



# Annual Accounts

Year to  
31 March 2005

**South Ayrshire Council**  
**Annual Accounts 2004/05**

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## Explanatory Foreword

**The Accounts comprise the following statements:**

**The Report by the Head of Finance and ICT** summarises the financial performance of South Ayrshire Council during the year and highlights any major financial issues.

**The Statement of Accounting Policies** sets out the basis on which the accounts have been prepared.

**The Consolidated Revenue Account** shows the income raised by the Council during the year and how it was spent on services, financing costs and contributions to or from reserves. The surplus or deficit is carried to the Consolidated Balance Sheet.

**The Notes to the Consolidated Revenue Account** provide additional information on some costs and income included within the Consolidated Revenue Account. The Council's expenditure has also been analysed in the Departmental Service Expenditure format. The Council's trading accounts' performance is shown as a note to the Consolidated Revenue Account.

**The Council Tax Income Account** explains how the council tax income shown for the financial year in the Consolidated Revenue Account is made up.

**The Non Domestic Rate Income Account** shows the build up of non-domestic rate income, the contribution to or from the national pool and the resulting net income for the financial year to the Council which is shown in the Consolidated Revenue Account.

**The Housing Revenue Account** shows how income raised in relation to council houses was utilised during the year. A comparison with budget is made. This explains in more detail the entries for the Housing Revenue Account shown in the Consolidated Revenue Account. The surplus or deficit is carried to the Consolidated Balance Sheet.

**The Consolidated Balance Sheet** brings together all the assets and liabilities of the Council's General Fund, Housing Revenue Account and Loans Fund. It is the statement of the resources of the Council and the means by which they have been financed. It is also a report on the Council's financial position at one particular point in time, a snapshot of its financial affairs at the close of the year expressed in accounting terms.

**The Notes to the Consolidated Balance Sheet** give further information on the make up of certain assets and liabilities.

**The Statement of Total Movement on Reserves** gives details of the balances on each reserve at the start of the financial year, movements during the financial year by source and the balance at the end of the financial year as shown in the Consolidated Balance Sheet.

**The Cash Flow Statement** summarises the inflows and outflows of cash arising from the transactions with third parties on both day to day revenue transactions and expenditure on capital activities.

**The Statement of Sundry Accounts** summarises the financial performance of Trust and Other Funds administered by the Council.

**The Common Good Funds** are used for the benefit of specific communities and the statement provides a summary of the financial status of the funds administered by the Council.

**The Capital Account** shows the major areas of expenditure and the sources of financing.

**The Statement of Responsibilities for the Statement of Accounts** sets out the respective responsibilities of the authority and the Head of Finance and ICT, as the Council's Section 95 Officer, for the accounts.

**The Statement on the System of Internal Financial Control** sets out the framework within which financial control is managed and reviewed and the main components of the system, including the arrangements for internal audit. The statement reports on significant identified weaknesses and the action undertaken to rectify these.

## Report by the Head of Finance and ICT

### 1. Introduction

The accounts of South Ayrshire Council are set out in the following pages, and incorporate statistical and other information required by the Code of Practice on Local Authority Accounting.

### 2. The Council's financial position

#### a) General Fund

The Consolidated Revenue Account (page 9) summarises the income and expenditure on the Council's services and shows a General Fund surplus of £2.025m for the year. Adding the surplus brought forward from 2003/04 of £4.040m resulted in a cumulative surplus of £6.065m at 31<sup>st</sup> March 2005. It should be noted, however, that £4.558m of this balance has been committed to fund service expenditure in 2005/06 as detailed in note 13 to the Consolidated Balance Sheet. This leaves an uncommitted year-end General Fund balance of £1.507m.

#### Budget performance 2004/05

The original 2004/05 budget assumed the use of an accumulated surplus brought forward from 2003/04 of £1.179m. The actual surplus of £4.040m enabled additional service expenditure of £2.861m beyond the budget assumption to be planned.

The main factors contributing to the accumulated surplus at 31<sup>st</sup> March 2005 of £6.065m are:-

Contingency fund balance - the additional 2003/04 surplus was initially added to the Council's planned 2004/05 contingency fund within Miscellaneous Services of £0.250m, resulting in a contingency fund of £3.111m for 2004/05. Net additional contributions to the fund of £0.513m were approved during the year, leaving a balance of £3.624m at 31<sup>st</sup> March 2005.

Additional council tax collected of £0.164m.

Departmental under-spends totalling £2.666m, as show in the table below;

	<i>Budget 2004/05 £'000</i>	<i>Actual 2004/05 £'000</i>	<i>Over/ (Under) Spend £'000</i>
Chief Executive's Department	4,024	3,397	(627)
Development, Safety & Regulation	25,042	24,372	(670)
Education, Culture & Lifelong Learning	89,674	88,794	(880)
Environment and Infrastructure	32,967	32,844	(123)
Social Work, Housing & Health	45,355	44,989	(366)
<b>Departmental Expenditure</b>	<b>197,062</b>	<b>194,396</b>	<b>(2,666)</b>
Miscellaneous Services, Debt Charges, Pension Costs etc	(2,245)	(5,493)	(3,248)
<b>Total Expenditure to be Funded</b>	<b>194,817</b>	<b>188,903</b>	<b>(5,914)</b>
Revenue Support Grant/ Non-Domestic Rate Income	(145,704)	(145,704)	0
Council Tax/ Community Charge Income	(45,073)	(45,224)	(151)
<b>Funding</b>	<b>(190,777)</b>	<b>(190,928)</b>	<b>(151)</b>
<b>(Surplus)/ Deficit for Year</b>	<b>4,040</b>	<b>(2,025)</b>	<b>(6,065)</b>
(Surplus)/ Deficit Brought Forward	(4,040)	(4,040)	
<b>Balance at 31<sup>st</sup> March 2005</b>	<b>0</b>	<b>(6,065)</b>	

The Council's expenditure has been analysed within the Consolidated Revenue Account on page 9 to show the Best Value Service Expenditure Analysis in order to comply with the requirements of the Best Value Accounting Code of Practice. The departmental analysis is also shown on page 14 as a note to the Consolidated Revenue Account.

#### b) Housing Revenue Account

A summary of the housing revenue account income and expenditure is shown on page 22. Income of £21.194m exceeded expenditure of £18.863m, giving a surplus for the year of £2.331m. The surplus for the year requires to be added to the accumulated surplus as at 31 March 2004 of £6.102m giving an accumulated balance being carried forward to 2005/06 of £8.433m. The main reason for the surplus is lower than budgeted repairs and maintenance costs, central support costs and debt financing costs. Members have already agreed that £0.550m of this accumulated surplus should continue to be held in reserve for weather emergencies and that £0.581m be used to fund capital and revenue expenditure in future years. This leaves an uncommitted balance of £7.302m.

#### c) Repair & Renewals fund

Local authorities are empowered, under Schedule 3 of the Local Government (Scotland) Act 1975, to establish a Repair & Renewals fund. South Ayrshire Council's Repair & Renewals fund is used to finance expenditure incurred in repairing, maintaining, replacing and renewing fixed assets. Movements in the fund during 2004/05 are explained in the appropriate notes to the consolidated balance sheet.

**d) Insurance fund**

Local authorities are empowered, under Schedule 3 of the Local Government (Scotland) Act 1975, to establish an Insurance fund. Such a fund may be used to defray any loss where an authority could have insured against a loss but have not done so and for paying premiums on an insurance policy. Movements in South Ayrshire Council's fund during 2004/05 are explained in the appropriate notes to the consolidated balance sheet.

**3. Trading accounts**

The Local Government in Scotland Act 2003 repeals the former CCT legislation and now requires councils to maintain statutory trading accounts for 'significant trading operations'. These trading accounts require to break even over a three year rolling period. The council has reviewed the guidance provided by CIPFA and has agreed to maintain statutory trading accounts for seven council services. Details of the performance of these seven services can be found in Note 14 to the Consolidated Revenue Account.

**4. Council tax and non-domestic rates income account**

Details of amounts received and collected in terms of the above items are shown on pages 18 to 21, together with details of rateable values/ numbers of properties for non domestic properties. Details of the number of dwellings in each band and information on discounts, exemptions and reliefs are provided.

**5. Cash flow statement**

This statement, on page 34, summarises the Council's revenue and capital transactions on a cash basis, and reflects the movement in cash and cash equivalents.

**6. Capital expenditure**

Details of capital expenditure are shown on page 41.

The Council borrowed money within the parameters of the Prudential Code to fund capital expenditure.

**7. Introduction of the Euro**

As at 31 March 2005 the Council had incurred no expenditure and had made no commitments in respect of costs associated with the introduction of the Euro. Prior to any entry into full Euro trading, a significant review of all systems will require to be undertaken.

**Eileen Howat BSc, CPFA**  
**Head of Finance and ICT**  
28 November 2005

### Statement of Accounting Policies

1. **General** - the abstract has been prepared taking into account the Code of Practice on Local Authority Accounting for Great Britain, and applying generally accepted accounting principles.
2. **Reserves** - details of all reserve funds are shown in the Statement of Total Movement in Reserves.
3. **Fixed assets** - in accordance with the Code of Practice, the following bases of valuation have been used:
  - Operational (specialised) properties are valued on the basis of depreciated replacement cost (DRC)
  - Operational (non-specialised) properties are valued on the basis of the open market value in existing use (OMVEU/ EUV)
  - Non-operational properties are valued on the basis of open market value (OMV/MV)
  - Local authority housing stock is valued on the basis of net realisable value (NRV)
  - Infrastructure assets are valued at historical cost
  - Community assets are valued at historical cost
  - Vehicles are valued on the basis of net realisable value (NRV)

Housing stock, land and property are revalued on a five year rolling programme. The last five year revaluation programme was completed as at 31 March 2001. The valuations shown in these accounts reflect the fourth year of the latest five year programme.

