

# East Ayrshire Council Annual Accounts

## For the year ended 31 March 2018

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East Ayrshire Council  
Comhairle Siorrachd Àir an Ear



**Front cover images (from top to bottom)**

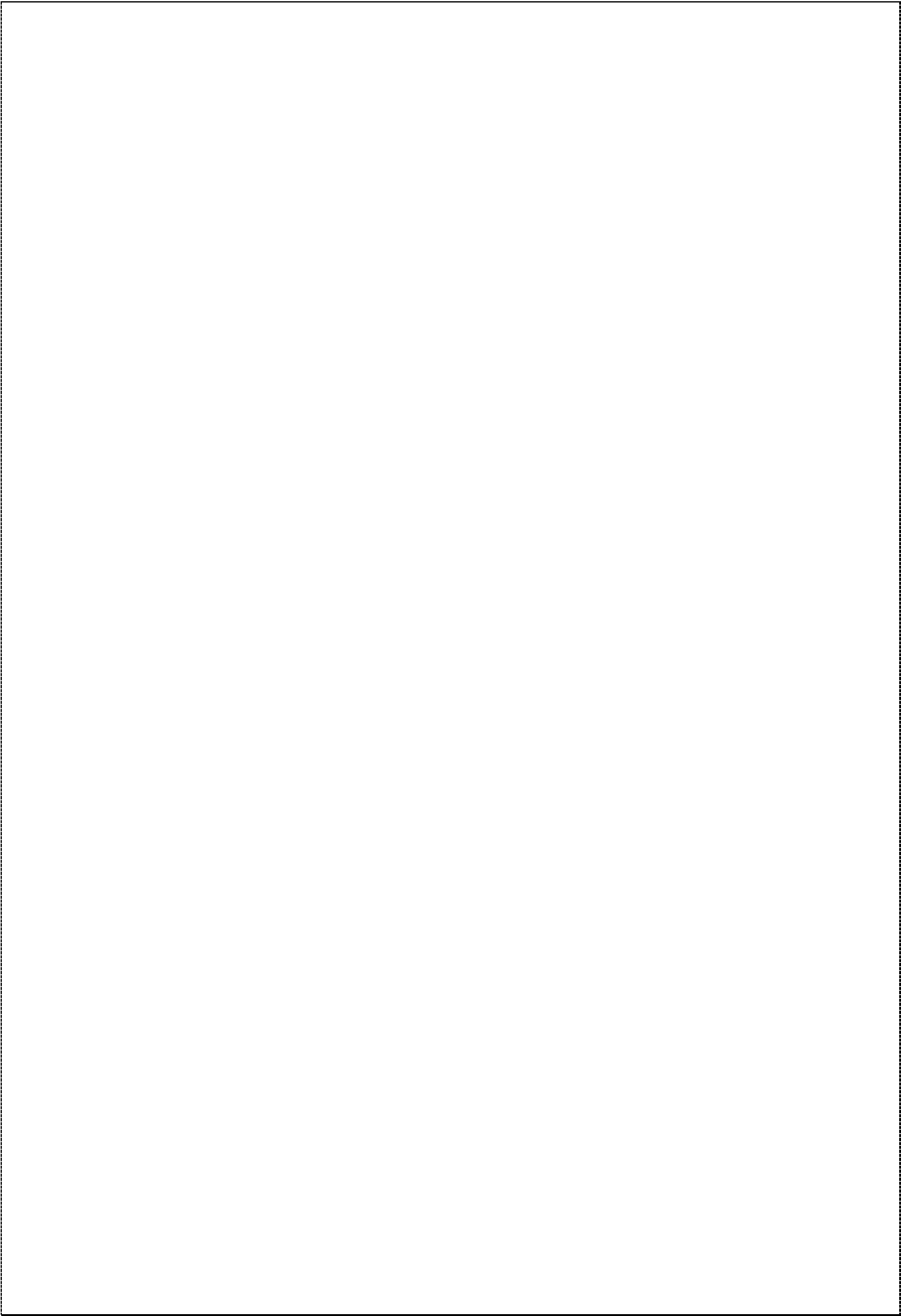
Aerial shot of Kilmarnock

Aerial shot of The Barony A Frame, Auchinleck

Aerial shot of The Burns Tower, Mauchline

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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*

Whilst some commentators have suggested that from 2017/18, the recent sustained period of austerity would transition towards a period where there would be a softening of fiscal constraints, the financial environment in which the Council operates was and remains challenging and requires innovative and dynamic approaches to ensure that we remain able to best serve our communities within East Ayrshire.

The success of our first Transformation Strategy covering the 5 years to 2017 saw the Council achieve significant savings, redesign and shape services to better suit the needs of our communities and instil across the Council a culture where change is part of our daily business. Our next Transformation Strategy taking us through to 2022 will be unfettered in terms of imagination and service boundaries and will see a range of workstreams designed to reshape the Council into a smaller, kinder, fairer, more agile organisation. Taking account of the considerable level of uncertainty that exists around government grant levels, pay, prices and service demand, the savings required in the next four years are likely to be between £25m and £53m and the objective of the Transformation Strategy is that all of the skills and resources available across East Ayrshire are deployed in a way that ensures that the services valued by our communities are maintained.

In order to assist readers of these accounts, the Management Commentary is structured as follows:

- An Introduction to East Ayrshire
- Our Priorities
- Our Key Achievements
- Explanation of the Main Statements
- Telling the Story
- Summary of Financial Performance
- Transformation Strategy
- Risks and Uncertainties
- Our Group

## *An Introduction to East Ayrshire*

East Ayrshire covers an area of 490 square miles, with a population of 122,440 residents living in a mixture of urban, rural and isolated communities. Kilmarnock is the largest urban area with a population of 44,000. Other communities range from less than a hundred people in small villages and rural areas, to 9,000 people 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.

Overall, population numbers in East Ayrshire are projected to remain broadly static through to 2026 while the population of Scotland is projected to increase by 3.2% over the same period. There is however a decline projected in the population in East Ayrshire aged 16-29 (-11.8%), 30-49 (-5.4%) and 50-64 (-0.6%), and growth in the population aged 0-15 (0.3%) and 65-74 (8.3%). Importantly, there will be a substantial increase in the 75+ age group, with a projected rise of 27.4%. These changes are important in how the Council and our Community Planning Partners shape future service design and delivery.

## Management Commentary

### *Our Priorities*

The East Ayrshire [Community Plan](#) is the sovereign and overarching planning document for the East Ayrshire area, providing the strategic policy framework for the delivery of public services by all of the partners over the 15 years from 2015 to 2030. The partnership comprises the Council, NHS Ayrshire and Arran, Police Scotland (including Police Authority), Scottish Fire and Rescue Service, Scottish Enterprise, Ayrshire College, Strathclyde Partnership for Transport, Skills Development Scotland, East Ayrshire Health and Social Care Partnership, Scottish Government, Voluntary Sector, Community Sector, and Ayrshire Chamber of Commerce and Industry.

The key priority areas on which the delivery of services will be focussed over the life of the plan are:

- Economy and Skills
- Safer Communities
- Wellbeing.

These delivery themes are mirrored by the Council's management structure and a Delivery Plan is in place for each of them. The Delivery Plans have a three year lifespan and include the actions which have been shown to make the biggest difference and will bring about real change for local people and communities. The responsibility for driving forward the actions within the Delivery Plans sits with the Community Planning Partnership Board.

The strategic plans of all Partner agencies are aligned to the Community Plan, ensuring that their mainstream activity, detailed within their Service/Operational Plans, is directed at achieving identified and agreed local outcomes.

The [Single Outcome Agreement](#) (SOA) 2015-2018 underpins the Community Plan and details performance indicators and targets against which we assess and seek to improve performance. Our performance is reported annually to a joint meeting of the Community Planning Partnership Board and East Ayrshire Council in September each year.

The first three-yearly review of our current Community Plan was carried out over 2017/18, with three new Delivery Plans and Strategic Priorities, and our new [Local Outcomes Improvement Plan 2018-2021](#) (which replaces the Single Outcome Agreement) approved for implementation from 1 April 2018. Areas for improvement are identified as part of the Community Planning Single Outcome Agreement performance reporting framework and considered at the CPP Board/Council Joint Event annually in September.

A range of performance measures is used to monitor the achievement of the Council's three Strategic Priorities and individual reports are presented to Cabinet and the Governance and Scrutiny Committee on an annual basis. The latest reports are: [Raising Educational Attainment](#); [Supporting Older People](#); and [Promoting Town Centre Living](#).

### *Our Key Achievements*

East Ayrshire Council is committed to continuing to deliver best value services and our work to improve and transform services is widely recognised, both locally and nationally. These elements are fundamental to our culture and examples of how this has been recognised and demonstrated are shown below:

- Ongoing development and refurbishment of our schools estate, including the opening of the new Whatriggs Primary School and Early Childhood Centre in Kilmarnock, the new Muirkirk Primary School, Early Childhood Centre and Community Facility and the completion of the William McIlvanney campus in Kilmarnock, as part of the Council's ten year £571m Capital Investment Programme.
- 94.3% of our young people leaving school in the senior phase (S4-S6) entered a positive destination, compared to a national average of 93.7%.
- 98% of residents consider their town or village as a good place to live (East Ayrshire Residents' Survey 2017), comparing favourably with a Scottish average of 95%.

## Management Commentary

- Approval of the revised Housing Investment Plan for 2018-2023, which seeks to deliver a further 888 new and rehabilitated homes across all of our communities.
- Continuation of our work with our communities to develop Community Led Action Plans, with 18 plans now in place.
- Re-opening of Dean Castle Country Park, following a multi-million pound restoration and renovation project.
- Increased use of Smart Supports (Technology Enabled Care), by 39.2% since 2012, helping to transform the lives of many residents through innovative products that promote self-management and support people to live safely in their own homes.
- The national zero target for delayed discharges consistently met since 2009.
- Notable success in a wide range of national awards, including three prestigious accolades at the 2018 UK Improvement and Efficiency Social Enterprise (iESE) Awards, which builds on our success as UK Council of the Year 2017, with a Gold Award for Outdoor Services for the Respectful Funeral Service; a Silver Award for Community Health and Care Services for the Front Door service; and a Silver Award for the Waste Management Team for transformation in environmental services.

### *External Validation*

The [Best Value Assurance Report](#) of the Council was published by the Accounts Commission on 29 May 2018. The report highlights the Commission's view following an in-depth audit by Audit Scotland that the Council is performing well, services are improving, and there is strong partnership working. The report notes that the majority of services are improving against a backdrop of financial, social and economic challenges in East Ayrshire. It also observes that the Council has strong leadership, together with effective partnership working and that councillors, Council staff and partner organisations are committed to working together, as well as working with, and empowering, local communities.

The Care Inspectorate, in its findings from the Joint Inspection of Services for Children and Young People in East Ayrshire, praises the outstanding efforts and commitment of teams and community planning partners to keep our children safe and give them the best start in life.

### *Explanation of the Main Statements*

**The Movement in Reserves Statement (MiRS):** shows the movement on reserves analysed into Usable and Unusable. It shows in-year movements broken down between gains and losses incurred in accordance with generally accepted accounting practices and statutory adjustments required to return to the amounts chargeable to council tax (or rents) for the year with the 'Net Increase/Decrease' line showing statutory General Fund Balance and HRA Balance movements in the year following those adjustments.

**The Comprehensive Income and Expenditure Statement (CIES):** shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation (or rents). The Council raises taxation (and rents) to cover expenditure in accordance with statutory requirements and this may be different from the accounting cost. The taxation position is shown in both the EFA and the MiRS.

**The Balance Sheet:** shows the value of the assets and liabilities held by the Council. Net assets are matched by reserves which are reported as Usable (those the Council may use to provide services subject to the need to maintain a prudent level of reserves and any statutory limitations on their use) and Unusable (the Council cannot use these to provide services).

**The Cashflow Statement:** shows the changes in cash and cash equivalents by operating, investing and financing activities. Net cash flows from operating activities is a key indicator of the extent to which operations are funded by taxation, grants or charges for services. Investing activities represent the extent to which cash outflows have been made for resources intended to contribute to future service delivery. Cash flows from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing).

# Management Commentary

## Telling the Story

The Expenditure and Funding Analysis (EFA) provides a link between the East Ayrshire Performs (EAP) budget management reports and the figures in the main financial statements. The reconciliation below has again been included to assist users of the Accounts in navigating from the EAP year end management report through to the first column of the EFA on page 13 and to the CIES on page 17.

East Ayrshire Performs				Building the EFA				EFA Segment	EFA Column 1
	Annual Budget	East Ayrshire Performs Outturn	Variance (favourable) / adverse	East Ayrshire Performs Outturn	Movements - Contribution from Health & Social Care and Specific Grants	Movements - amounts not included within Net Cost of Services	Net Expenditure chargeable to the General Fund & HRA Balances		Net Expenditure chargeable to the General Fund & HRA Balances
2017/18	£m	£m	£m	£m	£m	£m	£m		£m
Central Mgt Support Economy and Skills	1.726	0.447	(1.279)	0.447	-	-	0.447	Economy and Skills Other Segments	1.695
Policy Planning and Performance Division	1.389	1.248	(0.141)	1.248	-	-	1.248		
Education	91.075	89.508	(1.567)	89.508	(3.485)	-	86.023	Education	86.023
Planning and Economic Development	6.795	6.684	(0.111)	6.684	-	-	6.684	Planning and Economic Development	6.684
Finance and ICT	8.065	7.586	(0.479)	7.586	-	-	7.586	Finance and ICT	7.586
Central Mgt Support Safer Communities	0.343	0.348	0.005	0.348	-	-	0.348		
Emergency Planning	0.074	0.071	(0.003)	0.071	-	-	0.071	Safer Communities Other Segments	0.722
Health and Safety	0.357	0.303	(0.054)	0.303	-	-	0.303		
Transport Services	6.399	6.728	0.329	6.728	-	-	6.728	Transport (incl SPT)	8.889
SPT	2.148	2.161	0.013	2.161	-	-	2.161		
Human Resources	1.960	1.892	(0.068)	1.892	-	-	1.892	Human Resources	1.892
Housing and Communities	16.319	16.150	(0.169)	16.150	-	-	16.150	Housing and Communities	16.150
Roads Alliance	6.939	6.975	0.036	6.975	-	-	6.975	Roads Alliance	6.975
Facilities and Property Management	25.495	24.858	(0.637)	24.858	-	-	24.858	Facilities and Property Management	24.858
Arms Length Organisations	5.130	5.130	-	5.130	-	-	5.130	Arms Length Organisations	5.130
Housing Revenue Account	-	(0.650)	(0.650)	(0.650)	-	-	(0.650)	Housing Revenue Account	(0.650)
Chief Executive Office (incl Internal Audit)	0.663	0.586	(0.077)	0.586	-	-	0.586	Chief Executive Office (incl Internal Audit)	0.586
Children Families and CJS	20.391	19.681	(0.710)	19.681	(2.385)	-	17.296		
Community Care	54.137	52.989	(1.148)	52.989	-	-	52.989		
Service Strategy	5.873	5.526	(0.347)	5.526	-	-	5.526	Social Work: Provision of Services	72.905
Outwith Placements	3.734	5.939	2.205	5.939	-	-	5.939		
Social Care Allocation from NHS	-	-	-	-	(8.845)	-	(8.845)		
Funding Required for IJB	(2.220)	-	2.220	-	-	-	-		
Governance	3.187	2.947	(0.240)	2.947	-	-	2.947	Governance	2.947
PP Economy & Skills	-	(4.719)	(4.719)	(4.719)	-	-	(4.719)		
PP Safer Communities	-	0.248	0.248	0.248	-	-	0.248	Projects	(4.471)
PP Governance	-	-	-	-	-	-	-		
Other Non Dept Expenditure	3.491	2.048	(1.443)	2.048	-	-	2.048		
Insurance	2.601	2.527	(0.074)	2.527	-	-	2.527		
Debt Charges	20.450	18.530	(1.920)	18.530	-	(18.530)	-		
Council Tax	(54.609)	(55.078)	(0.469)	(55.078)	-	54.725	(0.353)	Central Services	6.213
HB/ CT Benefit Subsidy	10.435	10.550	0.115	10.550	-	(8.732)	1.818		
Government Funding	(234.851)	(234.858)	(0.007)	(234.858)	14.715	220.316	0.173		
Balance Brought Forward	(6.623)	-	6.623	-	-	-	-		
Reserve Transfers	(0.873)	0.127	1.000	0.127	-	(0.127)	0.000		
<b>Net Cost of Services (EFA Column 1)</b>	<b>-</b>	<b>(3.518)</b>	<b>(3.518)</b>	<b>(3.518)</b>	<b>-</b>	<b>247.652</b>	<b>244.134</b>		<b>244.134</b>

Note 1 The £8.845m shown in the column headed "Movements - Contribution from Health & Social Care and Specific Grants" represents the Council's share of funding from Scottish Government that was first allocated to NHS Ayrshire and Arran prior to being transferred to the Council. The £3.485m and the £2.385m in Education and Children, Families and Criminal Justice Service reflect the Specific Grants for Pupil Equity Funding and Criminal Justice.

Note 2 The figures in the column headed "Movements - amounts not included within Net Cost of Services" predominantly relate to taxation and non specific grant income and as such are reflected in the appropriate sections of the EFA and the CIES (below Net Cost of Service) in line with the presentational requirements of the Code.

