts for which the Council has sole trustee responsibility.

2014-2015		Registered charitable trusts	Other trusts	2015-2016
£000	**Revenue accounts**	£000	£000	£000
782	Opening balance	372	320	692
9	Income for year	4	5	9
(99)	Expenditure during year	(8)	(18)	(26)
692	**Closing balance**	368	307	675

2014-2015		Registered charitable trusts	Other trusts	2015-2016
£000	**Balance Sheet as at 31 March**	£000	£000	£000
	Assets			
89	Investments	18	65	83
899	Current assets	521	364	885
988	**Total assets**	539	429	968
	Reserves			
692	Revenue	368	307	675
31	Available for sale financial instrument reserve	1	29	30
265	Capital reserve	170	93	263
988	**Total reserves**	539	429	968

The table below provides information on the original purpose of various trusts or bequests and the value of investments held at 31 March 2016, split between those trusts with charitable status and those without.

Charitable Trusts

Name	Original Purpose	Loans Fund Investment £000	External Investment £000	Total £000
Mary & Hugh Reid Trust (SC014448)	Relief of respected aged persons in reduced circumstances resident in Prestwick who are not in receipt of public assistance.	46	-	46
R H Smith Trust (SC022120)	Annuities to deserving unmarried women residing in Ayr, preferably those with no father or brother alive to support them.	371	-	371
McClymont Trust (SC008495)	Aiding the deserving poor, resident in the parish of Girvan.	31	13	44
Various	Charitable Trusts with closing balances less than £25,000.	73	5	78
Total charitable trusts		521	18	539

Non Charitable Trusts

Name	Original Purpose	Loans Fund Investment £000	External Investment £000	Total £000
Ayr Nursing Trust Fund	Benefit of sick, aged and infirm resident within Ayr, receiving attention from nurse employed by local health authority and recommended by nurse.	26	-	26
George Todd Memorial Hall	Money to be spent (in Dailly) as per Sheriff Court Judgement.	14	-	14
John McMaster Bursary Fund	Bursaries for pupils of Girvan Academy to attend Glasgow or Edinburgh University for three to five years as per conditions of scheme.	186	65	251
Sundry Mortifications	Maintenance of lairs in perpetuity.	46	-	46
Various	Non-Charitable Trusts with closing balances less than £25,000.	92	-	92
Total non-charitable trusts		364	65	429
Total trusts		885	83	968

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

Charitable Trusts

Capital and Revenue	1 April 2015 £000 Capital	1 April 2015 £000 Revenue	Income £000 Capital	Income £000 Revenue	Expenditure £000 Capital	Expenditure £000 Revenue	31 March 2016 £000 Capital	31 March 2016 £000 Revenue	31 March 2016 £000 Total
Mary & Hugh Reid Trust (SC014448)	23	24	-	-	-	(1)	23	23	46
R H Smith Trust (SC022120)	97	273	-	2	-	(1)	97	274	371
McClymont Trust (SC008495)	33	10	1	1	-	(1)	34	10	44
Charitable Trusts with a closing Balance of less than £25,000	17	65	-	1	-	(5)	17	61	78
Total charitable trusts	170	372	1	4	-	(8)	171	368	539

Non charitable trusts

Capital and Revenue	1 April 2015 £000 Capital	1 April 2015 £000 Revenue	Income £000 Capital	Income £000 Revenue	Expenditure £000 Capital	Expenditure £000 Revenue	31 March 2016 £000 Capital	31 March 2016 £000 Revenue	31 March 2016 £000 Total
Ayr Nursing Trust Fund	10	16	-	-	-	-	10	16	26
George Todd Memorial Hall	-	26	-	-	-	(12)	-	14	14
John McMaster Bursary Fund	68	185	-	4	(3)	(3)	65	186	251
Sundry Mortifications	20	26	-	-	-	-	20	26	46
Non Charitable Trusts with a closing Balance of less than £25,000	28	67	-	1	(1)	(3)	27	65	92
Total non-charitable trusts	126	320	-	5	(4)	(18)	122	307	429
Total	296	692	1	9	(4)	(26)	293	675	968

Other Trusts and bequests

The Council also administers the funds of a further 8 trusts or bequests which are controlled in part by external trustees.

The value held in these funds at 31 March 2016 amounts to £0.892m. These trust or bequests are not included in the foregoing accounts and are not covered by the external audit certificate.

