

EAST AYRSHIRE COUNCIL  
**ANNUAL  
ACCOUNTS**

For the year ended 31 March 2016



East Ayrshire Council  
Comhairle Siorrachd Àir an Ear

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ਚਾਹੀਦੀ ਹੈ ਤਾਂ ਕਿਰਪਾ ਕਰ ਹੇਠ ਦਿੱਤੇ ਗਏ ਪਤੇ ਤੇ  
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# Management Commentary

## *Our Vision*

***“East Ayrshire is a place with strong, safe and vibrant communities where everyone has a good quality of life and access to opportunities, choices and high quality services which are sustainable, accessible and meet people’s needs.”***

## *Background*

2015/16 is the penultimate year of the Council's five year Transformation Strategy, a strategy that has delivered substantial savings, enhanced efficiency, encouraged innovation and championed change. The Annual Accounts form an important part of the strategy as they capture the financial information about the year just ended with this management commentary providing further detail about the Council, its finances, priorities, challenges and future direction.

The Management Commentary is structured as follows:

- An Introduction to East Ayrshire
- Our Priorities
- Our Key Achievements
- Financial Highlights
- Summary of Financial Performance
- Transformation Strategy
- Risks and Uncertainties
- Our Group

## *An Introduction to East Ayrshire*

East Ayrshire is a diverse area covering some 490 square miles spread over both urban and rural communities. Kilmarnock is the largest urban area with a population of around 44,500. There are a number of smaller communities, ranging from two hundred people to around 9,000 in Cumnock, the second largest town. Situated in south west Scotland, East Ayrshire has a varied natural environment, a rich and high profile cultural heritage, a proud industrial history and a range of activities, recreation and hospitality, which attract visitors from all over the world.

The population of East Ayrshire is projected to increase from 120,240 in 2010 to 121,878 in 2020 while the population of Scotland is projected to increase by 5.1% over the same period. Over the 25 year period to 2035 the largest increase in East Ayrshire's population is projected to take place in the residents aged 75+. As the population ages there is marked decline projected in the population aged 0-4 (-11.7%), 16-29 (-11.5%), 30-44 (-11.8%), and 45-59 (-18.2%).

The projected shift in the profile of our residents will be used to inform our modelling assumptions going forward, including service delivery arrangements, relative share of grant funding allocations and our workforce profile.

## *Our Priorities*

The [Community Plan](#) sets out the Community Planning Partnership's ambition for East Ayrshire going forward. The partnership comprises the Council, NHS Ayrshire and Arran, Police Scotland, Scottish Fire and Rescue Service, Ayrshire College, Strathclyde Partnership for Transport, Skills Development Scotland, Scottish Enterprise, Ayrshire Chamber of Commerce and Industry, East Ayrshire North Communities Federation, Coalfield Community Federation and Voluntary Action East Ayrshire.

## Management Commentary

The Plan covers the period 2015 to 2030 with a three-yearly review process built into the planning cycle. The [Single Outcome Agreement](#) details performance indicators and targets against which we will assess and improve performance. The strategic plans of all Partner agencies are aligned to the Community Plan, ensuring that their mainstream activity, detailed within their Service Plans, is directed at achieving identified local outcomes. The Community Plan is focussed on the key priority areas of:

- **Economy and Skills;**
- **Safer Communities; and**
- **Wellbeing**

These delivery themes are mirrored by the Council's new management structure.

There are a significant number of performance measures used to monitor the achievement of the Council's Strategic Priorities. Individual reports are prepared for three specific sub groups of the Council's Governance and Scrutiny Committee detailing the actions being taken to deliver the priorities together with the range of performance indicators used to measure and evidence progress. Copies of the latest reports presented to Governance and Scrutiny Committee in December 2015 are [Raising Educational Attainment](#), [Supporting Older People to Live Independently](#) and [Promoting Town Centre Living](#).

### *Our Key Achievements*

East Ayrshire is a council that is recognised for leading change and the pursuit of continuous improvement. Improvement and change is at the heart of our culture and in the past year this is evidenced by the following achievements:

- 93.9% of our school leavers in positive and sustained destinations (Scottish average of 92.9%)
- Built business links with all schools that are supporting young people in their learning and training
- Helped 255 new businesses to be established through the work of Economic Development colleagues and our partners
- Built 133 new council houses across East Ayrshire
- Established Lilyhill Gardens to support individuals with a need for additional support to live in the heart of their local community
- Supported 96.8% of older people aged 65+ to live at home
- Worked with communities to create Community Led Action Plans with 15 plans now in place
- Recognised as Scotland's Most Improved Large Town in the Regeneration Network's SURF Awards 2015 recognising Kilmarnock as a town with restored historic buildings and positive developments in retail, culture, education, housing and tourism
- Achieved savings of £28.320m to date with a further £8.605m in progress through the financial roadmap contained in the Council's Transformation Strategy 2012-2017.

### *Summary of Financial Performance*

The Council's financial performance is presented in the Annual Accounts which follow. The Council reports its financial performance by individual account, the General Fund and Housing Revenue Account as these are required to be accounted for separately under legislation.

### *General Fund*

The General Fund is the statutory fund into which all the receipts of the Council are required to be paid and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise. It is funded by Government Grants, Fees & Charges, Council Tax income, Non-

## Management Commentary

Domestic Rate income (subject to pooling arrangements) and is split between uncommitted balances (the level of funding available to the Council to manage financial risks and unplanned expenditure) and balances which have been earmarked for specific purposes.

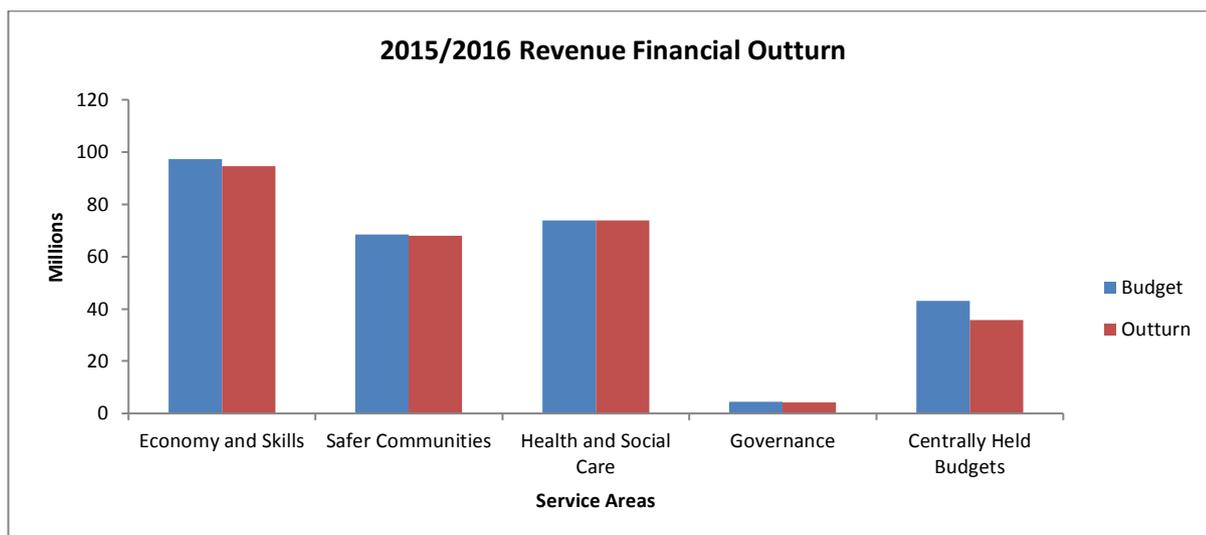
The Movement in Reserves Statement (MiRS), on page 13 shows an overall increase in the General Fund balance of £7.186m for the year which has been analysed as follows.

	Uncommitted Balance £m	Earmarked Balances £m	Total Balances £m
Balance Brought Forward	10.235	23.418	33.653
<i>Movement in 2015/16:</i>			
Utilisation of Balances	0.000	(4.738)	(4.738)
Reallocation - Balances Review	2.243	(2.243)	0.000
Reallocation to committed balances	(1.370)	1.370	0.000
<b>Sub Total</b>	<b>11.108</b>	<b>17.807</b>	<b>28.915</b>
2015/16 Balance added	6.003	5.921	11.924
<b>Outturn Position 2015/16</b>	<b>17.111</b>	<b>23.728</b>	<b>40.839</b>

The Council's General Fund Uncommitted Balance has increased to £17.111m, representing 5.3% of the net revenue expenditure and reflects the commitment to increase the balance in preparation for the next Transformation Strategy.

The Reserves Strategy permits services to carry forward underspends into the next year for use on non-recurring, fixed term projects or to assist in aligning services with resources available over a three year period. In line with this policy Cabinet approved a transfer of £2.243m to the uncommitted General Fund balance for use in other areas as part of the annual balances review.

The Annual Accounts and the Comprehensive Income and Expenditure Statement on page 15 set out the Council's spending and funding in accordance with relevant accounting requirements. The Council's management accounting arrangements are aligned with the Council's management structure and the 2015/16 financial outturn is shown in the following graph.



The Council's 2015/16 budget planned for a transfer of £3.149m to the General Fund balance and the following table shows the outturn position was a net surplus of £7.186m on the General Fund within the year. This can be attributed to a number of factors: action taken by services to reduce expenditure in advance of future savings, a transfer to the Fund following the annual review of the Council's equal pay provision, reduced service expenditure resulting in carry forward commitments into 2016/17 as permitted by the Councils Reserves Strategy.

## Management Commentary

During the year a planned transfer of £1.196m was made from the Capital Fund to offset borrowing costs within the capital investment programme. At the year end it was deemed prudent to replenish the fund by a transfer of £2m to support the continued delivery of the programme.

In addition a transfer of £0.812m was made from the Renewal and Repairs Fund to meet one off costs previously approved for specific commitments. The movement across services is shown below.

	Annual Estimate £m	Outturn £m	Variance £m
Economy and Skills	97.345	94.662	(2.683)
Safer Communities	68.526	68.061	(0.465)
Health and Social Care (EAC element)	73.817	73.817	0.000
Governance	4.537	4.324	(0.213)
Centrally Held budgets	43.015	35.748	(7.267)
<b>NET EXPENDITURE</b>	<b>287.240</b>	<b>276.612</b>	<b>(10.628)</b>
<b>Funded By</b>			
Council Tax	(50.735)	(50.652)	0.083
Aggregated External Finance	(233.138)	(233.138)	0.000
<b>TOTAL INCOME</b>	<b>(283.873)</b>	<b>(283.790)</b>	<b>0.083</b>
<b>DEFICIT / (SURPLUS) FOR YEAR BEFORE TRANSFERS</b>	<b>3.367</b>	<b>(7.178)</b>	<b>(10.545)</b>
Transfer from Renewal and Repairs Fund	(0.812)	(0.812)	0.000
Transfer from Capital Fund	(1.196)	(1.196)	0.000
Transfer to Capital Fund	0.000	2.000	2.000
<b>2015/16 DEFICIT (SURPLUS) FOR YEAR AFTER TRANSFERS</b>	<b>1.359</b>	<b>(7.186)</b>	<b>(8.545)</b>
Transfer to GF Uncommitted Balances: Revenue Budget	3.149	0.000	(3.149)
Utilisation of Previous Years Balances: Departmental balances	(4.738)	0.000	4.738
Earmark in-year : Departmental Balances	0.230	0.000	(0.230)
<b>2015/16 SURPLUS</b>	<b>0.000</b>	<b>(7.186)</b>	<b>(7.186)</b>
2014/15 Balance Brought Forward	0.000	(33.653)	(33.653)
<b>2015/16 BALANCE on MiRS on Page 13</b>	<b>0.000</b>	<b>(40.839)</b>	<b>(40.839)</b>

### *Housing Revenue Account (HRA)*

The Housing Revenue Account ended the year with a surplus of £0.678m which will be fully earmarked. This outturn position is due to savings in employee costs, transport and supplies and services, debt financing costs, CFCR/planned maintenance and income offset by payments to contractors and premises costs. The cumulative balance for the HRA is shown in the following table.

	Balance £m
Balance Brought Forward	9.113
<i>Movement in 2015/16:</i>	
2015/16 Balance added	0.678
<b>2015/16 BALANCE on MiRS on Page 13</b>	<b>9.791</b>

Further information on the financial outturn for the General Fund and the HRA can be found at [East Ayrshire Performs](#).

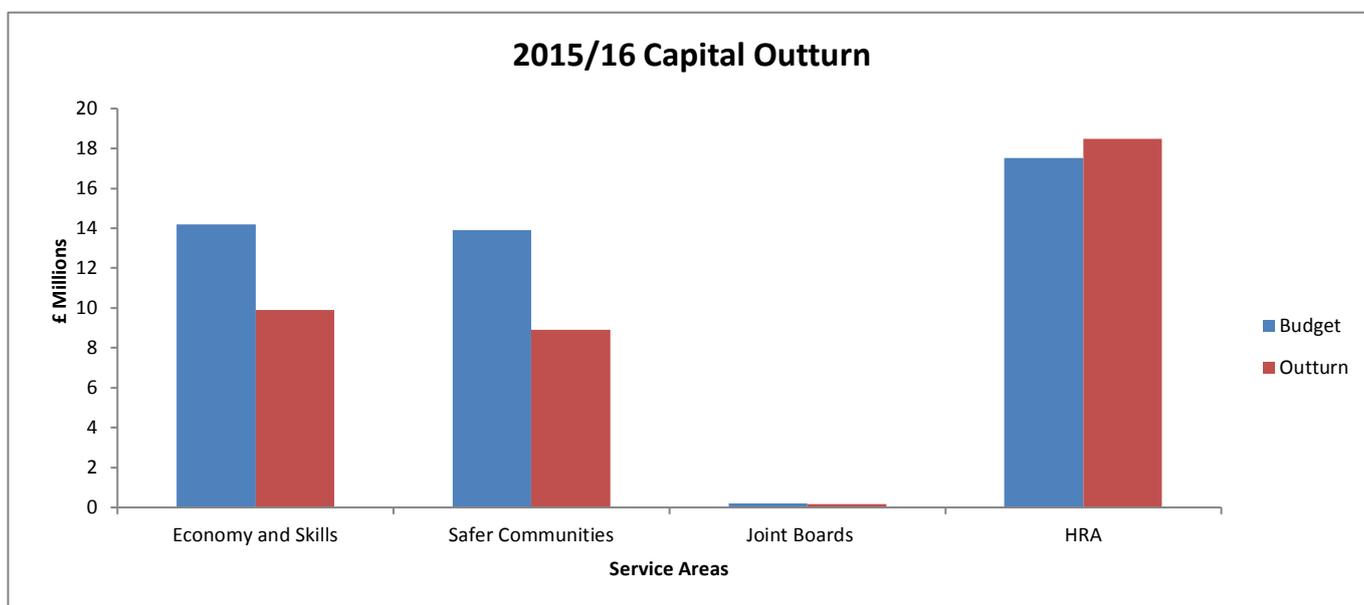
## Management Commentary

### Capital Expenditure

The Council's ambitious capital programme saw General Fund investment of £18.953m in developing and creating key assets for communities. This represents 51% of total capital expenditure of £37.434m detailed at Notes 15 and 16 and includes £6.8m investment in our roads, an initial spend of £1.8m on a new secondary school in Kilmarnock, £1.4m refurbishment of Dalrymple Primary School and expenditure of £1.246m on new shops in Cumnock. This was funded by £13.837m from Government Grants with the Council borrowing £5.071m and utilising £0.045m from revenue.

The Housing Capital Programme spent £18.481m on purchasing or acquiring assets in 2015/16 including the creation of new council houses in our town centres, delivering new homes and local regeneration. The capital investment programme was funded by £11.546m from current revenue, borrowing of £3.861m and the utilisation of capital receipts of £2.476m, and Government Grants of £0.598m.

The table below shows the net capital expenditure by service against the approved budget and any variance shown will be accounted for through re-profiling planned expenditure within the future capital programme. The variances at year end were as a result of changes to scheme commencement dates, higher than anticipated prices and tenders, changes to scheme design, unfavourable ground conditions etc. Details on the individual variances for each scheme can be found at [East Ayrshire Performs](#).



The Council ended the year with a net worth of £457.737m with £952.906m of fixed assets spread across a range of plant, property, equipment and heritage assets and useable reserves of £66.277m as shown on the Balance Sheet on Page 16.

### Transformation Strategy

The Transformation Strategy was approved by Council on 13 December 2012 and sets out the planned strategic, operational and financial changes that would take place within the Council in the five years to 2017. The Strategy has at its core the need to achieve savings of £35m over the period and work has progressed well and continues to be taken forward to deliver savings.

In terms of the 2016/17 financial year, the one year financial settlement received in December 2015 was more challenging than expected and required the Council to utilise around £5m of its reserves in order to balance the 2016/17 budget whilst planning for the longer term. Work is underway to identify additional recurring savings and these measures will be incorporated in the new Transformation Strategy.

## Management Commentary

Going forward it is understood that the Scottish Government will announce a one year settlement for 2017/18 and our assumptions are that thereafter there will be a move towards a three year financial settlement which will assist forecasting and bring greater stability to modelling assumptions. In order to prepare for the future settlements and to build on the achievements of the current Strategy a new Transformation Strategy will be prepared covering the period 2017 to 2022. This new strategy is likely to require savings of a greater magnitude than the levels contained in the 2012-2017 plan and will be developed during 2016 and thereafter work will commence to achieve the levels of change and savings necessary to bring spending into line with expected funding whilst protecting the services that are needed and valued by our communities.

### *Risks and Uncertainties*

The Council's Executive Management Team (EMT) recognise that risk management and the evaluation of key corporate and strategic risks is an important part of their role. The EMT regularly reviews and assesses the corporate risk register which details the high level strategic risks facing the Council.

The register is updated based on the assessment of the overall risks identified by Services as those which are assessed as being significant enough to be placed on the Corporate Risk Register. Details of the key risks include the impact of continued grant funding reductions on the Council and our wider communities, the costs and outcome of equal pay claims and liabilities arising from recent legal judgements in relation to holiday pay calculations, the possibility of certain liabilities in relation to open cast coal sites may have on the Council, and the action taken to minimise or mitigate corporate risks are regularly published in the East Ayrshire Performs report. Further risks around the current economic climate and the financial challenges faced by our communities will also have an impact on the Council in terms of the potential loss of income and the increased demand for services.

The Chancellor of the Exchequer announced in the March 2016 Budget that the Carbon Reduction Commitment energy efficiency scheme (CRC) will be abolished following completion of the 2018/19 compliance year. In 2015 the Council forward purchased sufficient CRC allowances to meet the necessary requirements of the Scheme until it is abolished and indications are that these allowances will be sufficient.

The Corporate Risk Register is maintained and reviewed by the Executive Management Team and presented to Cabinet and the Council's Governance and Scrutiny Committee. A copy of the 2015/16 Outturn report is available at [East Ayrshire Performs](#).

### *Our Group*

Local Authorities are required to prepare Group Accounts where they have a material interest in other organisations. The Group Accounts consolidate the results of the Council with its share of entities shown below. The impact of their inclusion in the Group Balance Sheet is to increase both the "total assets less liabilities" and "total balances and reserves" by £19.440m representing the Council's share of the net assets in these entities. This includes the combined pension position of these associates. 2015/16 is the first year when East Ayrshire Integration Joint Board (IJB) consolidates into the Council's Group Accounts.

The IJB is a statutory body established to integrate health and social care services between the Council and NHS Ayrshire and Arran and the contribution provided by the Council in 2015/16 was £75.257m.

The Council's group account entities are:

- East Ayrshire Integration Joint Board
- East Ayrshire Leisure Trust
- Ayrshire Valuation Joint Board
- Strathclyde Partnership for Transport
- Strathclyde Concessionary Travel Scheme Joint Committee
- East Ayrshire Common Good Fund

## Management Commentary

Further information on the group entities can be found at Note 35 on page 49.

### *Acknowledgment*

The favourable financial position disclosed in the Annual Accounts has been achieved through the continued efforts of Elected Members and officers in every Service to manage the resources made available to them effectively and efficiently.

I am particularly grateful to staff in Finance who planned and co-ordinated the efforts of colleagues from across the Council to ensure an early closure of the accounts which enabled year end figures to be provided to the East Ayrshire Integration Joint Board by their due date. The Council's unaudited Annual Accounts were completed by mid May, well in advance of the statutory deadline of 30 June 2016.

**Councillor Douglas Reid**

**Leader of the Council**

**29 September 2016**

**Fiona Lees**

**Chief Executive**

**29 September 2016**

**Alexander McPhee, ACMA**

**Depute Chief Executive & Chief Financial Officer**

**29 September 2016**

## Statement of Responsibilities

### The Authority'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 authority has responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). In this Council, that officer is the Depute Chief Executive & Chief Financial Officer;
- 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.

I confirm that these Annual Accounts were approved for signature by the Governance and Scrutiny Committee at its meeting on 29 September 2016.

**Councillor Douglas Reid**  
**Leader of the Council**  
**29 September 2016**

### The Chief Financial Officer's Responsibilities

The Depute Chief Executive & Chief Financial 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 the Annual Accounts, the Depute Chief Executive & Chief Financial Officer has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with legislation;
- Complied with the Local Authority Accounting Code (in so far as it is compatible with legislation).

The Depute Chief Executive & Chief Financial Officer has also:

- Kept adequate accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the Annual Accounts give a true and fair view of the financial position of the Council and its Group at the reporting date and the transactions of the local authority for the year ended 31 March 2016.