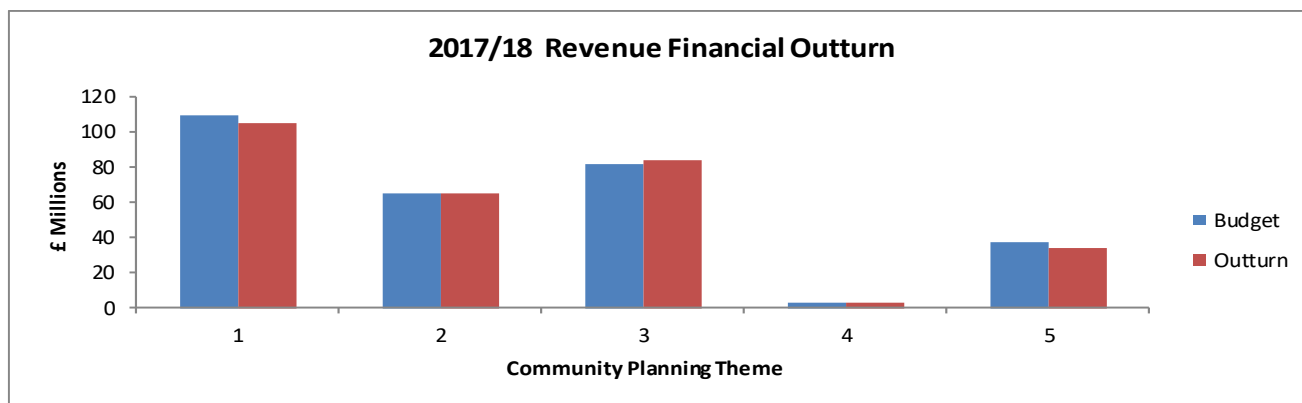
Note 3 Further details on the variances shown above can be found at [East Ayrshire Performs](#).

## Management Commentary

### Summary of Financial Performance

#### Revenue Expenditure

The Comprehensive Income and Expenditure Statement on page 17 sets out the Council's spending and funding in accordance with relevant accounting requirements. The Council's management accounting arrangements are aligned with the management structure and culminate into groupings based on Community Planning themes. A summary of the high level 2017/18 financial outturn in line with Community Planning themes is shown in the following graph.



All services ended the year under budget with the exception of Health and Social Care and the underspends were mainly due to lower than anticipated staff costs and higher levels of income. Health and Social Care ended the year £2.220m over budget predominantly due to an increased requirement to procure external placements for children. Cabinet on 21 February 2018 recognised that the Integration Scheme makes provision for overspend repayment in future years with the first repayment of £0.250m being made in 2018/19. Further details of the variances are provided in the East Ayrshire Performs report at [East Ayrshire Performs](#).

At the year end the opportunity was taken to replenish the Renewal and Repairs Fund by £1.000m after a transfer of £0.873m was made in year from the Fund to services to meet the one-off costs of previously approved specific commitments.

#### General Fund Balances

The General Fund is the statutory fund into which all the receipts are required to be paid into and out of which all liabilities 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-Domestic Rate income (subject to pooling arrangements) and is split between uncommitted balances and balances which have been earmarked for specific purposes. The MiRS on page 15 shows an overall increase in the General Fund balance of £2.867m for the year which has been analysed as follows:

General Fund	Uncommitted Balance £m	Earmarked Balances £m	Total Balances £m
Utilisation of Balances	(1.494)	(6.224)	(7.718)
Reallocation - Balances Review	2.295	(2.295)	0.000
Reallocation to committed balances	(1.421)	1.421	0.000
2017/18 Balance added	0.727	9.858	10.585
<b>Sub Total</b>	<b>0.107</b>	<b>2.760</b>	<b>2.867</b>
2016/17 Balance brought forward	13.098	23.870	36.968
<b>Outturn Position 2017/18</b>	<b>13.205</b>	<b>26.630</b>	<b>39.835</b>

## Management Commentary

The General Fund Uncommitted Balance at 31 March 2018 is £13.205m, representing 4.0% of the net revenue expenditure following the planned utilisation of £1.494m to balance the 2017/18 budget. 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 over a three year period. In line with this policy, Cabinet on 29 November 2017 approved a transfer of £2.295m to the Uncommitted General Fund Balance for use in other areas as part of the annual balances review.

### *Housing Revenue Account (HRA)*

The Housing Revenue Account ended the year with a surplus of £0.650m which will be fully earmarked. This outturn position is mainly due to savings in employee costs, supplies and services and debt charges. Additional income was partly offset by increased planned maintenance. The HRA cumulative balance is shown in the following table and details of the year end variances can be found at [East Ayrshire Performs](#).

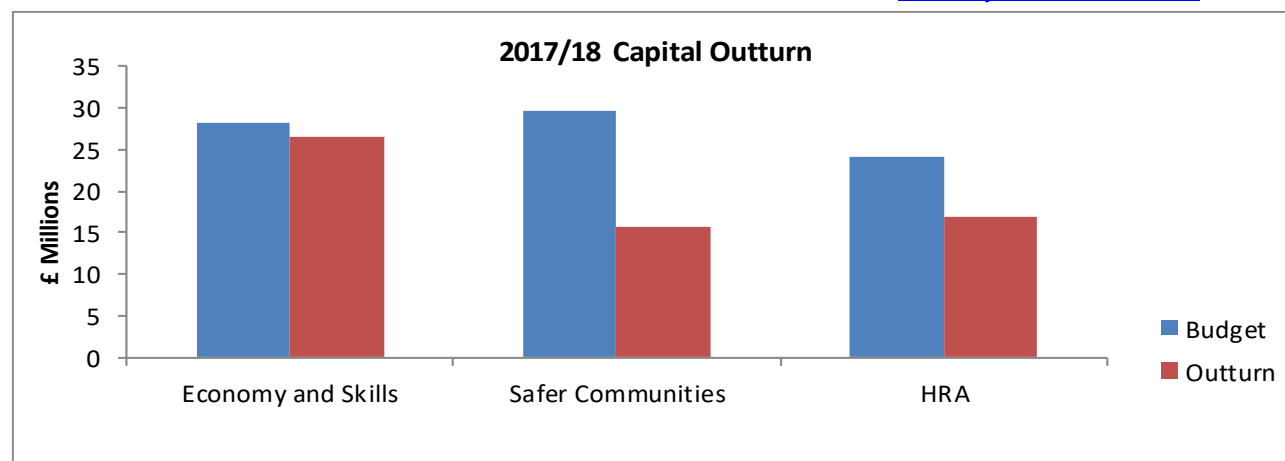
Housing Revenue Account	Balance £m
Balance Brought Forward	12.399
Movement in 2017/18: Balance added	0.650
<b>Outturn Position 2017/18</b>	<b>13.049</b>

### *Capital Programme and Investment*

The Council's ambitious capital programme saw General Fund investment of £42.559m in developing and creating key assets for communities. This includes investment in our roads, schools and business infrastructure. This was funded by £12.746m from government grants, borrowing of £29.333m and using £0.480m from revenue.

The Housing Capital Programme spent £18.835m on building, improving and acquiring assets in 2017/18 including the creation of council houses in our town centres, delivering new homes and local regeneration. This capital investment programme was funded by £11.852m from current revenue, borrowing of £2.804m and the utilisation of capital receipts of £2.182m and government grants of £1.997m.

The table below shows the net capital expenditure by service against the approved budget. The variances at year end were mainly a result of changes to scheme commencement dates, but there were instances of higher than anticipated prices and tenders, changes to scheme design, and additional development costs. 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 £477.808m with £951.829m of non current assets spread across a range of plant, property, equipment and heritage assets and usable reserves of £69.102m as shown on the Balance Sheet on Page 18.

### *Treasury Management and Investment Strategy*

The Council's Treasury Management and Investment Strategy is approved by Cabinet on an annual basis with updates being provided to elected members via East Ayrshire Performs reports and to Governance and Scrutiny Committee during the year. Details of the current report is available at [TreasuryManagement](#).

## Management Commentary

### *Transformation Strategy*

Work is progressing on our second Transformation Strategy that aims to change the culture of the Council and to ensure that the Council remains financially sustainable. A series of workstreams have been established to take forward this important change programme centring on the Council being Fairer, Kinder and Connected with our communities; a redesign of our Workforce Planning arrangements; the use of innovative technology to ensure the Council is Digitally Connected; and the Council and our communities becoming more empowered. The Implementing our Transformation Strategy 2017-2022 report was presented to Council on 21 June 2018 and further updates on progress will be provided to Cabinet in line with the EAC Performs reporting cycle timescales.

### *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. 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 viewed as being significant enough to be placed on the 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 the risk of fraud. The actions taken to minimise or mitigate corporate risks are regularly reviewed and the Corporate Risk Register is presented to Cabinet and the Council's Governance and Scrutiny Committee as part of East Ayrshire Performs. A copy of the 2017/18 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 and also in Note 35. 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 £27.792m representing the Council's share of the net assets in these entities. This includes the combined pension position of these associates.

The Council's group account entities are:

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

### *Acknowledgement*

The Accounts show that the Council ended the year in a healthy financial position. This has been maintained against a very challenging economic landscape through prudent and effective use of resources by services commendably supported by elected members.

The effort required to prepare the Accounts is considerable and I want to record my thanks to staff in Corporate Finance who managed the process and who co-ordinated the significant efforts of colleagues across all services to ensure an efficient closure process in compliance with national legislation and guidance within an increasingly tight timescale.

**Councillor Douglas Reid**

**Leader of the Council**

**27 September 2018**

**Fiona Lees**

**Chief Executive**

**27 September 2018**

**Alexander McPhee ACMA**

**Depute Chief Executive & Chief Financial Officer**

**27 September 2018**

## 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 by Governance and Scrutiny Committee at its meeting on 27 September 2018.

**Councillor Douglas Reid**  
**Leader of the Council**  
**27 September 2018**

### 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 2018.

**Alexander McPhee ACMA**  
**Depute Chief Executive & Chief Financial Officer**  
**27 September 2018**

# Annual Governance Statement

## *Scope of Responsibility*

The Council is responsible for and fully 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 also 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 future 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 whether strategic priorities and outcomes have been achieved; ensuring that services are delivered cost-effectively; maintaining appropriate arrangements for management of risk; and ensuring the Council complies with the Statement on the Role of the Chief Financial Officer in Local Government. To this end, the Council has approved and adopted a Code of Corporate Governance which is consistent with the principles and recommendations of the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) 2016 Framework Delivering Good Governance in Local Government and the supporting Guidance Notes for Scottish Authorities. A copy of the Code, the update on the 2017/18 Action Plan and the 2018/19 Action Plan can be downloaded from the Council's website. The Code evidences our commitment to achieving good governance and demonstrates how the Council complies with the governance standards recommended by CIPFA/SOLACE. The Code is reviewed and updated on an annual basis, most recently by the Governance and Scrutiny Committee on 26 April 2018.

The Council has also put in place a system of internal control designed to manage risk to a reasonable level. Internal controls cannot 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 the Council's 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 those priorities and outcomes have led to the delivery of appropriate, cost-effective services. The governance framework was further strengthened during the year ended 31 March 2018 and will continue to be reviewed. Further detail is available in the Local Code of Corporate Governance report which was approved by Governance and Scrutiny Committee on 26 April 2018.

## **The Governance Framework**

The East Ayrshire Community Plan 2015-2030 came into effect on 1 April 2015 and is the overarching planning document for the East Ayrshire area. It provides the strategic policy framework for the delivery of public services by all of the Partners and is also the Council's Corporate Plan. The Community Plan is implemented through three thematic Delivery Plans, namely Economy and Skills, Safer Communities and Wellbeing, along with the day to day work carried out by services across the Council. The first three-year review of the Community Plan and the thematic Delivery Plans was completed in 2017/18 with new Delivery Plans in place from 1 April 2018. Further detail is available in the Local Code of Corporate Governance report approved by Governance and Scrutiny Committee on 26 April 2018.

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The Council's new Transformation Strategy was approved by Elected Members in February 2018 and is designed to ensure that our services remain financially sustainable in the current economic climate. The Strategy identifies 6 key workstreams and detailed action in support of these high-level themes was considered by the Council at the meeting on 28 June 2018. The development of the Transformation Strategy was informed by an extensive 'Vibrant Voices' consultation and engagement process.

The challenging financial environment in which the Council is currently operating has required an immediate response to deliver the level of efficiencies required. The effective management of the Council's Revenue Budget, within the context of the current challenging financial situation, has been achieved through effective financial stewardship to ensure that the required level of cost reductions were realised across all Council services. The recent spending review has resulted in a further reduction in funding available but the Transformation Strategy has proved sufficiently robust to ensure that the Council has been able to set a balanced budget for 2018/19 without the need to change direction.

Policy and decision making is conducted through the Council's decision-making structure, which includes the Cabinet and 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 an independent and high-level resource to support good governance and strong public financial management within the Council. This includes the satisfaction that the Council's assurance statements are an accurate reflection of the current position, the internal audit function is effective and supported by committee and that risk management arrangements are considered effective.

The Governance and Scrutiny Committee considers the reports and recommendations of external audit and inspection agencies and their implications for governance, and risk management or control, 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 reviews 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.

The Council has continued to enhance and strengthen our internal control environment through updating and introducing new policies and procedures. The Scheme of Delegation sets out the remit of Elected Member Portfolio Holders and the extent of delegations made to Committees and officers under the principle that decisions should be made at the lowest or most local level consistent with the nature of the issues involved. The Council also has Financial Regulations and Standing Orders relating to contracts in place and all of these procedural documents are regularly reviewed.

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 as part of the East Ayrshire Performs reporting framework. The Council's business continuity strategy has been cascaded down through the organisation with each department and service holding individual business continuity plans.

The Whistleblowing Policy and Codes of Conduct for employees and Elected Members, and our Elected Member Learning and Development Strategy is well established. A training needs analysis is undertaken on an annual basis and individual Development Plans are subsequently agreed for all Elected Members. The Elected Members' induction, training and development arrangements were reviewed in 2016/17 in preparation for the new Council being elected in May 2017.

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Service Improvement Plans for all Council Services are in place and annual progress updates relating to the Action Plans are presented to Cabinet. New three-year Service Improvement Plans will be developed in 2018/19 to reflect the updated Community Plan, Local Outcome Improvement Plan and the Council's new Transformation Strategy. These provide the link between service priorities and Community Planning and Council strategic priorities and outcomes; link service performance with financial and other resources and play a pivotal role in identifying and delivering service improvements and efficiency.

The Council monitors performance using an Electronic Performance Management System (EPMS), which is populated with a wide range of performance indicators across all Council services. These indicators inform the Chief Officer Performance Scorecards.

### 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; Departmental Service Descriptions; Officer delegated responsibility; 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 (Economy and Skills) 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. This reflects best practice identified by Audit Scotland. Officer responsibilities are reflected in the Job Description for the Depute Chief Executive and Chief Financial Officer (Economy and Skills) and the Council's Financial Regulations, which confirm that the Depute Chief Executive and Chief Financial Officer (Economy and Skills) shall be responsible for the administration of the financial affairs of the Council and shall act as a financial adviser to the Council, Cabinet and all Committees.

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 was transferred to the Integration Joint Board with effect from 1 April 2015.

### Review of Effectiveness

During 2017/18, 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 and Heads of Service have a responsibility to ensure that their own governance arrangements are adequate

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and operating effectively. In line with the CIPFA/SOLACE Framework, each Depute Chief Executive and Head of Service is required to make an annual statement confirming that this is the case.

The Internal Audit function is directly responsible to the Chief Executive for the independent appraisal of the Council's systems of internal control. On the basis of Internal Audit work completed in 2017/18, East Ayrshire Council's established internal control procedures were generally found to operate as intended to meet management's requirements for the individual systems reviewed by Internal Audit. Internal Audit opinions for individual planned assignments ranged from reasonable through to sound assurance. Internal Audit has also undertaken a small number of investigations resulting in improvement actions being agreed with management. Controls issues have been identified but are not deemed to significantly impact on the overall annual assurance for the Council. The Chief Auditor has confirmed that in line with Public Sector Internal Audit Standards (PSIAS) sufficient work has been carried out to support the annual internal audit opinion.

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 2018. The objectives of internal control have been substantially met. In line with established practice Internal Audit's Annual Report for 2017/18 was reported to the Council's Governance and Scrutiny Committee on 26 April 2018.

### Improvements Proposed

The systems of governance and internal control provide reasonable assurance that assets are safeguarded; that transactions are authorised and properly recorded; that material errors or irregularities are either prevented or would be detected within a timely period; and that significant risks impacting on the achievement of our strategic priorities and outcomes have been mitigated. The review carried out in 2017/18 highlighted improvements that could be implemented in some areas and these are contained within the Corporate Governance Improvement Plan for 2018/19 which can be found in Appendix 4 of the Local Code of Corporate Governance approved on 26 April 2018 by the Governance and Scrutiny Committee.

### Conclusion

The Council considers the governance and internal control environment operating during 2017/18 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 2018/19. Implementing the action plan 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**

**27 September 2018**

**Fiona Lees**

**Chief Executive**

**27 September 2018**

## Expenditure and Funding Analysis (EFA)

This Note shows how funding available to the Council from government grants, rents, council tax and business rates for the year has been used in providing services in comparison with those resources consumed by the Council in accordance with generally accepted accounting practices, with expenditure allocated for decision making purposes between the Council's services. The Comprehensive Income and Expenditure Statement on page 17 presents income and expenditure under generally accepted accounting practices.