Property valuations are carried out by the Estates Manager, Mr Malcolm MacAskill, FRICS.
4. **Capital financing and redemption of debt** - receipts from the sale of assets, etc, are used to fund capital expenditure, and the balance is financed by advances from the Council's loans fund. Interest has been calculated and allocated to revenue accounts in accordance with the Local Authority (Scotland) Accounts Advisory Committee Guidance Note No 2, and has been accrued, where appropriate. The Council rationalised all loans fund repayments on an annuity basis with effect from 1996/97.
5. **Debt restructuring** - the Council in recent years has taken advantage of lower interest rates to restructure its loan debt. As a result of this exercise premiums have been incurred and discounts received, these will be charged to the Council's loans fund over the period of the new loans.
6. **Investments** - investments in local companies are recorded at the lower of cost or net realisable value.
7. **Stocks** - stocks are valued on either a weighted average price basis (computerised stock), or a 'first-in-first-out' (FIFO) basis.



8. **Work in progress** – Valuation has been made at cost plus an appropriate proportion of overheads, together with attributable profits and allowances for foreseeable losses.
9. **Debtors and creditors** - revenue and capital accounts have been prepared on an income and expenditure basis, and all known material debtor and creditor items have been brought into account.
10. **Government grants** - grants and subsidies have been matched with the expenditure to which they relate. Accruals have been made at 31 March 2005 in the appropriate revenue and capital accounts.
11. **Central support service costs** - costs have been allocated to the revenue and capital accounts of the authority largely on the basis of time spent by staff. Office accommodation has been allocated on the basis of floor area occupied. In accordance with the Accounting Code of Practice, corporate and direct services have been differentiated.
12. **Operating leases** - annual rentals under operating leases are charged to revenue when payable.
13. **Covenant scheme** – certain assets have been funded by means of a 21 year covenant. Interest on the repayments has been charged to revenue and the remaining indebtedness in respect of the covenant is recorded in the balance sheet as a deferred liability.
14. **Provisions** - the Council has made provision based on past experience, for the loss of local tax income arising from bad and doubtful debts and for successful valuation appeals. Provision has also been made for bad and doubtful debts for all other items of income and potential insurance liabilities in respect of the former Strathclyde Regional Council.
15. **Intangible assets** – private sector housing grants are charged to the service revenue account in the year they are incurred. (A corresponding adjustment is made through the capital financing reserve to ensure no net impact on Council tax.) Loan premiums are released to revenue over the period of the replacement loans.
16. **Pensions** –
  - a) **Local government pension scheme** - the Council is a recognised ‘employing authority’ within the meaning of the Local Government Superannuation (Scotland) Regulations, and transfers sums collected from employee members and employer’s contributions to Glasgow City Council, which is the administering authority. The contributions are determined by a qualified actuary on the basis of triennial valuations using the ‘projected accrued benefit’ method. The scheme is a defined benefit scheme providing pension benefits and life assurance for all permanent staff and has been accounted for in accordance with the requirements of *Financial Reporting Standard 17, Retirement Benefits* (“FRS 17”).

The defined benefits pension scheme’s assets are included at market value. The expected return on the scheme’s assets is included within net operating expenditure. In assessing liabilities for retirement benefits at 31<sup>st</sup> March 2004 for the 2003/04 statement of accounts the actuary was required by the SORP to use a discount rate of 3.5% real (6.1% actual). For the 2004/05 statement of accounts a rate based on the current rate of return on a high quality corporate bond of equivalent currency and term to scheme liabilities is to be used. The actuary has advised that a rate of 3.5% real (6.5% actual) is appropriate. The increase in the present value of the liabilities of the scheme expected to arise from employee service in the

period is charged to service revenue accounts in the year. An appropriation is made to/from the pension reserve so that the amount to be met from government grant and local taxpayers excludes amounts relating to pension costs and returns.

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

17. **Capital charges** - revenue accounts are charged for the use of fixed assets by way of a capital charge or asset rental. The charge is made up of interest, at a prescribed rate of 3.5% for assets carried at current value and 4.8% for assets carried at historic cost, and if appropriate an element of depreciation.
18. **Accruals** - Transactions have been recorded on an accruals basis, whereby sums due to or from the Council during the year are included whether or not the cash has actually been received or paid in the year with provision being made on an actual or estimated basis for debtors and creditors as at 31 March 2005.
19. **Depreciation** - no depreciation has been charged on land, non-operational assets and community assets.

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

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

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

20. **Impairment of fixed assets** - Where any category of fixed asset suffers an impairment loss in any financial period, this loss is recognised and charged as accelerated depreciation in that period.

**Consolidated Revenue Account**  
**Year ended 31 March 2005**

<i>2003/04 net expenditure</i>	<i>Service</i>	<i>2004/05 gross expenditure</i>	<i>2004/05 gross income</i>	<i>2004/05 net expenditure</i>
<i>£'000</i>		<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
77,280	Education Services	96,900	12,562	84,338
(1,557)	Housing Revenue Account (note 12)	19,006	21,195	(2,189)
2,830	General Fund Housing	33,555	32,085	1,470
42,415	Social Work Services	64,936	19,410	45,526
14,937	Culture and Related Services	17,933	5,951	11,982
11,388	Environmental Services	17,062	5,145	11,917
13,727	Roads and Transport Services	18,916	4,461	14,455
2,536	Planning and Development Services	5,656	2,811	2,845
3,819	Corporate and Democratic Core	3,961	226	3,735
981	Non Distributed Costs	1,307	0	1,307
2,618	Other Central Services to the Public	25,851	21,539	4,312
<b>170,974</b>	<b>Net Cost of Services</b>	<b>305,083</b>	<b>125,385</b>	<b>179,698</b>
14,186	Precepts and Levies	15,015	0	15,015
2,028	Asset Management Revenue Account (note 4)	4,628	0	4,628
(1,264)	Trading Services (note 14)	38,150	38,802	(652)
(543)	Interest and Investment Income	0	712	(712)
1,831	Pension Interest Cost and Expected Return on Pension Assets	14,401	16,610	(2,209)
<b>187,212</b>	<b>Net Operating Expenditure</b>	<b>377,277</b>	<b>181,509</b>	<b>195,768</b>
1,533	Contribution to/(from) HRA balances (note 12)			2,331
(1,137)	Contribution to/(from) Pensions Reserve			(146)
0	Contribution to/(from) Repairs & Renewals Fund			(1,100)
0	Contribution to/(from) Insurance Fund			417
(5,768)	Contributions to/(from) Capital Financing Account (note 5)			(8,367)
<b>181,840</b>	<b>Amount to be met from government grant and local taxpayers</b>			<b>188,903</b>
(99,159)	Revenue Support Grant			(103,819)
(8,203)	Non Domestic Rate Income from Pool			(7,716)
(31,761)	Non Domestic Rate Income Collected			(34,169)
(42,788)	Council Tax Income			(45,217)
(11)	Community Charge Income			(7)
<b>(181,922)</b>	<b>Amount received from government grant and local taxpayers</b>			<b>(190,928)</b>
(82)	(Surplus)/deficit for year			(2,025)
<b>(3,958)</b>	<b>(Surplus)/deficit brought forward</b>			<b>(4,040)</b>
<b>(4,040)</b>	<b>(Surplus)/deficit carried forward</b>			<b>(6,065)</b>

**Notes to Consolidated Revenue Account:**

1. **Section 5 - Local Government (Scotland) Act 1986 - Publicity Account** - expenditure on publicity and advertising amounted to £0.477m as follows:

2003/04 £'000		2004/05 £'000
40	Recruitment	28
250	Publicity of Services	393
47	Publicity of Events	18
20	Other	38
<b>357</b>	<b>Total</b>	<b>477</b>

2. **Pension costs** - the Council contributes to two pension schemes:

**Local Government Superannuation (Scotland) Scheme** - The Council subscribes to the Strathclyde Pension Fund, a funded defined benefits scheme. The scheme is supported by contributions from both employer and employee. The Council's contribution to the Fund is expressed as a percentage of the employees' contributions and for 2004/05 was set at 240%. During 2004/05 the Council made employers' contributions of £7.815m (2003/04 £7.070m). The increase in contributions arises mainly from the increase in levels from 230% to 240%. In accordance with Financial Reporting Standard 17 "Retirement Benefits" (FRS17), the £7.815m contribution meets the obligation on the Council for the year to 31 March 2005.

The employer's contribution rate is determined by the Fund's Actuary based upon triennial actuarial valuations which determine whether employers are contributing sufficiently to maintain the Fund's solvency, the most recent valuation being carried out as at 31 March 2005. The employer's contribution will increase to 250% in 2005/06.

In accordance with FRS17 "Retirement Benefits" the Council is required to disclose certain information concerning assets, liabilities, income and expenditure related to pension schemes for its employees. Expenditure and income included in the Consolidated Revenue Account for 2004/05 is as follows:

2003/04 £'000		2004/05 £'000
	<b>Amount Charged to Revenue</b>	
7,802	Current service costs	11,132
32	Past service costs	76
3	Curtailment and settlements	483
<b>7,837</b>	<b>Total Operating Charge</b>	<b>11,691</b>
	<b>Amount Credited to Revenue</b>	
14,221	Expected return on employers assets	17,539
(16,052)	Interest on pension liabilities	(15,330)
<b>(1,831)</b>	<b>Net Return</b>	<b>2,209</b>
<b>9,668</b>	<b>Net Revenue Account Cost</b>	<b>9,482</b>

Further details of the implications of FRS17 on the Consolidated Balance Sheet and Movement in Reserves are provided in notes to those sections of the accounts.