**Alexander McPhee, ACMA**  
**Depute Chief Executive & Chief Financial Officer**  
**29 September 2016**

# Annual Governance Statement

## *Scope of Responsibility*

The Council is responsible for and committed to ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for. The Council has a statutory duty of Best Value under the Local Government in Scotland Act 2003 to make arrangements to secure continuous improvement in performance, while maintaining an appropriate balance between quality and cost; and in making those arrangements and securing that balance, to have regard to economy, efficiency, effectiveness, equal opportunities and sustainability. In discharging this overall responsibility, members and senior officers are responsible for putting in place proper arrangements (known as the governance framework) for the governance of the Council's affairs and facilitating the effective exercise of its functions. This includes setting the strategic direction, vision, culture and values of the Council; the effective operation of corporate systems, processes and internal controls; engaging with and leading the community; monitoring the achievement of strategic priorities and agreed outcomes; ensuring that services are delivered cost-effectively; maintaining appropriate arrangements for the management of risk; and ensuring that the Council complies with the Statement on the Role of the Chief Financial Officer in Local Government.

The Council has approved a Code of Corporate Governance consistent with the principles and recommendations of the CIPFA (Chartered Institute of Public Finance and Accountancy) / SOLACE (Society of Local Authority Chief Executives) Framework Delivering Good Governance in Local Government. A copy of the Code and action plans can be found on the Council's website. The Code evidences our commitment to achieving good governance and demonstrates compliance with the standards recommended by CIPFA and SOLACE. The Code is reviewed and updated annually, most recently by the Governance and Scrutiny Committee on 21 April 2016.

The Council has also put in place a system of internal control designed to manage risk to a reasonable level. Internal controls will never eliminate risk of failure to achieve strategic priorities and outcomes, but can provide reasonable, if not absolute, assurance. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's strategic priorities and outcomes; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically.

## **The Purpose of the Governance Framework**

The governance framework comprises the systems and processes, culture and values, which direct and control Council activities and through which we account to, engage with and lead the community. It enables us to monitor the achievement of the strategic priorities and outcomes set out in the 2015-2030 East Ayrshire Community Plan, which the Council has adopted as its sovereign planning document and to consider whether priorities and outcomes have led to the delivery of appropriate, cost-effective services. The governance framework was further strengthened during 2015/16 and will continue to be reviewed.

## **The Governance Framework**

The following provides a summary of the main features of the Council's governance arrangements as described in the Code. The East Ayrshire [Community Plan](#) 2015-30 is the sovereign and overarching planning document for the East Ayrshire area. It provides the strategic policy framework for the delivery of public services by all the Partners and is also the Council's Corporate Plan covering the 15 years from April 2015 to March 2030. The Plan is underpinned by the Single Outcome Agreement (SOA) which provides a robust performance management framework and demonstrates a sound understanding of place and local circumstances.

The Community Planning Partnership Board is supported by new governance arrangements and includes a requirement for the Board and the Council to have a formal joint engagement event in September to consider the Community Planning Action Plan, Single Outcome Agreement Performance Report, the Integrated Health and Social Care Partnership Annual Report and the Children and Young People's Service Plan.

## Annual Governance Statement

Policy and decision making is conducted through the Council's Cabinet structure, which includes the Governance and Scrutiny Committee. Cabinet has responsibility for discharging all of the Council's functions except those reserved to the Council and those matters specifically delegated to other statutory, quasi-judicial committees. The Governance and Scrutiny Committee is fully compliant with Audit Committee principles and full details of its responsibilities are available on the Council's [website](#). The Governance and Scrutiny Committee undertakes the core functions of an audit committee, as identified in CIPFA's Audit Committees: Practical Guidance for Local Authorities report by providing independent and high-level assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting and annual governance processes.

The Governance and Scrutiny Committee considers the reports and recommendations of external audit and inspection agencies and their implications for governance and risk and supports effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourages the active promotion of the value of the audit process and the financial statements. The committee considers the external auditor's opinion and reports to members, and monitors management action in response to the issues raised by external audit. These arrangements ensure that the Council has the necessary processes and procedures in place to ensure that it is able to fulfil its overall purpose, achieve its intended outcomes for service users and operate in an economical, effective, efficient and ethical manner, as prescribed in the CIPFA "Role of the Head of Internal Audit" statement.

In 2015/16, the Council's governance arrangements were further strengthened by the creation of a specific scrutiny Committee with responsibility for local Police and Fire and Rescue Services.

The Council's system of internal financial control is based on a framework of regular management information, financial regulations, accounting policy bulletins, 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;
- Measurement of financial and other performance against targets;
- Regular reviews of periodic and annual financial reports which indicate financial performance against the forecasts and targets;
- Clearly defined capital expenditure guidelines;
- Performance relating to the Leisure Trust, Ayrshire Roads Alliance and Health and Social Care Partnership; and
- Formal project management disciplines, as appropriate.

Cabinet and the Governance and Scrutiny Committee receive periodic East Ayrshire Performs reports which include the elements listed above.

The Council's approach to risk management is well embedded with a Corporate Risk Register supported by Departmental Risk Registers and regular reports are provided to the Council Management Team and Elected Members. The Corporate Risk Register is presented periodically to Cabinet and the Governance and Scrutiny Committee.

## Annual Governance Statement

A Whistleblowing Policy and Code of Conduct for employees are in place and high standards of behaviour are supported by employee contracts of employment and annual EAGER reviews, which identify individual training and development requirements. A revised Code of Conduct for Elected Members was introduced in 2010/11, together with training on the requirements of the new Code for Elected Members. The Council's Organisational Development Strategy was approved in January 2013 and will be reviewed in 2017. An Elected Member Learning and Development Strategy has been agreed and Job Outlines for Elected Members, including Members of the Governance and Scrutiny and Police and Fire and Rescue Committees are in place. A training needs analysis is undertaken on an annual basis and individual Development Plans are subsequently agreed for all Elected Members. In 2015/16, revised arrangements for formal Chief Officer appraisal were approved and will be implemented from 2016/17.

### Statutory Roles

The Council's procedural documentation clearly details the decision making structure. This includes Scheme of Delegation; Standing Orders; Standing Orders relating to contracts; Contract Procurement Protocol; Financial Regulations; Local Government Access to Information Registers; and the role of Elected Member portfolio holders.

The Council's Scheme of Delegation designates the Chief Executive as the Council's Head of Paid Service in terms of the Local Government and Housing Act 1989. This requires the post holder to carry out the specified duties associated with this statutory role, including responsibility, where it is appropriate, for setting out proposals and reporting to Council, in relation to the undernoted matters:

- The manner in which the discharge by the authority of their different functions is co-ordinated;
- The number and grades of staff required by the authority for the discharge of their functions;
- The organisation of the authority's staff; and
- The appointment and proper management of the authority's staff.

The Chief Governance Officer and Solicitor to the Council, acts as Monitoring Officer and ensures that the Council acts within legal and statutory requirements. The Depute Chief Executive and Chief Financial Officer is the proper officer of the Council with statutory responsibility for the administration of its financial affairs for the purposes of Section 95 of the Local Government (Scotland) Act 1973 and is a member of the Executive Management Team.

The Council's Scheme of Delegation designates the Head of Children's Health, Care and Justice Services as Chief Social Work Officer in terms of the Social Work (Scotland) Act 1968 and requires the post holder to carry out the specified duties associated with this statutory role by ensuring the provision of effective, professional advice to Elected Members and officers in relation to the provision of social work services. As part of the Council response to the legislative changes brought about by the Public Bodies (Joint Working) (Scotland) Act 2014, the management of Social Work Services were delegated to the Integration Joint Board with effect from 1 April 2015.

### Review of Effectiveness

During 2015/16, East Ayrshire Council continued to put in place appropriate management and reporting arrangements to enable it to be satisfied that its approach to corporate governance is both appropriate and effective in practice.

Specifically, the Council's governance arrangements have been reviewed and tested against the requirements of the CIPFA/SOLACE Framework. Whilst this process of review is co-ordinated corporately and approved by the Executive Management Team, Depute Chief Executives, Directors and Heads of Service have a responsibility to ensure that their own governance arrangements are adequate and operating effectively. In line with the CIPFA/SOLACE Framework, each Depute Chief Executive, Director and Head of Service is required to make an annual statement confirming that this is the case.

## Annual Governance Statement

East Ayrshire Council will review Audit Scotland findings and strategic and operational plans within the remit of the Governance and Scrutiny Committee in 2016/17.

The Internal Audit function within East Ayrshire Council is directly responsible to the Chief Executive for the independent appraisal of the Council's systems of internal control. During 2015/16 the Internal Audit section operated in accordance with the Public Sector Internal Audit Standards (PSIAS) which were introduced on 1 April 2013. Internal Audit is subject to an annual review by the Council's external auditors to ensure that the section continues to operate according to good practice. The review for 2015/16 concluded that Internal Audit operates in line with the PSIAS, and in line with established arrangements that review was reported to the Council's Governance and Scrutiny Committee on [24 March 2016](#).

On the basis of Internal Audit work completed in 2015/16, East Ayrshire Council's established internal control procedures were generally found to operate as intended to meet management's requirements. A number of recommendations have been made by Internal Audit to further improve controls through action plans developed with management to address improvements. Internal Audit's overall opinion, based on the work carried out, is that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control systems in the year to 31 March 2016. The objectives of internal control have been substantially met. In line with established practice Internal Audit's Annual Report for 2015/16 was reported to the Council's Governance and Scrutiny Committee on 19 May 2016. These are contained in the Corporate Governance Improvement Action Plan (CGIAP), for 2016/17 and a copy of the 2016/17 CGIAP can be downloaded from [www.east-ayrshire.gov.uk](http://www.east-ayrshire.gov.uk). There were no significant governance issues during 2015/16.

### Improvements Proposed

The review carried out in 2015/16 highlighted improvements that could be implemented in some areas and these are contained within the Corporate Governance Improvement Action Plan for 2016/17.

### Conclusion

We consider the governance and internal control environment operating during 2015/16 to provide reasonable and objective assurance that significant risks impacting on the achievement of our principal strategic priorities and outcomes will be identified and actions taken to avoid or mitigate their impact. A number of improvements are proposed to further strengthen our governance arrangements and these are set out in the improvement action plan 2016/17. Implementing the action plans is a priority and progress will be reported to the Governance and Scrutiny Committee.

Systems are in place for regular review and improvement of the governance and internal control environment. The Council will continue to review its corporate governance arrangements and take any additional steps as are required to further enhance these arrangements and will review their implementation and operation as part of the next annual review.

**Councillor Douglas Reid**

**Leader of the Council**

**29 September 2016**

**Fiona Lees**

**Chief Executive**

**29 September 2016**

## Movement in Reserves Statement (MiRS)

This Statement shows the movement on the reserves for 2015/16, analysed into Usable and Unusable.

2015/16	Usable Reserves				Total Usable Reserves	Unusable Reserves	Total Reserves	Group Usable Reserves	Group Unusable Reserves	Total Group Reserves
	General Fund Balance	HRA	Renewal and Repairs	Capital Fund						
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 31 March 2015	33.653	9.113	6.510	8.886	58.162	343.113	401.275	3.167	14.348	418.790
Surplus / (Deficit) on the Provision of Services	(10.124)	(20.400)	-	-	(30.524)	-	(30.524)	0.389	-	(30.135)
Other Comprehensive Income and Expenditure	-	-	-	-	-	86.986	86.986	-	1.651	88.637
<b>Adjustments between accounting basis and funding basis under Regulation</b>										
Depreciation of Non Current Assets	22.423	18.621	-	-	41.044	(41.044)	-	0.281	(0.281)	-
Impairment of Non Current Assets	9.958	13.892	-	-	23.850	(23.850)	-	-	-	-
Amortisation of Intangible Assets	0.028	0.004	-	-	0.032	(0.032)	-	-	-	-
Capital Grants and Contributions Applied	(13.837)	(0.598)	-	-	(14.435)	14.435	-	-	-	-
Differences relating to Financial Instruments required by statute	(0.278)	(0.121)	-	-	(0.399)	0.399	-	-	-	-
Differences relating to Officer Remuneration required by statute	(0.766)	0.046	-	-	(0.720)	0.720	-	-	-	-
Net Gain / (Loss) on Disposal of Fixed Assets	(0.157)	1.217	-	2.747	3.807	(3.807)	-	-	-	-
Net Charges for Retirement Benefits	30.205	3.291	-	-	33.496	(33.496)	-	-	-	-
Contributions to Pensions Fund	(15.986)	(1.438)	-	-	(17.424)	17.424	-	-	-	-
Repayment of Debt	(14.140)	(2.405)	-	-	(16.545)	16.545	-	-	-	-
Use of HRA Capital Fund to Finance New Capital Expenditure	-	-	-	(2.476)	(2.476)	2.476	-	-	-	-
Capital Expenditure Funded in Year	(0.045)	(11.546)	-	-	(11.591)	11.591	-	-	-	-
<b>Increase / (Decrease) before Transfers</b>	<b>7.281</b>	<b>0.563</b>	<b>-</b>	<b>0.271</b>	<b>8.115</b>	<b>48.347</b>	<b>56.462</b>	<b>0.670</b>	<b>1.370</b>	<b>58.502</b>
Transfers to / from Capital Fund	(0.804)	-	-	0.804	-	-	-	-	-	-
Transfers to / from Other Statutory Reserves	0.812	0.115	(0.927)	-	-	-	-	0.367	(0.367)	-
Interest on Revenue Balances	(0.103)	-	0.043	0.060	-	-	-	-	-	-
<b>Increase / (Decrease) in 2015/16</b>	<b>7.186</b>	<b>0.678</b>	<b>(0.884)</b>	<b>1.135</b>	<b>8.115</b>	<b>48.347</b>	<b>56.462</b>	<b>1.037</b>	<b>1.003</b>	<b>58.502</b>
Balance at 31 March 2016	40.839	9.791	5.626	10.021	66.277	391.460	457.737	4.204	15.351	477.292

## Movement in Reserves Statement (MiRS)

This Statement shows the movement on the reserves for 2014/15, analysed into Usable and Unusable.

2014/15	Usable Reserves				Total Usable Reserves	Unusable Reserves	Total Reserves	Group Usable Reserves	Group Unusable Reserves	Total Group Reserves
	General Fund Balance	HRA	Renewal and Repairs	Capital Fund						
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 31 March 2014	28.026	6.342	6.735	8.435	49.538	417.604	467.142	2.800	11.732	481.674
Surplus / (Deficit) on the Provision of Services	(27.661)	(4.895)	-	-	(32.556)	-	(32.556)	0.114	-	(32.442)
Other Comprehensive Income and Expenditure	-	-	-	-	-	(33.311)	(33.311)	-	2.869	(30.442)
<b>Adjustments between accounting basis and funding basis under Regulation</b>										
Depreciation of Non Current Assets	22.826	17.768	-	-	40.594	(40.594)	-	0.288	(0.288)	-
Impairment of Non Current Assets	22.389	6.818	-	-	29.207	(29.207)	-	-	-	-
Amortisation of Intangible Assets	0.041	0.006	-	-	0.047	(0.047)	-	-	-	-
Capital Grants and Contributions Applied	(10.159)	(8.464)	-	-	(18.623)	18.623	-	-	-	-
Differences relating to Financial Instruments required by statute	(0.278)	(0.115)	-	-	(0.393)	0.393	-	-	-	-
Differences relating to Officer Remuneration required by statute	0.379	0.018	-	-	0.397	(0.397)	-	-	-	-
Net Gain / (Loss) on Disposal of Fixed Assets	0.308	0.847	-	2.926	4.081	(4.081)	-	-	-	-
Net Charges for Retirement Benefits	28.082	3.031	-	-	31.113	(31.113)	-	-	-	-
Contributions to Pensions Fund	(16.505)	(1.485)	-	-	(17.990)	17.990	-	-	-	-
Repayment of Debt	(13.239)	(2.187)	-	-	(15.426)	15.426	-	-	-	-
Use of HRA Capital Fund to Finance New Capital Expenditure	-	-	-	(2.173)	(2.173)	2.173	-	-	-	-
Capital Expenditure Funded in Year	(0.208)	(9.446)	-	-	(9.654)	9.654	-	-	-	-
<b>Increase / (Decrease) before Transfers</b>	<b>5.975</b>	<b>1.896</b>	<b>-</b>	<b>0.753</b>	<b>8.624</b>	<b>(74.491)</b>	<b>(65.867)</b>	<b>0.402</b>	<b>2.581</b>	<b>(62.884)</b>
Transfers to / from Capital Fund	0.350	-	-	(0.350)	-	-	-	-	-	-
Transfers to / from Other Statutory Reserves	(0.616)	0.880	(0.264)	-	-	-	-	(0.035)	0.035	-
Interest on Revenue Balances	(0.082)	(0.005)	0.039	0.048	-	-	-	-	-	-
<b>Increase / (Decrease) in 2014/15</b>	<b>5.627</b>	<b>2.771</b>	<b>(0.225)</b>	<b>0.451</b>	<b>8.624</b>	<b>(74.491)</b>	<b>(65.867)</b>	<b>0.367</b>	<b>2.616</b>	<b>(62.884)</b>
<b>Balance at 31 March 2015</b>	<b>33.653</b>	<b>9.113</b>	<b>6.510</b>	<b>8.886</b>	<b>58.162</b>	<b>343.113</b>	<b>401.275</b>	<b>3.167</b>	<b>14.348</b>	<b>418.790</b>

## Comprehensive Income and Expenditure Statement (CIES)

This shows the accounting cost of providing services in accordance with Generally Accepted Accounting Practices, rather than the amount funded from taxation. The Council uses funds raised from taxation to cover expenditure and this may be different from the accounting cost. The taxation position is shown in the MiRS. It should be noted that the classification of services complies with that prescribed by the Service Reporting Code of Practice (SeRCOP) and differs from the management structure of the Council.

		2014/15					2015/16	
		EAC	Group				EAC	Group
£m	£m	£m	£m		£m	£m	£m	£m
Exp	Income	Net	Net	<i>Operating</i>	Exp	Income	Net	Net
141.673	(5.131)	136.542	136.542	Education Services	134.958	(4.612)	130.346	130.346
-	-	-	-	Contribution to the IJB	75.257	-	75.257	75.257
95.040	(16.617)	78.423	78.423	Social Work:Provision of Services	97.629	(94.173)	3.456	3.456
30.221	(12.824)	17.397	17.397	Roads and Transportation	32.442	(13.911)	18.531	18.531
17.553	(2.402)	15.151	15.439	Cultural and Related Services	18.431	(2.453)	15.978	16.224
17.300	(3.305)	13.995	13.995	Environmental Services	17.904	(3.318)	14.586	14.586
58.818	(48.061)	10.757	10.757	Other Housing Services	59.684	(49.512)	10.172	10.172
48.938	(42.492)	6.446	6.446	Housing Revenue Account	57.442	(43.956)	13.486	13.486
11.047	(3.998)	7.049	7.049	Planning and Development	8.741	(3.547)	5.194	5.194
4.028	-	4.028	4.028	Corporate and Democratic Core	3.799	-	3.799	3.799
1.901	-	1.901	1.901	Non Distributed Costs	1.485	-	1.485	1.485
4.248	(4.429)	(0.181)	(0.181)	Central Services to the Public	3.388	(4.541)	(1.153)	(1.153)
430.767	(139.259)	291.508	291.796	<b>Net Cost Of Services</b>	511.160	(220.023)	291.137	291.383
		1.155	1.155	(Gain) / Losses on disposals of assets			1.060	1.060
		292.663	292.951	<b>Net Operating Expenditure</b>			292.197	292.443
		(40.535)	(40.535)	Income from Council Tax			(41.444)	(41.444)
		(196.782)	(196.782)	Government Grants (not service specific)			(200.279)	(200.279)
		(31.060)	(31.060)	Distribution from NDR Pool			(32.850)	(32.850)
		(18.623)	(18.623)	Capital Grants & Contributions		<i>Note 10</i>	(14.435)	(14.435)
		(287.000)	(287.000)	<b>Taxation &amp; Non Specific Grant Income</b>			(289.008)	(289.008)
		5.663	5.951	<b>Net Operating Costs</b>			3.189	3.435
		(24.926)	(24.926)	<b>Financing and Investment Income and Expenditure</b>				
		-	(0.400)	Expected Return on Pension Assets			(20.624)	(20.624)
		(0.680)	(0.682)	Share of (Surplus) / Deficit on Provision of Services of Associates and Joint Ventures			-	(0.634)
		19.612	19.612	Interest and Investment Income		<i>Note 30</i>	(1.002)	(1.003)
		32.887	32.887	Interest Payable and similar charges			20.695	20.695
				Pension Interest Cost			28.266	28.266
		32.556	32.442	<b>(Surplus) or Deficit on the Provision of Services</b>			30.524	30.135
		(5.476)	(9.411)	(Surplus) or deficit on revaluation of fixed assets		<i>Note 15</i>	(1.796)	(1.210)
		(0.002)	(0.002)	(Surplus) or deficit on revaluation of available for sale financial assets		<i>Note 30</i>	0.008	0.008
		38.789	38.789	Actuarial (gains) / losses on pension assets / liabilities		<i>Note 14</i>	(85.198)	(85.198)
		-	1.066	Expenditure of Associates and Joint Ventures				(2.237)
		65.867	62.884	<b>Total Comprehensive (Income) / Expenditure</b>			(56.462)	(58.502)

## Balance Sheet

This shows the value of the assets and liabilities recognised by the Council. The net assets of the Council are matched by the reserves held by the Council. Reserves are reported as Usable and Unusable. Usable Reserves are those 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. Unusable Reserves are those that the Council is not able to use to provide services and includes reserves that hold unrealised gains and losses, where amounts would only become available to provide services if the assets were sold, and reserves that hold timing differences shown in the MiRS line adjustments between accounting basis and funding.