Other funds

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

2014-2015 £000	Balance sheet as at 31 March	2015-2016 £000
	Assets	
8	Balance due by loan fund	10
3	Investments	3
11	**Total assets**	13
	Reserves	
11	Revenue	13
11	**Total reserves**	13

Section 12: Group Accounts

Introduction

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

Combining Entities

The Council has an interest in two subsidiaries, three associates and one joint venture entity. Further details of each entity are detailed in the notes to the Group Accounts on pages 103 to 105. The subsidiary, associate and joint venture entities share a common accounting period ending 31 March 2016.

The subsidiaries are The Common Good Fund and Ayr Renaissance LLP. The Council effectively controls 100% of the Common Good Fund, which is overseen by elected members through the appropriate Council panel. Ayr Renaissance LLP is operated by an independent board whose function is to deliver the Council's regeneration strategy for Ayr Town Centre. The board consists of nine members in total; four Council members and five private sector members. Currently the Council members are the Executive Director – Economy, Neighbourhood and Environment and three councillors.

The associate entities incorporated are:

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

The joint venture is:

- South Ayrshire Integration Joint Board.

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

Nature of Combination

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

Financial Impact of Consolidation

The inclusion of the subsidiary and associate entities in the group Balance Sheet increases both the reserves and net assets by £29.535m, representing the Council's share of the net assets or liabilities of the entities.

Group Core Financial Statements

I) Movement in Group Reserves Statement for the year ended 31 March 2016

This statement shows the movement in the year on the reserves held by the Council plus its share of the reserves of its subsidiaries, joint venture and associates. The Council's reserves are analysed into those which are "Usable Reserves" (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Council's share of the reserves of its subsidiaries and associates is an unusable reserve (i.e. it cannot be used to fund expenditure or reduce taxation).

2015-2016	Usable reserves	Unusable reserves	**Total reserves of the Council**	Council's share of reserves of subsidiaries, joint venture and associates	**Total group reserves**
	£000	£000	**£000**	£000	**£000**
Balance at 31 March 2015	42,140	251,728	**293,868**	27,539	**321,407**
Movement in reserves during 2015-2016					
Surplus or (deficit) on the provision of services	(55,465)	-	**(55,465)**	280	**(55,185)**
Other comprehensive income and expenditure	(1,152)	72,212	**71,060**	1,716	**72,776**
Total comprehensive income and expenditure	(56,617)	72,212	**15,595**	1,996	**17,591**
Adjustments between accounting basis and funding basis	61,990	(61,990)	-	-	-
Net increase/(decrease) before transfer to earmarked reserves	5,373	10,222	**15,595**	1,996	**17,591**
Transfers to/from earmarked reserves	-	-	-	-	-
Increase/(decrease) in 2015-2016	5,373	10,222	**15,595**	1,996	**17,591**
Balance at 31 March 2016	47,513	261,950	**309,463**	29,535	**338,998**

2014-2015 comparative figures	Usable reserve	Unusable reserves	**Total reserves of the Council**	Council's share of reserves of subsidiaries, joint ventures and associates	**Total group reserves**
	£000	£000	**£000**	£000	**£000**
Balance at 31 March 2014	43,965	244,150	**288,115**	28,010	**316,125**
Movement in reserves during 2014-2015					
Surplus or (deficit) on the provision of services	(6,586)	-	**(6,586)**	102	**(6,484)**
Other comprehensive income and expenditure	(1,463)	13,802	**12,339**	(573)	**11,766**
Total comprehensive income and expenditure	(8,049)	13,802	**5,753**	(471)	**5,282**
Adjustments between accounting basis and funding basis	6,224	(6,224)	-	-	-
Net increase/(decrease) before transfer to earmarked reserves	(1,825)	7,578	**5,753**	(471)	**5,282**
Transfers to/from earmarked reserves	-	-	-	-	-
Increase/(decrease) in 2014-2015	(1,825)	7,578	**5,753**	(471)	**5,282**
Balance at 31 March 2015	42,140	251,728	**293,868**	27,539	**321,407**

II) Group Comprehensive Income and Expenditure Statement for the year ended 31 March 2016

This statement shows the accounting cost in the year of providing the Council's services and its share of the results of its associates in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Local authorities raise taxation to cover expenditure in accordance with regulations, and this is different from the accounting cost. The taxation position is shown in the *Movement in Reserves Statement.*