**Scottish Teachers' Pension Scheme** -- the teachers' pension scheme is administered directly by the Scottish Executive. During 2004/05 the employer's contribution was set at 208% of the employees'. The Council paid £4.672m (2003/04 £3.564m) for employer's contributions to the Scottish Executive.

3. **External audit fees** -- in 2004/05 South Ayrshire Council incurred the following fees relating to external audit and inspection services from the appointed auditor:

2003/04 £'000		2004/05 £'000
168	Agreed audit fee	194
75	Notified fixed charge element	88
<b>243</b>	<b>Total</b>	<b>282</b>

4. **Asset Management Revenue Account** - the Code of Practice for Local Authority Accounting requires that services are charged with an asset rental or 'capital charge', which is based upon the current value of the asset rather than the historical financing cost. This account reflects the difference between the capital charges made in service accounts and the cost of financing those assets.

2003/04 £'000	Asset Management Revenue Account	2004/05 £'000
(13,317)	Capital charges	(13,436)
(1,365)	Deferred grants account	(1,772)
9,202	Depreciation	12,092
7,394	Interest	7,634
114	Expenses	110
<b>2,028</b>	<b>Transfer to Consolidated Revenue Account</b>	<b>4,628</b>

5. **Contributions to Capital Financing Account** - this consists of the difference between the principal repayment of capital to the loans fund not included in departmental revenue accounts and the depreciation charged (£9.463m), the contribution from the deferred government grant account (£1.772m), and the payment of improvement grants (£0.676m).

2003/04 £'000	Contributions to Capital Financing Account	2004/05 £'000
(6,748)	Excess of principal over depreciation	(9,463)
1,365	Deferred government grant account	1,772
(385)	Improvement grants	(676)
<b>(5,768)</b>	<b>Transfer to revenue account</b>	<b>(8,367)</b>

6. **Agency Income – Scottish Water** - The Council received £0.290m from Scottish Water as an agency fee in respect of water and sewerage charges collected on their behalf by the Council.

7. **Officers' Emoluments** – The number of employees whose remuneration, excluding pension contributions, was £40,000 or more in bands of £10,000 were:

<i>2003/04 No of Officers</i>	<i>Remuneration Band</i>	<i>2004/05 No of Officers</i>
101	£40,000 - £49,999	151
25	£50,000 - £59,999	14
4	£60,000 - £69,999	17
1	£70,000 - £79,999	0
3	£80,000 - £89,999	3
2	£90,000 - £99,999	3
1	£100,000 - £109,999	1
<b>137</b>	<b>Total</b>	<b>189</b>

8. **Summary of Members' allowances paid in the year**

<i>2003/04 £'000</i>		<i>2004/05 £'000</i>
190	Members allowances	201
174	Special responsibility allowance	191
19	Travel and subsistence	20
1	Fares etc	1
8	Telephone expenses	7
5	Conference and accommodation expenses	4
<b>397</b>	<b>Total</b>	<b>424</b>

9. **Local Authorities (Goods and Services) Act 1970**

The Local Authority (Goods and Services) Act 1970 allows the Council to enter into agreements with other public bodies to provide goods and services.

The main activities in 2004/05 were:

2003/04 £'000		2004/05 £'000
	<b>Chief Executive's Department</b>	
201	- Administrative service	183
155	- Training	175
	<b>Development, Safety &amp; Regulation</b>	
260	- Project work	230
166	- Administrative services	198
	<b>Education, Culture &amp; Lifelong Learning</b>	
14	- Administrative services	17
	<b>Environment and Infrastructure</b>	
651	- Roads maintenance	62
209	- Repairs	261
310	- Catering	511
698	- Cleaning	151
0	- Recycling	2,329
76	- Leisure projects	45
	<b>Social Work, Housing &amp; Health</b>	
26	- Criminal justice	38
35	- Fieldwork	26
30	- Community charge	62
<b>2,831</b>	<b>Total</b>	<b>4,288</b>

10. **Leasing**

Operating lease expenditure during 2004/05 amounted to rental of £1.891m (2003/04 - £1.863m).

The authority was committed at 31<sup>st</sup> March 2005 to making payments of £1.876m under operating leases in 2005/06, comprising the following elements:

	<i>Vehicles, Plant &amp; Equipment £'000</i>
Leases expiring in 2005/06	308
Leases expiring between 2006/07 and 2009/10	1,529
Leases expiring after 2009/10	39
<b>Total</b>	<b>1,876</b>

**11. Related Party Transactions**

Central Government has effective control over the general operations of the Council, providing the statutory framework within which the Council operates and also providing the majority of funding in the form of grants as shown below:

<i>2003/04</i> <i>£'000</i>	<i>Central Government Grants</i>	<i>2004/05</i> <i>£'000</i>
99,159	Revenue support grant	103,819
8,203	Non-domestic rate income	7,716
6,268	Council tax benefit subsidy	7,099
19,907	Housing benefit subsidy	21,652
10,901	Specific grants	12,621
14,593	Other government grants	20,511

In addition the Council received grants from other public bodies in 2004/05 as follows:

<i>2003/04</i> <i>£'000</i>	<i>Other Public Bodies</i>	<i>2004/05</i> <i>£'000</i>
54	European Regional Development Fund	181
5,308	Ayrshire and Arran Health Board	5,901
431	Infrastructure	125
859	School Buildings Improvement Fund	1,796
179	Energy Efficiency Savings	150
582	Other Grants	913

During the year transactions with related companies and parties arose as follows:

<i>2003/04</i> <i>£'000</i>	<i>Contributions to Organisations</i>	<i>2004/05</i> <i>£'000</i>
343	North Ayr and Girvan Social Inclusion Partnerships	302
142	Ayrshire and Arran Tourist Board	142

**12. HRA Surplus**

The surplus shown on the Housing Revenue Account differs from that shown in the 'net cost of services' section of the Consolidated Revenue Account due to the reporting requirements of FRS17 "Accounting for Retirement Benefits". The overall HRA surplus remains unaffected.

**13. Departmental Service Expenditure Analysis**

The Consolidated Revenue Account on page 9 has been prepared in accordance with the Best Value Accounting Code of Practice. In order to focus on managerial accountability and to enhance clarity of understanding the Consolidated Revenue Account has been represented below based on the Council's management structure:



2003/04 net expenditure £'000	Service	2004/05 gross expenditure £'000	2004/05 gross income £'000	2004/05 net expenditure £'000
5,470	Chief Executive's Department	43,614	40,217	3,397
22,139	Development, Safety & Regulation	39,543	15,171	24,372
83,775	Education, Culture & Lifelong Learning	98,787	9,988	88,794
31,445	Environment and Infrastructure	109,250	76,406	32,844
41,500	Social Work, Housing & Health	67,048	22,059	44,989
(1,557)	Housing Revenue Account	19,006	21,195	(2,189)
1,124	Miscellaneous Services	2,454	600	1,854
<b>183,896</b>	<b>Net Cost of Services</b>	<b>379,697</b>	<b>185,636</b>	<b>194,061</b>
2,028	Asset Management Revenue Account	4,628	0	4,628
(543)	Interest and Investment Income	0	712	(712)
1,831	Pension Interest Cost and Expected Return on Pension Assets	14,401	16,610	(2,209)
<b>187,212</b>	<b>Net Operating Expenditure</b>	<b>398,726</b>	<b>202,958</b>	<b>195,768</b>
1,533	Contribution to/(from) IIRA balances			2,331
(1,137)	Contribution to/(from) Pensions Reserve			(146)
0	Contribution to/(from) Repairs & Renewals Fund			(1,100)
0	Contribution to/(from) Insurance Fund			417
(5,768)	Contributions to/(from) Capital Financing Account			(8,367)
<b>181,840</b>	<b>Amount to be met from government grant and local taxpayers</b>			<b>188,903</b>
(99,159)	Revenue Support Grant			(103,819)
(8,203)	Non Domestic Rate Income from Pool			(7,716)
(31,761)	Non Domestic Rate Income Collected			(34,169)
(42,788)	Council Tax Income			(45,217)
(11)	Community Charge Income			(7)
<b>(181,922)</b>	<b>Amount received from government grant and local taxpayers</b>			<b>(190,928)</b>
<b>(82)</b>	<b>(Surplus)/deficit for year</b>			<b>(2,025)</b>
<b>(3,958)</b>	<b>(Surplus)/deficit brought forward</b>			<b>(4,040)</b>
<b>(4,040)</b>	<b>(Surplus)/deficit carried forward</b>			<b>(6,065)</b>

#### 14. Trading Services

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

The Council has reviewed its activities and concluded that statutory trading accounts should be maintained for seven services, as shown in the undernoted table. The Department of Environment, Land and Property operate all of these trading services.