31-Mar-15				31-Mar-16	
EAC	Group			EAC	Group
£m	£m			£m	£m
924.871	935.087	Property, Plant & Equipment	<i>Note 16</i>	892.114	901.463
57.500	57.500	Heritage Assets	<i>Note 23</i>	60.729	60.729
0.075	0.075	Intangible Assets	<i>Note 22</i>	0.043	0.043
-	8.223	Investments in Associates and Joint Ventures		-	9.959
0.023	0.023	Non Current Receivables (Long Term Debtors)	<i>Note 29</i>	0.020	0.020
<b>982.469</b>	<b>1,000.908</b>	<b>Non Current Assets</b>		<b>952.906</b>	<b>972.214</b>
65.095	65.306	Short Term Investments	<i>Note 29</i>	56.839	57.086
1.277	1.277	Inventories	<i>Note 24</i>	1.458	1.458
26.356	26.356	Debtors	<i>Note 25</i>	29.137	29.137
0.578	0.578	Assets Held for Sale	<i>Note 21</i>	0.636	0.636
27.475	27.475	Cash and Cash Equivalents	<i>Note 27</i>	37.385	37.385
-	-	Current Intangible Assets	<i>Note 22</i>	0.905	0.905
<b>120.781</b>	<b>120.992</b>	<b>Current Assets</b>		<b>126.360</b>	<b>126.607</b>
(14.634)	(14.634)	Short Term Borrowing		(16.698)	(16.698)
(63.477)	(63.477)	Creditors (Including Provisions and Grants Receipts in Advance)	<i>Note 26</i>	(60.478)	(60.478)
<b>(78.111)</b>	<b>(78.111)</b>	<b>Current Liabilities</b>		<b>(77.176)</b>	<b>(77.176)</b>
(234.616)	(234.616)	Pension Liabilities	<i>Note 13</i>	(165.490)	(165.490)
(61.360)	(61.360)	Deferred Liabilities	<i>Note 29</i>	(59.552)	(59.552)
(327.888)	(327.888)	Long Term Borrowing	<i>Note 29</i>	(319.311)	(319.311)
-	(1.135)	Liabilities in Associates and Joint Ventures		-	-
<b>(623.864)</b>	<b>(624.999)</b>	<b>Non Current Liabilities</b>		<b>(544.353)</b>	<b>(544.353)</b>
<b>401.275</b>	<b>418.790</b>	<b>Net Assets</b>		<b>457.737</b>	<b>477.292</b>
58.162	58.162	Usable Reserves (Available to Fund Services)	<i>MiRS</i>	66.277	66.277
-	3.167	Share of Usable Reserves of Associates and Joint Ventures		-	4.204
343.113	343.113	Unusable Reserves (Unrealised and Deferred Impact on Taxation)	<i>Note 33</i>	391.460	391.460
-	14.348	Share of Unusable Reserves of Associates and Joint Ventures		-	15.351
<b>401.275</b>	<b>418.790</b>	<b>Net Reserves</b>		<b>457.737</b>	<b>477.292</b>

### Authorised for Issue

The unaudited accounts were authorised for issue by the Council on 30 June 2016 and the audited accounts were authorised for issue on 29 September 2016.

**Alexander McPhee ACMA**  
Depute Chief Executive & Chief Financial Officer  
29 September 2016

## Cash Flow Statement

This shows the changes in cash and cash equivalents by operating, investing and financing activities. The net cash flows arising from operating activities shows the extent by which services are funded by taxation and grant or from the 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.

2014/15			2015/16	
EAC	Group		EAC	Group
£m	£m		£m	£m
32.556	32.442	(Surplus) / Deficit on Comprehensive Income and Expenditure Statement	30.524	30.135
-	0.400	Surplus / (Deficit) attributable to Associates and Joint Ventures	-	0.634
<b>32.556</b>	<b>32.842</b>	<b>(Surplus) / Deficit on the Provision of Services</b>	<b>30.524</b>	<b>30.769</b>
		<b>Non Cash Items in the Comprehensive Income and Expenditure Statement</b>		
(69.848)	(70.136)	Depreciation and Impairment	(64.926)	(65.207)
(4.081)	(4.081)	Carrying Amount of Fixed Assets Sold <i>Note 16</i>	(3.807)	(3.807)
(13.123)	(13.123)	Amount by which pension costs calculated in accordance with the Code are different from the contributions due under the pension scheme regulations <i>Note 13</i>	(16.072)	(16.072)
(0.002)	(0.002)	Available for Sale Financial Instruments - Fair Value Adjustment	0.008	0.008
0.015	0.015	EIR Stepped Loan Adjustment	0.021	0.021
<b>(87.039)</b>	<b>(87.327)</b>		<b>(84.776)</b>	<b>(85.057)</b>
		<b>Changes in Working Capital</b>		
(0.023)	(0.023)	Increase / (Decrease) in Stock and Work in Progress <i>Note 24</i>	0.181	0.181
56.262	56.262	Increase / (Decrease) in Debtors	(5.477)	(5.477)
(8.968)	(8.968)	(Increase) / Decrease in Creditors	3.002	3.002
<b>47.271</b>	<b>47.271</b>		<b>(2.294)</b>	<b>(2.294)</b>
		<b>Adjustments for Items which are included in the net surplus or deficit on the provision of services that are investing or financing activities</b>		
(57.792)	(57.792)	Net (Increase) / Decrease in Short Term Deposits	8.256	8.256
18.623	18.623	Capital Grants Applied	14.435	14.435
2.926	2.926	Sale of Fixed Assets	2.747	2.747
<b>(36.243)</b>	<b>(36.243)</b>		<b>25.438</b>	<b>25.438</b>
<b>(43.455)</b>	<b>(43.457)</b>	<b>Net Cash Outflow / (Inflow) from Operating Activities</b>	<b>(31.108)</b>	<b>(31.144)</b>
		<b>Investing Activities</b>		
53.827	53.827	<b>Cash Outflows:</b> Purchase of Fixed Assets <i>Note 15</i>	37.434	37.434
-	-	Purchase of Short Term and Long Term Investments	0.905	0.905
57.792	57.794	Increase in Short Term Deposits	-	0.036
<b>111.619</b>	<b>111.621</b>		<b>38.339</b>	<b>38.375</b>
(2.926)	(2.926)	<b>Cash Inflows:</b> Sale of Fixed Assets <i>Note 6</i>	(2.747)	(2.747)
-	-	Decrease in Short Term Deposits	(8.256)	(8.256)
(18.623)	(18.623)	Capital Grants Received <i>Note 10</i>	(14.435)	(14.435)
<b>(21.549)</b>	<b>(21.549)</b>		<b>(25.438)</b>	<b>(25.438)</b>
<b>90.070</b>	<b>90.072</b>	<b>Net Cash Outflow / (Inflow) from Investing Activities</b>	<b>12.901</b>	<b>12.937</b>
		<b>Financing</b>		
-	-	<b>Cash Outflows:</b> Repayments of Amounts Borrowed	6.232	6.232
1.840	1.840	Capital Element of Finance Lease Rental Payments	2.065	2.065
(58.836)	(58.836)	<b>Cash Inflows:</b> New Loans Raised	-	-
<b>(56.996)</b>	<b>(56.996)</b>	<b>Net Cash Outflow / (Inflow) from Financing Activities</b>	<b>8.297</b>	<b>8.297</b>
<b>(10.381)</b>	<b>(10.381)</b>	<b>Net (Increase) / Decrease in Cash and Cash Equivalents</b>	<b>(9.910)</b>	<b>(9.910)</b>
17.094	17.094	Cash and Cash Equivalents at the start of the reporting period <i>Note 27</i>	27.475	27.475
27.475	27.475	Cash and Cash Equivalents at the end of the reporting period <i>Note 27</i>	37.385	37.385

*Note to Cash Flow Statement* – Included in Operating Activities is Interest paid in year of £20.442m; (2014/15, £19.321m) and Interest received in year £1.002m; (2014/15, £0.680m).

# Notes to the Annual Accounts

## Note 1 – Accounting Policies

### 1.1 General Principles

The Annual Accounts summarise the Council's transactions for the 2015/16 financial year and its position as at 31 March 2016. Relevant figures for the 2014/15 financial year are disclosed as appropriate for the purpose of comparison. 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 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 2015/16 (The Accounting Code)* and (SeRCOP), supported by *International Financial Reporting Standards (IFRS)*. These are designed to give a "true and fair view" of the financial performance of the Council and its Group.

The fundamental qualitative characteristics of *Relevance, Materiality* and *Faithful Representation* have been considered alongside the following Accounting Concepts and assumptions in the application of the accounting policies.

**Accruals Basis:** The non-cash effects of transactions are included in the financial year in which they occur, not the period in which the cash is paid or received.

**Going Concern:** The functions of the Council and its Group Associates will continue in existence for the foreseeable future.

The accounting convention in the Annual Accounts is principally historical cost, modified by the revaluation of certain categories of non current assets and financial instruments.

### 1.2 Accruals of Income and Expenditure

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

- Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts. Income includes all sums due to the Council for the year of account. Government grants and other contributions are accounted for on an accruals basis and are recognised as income when the conditions of entitlement have been satisfied and there is reasonable assurance that the monies will be received. An appropriate provision has been made for bad and doubtful debts.
- Expenses (including services provided by employees) in relation to services are recorded on an accruals basis. Where supplies are received and there is a gap between the date received and their consumption, they are carried as inventories on the Balance Sheet.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- 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.

### 1.3 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 mature within three months of the date of acquisition and are readily convertible to known amounts of cash with insignificant risk of change in value. Cash and cash equivalents are shown in the Balance Sheet and Cash Flow Statement net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

## Notes to the Annual Accounts

### **1.4 Material Items and Prior Period Adjustments**

When items of income and expenditure are considered to be material to the understanding of the Council's financial performance, the nature and amount is disclosed separately, either on the face of the CIES or in the notes to the accounts. Changes in accounting estimates are accounted for prospectively, prior period figures will not be restated. Changes in accounting policy are applied retrospectively and prior period figures will be restated.

### **1.5 Charges to Revenue for Non-Current Assets**

Services are charged with the following 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 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 contribution from revenue towards the reduction in its overall borrowing requirement. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the Loans Fund principal, by way of an adjusting transaction between the General Fund and the Capital Adjustment Account within the MiRS.

### **1.6 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. An accrual is made for the cost of holiday entitlements or any form of leave earned by employees but not taken before the year-end and which employees can carry forward into the next financial year.

*Termination Benefits* - are amounts payable as a result of a decision to terminate employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged to the CIES when the Council is committed to a termination, when it has a detailed plan for the termination and it is without realistic possibility of withdrawal and agreement has been granted by Cabinet. 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, not the amount calculated according to the relevant accounting standards. In the MiRS, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits 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* - The Council participates in two pension schemes, the Local Government Pension Scheme, administered by Strathclyde Pension Fund and the Scottish Teachers' Superannuation Scheme, administered by the Scottish Government. Both provide defined benefits to members (retirement lump sums and pensions), earned as employees of the Council. Although these benefits will not be payable until employees retire, a commitment to make the payments is disclosed at the time employees earn their future entitlement.

Arrangements for the Teachers' Scheme mean that liabilities for these benefits cannot be identified for the Council. The Scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Education Services line in the CIES is charged with the employer's contributions payable to teachers' pensions in the year. The Local Government Pension Scheme is accounted as a defined benefits scheme.

## Notes to the Annual Accounts

The liabilities of the Strathclyde Pension Scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected 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 projections of projected earnings for current employees. Liabilities are discounted to their value at current prices, using a discount rate utilised by the actuaries to place a value on the liability. The assets of the Strathclyde Pension Fund attributable to the Council are included in the Balance Sheet at their fair value at current bid prices for securities, estimated fair value for unquoted securities and market price for property. The change in the net pensions liability is accounted for as required by IAS 19 Employee Benefits. Explanation of terms used are contained in the Glossary section at the final section of this document.

In relation to retirement benefits, Scottish Government Regulations require the General Fund Balance to be charged with the amount payable to the Pension Fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the MiRS, 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 staff 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.

### 1.7 Financial Liabilities

Financial liabilities 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 and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the CIES 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.

Borrowings presented in the Balance Sheet comprise the outstanding principal repayable plus accrued interest. Interest charged to the CIES is the amount payable for the year according to the loan agreement. Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the CIES in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the CIES is spread over the life of the loan by an adjustment to the effective interest rate. Where premiums and discounts have been charged to the CIES, 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 CIES 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 MiRS.

### 1.8 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.

## Notes to the Annual Accounts

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 CIES 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 CIES is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired, the asset is written down and a charge is made to the Financing and Investment Income and Expenditure line in the CIES. 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.

### **1.9 Government Grants and Contributions**

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 CIES until conditions attaching to the grant or contribution have been satisfied. 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 CIES. In cases where the condition of grant cannot be satisfied by the Council, then the monies will be returned. Where capital grants are credited to the CIES, they are reversed out of the General Fund balance in the MiRS. 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.

### **1.10 Intangible Assets**

#### **Non Current**

Expenditure on non-monetary assets that do not have physical substance but are controlled as a result of past events is capitalised when it is expected that it will bring the Council benefits for more than twelve months. Intangible assets are initially measured at cost. Amounts are not revalued, as the fair value of the assets cannot be determined by reference to an active market. The depreciable amount of an intangible asset is amortised over its useful life (assessed as between one to six years) to the relevant service lines in the CIES. Where expenditure qualifies as capital expenditure, amortisation, impairment losses and disposal gains are not permitted to have an impact on the General Fund balance. The gains and losses are reversed out in the MiRS and posted to the Capital Adjustment Account.

#### **Current (Carbon Reduction Allowances)**

Where allowances are purchased in a forecast sale (i.e. prospectively in April) for the purpose of settling current or future years' CRC responsibilities, the allowances are classified as Current Intangible Assets.

### **1.11 Inventories**

Consumable Stocks and Work-In-Progress are valued on a cost price basis except in the case of Housing Revenue Account where average cost is used.

# Notes to the Annual Accounts

## 1.12 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 - Operating Leases:* The Council rents various offices and buildings as tenant on a variety of lease terms that are accounted for as operating leases. Rentals paid under operating leases are charged to the appropriate service account in the CIES as an expense of the services benefiting from the use of the leased property over the term of the lease.

*The Council as Lessor - Operating Leases:* Where the Council grants an operating lease over a property or an item of PPE, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the CIES. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

## 1.13 Overheads and Support Services

Costs of overheads and support services are charged using the total absorption costing principle to those that benefit from the supply or service which is in accordance with the costing principles of SeRCOP with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multifunctional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early.

These cost categories are defined in SeRCOP and accounted separately in the CIES, as part of Net Expenditure. All overheads not defined as Corporate and Democratic Core or Non-Distributed Costs are fully charged to service expenditure headings. A proportion of the costs of central support services is also recharged to capital projects.

## 1.14 Property, Plant and Equipment (PPE)

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 PPE.

*Recognition:* Expenditure on the acquisition, creation or enhancement of PPE 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 PPE and are charged to the appropriate service line in the CIES. This de-minimus 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 cost of each component. Significance will be determined by comparing a component's cost against the overall cost of an asset rather than as an absolute amount. The threshold for a significant component shall be 15% of the overall cost of the asset but only where the overall asset value is in excess of £1m.

## Notes to the Annual Accounts

*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. The Council does not capitalise borrowing costs incurred whilst assets are under construction.

Assets are carried on the Balance Sheet using the following measurement bases:

- Infrastructure, community assets, and assets under construction: depreciated historical cost
- Dwellings: fair value, determined using the basis of existing use value for social housing (EUV-SH)
- Other assets: fair value, determined using the amount paid for the asset in its existing use (existing use value).

Where there is no market-based evidence of fair 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 have short useful lives or low values, depreciated historical cost basis is used as a proxy for fair value. Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end but as a minimum every five years. The Council revalues its land and buildings in a rolling five-yearly programme. The valuations have been compiled within the 5-year rolling programme by RICS professional staff under the direction of the Depute Chief Executive & Chief Financial Officer. Surplus assets not held for sale are not exempt from depreciation. The Council's dwelling stock was revalued at 1 April 2013 in line with the revaluation policy.

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

*Impairment:* Officers of the Council, as part of their normal duties, report at the end of the financial year on any material events that affect the value of assets. 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 initially debited to the Revaluation Reserve up to the total value of any revaluation gains held for the individual asset. Thereafter impairment losses are recognised against the relevant service lines in the CIES. Where an impairment loss is subsequently reversed, the reversal is credited to the relevant service line(s) in the CIES, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

*Depreciation:* Depreciation is provided for on all PPE assets by the 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 certain community assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation, where charged, has been applied on a straight line methodology based on the asset valuation, its remaining useful life and any residual value an asset is calculated to have. The useful economic lives over which assets are depreciated are:

- |                     |             |                         |             |
|---------------------|-------------|-------------------------|-------------|
| • Council Dwellings | 20-25 years | • Operational Buildings | 20-60 years |
| • Community Assets  | 20-25 years | • Operational Equipment | 2-20 years  |

## Notes to the Annual Accounts

The depreciation of Infrastructure Assets varies according to the assets held and is determined by the condition of the asset.

Where an item of PPE has major components whose costs are significant in relation to the total cost of the item, the components are depreciated separately in accordance with the Council's policy.

Revaluation gains are depreciated with an amount equal to the difference between current value depreciation charged on assets and depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

*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 revalued 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 CIES. 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.

Property, land and buildings is classified as held for sale when the following criteria are met:

- The property is available for immediate sale in its present condition.
- The sale must be highly probable and an active programme to locate a buyer must have been initiated.
- The asset must be actively marketed for a sale at a price that is reasonable in relation to its current fair value.
- The sale should be expected to qualify for recognition as a completed sale within one year (although events or circumstances may extend the period to complete the sale beyond one year).

When these criteria are met, assets within the category of PPE will be reclassified to be Assets Held for Sale. The date of reclassification will normally follow the approval by Cabinet to sell the asset. If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as Assets Held for Sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Assets Held for Sale, and their recoverable amount at the date of the decision not to sell.

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 CIES as part of the gain or loss on disposal. Any receipts from disposals are credited to the same line in the CIES 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 disposals is not a charge against 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 MiRS.

### 1.15 Heritage Assets

Heritage Assets are defined in the Code as: "A tangible (or intangible) asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture".

## Notes to the Annual Accounts

The heritage assets held by the Council are:

- The museum and art collections;
- The civic regalia;
- The Council's archives and ephemera;
- A number of public space statues, monuments, memorials, fountains, and outdoor artworks.

Heritage Assets do not include:

- Works of art not held for knowledge or culture;
- Historic buildings used to provide services to the authority;
- Community assets, held primarily for current use.

Heritage Assets are presented separately from other PPE assets in the Balance Sheet and the notes identify the classes of such assets being reported at cost and those at valuation. The valuation of Heritage Assets is based upon information held in catalogues or inventories maintained within the Council. 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 because of the diverse nature of assets held, the number of assets held and the lack of comparable market values.

### **1.16 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 assets under the contract as part of PPE 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 revalued and depreciated in the same way as other non-current assets owned by the Council. The amounts payable to the PFI operator each year are analysed into:

- The service charge element and life-cycle replacement costs, charged to Education in the CIES.
- The interest element, charged to the Financing and Investment Income and Expenditure line in the CIES.
- Contingent rent (increases in the amount to be paid for the property arising during the contract), charged to the Financing and Investment Income and Expenditure line in the CIES.
- The repayment of the liability, applied to reduce the Balance Sheet liability owed to the operator.

**1.17 Common Good** - As part of the management arrangements where land and buildings are confirmed as belonging to the Common Good, and where the Council is incurring costs or receiving income relating to these assets as the managing agent, then the Common Good pays a nominal annual £1 fee to the Council (if asked) in return for the management of the asset. The Council remains responsible for all costs and any income relating to the asset and is entitled to the use of the asset. These funds do not represent assets available to the Council.

### **1.18 Provisions and Contingent Liabilities**

Provisions are made where a past event creates a legal or constructive obligation for the Council which may require settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

## Notes to the Annual Accounts

Provisions are charged as an expense to the appropriate service line in the CIES 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 made, they are charged to the provision carried 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 Liabilities arise where an event has taken place that gives the Council a possible obligation 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 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 Liabilities (and Assets) are not recognised in the Balance Sheet but disclosed in a Note to the Annual Accounts where they are deemed material.

### ***1.19 Carbon Reduction Commitment (CRC) Energy Efficiency Scheme***

The Council participates in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its second phase, which ends on 31 March 2019. The Council is required to purchase allowances, either prospectively or retrospectively, and surrender them 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 authority is recognised and reported in the costs of the Council's services and is apportioned to services on the basis of energy consumption.

### ***1.20 Interests 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 it to prepare group accounts. In the Council's own single-entity accounts, such interests are not recorded as the Council has no shares in or ownership of any of these organisations.

### ***1.21 Reserves***

Reserves are created by appropriating amounts out of the General Fund balance in the MiRS. 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 CIES. The reserve is then appropriated back into the General Fund balance in the MiRS so that there is no net charge against Council Tax for the expenditure. Reserves are classified into Usable and Unusable.

*Usable Reserves (which are available to support services):* The General Fund Balance contains funds accumulated as part of the Council's Reserves Strategy. Renewal and Repairs Fund provides for the upkeep of specific assets held by the Council. The Capital Fund is used to meet the costs of capital investment in assets and for the repayment of the principal element of borrowings.

*Unusable Reserves (which are unrealised and have a deferred impact on taxation):* These reserves are kept to manage the accounting processes for non-current assets, financial instruments and retirement benefits and 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 represents the 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.

## Notes to the Annual Accounts

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 CIES.

The Accumulated Absences Reserve arises from IAS19 accounting disclosures for Short Term Accumulated Benefits and recognises the Council's liability for compensated absences earned by staff but not taken in the year. The Statutory Arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Reserve.