2016/17				2017/18		
EAC				EAC		
Net Expenditure chargeable to the General Fund & HRA Balances	Adjustments between the Funding & Accounting Basis	Net Expenditure in the CIES		Net Expenditure chargeable to the General Fund & HRA Balances	Adjustments between the Funding & Accounting Basis	Net Expenditure in the CIES
£m	£m	£m		£m	£m	£m
			Operating		see EFA Note page 14	
1.705	0.099	1.804	Economy and Skills Other Segments	1.695	0.220	1.915
86.180	17.122	103.302	Education	86.023	41.780	127.803
5.330	0.353	5.683	Planning and Economic Development	6.684	7.375	14.059
7.114	1.544	8.658	Finance and ICT	7.586	2.065	9.651
0.786	0.020	0.806	Safer Communities Other Segments	0.722	0.069	0.791
8.638	(0.070)	8.568	Transport (incl SPT)	8.889	(0.003)	8.886
1.797	0.116	1.913	Human Resources	1.892	0.273	2.165
16.884	1.287	18.171	Housing and Communities	16.150	3.503	19.653
6.892	5.950	12.842	Roads Alliance	6.975	7.158	14.133
27.380	(0.539)	26.841	Facilities and Property Management	24.858	0.193	25.051
5.221	2.886	8.107	Arms Length Organisations	5.130	3.144	8.274
(2.608)	1.501	(1.107)	Housing Revenue Account	(0.650)	4.434	3.784
0.527	0.030	0.557	Chief Executive Office (incl Internal Audit)	0.586	0.072	0.658
2.521	0.272	2.793	Governance	2.947	0.610	3.557
-	-	-	Projects	(4.471)	-	(4.471)
5.933	(1.835)	4.098	Central Services	6.213	(1.836)	4.377
(1.300)	2.191	0.891	Social Work: Provision of Services	(3.871)	5.327	1.456
74.760	-	74.760	Contribution to the IJB	76.776	-	76.776
247.760	30.927	278.687	Net Cost Of Services	244.134	74.384	318.518
(244.717)	(5.481)	(250.198)	Other Income and Expenditure	(247.841)	(7.479)	(255.320)
			Difference between the Statutory Charge to the Combined General Fund and HRA Balance compared to the Surplus or Deficit in the CIES			
3.043	25.446	28.489		(3.707)	66.905	63.198

		General Fund	HRA	Total
50.630	Opening Combined General Fund and HRA Balances	36.968	12.399	49.367
(3.043)	Surplus or Deficit on the General Fund and HRA Balances for the Year	3.057	0.650	3.707
1.780	Transfers to/ from Other Reserves	(0.190)	-	(0.190)
49.367	<b>Closing Combined General Fund and HRA Balances</b>	<b>39.835</b>	<b>13.049</b>	<b>52.884</b>

## Note to the Expenditure and Funding Analysis

2016/17				Adjustments between Funding and Accounting Basis	2017/18			
EAC					EAC			
Adjustments for Capital Purposes	Net change for Pensions Adjustments	Adjustments for Other Items	Adjustments between the Funding & Accounting Basis		Adjustments for Capital Purposes	Net change for Pensions Adjustments	Adjustments for Other Items	Adjustments between the Funding & Accounting Basis
£m	£m	£m	£m		£m	£m	£m	£m
-	0.099	-	0.099	Economy and Skills Other Segments	-	0.220	-	0.220
15.045	0.936	1.141	17.122	Education	39.262	2.599	(0.081)	41.780
0.110	0.287	(0.044)	0.353	Planning and Economic Development	6.675	0.729	(0.029)	7.375
1.126	0.433	(0.015)	1.544	Finance and ICT	1.034	1.040	(0.009)	2.065
(0.001)	0.035	(0.014)	0.020	Safer Communities Other Segments	(0.001)	0.080	(0.010)	0.069
(0.121)	0.051	-	(0.070)	Transport (incl SPT)	(0.126)	0.123	-	(0.003)
0.004	0.112	-	0.116	Human Resources	0.004	0.269	-	0.273
0.757	0.591	(0.061)	1.287	Housing and Communities	2.131	1.410	(0.038)	3.503
5.602	0.404	(0.056)	5.950	Roads Alliance	6.196	0.997	(0.035)	7.158
(1.086)	0.549	(0.002)	(0.539)	Facilities and Property Management	(1.191)	1.385	(0.001)	0.193
2.886	-	-	2.886	Arms Length Organisations	3.144	-	-	3.144
1.552	0.667	(0.718)	1.501	Housing Revenue Account	3.525	1.580	(0.671)	4.434
-	0.030	-	0.030	Chief Executive Office (incl Internal Audit)	-	0.072	-	0.072
0.040	0.238	(0.006)	0.272	Governance	0.053	0.562	(0.005)	0.610
-	-	-	-	Projects	-	-	-	-
-	(2.466)	0.631	(1.835)	Central Services	(0.016)	(2.438)	0.618	(1.836)
0.526	1.936	(0.271)	2.191	Social Work: Provision of Services	0.672	4.831	(0.176)	5.327
26.440	3.902	0.585	30.927	Net Cost Of Services	61.362	13.459	(0.437)	74.384
(10.946)	5.860	(0.395)	(5.481)	Other Income and Expenditure	(13.491)	6.467	(0.455)	(7.479)
				Difference between the Statutory Charge to the Combined General Fund and HRA Balance compared to the Surplus or Deficit in the CIES				
15.494	9.762	0.190	25.446		47.871	19.926	(0.892)	66.905

## Movement in Reserves Statement (MiRS)

2017/18	Note	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 Grants Unapplied	Capital Fund		Unrealised Gains/ Losses	Statutory Adj Accounts				
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 31 March 2017		36.968	12.399	3.755	0.065	11.227	64.414	337.201	(55.626)	345.989	3.864	14.084	363.937
Surplus/ (Deficit) on the Provision of Services	CIES	(55.094)	(8.104)	-	-	-	(63.198)	-	-	(63.198)	4.190	-	(59.008)
Other Comprehensive Income and Expenditure	CIES	-	-	-	-	-	-	32.661	162.356	195.017	-	5.554	200.571
Total Comprehensive Income and Expenditure		(55.094)	(8.104)	-	-	-	(63.198)	32.661	162.356	131.819	4.190	5.554	141.563
Adjustments between Accounting Basis and Funding Basis Under Statute													
Current and Past Service Pension Costs in Cost of Services	13	29.113	3.153	-	-	-	32.266	-	(32.266)	-	-	-	-
Pension Interest Cost	13	24.856	2.691	-	-	-	27.547	-	(27.547)	-	-	-	-
Expected Return on Pension Assets	13	(19.020)	(2.060)	-	-	-	(21.080)	-	21.080	-	-	-	-
Employers Contributions to Pensions Fund	13	(17.234)	(1.573)	-	-	-	(18.807)	-	18.807	-	-	-	-
Adjustments Relating to Pensions		17.715	2.211	-	-	-	19.926	-	(19.926)	-	-	-	-
Depreciation of Non Current Assets	19	22.352	19.650	-	-	-	42.002	(13.967)	(28.035)	-	0.277	(0.277)	-
Impairment of Non Current Assets	17	43.088	2.703	-	-	-	45.791	-	(45.791)	-	-	-	-
Amortisation of Intangible Assets	20	0.030	0.002	-	-	-	0.032	-	(0.032)	-	-	-	-
Capital Grants and Contributions Applied	10	(12.745)	(1.997)	-	-	-	(14.742)	-	14.742	-	-	-	-
Capital Grants and Contributions Unapplied		-	-	-	(0.007)	-	(0.007)	-	0.007	-	-	-	-
Repayment of Debt	15	(10.531)	(2.520)	-	-	-	(13.051)	-	13.051	-	-	-	-
Capital Expenditure Funded in Year	15	(0.555)	(11.778)	-	-	-	(12.333)	-	12.333	-	-	-	-
Use of HRA Capital Fund to Finance New Capital Expenditure		-	-	-	-	(2.182)	(2.182)	-	2.182	-	-	-	-
Net Gain/ (Loss) on Disposal of Assets	CIES	(0.495)	0.667	-	-	3.170	3.342	-	(3.342)	-	-	-	-
Adjustments Relating to Capital		41.144	6.727	-	(0.007)	0.988	48.852	(13.967)	(34.885)	-	0.277	(0.277)	-
Differences relating to Officer Remuneration required by statute		(0.384)	(0.053)	-	-	-	(0.437)	-	0.437	-	-	-	-
Differences relating to Financial Instruments required by statute	30	(0.324)	(0.131)	-	-	-	(0.455)	-	0.455	-	-	-	-
Adjustments for Other Items		(0.708)	(0.184)	-	-	-	(0.892)	-	0.892	-	-	-	-
Increase/ (Decrease) before Transfers		3.057	0.650	-	(0.007)	0.988	4.688	18.694	108.437	131.819	4.467	5.277	141.563
Transfers to/ from Capital Fund		-	-	-	-	-	-	-	-	-	-	-	-
Transfers to/ from Other Statutory Reserves		(0.127)	-	0.127	-	-	-	-	-	-	(0.830)	0.830	-
Interest on Revenue Balances		(0.063)	-	0.016	-	0.047	-	-	-	-	-	-	-
Increase/ (Decrease) in 2017/18		2.867	0.650	0.143	(0.007)	1.035	4.688	18.694	108.437	131.819	3.637	6.107	141.563
Balance at 31 March 2018		39.835	13.049	3.898	0.058	12.262	69.102	355.895	52.811	477.808	7.501	20.191	505.500

## Movement in Reserves Statement (MiRS)

2016/17	Note	Usable Reserves					Unusable Reserves		Total Reserves	Group Usable Reserves	Group Unusable Reserves	Total Group Reserves	
		General Fund Balance	HRA	Renewal and Repairs	Capital Grants Unapplied	Capital Fund	Total Usable Reserves	Unrealised Gains/ Losses					Statutory Adj Accounts
Balance at 31 March 2016		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	
		40.839	9.791	5.626	-	10.021	66.277	353.071	38.389	457.737	4.204	15.351	477.292
Surplus/ (Deficit) on the Provision of Services	CIES	(22.530)	(5.959)	-	-	-	(28.489)	-	-	(28.489)	0.453	-	(28.036)
Other Comprehensive Income and Expenditure	CIES	-	-	-	-	-	-	1.470	(84.731)	(83.261)	-	(2.324)	(85.585)
Total Comprehensive Income and Expenditure		(22.530)	(5.959)	-	-	-	(28.489)	1.470	(84.731)	(111.750)	0.453	(2.324)	(113.621)
Adjustments between Accounting Basis and Funding Basis Under Statute													
Current and Past Service Pension Costs in Cost of Services	13	19.938	2.210	-	-	-	22.148	-	(22.148)	-	-	-	-
Pension Interest Cost	13	26.035	2.886	-	-	-	28.921	-	(28.921)	-	-	-	-
Expected Return on Pension Assets	13	(20.760)	(2.301)	-	-	-	(23.061)	-	23.061	-	-	-	-
Employers Contributions to Pensions Fund	13	(16.702)	(1.544)	-	-	-	(18.246)	-	18.246	-	-	-	-
Adjustments Relating to Pensions		8.511	1.251	-	-	-	9.762	-	(9.762)	-	-	-	-
Depreciation of Non Current Assets	19	23.332	19.210	-	-	-	42.542	(17.340)	(25.202)	-	0.276	(0.276)	-
Impairment of Non Current Assets	17	10.115	-	-	-	-	10.115	-	(10.115)	-	-	-	-
Amortisation of Intangible Assets	20	0.013	0.004	-	-	-	0.017	-	(0.017)	-	-	-	-
Capital Grants and Contributions Applied	10	(10.201)	(1.415)	-	-	-	(11.616)	-	11.616	-	-	-	-
Capital Grants and Contributions Unapplied		(0.065)	-	-	0.065	-	-	-	-	-	-	-	-
Repayment of Debt	15	(13.976)	(2.577)	-	-	-	(16.553)	-	16.553	-	-	-	-
Capital Expenditure Funded in Year	15	(1.194)	(10.419)	-	-	-	(11.613)	-	11.613	-	-	-	-
Use of HRA Capital Fund to Finance New Capital Expenditure		-	-	-	-	(4.242)	(4.242)	-	4.242	-	-	-	-
Net Gain/ (Loss) on Disposal of Non Current Assets	CIES	(0.051)	2.717	-	-	5.357	8.023	-	(8.023)	-	-	-	-
Adjustments Relating to Capital		7.973	7.520	-	0.065	1.115	16.673	(17.340)	0.667	-	0.276	(0.276)	-
Differences relating to Officer Remuneration required by statute		0.672	(0.087)	-	-	-	0.585	-	(0.585)	-	-	-	-
Differences relating to Financial Instruments required by statute	30	(0.277)	(0.117)	-	-	-	(0.394)	-	0.394	-	-	-	-
Adjustments for Other Items		0.395	(0.204)	-	-	-	0.191	-	(0.191)	-	-	-	-
Increase/ (Decrease) before Transfers		(5.651)	2.608	-	0.065	1.115	(1.863)	(15.870)	(94.017)	(111.750)	0.729	(2.600)	(113.621)
Transfers to/ from Capital Fund		(0.036)	-	-	-	0.036	-	-	-	-	-	-	-
Transfers to/ from Other Statutory Reserves		1.911	-	(1.911)	-	-	-	-	-	-	(1.344)	1.344	-
Interest on Revenue Balances		(0.095)	-	0.040	-	0.055	-	-	-	-	-	-	-
Increase/ (Decrease) in 2016/17		(3.871)	2.608	(1.871)	0.065	1.206	(1.863)	(15.870)	(94.017)	(111.750)	(0.615)	(1.256)	(113.621)
Balance at 31 March 2017		36.968	12.399	3.755	0.065	11.227	64.414	337.201	(55.628)	345.987	3.589	14.095	363.671

# Comprehensive Income and Expenditure Statement (CIES)

2016/17				2017/18			
EAC			Group	EAC			Group
£m	£m	£m	£m	£m	£m	£m	£m
Exp	Income	Net	Net	Exp	Income	Net	Net
1.886	(0.082)	1.804	1.804	2.047	(0.132)	1.915	1.915
107.256	(3.954)	103.302	103.302	136.732	(8.929)	127.803	127.803
8.942	(3.259)	5.683	5.683	17.662	(3.603)	14.059	14.059
10.044	(1.386)	8.658	8.658	13.159	(3.508)	9.651	9.651
0.806	-	0.806	1.082	0.979	(0.188)	0.791	1.068
9.520	(0.952)	8.568	8.568	9.899	(1.013)	8.886	8.886
1.958	(0.045)	1.913	1.913	2.466	(0.301)	2.165	2.165
27.361	(9.190)	18.171	18.171	31.500	(11.847)	19.653	19.653
27.028	(14.186)	12.842	12.842	28.453	(14.320)	14.133	14.133
33.936	(7.095)	26.841	26.841	35.606	(10.555)	25.051	25.051
8.152	(0.045)	8.107	8.107	8.535	(0.261)	8.274	8.274
43.914	(45.021)	(1.107)	(1.107)	48.977	(45.193)	3.784	3.784
0.557	-	0.557	0.557	0.681	(0.023)	0.658	0.658
4.660	(1.867)	2.793	2.793	5.769	(2.212)	3.557	3.557
4.455	(4.455)	-	-	10.285	(14.756)	(4.471)	(4.471)
48.213	(44.115)	4.098	4.098	47.096	(42.719)	4.377	4.377
101.020	(100.129)	0.891	0.891	107.688	(106.232)	1.456	1.456
74.760	-	74.760	74.760	76.776	-	76.776	76.776
<b>514.468</b>	<b>(235.781)</b>	<b>278.687</b>	<b>278.963</b>	<b>584.310</b>	<b>(265.792)</b>	<b>318.518</b>	<b>318.795</b>
(9.990)	9.990	-	-	(10.578)	10.578	-	-
504.478	(225.791)	278.687	278.963	573.732	(255.214)	318.518	318.795
		2.668	2.657			0.171	0.171
		281.355	281.620			318.689	318.966
	(42.460)	(42.460)				(45.992)	(45.992)
	(193.640)	(193.640)				(190.949)	(190.949)
	(30.239)	(30.239)				(29.367)	(29.367)
	(11.681)	(11.681)			Note 10	(14.742)	(14.742)
	(278.020)	(278.020)				(281.050)	(281.050)
	<b>3.335</b>	<b>3.600</b>				<b>37.639</b>	<b>37.916</b>
	(23.061)	(23.061)			Note 13	(21.080)	(21.080)
	-	(0.992)				-	(4.465)
	(0.841)	(0.842)			Note 30	(0.456)	(0.458)
	20.135	20.135				19.548	19.548
	28.921	28.921			Note 13	27.547	27.547
	<b>28.489</b>	<b>27.761</b>				<b>63.198</b>	<b>59.008</b>
	(1.461)	(1.425)				(32.664)	(32.675)
	(0.009)	(0.009)			Note 30	0.003	0.003
	84.731	84.731			Note 13	(162.356)	(162.356)
	-	2.299				-	(5.543)
	<b>111.750</b>	<b>113.357</b>				<b>(131.819)</b>	<b>(141.563)</b>

*Note to the CIES* - the income and expenditure balances at the Net Cost of Services line have changed for the prior year due to the inclusion of gross figures in the table above to aid further clarity and improve the understandability of the CIES.