	<i>(Surplus)/ Deficit 2003/04 £'000</i>	<i>Trading Service</i>	<i>Expenditure 2004/05 £'000</i>	<i>Income 2004/05 £'000</i>	<i>(Surplus)/ Deficit 2004/05 £'000</i>
(i)	(611)	Building works	16,628	16,716	(88)
(ii)	(130)	Catering	3,564	3,736	(172)
(iii)	(48)	Building cleaning	2,524	2,624	(100)
(iv)	(97)	Golf courses	2,035	2,262	(227)
(v)	(241)	Grounds maintenance	5,442	5,432	10
(vi)	(85)	Leisure	3,334	3,337	(3)
(vii)	(52)	Roads	4,623	4,695	(72)
	<b>(1,264)</b>	<b>Total Trading</b>	<b>38,150</b>	<b>38,802</b>	<b>(652)</b>

**(i) Building works**

Building works employs 216 tradesmen and general labourers. Operations are based at two depots – Green Street Lane, Ayr and Bridge Street, Girvan, with a 24 hour emergency service provided 365 days a year. Workload consists of maintenance of the council's 9,009 houses and around 200 other buildings. During the year Building works carried out approximately 49,500 repairs to the housing stock. Approximately 700 South Ayrshire Homes properties are also maintained by this division.

**(ii) Catering**

The catering division employs 265 staff. Meals are supplied to secondary and primary schools, lunch clubs, community centres and to Social Work residential homes. Catering is also provided at staff canteens and for civic functions. The division is increasingly involved in health initiatives promoted by the Scottish Executive including 'Hungry for Success', breakfast clubs and the issue of free fruit at schools.

**(iii) Building cleaning**

The Building cleaning operation employs 496 staff across the council area. Each of the council's 200 properties, comprising schools, Social Work homes, libraries, sports and activity centres and office accommodation, are cleaned by staff from this division.

**(iv) Golf courses**

The division employs 24 staff including seasonal workers to operate the 8 golf courses owned by South Ayrshire Council (3 in Ayr; 3 in Troon; 1 in Girvan; and 1 in Maybole). South Ayrshire is world renowned for golf and the council-owned courses attract many tourists and visitors to the area each year.

**(v) Grounds maintenance**

Grounds maintenance employs 102 operatives and handles a wide range of grounds related work including the maintenance of the council's parks, golf courses, cemeteries, bowling greens, sports pitches and other open spaces.

**(vi) Leisure**

Leisure services employs 103 full-time and part-time staff on a wide range of leisure, sport and physical activities throughout South Ayrshire. Staffing levels are further increased with seasonal employees. The council operates 7 activity centres and 5 swimming pools as well as providing community outreach programmes, children's holiday programmes, gymnasia and after school care clubs. Leisure Services are committed to sports development in South Ayrshire, particularly in swimming, rugby and football. Reduced cost access to facilities is available through the council's leisure card.

**(vii) Roads**

Roads maintenance operations employ approximately 46 manual operatives based at 2 depots in Coylton and Girvan. The department has competed for and undertaken a number of roads maintenance contracts in competition with private sector contractors. A wide range of routine and cyclical works are also carried out including pothole repairs, gully emptying, drainage work and gritting operations.

## Collection of Council Tax, Rates and Community Charge

## Council tax income account

2003/04 £'000		2004/05 £'000
49,571	<b>Gross charge</b>	52,541
(1,116)	<i>Deduct:</i> Exemptions	(1,260)
(63)	Disabled relief	(68)
(4,463)	Discounts	(4,848)
43,929	<b>Net council tax</b>	46,365
(6,572)	<i>Deduct:</i> Rebates	(7,081)
6,268	Less government grants	7,122
13	Other items	13
(1,314)	Provision for bad debts	(1,193)
286	Gain/loss on benefits to be transferred to Miscellaneous Services	(49)
(89)	Grant on claimant error transferred to cost of collection	(92)
42,521	<b>In year council tax income</b>	45,085
267	Prior year adjustments	132
42,788	<b>Total council tax income</b>	45,217

## Notes

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

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

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

<i>Valuation band</i>	<i>Property valuation range</i>	<i>Fractions</i>
A	£0 - £27,000	6/9
B	£27,001 - £35,000	7/9
C	£35,001 - £45,000	8/9
D	£45,001 - £58,000	9/9
E	£58,001 - £80,000	11/9
F	£80,001 - £106,000	13/9
G	£106,001 - £212,000	15/9
H	Over £212,000	18/9

## 2. Calculation of the council tax charge base 2004/05

<i>Council tax band</i>	<i>Valuation band</i>								<i>Total</i>
	<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>	<i>E</i>	<i>F</i>	<i>G</i>	<i>H</i>	
Total number of properties	7,505	12,447	8,164	7,360	8,855	4,219	2,652	219	51,401
Less exemptions/ deductions	311	261	152	84	74	33	24	4	943
Less adjustment for single discount	934	1,233	745	596	548	207	97	6	4,366
Less adjustment for double discount	98	124	93	85	78	33	23	7	541
Effective number of properties	6,162	10,829	7,174	6,595	8,155	3,946	2,488	202	45,551
Band D equivalent factor (ratio)	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	
Band D equivalent number of properties	4,108	8,423	6,377	6,595	9,967	5,700	4,147	404	45,721
Class 17 & 24 Dwellings				13					13
<b>Total</b>	<b>4,108</b>	<b>8,423</b>	<b>6,377</b>	<b>6,608</b>	<b>9,967</b>	<b>5,700</b>	<b>4,147</b>	<b>404</b>	<b>45,734</b>
Less provision for non-collection 3 per cent									1,372
<b>Council tax base 2004/05</b>									<b>44,362</b>
<i>(equivalent to a Band D Council tax of £1,012.20)</i>									

## 3. Council tax properties and council tax charges

<i>Valuation band</i>	<i>Number of chargeable properties</i>	<i>Total council tax charge £</i>
A	6,162	674.80
B	10,829	787.27
C	7,174	899.73
D	6,608	1,012.20
E	8,155	1,237.13
F	3,946	1,462.07
G	2,488	1,687.00
H	202	2,024.40
<b>Total</b>	<b>45,564</b>	

## Non-domestic rate income account

2003/04 £'000		2004/05 £'000
39,220	Gross charge	40,722
(5,649)	<i>Deduct:</i> Reliefs & Remissions	(5,905)
(2)	Interest on overpaid rates	0
(670)	Provision for bad debts	(521)
32,899	Net non-domestic rate income	34,296
(1,138)	Prior year adjustments	(127)
31,761	Total non-domestic rate income	34,169
	<b>National non-domestic rate pool (NNDRP):</b>	
39,964	NDRI Distributable	41,885
31,761	Contribution to NNDRP	34,169
8,203	Net contribution from NNDRP	7,716

## Notes:

1. **Non-domestic rate income / contribution from national non-domestic rate pool** - with effect from 1993/94, all non-domestic rate income collected by local authorities (from non-domestic ratepayers) is paid into a national pool and redistributed to levying authorities (unitary and island councils). The non-domestic rate income is redistributed from the national pool in proportion to the resident population of each local authority concerned, and therefore bears no direct relationship to the amount collected by those authorities.
2. **Rateable subjects and values**

## Non-domestic rateable subjects

2003/04		2004/05
3,171	Shops, offices, hotels, boarding houses, etc	3,154
398	Industrial	409
7	Formula valued	7
1,026	Miscellaneous	1,023
4,602	Total	4,593

**Non-Domestic Rateable Values**

<b>2003/04</b> <b>£'000</b>		<b>2004/05</b> <b>£'000</b>
47,010	Shops, offices, hotels, boarding houses, etc	45,900
10,535	Industrial	10,271
4,770	Formula valued	4,796
20,484	Miscellaneous	20,756
<b>82,799</b>	<b>Total</b>	<b>81,723</b>

Rate levied 2004/05: 49.1p (rateable value greater than £25,000)  
48.8p (rateable value less than or equal to £25,000)

**Community charge Years prior to 31 March 1993**

<b>2003/04</b> <b>£'000</b>		<b>2004/05</b> <b>£'000</b>
11	Arrears written off now recovered	7
<b>11</b>		<b>7</b>

Former community charge debt continues to be vigorously pursued, and this debt is now fully provided for.

## Housing Revenue Account Year ended 31 March 2005

2003/04 Actual £'000		2004/05 Actual £'000
2,650	Employee costs	3,539
1,177	Allocation of central administration etc	1,024
209	Insurances	214
172	Accommodation	256
331	Supplies and services	380
<b>4,539</b>	<b>Supervision and management</b>	<b>5,413</b>
114	Redecoration allowances	102
8,699	Repairs and maintenance	9,364
<b>8,813</b>	<b>Repairs and maintenance</b>	<b>9,466</b>
581	Voids	502
116	Increase in bad debt provision	94
<b>697</b>	<b>Lost rents</b>	<b>596</b>
82	Transport costs	77
297	Administrative costs	271
334	Payments to agencies, etc	400
<b>713</b>	<b>Other expenditure</b>	<b>748</b>
185	Principal	89
3,484	Interest	3,133
54	Expenses	46
(348)	Interest on revenue balances	(486)
(481)	Return on pension assets	(1,062)
543	Interest cost on pension	929
<b>3,437</b>	<b>Financing costs</b>	<b>2,649</b>
1,578	CFCR	0
<b>(38)</b>	<b>Contribution to/(from) pension reserve</b>	<b>(9)</b>
<b>19,739</b>	<b>Total expenditure</b>	<b>18,863</b>
(20,002)	Dwelling rents	(19,902)
(1,014)	Non dwelling rents	(1,053)
(26)	Housing support grant	(23)
(230)	Other income	(216)
<b>(21,272)</b>	<b>Total income</b>	<b>(21,194)</b>
<b>(1,533)</b>	<b>Net (surplus)/deficit</b>	<b>(2,351)</b>
<b>(4,569)</b>	<b>Surplus brought forward</b>	<b>(6,102)</b>
<b>(6,102)</b>	<b>Accumulated (surplus) / deficit at end of year</b>	<b>(8,433)</b>



**Notes to Housing Revenue Account:**

1. A provision of £0.468m is included in the consolidated balance sheet for doubtful debts on housing rents.
2. At 31 March 2005, the Council held various types of accommodation, and had the following number and types of houses.