### **1.22 VAT**

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

### **1.23 Events After the Balance Sheet Date**

Events after the Balance Sheet date are those that occur between the end of the reporting period and the date when the Annual Accounts are authorised for issue. Where the event is deemed to be an adjusting event the Annual Accounts are adjusted to reflect such events. Events taking place after the date of authorisation for issue are not reflected in the Annual Accounts.

### **Note 2 – Accounting Standards Issued not Adopted**

The Code requires changes in accounting policy to be applied retrospectively unless alternative transitional arrangements are permitted. The Council is required to disclose the impact of an accounting change required by a new standard that has been issued but not yet adopted for the relevant year. The standards introduced in the 2016/17 Code that are relevant to the requirements of the Code are:

- Amendments to IAS 19 Employee Benefits
- Annual Improvements to IFRS 2010 – 2012 Cycle
- Amendment to IFRS 11 Joint Arrangements
- Amendment to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets
- Annual Improvements to IFRS 2012 – 2014 Cycle
- Amendment to IAS 1 Presentation of Financial Statements
- Changes to the CIES, MiRS and the introduction of the new Expenditure and Funding Analysis
- The changes to the format of the Pension Fund Account and the Net Assets Statement.

Implementation is from 1 April 2016 and therefore there is no impact on the 2015/16 Annual Accounts.

The 2016/17 Code introduced changes, which will take effect from 1 April 2016, to measure the Highways Network Asset (HNA), at Depreciated Replacement Cost. The new HNA will effectively replace large elements of the current Infrastructure Asset category within PPE which is currently valued at historic cost. This change will ensure that the Highways Network Asset is reflected at the true economic value and operational cost of the substantial resources held and maintained. Transitional arrangements will apply with policies being on a retrospective basis from 1 April 2016. However, there will be no requirement to restate the preceding year information. The effects of the change are so substantial that the HNA will be included on the Balance Sheet as a single separate asset. The likely financial impact will be a HNA at around £1.2bn.

## Notes to the Annual Accounts

### *Note 3 – Critical Judgements in Applying Accounting Policies*

The preparation of the consolidated Annual Accounts requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and assumptions are based on historical experience and other reasonable factors, the results of which form the basis of judgements about carrying values of assets and liabilities that are not apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

The critical judgements made in the Annual Accounts are:

- Judgement was applied to assess the impact of the Council's involvement in the opencast mines. After consideration and having regard to relevant legal outcomes, the appropriate accounting standards and subsequent tests it is considered that no liability rests with the Council.
- There is a high degree of uncertainty about future levels of funding. However, this uncertainty is not yet sufficient to provide an indication of the assets that might be impaired as a result of a need to close facilities and reduce levels of service provision.
- Unused holiday entitlement earned but not taken at year end has been based on a 12.69% sample of all non term time employees. However, there may be an element of estimation uncertainty. The calculation for unused holidays for term time staff in schools is based on actual leave entitlement earned as at 31 March 2016 and no estimation is required for these staff. The liability in respect of the holiday pay accrual is £7.030m.
- The Integration Joint Board has not been charged with support costs, capital or pension costs

### *Note 4 – Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty*

The Annual Accounts contain estimated figures that are based on assumptions about the future. Estimates are made taking into account historical experience, current trends and other relevant factors. However balances cannot be determined with certainty therefore actual results could be materially different from the assumptions and estimates. The items in the Balance Sheet at 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

- Estimation of the net liability to pay pensions depends on a number of 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 expert advice about the assumptions applied. The effects on the net pensions liability of changes in individual assumptions can be measured for instance, a 0.5% decrease in the real discount rate would result in an increase in the pension liability of £85.849m. However, the assumptions interact in complex ways. During 2015/16, the Pension Fund's actuaries advised that the Council's share of the net pension liability has decreased by £69.126m.
- At 31 March 2016, the Council had a sundry debtors balance of £13.682m. A review suggested that an allowance for doubtful debts of 32.4% (£4.431m) was appropriate. In terms of financial modelling a 1% increase in the allowance could lead to an additional cost of £0.139m.
- A number of Equal Pay claims have been received covering the period prior to the introduction of Single Status within the Council. Although these claims have still to be subject to Employment Tribunal hearings there remains some uncertainty and therefore provision has been made on the basis of potential estimated employee and Scottish Government liabilities. If the estimation is understated or additional claims are received then further funding may be required.
- The Council is deemed to control the services provided under PFI. The accounting policies have been applied and the assets under the contract are included within PPE on the Balance Sheet. In terms of financial modelling, indices are used and any increase in these indices above that set in the funding model will require the Council to identify and allocate additional funding to the Scheme.

## Notes to the Annual Accounts

### Note 5 – Events after the Balance Sheet Date

The Council is required to disclose material matters that arise between the Balance Sheet date (31 March 2016) and the date when the Accounts are authorised for issue which took place at the Council meeting on 30 June 2016. On 20 April 2016 the Community Centre building on the Muirkirk Primary School site was burned down following a malicious attack. The carrying value of the fixed assets held on the Balance Sheet has not been adjusted in accordance with relevant accounting requirements.

The Depute Chief Executive & Chief Financial Officer, being the responsible officer for the Council's affairs, signed the unaudited Annual Accounts on 30 June 2016. Subsequent events taking place after this date are not reflected in the Annual Accounts or notes.

### Note 6 – Material Items of Income and Expense

During 2015/16 the Council disposed of assets and achieved capital receipts totalling £2.747m. The carrying value of these assets on the Balance Sheet was £3.807m. In the year the Council received £5.172m in restructuring bonds in respect of the open cast coal mining sites and the total amount of bond monies received and not spent is £11.819m and is included in the creditors balance.

### Note 7 – Amounts Reported for Resource Allocation Decisions

The income and expenditure in the CIES is specified by SeRCOP. However, decisions about resource allocation are taken on the basis of budget reports, prepared on a different basis. In particular, no charges are made for capital expenditure (whereas depreciation, revaluation and impairment losses and amortisations are charged to services in the CIES). The cost of retirement benefits is based on cash flows (payment of employer's pension's contributions) rather than current service cost of benefits accrued in the year and expenditure on some support services is budgeted for within the service.

*Segmental Reporting Disclosure* - The income and expenditure of the services is as follows:

2014/15 Total  £m		Economy & Skills  £m	Safer Communities  £m	Wellbeing  £m	Governance  £m	Total General Fund £m	Housing Revenue Account £m	2015/16 Total  £m
<i>2014/15</i>								
	Total Income	(7.182)	(28.561)	(16.018)	(1.606)	(53.367)	(51.553)	(104.920)
	Total Operating Expenses	101.394	94.397	89.517	6.352	291.660	48.782	340.442
	Cost of Services	94.212	65.836	73.499	4.746	238.293	(2.771)	235.522
<i>2015/16</i>								
(99.561)	Fees, Charges & Other Income	(4.946)	(27.607)	(16.291)	(1.718)	(50.562)	(53.157)	(103.719)
(5.358)	Government Grants	(1.512)	(3.681)	(2.081)	(0.012)	(7.286)	-	(7.286)
(104.919)	<b>Total Income</b>	<b>(6.458)</b>	<b>(31.288)</b>	<b>(18.372)</b>	<b>(1.730)</b>	<b>(57.848)</b>	<b>(53.157)</b>	<b>(111.005)</b>
169.685	Employees	84.313	35.300	37.420	4.491	161.524	12.045	173.569
23.277	Premises	6.530	10.029	0.460	0.204	17.223	6.891	24.114
10.712	Transport	0.336	7.860	0.884	0.062	9.142	1.360	10.502
32.166	Supplies and Services	8.194	13.789	2.631	1.664	26.278	6.792	33.070
74.504	Third Party Payments	2.511	31.726	42.914	0.105	77.256	2.655	79.911
9.803	Transfer Payments	1.585	-	7.862	-	9.447	-	9.447
19.882	Other Operating Expenses	0.004	1.666	0.018	0.048	1.736	18.570	20.306
0.412	Support Service Recharges	(2.352)	(1.021)	-	(0.520)	(3.893)	4.166	0.273
340.441	<b>Total Operating Expenses</b>	<b>101.121</b>	<b>99.349</b>	<b>92.189</b>	<b>6.054</b>	<b>298.713</b>	<b>52.479</b>	<b>351.192</b>
235.522	<b>Cost of Services</b>	<b>94.663</b>	<b>68.061</b>	<b>73.817</b>	<b>4.324</b>	<b>240.865</b>	<b>(0.678)</b>	<b>240.187</b>

## Notes to the Annual Accounts

### Reconciliation to Net Cost of Service in Comprehensive Income and Expenditure Statement

2014/15		2015/16 £m	2015/16 £m
235.522	Cost of Services Analysis		240.187
	Services not included in the Analysis		
24.191	Central Services		26.531
	Amounts not reported in the Management Accounts		
5.162	Pensions Adjustments	8.430	
0.397	Accumulated Absences Adjustments	(0.720)	
35.010	Capital and Financing Charges	28.185	35.895
	Amounts reported in the Management Accounts not included on CIES		
(9.654)	CFCR	(11.591)	
0.880	Transfers to/from Reserves	0.115	(11.476)
291.508	Net Cost of Services in Comprehensive Income and Expenditure Statement		291.137

### Reconciliation to Comprehensive Income and Expenditure Statement

2014/15 Total		Service Analysis	Services not in Analysis	Not reported in Management Accounts	Not included in CIES	Allocation of Recharges	Net Cost of Services	Corporate Amounts	2015/16 Total
£m		£m	£m	£m	£m	£m	£m	£m	£m
(98.951)	Fees, Charges & Other Income	(103.719)	(2.421)	-	-	3.645	(102.495)	-	(102.495)
(0.680)	Interest and Investment Income	-	-	-	-	-	-	(1.002)	(1.002)
(40.535)	Income from Council Tax	-	-	-	-	-	-	(41.444)	(41.444)
(305.531)	Government Grants	(7.286)	(53.255)	-	-	-	(60.541)	(247.564)	(308.105)
(445.697)	Total Income	(111.005)	(55.676)	-	-	3.645	(163.036)	(290.010)	(453.046)
156.353	Employees Related Expenditure	173.569	1.731	(0.720)	-	(17.374)	157.206	-	157.206
179.097	Other Service Expenditure	177.350	81.407	(39.901)	(11.476)	(20.155)	187.225	-	187.225
34.573	Support Service Recharges	0.273	(0.931)	-	-	33.884	33.226	-	33.226
69.848	Capital Charges	-	-	64.925	-	-	64.925	-	64.925
9.654	CFCR	-	-	11.591	-	-	11.591	-	11.591
32.887	Pension Interest Costs	-	-	-	-	-	-	28.266	28.266
(24.926)	Expected Return on Pension	-	-	-	-	-	-	(20.624)	(20.624)
19.612	Interest Payments	-	-	-	-	-	-	20.695	20.695
1.155	Loss on Disposal of Fixed Assets	-	-	-	-	-	-	1.060	1.060
478.253	Total Operating Expenses	351.192	82.207	35.895	(11.476)	(3.645)	454.173	29.397	483.570
32.556	(Surplus) or Deficit on the Provision of Services	240.187	26.531	35.895	(11.476)	-	291.137	(260.613)	30.524

#### Note 8 – External Audit Costs

The Council incurred costs of £0.282m (£0.282m 2014/15) in relation to the audit of the Annual Accounts and the certification of grant claims provided by the Council's external auditors. In addition £0.002m will be levied by Audit Scotland in respect of the audit of the Trusts noted on page 63.

#### Note 9 – Agency Services

The Council bills and collects domestic water and sewerage charges on behalf of Scottish Water along with its own Council Tax. During 2015/16 the Council received £0.436m for providing this service (2014/15 £0.436m). The Council also acts as agent on behalf of the Scottish Government in respect of the collection of Non-Domestic Rates.

## Notes to the Annual Accounts

### Note 10 – Grant Income

The Council credited the following grants, contributions and donations to the CIES in 2015/16.

2014/15		2015/16
£m	Credited to Taxation and Non Specific Grant Income	£m
196.782	Revenue Support Grant	200.279
31.060	Non-Domestic Rates	32.850
227.842		233.129
	<b>Capital Grants</b>	
8.890	General Capital Grant	11.684
0.103	Gaelic Schools Fund	0.876
0.395	SPT Transport Grant	0.714
8.464	Council House Building Programme	0.598
0.163	Specific Capital Grant - CWSS	0.210
0.497	Moorfield Business Park - ERDF Grant	0.150
0.039	Sustrans	0.118
0.072	Electric Vehicle Procurement Support Scheme - Transport Scotland	0.085
18.623		14.435
<b>246.465</b>	<b>Total</b>	<b>247.564</b>
£m	Credited to Services / IJB	£m
43.875	DWP Housing Benefits	43.990
1.290	Home Energy Efficiency Programmes Scotland (HEEPS) Grants	2.616
1.846	Criminal Justice Grant	2.003
-	Integrated Care Fund	1.840
0.884	DWP Benefits Administration Grants	0.833
0.681	Alcohol and Drug Partnership Funding	0.702
0.600	Private Sector Housing Grant	0.600
1.263	European Social Fund Grants	0.469
0.312	Sportscotland - Active Schools Grant	0.345
0.330	Skills Development Scotland Skillseeker Grant	0.315
0.188	Youth Music Initiative	0.193
0.139	Specific Grant - Gaelic	0.146
0.703	Cumnock Town Hall Grant	0.141
0.060	WRAP Grant	0.135
0.120	Big Lottery Funding	0.132
0.125	Opportunities For All	0.125
0.548	Conservation Area Regeneration Scheme - Heritage Lottery Grant	0.069
0.484	2 The Cross, Kilmarnock	0.033
0.110	Conservation Area Regeneration Scheme - Historic Scotland Contribution	0.022
0.640	Older People's Change Fund	-
0.153	Self Directed Support	-
0.526	Various Minor Education Services Grants & Contributions	0.460
0.321	Various Minor Social Work Grants & Contributions	0.352
0.108	Various Minor Cultural & Related Services Grants & Contributions	0.082
0.030	Various Minor Police Services Grants & Contributions	0.032
0.026	Various Minor Environmental Services Grants & Contributions	0.027
0.024	Various Minor Planning & Development Grants & Contributions	-
<b>55.386</b>	<b>Total</b>	<b>55.662</b>

## Notes to the Annual Accounts

### Note 11 – PPP and Similar Contracts

The Council entered into a Public Private Partnership for the provision of school buildings, maintenance and other facilities. The agreement provides two primary schools and two combined educational campuses providing primary, secondary and special educational facilities. The contractor is required to ensure the availability of the buildings to a pre-agreed standard. The buildings and any plant and equipment installed in them at the end of the contract will transfer to the Council for no cost. The schools became operational during 2007/08 and 2008/09 and the resultant assets and liabilities have been recognised on the Balance Sheet.

Movements in the value are detailed in the PPE Note 17 on page 38. The Council makes payment by way of a monthly unitary charge over the term of the agreement, which is increased each year by an inflationary element based on RPI and RPIX at January of each year, and which can be reduced if the contractor fails to meet availability and performance standards. The unitary charge includes the repayment of construction costs, interest and service charges and the projected payments due under the agreement, based on assumed RPI and RPIX of 2.5% per annum.

	Payment for Services £m	Reimbursement of Capital Expenditure £m	Interest £m	Total £m
Payable in 2016/17	4.018	1.808	4.010	9.836
Payable within two to five years	19.128	6.626	15.614	41.368
Payable within six to ten years	25.567	11.112	19.979	56.658
Payable within eleven to fifteen years	31.367	12.344	18.538	62.249
Payable within sixteen to twenty years	30.583	19.010	20.217	69.810
Payable within twenty one to twenty five years	11.773	10.459	9.208	31.440
<b>Total</b>	<b>122.436</b>	<b>61.359</b>	<b>87.566</b>	<b>271.361</b>

The liability outstanding to pay the contractor for capital expenditure is as follows:

2014/15 £m		2015/16 £m
65.264	Balance outstanding at start of year	63.425
(1.839)	Payments during the year	(2.065)
<b>63.425</b>	<b>Balance outstanding at year-end</b>	<b>61.360</b>

### Note 12 – Operating Leases

*Council as Lessee:* The Council has a number of assets under operating leases including properties, vehicles and plant and IT hardware. The future minimum lease payments due under non-cancellable leases in future years are:

31 March 2015 £m		31 March 2016 £m
1.172	Not later than one year	0.939
2.969	Later than one year and not later than five years	2.784
5.402	Later than five years	4.909
<b>9.543</b>		<b>8.632</b>

The expenditure charged to the Net Cost of Services in the CIES during the year in relation to these leases was £1.061m (£1.241m in 2014/15).

*Council as Lessor:* The Council leases out properties under operating leases for the provision of community services such as sports facilities and community facilities or for economic development purposes to provide suitable affordable accommodation for local businesses. Future minimum lease payments receivable under non-cancellable leases in future years are:

## Notes to the Annual Accounts

31 March 2015		31 March 2016
£m		£m
0.557	Not later than one year	0.613
1.214	Later than one year and not later than five years	1.502
4.160	Later than five years	4.888
<b>5.931</b>		<b>7.003</b>

The income credited to the Net Cost of Services in the CIES during the year in relation to these leases was £0.613m (£0.562m in 2014/15).

### Note 13 – Pension Schemes Accounted for as Defined Benefit Pension Schemes

#### Participation in Pension Schemes

The Council makes contributions to the cost of post employment benefits. Although benefits will not actually be payable until employees retire, the Council has a commitment to make the payments and this needs to be disclosed at the time employees earn their future entitlement.

The Council participates in the Strathclyde Pension Scheme, administered by Glasgow City Council. This is a funded defined benefit final salary scheme, meaning that employees and the Council pay contributions calculated at a level intended to balance the pensions liabilities with investment assets. The Council has additional liabilities for unfunded discretionary pension payments outside the main scheme. The Scheme is operated under the regulatory framework for the Local Government Pension Scheme and governance of the scheme is the responsibility of the pensions committee of Glasgow City Council. Policy is determined in accordance with the Pensions Fund Regulations.

Management of the Fund's investments is carried out by the Fund's Investment Advisory Panel which appoints a number of external investment managers/partners and monitors their investment performance. The principal risks are the longevity assumptions, statutory scheme changes, structural changes (i.e. large-scale withdrawals), changes to inflation, bond yields and the performance of the investments held. These are mitigated to a certain extent by the statutory requirements to charge the General Fund and Housing Revenue Account the amounts required by statute as described in Note 1.

#### Transactions Relating to Post Employment Benefits

The Council recognises retirement benefits costs when earned rather than when paid as pensions. However, the charge required to be made against Council Tax is based on the cash payable in the year.

2014/15	Local Government Pension Scheme	2015/16
£m	Comprehensive Income and Expenditure Statement (CIES)	£m
	<i>Cost of Services:</i>	
21.251	Current service costs	24.369
1.901	Past service costs (including curtailments)	1.485
	<i>Financing and Investing Income and Expenditure:</i>	
7.961	Net Interest Expense	7.642
<b>31.113</b>	<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	<b>33.496</b>
	<i>Other Post Employment Benefit Charged to the CIES:</i>	
	<i>Re-measurement of the net defined benefit liability comprising:</i>	
(40.936)	Expected return on pension fund assets	3.873
22.144	Actuarial (gains) or losses arising on changes on demographic assumptions	-
87.468	Actuarial (gains) or losses arising on changes on financial assumptions	(79.424)
(29.887)	Actuarial (gains) or losses arising from other experience	(9.647)
<b>69.902</b>	<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>(51.702)</b>
	<i>Movement in Reserves Statement (MIRS)</i>	
(51.912)	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	69.126
<b>17.990</b>	<b>Employers' contributions payable to Strathclyde Pension Fund</b>	<b>17.424</b>

# Notes to the Annual Accounts

## Reconciliation of Present Value of the Scheme liabilities (Defined Benefit Obligation)

2014/15		2015/16
£m		£m
(762.975)	Opening balance at 1 April	(880.377)
(21.251)	Current Service Cost	(24.369)
(32.887)	Interest Cost	(28.266)
(4.608)	Contributions from scheme Participants	(4.587)
	Re-measurement gains and (losses)	
(22.144)	Actuarial gains / (Losses) from changes in demographic assumptions	-
(87.468)	Actuarial gains / (Losses) from changes in financial assumptions	79.424
29.887	Actuarial gains / (Losses) from other experience	9.647
(1.901)	Past service cost	(1.485)
22.970	Benefits Paid	24.554
<b>(880.377)</b>	<b>Closing balance at 31 March</b>	<b>(825.459)</b>

## Pension Assets and Liabilities on the Balance Sheet

2014/15		2015/16
£m		£m
(880.377)	Present Value of The Defined Benefit Obligation *	(825.459)
645.761	Fair Value of Pension Fund Assets	659.969
<b>(234.616)</b>	<b>Net Liability arising from Defined Benefit Obligation</b>	<b>(165.490)</b>
	*Unfunded Liabilities included in the figure for present value of liabilities	
(20.820)	- Unfunded liabilities for Pension Fund	(19.205)
(24.368)	- Teachers unfunded pensions	(23.386)
(9.949)	- Unfunded liabilities prior to 1996 local government reorganisation	(8.858)

## Reconciliation of Fair Value of the Scheme (plan) assets

2014/15		2015/16
£m		£m
<b>580.271</b>	<b>Opening Fair Value of Pension Fund Assets</b>	<b>645.761</b>
24.926	Interest Income	20.624
	Re-measurement gains and (losses)	
40.936	Expected rate of return on pension fund assets	(3.873)
17.990	Contributions from employers	17.424
4.608	Contributions from employees into the scheme	4.587
(22.970)	Benefits Paid (including settlements)	(24.554)
<b>645.761</b>	<b>Closing balance at 31 March</b>	<b>659.969</b>

## Analysis of Pension Fund Assets (Note, the actuary has stated that rounding may cause the sum of items not to equal the totals shown)

Asset Category	2015/16				2014/15			
	Prices Quoted in Active Markets	Prices not quoted in Active Markets	Totals	%	Prices Quoted in Active Markets	Prices not quoted in Active Markets	Totals	%
Equity Securities	240.110	0.519	240.629	36%	236.734	0.487	237.221	36%
Debt Securities	-	0.001	0.001	0%	-	0.003	0.003	0%
Private Equity	-	64.196	64.196	10%	-	62.838	62.838	9%
Real Estate	-	70.899	70.899	11%	-	58.999	58.999	7%
Investment Funds and Unit Trusts	5.966	255.377	261.343	40%	7.036	263.599	270.635	42%
Derivatives	0.160	-	0.160	0%	0.198	-	0.198	0%
Cash & Cash Equivalents	22.037	0.704	22.741	3%	-	15.867	15.867	5%
<b>Closing balance at 31 March</b>	<b>268.273</b>	<b>391.696</b>	<b>659.969</b>	<b>100%</b>	<b>243.968</b>	<b>401.793</b>	<b>645.761</b>	<b>100%</b>

## Notes to the Annual Accounts

### *Basis for Estimating Assets and Liabilities*

Liabilities have been assessed based on the latest full valuation of the scheme as at 31 March 2014.