2014-2015				2015-2016		
Gross expenditure	**Gross income**	**Net expenditure**		**Gross expenditure**	**Gross income**	**Net expenditure**
£000	**£000**	**£000**		**£000**	**£000**	**£000**
16,202	14,543	1,659	Central Services to the Public	16,673	13,995	2,678
22,028	6,695	15,333	Cultural and Related Services	23,116	6,720	16,396
108,382	4,121	104,261	Education Services	158,486	4,032	154,454
17,924	3,267	14,657	Environmental Services	17,928	3,028	14,900
28,984	29,333	(349)	Housing Services	32,456	31,189	1,267
49,809	42,515	7,294	General Fund Housing	48,345	41,602	6,743
6,769	3,947	2,822	Planning and Development Services	6,329	2,951	3,378
12,690	69	12,621	Roads and Transportation	13,027	15	13,012
-	-	-	Social Work–Contribution to Integration Joint Board	70,071	-	70,071
88,574	15,175	73,399	Social Work–Provision of Services	94,103	88,144	5,959
3,427	126	3,301	Corporate and Democratic Core	3,909	125	3,784
3,275	211	3,064	Non Distributed Costs	5,554	214	5,340
813	269	544	Common good fund	874	235	639
358,877	**120,271**	**238,606**	**Cost of services**	**490,871**	**192,250**	**298,621**
			Other operating expenditure			
		13,286	*(Gain) or loss on the disposal of fixed assets*			9,947
			Financing and investment income and expenditure			
		14,408	*Interest payable and similar charges*			13,629
		(499)	*Interest and investment income*			(503)
		6,026	*Net interest on the net defined benefit liability*			5,877
			Taxation and non-specific grant income			
		(159,766)	*Revenue support grant*			(163,697)
		(17,010)	*Recognised capital income*			(18,960)
		(43,134)	*Non domestic rates redistribution*			(42,683)
		(45,226)	*Council tax income*			(46,566)
		6,691	**(Surplus) or deficit on the provision of services**			**55,665**
		(207)	Share of the (surplus) or deficit on the provision of services by associates			(480)
		6,484	**Group (surplus)/deficit**			**55,185**
		(45,484)	(Surplus) or deficit on the revaluation of property, plant and equipment assets			1,202
		(60)	(Surplus) or deficit on revaluation of available for sale financial assets			87
		31,742	Actuarial (gains) or losses on pension fund assets and liabilities			(73,501)
		1,463	Other unrealised (gains) or losses			1,152
		573	Share of other comprehensive income and expenditure of associates			(1,716)
		(11,766)	**Other comprehensive income and expenditure**			**(72,776)**
		(5,282)	**Total comprehensive income and expenditure**			**(17,591)**

III) Group Balance Sheet as at 31 March 2016

The Balance Sheet is a snapshot of the value at the 31 March 2016 of the assets and liabilities recognised by the Council and of its share of the net assets or liabilities of its associates. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. The net investment or liability in its associates is matched by its share of the reserves of the associates (i.e. its group reserves).

31 March 2015 £000		£000	31 March 2016 £000
699,272	Property, plant and equipment	653,606	
2,549	Heritage assets	2,551	
29	Intangible assets	9	
1,019	Long-term investments	912	
62	Long-term debtors	89	
702,931	**Long-term assets**		**657,167**
50,000	Short term investments	50,000	
3,157	Assets held for sale	1,813	
425	Inventories	437	
17,831	Short-term debtors	22,104	
22,411	Cash and cash equivalents	9,029	
93,824	**Current assets**		**83,383**
(6,851)	Short-term borrowing	(14,636)	
(51,878)	Short-term creditors	(51,746)	
(1,240)	Provisions	(675)	
(5,688)	Other short-term liabilities	(5,788)	
(65,657)	**Current liabilities**		**(72,845)**
(5,221)	Provisions	(3,574)	
7,285	Investments in Associates	8,930	
(171,237)	Long-term borrowing	(156,594)	
(2,415)	Other long-term liabilities (finance leases)	(2,160)	
(180,113)	Other long-term liabilities (pensions)	(119,687)	
(57,990)	Other long-term liabilities	(55,622)	
(409,691)	**Long-term liabilities**		**(328,707)**
321,407	**Net assets**		338,998
42,140	Usable reserves		47,513
251,728	Unusable reserves		261,950
27,539	Group reserves		29,535
321,407	**Total reserves**		338,998

The unaudited Annual Accounts were issued on 24 June 2016 and the audited Annual Accounts were authorised for issue on 28 September 2016.