<i>31 March 2004 Number of Houses</i>	<i>Type of accommodation</i>	<i>31 March 2005 Number of houses</i>
2,609	1 and 2 apartment	2,556
4,170	3 apartment	4,007
2,402	4 apartment	2,258
202	5 or more apartment	188
<b>9,383</b>	<b>Total</b>	<b>9,009</b>

<i>31 March 2004 Number of Houses</i>	<i>By area</i>	<i>31 March 2005 Number of houses</i>
3,798	Ayr North	3,675
1,609	Ayr South	1,524
1,147	Troon	1,103
820	Prestwick	779
891	Maybole	847
1,118	Girvan	1,081
<b>9,383</b>	<b>Total</b>	<b>9,009</b>

3. At 31 March 2005, rent arrears amounted to £0.696m, being 3.3% of gross rent collectable. (2003/04 £0.753m, being 3.6% of gross rent collectable)

## Consolidated Balance Sheet as at 31 March 2005

2004 £'000		2005 £'000
	<b>Fixed assets (note 1):</b>	
	<i>Operational assets</i>	
114,170	Council dwellings	203,814
187,097	Other land and buildings	184,574
1,198	Vehicles, plant, etc	1,249
36,770	Infrastructure assets	37,747
916	Community assets	924
<b>340,151</b>		<b>428,308</b>
18,507	<i>Non-operational assets</i>	20,272
<b>358,658</b>	<b>Total fixed assets</b>	<b>448,580</b>
<b>17,759</b>	<b>Loans premium (note 3)</b>	<b>17,210</b>
<b>141</b>	<b>Long term investments (note 4)</b>	<b>141</b>
<b>135</b>	<b>Loans (note 5)</b>	<b>104</b>
	<b>Current assets:</b>	
599	Stocks and work in progress	520
36,488	Sundry debtors (note 9)	38,811
(20,896)	Provision for bad and doubtful debts (note 9)	(20,814)
21,025	Short term investments	19,900
38	Cash floats and imprests	40
<b>37,254</b>		<b>38,457</b>
<b>413,947</b>	<b>Total assets</b>	<b>504,492</b>
	<b>Less: Current liabilities:</b>	
11,627	Temporary and other loans repayable within a year	2,370
29,699	Sundry creditors (note 10)	28,651
221	Provision for liabilities (note 9)	292
7,589	Bank overdraft	5,529
3,631	Due to Common Good/ sundry accounts (note 6)	6,447
<b>52,767</b>		<b>43,289</b>
<b>361,180</b>	<b>Total assets less current liabilities</b>	<b>461,203</b>
	<b>Less: Long term liabilities:</b>	
160,858	Long term borrowing (note 7)	167,128
732	Covenant scheme (notes 2 & 7)	592
<b>161,590</b>	<b>Total long term liabilities excluding pension liability</b>	<b>167,720</b>
<b>199,590</b>	<b>Total assets before pension liability</b>	<b>293,483</b>
29,611	<i>Less: Pension liability (note 8)</i>	88,281
<b>169,979</b>	<b>Total net assets</b>	<b>205,202</b>
	<b>Financed by:</b>	
117,017	Fixed asset restatement account	204,611
61,465	Capital financing account	59,852
1,524	Usable capital receipts reserve	4,460
8,284	Government grant deferred	9,525
(29,611)	Pension reserve (note 8)	(88,281)
	<i>Reserves and fund balances:</i>	
1,158	Repairs & renewals fund (note 11)	112
0	Insurance fund (note 12)	425
4,040	General fund surplus (note 13)	6,065
6,102	Housing fund surplus (note 14)	8,433
<b>169,979</b>	<b>Total net worth</b>	<b>205,202</b>

Signed: Brian Ward Head of Finance and ICT Date: 28 November 2005

## Notes to Consolidated Balance Sheet at 31 March 2005

## Note 1 - Fixed assets

## (a) Valuation of fixed assets

<i>Useful life</i>	<i>Category</i>	<i>Valuer</i>	<i>Basis of Valuation</i>	<i>Date of last Full Valuation</i>
6 to 40 years	Operational (specialised) Properties	Estates Manager	Depreciated Replacement Cost (DRC)	31 March 2002
5 to 99 years for buildings/ up to 999 years for land	Operational (non-specialised) Properties	Estates Manager	Open Market Value Existing Use (OMVEU/EUV)	31 March 2004
11 to 99 years for buildings/ up to 999 years for land	Non-operational Properties	Estates Manager	Open Market Value (OMV/MV)	31 March 2003
30 years	Local Authority Housing Stock	Estates Manager	Net Realisable Value (NRV)	31 March 2005
Up to 40 years	Infrastructure Assets	Not applicable	Historical Cost	Not Applicable
99 to 999 years	Community Assets	Not applicable	Historical Cost	Not Applicable
1 to 7 years	Vehicles	Transport Manager	Net Realisable Value (NRV)	Not Applicable

## (b) Movement in fixed assets

The table below illustrates the movement in fixed assets, analysed by asset category, arising from additions, disposals, revaluations and depreciation during the year. As a result of these movements, the net book value of fixed assets held as at 31 March 2005 was £448.580m.

	<i>Council dwellings</i>	<i>Operational assets</i>	<i>Non-operational assets</i>	<i>Infrastructure assets</i>	<i>Community assets</i>	<i>Vehicles and equipment</i>	<i>Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Gross book value as at 1 April 2004	127,113	202,475	18,507	40,114	916	2,108	391,233
Revaluations	83,541	(2,500)	123	0	(188)	(253)	80,723
Additions	6,097	3,927	1,751	1,980	196	468	14,419
Disposals / transfers	(5,908)	(59)	(109)	0	0	(16)	(6,092)
<b>Gross book value as at 31 March 2005</b>	<b>210,843</b>	<b>203,843</b>	<b>20,272</b>	<b>42,094</b>	<b>924</b>	<b>2,307</b>	<b>480,283</b>
Depreciation as at 1 April 2004	12,943	15,380	0	3,343	0	909	32,575
Released on revaluation / disposal	(12,943)	(9)	0	0	0	(12)	(12,964)
Charge for year	7,029	3,898	0	1,004	0	161	12,092
<b>Balance as at 31 March 2005</b>	<b>7,029</b>	<b>19,269</b>	<b>0</b>	<b>4,347</b>	<b>0</b>	<b>1,058</b>	<b>31,703</b>

<b>Net book value as at 31 March 2005</b>	<b>203,814</b>	<b>184,574</b>	<b>20,272</b>	<b>37,747</b>	<b>924</b>	<b>1,249</b>	<b>448,580</b>
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**Note 2 – Covenant scheme**

A covenant scheme was entered into in relation to six sports halls built in 1992. The capital costs were spread over 21 years, and the sixteenth capital payment of £0.140m was made in 2004/05. These sports halls are held within fixed assets.

**Note 3 - Loans premium**

<i>Movements in year</i>	<i>Balance 31 March 2004 £'000</i>	<i>Additions £'000</i>	<i>Premiums Released £'000</i>	<i>Balance 31 March 2005 £'000</i>
Loans premium	17,759	0	549	17,210

**Note 4 Investments**

	<i>2004 £'000</i>	<i>2005 £'000</i>
Freeport (Scotland) Ltd (74,000 ordinary shares)	40	40
West of Scotland Loans Fund Limited	100	100
SC Enterprise Fund	1	1
	<b>141</b>	<b>141</b>

**Note 5 - Loans**

	<i>2004 £'000</i>	<i>2005 £'000</i>
Local Government (D & F) Act 1964	2	2
Payroll Rationalisation	10	0
Others	123	102
	<b>135</b>	<b>104</b>

**Note 6 - Due to Common Good/ Sundry Accounts**

This sum is made up of deposits by the various Common Good and sundry accounts with the Council's loans fund.

**Note 7 - Analysis of borrowing**

	<i>Covenant £'000</i>	<i>PWLB £'000</i>	<i>Local Bonds £'000</i>	<i>Total £'000</i>
1 to 2 years	140	135	1,058	1,333
2 to 5 years	452	406	149	1,007
5 to 10 years	0	6,561	9,700	16,261
10+ years	0	117,539	31,580	149,119
	<b>592</b>	<b>124,641</b>	<b>42,487</b>	<b>167,720</b>

Local Bonds (1 to 2 years) include FIB loans held by Glasgow City Council. The debt was disaggregated, but the original loans are still administered centrally.

**Note 8 – FRS 17 – Retirement Benefits**

In accordance with Financial Reporting Standard No 17 "Retirement Benefits" (FRS17) the Council is required to disclose certain information concerning assets, liabilities, income and expenditure related to pension schemes for its employees. As explained in note 2 to the Consolidated Revenue Account the Council participates in two formal schemes, the Local Government Superannuation Scheme, which is administered by Glasgow City Council's Pension Fund and the Teachers' Scheme. The Council is not required to record information related to the Teachers' Scheme as the liability for payment of pensions rests ultimately with the Scottish Executive. In addition the Council has liabilities for discretionary pension payments outside the main schemes.