	Local Government Pension Scheme	
	2015/16	2014/15
Long-term expected rate of return on assets in the scheme:		
Equity investments	3.5%	3.2%
Bonds	3.5%	3.2%
Property	3.5%	3.2%
Cash	3.5%	3.2%
Mortality assumptions (years):		
Longevity at 65 for current pensioners:		
Men	22.1	22.1
Women	23.6	23.6
Longevity at 65 for future pensioners:		
Men	24.8	24.8
Women	26.2	26.2
Rate of inflation	2.2%	2.4%
Rate of increase in salaries	4.2%	4.3%
Rate of increase in pensions	2.2%	2.4%
Rate for discounting scheme liabilities	3.5%	3.2%
Take-up of option to convert annual pension into retirement lump sum	50.0%	50.0%

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions payable in future years dependent on assumptions on mortality, salary levels and other factors. Assets held are valued at fair value, principally market value for investments. The table shows the principal assumptions used by the actuary and the categorisation by proportion of the total assets.

### *Change in Assumptions at 31 March 2016*

	Approximate % increase in Employer Liability	Approximate monetary amount £m
0.5% decrease in Real Discount Rate	10%	85.849
1 Year increase in Member Life Expectancy	3%	24.764
0.5% increase in the Salary Increase Rate	4%	31.396
0.5% increase in the Pension Increase Rate	6%	52.622

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions as shown above. The sensitivity has been determined based on reasonable changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme. The methods and types of assumptions used in preparing the sensitivity analysis above did not change from those used in the previous period.

### *Asset and Liability Matching (ALM) Strategy*

The main fund of Strathclyde Pension Fund does not have an ALM strategy as this is used mainly by mature funds. The Fund does match, to the extent possible, types of assets invested to the liabilities in the defined benefit obligation. As is required by the pensions and investment regulations, the suitability of various types of investment has been considered, as has the need to diversify investments to reduce the risk of being invested in too narrow a range. The Fund invests in equities, bonds, properties and cash.

## Notes to the Annual Accounts

### *Impact on the Authority's Cash Flow*

The Fund's objective is 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 participating Local Authorities. Employer's contributions have been set at 19.3% for 2016/17. The triennial valuation took place at 31 March 2014. The Fund will need to take account of national changes to the Scheme such as the move from 1 April 2015 to a new career average revalued earning scheme (CARE) for future accruals. The total contributions expected to be made by the Council to Strathclyde Pension Fund in the year to 31 March 2017 is £14.606m. The assumed weighted average duration of the defined benefit obligation is 18.6 years. This is different from the mortality assumptions quoted in the table Basis for Estimating Assets and Liabilities.

### **Note 14 – Pension Schemes Accounted for as Defined Contribution Pension Schemes**

Teachers are members of the Scottish Teachers' Superannuation Scheme which provides specified benefits upon retirement. The Council contributes by making contributions based on a percentage of members' pensionable salaries. The Scheme is technically a defined benefit scheme. Unlike the Local Government Scheme, the Council is not required to apply IAS 19 disclosures in respect of the Teachers' Scheme as the liability rests ultimately with the Scottish Government. Therefore, the costs recorded in respect of this scheme are the actual contributions made during the year. The scheme is accounted for as a defined contribution scheme. Contributions by the Council in 2015/16 amounted to £7.188m, (17.4% of pensionable pay), (2014/15 £6.603m, 14.9% of pensionable pay). In addition, contributions totaling £0.781m, 1.89% of pensionable pay, were made in respect of discretionary payments (2014/15 £0.805m, 1.9% of pensionable pay). The Council is responsible for the costs of any additional benefits awarded upon early retirement and these are accounted for on a defined benefit basis.

### **Note 15 – Capital Expenditure and Capital Financing**

The total amount of capital expenditure incurred in the year is shown in the following table together with the resources that have been used to finance it.

	2015/16 £m	2014/15 £m
<b>Opening Capital Financing Requirement</b>	<b>383.806</b>	<b>375.855</b>
<i>Capital investment</i>		
Property, Plant and Equipment	37.434	53.757
Intangible Assets	-	0.070
Revenue Expenditure Funded from Capital under Statute	0.848	1.895
<i>Sources of finance</i>		
Capital receipts	(2.476)	(2.173)
Government grants and other contributions	(15.283)	(20.518)
Sums set aside from revenue:		
Direct revenue contributions	(11.591)	(9.654)
Repayment of PPP/Finance Lease Capital Debt	(2.065)	(1.839)
Loans Fund Principal	(14.480)	(13.587)
<b>Closing Capital Financing Requirement</b>	<b>376.193</b>	<b>383.806</b>
<b>Explanation of movements in year</b>		
Increase in underlying need to borrow (unsupported by government financial assistance)	(7.613)	7.951
<b>Increase/(Decrease) in Capital Financing Requirement</b>	<b>(7.613)</b>	<b>7.951</b>

# Notes to the Annual Accounts

## Note 16 – Property Plant and Equipment

2015/16	OPERATIONAL ASSETS				NON-OPERATIONAL ASSETS		2015/16 Total
	Council Dwellings	Other Land and Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets - Surplus Assets Not Held for Sale	Assets Under Construction	
Cost or Valuation:	£m	£m	£m	£m	£m	£m	£m
<b>At 1 April 2015</b>	<b>437.487</b>	<b>455.218</b>	<b>34.175</b>	<b>98.293</b>	<b>4.384</b>	<b>18.311</b>	<b>1,047.868</b>
Expenditure	12.934	5.645	1.762	6.498	0.058	10.537	37.434
Revaluations:							
To Revaluation Reserve	-	(3.910)	-	-	(4.236)	-	(8.146)
To Net Cost of Services	(13.312)	(8.235)	-	-	(2.091)	-	(23.638)
Disposals	(4.011)	-	(0.458)	-	-	-	(4.469)
Assets reclassified (to)/from Held for Sale	-	(0.743)	-	-	-	-	(0.743)
Other movements	19.094	(6.837)	-	1.722	7.014	(20.993)	-
<b>At 31 March 2016</b>	<b>452.192</b>	<b>441.138</b>	<b>35.479</b>	<b>106.513</b>	<b>5.129</b>	<b>7.855</b>	<b>1,048.306</b>
<b>Depreciation and Impairment:</b>							
<b>At 1 April 2015</b>	<b>(34.413)</b>	<b>(24.541)</b>	<b>(20.181)</b>	<b>(43.694)</b>	<b>(0.167)</b>	<b>-</b>	<b>(122.996)</b>
Depreciation charge	(18.300)	(13.380)	(4.149)	(5.125)	(0.090)	-	(41.044)
Depreciation written out							
To Revaluation Reserve	-	5.235	-	-	1.701	-	6.936
Disposals	0.317	-	0.416	-	-	-	0.733
Reclassifications	-	1.732	-	-	(1.553)	-	0.179
<b>At 31 March 2016</b>	<b>(52.396)</b>	<b>(30.954)</b>	<b>(23.914)</b>	<b>(48.819)</b>	<b>(0.109)</b>	<b>-</b>	<b>(156.192)</b>
<b>Net Book Value at 31 March 2015</b>	<b>403.074</b>	<b>430.677</b>	<b>13.994</b>	<b>54.599</b>	<b>4.217</b>	<b>18.311</b>	<b>924.872</b>
<b>Net Book Value at 31 March 2016</b>	<b>399.796</b>	<b>410.184</b>	<b>11.565</b>	<b>57.694</b>	<b>5.020</b>	<b>7.855</b>	<b>892.114</b>

2014/15	OPERATIONAL ASSETS				NON-OPERATIONAL ASSETS		2014/15 Total
	Council Dwellings	Other Land and Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets - Surplus Assets Not Held for Sale	Assets Under Construction	
Cost or Valuation:	£m	£m	£m	£m	£m	£m	£m
<b>At 1 April 2014</b>	<b>425.421</b>	<b>512.397</b>	<b>30.421</b>	<b>93.161</b>	<b>3.168</b>	<b>4.114</b>	<b>1,068.682</b>
Expenditure	13.106	8.025	4.457	5.132	0.031	23.006	53.757
Revaluations:							
To Revaluation Reserve	0.010	(40.833)	-	-	(0.879)	-	(41.702)
To Net Cost of Services	(5.933)	(20.142)	-	-	(2.561)	-	(28.636)
Disposals	(3.146)	(1.116)	(0.703)	-	-	-	(4.965)
Assets reclassified (to)/from Held for Sale	-	(1.006)	-	-	1.737	-	0.731
Other movements	8.029	(2.108)	-	-	2.888	(8.809)	-
<b>At 31 March 2015</b>	<b>437.487</b>	<b>455.218</b>	<b>34.175</b>	<b>98.293</b>	<b>4.384</b>	<b>18.311</b>	<b>1,047.867</b>
<b>Depreciation and Impairment:</b>							
<b>At 1 April 2014</b>	<b>(17.017)</b>	<b>(57.711)</b>	<b>(16.715)</b>	<b>(38.934)</b>	<b>(0.125)</b>	<b>-</b>	<b>(130.502)</b>
Depreciation charge	(17.522)	(14.154)	(4.108)	(4.760)	(0.050)	-	(40.594)
Depreciation written out							
To Revaluation Reserve	-	47.058	-	-	0.121	-	47.179
Disposals	0.126	0.116	0.642	-	-	-	0.884
Reclassifications	-	0.150	-	-	(0.113)	-	0.037
<b>At 31 March 2015</b>	<b>(34.413)</b>	<b>(24.541)</b>	<b>(20.181)</b>	<b>(43.694)</b>	<b>(0.167)</b>	<b>-</b>	<b>(122.996)</b>
<b>Net Book Value at 31 March 2014</b>	<b>408.404</b>	<b>454.686</b>	<b>13.706</b>	<b>54.227</b>	<b>3.043</b>	<b>4.114</b>	<b>938.180</b>
<b>Net Book Value at 31 March 2015</b>	<b>403.074</b>	<b>430.677</b>	<b>13.994</b>	<b>54.599</b>	<b>4.217</b>	<b>18.311</b>	<b>924.871</b>

## Notes to the Annual Accounts

### Note 17 – PPP Assets Included in Property, Plant and Equipment

2014/15 £m		2015/16 £m
81.100	Cost or Valuation at 1 April	75.579
0.044	Expenditure	0.016
(3.620)	Revaluations To Revaluation Reserve	-
(1.945)	Revaluations To Net Cost of Services	-
75.579	Cost or Valuation at 31 March	75.595
(12.680)	Depreciation and Impairment at 1 April	(2.236)
(2.236)	Depreciation charge	(2.237)
12.680	Depreciation Written Out To Revaluation Reserve	-
(2.236)	Depreciation or Impairment at 31 March	(4.473)
68.420	Opening Net Book Value	73.343
73.343	Closing Net Book Value	71.122

### Note 18 – Fair Value Hierarchy

The Council measures fair value as the price that would be received in a transaction between market participants and uses appropriate valuation techniques for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. The Council values some of its non financial assets (including those held by the Common Good) such as surplus assets at fair value.

Inputs to the valuation technique in respect of assets and liabilities for which fair value is measured or disclosed in the Annual Accounts are categorised within the fair value hierarchy namely;

- Level 1 - quoted prices in active markets for identical assets that the Council can access;
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset and;
- Level 3 - unobservable inputs for the asset.

All of the Council's surplus properties and the Common Good's investment properties fall into Level 2 and their fair value at 31 March 2016 were as follows.

2014/15 £m		2015/16 £m
-	Opening Net Book Value	-
-	Newly categorised as Level 2	10.820
-	Additions	0.058
	Revaluations:	
-	To Revaluation Reserve	(2.757)
-	To Net Cost of Services	(2.303)
-	Disposals	(0.072)
-	Depreciation charge	(0.090)
-	Closing Net Book Value	5.656

### Note 19 – Impairment Losses

During 2015/16, an impairment loss of £23.850m was recognised following the revaluation of certain assets. The assets have been reduced to their new value in use and relevant impairment losses have been charged to the services in the CIES.

### Note 20 – Capital Commitments

The Council has a number of contractual commitments for capital investment. Details can be found at [www.east-ayrshire.gov.uk](http://www.east-ayrshire.gov.uk).

## Notes to the Annual Accounts

Scheme	Commitment £m
Whattriggs Primary School	6.000
30-38 John Finnie Street, Kilmarnock - Business Hub	2.944
Hurlford PS - Extension	2.019
Affordable Housing - Old Irvine Road, Kilmarnock	1.068
Retail Units, Townhead Street, Cumnock	0.958
Lainshaw PS & ECC - Extension	0.595
Cairns PS & ECC - Extension	0.581
Drongan Primary - Refurbishment for Community Use	0.478
Dalrymple Primary - Extension	0.440
Affordable Housing - Ayr Road, Cumnock	0.300
<b>Total</b>	<b>15.383</b>

### Note 21 – Assets Held for Sale

2014/15 £m	Current Assets	2015/16 £m
1.918	Balance outstanding at start of year	0.578
1.002	Property, Plant and Equipment	0.564
(0.001)	To Revaluation Reserve	(0.223)
(0.571)	To Net Cost of Services	(0.212)
	Assets declassified as held for sale:	
(1.770)	Property, Plant and Equipment	
-	Assets sold	(0.071)
<b>0.578</b>	<b>Balance outstanding at year-end</b>	<b>0.636</b>

### Note 22 – Intangible Assets

#### Non Current Assets

The Council accounts for its software and purchased licenses as non current intangible assets. All software is assigned a finite useful life of 5 years and relevant amortisation is as follows:

	Carrying Amount		Remaining Amortisation Period
	31 March 2016 £m	31 March 2015 £m	
Legal Licensing System	-	-	None
Human Resources System	-	-	None
Web Publishing Software	-	-	None
Financial Management System	-	0.009	None
Planning System	-	0.002	None
Payroll System	-	0.005	None
Council Housing System	0.002	0.003	1 year
Document Classification	0.018	0.024	3 years
Case Management System	0.009	0.012	3 years
Grants System	0.007	0.010	3 years
Business Intelligence Software	0.007	0.010	3 years
	<b>0.043</b>	<b>0.075</b>	

## Notes to the Annual Accounts

The movement on Intangible Asset balances during the year is as follows:

	2015/16	2014/15
	£m	£m
Balance at start of year:		
Gross carrying amounts	0.557	0.487
Accumulated amortisation	(0.482)	(0.435)
<b>Net carrying amount at start of year</b>	<b>0.075</b>	<b>0.052</b>
Purchases	-	0.070
Amortisation for the period	(0.032)	(0.047)
<b>Net carrying amount at end of year</b>	<b>0.043</b>	<b>0.075</b>
<b>Comprising:</b>		
Gross carrying amounts	0.557	0.557
Accumulated amortisation	0.514	0.482

### Current Assets

The Council participates in the CRC and purchased allowances prospectively in April 2015 for the years remaining in the second phase of the scheme, which ends on the 31 March 2019.

31 March 2015		31 March 2016
£m		£m
-	Balance outstanding at start of year	-
-	Purchases	0.905
-	<b>Balance outstanding at year-end</b>	<b>0.905</b>

### Note 23 – Heritage Assets

The Council has a number of collections which are held in support of the primary objective of increasing knowledge, understanding and appreciation. The aims of the collections fall into two main groups:

- The systematic collection of material representative of the human history, natural history and earth sciences of the local area. That is particularly East Ayrshire, but for historical, geographical and scientific reasons the concept of the local area is meaningful in many contexts only when more widely defined as Ayrshire or in some cases the Clyde basin.
- Additions to existing collections with a purely subject basis not related to the local geographic area do not fall within the above definition. Such collections formed a large part of the original basis for the museums both at the Dick Institute and at Dean Castle, and the various deeds of donation are dedicated to ensuring their preservation. These collections are mostly on clearly defined themes.

The collections have been reported on the Balance Sheet at their insurance valuation.

2014/15		2015/16
£m		£m
57.500	Cost or Valuation at 1 April	57.500
-	Revaluations during the year	3.229
57.500	Cost or Valuation at 31 March	60.729
57.500	Opening Net Book Value	57.500
57.500	Closing Net Book Value	60.729

Information on the management of Heritage Assets including details of records maintained is included in the East Ayrshire Arts and Museums Acquisitions, Preservation, Management and Disposals Policy.

# Notes to the Annual Accounts

## Note 24 – Inventories

2014/15			2015/16		
Consumable Stores	Maintenance Materials	Total	Consumable Stores	Maintenance Materials	Total
£m	£m	£m	£m	£m	£m
0.633	0.667	1.300	0.541	0.736	1.277
0.053	0.165	0.218	-	-	-
1.443	2.231	3.674	1.305	2.272	3.577
(1.588)	(2.327)	(3.915)	(1.199)	(2.197)	(3.396)
0.541	0.736	1.277	0.647	0.811	1.458

## Note 25 – Debtors

31 March 2015		31 March 2016
£m		£m
5.918	Central Government bodies	7.009
3.778	Other Local Authorities	5.451
3.226	NHS bodies	2.597
0.003	Public Corporations and trading funds	-
13.431	Other entities and individuals	14.080
26.356	<b>Total</b>	29.137

## Note 26 – Creditors

31 March 2015		31 March 2016
£m		£m
(5.147)	Central Government bodies	(6.069)
(0.954)	Other Local Authorities	(0.568)
(0.422)	NHS bodies	(0.227)
(0.215)	Public Corporations and trading funds	(0.142)
(56.739)	Other entities and individuals	(53.472)
(63.477)	<b>Total</b>	(60.478)

## Note 27 – Cash and Cash Equivalents

31 March 2015		31 March 2016
£m		£m
0.120	Cash held by the Council	0.134
(2.722)	Bank current accounts	(2.098)
30.077	Short-term deposits	39.349
27.475	<b>Total Cash and Cash Equivalents</b>	37.385

## Note 28 – Provisions

Employment Tribunal proceedings have been raised against the Council by a number of staff relating to Equal Pay. The information usually required by International Accounting Standard 37 (Provisions, Contingent Liabilities and Contingent Assets) is not disclosed in respect of this provision on the grounds that it can be expected to prejudice seriously the outcome of the proceedings.

The Council provides for any short term accumulating compensated absences which employees have earned but not taken at 31 March. An exercise to determine the financial cost of this has been carried out and a provision of £7.030m has been made and transferred to the Accumulated Absences Account.

The Council holds a provision of £0.410m in respect of severance costs previously agreed by Cabinet and the payments will be made in the coming months. A provision of £0.141m has been made in respect of holidays accrued by teachers while on maternity leave. In addition £0.335m has been provided for the costs of backdated holiday pay overtime following the recent legal judgement.

## Notes to the Annual Accounts

Strathclyde Regional Council (SRC) intromissions for the Council's share of outstanding claims against the former SRC are held. There is also a potential liability which may require to be met by the constituent authorities within the former SRC area which has been noted as a contingent liability.