Tim Baulk BA Acc CPFA
Head of Finance and ICT **28 September 2016**

IV) Group Cash Flow Statement for the year ended 31 March 2016

The Group Cash Flow Statement shows the changes in cash and cash equivalents of the Council and its subsidiaries during the reporting period. The Council's share of the cash flows of its associates is disregarded for the purpose of this statement as the Group Reserves are all unusable and cannot be used to fund services.

2014-2015			2015-2016	
£000	£000		£000	£000
	6,691	**Net (surplus) or deficit on the provision of services**		55,665
		Adjustments to net surplus or deficit on the provision of services for non-cash movements		
(22,498)		Depreciation & impairment of fixed assets	(79,511)	
(26)		Amortisation of intangible assets	(20)	
(9,890)		(Increase)/decrease in creditors	3,494	
(3,946)		Increase/(decrease) in debtors	4,292	
(258)		Increase/(decrease) in inventories	12	
(10,161)		Pension liability	(13,090)	
(15,437)		Carrying amount of non-current assets sold	(12,160)	
17,915		Other non-cash items	19,808	
	(44,301)	**Adjustments for items in the net surplus or deficit on the provision of services that are investing or financing activities**		(77,175)
	2,151	Proceeds from sale of property, plant and equipment, investment property and intangible assets		2,214
	(35,459)	**Net cash flows from operating activities**		(19,296)
	18,149	Investing activities		23,018
	6,839	Financing activities		9,660
	(10,471)	**Net increase or decrease in cash and cash equivalents**		13,382
	(11,940)	Cash and cash equivalents at the beginning of the reporting period		(22,411)
	(22,411)	**Cash and cash equivalents at the end of the reporting period**		(9,029)

Notes to the Group Accounts

The notes required for the Annual Accounts of South Ayrshire Council as the holding entity are disclosed separately within the financial statements on pages 28 to 85. The following notes provide additional information in relation to other combining entries.

Note 1: Accounting policies

The Group financial statements are prepared in accordance with the policies set out in the Statement of Accounting Policies on pages 33 to 48.

Note 2: Balances held between the Council and its associates

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

Note 3: Details of combining entities

In addition to the information included in the Group Accounts on pages 99 to 102, 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 sub-funds, Ayr, Prestwick, Troon, Maybole and Girvan. The Council controls 100% of the fund and administers it for the interest and benefit of the people in the aforementioned areas. All expenditure is met from annual income or reserves. All required disclosures are detailed on pages 92 to 94 of these Accounts. The following table details the main elements of South Ayrshire Councils share of assets and liabilities of the Common Good Fund.

	2015-2016	2014-2015
	£000	£000
Share of assets	18,117	18,691
Share of liabilities	(8)	(7)
Share of revenues	(714)	(750)
Share of (surplus)/deficit	200	105

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 2015-2016, South Ayrshire Council contributed £1.803m or 4.82% of the Board's estimated running costs. Its share of the year-end net asset of £8.635m (2014-2015 £7.516m) is included in the Group Balance Sheet. Copies of Strathclyde Partnership for Transport accounts may be obtained from the Treasurer of Strathclyde Partnership for Transport, Consort House, 12 West George Street, Glasgow G2 1HN. The following table details the main elements of South Ayrshire Council's share of assets and liabilities of the Board.

	2015-2016	2014-2015
	£000	£000
Share of assets	12,492	12,637
Share of liabilities	(3,857)	(5,121)
Share of revenues	(3,407)	(3,189)
Share of (surplus)/deficit	(507)	(196)

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 2015-2016, South Ayrshire Council contributed £0.264m or 6.21% of the Board's estimated running costs. Its share of the year-end net asset of £0.103m (2014-2015 £0.102m) 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. The following table details the main elements of South Ayrshire Council's share of assets and liabilities of the Board.

	2015-2016 £000	2014-2015 £000
Share of assets	133	137
Share of liabilities	(30)	(35)
Share of revenues	(264)	(264)
Share of (surplus)/deficit	(2)	(1)

Ayrshire Valuation Joint Board was established in 1996 at local government re-organisation by Act of Parliament. The Board maintains the electoral, council tax and non-domestic rates registers for the three Councils of East, North and South Ayrshire. The Board's running costs are met by the three member Councils. Surpluses or deficits on the Board's operations are shared between the Councils. In 2015-2016, South Ayrshire Council contributed £0.741m or 33.33% of the Board's estimated running costs. Its share of the year-end net asset of £0.191m (2014-2015 £0.334m – net liability) is included in the Group Balance Sheet. Copies of Ayrshire Valuation Joint Board's accounts may be obtained from the Treasurer to Ayrshire Valuation Joint Board, County Buildings, Wellington Square, Ayr KA7 1DR. The following table details the main elements of South Ayrshire Council's share of assets and liabilities of the Board.