## Balance Sheet

31-Mar-17				31-Mar-18	
EAC	Group			EAC	Group
£m	£m			£m	£m
883.466	892.385	Property, Plant & Equipment	Note 19	886.473	895.126
65.256	65.256	Heritage Assets	Note 23	65.256	65.256
0.035	0.035	Intangible Assets	Note 20	0.084	0.084
-	10.188	Investments in Associates and Joint Ventures	Note 35	-	18.660
0.018	0.018	Non Current Receivables (Long Term Debtors)	Note 30	0.016	0.016
<b>948.775</b>	<b>967.882</b>	<b>Non Current Assets</b>		<b>951.829</b>	<b>979.142</b>
62.371	62.748	Short Term Investments	Note 30	12.508	12.887
3.212	3.212	Inventories	Note 24	1.518	1.518
26.461	26.461	Debtors	Note 25	33.193	33.193
0.499	0.499	Assets Held for Sale	Note 22	0.336	0.336
9.975	9.975	Cash and Cash Equivalents	Note 27	25.866	25.866
0.603	0.603	Current Intangible Assets	Note 20	0.319	0.319
<b>103.121</b>	<b>103.498</b>	<b>Current Assets</b>		<b>73.740</b>	<b>74.119</b>
(18.710)	(18.710)	Short Term Borrowing		(16.630)	(16.630)
(58.272)	(58.272)	Creditors (Including Provisions and Grants Receipts in Advance)	Note 26	(55.050)	(55.050)
<b>(76.982)</b>	<b>(76.982)</b>	<b>Current Liabilities</b>		<b>(71.680)</b>	<b>(71.680)</b>
(259.983)	(259.983)	Pension Liabilities	Note 13	(117.553)	(117.553)
(58.068)	(58.068)	Deferred Liabilities	Note 30	(56.389)	(56.389)
(310.876)	(310.876)	Long Term Borrowing	Note 30	(302.139)	(302.139)
-	(1.536)	Liabilities in Associates and Joint Ventures		-	-
<b>(628.927)</b>	<b>(630.463)</b>	<b>Non Current Liabilities</b>		<b>(476.081)</b>	<b>(476.081)</b>
<b>345.987</b>	<b>363.935</b>	<b>Net Assets</b>		<b>477.808</b>	<b>505.500</b>
64.414	64.414	Usable Reserves (Available to Fund Services)	MIRS	69.102	69.102
-	3.864	Share of Usable Reserves of Associates and Joint Ventures		-	7.501
(55.628)	(55.628)	Unusable Statutory Adjustments Accounts	Note 33	52.811	52.811
337.201	337.201	Unusable Reserves (Unrealised and Deferred Impact on Taxation)	Note 33	355.895	355.895
-	14.084	Share of Unusable Reserves of Associates and Joint Ventures		-	20.191
<b>345.987</b>	<b>363.935</b>	<b>Net Reserves</b>		<b>477.808</b>	<b>505.500</b>

### Authorised for Issue

The unaudited accounts were authorised for issue by the Council on 28 June 2018 and the audited accounts were authorised for issue on 27 September 2018.

**Alexander McPhee ACMA**  
Depute Chief Executive & Chief Financial Officer  
27 September 2018

# Cash Flow Statement

2016/17			2017/18	
EAC	Group		EAC	Group
£m	£m		£m	£m
28.489	27.761		63.198	59.008
-	0.992	Surplus/ (Deficit) attributable to Associates and Joint Ventures	-	4.465
28.489	28.753	<b>(Surplus)/ Deficit on the Provision of Services</b>	63.198	63.473
		<b>Non Cash Items in the Comprehensive Income and Expenditure Statement</b>		
(52.674)	(52.950)	Depreciation and Impairment	(87.826)	(88.103)
(8.021)	(8.021)	Carrying Amount of Non Current Assets Sold <i>Note 19</i>	(3.341)	(3.341)
(9.762)	(9.762)	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>	(19.926)	(19.926)
(0.009)	(0.009)	Available for Sale Financial Instruments - Fair Value Adjustment	0.003	0.003
0.017	0.017	EIR Stepped Loan Adjustment	0.018	0.018
(70.449)	(70.725)		(111.072)	(111.349)
		<b>Changes in Working Capital</b>		
1.754	1.754	Increase/ (Decrease) in Stock and Work in Progress <i>Note 24</i>	(1.694)	(1.694)
2.853	2.853	Increase/ (Decrease) in Debtors	(43.132)	(43.132)
2.013	2.013	(Increase)/ Decrease in Creditors	2.940	2.940
6.620	6.620		(41.886)	(41.886)
		<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>		
(5.532)	(5.532)	Net (Increase)/ Decrease in Short Term Deposits	49.863	49.863
11.681	11.681	Capital Grants Received	14.742	14.742
5.356	5.356	Sale of Non Current Assets	3.169	3.169
11.505	11.505		67.774	67.774
(23.835)	(23.847)	<b>Net Cash Outflow/ (Inflow) from Operating Activities</b>	(21.986)	(21.988)
		<b>Investing Activities</b>		
54.967	54.969	<b>Cash Outflows:</b> Purchase of Non Current Assets <i>Note 15</i>	61.395	61.395
5.532	5.533	Increase in Short Term Deposits	-	0.002
60.499	60.502		61.395	61.397
(5.356)	(5.345)	<b>Cash Inflows:</b> Sale of Non Current Assets <i>Note 9</i>	(3.169)	(3.169)
-	-	Decrease in Short Term Deposits	(49.863)	(49.863)
(11.681)	(11.681)	Capital Grants Received <i>Note 10</i>	(14.742)	(14.742)
(17.037)	(17.026)		(67.774)	(67.774)
43.462	43.476	<b>Net Cash Outflow/ (Inflow) from Investing Activities</b>	(6.379)	(6.377)
		<b>Financing</b>		
5.973	5.973	<b>Cash Outflows:</b> Repayments of Amounts Borrowed	10.992	10.992
1.808	1.808	Capital Element of Finance Lease Rental Payments	1.484	1.484
-	-	<b>Cash Inflows:</b> New Loans Raised	-	-
7.781	7.781	<b>Net Cash Outflow/ (Inflow) from Financing Activities</b>	12.476	12.476
27.408	27.410	<b>Net (Increase)/ Decrease in Cash and Cash Equivalents</b>	(15.889)	(15.889)
37.385	37.385	<b>Cash and Cash Equivalents at the start of the reporting period</b> <i>Note 27</i>	9.977	9.975
9.977	9.975	<b>Cash and Cash Equivalents at the end of the reporting period</b> <i>Note 27</i>	25.866	25.864

*Note to Cash Flow Statement* – Included in Operating Activities is Interest paid in year of £19.283m; (2016/17, £19.873m) and Interest received in year £0.456m; (2016/17, £0.841m).

## Notes to the Annual Accounts

### Note 1 – Accounting Policies

#### 1.1 General Principles

The Annual Accounts summarise the Council's transactions for the 2017/18 financial year and its position as at 31 March 2018. Relevant figures for the 2016/17 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 2017/18 (The Accounting Code)* 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 non current 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; and
- Amortisation of intangible non current 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* - These amounts are 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 line in the CIES is charged with the employer's contributions payable to teachers' pensions in the year.

## Notes to the Annual Accounts

The Local Government Pension Scheme is accounted as a defined benefits scheme. The liabilities of the Strathclyde Pension Scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected 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 of Terms 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 lines 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 section 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 attached 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 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' Carbon Reduction Commitment (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 for a property or 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

Support services are shown in line with the Council's management structure. Overheads are charged to services on the basis of service accountability, financial performance and consumption.

### 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-minimis does not apply where certain categories of these assets are grouped together and form part of the approved capital programme.

In respect of Component Accounting, the assessment of which components are recognised and depreciated separately is based upon the 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.

*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).

## Notes to the Annual Accounts

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  |

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.

## Notes to the Annual Accounts

*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 are 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; and
- 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 non current 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.*”

The Heritage Assets held by the Council are:

- The museum and art collections;
- The Council’s archives and ephemera;
- The civic regalia;
- A number of public space statues, monuments and 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.

## Notes to the Annual Accounts

The valuation of Heritage Assets at 31 March is based upon information held in catalogues or inventories maintained within the Council and with the main collections of fine art, arms and militaria, manuscripts, musical instruments and tapestries valued at specific intervals by specialist valuers. The Council does not consider that reliable cost of valuation information can be obtained for the vast majority of remaining items held because of the diverse nature of assets held, the number of assets held and the lack of comparable market values. 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.

Heritage Assets are deemed to have indeterminate lives and high residual values. The Council does not consider it appropriate to charge depreciation on these assets.

### **1.16 Public Private Partnership**

Public Private Partnership (PPP) contracts are agreements to receive services, where the responsibility for making available the assets needed to provide the services passes to the PPP operator. As the Council is deemed to control the services that are provided under its schools PPP 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 PPP 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 PPP assets are revalued and depreciated in the same way as other non current assets owned by the Council. The amounts payable to the PPP 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 Financing and Investment income and expenditure lines 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 lines 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, 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 income relating to the asset and is entitled to use of the asset. These funds do not represent assets available to the Council.

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

Provisions are made in accordance with the requirements of IAS37 (Provisions, Contingent Liabilities and Contingent Assets), 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 Accounts where they are deemed material.

## Notes to the Annual Accounts

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

The Council participates in the Carbon Reduction Commitment 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 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 non current assets not yet realised through sales and the latter relates to amounts set aside from capital resources to meet past expenditure.

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

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

## Notes to the Annual Accounts

### 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 yet 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. This applies to the adoption of the following new or amended standards within the 2018/19 Code:

- IFRS9 Financial Instruments: introduces changes to the classification and measurement of financial assets and a new Expected Credit Loss Model for impairing financial assets. The impact would be to reclassify assets that are currently classified as loans and receivables and available for sale to amortised costs and fair value through other comprehensive income respectively based on the contractual cashflows and business model for holding the assets.
- IFRS15 Revenue from Contracts with Customers: provides new requirements for the recognition of revenue based on a control based revenue recognition model. This is not anticipated to have a significant impact on the Council's 2018/19 Accounts.
- Amendments to IAS12 Income Taxes Recognition of Deferred Tax Assets for Unrealised Losses: this applies to deferred tax assets related to debt instruments measured at fair value.
- Amendments to IAS7 Statement of Cash Flows Disclosure Initiative: amendment to further disclose Cash Flows from Financing Activities which is not anticipated to have a significant impact on the Council's 2018/19 Accounts.

Implementation is from 1 April 2018 and therefore there is no impact on the 2017/18 Annual Accounts.

### Note 3 – Events after the Balance Sheet Date

The Council is required to disclose material matters that arise between the Balance Sheet date (31 March 2018) and the date when the Accounts are authorised for issue which took place at the Council meeting on 28 June 2018.

The Depute Chief Executive & Chief Financial Officer, being the responsible officer for the Council's affairs, signed the unaudited Annual Accounts on 28 June 2018. Subsequent events taking place after this date are not reflected in the Annual Accounts or notes.

### Note 4 – Critical Judgements in Applying Accounting Policies

The preparation of the Annual Accounts requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts. 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 and estimates and assumptions are reviewed on an ongoing basis.

## Notes to the Annual Accounts

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.
- The Integration Joint Board has not been charged with support costs, capital or pension costs.
- Specialist judgement was applied by the Head of Collections in respect of the remaining heritage asset collections which were not subject to professional valuation. Judgement was based on expertise, knowledge and experience of the items in the collections.

### *Note 5 – 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 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

- Property, Plant and Equipment assets are depreciated over useful lives that are dependent on the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate may require the Council to review current spending levels on asset repairs and maintenance bringing into doubt the useful lives assigned to assets. If the useful lives of assets reduce then depreciation increases and the carrying amount falls. It is estimated that the annual depreciation charge would increase and the carrying value would fall by £2.061m for each year that useful lives were reduced.
- 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 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 £92.576m. However, the assumptions interact in complex ways. During 2017/18, the Pension Fund's actuaries advised that the Council's share of the net pension liability has decreased by £142.430m.
- At 31 March 2018, the Council had an outstanding gross debtors balance of £16.193m. A review suggested that an allowance for doubtful debts of 35.5% (£5.326m) was appropriate. In terms of financial modelling a 1% increase in the allowance could lead to an additional cost of £0.150m.
- 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 PPP. 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 6 – Expenditure and Income Analysed by Segment and Nature

The Council's expenditure and income is analysed as follows for 2017/18.

2016/17		2017/18									
EAC		EAC									
Net Cost of Services	Expenditure and Income Analysed by Segment and Nature	Employee Expenses	Other Service Expenses	Adjustments for Capital Purposes	Net change for Pensions Adjustments	Other Differences	Expenditure	Fees, Charges and Other Service Income	Government Grants and Contributions	Income	Net Cost of Services
£m		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1.804	Economy and Skills Other Segments	1.574	0.253	-	0.220	-	2.047	(0.132)	-	(0.132)	1.915
103.302	Education	80.729	14.223	39.262	2.599	(0.081)	136.732	(2.068)	(6.861)	(8.929)	127.803
5.683	Planning and Economic Development	5.713	4.574	6.675	0.729	(0.029)	17.662	(3.561)	(0.042)	(3.603)	14.059
8.658	Finance and ICT	7.461	3.633	1.034	1.040	(0.009)	13.159	(2.770)	(0.738)	(3.508)	9.651
0.806	Safer Communities Other Segments	0.613	0.297	(0.001)	0.080	(0.010)	0.979	(0.188)	-	(0.188)	0.791
8.568	Transport (incl SPT)	0.964	8.938	(0.126)	0.123	-	9.899	(1.003)	(0.010)	(1.013)	8.886
1.913	Human Resources	1.982	0.211	0.004	0.269	-	2.466	(0.301)	-	(0.301)	2.165
18.171	Housing and Communities	12.289	15.708	2.131	1.410	(0.038)	31.500	(9.682)	(2.165)	(11.847)	19.653
12.842	Roads Alliance	8.199	13.096	6.196	0.997	(0.035)	28.453	(14.006)	(0.314)	(14.320)	14.133
26.841	Facilities and Property Management	13.055	22.358	(1.191)	1.385	(0.001)	35.606	(7.002)	(3.553)	(10.555)	25.051
8.107	Arms Length Organisations	-	5.391	3.144	-	-	8.535	(0.050)	(0.211)	(0.261)	8.274
(1.107)	Housing Revenue Account	12.541	32.002	3.525	1.580	(0.671)	48.977	(45.193)	-	(45.193)	3.784
0.557	Chief Executive Office (incl Internal Audit)	0.476	0.133	-	0.072	-	0.681	(0.023)	-	(0.023)	0.658
2.793	Governance	3.296	1.863	0.053	0.562	(0.005)	5.769	(2.212)	-	(2.212)	3.557
-	Projects	0.050	10.235	-	-	-	10.285	(14.756)	-	(14.756)	(4.471)
4.098	Central Services	2.410	46.522	(0.016)	(2.438)	0.618	47.096	(1.827)	(40.892)	(42.719)	4.377
0.891	Social Work: Provision of Services	40.576	61.785	0.672	4.831	(0.176)	107.688	(103.254)	(2.978)	(106.232)	1.456
74.760	Contribution to the IJB	-	76.776	-	-	-	76.776	-	-	-	76.776
-	Elimination of Internal Transactions	-	(10.578)	-	-	-	(10.578)	10.578	-	10.578	-
278.687	<b>Net Cost of Services</b>	<b>191.928</b>	<b>307.420</b>	<b>61.362</b>	<b>13.459</b>	<b>(0.437)</b>	<b>573.732</b>	<b>(197.450)</b>	<b>(57.764)</b>	<b>(255.214)</b>	<b>318.518</b>
(250.198)	Other Income and Expenditure										(255.320)
28.489	<b>(Surplus) or Deficit on the Provision of Services</b>										<b>63.198</b>

### Note 7 – External Audit Costs

Fees payable to Audit Scotland for services carried out under the Code of Practice in 2017/18 were £0.274m (2016/17 £0.273m).

### Note 8 – Agency Services

The Council bills and collects domestic water and sewerage charges on behalf of Scottish Water along with its own Council Tax. During 2017/18 the Council received £0.436m for providing this service (2016/17 £0.436m). The Council also acts as agent on behalf of the Scottish Government in respect of the collection of Non-Domestic Rates.

### Note 9 – Material Items of Income and Expenditure

During 2017/18 the Council disposed of assets and achieved capital receipts totalling £3.169m. The carrying value of these assets on the Balance Sheet was £3.341m.

## Notes to the Annual Accounts

### Note 10 – Grant Income

The Council credited the following grants, contributions and donations to the CIES in 2017/18.