### Note 29 – Financial Instruments

#### Categories of Financial Instruments

31 March 2015			31 March 2016	
Long-term £m	Current £m		Long-term £m	Current £m
		<b>Investments</b>		
0.023	34.042	Loans and receivables	0.020	20.752
-	31.053	Available-for-sale financial assets	-	36.087
<b>0.023</b>	<b>65.095</b>	<b>Total Investments</b>	<b>0.020</b>	<b>56.839</b>
		<b>Debtors</b>		
-	56.553	Loans and receivables	-	68.620
<b>-</b>	<b>56.553</b>	<b>Total Debtors</b>	<b>-</b>	<b>68.620</b>
		<b>Borrowings</b>		
(327.888)	(15.292)	Financial liabilities at amortised cost	(319.311)	(16.988)
<b>(327.888)</b>	<b>(15.292)</b>	<b>Total Borrowings</b>	<b>(319.311)</b>	<b>(16.988)</b>
		<b>Other Long Term Liabilities</b>		
(61.360)	(2.065)	PPP and finance lease liabilities	(59.552)	(1.808)
<b>(61.360)</b>	<b>(2.065)</b>	<b>Total Other Long Term Liabilities</b>	<b>(59.552)</b>	<b>(1.808)</b>
		<b>Creditors</b>		
-	(46.371)	Financial liabilities carried at contract amount	-	(47.126)
<b>-</b>	<b>(46.371)</b>	<b>Total Creditors</b>	<b>-</b>	<b>(47.126)</b>

#### Income, Expense, Gains and Losses

2014/15		Financial	Financial	Financial	Assets and	2015/16
Total		Liabilities	Assets:	Assets:	Liabilities at	Total
£m		measured at	Loans and	Available for	Fair Value	£m
		amortised	receivables	sale	through	
		cost			CIES	
		£m	£m	£m	£m	£m
19.321	Interest expense	20.442	-	-	-	20.442
<b>19.321</b>	<b>Total expense in Surplus or Deficit on the Provision of Services</b>	<b>20.442</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20.442</b>
(0.680)	Interest Income	-	(1.002)	-	-	(1.002)
<b>(0.680)</b>	<b>Total income in Surplus or Deficit on the Provision of Services</b>	<b>-</b>	<b>(1.002)</b>	<b>-</b>	<b>-</b>	<b>(1.002)</b>
(0.002)	Gains on revaluation	-	-	0.008	-	0.008
(0.002)	Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure	-	-	0.008	-	0.008
<b>18.639</b>	<b>Net (gain) / loss for the year</b>	<b>20.442</b>	<b>(1.002)</b>	<b>0.008</b>	<b>-</b>	<b>19.448</b>

#### Fair Values of Assets and Liabilities

Financial liabilities and assets represented by loans and receivables and long-term debtors and creditors are carried at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will occur over the remaining term using the following assumptions at 31 March 2016:

## Notes to the Annual Accounts

- Estimated ranges of interest rates of 0.21% - 2.20% for loans from PWLB and 2.77% - 3.12% for other loans receivable and payable, based on new lending rates for equivalent loans at that date;
- No early repayment or impairment is recognised;
- Carrying amount is assumed to approximate fair value for items maturing in the next 12 months;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

Financial assets and liabilities are carried at amortised cost. The fair value is required to be disclosed to enable a comparison to the carrying amounts in the Balance Sheet. For 2015/16, the definition of fair value changed to ensure compliance with IFRS 13 Fair Value Measurement which is defined as 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, emphasising that fair value is a market-based measurement, not an authority specific measurement. Fair value does not need to be disclosed when the carrying amount is a reasonable approximation of fair value and details are as follows:

31 March 2015			31 March 2016		
Carrying Amount	Fair Value		Carrying Amount	Fair Value	
£m	£m		£m	£m	
(269.805)	(371.872)	PWLB Debt	(263.200)	(365.733)	
(70.653)	(95.763)	Non-PWLB Debt	(71.001)	(97.386)	
(49.093)	(49.093)	Short Term Creditors	(49.224)	(49.224)	
(2.065)	(2.065)	Short Term Finance Lease Liability	(1.808)	(1.808)	
(61.360)	(61.360)	Long Term Finance Lease Liability	(59.552)	(73.582)	
<b>(452.976)</b>	<b>(580.153)</b>		<b>(444.785)</b>	<b>(587.733)</b>	

31 March 2015			31 March 2016		
Carrying Amount	Fair Value		Carrying Amount	Fair Value	
£m	£m		£m	£m	
0.023	0.023	Loans and receivables	0.020	0.020	
<b>0.023</b>	<b>0.023</b>		<b>0.020</b>	<b>0.020</b>	

The fair value of the liabilities is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans 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 £263.200m measures the economic effect of the terms agreed with the 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 would be payable under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates.

However, the authority has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets. A supplementary measure of the additional interest that the authority will pay as a result of its PWLB commitments for fixed rate loans is to compare the terms of these loans with the new borrowing rates available from the PWLB. If a value is calculated on this basis, the carrying amount of £263.200m would be valued at £322.127m. But, if the authority were to seek to realise the projected gain by repaying the loans to the PWLB, the PWLB would raise a penalty charge for early redemption in addition to charging a premium for the additional interest that will not now be paid. The exit price for the PWLB loans including the penalty charge would be £365.733m.

## Notes to the Annual Accounts

### *Note 30 – Nature and Extent of Risks Arising from Financial Instruments*

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

**Credit Risk** : the possibility that other parties might fail to pay amounts due.

**Liquidity Risk** : the possibility that the Council may have insufficient funds to make repayments.

**Market Risk** : the possibility that financial loss might arise as a result of changes in interest rates and stock market movements.

The Council's overall risk management focuses on the unpredictability of markets and seeks to minimise potential adverse effects on its resources. Risk management is carried out by a treasury team under policies approved in the annual Treasury Management Strategy. The Council provides written principles for overall risk as well as written policies covering areas, such as interest rate risk, credit risk and the investment of surplus cash. Professional advice on all aspects of Treasury Management is provided by Capita Asset Services.

#### *Loans and Receivables*

The Council manages credit risk by ensuring that investments are placed with the Debt Management Office, other local authorities, AAA-rated money market funds or Banks and Building Societies having sufficiently high credit worthiness as set out in the Treasury Management Strategy. A limit is placed on the amount of money that can be invested with a single counterparty and a total group investment limit for institutions that are part of the same banking group is also set.

Although credit ratings remain a key source of information, it is recognised that they have limitations and investment decisions are based on a range of market intelligence. All investments have been made in line with the Council's Treasury Management Strategy Statement and Investment Strategy 2015/16 - 2018/19 approved by Cabinet on 1 April 2015.

These counterparties were selected after analysis and careful monitoring of Credit Ratings, Credit Default Swaps, Gross Domestic Product (GDP), Net Debt as a percentage of GDP, Sovereign Support Mechanisms / potential support from a well-resourced parent institution and Share Price. Throughout 2015/16 the minimum criteria for new investments has been a long term rating of A-/A3/A- (Fitch/Moody's/S&P). The following table summarises the nominal value of the Council's investment portfolio at 31 March 2016 and confirms that all investments were made in line with the Council's approved credit rating criteria:

Counterparty	Credit Rating Criteria met when investment placed	Credit Rating Criteria met on 31 March 2016	Balance Invested at 31 March 2016					Total £m
			Up to 1 Month £m	Between 1 and 3 £m	Between 3 and 6 £m	Between 6 and 9 £m	Between 9 and 12 £m	
UK Banks	YES	YES	11.715	-	-	-	3.026	14.741
UK Building Societies	YES	YES	-	-	-	3.001	-	3.001
Local Authorities	YES	YES	5.000	-	-	-	-	5.000
Debt Management Office	YES	YES	-	-	2.998	-	-	2.998
Money Market Funds	YES	YES	32.348	-	-	-	-	32.348
Non UK Banks	YES	YES	2.001	-	8.012	-	28.088	38.101
<b>Total</b>			<b>51.064</b>	<b>-</b>	<b>11.010</b>	<b>3.001</b>	<b>31.114</b>	<b>96.189</b>

## Notes to the Annual Accounts

### Trade Receivables

The Council's potential maximum exposure credit risk based on the level of default trade debtors is a gross debtor at 31 March 2016 of £13.682m with a bad debt provision of £4.431m. The amount above does not include debtors related to Council Tax, Community Charge, Non-Domestic Rates and Council House Rents as these are not considered to be finance assets. The Gross Debtor amount can be analysed by age as follows:

31 March 2015		31 March 2016
£m		£m
6.794	Less than three months	8.466
0.350	Between three and six months	0.436
0.743	Between six months and one year	0.725
3.701	More than one year	4.055
<b>11.588</b>		<b>13.682</b>

### Liquidity Risk

The Council has a comprehensive cash flow system that seeks to ensure that cash is available as needed and has ready access to borrowings from the money markets to cover any daily cash flow need. Whilst the PWLB provides access to longer term funds, it also acts as a lender of last resort to Councils. The Council is required to provide a balanced budget which ensures sufficient monies are raised to cover annual expenditure.

There is no significant risk that it will be unable to raise finance to meet its commitments. All trade and other payables are due to be paid within one year. The maturity analysis is as follows:

31 March 2015		31 March 2016
£m		£m
63.728	Less than one year	65.922
10.385	Between one and two years	9.919
30.764	Between two and five years	29.612
348.098	More than five years	339.332
<b>452.975</b>		<b>444.785</b>

### Market Risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Borrowings are not carried at fair value, 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. The Council has a number of strategies for managing interest rate risk. Policy is to aim to keep a maximum of 40% of its borrowings in variable rate loans. At 31 March 2016 20.3% of the Council's borrowings were held at variable rates of interest. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The Treasury Management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable. According to this assessment strategy, at 31 March 2016, if interest rates had been 1% higher with all other variables held constant, the financial effect is shown below. The impact of a 1% fall in interest rates would be the same but with the movements being reversed.

## Notes to the Annual Accounts

	£m
Increase in interest receivable on variable rate investments	1.032
<b>Impact on Surplus or Deficit on the Provision of Services</b>	<b>1.032</b>
Share of overall impact debited to the HRA	0.216
Decrease in fair value of fixed rate investment assets	0.192
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	61.615

### Note 31 – Related Parties

Related parties are organisations that the Council can control or influence or who can control or influence the Council. Central 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). Grants received from government departments are set out in Note 10 on page 31.

#### Members

Members of the Council have direct control over the Council's financial and operating policies. Details of senior members remuneration and members allowances paid in year are included in the Remuneration Report. Under the Council's Code of Conduct members are required to declare an interest in matters that directly or indirectly may influence, or be thought to influence, their actions as a councillor. Membership of statutory joint boards or committees, which are composed exclusively of Elected Members, does not raise an issue of declaration of interest in regard to Council business. In relation to interests of any other relevant parties, those members with declarations or interest did not take part in any discussion or decisions relating to transactions with these parties.

A copy of the Register of Members Interest can be obtained from [members interests](#). There were no related party transactions in the year.

#### Officers

All Chief Officers are required to complete and sign a Related Party declaration for the year to 31 March 2016. These have been reviewed and based on the completed returns there were no such transactions in the year.

#### Entities Controlled or Significantly Influenced by the Council

East Ayrshire Leisure Trust is deemed to be a related party of the Council mainly through the Council's ability to exert influence over the entity through its representation on the respective Board, the relevant transactions and balances with the body are:

Entity	During 2015/16		As at 31 March 2016	
	Charges to £m	Charges from £m	Due from £m	Due to £m
East Ayrshire Leisure Trust	0.790	6.509	0.380	0.988

The Integrated Joint Board is deemed to be a related party of the Council mainly through the Council's ability to exert influence over the entity through its representation on the respective Board, the relevant transactions and balances with the body are:

Entity	During 2015/16		As at 31 March 2016	
	Charges to £m	Charges from £m	Due from £m	Due to £m
Integrated Joint Board	75.257	75.257	-	0.442

## Notes to the Annual Accounts

### Note 32 – Contingent Assets and Liabilities

Whilst the Council has made appropriate provision for the settlement of all known claims in respect of Equal Pay the Council recognises the potential for additional compensation claims.

The Council is a constituent member of the West of Scotland Loans Fund Ltd, which exists to co-ordinate the 12 former Strathclyde Regional Council authorities in respect of the relationship with the European Regional Development Fund. As at 31 March 2016 the Council's involvement stands at £1.925m and in the event of the Fund being wound up, a contingent liability of £0.614m exists in respect of European Development Fund Grants. The Council does not have an interest in the share capital of any of the companies dealt with by the West of Scotland Loans Fund Ltd.

The Council has an obligation to indemnify and reimburse any cumulative deficit sustained by the Kilmarnock Leisure Centre Trust up to a maximum of £0.200m in each financial year once the reserves held by the Trust have been depleted.

The most recent financial report from Municipal Mutual Insurance indicated that, following the ruling by the Supreme Court in litigation known as The Employers' Liability Insurance Trigger Litigation, there may not be a solvent run-off of mesothelioma (asbestos) claims. The actual cost and timing of any Council contribution cannot be estimated with reasonable accuracy and consequently no provision has been made in the Annual Accounts in respect of these payments.

### Note 33 – Unusable Reserves

Unusable Reserves are those that the Council is not able to utilise to provide services. The balances held at 31 March 2016 are shown in the following table:

2014/15		Unusable Reserves						2015/16
Total Unusable Reserves		Revaluation Reserve	Available for Sale Financial Instrument	Capital Adjustment Account	Pensions Reserve	Financial Instruments Adjustment Account	Accumulated Absences Account	Total Unusable Reserves
£m		£m	£m	£m	£m	£m	£m	£m
417.604	Balance at 31 March 2014	375.025	-	246.770	(182.704)	(14.134)	(7.353)	417.604
	Increase / (Decrease) in 2014/15	(9.227)	0.002	(13.350)	(51.912)	0.393	(0.397)	(74.491)
417.604	Balance at 31 March 2015	365.798	0.002	233.420	(234.616)	(13.741)	(7.750)	343.113
(33.311)	Other Comprehensive Income and Expenditure	1.796	(0.008)	-	85.198	-	-	86.986
	<b>Adjustments between accounting basis and funding basis under Regulation</b>							
(40.594)	Depreciation of Non Current Assets	(14.517)	-	(26.527)	-	-	-	(41.044)
(29.207)	Impairment of Non Current Assets	-	-	(23.850)	-	-	-	(23.850)
(0.047)	Amortisation of Intangible Assets	-	-	(0.032)	-	-	-	(0.032)
18.623	Capital Grants and Contributions Applied	-	-	14.435	-	-	-	14.435
0.393	Differences relating to Financial Instruments required by statute	-	-	-	-	0.399	-	0.399
(0.397)	Differences relating to Officer Remuneration required by statute	-	-	-	-	-	0.720	0.720
(4.081)	Net Gain / Loss on Disposal of Fixed Assets	-	-	(3.807)	-	-	-	(3.807)
(31.113)	Net Charges for Retirement Benefits	-	-	-	(33.496)	-	-	(33.496)
17.990	Contributions to Pensions Fund	-	-	-	17.424	-	-	17.424
15.426	Repayment of Debt	-	-	16.545	-	-	-	16.545
2.173	Use of Capital Fund to Finance New Capital Expenditure	-	-	2.476	-	-	-	2.476
9.654	Capital Expenditure Funded in Year	-	-	11.591	-	-	-	11.591
(74.491)	Increase / (Decrease) in 2015/16	(12.721)	(0.008)	(9.169)	69.126	0.399	0.720	48.347
343.113	Balance at 31 March 2016	353.077	(0.006)	224.251	(165.490)	(13.342)	(7.030)	391.460

## Notes to the Annual Accounts

### Note 34 – Ayrshire Roads Alliance

Ayrshire Roads Alliance is a partnership between East Ayrshire and South Ayrshire Councils to provide a roads service for both councils. It is accounted as a purchaser / provider arrangement with East Ayrshire Council employing all staff and managing the service. The budget is split between strategic and local delivery with both councils allocating their respective share. A small group of core staff costs are split equally between both councils. At the end of the year the expenditure on strategic delivery budgets is allocated between councils in line with local delivery budget inputs plus actual capital expenditure in-year.

Local delivery budgets are used to meet local and consolidated road maintenance plans and the funding allocation from both councils varies. Any surplus or deficit at the year end on local delivery is retained by the relevant council. At the end of 2015/16 the financial results for the Alliance are as follows:

Council	Annual	Actual to	Variance
	Estimate 2015/16	31/3/16	
	£m	£m	£m
East Ayrshire Council	7.722	7.825	0.103
South Ayrshire Council	7.953	8.172	0.219
<b>Total</b>	<b>15.675</b>	<b>15.997</b>	<b>0.322</b>

Detail	Annual	Actual to	Variance
	Estimate 2015/16	31/3/16	
	£m	£m	£m
Employee Costs	7.775	7.796	0.021
Premises costs	0.614	0.622	0.008
Transport Costs	1.852	1.689	(0.163)
Supplies and Services	5.881	6.180	0.299
Third Party Payments	3.144	5.320	2.176
Debt Charges	0.370	0.431	0.061
<b>Total Expenditure</b>	<b>19.636</b>	<b>22.038</b>	<b>2.402</b>
Income	(4.110)	(6.041)	(1.931)
Additional in-year Funding from SAC	0.149	0.000	(0.149)
<b>Net Expenditure</b>	<b>15.675</b>	<b>15.997</b>	<b>0.322</b>

Strategic Delivery	Annual	Actual to	Variance
	Estimate 2015/16	31/3/16	
	£m	£m	£m
Strategic Delivery	3.972	4.192	0.220
<b>Total</b>	<b>3.972</b>	<b>4.192</b>	<b>0.220</b>

Local Delivery	Annual	Actual to	Variance	Amount Charged to South Ayrshire Council at Year End
	Estimate 2015/16	31/3/16		
	£m	£m	£m	
East Ayrshire Council	5.961	5.667	(0.294)	n/a
South Ayrshire Council	5.742	6.138	0.396	0.396
<b>Total</b>	<b>11.703</b>	<b>11.805</b>	<b>0.102</b>	<b>0.396</b>

## Notes to the Annual Accounts

### Note 35 – Summarised Financial Information of Group Entities

The Council has an interest in a Common Good Fund, East Ayrshire Leisure Trust and several Joint Boards. The accounting year end for these entities is 31 March 2016. Full details are disclosed below.

The Common Good Fund has been consolidated in to the Group Statements as a 100% fully controlled subsidiary of the Council. Full details of the Common Good Fund are included on page 62. The group entities have been consolidated as follows:

- East Ayrshire Leisure Trust (consolidated as a Structured Entity)
- East Ayrshire Integration Joint Board (consolidated as a Joint Venture)
- Strathclyde Partnership for Transport (consolidated as an Associate)
- Strathclyde Concessionary Travel Scheme Joint Committee (consolidated as an Associate)
- Ayrshire Valuation Joint Board (consolidated as an Associate)

The Council's share of its associates is as follows:

	<i>Strathclyde Partnership for Transport</i>	<i>Strathclyde Concessionary Travel Scheme Joint Committee</i>	<i>Ayrshire Valuation Joint Board</i>	<i>East Ayrshire Leisure Trust</i>	<i>Integrated Joint Board</i>	<i>Total Associates</i>
	£m	£m	£m	£m	£m	£m
Surplus/(Deficit) on Operating Activities	0.548	0.001	(0.026)	(0.112)	0.221	0.632
Non Current Assets	8.003	-	0.150	0.048	-	8.201
Current Assets	5.509	0.122	0.188	1.340	0.221	7.380
Non Current Liabilities	(2.019)	-	(0.126)	(0.364)	-	(2.509)
Current Liabilities	(2.153)	(0.027)	(0.040)	(0.891)	-	(3.111)

#### *Strathclyde Partnership for Transport*

Strathclyde Partnership for Transport (SPT) was formed by bringing together Strathclyde Passenger Transport Authority and Executive and the West of Scotland Transport Partnership Joint Committee (WESTRANS) voluntary partnership. The new SPT was established by the Transport (Scotland) Act 2005 and the Partnership Board comprises of 29 members representing the 12 constituent unitary authorities in the West of Scotland plus other interested parties. Of the 29 members, twenty are nominated from Councils and between seven and nine are public appointments. East Ayrshire Council has one Elected Member on the Board and the Council's share of the net assets / liabilities of the Partnership has been based on the precept requisition of 5.22%. A copy of the Annual Accounts for SPT can be obtained from the Assistant Chief Executive (Business Support), Strathclyde Partnership for Transport, Consort House, 12 West George Street, Glasgow G2 1HN.

#### *Strathclyde Concessionary Travel Scheme Joint Committee (SCTS)*

The Committee comprises the 12 Councils within the designated Strathclyde Passenger Transport area. The costs of the scheme are met by the 12 Councils. The Council's share of the net assets / liabilities of the Joint Committee has been based on the precept requisition of 5.69%. A copy of the Annual Accounts for SCTS can be obtained from the Assistant Chief Executive (Business Support), Strathclyde Partnership for Transport, Consort House, 12 West George Street, Glasgow G2 1HN.

#### *Ayrshire Valuation Joint Board*

The Ayrshire Valuation Joint Board is an independent public body formed in 1996 at local government reorganisation by Act of Parliament. The Council has no shares in, nor ownership of, the Board. The Board's running costs are met by the three Councils of East, North, and South Ayrshire. Surpluses or deficits on the Board's operation are shared between the three member Councils. The Board maintains the electoral, council tax and non-domestic rates registers for the three Councils of East, North and South Ayrshire. The allocation is based on the percentage share of revenue and capital requisitions. East Ayrshire Council's allocation is 30.33%.

## Notes to the Annual Accounts

A copy of the Annual Accounts for the Joint Board can be obtained from the Treasurer to the Ayrshire Valuation Joint Board, South Ayrshire Council, County Buildings, Wellington Square, Ayr KA7 1DR.

### *East Ayrshire Leisure Trust*

East Ayrshire Leisure Trust was established by the Council as a Scottish Charitable Incorporated Organisation to manage the range of leisure services agreed with the Council. The Trust became fully operational on 1 July 2013 and is responsible for its own governance and appointments to its board of Trustees. The Council has Member representation on the board of the Trust as part of the agreement establishing the Trust, as well as two non-voting positions. The Council provides funding to the Trust based on agreed service plans but does not have a controlling interest in the strategic direction or financial management of the organisation. East Ayrshire Council's allocation of this associate is based on representation to the Board. Five councillors from East Ayrshire Council act as Trustees on the Board out of a total of eleven Trustees and the percentage share is 45.45%. The Council has treated the Leisure Trust as a structured entity within the group and is responsible for risks arising from the payment of severance costs.

A copy of the Annual Accounts for the Leisure Trust can be obtained from the Chief Executive, East Ayrshire Leisure, Dick Institute, Elmbank Avenue, Kilmarnock KA1 3BU.

### *East Ayrshire Integration Joint Board*

The IJB is a statutory body established to integrate health and social care services between the Council and NHS Ayrshire and Arran and the contribution provided by the Council to the IJB in 2015/16 was £75.257m. The IJB Board comprises eight voting members with four made up of East Ayrshire councillors. The IJB is consolidated as a joint venture and therefore the percentage share is 50%. A copy of the Annual Accounts for the East Ayrshire Integration Joint Board can be obtained from the Chief Finance Officer, East Ayrshire Council, London Road, Kilmarnock KA3 7BU.