The Council's assets and liabilities amounted to:

<i>2004</i> <i>£'000</i>		<i>2005</i> <i>£'000</i>
247,007	Share of assets in City Council Fund	275,766
(276,618)	Estimated liabilities in City Council Fund	(364,047)
<b>(29,611)</b>	<b>Net assets/ (liabilities) in City Council Fund</b>	<b>(88,281)</b>

Assets and liabilities in Glasgow City Council's fund are valued at fair value (principally market value for investments) and consist of:

<i>2004</i> <i>£'000</i>		<i>2005</i> <i>£'000</i>
180,496	Equity investments	203,740
35,159	Bonds	36,857
21,063	Property	26,407
10,289	Cash	8,762
(261,929)	Scheme liabilities	(346,253)
(14,689)	Unfunded liabilities	(17,794)
<b>(29,611)</b>	<b>Net assets/ (liabilities) in City Council Fund</b>	<b>(88,281)</b>

The liabilities represent the Council's underlying long-term commitment to pay retirement benefits to current and former employees. Liabilities are valued on an actuarial basis using the projected unit method, which assesses the future liabilities of the fund based on assumptions about future financial experience – principally investment return, salary growth and inflation – and discounts them to their present value. The total net liability of £88.281m at 31 March 2005 has a substantial impact on the net worth of the Council as recorded in the balance sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit of the Local Government Superannuation Scheme will be made good by making appropriate contributions over the remaining working life of employees, as assessed by the Scheme actuary.

The valuations are as at 31 March 2005, and are provided by Hyman Robertson, the independent actuaries to Glasgow City Council Fund. The main assumptions used in the calculations are:

<i>2004</i> <i>City Fund</i>		<i>2005</i> <i>City Fund</i>
2.9%	Rate of inflation	2.9%
4.4%	Rate of increase in salaries	4.4%
2.9%	Rate of increase in pensions	2.9%
6.5%	Rate for discounting scheme liabilities	5.4%

#### Note 9 - Debtors and Provisions for Bad and Doubtful Debts/ Liabilities

At 31 March 2005 the accounts include debtors totalling £38.811m and provisions against these debtors totalling £20.814m, analysed as follows:

<i>2004</i> <i>Net Debtor</i> <i>£'000</i>		<i>Gross Debtor</i> <i>£'000</i>	<i>Bad Debt</i> <i>Provision</i> <i>£'000</i>	<i>2005</i> <i>Net Debtor</i> <i>£'000</i>
1,563	Council Tax/ Community Charge	19,935	18,317	1,618
0	Department of Works & Pensions	213	0	213
977	Non-Domestic Rates	2,556	1,424	1,132
327	Council House Rents	696	468	228
971	Revenue Support Grant	860	0	860
1,870	Customs and Excise	1,721	0	1,721
9,884	Sundry Debtors	12,830	605	12,225
<b>15,592</b>	<b>Total</b>	<b>38,811</b>	<b>20,814</b>	<b>17,997</b>

*Provision for liabilities* - Total provisions for liabilities amount to £0.292m. Based on information received from Glasgow City Council, provision has been made for insurance costs totalling £0.193m in respect of South Ayrshire Council's share of the former Strathclyde Regional Council's insurance claims. The provision has reduced from £0.221m at 31<sup>st</sup> March 2004. The remaining balance of £0.099m represents the provision made in respect of future Roads contract losses that have been recognised at 31<sup>st</sup> March 2005.

**Note 10 - Creditors**

At 31 March 2005 the accounts include creditors totalling £28.651m, analysed as follows:

<i>2004 Creditor £'000</i>		<i>2005 Creditor £'000</i>
5,434	Scottish Executive	2,834
3,147	Inland Revenue	2,932
3,255	Department of Works & Pensions	0
3,470	Other Public Bodies	6,066
2,081	Loan Interest	1,979
12,312	Trade and Other Creditors	14,840
<b>29,699</b>	<b>Total</b>	<b>28,651</b>

**Note 11 – Insurance fund**

During 2004/05 £0.417m was transferred to the fund, interest of £0.008m was applied to the fund resulting in a balance at 31<sup>st</sup> March 2005 of £0.425m. There are no commitments against this balance for financial year 2005/06.

**Note 12 – Repairs and Renewals fund**

The balance on the Repairs and Renewals Fund at 1<sup>st</sup> of April 2004 was £1.158m. £1.100m was used to finance revenue expenditure during 2004/05, interest of £0.054m was applied to the fund resulting in a balance at 31<sup>st</sup> March 2005 of £0.112m. There are no commitments against this balance for financial year 2005/06.

**Note 13 – General Fund balances**

General fund balances are a fundamental requirement of prudent financial management. The following table identifies those amounts that have been set aside for specific purposes and those that remain uncommitted to be used to resource unforeseen expenditure demands and to be used in the Council's medium to longer term financial planning.

	<i>2005 £'000</i>
<b>Opening balance</b>	<b>4,040</b>
Surplus for the year	2,025
<b>Total General Fund balance at 31<sup>st</sup> March 2005</b>	<b>6,065</b>
Allocated to fund revenue budget 2005/06	1,714
Earmarked for specific service expenditure 2005/06	2,844
<b>Uncommitted General Fund balance</b>	<b>1,507</b>

**Note 14 – Housing Fund balance**

The accumulated Housing Revenue Account Surplus at 31<sup>st</sup> March 2005 is £8.433m. The following table identifies those amounts that have been set aside for specific purposes and those that remain uncommitted to be used to fund future capital programmes and help reduce the need for borrowing in accordance with the Housing business plan.

	<i>2005</i> <i>£'000</i>
<b>Opening balance</b>	<b>6,102</b>
Surplus for the year	2,331
<b>Total Housing Fund balance at 31<sup>st</sup> March 2005</b>	<b>8,433</b>
Earmarked for specific service expenditure 2005/06	1,131
<b>Uncommitted Housing Fund balance</b>	<b>7,302</b>



## Statement of Total Movement in Reserves

	£'000	£'000
Surplus/(deficit) for the year		
General Fund	2,025	
Housing Revenue Account	2,331	
Add back movements on specific revenue reserves	(621)	
Deduct appropriation from pension reserve	(146)	
Actuarial gains and losses relating to pensions	(58,524)	
<b>Total increase/(decrease) in revenue reserves (note 1)</b>		<b>(54,935)</b>
Increase/(decrease) in usable capital receipts	2,936	
<b>Total increase/(decrease) in capital reserves (note 2)</b>		<b>2,936</b>
Gains/(losses) on the revaluation, or the impairment, on fixed assets	93,074	
<b>Total increase/(decrease) in unrealised value of fixed assets (note 3)</b>		<b>93,074</b>
<b>Value of assets sold, disposed of or decommissioned (note 3)</b>		<b>(5,480)</b>
Capital receipts set aside	6,754	
Revenue resources set aside	(9,463)	
Deferred grants released	1,096	
<b>Total increase/(decrease) in amount set aside to finance capital investment (note 4)</b>		<b>(1,613)</b>
<b>Other movements in capital reserves (note 4)</b>		<b>1,241</b>
<b>Total movement in net worth</b>		<b>35,223</b>

The tables on pages 32 and 33 demonstrate how movements arising from various capital and revenue transactions affect the reserves.

## Statement of Movement in Reserves

## 1) Movement in revenue reserves

	<i>General Fund Balances</i> £'000	<i>HRA Balances</i> £'000	<i>Repairs &amp; Renewals</i> £'000	<i>Insurance</i> £'000	<i>Pension Reserve</i> £'000
Surplus/ (deficit) for 2004/05	2,025	2,331	0	0	0
Appropriations (to)/ from revenue	0	0	(1,046)	425	(146)
Actuarial gains/ (losses) relating to pensions	0	0	0	0	(58,524)
Balance brought forward at 1 April 2004	4,040	6,102	1,158	0	(29,611)
<b>Balance carried forward at 31 March 2005</b>	<b>6,065</b>	<b>8,433</b>	<b>112</b>	<b>425</b>	<b>(88,281)</b>

A summary of the amounts held within the General Fund balances, HRA balances, Repairs & Renewals and Insurance funds are provided in the notes to the Consolidated Balance Sheet.

The Pension Reserve holds the difference between the pension payments made during the year in accordance with the scheme requirements and the change in the Council's recognised asset or liability for the same period. This is represented by an appropriation to or from the Pension Reserve. It also holds actuarial gains or losses which arise where actual events have not coincided with the actuarial assumptions made for the last valuation or the actuarial assumptions have changed as detailed below.

<i>2003/04</i> £'000		<i>2004/05</i> £'000
35,644	Difference between the expected and actual return on assets	9,305
247,007	Value of assets	275,766
<b>14.4%</b>	<b>Percentage of Assets</b>	<b>3.4%</b>
250	Experience gains/ (losses) on liabilities	(847)
276,618	Total present value of liabilities	364,047
<b>0.1%</b>	<b>Percentage of the total present value of liabilities</b>	<b>(0.2%)</b>
35,894	Actuarial gains and losses recognised in movement in reserves	(58,524)
276,618	Total present value of liabilities	364,047
<b>13.0%</b>	<b>Percentage of the total present value of liabilities</b>	<b>(16.1%)</b>

## 2) Movement in realised capital reserves

	<i>Usable Capital Receipts</i> £'000
Amounts receivable in 2004/05	12,703
Amounts applied to finance new capital investment in 2004/05	(9,767)
<b>Total increase/ (decrease) in realised capital resources in 2004/05</b>	<b>2,936</b>
Balance brought forward at 1 April 2004	1,524
<b>Balance carried forward at 31 March 2005</b>	<b>4,460</b>

The Usable Capital Receipts Reserve represents the value of receipts arising from the disposal of fixed assets that can be used to increase capital expenditure in future years. Capital grants are also available to enhance future expenditure.