2016/17		2017/18
£m	Credited to Taxation and Non Specific Grant Income	£m
193.640	Revenue Support Grant	190.949
30.239	Non-Domestic Rates	29.367
223.879		220.316
	<b>Capital Grants</b>	
8.315	General Capital Grant	9.093
1.415	Council House Building Programme	1.996
1.300	Ingram Business Centre	1.204
0.391	SPT Transport Grant	0.339
0.134	Specific Capital Grant - Cycling, Walking, Safer Streets	0.167
-	Timber Transport	0.213
0.059	Sustrans	0.025
0.058	Rankinston Community Centre	-
0.009	Historic Scotland	0.003
-	Zero Waste Fund	0.148
-	Moorfield Business Park - Scottish Enterprise	0.629
-	Whattriggs School	0.695
-	Riccarton Early Childhood Centre	0.214
-	Electric Vehicle Procurement Support Scheme - Transport Scotland	0.016
11.681		14.742
<b>235.560</b>	<b>Total</b>	<b>235.058</b>
£m	Credited to Services / IJB	£m
42.751	DWP Housing Benefits	40.747
1.295	Scottish Attainment Challenge	5.821
0.577	Heritage Lottery Fund - Dean Castle	3.651
2.172	Criminal Justice Grant	2.385
0.065	Waste and Resources Action Programme (WRAP) Grant	2.146
-	Environmental Risk Management Fund (Open Cast Sites)	1.921
1.658	Integrated Care Fund	1.846
2.356	Home Energy Efficiency Programmes Scotland (HEEPS) Grants	1.713
-	Skares Flood Risk Reduction	1.362
0.635	European Social Fund Grants	0.882
1.026	Private Sector Housing Grant	0.809
0.830	DWP Benefits Administration Grants	0.738
0.670	Alcohol and Drug Partnership Funding	0.645
-	Scottish Government - Early Learning & Childcare	0.415
0.461	Education Maintenance Allowance	0.394
0.248	Conservation Area Regeneration Scheme - Historic Scotland Contribution	0.377
0.339	Sportscotland - Active Schools Grant	0.339
0.357	Skills Development Scotland Skillseeker Grant	0.285
0.167	Youth Music Initiative	0.170
0.165	East Ayrshire Woodlands - Forestry Commission Grant	0.164
0.144	Specific Grant - Gaelic	0.144
0.115	Big Lottery Funding	0.143
0.122	Opportunities For All	0.114
-	Scottish Futures Trust - Early Years	0.075
0.351	Various Minor Education Services Grants & Contributions	0.530
0.044	Various Minor Economy & Skills Services Grants & Contributions	0.243
0.174	Various Minor Social Work Grants & Contributions	0.165
0.697	Various Minor Safer Communities Services Grants & Contributions	0.544
<b>57.419</b>	<b>Total</b>	<b>68.768</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 PPP Note 16 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 2018/19	4.591	1.679	3.897	10.167
Payable within two to five years	20.190	7.148	15.435	42.773
Payable within six to ten years	27.379	11.696	19.203	58.278
Payable within eleven to fifteen years	30.346	15.088	19.379	64.813
Payable within sixteen to twenty years	28.814	21.483	20.157	70.454
Payable within twenty one to twenty five years	1.465	0.974	0.778	3.217
<b>Total</b>	<b>112.785</b>	<b>58.068</b>	<b>78.849</b>	<b>249.702</b>

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

2016/17 £m		2017/18 £m
61.360	Balance outstanding at start of year	59.552
(1.808)	Payments during the year	(1.484)
<b>59.552</b>	<b>Balance outstanding at year-end</b>	<b>58.068</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 2017 £m		31 March 2018 £m
0.391	Not later than one year	0.309
0.975	Later than one year and not later than five years	0.802
0.397	Later than five years	0.155
<b>1.763</b>		<b>1.266</b>

The expenditure charged to the Net Cost of Services in the CIES during the year in relation to these leases was £0.405m (£0.913m in 2016/17).

*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 2017		31 March 2018
£m		£m
0.672	Not later than one year	0.661
1.974	Later than one year and not later than five years	1.886
5.181	Later than five years	5.341
<b>7.827</b>		<b>7.888</b>

The income credited to the Net Cost of Services in the CIES during the year in relation to these leases was £0.716m (£0.672m in 2016/17).

### 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 scheme, meaning that employees and the Council pay contributions calculated at a level intended to balance the pensions liabilities with investment assets. The Scheme provides pension benefits for councillors and local government employees (excluding teachers). For local government employees this is a defined benefit scheme calculated on a career average basis which means that pensions benefits are earned on pensionable pay earned in the scheme year. 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.

2016/17	Local Government Pension Scheme	2017/18
£m	Comprehensive Income and Expenditure Statement (CIES)	£m
	Cost of Services:	
21.806	Current service costs	31.968
0.342	Past service costs (including curtailments)	0.298
	Financing and Investing Income and Expenditure:	
5.860	Net Interest Expense	6.467
<b>28.008</b>	<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	<b>38.733</b>
	Other Post Employment Benefit Charged to the CIES:	
	Re-measurement of the net defined benefit liability comprising:	
(129.951)	Return on pension fund assets	(25.096)
-	Actuarial (gains) or losses arising on changes on demographic assumptions	(1.551)
213.397	Actuarial (gains) or losses arising on changes on financial assumptions	(66.869)
1.285	Actuarial (gains) or losses arising from other experience	(68.840)
84.731		(162.356)
<b>112.739</b>	<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>(123.623)</b>
	Movement in Reserves Statement (MIRS)	
(94.493)	Reversal of net charges made to the Surplus/Deficit for the Provision of Services for post employment benefits in line with the Code	142.430
<b>18.246</b>	<b>Employers' contributions payable to Strathclyde Pension Fund</b>	<b>18.807</b>

# Notes to the Annual Accounts

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

2016/17		2017/18
£m		£m
(825.459)	Opening balance at 1 April	(1,070.769)
(21.806)	Current Service Cost	(31.968)
(28.921)	Interest Cost	(27.547)
(4.787)	Contributions from scheme Participants	(5.014)
	Re-measurement gains and (losses)	
-	Actuarial gains / (Losses) from changes in demographic assumptions	1.551
(213.397)	Actuarial gains / (Losses) from changes in financial assumptions	66.869
(1.285)	Actuarial gains / (Losses) from other experience	68.840
(0.342)	Past service cost	(0.298)
25.228	Benefits Paid	23.891
<b>(1,070.769)</b>	<b>Closing balance at 31 March</b>	<b>(974.445)</b>

## Pension Assets and Liabilities on the Balance Sheet

2016/17		2017/18
£m		£m
(1,070.769)	Present Value of The Defined Benefit Obligation *	(974.445)
810.786	Fair Value of Pension Fund Assets	856.892
<b>(259.983)</b>	<b>Net Liability arising from Defined Benefit Obligation</b>	<b>(117.553)</b>
*Unfunded Liabilities included in the figure for present value of liabilities		
(21.907)	- Unfunded liabilities for Pension Fund	(21.610)
(26.255)	- Teachers unfunded pensions	(25.841)
(8.964)	- Unfunded liabilities prior to 1996 local government reorganisation	(8.401)

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

2016/17		2017/18
£m		£m
<b>659.969</b>	<b>Opening Fair Value of Pension Fund Assets</b>	<b>810.786</b>
23.061	Interest Income	21.080
-	Re-measurement gains and (losses)	-
129.951	Return on pension fund assets	25.096
18.246	Contributions from employers	18.807
4.787	Contributions from employees into the scheme	5.014
(25.228)	Benefits Paid (including settlements)	(23.891)
<b>810.786</b>	<b>Closing balance at 31 March</b>	<b>856.892</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	2017/18				2016/17			
	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	197.667	0.520	198.187	23%	297.529	0.154	297.683	37%
Debt Securities	26.886	0.001	26.887	3%	-	0.007	0.007	0%
Private Equity	-	102.395	102.395	12%	-	66.848	66.848	8%
Real Estate	-	77.583	77.583	9%	-	97.795	97.795	12%
Investment Funds and Unit Trusts	281.270	83.927	365.199	43%	9.413	308.326	317.739	39%
Derivatives	0.018	-	0.018	0%	0.068	0.108	0.176	0%
Cash & Cash Equivalents	44.112	42.513	86.625	10%	29.191	1.347	30.538	4%
<b>Closing balance at 31 March</b>	<b>549.953</b>	<b>306.939</b>	<b>856.894</b>	<b>100%</b>	<b>336.201</b>	<b>474.585</b>	<b>810.786</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 2018.

	Local Government Pension Scheme	
	2017/18	2016/17
Long-term expected rate of return on assets in the scheme:		
Equity investments	2.7%	2.6%
Bonds	2.7%	2.6%
Property	2.7%	2.6%
Cash	2.7%	2.6%
Mortality assumptions (years):		
Longevity at 65 for current pensioners:	Men 21.4	22.1
	Women 23.7	23.6
Longevity at 65 for future pensioners:	Men 23.4	24.8
	Women 25.8	26.2
Rate of inflation	3.4%	3.4%
Rate of increase in salaries	3.6%	4.4%
Rate of increase in pensions	2.4%	2.4%
Rate for discounting scheme liabilities	2.7%	2.6%
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 2018*

	Approximate % increase in Employer Liability	Approximate monetary amount £m
0.5% decrease in Real Discount Rate	10%	£92,576
1 Year increase in Member Life Expectancy	3-5%	Not Quantified
0.5% increase in the Salary Increase Rate	2%	£18,443
0.5% increase in the Pension Increase Rate	7%	£72,384

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. Employers' contributions were set at 19.3% for 2017/18. The triennial valuation took place at 31 March 2017. 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 2019 is £16.026m. The assumed weighted average duration of the defined benefit obligation is 18.5 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 2017/18 amounted to £7.852m, (17.2% of pensionable pay), (2016/17 £7.587m, 17.4% of pensionable pay). In addition, contributions totaling £0.714m, 1.56% of pensionable pay, were made in respect of discretionary payments (2016/17 £0.743m, 1.89% 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.

	2017/18 £m	2016/17 £m
<b>Opening Capital Financing Requirement</b>	<b>387.074</b>	<b>376.193</b>
<i>Capital investment</i>		
Property, Plant and Equipment	61.314	54.961
Intangible Assets	0.081	0.009
Revenue Expenditure Funded from Capital under Statute	6.307	1.318
<i>Sources of finance</i>		
Capital receipts	(2.182)	(4.242)
Government grants and other contributions	(21.049)	(12.999)
Sums set aside from revenue:		
Direct revenue contributions	(12.333)	(11.613)
Repayment of PPP/Finance Lease Capital Debt	(1.484)	(1.808)
Loans Fund Principal	(11.567)	(14.745)
<b>Closing Capital Financing Requirement</b>	<b>406.161</b>	<b>387.074</b>
<b>Explanation of movements in year</b>		
Increase/(Decrease) in underlying need to borrow (unsupported by government financial assistance)	19.300	10.881
<b>Increase/(Decrease) in Capital Financing Requirement</b>	<b>19.300</b>	<b>10.881</b>

# Notes to the Annual Accounts

## Note 16 – PPP Assets Included in Property, Plant and Equipment

2016/17 £m		2017/18 £m
75.595	<b>Cost or Valuation at 1 April</b>	75.601
0.006	Expenditure	0.000
-	Revaluations To Revaluation Reserve	8.378
-	Revaluations To Net Cost of Services	-
75.601	<b>Cost or Valuation at 31 March</b>	83.979
(4.473)	<b>Depreciation and Impairment at 1 April</b>	(6.710)
(2.237)	Depreciation charge	(2.290)
-	Depreciation Written Out To Revaluation Reserve	3.135
(6.710)	<b>Depreciation or Impairment at 31 March</b>	(5.865)
71.122	<b>Opening Net Book Value</b>	68.891
68.891	<b>Closing Net Book Value</b>	78.114

## Note 17 – Impairment Losses

During 2017/18, the Council recognised an impairment loss of £45.791m as a result of the revaluation of Property, Plant and Equipment. 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 18 – Fair Value Hierarchy

East Ayrshire Council measures its surplus assets and held for sale assets at fair value. Fair Value is the price that would be received to sell an asset in an orderly transaction between market participants. The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Inputs to the valuation 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, as follows:

- Level 1 - quoted prices (unadjusted) 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 or liability, either directly or indirectly;
- Level 3 - unobservable inputs for the asset.

Level 2 - Significant observable inputs - The Fair Value for assets has been based on the market value approach using current market conditions and recent sales prices and other relevant information for similar assets within East Ayrshire. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the Fair Value hierarchy.

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 2018 were as follows:

2016/17 £m		2017/18 £m
5.656	<b>Opening Net Book Value</b>	5.242
-	- Newly categorised as Level 2	-
0.080	Additions	0.561
	Revaluations:	
-	- To Revaluation Reserve	(0.572)
(0.095)	To Net Cost of Services	(0.921)
(0.265)	Disposals	(0.014)
(0.042)	Assets Reclassified	1.503
(0.092)	Depreciation charge	(0.090)
5.242	<b>Closing Net Book Value</b>	5.709

# Notes to the Annual Accounts

## Note 19 – Property, Plant and Equipment (PPE)

2017/18					NON-OPERATIONAL ASSETS		2017/18 Total
OPERATIONAL ASSETS					Community Assets - Surplus Assets Not Held for Sale	Assets Under Construction	
	Council Dwellings	Other Land and Buildings	Vehicles, Plant & Equipment	Infrastructure Assets			
Cost or Valuation:	£m	£m	£m	£m	£m	£m	£m
<b>At 1 April 2017</b>	<b>465.268</b>	<b>436.283</b>	<b>39.368</b>	<b>112.675</b>	<b>4.942</b>	<b>19.477</b>	<b>1,078.013</b>
Expenditure	15.539	18.735	4.559	5.102	0.561	16.818	61.314
Revaluations (Effective 1 April):							
To Revaluation Reserve	(0.170)	14.011	-	-	(0.809)	-	13.032
To Net Cost of Services	(2.600)	(42.270)	-	-	(0.772)	-	(45.642)
Disposals	(3.377)	(0.397)	(0.802)	-	-	-	(4.576)
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-	-
Other movements	-	19.080	-	(0.008)	1.672	(20.744)	-
<b>At 31 March 2018</b>	<b>474.660</b>	<b>445.442</b>	<b>43.125</b>	<b>117.769</b>	<b>5.594</b>	<b>15.551</b>	<b>1,102.141</b>
<b>Depreciation and Impairment:</b>							
<b>At 1 April 2017</b>	<b>(70.222)</b>	<b>(41.543)</b>	<b>(28.165)</b>	<b>(54.418)</b>	<b>(0.199)</b>	<b>-</b>	<b>(194.547)</b>
Depreciation charge	(19.252)	(12.393)	(4.316)	(5.951)	(0.090)	-	(42.002)
Depreciation written out							
To Revaluation Reserve	0.170	19.226	-	-	0.237	-	19.633
Disposals	0.529	-	0.720	-	-	-	1.249
Reclassifications	-	-	-	-	(0.169)	-	(0.169)
Other movements	-	0.167	-	0.001	-	-	0.168
<b>At 31 March 2018</b>	<b>(88.775)</b>	<b>(34.543)</b>	<b>(31.761)</b>	<b>(60.368)</b>	<b>(0.221)</b>	<b>-</b>	<b>(215.668)</b>
<b>Net Book Value at 31 March 2017</b>	<b>395.046</b>	<b>394.740</b>	<b>11.203</b>	<b>58.257</b>	<b>4.743</b>	<b>19.477</b>	<b>883.466</b>
<b>Net Book Value at 31 March 2018</b>	<b>385.885</b>	<b>410.899</b>	<b>11.364</b>	<b>57.401</b>	<b>5.373</b>	<b>15.551</b>	<b>886.473</b>
2016/17					NON-OPERATIONAL ASSETS		2016/17 Total
OPERATIONAL ASSETS					Community Assets - Surplus Assets Not Held for Sale	Assets Under Construction	
	Council Dwellings	Other Land and Buildings	Vehicles, Plant & Equipment	Infrastructure Assets			
Cost or Valuation:	£m	£m	£m	£m	£m	£m	£m
<b>At 1 April 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>
Expenditure	16.780	10.483	4.308	6.162	0.080	17.147	54.960
Revaluations (Effective 1 April):							
To Revaluation Reserve	-	(5.953)	-	-	-	-	(5.953)
To Net Cost of Services	-	(10.018)	-	-	-	-	(10.018)
Disposals	(7.894)	(0.744)	(0.419)	-	(0.267)	-	(9.324)
Assets reclassified (to)/from Held for Sale	-	0.042	-	-	-	-	0.042
Other movements	4.190	1.335	-	-	-	(5.525)	-
<b>At 31 March 2017</b>	<b>465.268</b>	<b>436.283</b>	<b>39.368</b>	<b>112.675</b>	<b>4.942</b>	<b>19.477</b>	<b>1,078.013</b>
<b>Depreciation and Impairment:</b>							
<b>At 1 April 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>
Depreciation charge	(18.761)	(13.493)	(4.597)	(5.599)	(0.092)	-	(42.542)
Depreciation written out							
To Revaluation Reserve	-	2.885	-	-	-	-	2.885
Disposals	0.935	0.019	0.346	-	0.002	-	1.302
Reclassifications	-	-	-	-	-	-	-
<b>At 31 March 2017</b>	<b>(70.222)</b>	<b>(41.543)</b>	<b>(28.165)</b>	<b>(54.418)</b>	<b>(0.199)</b>	<b>-</b>	<b>(194.547)</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>
<b>Net Book Value at 31 March 2017</b>	<b>395.046</b>	<b>394.740</b>	<b>11.203</b>	<b>58.257</b>	<b>4.743</b>	<b>19.477</b>	<b>883.466</b>

## Notes to the Annual Accounts

### Note 20 – 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 2018 £m	31 March 2017 £m	
Document Classification	0.006	0.012	1 year
Case Management System	0.003	0.006	1 year
Grants System	0.003	0.005	1 year
Business Intelligence Software	0.002	0.005	1 year
Energywise Software	0.005	0.007	3 years
Northgate Software	0.065	-	4 years
	<b>0.084</b>	<b>0.035</b>	

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

	2017/18 £m	2016/17 £m
<b>Balance at start of year:</b>		
Gross carrying amounts	0.566	0.557
Accumulated amortisation	(0.531)	(0.514)
<b>Net carrying amount at start of year</b>	<b>0.035</b>	<b>0.043</b>
Purchases	0.081	0.009
Amortisation for the period	(0.032)	(0.017)
<b>Net carrying amount at end of year</b>	<b>0.084</b>	<b>0.035</b>
<b>Comprising:</b>		
Gross carrying amounts	0.647	0.566
Accumulated amortisation	0.563	0.531

#### Current Intangible 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 2017 £m		31 March 2018 £m
0.905	Balance outstanding at start of year	0.603
(0.302)	Recognised as expense in the year	(0.284)
<b>0.603</b>	<b>Balance outstanding at year-end</b>	<b>0.319</b>

### Note 21 – Capital Commitments

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

Scheme	Commitment £m
Affordable Housing - Brown Street Newmilns	3.278
Western Road Depot	1.767
Moorfield Business Park	0.916
Affordable Housing - Barbieston Road Dalrymple	0.733
Affordable Housing - Girvan Crescent Newmilns	0.117
Barony Campus	0.076
Riccarton ECC	0.068
Annanhill Golf Course	0.060
<b>Total</b>	<b>7.015</b>

# Notes to the Annual Accounts

## Note 22 – Assets Held for Sale

2016/17	2017/18
£m	£m
<b>0.636</b> Current Assets	
Balance outstanding at start of year	0.499
- Assets newly classified as held for sale	-
Revaluation Losses:	
- To Revaluation Reserve	-
(0.095) To Net Cost of Services	(0.149)
(0.042) Assets declassified as held for sale	-
- Assets sold	(0.014)
<b>0.499</b> Balance outstanding at year-end	<b>0.336</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, 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 main collections have been reported on the Balance Sheet at their insurance valuation with the other minor collections based on valuation judgement of the curator of the collection.