### *Alignment of Accounting Policies*

Details of the Accounting Policies used in compiling the single entity East Ayrshire Council Annual Accounts are contained in Note 1. The accounting policies of the Council and its Group Entities noted above are fully aligned with the exception of the period over which fixed assets are depreciated.

Category of Asset	Period
Buildings	20-60 years
Infrastructure	Up to 120 years
Plant and Equipment	1 – 18 years
Vehicles	1 – 25 years

### **Inventories**

Valuation methods vary slightly across the group with the Council and East Ayrshire Leisure Trust using the lower of cost or net realisable value. None of the other bodies in the group hold inventories.

## Housing Revenue Account (HRA) Income and Expenditure Statement

2014/15 £m		2015/16 £m
	<i>Income</i>	
(40.885)	Dwelling Rents	(42.328)
(0.346)	Non Dwelling Rents	(0.343)
-	Hostel Deficit Grant	-
(1.261)	Any Other Income	(1.291)
<b>(42.492)</b>	<b>Total Income</b>	<b>(43.962)</b>
	<i>Expenditure</i>	
13.193	Repairs and Maintenance	13.617
9.370	Supervision and Management	9.494
24.592	Depreciation and Impairment of Non Current Assets	32.518
0.488	Bad and Doubtful Debt Provision	0.444
1.295	Any Other Expenditure	1.375
<b>48.938</b>	<b>Total Expenditure</b>	<b>57.448</b>
<b>6.446</b>	<b>Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement</b>	<b>13.486</b>
<b>0.701</b>	<b>HRA Share of Corporate and Democratic Core</b>	<b>0.656</b>
<b>0.185</b>	<b>HRA Share of Non Distributed Costs</b>	<b>0.146</b>
<b>7.332</b>	<b>Net Cost of HRA Services</b>	<b>14.288</b>
	<b>HRA Share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement</b>	
(8.464)	Capital Grants and contributions receivable	(0.598)
<b>(8.464)</b>	<b>Income</b>	<b>(0.598)</b>
0.848	(Gain) or Losses on disposals of assets	1.218
<b>0.848</b>	<b>Expenditure</b>	<b>1.218</b>
<b>(7.616)</b>	<b>HRA Share of Other Operating Expenditure</b>	<b>0.620</b>
	<i>Investment</i>	
(2.428)	Expected Return on Pension Assets	(2.027)
<b>(2.428)</b>	<b>Income</b>	<b>(2.027)</b>
<b>(2.428)</b>	<b>HRA Share of Investment Income</b>	<b>(2.027)</b>
	<i>Financing</i>	
(0.141)	Interest and Investment Income	(0.294)
<b>(0.141)</b>	<b>Income</b>	<b>(0.294)</b>
3.204	Pension Interest Cost	2.778
4.544	Interest Payable and similar charges	5.035
<b>7.748</b>	<b>Expenditure</b>	<b>7.813</b>
<b>7.607</b>	<b>HRA Share of Net Finance Expenditure</b>	<b>7.519</b>
<b>4.895</b>	<b>(Surplus) / Deficit on the HRA</b>	<b>20.400</b>

## Movement on the Housing Revenue Account and Notes to the Account

The following table takes the outturn on the HRA Income and Expenditure Statement and reconciles it to the surplus for the year on the HRA Balance, calculated in accordance with the requirements of the 1987 Act.

2014/15 £m		2015/16 £m
(6.342)	Balance on the HRA brought forward	(9.113)
4.895	(Surplus) or Deficit on the HRA	20.400
(6.786)	Adjustments between accounting basis and funding basis under statute	(20.963)
(1.891)	Net (Increase) or Decrease before transfers to / from Reserves	(0.563)
(0.880)	Transfers to / from Reserves	(0.115)
(2.771)	(Increase) / Decrease on the HRA Balance for the Year	(0.678)
(9.113)	Balance on the HRA carried forward	(9.791)

### Note 36 - Notes to the Housing Revenue Account

#### Housing Stock

The number and types of dwelling in the Council's housing stock is as follows:

2014/15 Total		Flats	2015/16 Houses	Total
2,481	One Bedroom	1,708	796	2,504
6,424	Two Bedroom	3,351	3,077	6,428
3,554	Three Bedroom	582	2,961	3,543
263	Four Bedroom	16	247	263
2	Five Bedroom	2	1	3
12,724	<b>Total</b>	5,659	7,082	12,741

#### Rental Information and Loss on Void Properties

The amount of rent arrears and the provision considered necessary in respect of uncollectable debts is shown in the following table:

2014/15		2015/16
£63.58	Average Weekly Rent (52 weeks)	£66.24
5.00%	Current Rent Arrears (as % of Rent Collectable)	4.40%
£1.849m	Total Rent Arrears	£2.255m
£1.418m	Provision for Bad Debt	£1.797m

The Council is required to disclose the loss on void properties and in 2015/16 this amounted to £2.043m. The comparator figure for 2014/15 was £1.770m.

## Council Tax Income Account

The Council Tax Income Account shows the gross income raised from council taxes levied and deductions made under Statute. The resultant net income is transferred to the CIES.

2014/15 £m		2015/16 £m
58.530	Gross Council Tax levied and contributions in lieu	59.057
	Deduct:	
(9.434)	Council Tax Reduction	(8.988)
(7.235)	Other discounts and reductions	(7.428)
(1.585)	Provision for bad and doubtful debts	(1.616)
0.259	Adjustments to previous years Council Tax and Community Charge	0.419
<b>40.535</b>	<b>Net Council Tax Income Transferred to General Fund</b>	<b>41.444</b>

Occupiers of domestic properties are liable to pay Council Tax. This is a tax levied by local authorities on domestic properties within their area. Dwellings fall within a valuation band 'A' to 'H' which is determined by the Assessor, employed by Ayrshire Valuation Joint Board (AVJB). In setting its budget the Council determines the Council Tax level each year. Charges for other bands are proportionate to the Band 'D' figure. The Band 'D' Council Tax for 2015/16 was £1,188.99. Properties can be exempt if they are unoccupied or occupied by certain categories of occupant. A reduction may be applied if a resident is disabled and the property adapted. A discount of 25% is available for properties occupied by one liable person aged 18 years and over. The discount is 50% where the property is not the sole or main residence of any person

BAND	2015/16 £ per year
A	792.66
B	924.77
C	1,056.88
D	1,188.99
E	1,453.21
F	1,717.43
G	1,981.65
H	2,377.98

### Note 37 – Calculation of the Council Tax base

2014/15		A(d)	A	B	C	D	E	F	G	H	2015/16 Total
57,172	Properties		26,406	9,366	5,071	6,462	5,967	3,082	927	43	57,324
(1,415)	Exemptions		(989)	(210)	(130)	(110)	(70)	(36)	(7)	(2)	(1,554)
	- Disabled Reliefs	94	(8)	(47)	8	35	(47)	(23)	(12)	0	0
(21,967)	Discounts (25%)	(33)	(13,210)	(3,625)	(1,784)	(1,650)	(1,207)	(428)	(90)	(5)	(22,032)
(797)	Discounts (50%)	0	(504)	(111)	(76)	(83)	(70)	(30)	(14)	(2)	(890)
<b>49,868</b>	<b>Total equivalent</b>	<b>86</b>	<b>21,855</b>	<b>8,147</b>	<b>4,465</b>	<b>5,933</b>	<b>5,513</b>	<b>2,901</b>	<b>879</b>	<b>39</b>	<b>49,818</b>
	Ratio										
<b>43,261</b>	<b>Band 'D' equivalent</b>	<b>48</b>	<b>14,570</b>	<b>6,337</b>	<b>3,969</b>	<b>5,933</b>	<b>6,738</b>	<b>4,190</b>	<b>1,465</b>	<b>78</b>	<b>43,328</b>
(1,684)	Bad debt provision										(1,159)
<b>41,577</b>											<b>42,169</b>

## Non-Domestic Rate Account

The Non-Domestic Rate Account 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.

2014/15 £m		2015/16 £m
39.453	Gross rates levied and contributions in lieu	39.174
	Deduct:	
(8.954)	Reliefs and reductions	(9.450)
(0.911)	Provision for bad and doubtful debts	(0.887)
<b>29.588</b>	<b>Net Non-Domestic Rate Income</b>	<b>28.837</b>
(0.434)	Prior year pool	(1.127)
1.906	Contributions (to)/from National Non-Domestic Rate Pool	5.140
<b>31.060</b>	<b>Income credited to the Comprehensive Income and Expenditure Statement</b>	<b>32.850</b>

### Note 38 – Analysis of Rateable Values

	Number	£m
Shops	1,088	24.534
Industrial & Freight Transport Subjects	935	13.714
Offices (including Banks)	511	6.645
Other	252	0.744
Public Service Subjects	231	5.601
Leisure, Entertainment, Caravans and Holiday Sites	184	3.646
Garages and Petrol Stations	143	1.306
Public Houses	105	2.069
Religious	91	0.785
Education and Training	69	8.764
Health Medical	68	4.007
Care Facilities	50	2.357
Hotels, Boarding Houses, etc.	29	0.919
Advertising	29	0.072
Cultural	23	0.335
Undertaking	23	1.623
Quarries, Mines, etc.	11	3.902
Sporting Subjects	8	0.138
Communications (Non-Formula)	-	0.000
Petrochemical	2	0.180
	<b>3,852</b>	<b>81.341</b>

### Note 39 – Nature and Amount of NDR Rate Fixed

The amount paid for Non-Domestic Rates is determined by the rateable value placed on the property by the Assessor multiplied by the Rate per £ announced each year by the Scottish Government. The National Non-Domestic Rate poundage set by the Scottish Government for 2015/16 was 48p, with a large business supplement of 1.3p.

## Remuneration Report

The remuneration of councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007 (SSI No. 2007/183) as amended. The Regulations govern the remuneration arrangements for Leaders, Provosts and Senior Councillors. A Senior Councillor is a councillor who holds a significant position of responsibility in the Council's political management structure.

For 2015/16 the salary for the Leader of East Ayrshire Council was set by Scottish Ministers at £33,454. The Regulations permit the Council to remunerate a Provost and set out the maximum salary that may be paid to them.

The Regulations also set out the remuneration that may be paid to Senior Councillors, other than the Leader of the Council and the Provost, and the total number of Senior Councillors the Council may have. The maximum yearly amount that may be paid to a Senior Councillor is 75% of the total yearly amount payable to the Leader of the Council. The total yearly amount payable by the Council for remuneration of all of its Senior Councillors, excluding remuneration to the Leader of the Council and the Provost, shall not exceed £0.293m. Subject to a maximum number of 14 Senior Councillors, the Council is able to exercise flexibility in the determination of the precise number of Senior Councillors and their salary within these limits.

In 2015/16 East Ayrshire Council appointed 12 Senior Councillors and the remuneration paid to these councillors, excluding remuneration to the Leader of the Council and the Provost totalled £0.293m. The total remuneration to these councillors and to the Leader of the Council and Provost totalled £0.351m. 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.

The Council Members' Salaries and Expenses Scheme was agreed at a meeting of the full Council on 17 May 2007. The annual return of Members Expenses is available at [www.east-ayrshire.gov.uk](http://www.east-ayrshire.gov.uk).

### Remuneration of Councillors

2014/15	2015/16
£m	£m
0.655 Salaries	0.652
0.026 Expenses	0.026
<b>0.681 Total</b>	<b>0.678</b>

In addition to Senior Councillors, the Regulations also set out the remuneration payable to councillors with the responsibility of a Convenor or a Vice-Convenor of Joint Boards. The Regulations require the remuneration to be paid by the Council of which the Convenor or Vice-Convenor is a member. The Council is also required to pay any pension contributions arising from the Convenor or Vice-Convenor being a member of the Local Government Pension Scheme. The Council is reimbursed by the Joint Board for any additional remuneration paid to the member from being a Convenor or Vice-Convenor of a Joint Board. All information disclosed in the tables on pages 55 to 61 in the Remuneration Report has been audited by Audit Scotland. The other sections of the Remuneration Report were reviewed by Audit Scotland to ensure that they are consistent with the Annual Accounts.

## Remuneration Report

The table below excludes pension contributions paid by the Council, disclosed as part of the pension benefits disclosure:

Total Remuneration 2014/15			Salary, Fees and Allowances	Taxable Expenses	Non-cash expenses & benefits in kind	Total Remuneration 2015/16
£			£	£	£	£
24,609	A Brown	Senior Councillor (until 24 June 15)	6,352	-	-	6,352
24,609	J Buchanan	Senior Councillor	24,617	-	-	24,617
20,895	J Campbell	Depute Provost	20,902	-	-	20,902
25,074	T Cook	Depute Leader of the Council	25,082	-	-	25,082
24,609	I Linton	Senior Councillor	24,617	-	-	24,617
24,609	E MacColl	Senior Councillor	24,617	-	-	24,617
26,001	R McDill	Senior Councillor	24,617	1,329	-	25,946
26,856	M McKay	Leader of the Opposition	24,617	2,192	-	26,809
26,853	W Menzies	Chair of Governance and Scrutiny Committee	25,082	1,807	-	26,889
24,609	K Morrice	Senior Councillor	24,617	-	-	24,617
26,151	S Primrose	Senior Councillor	25,070	532	-	25,602
33,796	D Reid	Leader of the Council	33,445	337	-	33,782
26,900	J Roberts	Senior Councillor	24,617	2,614	-	27,231
-	H Ross	Senior Councillor (From 25 June 15)	18,265	-	-	18,265
25,075	J Todd	Provost	25,083	-	-	25,083
3,045	J McFadzean	Vice-Convenor Ayrshire Valuation Joint Board	3,045	-	-	3,045
<b>363,691</b>			<b>354,645</b>	<b>8,811</b>	<b>-</b>	<b>363,456</b>

### *Remuneration of Senior Employees of the Council*

The remuneration of senior employees is also set by reference to national arrangements. The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services sets the salaries for the Chief Executives of Scottish local authorities. Circular CO/148 sets the amount of salary for the Chief Executive of the Council for the period 2015 to 2017. The salaries of the Chief Officers were reviewed as part of the Council's management restructure approved by Cabinet on 29 October 2014. The Council does not pay bonuses or performance related pay. Chief Officers are entitled to be reimbursed for business travel and other business related costs in accordance with amounts agreed nationally by the Scottish Joint Negotiating Committee for Local Authorities Services or as approved locally by the Council. Chief Officers are eligible to join the Local Government Pension Scheme. The Council discloses the remuneration for all Chief Officers which is in excess of the statutory disclosure requirements.

# Remuneration Report

Total Remuneration 2014/15	Name	Designation	Salary, Fees and Allowances	Taxable Expenses	Compensation for Loss of Employment	Total Remuneration 2015/16
£			£	£	£	£
127,054	F Lees	Chief Executive (Note 1)	126,768	-	-	126,768
104,611	A McPhee	Depute Chief Executive and Chief Financial Officer (Note 1)	109,031	-	-	109,031
103,227	C McAleavey	Depute Chief Executive: Safer Communities	108,231	-	-	108,231
103,227	E Fraser	Director of Health & Social Care (Note 2)	108,231	-	-	108,231
87,098	D Mitchell	Chief Governance Officer (Note 1)	87,497	-	-	87,497
79,877	C McArthur	Head of Finance and ICT (Note 1)	84,129	-	-	84,129
79,602	A Ward	Head of Education	84,677	57	-	84,734
78,768	K Gilmour	Head of Community Support (Note 3)	75,564	-	112,556	188,120
78,026	W Walkinshaw	Head of Democratic Services	74,451	-	-	74,451
-	M Keane	Head of Planning and Economic Development (Note 4)	72,215	-	-	72,215
78,699	M Rose	Head of Human Resources (Note 5)	49,139	-	-	49,139
78,699	S Turner	Head of Ayrshire Roads Alliance	82,135	-	-	82,135
75,196	A Kennedy	Head of Facilities and Property Management	79,772	28	-	79,800
78,699	G Darroch	Acting Head of Housing and Environment Services (Note 6)	49,626	-	-	49,626
-	K Kelly	Head of Housing and Communities (Notes 1 & 6)	38,519	-	-	38,519
78,699	S Taylor	Head of Children's Health, Care and Justice Services	82,830	-	-	82,830
27,248	A Black	Head of Community Health and Care Services	79,866	-	-	79,866
4,541	P Milliken	Head of Primary Care and Out of Hours	79,866	-	-	79,866
58,043	E Mackay	Chief Auditor	58,944	-	-	58,944
<b>1,321,314</b>			<b>1,531,491</b>	<b>85</b>	<b>112,556</b>	<b>1,644,132</b>

Note 1 The 2015/16 Remuneration for the Chief Executive, Depute Chief Executive and Chief Financial Officer, the Chief Governance Officer, the Head of Finance and ICT and the Head of Housing and Communities includes fees paid in respect of the General Election (7 May 2015). Fees received were £828, £800, £511, £800 and £241 respectively.

Note 2 The Director of Health and Social Care is the Chief Officer of the Integration Joint Board (IJB). These costs are replicated in the IJB Accounts.

Note 3 The Head of Community Support left the Council on 19 February 2016.

Note 4 The Head of Planning and Economic Development was in post from 27 April 2015 and the table reflects the part-year cost. The full year salary for this post is £79,898.

Note 5 The Head of Human Resources left this post on 31 October 2015.

Note 6 The Head of Housing and Communities was in post from 5 October 2015 and the table reflects the part year cost. The full year cost of this post was £83,457. The Acting Head of Housing and Environment Services was in post until 23 October 2015

A number of Chief Officers left the Council on 31 March 2015 details of these can be found at: <https://www.east-ayrshire.gov.uk/Resources/PDF/A/Annual-Accounts-final-audited-2014-2015.pdf>

## Remuneration Report

### Remuneration of Employees Receiving more than £50,000

The Council is required to disclose information on the number of employees whose remuneration was £50,000 or more in 2015/16. In accordance with the disclosure requirement of the Regulations, the information in the table which follows shows the number of employees in bands of £5,000 and includes the senior employees who are subject to the full disclosure requirements.

2014/15 Total	Remuneration band	Number of Employees			Left During Year
		2015/16 Officers	2015/16 Teachers	2015/16 Total	
76	£50,000 – £54,999	20	46	66	-
26	£55,000 – £59,999	12	14	26	-
14	£60,000 – £64,999	4	4	8	1
6	£65,000 – £69,999	-	-	-	-
12	£70,000 – £74,999	2	4	6	-
16	£75,000 – £79,999	3	-	3	-
2	£80,000 – £84,999	6	-	6	1
2	£85,000 – £89,999	3	-	3	-
2	£90,000 – £94,999	-	-	-	-
-	£95,000 – £99,999	-	-	-	-
5	£100,000 – £104,999	-	-	-	-
1	£105,000 – £109,999	3	-	3	-
-	£110,000 – £114,999	-	-	-	-
-	£115,000 – £119,999	1	-	1	1
-	£120,000 – £124,999	-	-	-	-
3	£125,000 – £129,999	1	-	1	-
1	£150,000 – £154,999	-	-	-	-
-	£185,000 – £189,999	1	-	1	1
1	£190,000 – £194,999	-	-	-	-
<b>167</b>		<b>56</b>	<b>68</b>	<b>124</b>	<b>4</b>

### Pension Benefits

Pension benefits for councillors and employees are provided through the Local Government Pension Scheme. This is a contributory scheme with employee contributions of between 5.5% and 12.0% dependent on salary. Councillors' pension benefits are based on career average pay and pay for each year or part year ending 31 March is adjusted for the increase in the cost of living, as measured by the appropriate index. The total of the revalued pay is then divided by the period of membership to calculate the career average pay. This is the value used to calculate the pension benefits.

For local government employees this is a final salary pension scheme and contribution rates from scheme members are based on earnings. The contribution rates are worked out on the full-time pay rate for the job, with actual contributions paid on actual pay earned.

There is no automatic entitlement to a lump sum and the current accrual rate guarantees a pension based on 1/49th 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 full 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 appointment.

# Remuneration Report

## Senior Councillors

The table shows pension entitlements and the contributions made by the Council.

Name and Position Held	In-year Pension Contributions			Accrued Pension Benefits	
	For year to	For year to		As at	Difference from
	31 March 2016	31 March 2015		31 March 2016	31 March 2015
	£	£		£000	£000
A Brown (until 24 June 2015)	1,226	4,750	Pension	-	-
Senior Councillor			Lump Sum	-	-
J Buchanan	4,751	4,750	Pension	8	-
Senior Councillor (See note 1)			Lump Sum	16	1
J Campbell	4,034	4,033	Pension	3	-
Depute Provost			Lump Sum	2	-
T Cook	4,841	4,839	Pension	4	1
Depute Leader of the Council			Lump Sum	2	-
I Linton	4,751	4,750	Pension	4	1
Senior Councillor			Lump Sum	2	-
E MacColl	4,751	4,750	Pension	2	1
Senior Councillor			Lump Sum	-	-
R McDill	4,751	4,750	Pension	4	1
Senior Councillor			Lump Sum	2	-
W Menzies	4,841	4,839	Pension	3	-
Chair of Governance and Scrutiny Committee			Lump Sum	2	1
K Morrice	4,751	4,750	Pension	4	-
Senior Councillor			Lump Sum	2	-
S Primrose	4,751	4,750	Pension	2	1
Senior Councillor			Lump Sum	-	-
D Reid	6,455	6,453	Pension	5	1
Leader of the Council			Lump Sum	3	-
H Ross (from 25 June 2015)	3,525	-	Pension	4	-
Senior Councillor			Lump Sum	2	-
J Todd	4,841	4,839	Pension	4	1
Provost			Lump Sum	2	-
<b>Total</b>	<b>58,269</b>	<b>58,253</b>			

Note 1 The Accrued Pension Benefits figures have been provided by Strathclyde Pension Fund.