**3) Movement in unrealised value of fixed assets/ value of assets sold, disposed of or decommissioned**

	<i>Fixed Asset Restatement Account £'000</i>
Gains/ (losses) on revaluation of fixed assets in 2004/05	93,074
<b>Total increase/ (decrease) in unrealised capital resources in 2004/05</b>	<b>93,074</b>
Amounts written off fixed assets for disposal in 2004/05	(5,480)
<b>Total movement in reserve in 2004/05</b>	<b>87,594</b>
Balance brought forward at 31 March 2004	117,017
<b>Balance carried forward at 31 March 2005</b>	<b>204,611</b>

The Fixed Asset Restatement Reserve holds the change in current value of fixed assets arising from any revaluations. Changes in value also arise as a result of impairment, or conversely, enhancement of fixed assets.

**4) Movements in amounts set aside to finance capital expenditure**

	<i>Capital Financing Account £'000</i>	<i>Government Grants Deferred £'000</i>
<i>Capital receipts set aside in 2004/05</i>		
- usable receipts applied	6,754	
<b>Total capital receipts set aside in 2004/05</b>	<b>6,754</b>	
<i>Revenue resources set aside in 2004/05</i>		
- reconciling amount for provision for loan payment	(9,463)	
<b>Total revenue resources set aside in 2004/05</b>	<b>(9,463)</b>	
Grants applied to capital investment in 2004/05	1,096	3,013
Amounts credited to Asset Management Revenue Account in 2004/05		(1,772)
<b>Movement in government grants deferred</b>	<b>1,096</b>	<b>1,241</b>
<b>Total movement in reserves in 2004/05</b>	<b>(1,613)</b>	<b>1,241</b>
Balance brought forward at 1 April 2004	61,465	8,284
<b>Balance carried forward at 31 March 2005</b>	<b>59,852</b>	<b>9,525</b>

The Capital Financing Reserve represents movement in the funding of assets arising either from capital resources such as capital receipts and income or capital funded directly from revenue contributions. It also holds the difference between principal repayment of loans and depreciation charged to service revenue accounts.

The Government Grant Deferred Account represents funding for capital projects which requires to be written off to the Consolidated Revenue Account.

## Cash Flow Statement

2003/04 £'000		2004/05 £'000	2004/05 £'000
	<b>Revenue activities</b>		
	<i>Cash outflows</i>		
126,880	Cash paid to or on behalf of employees	134,390	
137,042	Other operating cash payments	158,420	
7,262	Housing benefit paid out	7,617	
31,249	National non-domestic rates – payments to national pool	34,169	
<b>302,433</b>		<b>334,596</b>	
	<i>Cash inflows</i>		
7,397	Rents (after rebates)	6,639	
49,667	Council tax receipts	52,427	
39,964	National non-domestic rates receipts from national pool	41,885	
32,139	Non-domestic rates receipts	33,994	
98,949	Revenue support grant	101,872	
10,707	DWP grants for benefits	8,780	
48,019	Other government grants (note 4)	51,911	
40,353	Other operating cash receipts	53,365	
<b>327,195</b>		<b>350,873</b>	
<b>(24,762)</b>	<i>Net cash inflow from revenue activities (note 1)</i>		<b>(16,277)</b>
	<b>Servicing of capital</b>		
10,151	Interest paid	10,421	
(336)	Interest received	(600)	
<b>9,815</b>	<i>Net cash outflow from servicing of capital</i>		<b>9,821</b>
	<b>Capital activities</b>		
	<i>Cash outflows:</i>		
17,229	Purchase of fixed assets	14,419	
416	Other capital cash payments	676	
<b>17,645</b>	<i>Total payments</i>	<b>15,095</b>	
	<i>Cash inflows:</i>		
9,959	Capital cash receipts	12,703	
3,064	Capital grants	0	
<b>13,023</b>	<i>Total income</i>	<b>12,703</b>	
<b>4,622</b>	<i>Net cash outflow from capital activities</i>		<b>2,392</b>
<b>(10,325)</b>	<i>Net cash outflow/ (inflow) before financing</i>		<b>(4,064)</b>
	<b>Management of liquid resources (note 3):</b>		
16,075	(Decrease)/ increase/ in investments		<b>(1,125)</b>
	<b>Financing</b>		
	<i>Cash outflows</i>		
15,413	Repayments of amounts borrowed	20,827	
	<i>Cash inflows</i>		
15,050	New short term loans raised	10,700	
5,000	New long term loans raised	7,000	
<b>(4,637)</b>	<i>Net cash outflow/ (inflow) from financing</i>		<b>3,127</b>
<b>1,113</b>	<i>(Increase)/ decrease in cash</i>		<b>(2,062)</b>

## Notes to Cash Flow Statement

## Note 1 - Reconciliation of Consolidated Revenue Account to Revenue Activities Cash Flow

2003/04 £'000		2004/05 £'000	
(82)	General Fund Surplus	(2,025)	
(1,533)	Housing Revenue Account Surplus	(2,331)	
<b>(1,615)</b>	<b>Surplus for the year</b>		<b>(4,356)</b>
	<i>Adjust surplus for items accounted for elsewhere in cashflow statement</i>		
(9,815)	Loans fund interest	(9,821)	
(1,857)	Loans fund principal	(2,628)	
(1,900)	Capital financed from current revenue	0	
<b>(13,572)</b>			<b>(12,449)</b>
	<i>Adjust surplus for internal items</i>		
(42)	Contributions to funds	(425)	
0	Use of funds	1,046	
<b>(42)</b>			<b>621</b>
	<i>Adjust surplus for movements in working capital</i>		
(1,047)	Increase/(Decrease) in debtors	1,856	
(7,237)	(Increase)/Decrease in sundry creditors	977	
(1,229)	Increase in other creditors	(2,816)	
(2)	Decrease in stock and work in progress	(79)	
(18)	Decrease in loans	(31)	
<b>(9,533)</b>			<b>(93)</b>
<b>(24,762)</b>	<b>Net cash inflow from revenue activities</b>		<b>(16,277)</b>

## Note 2 – Reconciliation to Net Debt

	£'000	£'000
Increase in cash	(2,062)	
Decrease in debt	(3,127)	
Decrease in liquid resources	1,125	
Decrease in debt in period		(4,064)
Net debt at 1 April 2004		159,743
		155,679

Analysis of net debt	1 April 2004 £'000	Movement £'000	31 March 2005 £'000
Cash on hand	(38)	(2)	(40)
Overdrafts	7,589	(2,060)	5,529
<b>Sub Total (A)</b>	<b>7,551</b>	<b>(2,062)</b>	<b>5,489</b>
Debt due within 1 year	11,627	(9,257)	2,370
Debt due after 1 year	160,858	6,270	167,128
Covenant Scheme	732	(140)	592
<b>Sub Total (B)</b>	<b>173,217</b>	<b>(3,127)</b>	<b>170,090</b>
Short term investments	(21,025)	1,125	(19,900)
<b>Sub Total (C)</b>	<b>(21,025)</b>	<b>1,125</b>	<b>(19,900)</b>
<b>Total (A)+(B)+(C)</b>	<b>159,743</b>	<b>(4,064)</b>	<b>155,679</b>

## Note 3 – Reconciliation of relevant movements within the Financing &amp; Management of Liquid Resources

	Balance at 1 April 2004 £'000	Balance at 31 March 2005 £'000	2004/05 Movement £'000
<b>Management of Liquid Resources</b>			
Short term deposits	21,025	19,900	(1,125)
<b>Management of Financing</b>			
PWLB Loans	134,500	126,777	(7,723)
Covenant Loans	872	732	(140)
Local Bonds/EIB Loans	37,845	42,581	4,736
	<b>173,217</b>	<b>170,090</b>	<b>(3,127)</b>

## Note 4 – Analysis of Other Government Grants

	£'000
Rent rebates benefit subsidy	10,868
Supporting People	7,216
Police	8,130
Council tax benefit subsidy	5,872
Criminal justice management	1,103
Fast track children's hearings	1,435
School fund	1,636
New community schools	1,113
Changing Children's Services Fund	1,165
Inclusion	803
Council tax benefit administration	408
National grid for learning	618
Rent rebate administration	408
New Opportunities funding	404
Secondary education	328
Homeless strategy	714
Continuous professional development	297
In service training	154
Mental illness	301
Rural public transport	104
Alternatives to exclusion	381
Study support	473
Support for teachers	353
Verification framework	164
Fraud incentive subsidy	86
Higher Still	187
Workforce expansion	130
Strategic Waste Fund	2,153
Hungry for Success	655
Supporting parents	181
Social work training	109
Sundry grants	3,206
Discipline Task Group	395
Additional support for learning	166
Primary foreign language	88
Assessment for learning	71
Determined to succeed	56
<b>Total</b>	<b>51,911</b>

## Sundry Accounts

### (a) Trust Funds

The Council currently administers 101 trust funds from local benefactors from which payments are made for specified purposes. It is proposed to amalgamate 99 of these trusts into 3 trusts to ensure they can be used effectively and beneficially for the residents of South Ayrshire.