2016/17	2017/18
£m	£m
<b>60.729</b> Cost or Valuation at 1 April	<b>65.256</b>
4.527 Revaluations during the year	-
<b>65.256</b> Cost or Valuation at 31 March	<b>65.256</b>
 60.729 Opening Net Book Value	 65.256
<b>65.256</b> Closing Net Book Value	<b>65.256</b>

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.

## Note 24 – Inventories

2016/17			2017/18		
Consumable	Maintenance	Total	Consumable	Maintenance	Total
Stores	Materials		Stores	Materials	
£m	£m	£m	£m	£m	£m
0.647	0.811	1.458	2.392	0.820	3.212
3.097	2.218	5.315	1.414	4.840	6.254
(1.352)	(2.209)	(3.561)	(3.215)	(4.733)	(7.948)
<b>2.392</b>	<b>0.820</b>	<b>3.212</b>	<b>0.591</b>	<b>0.927</b>	<b>1.518</b>

## Notes to the Annual Accounts

### Note 25 – Debtors

31 March 2017		31 March 2018
£m		£m
8.403	Central Government bodies	10.139
4.898	Other Local Authorities	4.420
0.662	NHS bodies	5.173
12.498	Other entities and individuals	13.461
<b>26.461</b>	<b>Total</b>	<b>33.193</b>

### Note 26 – Creditors

31 March 2017		31 March 2018
£m		£m
(6.410)	Central government bodies	(6.098)
(1.529)	Other local authorities	(2.381)
(0.166)	NHS bodies	(0.166)
(0.519)	Public corporations and trading funds	(0.190)
(49.648)	Other entities and individuals	(46.215)
<b>(58.272)</b>	<b>Total</b>	<b>(55.050)</b>

### Note 27 – Cash and Cash Equivalents

31 March 2017		31 March 2018
£m		£m
0.153	Cash held by the Council	0.154
(1.552)	Bank current accounts	(2.535)
11.376	Short-term deposits	28.247
<b>9.977</b>	<b>Total Cash and Cash Equivalents</b>	<b>25.866</b>

### Note 28 – Provisions

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 £7.178m has been made and transferred to the Accumulated Absences Account.

A provision of £0.137m has been made in respect of holidays accrued by teachers while on maternity leave. In addition £0.012m is currently held for the costs of backdated holiday pay overtime following the recent legal judgement and £0.020m for potential costs related to Social Work.

A provision of £0.097m exists in respect of a potential PAYE tax liability arising from the 'Lets Connect' technology salary sacrifice scheme arising as a result of the HMRC view regarding the residual value and disposal arrangements at the conclusion of the arrangement.

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.

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 these provisions on the grounds that it can be expected to prejudice seriously the outcome of the proceedings.

### Note 29 – Contingent Assets and Liabilities

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 their relationship with the European Regional Development Fund. At 31 March 2018 the Council's involvement stands at £1.633m and in the event of the Fund being wound up, a contingent liability of £0.024m 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.

## Notes to the Annual Accounts

Whilst appropriate provision has been made for the settlement of all known claims in respect of Equal Pay the Council recognises the potential for additional compensation claims. 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 Council remains liable for a share of potential liabilities arising from claims lodged against Strathclyde Regional Council (SRC) on a geographical basis and of other expenditure above a specified level on an agreed basis. These potential liabilities include shared liability in connection with Municipal Mutual Insurance (MMI) Limited, one of the insurers of the former SRC and the former Kilmarnock and Loudoun and Cumnock and Doon Valley District Councils. Following the Supreme Court ruling on Employers' Liability Insurance "Trigger" Litigation on 28 March 2012 the Council has a provision to meet a clawback of estimated payments made by MMI Limited in respect of known claims and also recognises a contingent liability for claims that may be incurred but have yet to be reported.

### Note 30 – Financial Instruments

#### Categories of Financial Instruments

31 March 2017			31 March 2018	
Long-term £m	Current £m		Long-term £m	Current £m
		<b>Investments</b>		
0.018	23.735	Loans and receivables	0.016	7.504
-	38.636	Available for Sale Financial Assets	-	5.004
<b>0.018</b>	<b>62.371</b>	<b>Total Investments</b>	<b>0.016</b>	<b>12.508</b>
		<b>Debtors</b>		
-	37.991	Loans and receivables	-	61.594
<b>-</b>	<b>37.991</b>	<b>Total Debtors</b>	<b>-</b>	<b>61.594</b>
		<b>Borrowings</b>		
(310.876)	(18.778)	Financial liabilities at amortised cost	(302.139)	(17.486)
<b>(310.876)</b>	<b>(18.778)</b>	<b>Total Borrowings</b>	<b>(302.139)</b>	<b>(17.486)</b>
		<b>Other Long Term Liabilities</b>		
(58.068)	(1.484)	PPP and finance lease liabilities	(56.389)	(1.678)
<b>(58.068)</b>	<b>(1.484)</b>	<b>Total Other Long Term Liabilities</b>	<b>(56.389)</b>	<b>(1.678)</b>
		<b>Creditors</b>		
-	(44.709)	Financial liabilities carried at contract amount	-	(42.625)
<b>-</b>	<b>(44.709)</b>	<b>Total Creditors</b>	<b>-</b>	<b>(42.625)</b>

#### Income, Expense, Gains and Losses

2016/17	Financial	Financial	Financial	Assets and	2017/18
Total	Liabilities	Assets:	Assets:	Liabilities at	Total
	measured at	Loans and	Available for	Fair Value	
	amortised	receivables	sale	through CIES	
£m	cost	£m	£m	£m	£m
	£m				
19.873 Interest expense	19.283	-	-	-	19.283
<b>19.873 Total expense in Surplus or Deficit on the Provision of Services</b>	<b>19.283</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19.283</b>
(0.841) Interest Income	-	(0.456)	-	-	(0.456)
<b>(0.841) Total income in Surplus or Deficit on the Provision of Services</b>	<b>-</b>	<b>(0.456)</b>	<b>-</b>	<b>-</b>	<b>(0.456)</b>
(0.009) Gains on revaluation	-	-	0.003	-	0.003
<b>(0.009) Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure</b>	<b>-</b>	<b>-</b>	<b>0.003</b>	<b>-</b>	<b>0.003</b>
<b>19.023 Net (gain) / loss for the year</b>	<b>19.283</b>	<b>(0.456)</b>	<b>0.003</b>	<b>-</b>	<b>18.830</b>

## Notes to the Annual Accounts

### *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 2018:

- Estimated ranges of interest rates of 0.55% - 1.65% for loans from PWLB and 1.37% - 1.65% 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 2017/18, 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 2017			31 March 2018		
Carrying			Carrying		
Amount	Fair Value		Amount	Fair Value	
£m	£m		£m	£m	
(254.518)	(378.865)	PWLB Debt	(246.081)	(361.113)	
(73.584)	(129.342)	Non-PWLB Debt	(71.010)	(128.278)	
(46.261)	(46.261)	Short Term Creditors	(45.159)	(39.089)	
(1.484)	(1.484)	Short Term Finance Lease Liability	(1.678)	(1.678)	
(58.068)	(74.430)	Long Term Finance Lease Liability	(56.389)	(76.727)	
<b>(433.915)</b>	<b>(630.382)</b>		<b>(420.317)</b>	<b>(606.885)</b>	

31 March 2017			31 March 2018		
Carrying			Carrying		
Amount	Fair Value		Amount	Fair Value	
£m	£m		£m	£m	
0.018	0.018	Loans and receivables	0.016	0.016	
<b>0.018</b>	<b>0.018</b>		<b>0.016</b>	<b>0.016</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 2018) arising from a commitment to pay interest to lenders above current market rates. The fair value of PWLB loans 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 the authority will pay over the remaining terms of the loan under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates.

However, the Council 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 Council 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 £246.081m would be valued at £361.113m. But, if the Council 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 £361.113m.

## Notes to the Annual Accounts

### *Note 31 – 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.

Overall risk management focuses on the unpredictability of markets and seeks to minimise potential adverse effects on resources. Risk management is undertaken by a treasury team in line with the annual Treasury Management Strategy. The Council provides written principles for overall risk as well as policies covering areas such as interest rate risk, credit risk and investment of surplus cash. Professional advice on all aspects of Treasury Management is provided by Link 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 – Borrowing and Investment Strategy Statement approved by cabinet on 22 March 2017.

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 2017/18 the minimum criteria for new investments has been a long term rating of BBB+/BBB1/BBB+ (Fitch/Moody's/S&P). The following table summarises the nominal value of the Council's investment portfolio at 31 March 2018 and confirms that all investments were made in line with the Council's approved credit rating criteria:

Counterparty	Credit Rating	Credit Rating	Balance Invested at 31 March 2018					Total
	Criteria met when	Criteria met on	Up to 1	Between	Between	Between	Between	
	investment placed	31 March 2018	Month	1 and 3	3 and 6	6 and 9	9 and 12	
	YES/NO	YES/NO	£m	£m	£m	£m	£m	£m
UK Banks	YES	YES	13.808	-	7.504	-	-	21.312
Local Authorities	YES	YES	-	5.003	-	-	-	5.003
Money Market Funds	YES	YES	9.435	-	-	-	-	9.435
Non UK Banks	YES	YES	-	5.005	-	-	-	5.005
<b>Total</b>			<b>23.243</b>	<b>10.008</b>	<b>7.504</b>	<b>-</b>	<b>-</b>	<b>40.755</b>

#### *Trade Receivables*

At 31 March 2018 the Council's potential maximum exposure credit risk based on the level of default trade debtors is a gross debtor of £16.173m with a bad debt provision of £5.326m. The amount 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. Analysis of the Gross Debtor amount by age is:

## Notes to the Annual Accounts

31 March 2017 £m		31 March 2018 £m
5.906	Less than three months	10.044
0.378	Between three and six months	0.484
0.660	Between six months and one year	0.666
5.252	More than one year	4.979
<b>12.196</b>		<b>16.173</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 set a balanced budget to ensure 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 2017 £m		31 March 2018 £m
64.971	Less than one year	61.789
10.415	Between one and two years	10.430
30.275	Between two and five years	27.947
328.254	More than five years	320.152
<b>433.915</b>		<b>420.318</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 2018 8% 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 2018, if interest rates had been 1% higher with all other variables held constant, the financial effect is shown below. A 1% fall in rates would be the same but in reverse.

	£m
Increase in interest receivable on variable rate investments	0.629
<b>Impact on Surplus or Deficit on the Provision of Services</b>	<b>0.629</b>
<b>Share of overall impact debited to the HRA</b>	<b>0.145</b>
Decrease in fair value of fixed rate investment assets	0.003
<b>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)</b>	<b>70.287</b>

## Notes to the Annual Accounts

### Note 32 – 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 32.

#### 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 of 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 2018. 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 2017/18		As at 31 March 2018	
	Charges to £m	Charges from £m	Due from £m	Due to £m
East Ayrshire Leisure Trust	0.990	6.016	0.697	0.714

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 2017/18		As at 31 March 2018	
	Charges to £m	Charges from £m	Due from £m	Due to £m
Integrated Joint Board	76.776	76.776	-	0.788

## Notes to the Annual Accounts

### 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 2018 are shown in the following table:

2016/17		Unusable Reserves		Unusable Statutory Adj Accounts				2017/18
Total Unusable Reserves		Revaluation Reserve	Available for Sale Financial Instruments Reserve	Capital Adjustment Account	Pensions Reserve	Financial Instruments Adjustment Account	Accumulated Absences Account	Total Unusable Reserves
£m		£m	£m	£m	£m	£m	£m	£m
391.460	Balance at 31 March 2017	337.198	0.003	224.920	(259.983)	(12.948)	(7.615)	281.575
(83.261)	Other Comprehensive Income and Expenditure	32.664	(0.003)	-	162.356	-	-	195.017
(83.261)	<b>Total Comprehensive Income and Expenditure</b>	<b>32.664</b>	<b>(0.003)</b>	<b>-</b>	<b>162.356</b>	<b>-</b>	<b>-</b>	<b>195.017</b>
	<b>Adjustments between Accounting Basis and Funding Basis Under Statute</b>							
(22.148)	Current and Past Service Pension Costs in Cost of Services	-	-	-	(32.266)	-	-	(32.266)
(28.921)	Pension Interest Cost	-	-	-	(27.547)	-	-	(27.547)
23.061	Expected Return on Pension Assets	-	-	-	21.080	-	-	21.080
18.246	Employers Contributions to Pensions Fund	-	-	-	18.807	-	-	18.807
(9.762)	<b>Adjustments Relating to Pensions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(19.926)</b>	<b>-</b>	<b>-</b>	<b>(19.926)</b>
(42.542)	Depreciation of Non Current Assets	(13.967)	-	(28.035)	-	-	-	(42.002)
(10.115)	Impairment of Non Current Assets	-	-	(45.791)	-	-	-	(45.791)
(0.017)	Amortisation of Intangible Assets	-	-	(0.032)	-	-	-	(0.032)
11.616	Capital Grants and Contributions Applied	-	-	14.742	-	-	-	14.742
-	Capital Grants and Contributions Unapplied	-	-	0.007	-	-	-	0.007
16.553	Repayment of Debt	-	-	13.051	-	-	-	13.051
11.613	Capital Expenditure Funded in Year	-	-	12.333	-	-	-	12.333
4.242	Use of HRA Capital Fund to Finance New Capital Expenditure	-	-	2.182	-	-	-	2.182
(8.023)	Net Gain/ Loss on Disposal of Non Current Assets	-	-	(3.342)	-	-	-	(3.342)
(16.673)	<b>Adjustments Relating to Capital</b>	<b>(13.967)</b>	<b>-</b>	<b>(34.885)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(48.852)</b>
(0.585)	Differences relating to Officer Remuneration required by statute	-	-	-	-	-	0.437	0.437
0.394	Differences relating to Financial Instruments required by statute	-	-	-	-	0.455	-	0.455
(0.191)	<b>Adjustments for Other Items</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.455</b>	<b>0.437</b>	<b>0.892</b>
(109.887)	<b>Increase/ (Decrease) before Transfers</b>	<b>18.697</b>	<b>(0.003)</b>	<b>(34.885)</b>	<b>142.430</b>	<b>0.455</b>	<b>0.437</b>	<b>127.131</b>
281.573	<b>Balance at 31 March 2018</b>	<b>355.895</b>	<b>-</b>	<b>190.035</b>	<b>(117.553)</b>	<b>(12.493)</b>	<b>(7.178)</b>	<b>408.706</b>

*Note: In the Council's 2016/17 Annual Accounts a number of the balances in this Note were shown net. The table above reflects the gross amounts.*

## Notes to the Annual Accounts

### Note 34 – Ayrshire Roads Alliance

The Ayrshire Roads Alliance was established on 1 April 2014 as a shared service partnership between East Ayrshire Council and South Ayrshire Council. The Alliance provides a shared roads service for both councils and is accounted for on a purchaser / provider arrangement with East Ayrshire Council employing all staff and managing the operational service. The budget for the Alliance is split between strategic and local delivery elements with both councils allocating their respective share. At the end of the year the expenditure on strategic delivery budgets is shared in line with local delivery budget inputs plus actual capital expenditure in-year after allocating a group of strategic staff equally.