Note 2 Councillor M McKay and Councillor J Roberts are not members of the Strathclyde Pension Fund.

## Senior Employees

The pension entitlements and the contributions made by the Council are shown in the following table. The pension benefits relate to the benefits that the person has accrued in respect of their total local government service and not just their current appointment. Contribution levels for employees and employers are set by Strathclyde Pension Fund.

# Remuneration Report

Name and Post Title	In-year Pension Contributions			Accrued Pension Benefits	
	For year to	For year to		As at	Difference from
	31 March 2016	31 March 2015		31 March 2016	31 March 2015
	£	£	£000	£000	
F Lees	24,306	23,946	Pension	64	4
Chief Executive			Lump Sum	145	2
A McPhee	20,889	19,923	Pension	53	4
Depute Chief Executive and Chief Financial Officer			Lump Sum	121	6
C McAleavey	20,889	19,923	Pension	58	5
Depute Chief Executive: Safer Communities			Lump Sum	135	7
E Fraser	20,889	19,923	Pension	42	4
Director of Health and Social Care			Lump Sum	86	4
D Mitchell	16,788	16,543	Pension	32	2
Chief Governance Officer			Lump Sum	64	1
C McArthur	16,083	15,189	Pension	28	3
Head of Finance and ICT			Lump Sum	55	3
A Ward	16,343	11,820	Pension	Refer to Note 1	
Head of Education			Lump Sum		
K Gilmour	14,584	15,189	Pension	42	6
Head of Community Support			Lump Sum	99	16
W Walkinshaw	14,369	14,159	Pension	37	2
Head of Democratic Services			Lump Sum	85	1
M Keane	13,938	-	Pension	1	n/a
Head of Planning and Economic Development			Lump Sum	0	n/a
M Rose	9,484	15,189	Pension	42	0
Head of Human Resources			Lump Sum	101	0
S Turner	15,414	15,189	Pension	3	1
Head of Ayrshire Roads Alliance			Lump Sum	0	0
A Kennedy	15,396	14,513	Pension	22	3
Head of Facilities and Property Management			Lump Sum	38	3
G Darroch	9,578	15,189	Pension	36	2
Acting Head of Housing and Environment Services (from 6 Jun 2013)			Lump Sum	81	2
K Kelly	13,558	-	Pension	28	n/a
Head of Housing and Communities			Lump Sum	54	n/a
S Taylor	15,986	15,189	Pension	35	4
Head of Children's Health, Care and Justice Services			Lump Sum	74	5
A Black	15,414	5,259	Pension	2	n/a
Head of Community Health and Care Services			Lump Sum	0	n/a
P Milliken	15,414	876	Pension	2	n/a
Head of Primary Care and Out of Hours			Lump Sum	0	n/a
E Mackay	11,376	11,202	Pension	22	2
Chief Auditor			Lump Sum	44	1
<b>Total</b>	<b>300,698</b>	<b>249,221</b>			

Note 1 - Head of Education is a member of the Teachers Pension Scheme administered by the Scottish Public Pensions Agency (SPPA). Requests have previously been made to the SPPA to furnish the post holder and the Council with details of the pension and lump sum details required as part of this disclosure. Unfortunately the information was not provided.

# Remuneration Report

## Exit Packages

The Code requires disclosure of all exit packages agreed, in rising bands. Exit package values include redundancy, pension strain, and compensatory lump sum for all retirees. The values also include the notional capitalised cost of compensatory added years ("added years"). These are based on an assessment by the pension's provider of the present value of all future payments to the retiree until death. The number of exit packages with total cost per band and cost of the compulsory and other redundancies are set out in the table. Notional capitalised compensatory added years and pension strain costs relating to teachers are based on a calculation provided by the Scottish Public Pensions Agency. £0.241m for severance costs was funded in 2015/16 approved either by Cabinet or under the Head of Human Resources' delegated authority.

2014/15					2015/16					
No	Compulsory Redundancies		Other Departures		Exit Packages Bands	No	Compulsory Redundancies		Other Departures	
	Cash Value	Notional CAY Value	Cash Value	Notional CAY Value			Cash Value	Notional CAY Value	Cash Value	Notional CAY Value
	£	£	£	£		£	£	£	£	
22	-	-	113,769	54,155	£0 – £20,000	28	-	-	171,446	-
19	-	-	91,193	404,162	£20,001 – £40,000	2	-	-	24,333	18,776
8	-	-	57,587	325,265	£40,001 – £60,000	1	-	-	45,453	-
3	-	-	65,071	125,708	£60,001 – £80,000	-	-	-	-	-
1	-	-	51,483	47,650	£80,001 – £100,000	-	-	-	-	-
1	-	-	76,153	33,947	£100,001 – £150,000	-	-	-	-	-
1	-	-	156,830	36,042	£150,001 – £200,000	-	-	-	-	-
1	-	-	136,314	88,897	£200,001 – £250,000	-	-	-	-	-
56	-	-	748,400	1,115,826		31	-	-	241,232	18,776

The CAY values in the table above are not based on actual costs but instead use actuarial assumptions on pensioner longevity and other factors and as such will be subject to change and will not reflect actual costs incurred.

**Councillor Douglas Reid**

**Leader of the Council**

**29 September 2016**

**Fiona Lees**

**Chief Executive**

**29 September 2016**

## Common Good Account

Common Good is used to denote property of the former Burghs and was reserved for purposes which promoted the general good of the inhabitants. The Council administers these Funds but they are not Council assets and are not included in the Balance Sheet.

### Movement in Reserves Statement for the Year ended 31 March 2016

2014/15			2015/16		
Usable Reserve: Capital and Revenue	Unusable Reserves : Revaluation Reserve	Total Reserves	Usable Reserve: Capital and Revenue	Unusable Reserves : Revaluation Reserve	Total Reserves
£m	£m	£m	£m	£m	£m
0.209	6.569	6.778	0.211	10.216	10.427
(0.286)	-	(0.286)	(0.245)	-	(0.245)
-	3.935	3.935	-	(0.586)	(0.586)
0.288	(0.288)	-	0.281	(0.281)	-
0.211	10.216	10.427	0.247	9.349	9.596

### Comprehensive Income and Expenditure Statement for the Year ended 31 March 2016

2014/15			2015/16		
Expenditure	Income	Net	Expenditure	Income	Net
£m	£m	£m	£m	£m	£m
0.288	-	0.288	0.281	(0.035)	0.246
-	(0.002)	(0.002)	-	(0.001)	(0.001)
		0.286 (Surplus) or Deficit			0.245
		(3.935) (Surplus) or deficit on revaluation of fixed assets			0.586
		(3.649) Total Comprehensive (Income) / Expenditure			0.831

### Balance Sheet at 31 March 2016

2014/15		2015/16
£m		£m
10.216	Property Plant and Equipment	9.349
10.216	Non Current Assets	9.349
0.211	Short Term Investments - Loans Fund	0.247
0.211	Current Assets	0.247
10.427	Net Assets	9.596
0.211	Usable Reserves: Capital and Revenue Reserves	0.247
10.216	Unusable Reserves: Revaluation Reserve	9.349
10.427	Net Reserves	9.596

### Notes – Property Plant and Equipment (Other Land and Buildings)

Cost or Valuation:	Stewarton	Darvel	Newmilns	Cumnock	Galston	Kilmarnock	TOTAL
	£m	£m	£m	£m	£m	£m	£m
At 1 April 2015	0.161	1.276	0.070	1.206	0.040	7.804	10.557
Revaluations	(0.040)	-	-	(0.055)	-	(0.555)	(0.650)
At 31 March 2016	0.121	1.276	0.070	1.151	0.040	7.249	9.907
Depreciation and Impairment:							
At 1 April 2015	(0.020)	(0.039)	(0.005)	(0.073)	(0.003)	(0.201)	(0.341)
Depreciation charge	(0.003)	(0.039)	(0.004)	(0.035)	(0.001)	(0.199)	(0.281)
Depreciation written out - Revaluations	0.020	-	-	0.041	-	0.003	0.064
At 31 March 2016	(0.003)	(0.078)	(0.009)	(0.067)	(0.004)	(0.397)	(0.558)
Net Book Value at 31 March 2015	0.141	1.237	0.065	1.133	0.037	7.603	10.216
Net Book Value at 31 March 2016	0.118	1.198	0.061	1.084	0.036	6.852	9.349

## Trusts and Bequests

The Council administers a number of charitable funds registered with the Office of the Scottish Charities Regulator. These are not assets available to the Council and are not included in the Balance Sheet. The Trusts produce separate annual accounts, published at [www.oscr.org.uk](http://www.oscr.org.uk).

2014/15				2015/16		
Capital Fund	Revenue Fund	Total Funds	Fund Balances	Capital Fund	Revenue Fund	Total Funds
£	£	£		£	£	£
41,085.91	417,342.03	458,427.94	Opening Balances at 1 April 2015	35,736.36	423,222.18	458,958.54
-	8,427.52	8,427.52	Trusts Registered In Year		2,588.72	2,588.72
(5,392.55)	(11,505.23)	(16,897.78)	Expenditure	(1,715.45)	(49,486.43)	(51,201.88)
43.00	8,957.86	9,000.86	Income	-	13,335.66	13,335.66
(5,349.55)	5,880.15	530.60	Surplus / (Deficit)	(1,715.45)	(33,562.05)	(35,277.50)
35,736.36	423,222.18	458,958.54	Closing Balances at 31 March 2016	34,020.91	389,660.13	423,681.04

2014/15	Balance Sheet as at 31 March 2016	2015/16
£		£
2,056.45	Investments - External	1,030.00
456,902.09	Investments - Loans Fund	422,651.04
<b>458,958.54</b>		<b>423,681.04</b>
<b>Financed By:</b>		
35,736.36	Capital Funds	34,020.91
423,222.18	Revenue Funds	389,660.13
<b>458,958.54</b>	<b>Closing Balance at 31 March 2016</b>	<b>423,681.04</b>

Name	Origin and Purpose	Loans Fund	External Investment	Total
		£	£	£
Archibald Taylor Fund (SCO19308)	To provide special nursing or convalescent treatment or a holiday during convalescence	377,756.29	-	377,756.29
Mrs E McWhirter Trust (SCO25073)	To maintain burial grounds at Dalmellington	682.89	1,030.00	1,712.89
Misses Murray Legacy Trust (SCO46214)	The prevention or relief of poverty, of those in need by reason of age, ill-health, disability, financial hardship or other disadvantage.	2,608.64	-	2,608.64
Miss Annie Smith Mair Bequest (SCO21095)	To assist persons from Newmilns and Greenholm	41,603.22	-	41,603.22
		<b>422,651.04</b>	<b>1,030.00</b>	<b>423,681.04</b>

Assets held on behalf of the James Murdoch Trust, Newmilns Benevolent Association, East Ayrshire Emergency Relief Trust, Graham Ramage Trust and Sommerville Trust were all distributed during the year. These Trusts have either been wound up or in the process of being wound up.

The Council also administers 33 Trusts which are not registered with OSCR. The combined income of these Trusts in 2015/16 was £949 and expenditure was £820. The total assets of the Trusts at 31 March 2016 was £195,489.

## Glossary of Terms

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

**Accumulated Absence Account.** This absorbs the differences which would otherwise arise from accruing for compensated absences earned but not taken in the year, such as annual leave entitlement. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to and from this Account.

**Actuarial Gains and Losses (Pensions).** 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 or losses) or the actuarial assumptions have changed.

**Amortised Cost.** A mechanism that sees through contractual terms to measure the real cost that the Council bears each year from entering a financial liability.

**Assets Held for Sale.** Assets which meet the following criteria are classified as 'Held for Sale': assets are available for immediate sale in their present condition and location; the sale is expected to be completed within 12 months of being classified as 'Held for Sale'; management are committed to the asset selling plan; and active marketing to support the sale exists.

**Associate.** An associate is an entity, including an unincorporated entity such as a partnership, over which the Council has significant influence.

**Available for Sale Financial Assets.** Non-derivative financial assets not classified as Loans and Receivables, Held to Maturity Investments or Financial Assets at Fair Value through Income and Expenditure. Any changes in the fair value of these assets are held in the Available for Sale Financial Instruments Reserve.

**Available for Sale Financial Instrument Reserve.** An unusable reserve which contains the gains made by the Council arising from increases in the value of its Available for Sale Financial Assets. The balance is reduced when investments with accumulated gains are revalued downwards or disposed of.

**Capital Expenditure.** Expenditure on the acquisition of a fixed asset or expenditure which adds to, and not merely maintains, the value of an existing fixed asset.

**Capital Financed from Current Revenue (CFCR).** This relates to revenue resources used to pay for capital projects.

**Capital Adjustment Account.** This provides a balancing mechanism between the different rates at which assets are depreciated under the Code and are financed through the capital controls system.

**Capital Fund.** A Fund which is credited with all net capital receipts, except where they are related to a specific project, together with any in-year debt charge surpluses arising from slippage in the capital programme and is used to meet the costs of capital investment in assets and the repayment of the principal element of borrowing.

**Capital Financing Cost.** This represents the annual cost of financing the sums borrowed by the Council to fund capital programmes, being the repayment of debt, interest on monies borrowed and expenses incurred in managing the debt portfolio.

**Capital Grant Unapplied Account.** This contains any capital grants or contributions which have been received where the related capital expenditure has not yet been incurred and will be released to meet the costs of that capital expenditure as appropriate.

**Common Good.** Denotes all property of the former Burghs not acquired under statutory powers or held under special trusts and reserved for purposes which promoted the general good of the inhabitants or dignity of the Burgh.

**Community Assets.** Assets that the local authority intends to hold in perpetuity which have no determinable useful life and which may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

**Contingency.** A condition which exists at the balance sheet date where the outcome will be confirmed only on the occurrence, or non-occurrence, of one or more uncertain future events.

**Contributions paid to the Strathclyde Pension Fund** Cash paid as employer's contributions to the pension fund in settlement of liabilities. This is not accounted for as an expense under accounting conventions

**Corporate and Democratic Core.** Comprises all activities which local authorities engage in specifically because they are democratically 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 services. There is, therefore, no logical basis for apportioning these costs to services.

**Corporate Governance.** The Council has approved and adopted a code of corporate governance which is consistent with the principles and reflects the requirements of the CIPFA/SOLACE Framework for Corporate Governance in Local Government. A Corporate Governance Statement of Assurance is included within the Annual Accounts.

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

**Curtailements (Pensions).** An event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service.

**Depreciation.** The measure of the wearing out, consumption or other reduction in the useful economic life of a fixed asset whether arising from use, passage of time or obsolescence through technological or other changes.

**Depreciated Historic Cost.** The historic cost of a particular asset less the depreciation written off over the life of that asset to date.

**Depreciated Replacement Cost.** The replacement cost of a particular asset less the depreciation written off over the life of that asset to date.

## Glossary of Terms

**Existing Use Value.** The market value of a particular Council dwelling less the difference between the average rental income between public and private sector dwellings.

**Expected Rate of Return on Pension Assets.** The average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

**Fair Value.** This is the price at which an asset could be exchanged in an arms length transaction less any grants receivable towards the purchase or use of the asset.

**Faithful Representation.** Information contained within the Annual Accounts must be complete (within the bounds of materiality and cost), and free from bias and material error. The extent to which information has been estimated and judgements made have been reported.

**Financial Asset.** A right to future economic benefits controlled by the Council that is represented by cash, an equity instrument of another entity, a contractual right to receive cash from another entity or a financial right to exchange financial instruments under conditions that are potentially favourable to the Council.

**Financial Instrument.** Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.

**Financial Instruments Adjustment Account.** This holds the accumulated difference between the financing costs included in the Income and Expenditure Account and the accumulated financing costs required in accordance with regulations to be charged to the General Fund balance.

**Financial Liability.** An obligation to transfer economic benefits controlled by the Council that is represented by a contractual obligation to deliver cash or another financial asset to another entity or a contractual obligation to exchange financial instruments under conditions which are potentially unfavourable to the Council.

**Financial Reporting Standard (FRS).** Financial Reporting Standards are issued by the Accounting Standards Board and define proper accounting practice for a given transaction or event.

**Fixed Assets.** Tangible assets that yield benefits to the local authority and the services it provides for a period of more than one year.

**Gains/losses on settlements and curtailments.** The result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees. This is charged or credited to Non Distributed Costs in the Comprehensive Income and Expenditure Statement

**General Fund Balance.** This contains the net surplus on the provision of Council services combined with any balances from previous years and any contributions to other funds or reserves made during the year.

**Group Accounts.** The purpose of group accounts is to show the Council's interest in organisations and companies within the Annual Accounts. The Council's shares of the assets and liabilities of these other entities are shown in the Group Movement in Reserves Statement, Comprehensive Income and Expenditure Statement and Group Balance Sheet.

**Government Grants.** Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an authority in return for past, or future, compliance with certain conditions relating to the activities of the authority.

**Heritage Assets.** Assets which are intended to be preserved in trust for future generations because of their cultural, environmental and historical associations and are held by the Council for the maintenance of heritage.

**HRA Balance.** This contains the net surplus in relation to the management of the Council's housing stock combined with any balances from previous years and any contributions to other funds or reserves made during the year.

**International Accounting Standards (IAS).** International Accounting Standards are issued by the International Accounting Standards Board and define proper accounting practice for a given transaction or event. IAS's take precedence over other accounting standards in the hierarchy of technical accounting standards.

**Impairment.** A reduction in the value of a fixed or financial asset below the valuation held on the balance sheet.

**Infrastructure Assets.** Fixed assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

**Intangible Assets.** Non-financial assets which do not have physical substance but are identifiable and are controlled by the Council.

**Interest Cost (Pensions).** The expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

**Inventories.** Inventories may comprise the following: goods or other assets purchased for resale; consumable stores; raw materials and components purchased for incorporation into products for sale; products and services in intermediate stages of completion; long-term contract balances; and finished goods.

**Joint Venture.** A contractual or binding arrangement whereby two or more parties are committed to undertake an activity that is subject to joint control.

**Liquid Resources.** Current asset investments that are readily disposable by the authority without disrupting its business and are either readily convertible to known amounts of cash at or close to the carrying amount, or traded in an active market.

**Materiality.** Information is included where the information is of such significance as to justify its inclusion, and omission or misstatement could, individually or collectively, influence the decisions or assessments of users made on the basis of the Annual Accounts.

## Glossary of Terms

**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.

**Net Book Value.** The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less cumulative amounts provided for depreciation.

**Net Realisable Value.** The open market value of the asset in its existing use, or open market value in the case of non-operational assets, less the expenses to be incurred in realising the asset.

**Non Current Assets.** Non Current assets are not expected to be realised within 12 months and are held to provide future economic benefits to the Council.

**Non Operational Assets.** Are assets held by a local authority but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

**Officers' Remuneration.** All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are subject to UK Income Tax).

**Operating Leases.** A lease other than a finance lease, i.e. a lease which does not transfer the risks and rewards of ownership to the lessee.

**Operating Assets.** All items which derive from events or transactions that fall within the ordinary activities of the authority and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

**Past Service Costs (Pensions).** The increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

**Pensions Reserve.** The Pensions Reserve absorbs the timing differences arising from different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions.

**Prior Period Adjustments.** Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

**Public Private Partnerships (PPP).** These partnerships enable the council to purchase services from the private sector and pay a fee based on pre-defined output criteria. The private sector uses this fee to repay loans taken out to finance the building or refurbishment of the assets.

**Related Party Transactions.** A related party transaction is the transfer of assets or liabilities, or the performance of services by, to or for a related party irrespective of whether a charge is made.

**Relevance.** Providing information about the Council's financial position, performance and cash flows that is useful for assessing the stewardship of public funds and for making economic decisions

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

**Renewal and Repairs Fund.** This contains funds credited at the Council's discretion from the HRA and General Fund and is available for use on capital or revenue expenditure on Council assets.

**Revaluation Reserve.** Records unrealised gains arising since 1 April 2007 from holding fixed assets not yet realised through sales.

**Service Expenditure Analysis (SEA).** An analysis which groups together expenditure on services within headings or divisions as defined in the Service Reporting Code of Practice (SeRCOP).

**Specific Government Grants.** These are grants received from Central Government in respect of a specific purpose or service.

**Subsidiary.** An entity over which the Council has overall control through the power to govern its financial and operating policies so as to obtain benefits from the entity's activities.

**Unusable Reserves.** Those reserves which hold unrealised gains and losses where amounts would only become available to provide services if the assets are sold and reserves that hold timing differences.

**Usable Reserve.** Those reserves which 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

**Useful Life.** The period over which the local authority will derive benefits from the use of a fixed asset.

# Independent Auditor's Report

## Independent Auditor's Report to the Members of East Ayrshire Council and the Accounts Commission for Scotland

I certify that I have audited the financial statements of East 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 of the Council and its group comprise the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet, and Cash Flow statement, the authority only Housing Revenue Account, the Movement on the Housing Revenue Account, the Council Tax Income Account, the Non Domestic Rate Account, the Common Good Account, the Trusts and Bequests 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 Depute Chief Executive and Chief Financial Officer, and Auditor

As explained more fully in the Statement of Responsibilities, the Depute Chief Executive and Chief Financial Officer 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 Depute Chief Executive and Chief Financial Officer; 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.

## Independent Auditor's Report

### 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 FCA**

**Assistant Director, Audit Services**

**Audit Scotland**

**4<sup>th</sup> Floor, The Athenaeum Building**

**8 Nelson Mandela Place, Glasgow, G2 1BT**

**29 September 2016**