	2015-2016 £000	2014-2015 £000
Share of assets	371	343
Share of liabilities	(180)	(677)
Share of revenues	(835)	(820)
Share of (surplus)/deficit	29	(2)

Ayr Renaissance LLP was established by South Ayrshire Council as a separate arms-length, Limited Liability Partnership, with the purpose of regenerating Ayr Town Centre. It has two members, namely the Council (which is entitled to 99.999% share of profits) and SAC (LLP Nominees) Limited, a nominee company wholly owned by South Ayrshire Council. The Executive Director - Economy, Neighbourhood and Environment of South Ayrshire Council sits on the board along with three councillors and five private sector members. The organisation's running costs are met by South Ayrshire Council by way of an annual revenue contribution. South Ayrshire Council contributed £0.314m for running costs and £0.342m as a capital grant during 2015-2016. The following table details the main elements of South Ayrshire Council's share of assets and liabilities of the Board.

	2015-2016 £000	2014-2015 £000
Share of assets	2,573	1,639
Share of liabilities	(77)	(68)
Share of revenues	(380)	(294)
Share of (surplus)/deficit	-	-

South Ayrshire Integration Joint Board was established following the submission of three Integration Schemes from Ayrshire, the Cabinet Secretary for Health, Wellbeing and Sport signed the Parliamentary Order in March 2015 which enabled the establishment of new Health and Social Care Partnerships. The new integrated partnerships combine the resources and expertise from local Councils, the NHS and a number of other stakeholders to deliver key health and social care services where they are needed most. The South Ayrshire Integration Joint Board was formally established on 1 April 2015. South Ayrshire Council delegated resources of £70.071m or 34.85% of the Boards income in 2015-2016. In the first year of the Integrated Joint Board there was neither a surplus nor deficit, nor were there any assets or liabilities. The following table details the main elements of South Ayrshire Council's share of assets, liabilities and revenues of the Board

	2015-2016	**2014-2015**
	£000	**£000**
Share of assets	-	n/a
Share of liabilities	-	n/a
Share of revenues	70,071	n/a
Share of (surplus)/deficit	-	n/a

Note 4: Contingent liabilities

At 31 March 2016 the Council had no share of contingent liabilities in any of its associate entities.

Section 13: 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 2016 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and authority-only Movement in Reserves Statements, Comprehensive Income and Expenditure Accounts, Balance Sheets and Cash Flow Statements, the authority-only Movement on the Housing Revenue Account Statement, Comprehensive Housing Revenue Account Income and Expenditure Statement, the Council Tax Income Account, the Non-domestic Rate Income Account, Common Good Funds Accounts and Trust Funds Accounts and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the 2015/16 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 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 Head of Finance and ICT and auditor

As explained more fully in the Statement of Responsibilities, the Head of Finance and ICT is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the council and its group and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance and ICT; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Annual Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2015/16 Code of the state of the affairs of the council and its group as at 31 March 2016 and of the income and expenditure of the council and its group for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2015/16 Code; and

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

Opinion on other prescribed matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014; and

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or

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

- I have not received all the information and explanations I require for my audit; or

- the Annual Governance Statement has not been prepared in accordance with Delivering Good Governance in Local Government; or

- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

Fiona Mitchell-Knight

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G2 1BT

28 September 2016

Section 14: Glossary of Terms

While the terminology used in this report is intended to be self-explanatory, it may be useful to provide additional definition and interpretation of the terms used.

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

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

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

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

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

Audit of Accounts
An independent examination of the Council's financial affairs.

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

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

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

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

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

CIPFA
The Chartered Institute of Public Finance and Accountancy.

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

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

Contingent Asset/Liability
A Contingent Asset/Liability is either:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

IAS
International Accounting Standards.

IFRIC
International Financial Reporting Interpretations Committee.

IFRS
International Financial Reporting Standards.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Public Works Loan Board (PWLB)
A Central Government Agency, which provides loans for one year and over to councils at interest rates only marginally higher than those at which the Government can borrow.

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

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

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

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

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

Revenue Expenditure
The day-to-day expenses of providing services.

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

Temporary Borrowing
Money borrowed for a period of less than one year.

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

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

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

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