Local delivery budgets are used to meet local and consolidated road maintenance plans and the funding allocation from each council varies. Any surplus or deficit at the year end on local delivery is retained by the relevant council. At the end of 2017/18 the financial results for the Alliance are as follows:

	Annual Estimate 2017/18 £m	Actual to 31/3/18 £m	Variance £m
<b>Council</b>			
East Ayrshire Council	6.939	6.975	0.036
South Ayrshire Council	7.383	7.917	0.534
<b>Total</b>	<b>14.322</b>	<b>14.892</b>	<b>0.570</b>

	Annual Estimate 2017/18 £m	Actual to 31/3/18 £m	Variance £m
<b>Detail</b>			
Employee Costs	8.318	8.199	(0.119)
Premises Costs	0.607	0.587	(0.020)
Transport Costs	1.639	1.746	0.107
Supplies and Services	5.475	6.143	0.668
Third Party Payments	2.951	4.166	1.215
Debt Charges	0.438	0.463	0.025
<b>Total Expenditure</b>	<b>19.428</b>	<b>21.304</b>	<b>1.876</b>
Income	(5.106)	(6.412)	(1.306)
<b>Net Expenditure</b>	<b>14.322</b>	<b>14.892</b>	<b>0.570</b>

	Annual Estimate 2017/18 £m	Actual to 31/3/18 £m	Variance £m	Amount Charged to South Ayrshire Council at Year End
<b>Strategic Delivery</b>				
East Ayrshire Council	1.973	1.688	(0.285)	n/a
South Ayrshire Council	2.191	2.310	0.119	0.119
<b>Total</b>	<b>4.164</b>	<b>3.998</b>	<b>(0.166)</b>	<b>0.119</b>

	Annual Estimate 2017/18 £m	Actual to 31/3/18 £m	Variance £m	Amount Charged to South Ayrshire Council at Year End
<b>Local Delivery</b>				
East Ayrshire Council	4.966	5.287	0.321	n/a
South Ayrshire Council	5.192	5.607	0.415	0.415
<b>Total</b>	<b>10.158</b>	<b>10.894</b>	<b>0.736</b>	<b>0.415</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 2018. 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:

	Strathclyde Partnership for Transport	Strathclyde Concessionary Travel Scheme Joint Committee	Ayrshire Valuation Joint Board	East Ayrshire Leisure Trust	Integrated Joint Board	Total Associates
	£m	£m	£m	£m	£m	£m
Surplus/(Deficit) on Operating Activities	4.762	(0.007)	(0.096)	(0.285)	0.091	4.465
<b>Balance Sheet extract</b>						
Non Current Assets	11.064	-	0.377	0.253	-	11.694
Current Assets	9.163	0.141	0.174	1.018	0.394	10.890
Non Current Liabilities	(1.997)	-	-	-	-	(1.997)
Current Liabilities	(1.087)	(0.052)	(0.038)	(0.750)	-	(1.927)
<b>Net Assets</b>	<b>17.143</b>	<b>0.089</b>	<b>0.513</b>	<b>0.521</b>	<b>0.394</b>	<b>18.660</b>

#### 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 twenty nine members representing the twelve constituent unitary authorities in the West of Scotland plus other interested parties. Of the twenty nine 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 their principal place of business by contacting 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 twelve Councils within the designated Strathclyde Passenger Transport area. The costs of the scheme are met by the 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 (AVJB)

The AVJB 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.

## Notes to the Annual Accounts

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%.

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 2017/18 was £76.776m. 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 non current 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

This Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with the legislative framework; this may be different from the accounting cost. The increase or decrease in the year, on the basis upon which rents are raised, is shown in the Movement on the Housing Revenue Account Statement.

2016/17 £m		2017/18 £m
<b>Income</b>		
(43.625)	Dwelling Rents	(43.856)
(0.344)	Non Dwelling Rents	(0.350)
(1.052)	Any Other Income	(0.987)
<b>(45.021)</b>	<b>Total Income</b>	<b>(45.193)</b>
<b>Expenditure</b>		
13.516	Repairs and Maintenance	14.355
9.615	Supervision and Management	10.354
18.841	Depreciation and Impairment of Non Current Assets	22.356
0.501	Bad and Doubtful Debt Provision	0.485
1.441	Any Other Expenditure	1.427
<b>43.914</b>	<b>Total Expenditure</b>	<b>48.977</b>
<b>(1.107)</b>	<b>Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement</b>	<b>3.784</b>
<b>0.597</b>	<b>HRA Share of Corporate and Democratic Core</b>	<b>0.590</b>
<b>0.034</b>	<b>HRA Share of Non Distributed Costs</b>	<b>0.029</b>
<b>(0.476)</b>	<b>Net Cost of HRA Services</b>	<b>4.403</b>
<b>HRA Share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement</b>		
(1.415)	Capital Grants and Contributions Receivable	(1.997)
<b>(1.415)</b>	<b>Income</b>	<b>(1.997)</b>
2.717	(Gain) or Losses on Disposals of Assets	0.666
<b>2.717</b>	<b>Expenditure</b>	<b>0.666</b>
<b>1.302</b>	<b>HRA Share of Other Operating Expenditure</b>	<b>(1.331)</b>
<b>Investment</b>		
(2.301)	Expected Return on Pension Assets	(2.060)
<b>(2.301)</b>	<b>Income</b>	<b>(2.060)</b>
<b>(2.301)</b>	<b>HRA Share of Investment Income</b>	<b>(2.060)</b>
<b>Financing</b>		
(0.257)	Interest and Investment Income	(0.129)
<b>(0.257)</b>	<b>Income</b>	<b>(0.129)</b>
2.886	Pension Interest Cost	2.691
4.805	Interest Payable and Similar Charges	4.530
<b>7.691</b>	<b>Expenditure</b>	<b>7.221</b>
<b>7.434</b>	<b>HRA Share of Net Finance Expenditure</b>	<b>7.092</b>
<b>5.959</b>	<b>(Surplus) / Deficit on the HRA</b>	<b>8.104</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.

2016/17 £m		2017/18 £m
(9.791)	Balance on the HRA brought forward	(12.399)
5.959	(Surplus) or Deficit on the HRA	8.104
(8.567)	Adjustments between accounting basis and funding basis under statute	(8.754)
<b>(2.608)</b>	<b>Net (Increase) or Decrease before transfers to / from Reserves</b>	<b>(0.650)</b>
-	Transfers to / from Reserves	-
<b>(2.608)</b>	<b>(Increase) / Decrease on the HRA Balance for the Year</b>	<b>(0.650)</b>
<b>(12.399)</b>	<b>Balance on the HRA carried forward</b>	<b>(13.049)</b>

### 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:

2016/17 Total		Flats	2017/18 Houses	Total
2,467	One Bedroom	1,645	788	2,433
6,336	Two Bedroom	3,281	3,029	6,310
3,481	Three Bedroom	570	2,871	3,441
260	Four Bedroom	15	241	256
3	Five Bedroom	2	2	4
<b>12,547</b>	<b>Total</b>	<b>5,513</b>	<b>6,931</b>	<b>12,444</b>

#### 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:

2016/17		2017/18
£68.62	Average Weekly Rent (52 weeks)	£70.76
3.40%	Current Rent Arrears (as % of Rent Collectable)	3.60%
£2.498m	Total Rent Arrears	£2.760m
£2.111m	Provision for Bad Debt	£2.336m

The Council is required to disclose the loss on void properties and in 2017/18 this amounted to £2.505m. The comparator figure for 2016/17 was £1.919m.

## 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.

2016/17 £m		2017/18 £m
59.445	Gross Council Tax levied and contributions in lieu	63.516
	Deduct:	
(8.618)	Council Tax Reduction	(8.733)
(7.371)	Other discounts and reductions	(7.848)
(1.647)	Provision for bad and doubtful debts	(1.779)
0.651	Adjustments to previous years Council Tax and Community Charge	0.836
42.460	Net Council Tax Income Transferred to General Fund	45.992

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 2017 was £1,224.66. 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	2017/18 £ per year
A	816.44
B	952.51
C	1,088.59
D	1,224.66
E	1,609.07
F	1,990.07
G	2,398.29
H	3,000.42

### Note 36 – Calculation of the Council Tax base

2016/17											2017/18
Total	Bands	A(d)	A	B	C	D	E	F	G	H	Total
57,654	Properties		26,296	9,397	5,168	6,631	6,141	3,232	961	47	57,873
(1,574)	Exemptions		(971)	(229)	(122)	(96)	(79)	(29)	(9)	(2)	(1,537)
	- Disabled Reliefs	85	(10)	(36)	11	27	(44)	(21)	(12)	0	-
(22,339)	Discounts (25%)	(28)	(12,970)	(3,624)	(1,853)	(1,751)	(1,179)	(433)	(84)	(5)	(21,927)
(1,013)	Discounts (50%)	0	(659)	(163)	(88)	(94)	(58)	(38)	(18)	(3)	(1,121)
49,990	Total equivalent	78	21,743	8,145	4,550	6,077	5,694	3,055	910	42	50,294
	Ratio	5/9	6/9	7/9	8/9	9/9	12/9	15/9	18/9	22/9	
43,592	Band 'D' equivalent	43	14,495	6,335	4,045	6,077	7,481	4,964	1,782	103	45,325
(7,773)	Council Tax Reduction	(20)	(4,719)	(1,255)	(519)	(369)	(234)	(73)	(13)	0	(7,202)
35,819	Band 'D' equivalent after CTR	23	9,776	5,080	3,526	5,708	7,247	4,891	1,769	103	38,123
(859)	Bad debt provision										(1,250)
34,960											36,873

## 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.

2016/17		2017/18
£m		£m
39.859	Gross rates levied and contributions in lieu	38.883
	Deduct:	
(9.085)	Reliefs and reductions	(10.523)
(0.919)	Provision for bad and doubtful debts	(0.832)
29.855	Net Non-Domestic Rate Income	27.528
(0.441)	Prior year pool	(0.911)
0.825	Contributions (to)/from National Non-Domestic Rate Pool	2.750
30.239	Income credited to the Comprehensive Income and Expenditure Statement	29.367

### Note 37 – Analysis of Rateable Values

	Number	£m
Shops	1,073	22.266
Industrial & Freight Transport Subjects	939	14.131
Offices (including Banks)	532	6.724
Other	241	0.744
Public Service Subjects	223	6.268
Leisure, Entertainment, Caravans and Holiday Sites	185	3.772
Garages and Petrol Stations	142	1.397
Public Houses	102	2.435
Religious	90	0.800
Health Medical	70	4.753
Education and Training	67	9.636
Care Facilities	49	2.310
Advertising	28	0.077
Cultural	27	0.466
Hotels, Boarding Houses, etc.	26	1.312
Undertaking	22	0.629
Communications (Non-Formula)	11	1.258
Sporting Subjects	8	0.160
Quarries, Mines, etc.	5	0.822
Petrochemical	2	0.225
	3,842	80.185

### Note 38 – 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 2017/18 was 46.6p, with a large business supplement of 2.6p.

## Remuneration Report

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

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 2017/18 the salary for the Leader of East Ayrshire Council was set by Scottish Ministers at £33,857. The Regulations permit the Council to remunerate a Provost and set out the maximum salary that may be paid to them at £25,392.

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 (i.e. 75% of £33,857 = £25,392). 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 £0.296m. 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 2017/18 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 £0.295m. The total remuneration to these councillors and to the Leader of the Council and Provost totalled £0.354m. 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 last agreed at a meeting of the full Council on 29 June 2017. The annual return of Members Expenses is available at [www.east-ayrshire.gov.uk](http://www.east-ayrshire.gov.uk).

### Remuneration of Councillors

2016/17	2017/18
£m	£m
0.657 Salaries	0.658
0.021 Expenses	0.020
<b>0.678 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.

# Remuneration Report

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

Total Remuneration 2016/17	Name	Designation	Salary, Fees and Allowances	Taxable Expenses	Non-cash expenses & benefits in kind	Total Remuneration 2017/18
£			£	£	£	£
	- F Campbell	Senior Councillor (Note 7)	20,560	-	-	20,560
21,110	J Campbell	Depute Provost until 4 May 2017 (Note 4)	2,661	-	-	2,661
25,331	T Cook	Depute Leader until 4 May 2017 then Senior Councillor (Note 3)	23,754	-	-	23,754
	- B Douglas	Chair of Governance and Scrutiny Committee (Note 5)	20,560	-	-	20,560
	- G Jenkins	Senior Councillor (Note 7)	20,560	-	-	20,560
	- C Leitch	Depute Provost (Note 4)	20,144	-	-	20,144
24,862	I Linton	Senior Councillor (Note 7)	23,695	-	-	23,695
24,862	E MacColl	Senior Councillor (Note 7)	3,143	-	-	3,143
24,862	R McDill	Senior Councillor (Note 7)	3,143	-	-	3,143
	- J McGhee	Leader of the Opposition (Note 6)	20,560	-	-	20,560
	- N McGhee	Senior Councillor (Note 7)	20,560	-	-	20,560
24,862	M McKay	Leader of the Opposition (Note 6)	3,134	-	-	3,134
	- J McMahon	Senior Councillor (Note 7)	20,560	-	-	20,560
	- C Maitland	Senior Councillor (Note 7)	20,560	-	-	20,560
25,331	W Menzies	Chair of Governance and Scrutiny Committee (Note 5)	3,202	-	-	3,202
24,862	K Morrice	Senior Councillor (Note 7)	3,143	-	-	3,143
24,862	S Primrose	Senior Councillor (Note 7)	3,143	-	-	3,143
33,777	D Reid	Leader of the Council (Note 1)	32,456	-	-	32,456
24,862	J Roberts	Senior Councillor (Note 7)	23,695	-	-	23,695
24,862	H Ross	Senior Councillor (Note 7)	3,143	-	-	3,143
25,332	J Todd	Provost (Note 2)	24,342	-	-	24,342
9,278	E Whitham	Senior Councillor until 4 May 2017 then Depute Leader from 18 May 2017 (Note 3)	24,111	-	-	24,111
3,045	J McFadzean	Vice-Convenor Ayrshire Valuation Joint Board	3,593	-	-	3,593
<b>342,100</b>			<b>344,422</b>	<b>-</b>	<b>-</b>	<b>344,422</b>

The Regulations relating to local government elections meant that existing Senior Councillors decanted office on 4 May 2017 prior to the subsequent election and statutory meeting of the new Council which took place on 18 May 2017.

Note 1: Councillor D Reid was Leader of the Council from 1 April 2017 to 4 May 2017 and from 18 May 2017 until 31 March 2018. The full year cost is £33,857.

Note 2: Councillor J Todd was Provost from 1 April 2017 to 4 May 2017 and from 18 May 2017 until 31 March 2018. The full year cost is £25,393.

Note 3: Councillor E Whitham was a senior councillor from 1 April 2017 to 4 May 2017 and then Depute Leader of the Council from 18 May 2017 until 31 March 2018. Councillor T Cook was Depute Leader of the Council until 4 May 2017 then Senior Councillor from 18 May 2017 until 31 March 2018. The full year cost is £25,186.

Note 4: Councillor J Campbell was Depute Provost from 1 April 2017 to 4 May 2017 and Councillor C Leitch was Depute Provost from 18 May 2017 until 31 March 2018. The full year cost is £24,186.

Note 5: Councillor W Menzies was Chair of Governance & Scrutiny Committee until 4 May 2017. Councillor B Douglas was Chair of Governance & Scrutiny Committee from 18 May 2017 until 31 March 2018.

Note 6: Councillor M McKay was Leader of the Opposition until 4 May 2017. Councillor J McGhee was Leader of the Opposition from 18 May 2017 until 31 March 2018.

Note 7: Councillors I Linton and J Roberts were Senior Councillors from 1 April 2017 to 4 May 2017 and from 18 May 2017 until 31 March 2018. Councillors E MacColl, R McDill, K Morrice, S Primrose and H Ross were Senior Councillors from 1 April 2017 to 4 May 2017. Councillors F Campbell, G Jenkins, N McGhee, J McMahon and C Maitland were Senior Councillors from 18 May 2017 to 31 March 2018. The full year cost for a Senior Councillor is £24,686.

Further details of Elected Members expenses can be found at:

<https://www.east-ayrshire.gov.uk/Resources/PDF/M/Members-Expenses-201718.pdf>

# Remuneration Report

## 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/149 sets the amount of salary for the Chief Executive of the Council for the year ended 31 March 2018. 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 reimbursement for business travel and business related costs in accordance with amounts agreed nationally by the SJNC or as approved by the Council. Chief Officers are eligible to join the Local Government Pension Scheme.

The Remuneration of Senior Officers of the Council disclosure noted below has been compiled in accordance with the requirements of the Local Government Finance Circular No 8/2011: Local Authority Accounts – The Remuneration Report. In previous years this disclosure noted the remuneration of all chief officers with the same information also duplicated on the Council's website. While the opportunity has been taken this year to disclose only those chief officers required by the Finance Circular, Chief Officers' Salaries continue to be available on the Council's website.