2003/04 £'000	<i>Revenue accounts</i>	2004/05 £'000
1,296	Balance at 1 April	1,326
66	Income for year	69
(36)	Expenditure during year	(46)
<b>1,326</b>	<b>Balance at 31 March</b>	<b>1,349</b>

2004 £'000	<i>Balance Sheet as at 31 March</i>	2005 £'000
	<i>Assets</i>	
193	Investments	193
36	External investments bank account	0
1,097	Current assets – temporary deposit in Loans Fund	1,156
<b>1,326</b>	<b>Total assets</b>	<b>1,349</b>
	<i>Reserves</i>	
909	Revenue	932
417	Capital	417
<b>1,326</b>	<b>Total reserves</b>	<b>1,349</b>

### (b) Other Funds

2004 £'000		2005 £'000
16	Balance due by Loans Fund	15
3	Investments	3
<b>19</b>		<b>18</b>



## Abstract of Common Good Accounts

For the year ended 31 March 2005

### Revenue Accounts

<i>Total 2003/04</i>		<i>Ayr £'000</i>	<i>Troon £'000</i>	<i>Prestwick £'000</i>	<i>Maybole £'000</i>	<i>Girvan £'000</i>	<i>Total £'000</i>
	<b>Expenditure</b>						
241	Property costs	574	0	0	0	0	574
451	Donations & contributions	360	0	0	0	0	360
23	Other expenditure	20	4	1	0	0	25
<b>715</b>		<b>954</b>	<b>4</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>959</b>
	<b>Income</b>						
634	Rents	605	1	19	0	0	625
109	Interest on loans	137	1	12	0	1	151
10	Other income	0	0	0	0	0	0
<b>753</b>		<b>742</b>	<b>2</b>	<b>31</b>	<b>0</b>	<b>1</b>	<b>776</b>
<b>38</b>	<b>Surplus/(deficit) for year</b>	<b>(212)</b>	<b>(2)</b>	<b>30</b>	<b>0</b>	<b>1</b>	<b>(183)</b>
<b>575</b>	<b>Surplus brought forward</b>	<b>343</b>	<b>29</b>	<b>238</b>	<b>1</b>	<b>2</b>	<b>613</b>
<b>613</b>	<b>Accumulated surplus</b>	<b>131</b>	<b>27</b>	<b>268</b>	<b>1</b>	<b>3</b>	<b>430</b>

### Balance Sheet as at 31 March 2005

<i>2004 £'000</i>		<i>2005 £'000</i>
<b>13,570</b>	<b>Fixed assets (note 1 &amp; 2)</b>	<b>14,723</b>
	<b>Current assets:</b>	
2	Loans	1
35	Stock	35
2,832	Loans Fund Investment	5,083
<b>2,869</b>	<b>Total current assets</b>	<b>5,119</b>
<b>16,439</b>	<b>Total assets</b>	<b>19,842</b>
	<b>Less: Current liabilities</b>	
1	Creditors and Accruals	10
<b>1</b>	<b>Total current liabilities</b>	<b>10</b>
<b>16,438</b>	<b>Total net assets</b>	<b>19,832</b>
	<b>Financed by:</b>	
3,600	Capital Reserve	3,600
613	Revenue Reserve	430
2,462	Usable Capital Receipts Reserve (Note 3)	4,885
9,763	Revaluation Reserve (Note 4)	10,917
<b>16,438</b>	<b>Total net worth</b>	<b>19,832</b>

**Notes to Common Good Account****1) Valuation of Fixed Assets**

These assets have been revalued as part of a rolling programme by the Estates Manager, Mr Malcolm McAskill, FRICS and are at valuation dates between 2000/01 and 2004/05 dependant on the category of asset.

**2) Movement in Fixed Assets**

	<i>Land</i> £'000	<i>Buildings</i> £'000	<i>Community assets</i> £'000	<i>Total</i> £'000
Gross book value as at 1 April 2004	3,893	9,604	75	13,570
Revaluations	1,570	0	(7)	1,563
Additions	0	0	0	0
Disposals / Transfers	0	(410)	0	(410)
<b>Gross book value as at 31 March 2005</b>	<b>5,463</b>	<b>9,194</b>	<b>66</b>	<b>14,723</b>

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

**3) Usable Capital Receipts Reserve**

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

**4) Revaluation Reserve**

This represents the difference between the costs of fixed assets and the valuations (see note 1) adjusted for disposals.

## Capital Account

2003/04 £'000	By service	2004/05 £'000
1,870	Roads transport	1,851
2,251	Education	1,451
4,852	General Services	5,020
7,288	Housing revenue account	6,097
<b>16,261</b>	<b>Capital expenditure additions</b>	<b>14,419</b>
140	Covenant	140
385	Private sector housing grants	676
<b>16,786</b>	<b>Total payments</b>	<b>15,235</b>
	<b>Financed by:</b>	
10,089	Borrowing	5,469
4,797	Capital receipts, grants and contributions	9,766
1,900	Revenue contributions	0
<b>16,786</b>	<b>Total financing</b>	<b>15,235</b>

## Notes to the Capital Account

*Note 1* – The Local Government Scotland Act 2003 introduced the new “Prudential Framework” for local authority capital investment replacing the former Section 94 consent. 2004/05 is the first year in which this new framework applies. The Prudential Code plays a key role in capital finance in local authorities. Local authorities determine their own programmes for capital investment in fixed assets that are central to the delivery of quality services. The Prudential Code was developed by CIFPA, the Chartered Institute of Public Finance and Accountancy, as a professional code of practice to support local authorities in taking their decisions. Local authorities are required by Regulation to have regard to the Prudential Code when carrying out their duties in Scotland under part 7 of the Local Government in Scotland Act 2003.

*Note 2* – Not all capital expenditure necessarily increases the value of the Council’s fixed assets in the year in which the expenditure occurs. Certain expenditure may maintain current values, work-in-progress may result in a further increase in value and other expenditure may not result in an equivalent enhancement of value.

*Note 3* – Private sector housing grants (PSHG) expenditure does not result in the creation of a fixed asset for the Council, nor does the Council control the economic benefit arising from the expenditure therefore, as stated in the Statement of Accounting Policies, all PSHG expenditure is charged to revenue in the year in which it is incurred. (A corresponding adjustment is made through the capital financing reserve to ensure no net impact on Council Tax.)

*Note 4* – Note 1b) to the Consolidated Balance Sheet, Movement in fixed assets, details capital expenditure additions of £14.419m which corresponds to the service breakdown detailed in the table above.

## **Statement of Responsibilities for the Statement of Accounts**

### **The Council's responsibilities**

The Council is required:

- to make arrangements for the proper administration of its financial affairs, and to secure that one of its officers has responsibility for the administration of those affairs. In this council, that officer is the Head of Finance and ICT; and
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

### **The Head of Finance and ICT's responsibilities**

The Head of Finance and ICT is responsible for the preparation of the Council's Statement of Accounts, which, in terms of the CIPFA/ LASAAC Code of Practice on Local Authority Accounting in Great Britain (the Code of Practice) is required to present fairly the financial position of the Council at the accounting date, and its income and expenditure for the year ended 31 March 2005.

In preparing this statement of accounts, the Head of Finance and ICT has:

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

The Head of Finance and ICT has also:

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

## Statement on the System of Internal Financial Control

This statement applies to the 2004/05 accounts for South Ayrshire Council. We acknowledge our responsibility for ensuring that an effective system of internal financial control is maintained and operated in connection with the resources concerned.

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

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

- Comprehensive budgeting systems;
- Setting targets to measure financial and other performance;
- Regular reviews of periodic and annual financial reports which indicate financial performance against forecasts and targets;
- Clearly defined capital expenditure guidelines; and
- Formal project management disciplines, as appropriate

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

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

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

*Eileen Howat*

**Eileen Howat**  
Head of Finance and ICT  
28 November 2005

**Independent Auditors' Report to the members of South Ayrshire Council and the Accounts Commission for Scotland**

We certify that we have audited the financial statements on pages 6 to 41 under the Local Government (Scotland) Act 1973. The financial statements have been prepared in accordance with the accounting policies set out on pages 6 to 8.

This report is made solely to the members of South Ayrshire Council and to the Accounts Commission for Scotland, in accordance with Part VII of the Local Government (Scotland) Act 1973. Our audit work has been undertaken so that we might state to those two parties those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than South Ayrshire Council and the Accounts Commission, for our audit work, for this report, or the opinions we have formed.

**Respective responsibilities of the Head of Finance and ICT, and Auditors**

As described on page 42 the Head of Finance and ICT of South Ayrshire Council is responsible for the preparation of the financial statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom, a Statement of Recommended Practice ('the SORP'). Our responsibilities, as independent auditors, are established by statute and the Code of Audit Practice approved by the Accounts Commission, and guided by the auditing profession's ethical guidance.

We report our opinion as to whether the financial statements present fairly the financial position of South Ayrshire Council at 31 March 2005 and its income and expenditure for the year. We also report if, in our opinion, South Ayrshire Council has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We review whether the Statement on the System of Internal Financial Control on page 43 complies with the requirements of the SORP. We report if, in our opinion, the statement does not comply with the requirements or if it is misleading or inconsistent with other information we are aware of from our audit. We are not required to consider whether the statement covers all risks and controls, or form an opinion on the effectiveness of South Ayrshire Council's corporate governance procedures or risk and control procedures.

We read the other information published with the financial statements and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

**Basis of audit opinion**

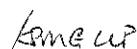
We conducted our audit in accordance with Part VII of the Local Government (Scotland) Act 1973 and the Code of Audit Practice, which requires compliance with relevant United Kingdom Auditing Standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Head of Finance and ICT in the preparation of the financial statements and of whether the accounting policies are appropriate to South Ayrshire Council's circumstances, consistently applied and adequately disclosed.

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

**Opinion**

In our opinion the financial statements present fairly the financial position of South Ayrshire Council as at 31 March 2005 and its income and expenditure for the year then ended.



KPMG LLP  
Chartered Accountants  
Registered Auditor

28<sup>th</sup> November 2005

191 West George Street  
Glasgow  
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