Total Remuneration 2016/17	Name	Designation	Salary, Fees and Allowances	Taxable Expenses	Compensation for Loss of Employment	Total Remuneration 2017/18
£			£	£	£	£
131,703	F Lees	Chief Executive (Note 1)	129,133	-	-	129,133
111,842	A McPhee	Depute Chief Executive and Chief Financial Officer (Note 1)	111,962	-	-	111,962
109,664	C McAleavey	Depute Chief Executive: Safer Communities	110,505	-	-	110,505
109,414	E Fraser	Director of Health & Social Care Partnership (Note 2)	110,505	-	-	110,505
89,778	D Mitchell	Chief Governance Officer (Note 1)	89,820	-	-	89,820
<b>552,401</b>			<b>551,925</b>	<b>-</b>	<b>-</b>	<b>551,925</b>

Note 1 The 2017/18 Remuneration for the Chief Executive, Depute Chief Executive and Chief Financial Officer, and the Chief Governance Officer includes fees paid in respect of the Local Council Election (4 May 2017) and the General Election (8 June 2017). Fees received were £660, £1,457 and £1,085 respectively.

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

Details of Chief Officers who left the Council during 2016/17 can be found at: <https://www.east-ayrshire.gov.uk/Resources/PDF/A/Annual-Accounts-16-17.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 2017/18. 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.

2016/17 Total	Remuneration band	Number of Employees			Left During Year
		2017/18 Officers	2017/18 Teachers	2017/18 Total	
82	£50,000 – £54,999	38	48	86	-
23	£55,000 – £59,999	7	23	30	1
9	£60,000 – £64,999	18	2	20	-
3	£65,000 – £69,999	-	1	1	-
3	£70,000 – £74,999	-	-	-	-
3	£75,000 – £79,999	1	2	3	-
9	£80,000 – £84,999	7	1	8	-
1	£85,000 – £89,999	4	-	4	-
1	£90,000 – £94,999	-	-	-	-
-	£95,000 – £99,999	-	-	-	-
-	£100,000 – £104,999	-	-	-	-
3	£105,000 – £109,999	-	-	-	-
-	£110,000 – £114,999	3	-	3	-
-	£115,000 – £119,999	-	-	-	-
-	£120,000 – £124,999	-	-	-	-
1	£125,000 – £129,999	1	-	1	-
-	£130,000 – £134,999	-	1	1	1
1	£160,000 – £164,999	-	-	-	-
<b>139</b>		<b>79</b>	<b>78</b>	<b>157</b>	<b>2</b>

### Pension Benefits

Pension benefits for councillors and employees (excluding teachers) 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. Membership of the pension scheme is voluntary and not all councillors and employees are members. 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 indices. 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 was a final salary pension scheme up to 31 March 2015. For service from 1 April 2015 employees are in a career revalued actual pension scheme and each year an amount of pension is earned that is then revalued for inflation until retirement.

At retirement members may opt to commute pension for lump sum up to the limit set by the Finance Act 2004. The current accrual rate is 1/49th of final pensionable salary. 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 31 March 2018 £	For year to 31 March 2017 £		As at 31 March 2018 £000	Difference 31 March 2017 £000
J Campbell	514	4,074	Pension	4	-
Depute Provost until 4 May 2017			Lump Sum	2	-
T Cook	4,714	4,889	Pension	5	1
Depute Leader until 4/5/17 then Senior Councillor			Lump Sum	2	-
B Douglas	3,968	-	Pension	-	-
Chair of Governance and Scrutiny Committee from 18 May 2017			Lump Sum	-	-
C Leitch	3,888	-	Pension	-	-
Depute Provost from 18 May 2017			Lump Sum	-	-
I Linton	4,702	4,798	Pension	5	1
Senior Councillor			Lump Sum	2	-
E MacColl	607	4,798	Pension	2	-
Senior Councillor until 4 May 2017			Lump Sum	-	-
R McDill	607	4,798	Pension	5	1
Senior Councillor until 4 May 2017			Lump Sum	2	-
J McGhee	3,968	-	Pension	4	4
Leader of the Opposition from 18 May 2017			Lump Sum	1	1
N McGhee	3,968	-	Pension	4	4
Senior Councillor			Lump Sum	1	1
J McMahon	3,968	-	Pension	-	-
Senior Councillor			Lump Sum	-	-
C Maitland	3,968	-	Pension	-	-
Senior Councillor			Lump Sum	-	-
W Menzies	618	4,889	Pension	4	-
Chair of Governance and Scrutiny Committee until 4 May 2017			Lump Sum	2	-
K Morrice	607	4,798	Pension	4	-
Senior Councillor until 4 May 2017			Lump Sum	2	-
S Primrose	607	4,798	Pension	2	-
Senior Councillor until 4 May 2017			Lump Sum	-	-
D Reid	6,398	6,519	Pension	7	1
Leader of the Council			Lump Sum	3	-
J Roberts	3,665	-	Pension	-	-
Senior Councillor			Lump Sum	-	-
H Ross	607	4,798	Pension	5	1
Senior Councillor until 4 May 2017			Lump Sum	2	-
J Todd	4,828	4,889	Pension	5	1
Provost			Lump Sum	2	-
E Whitham	4,783	1,791	Pension	1	-
Depute Leader from 18 May 2017			Lump Sum	-	-
J McFadzean	693	588	Pension	-	-
Vice-Convenor Ayrshire Valuation Joint Board			Lump Sum	-	-
<b>Total</b>	<b>57,678</b>	<b>56,427</b>			

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

Note 2 Councillors F Campbell, G Jenkins and M McKay are not members of the Strathclyde Pension Fund.

# Remuneration Report

## Senior Employees

The pension entitlements and the contributions made by the Council are shown in the following table and 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 are set by Strathclyde Pension Fund.

Name and Post Title	In-year Pension Contributions			Accrued Pension Benefits	
	For year to	For year to		As at	Difference from
	31 March 2018	31 March 2017		31 March 2018	31 March 2017
	£	£		£000	£000
F Lees	24,795	24,551	Pension	71	4
Chief Executive			Lump Sum	148	1
A McPhee	21,327	21,117	Pension	59	3
Depute Chief Executive and Chief Financial Officer			Lump Sum	123	1
C McAleavey	21,327	21,117	Pension	64	3
Depute Chief Executive: Safer Communities			Lump Sum	138	2
E Fraser	21,327	21,117	Pension	47	3
Director of Health and Social Care Partnership			Lump Sum	88	1
D Mitchell	17,126	16,957	Pension	36	2
Chief Governance Officer			Lump Sum	65	1
<b>Total</b>	<b>105,902</b>	<b>104,859</b>			

## 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 below. Notional capitalised compensatory added years and pension strain costs relating to teachers are based on a calculation provided by the Scottish Public Pensions Agency. £0.446m for severance costs was funded in 2017/18 approved either by Cabinet or under the Head of Human Resources' delegated authority.

2016/17						2017/18				
No	Compulsory Redundancies		Other Departures		Exit Packages Bands	No	Compulsory Redundancies		Other Departures	
	Cash	Notional	Cash	Notional			Cash	Notional	Cash	Notional
	Value	CAY	Value	CAY			Value	CAY	Value	CAY
	Value	Value	Value	Value			Value	Value	Value	Value
	£000	£000	£000	£000			£000	£000	£000	£000
15	-	-	153	-	£0 – £20,000	12	-	-	71	3
3	-	-	108	-	£20,001 – £40,000	6	-	-	153	13
1	-	-	46	-	£40,001 – £60,000	2	-	-	79	11
-	-	-	-	-	£60,001 – £80,000	-	-	-	-	-
1	-	-	30	54	£80,001 – £100,000	1	-	-	96	-
2	-	-	95	119	£100,001 – £150,000	1	-	-	47	52
22	-	-	432	173		22	-	-	446	79

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.

## Remuneration Report

### *Trade Union Facility Time Statement*

Under the Trade Union (Facility Time Publication Requirements) Regulation 2017, the Council is required to collect and publish data in relation to its usage and spend of trade union facility time in respect of employees who are trade union representatives. These disclosures are not subject to testing as part of the year-end audit. Full details for the period 1 April 2017 to 31 March 2018 are available on the Council website at <https://www.east-ayrshire.gov.uk/JobsAndCareers/EqualityinEmployment.aspx>.

**Councillor Douglas Reid**  
**Leader of the Council**  
**27 September 2018**

**Fiona Lees**  
**Chief Executive**  
**27 September 2018**

## 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 2018

2016/17			2017/18		
Usable Reserve:	Unusable Reserves :	Total Reserves	Usable Reserve:	Unusable Reserves:	Total Reserves
Capital and Revenue	Revaluation Reserve		Capital and Revenue	Revaluation Reserve	
£m	£m	£m	£m	£m	£m
0.247	9.349	9.596	0.377	8.919	9.296
(0.264)	-	(0.264)	(0.275)	-	(0.275)
-	(0.036)	(0.036)	-	0.011	0.011
0.276	(0.276)	-	0.277	(0.277)	-
0.118	(0.118)	-	-	-	-
0.377	8.919	9.296	0.379	8.653	9.032
Balance at 31 March 2017			Balance at 31 March 2018		
Surplus / (Deficit) on the Provision of Services			Surplus / (Deficit) on the Provision of Services		
Surplus / (Deficit) on the Revaluation of Fixed Assets			Surplus / (Deficit) on the Revaluation of Fixed Assets		
- Depreciation of Non Current Assets			- Depreciation of Non Current Assets		
- Net Gain / (Loss) on Disposal of Fixed Assets			- Net Gain / (Loss) on Disposal of Fixed Assets		

### Comprehensive Income and Expenditure Statement for the Year ended 31 March 2018

2016/17			2017/18		
Expenditure	Income	Net	Expenditure	Income	Net
£m	£m	£m	£m	£m	£m
0.276	-	0.276	0.277	-	0.277
-	(0.011)	(0.011)	-	-	-
-	(0.001)	(0.001)	-	(0.002)	(0.002)
0.264 (Surplus) or Deficit			0.275 (Surplus) or Deficit		
0.036 (Surplus) or deficit on revaluation of fixed assets			0.011 (Surplus) or deficit on revaluation of fixed assets		
0.300 Total Comprehensive (Income) / Expenditure			0.264 Total Comprehensive (Income) / Expenditure		

### Balance Sheet at 31 March 2018

2016/17		2017/18
£m		£m
8.919	Property Plant and Equipment	8.653
8.919	Non Current Assets	8.653
0.377	Short Term Investments - Loans Fund	0.379
0.377	Current Assets	0.379
9.296	Net Assets	9.032
0.377	Usable Reserves: Capital and Revenue Reserves	0.379
8.919	Unusable Reserves: Revaluation Reserve	8.653
9.296	Net Reserves	9.032

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

Cost or Valuation:	Darvel	Newmilns	Cumnock	Kilmarnock	Total
	£m	£m	£m	£m	£m
At 1 April 2017	1.276	0.070	1.151	7.249	9.746
Revaluations	(0.001)	0.011	-	-	0.010
Disposals	-	-	-	-	-
At 31 March 2018	1.275	0.081	1.151	7.249	9.756
Depreciation and Impairment:					
At 1 April 2017	(0.117)	(0.013)	(0.101)	(0.596)	(0.827)
Depreciation charge	(0.037)	(0.005)	(0.035)	(0.199)	(0.276)
Depreciation written out - Revaluations	-	-	-	-	-
At 31 March 2018	(0.154)	(0.018)	(0.136)	(0.795)	(1.103)
Net Book Value at 31 March 2017	1.159	0.057	1.050	6.653	8.919
Net Book Value at 31 March 2018	1.121	0.063	1.015	6.454	8.653

## 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).

2016/17			Fund Balances	2017/18		
Capital Fund £	Revenue Fund £	Total Funds £		Capital Fund £	Revenue Fund £	Total Funds £
34,020.91	389,660.13	423,681.04	Opening Balances at 1 April 2017	34,020.91	361,277.84	395,298.75
-	(31,008.65)	(31,008.65)	Expenditure	-	(42,838.58)	(42,838.58)
-	2,626.36	2,626.36	Income	-	1,668.72	1,668.72
-	(28,382.29)	(28,382.29)	Surplus / (Deficit)	-	(41,169.86)	(41,169.86)
34,020.91	361,277.84	395,298.75	Closing Balances at 31 March 2018	34,020.91	320,107.98	354,128.89

2016/17 £	Balance Sheet as at 31 March 2018	2017/18 £
1,030.00	Investments - External	1,030.00
394,268.75	Investments - Loans Fund	353,098.89
395,298.75		354,128.89
	<b>Financed By:</b>	
34,020.91	Capital Funds	34,020.91
361,277.84	Revenue Funds	320,107.98
395,298.75	Closing Balance at 31 March 2018	354,128.89

Name	Origin and Purpose	Loans Fund £	External Investment £	Total £
Archibald Taylor Fund (SC019308)	To provide special nursing or convalescent treatment or a holiday during convalescence	312,510.40	-	312,510.40
Mrs E McWhirter Trust (SC025073)	To maintain burial grounds at Dalmellington	733.84	1,030.00	1,763.84
Miss Annie Smith Mair Bequest (SC021095)	To assist persons from Newmilns and Greenholm	39,854.65	-	39,854.65
		353,098.89	1,030.00	354,128.89

Assets held on behalf of the Misses Murray Legacy Trust were distributed during the year. The Trust is now in the process of making application to wind up.

The Council also administers 33 Trusts which are not registered with OSCR. The combined income of these Trusts in 2017/18 was £823 and expenditure was £17,716. The total assets of the Trusts at 31 March 2018 were £180,111.

## 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 non current asset or expenditure which adds to, and not merely maintains, the value of an existing non current 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.

**Curtailments (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 non current 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.

**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.

## Glossary of Terms

**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.

**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 non current or financial asset below the valuation held on the balance sheet.

**Infrastructure Assets.** Non current 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 assessment of users made on the basis of the Annual Accounts.

**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 non current 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.

## Glossary of Terms

**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 non current assets not yet realised through sales.

**Scottish Futures Trust (SFT).** an infrastructure delivery company owned by the Scottish Government.

**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 non current asset.

# Independent Auditor's Report

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

### Report on the audit of the financial statements

#### Opinion on financial statements

We certify that we have audited the financial statements in the annual accounts of East Ayrshire Council and its group for the year ended 31 March 2018 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and council only Movement in Reserves Statement, Expenditure and Funding Analysis, Comprehensive Income and Expenditure Statement, Balance Sheet, Cash-Flow Statement, the Housing Revenue Account, the Council Tax Income Account, the Non-Domestic Rate Account, the Common Good Account and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the 2017/18 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2017/18 Code of the state of affairs of the council and its group as at 31 March 2018 and of the income and expenditure of the council and its group for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2017/18 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

#### Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the council and its group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern basis of accounting

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Depute Chief Executive and Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## Independent Auditor's Report

### **Responsibilities of the Depute Chief Executive and Chief Financial Officer and East Ayrshire Council for the financial statements**

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

In preparing the financial statements, the Depute Chief Executive and Chief Financial Officer is responsible for assessing the council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

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

### **Auditor's responsibilities for the audit of the financial statements**

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

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Other information in the annual accounts**

The Depute Chief Executive and Chief Financial Officer is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements, the audited part of the Remuneration Report, and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with our audit of the financial statements, our responsibility is to read all the other information in the annual accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

# Independent Auditor's Report

## Report on other requirements

### Opinions on matters prescribed by the Accounts Commission

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

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

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

### Matters on which we are required to report by exception

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

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- there has been a failure to achieve a prescribed financial objective.

We have nothing to report in respect of these matters.

## Use of our report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

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

27 September 2018



This information can be made available, on request, in braille, large print or audio formats and can be translated into a range of languages. Contact details are provided below.

درخواست کرنے پر یہ معلومات نابینا افراد کے لئے اُبھرے حروف، بڑے حروف یا آڈیو میں مہیا کی جاسکتی ہے اور اس کا مختلف زبانوں میں ترجمہ بھی کیا جاسکتا ہے۔ رابطہ کی تفصیلات نیچے فراہم کی گئی ہیں۔

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ਇਹ ਜਾਣਕਾਰੀ ਮੰਗ ਕੇ ਬੋਲ, ਵੱਡੇ ਅੱਖਰਾਂ ਅਤੇ ਸੁਣਨ ਵਾਲੇ ਰਪ ਵਿਚ ਵੀ ਲਈ ਜਾ ਸਕਦੀ ਹੈ, ਅਤੇ ਇਹਦਾ ਤਰਜਮਾ ਹੋਰ ਬੋਲੀਆਂ ਵਿਚ ਵੀ ਕਰਵਾਇਆ ਜਾ ਸਕਦਾ ਹੈ। ਸੰਪਰਕ ਕਰਨ ਲਈ ਜਾਣਕਾਰੀ ਹੇਠਾਂ ਦਿੱਤੀ ਗਈ ਹੈ।

Niniejsze informacje mogą zostać udostępnione na życzenie, w alfabecie Braille'a, w druku powiększonym lub w formacie audio oraz mogą zostać przetłumaczone na wiele języków obcych. Dane kontaktowe znajdują się poniżej.

Faodar am fiosrachadh seo fhaighinn, le iarrtas, ann am braille, clò mòr no clàr fuaim agus tha e comasach eadar-theangachadh gu grunn chànanan. Tha fiosrachadh gu h-ìosal mu bhith a' cur fios a-steach.



East Ayrshire Council  
Comhairle Siorrachd Àir an Ear