



# **Annual Accounts**

**Year to  
31 March 2006**

**29<sup>th</sup> September 2006**

**South Ayrshire Council**  
**Annual Accounts 2005/06**

<b><i>Contents</i></b>	<b><i>Page</i></b>
Explanatory Foreword	1 to 2
Report by the Head of Finance & ICT	3 to 6
Statement of Accounting Policies	7 to 9
Consolidated Revenue Account	10
<i>Notes to Consolidated Revenue Account</i>	11 to 17
Council Tax, Rates and Community Charge Income Account	18 to 21
Housing Revenue Account	22
<i>Notes to Housing Revenue Account</i>	23
Consolidated Balance Sheet	24
<i>Notes to Consolidated Balance Sheet</i>	25 to 30
Statement of Total Movement in Reserves	31
<i>Notes to statement of Total Movement in Reserves</i>	32 to 33
Cash Flow Statement	34
<i>Notes to Cash Flow Statement</i>	35 to 37
Sundry Accounts	38
Abstract of Common Good Accounts	39 to 40
Capital Account	41
Group Accounts	42 to 47
<i>Notes to Group Accounts</i>	48 to 50
Statement of Responsibilities	51
Statement on the System of Internal Financial Control	52
Corporate Governance Compliance Statement	53 to 54
Audit Certificate	55 to 56

## 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 and Housing Revenue Account. 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 Group Accounts** consolidate the results of the Council with its share of six other entities – Ayrshire Valuation Joint Board, Common Good, Strathclyde Fire Joint Board, Strathclyde Passenger Transport Authority, Strathclyde Concessionary Travel Scheme Joint Boards and Strathclyde police Joint Board.

**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.

**The Corporate Governance Compliance Statement** assesses the compliance of South Ayrshire Council with its Local Code of Corporate Governance, which took effect on 1<sup>st</sup> April 2003. The code is based on the CIPFA national model and aims to promote openness, inclusiveness, integrity, accountability and effective leadership, both within the Council and within the community that it serves.

## Report by the Head of Finance and ICT

### 1. Contents of the financial statements

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 in the United Kingdom.

### 2. The Council's financial position

The Consolidated Revenue Account on page 10 summarises the performance of the Council's Housing Revenue Account and General Fund during 2005/06, and also shows details of contributions to and from the funds and reserves held by the Council.

#### a) General Fund

The Consolidated Revenue Account shows a General Fund deficit of £4.837m for the year.

The Council's original budget for 2005/06 assumed a surplus brought forward from 2004/05 of £1.714m. The actual surplus was £6.065m, i.e. an increase of £4.351m. Of this increase £2.844m was earmarked to fund specific service initiatives and the remaining £1.507m was added to the Council's contingency fund during 2005/06. At 31<sup>st</sup> March 2006 £1.182m remained in the contingency fund and contributes to the accumulated surplus at that date of £1.228m.

The main factors contributing to the accumulated surplus at 31<sup>st</sup> March 2006 of £1.228m as shown in the table below are:

- Departmental under-spends totalling £4.658m (net of equal pay settlements charged to trading services of £1.378m),
- Contingency fund balance held within Miscellaneous Services of £1.182m,
- Equal pay settlements (in addition to £1.378m charged to Trading Services within the Department of Environment & Infrastructure) of £3.917m; and
- Revenue Support Grant shortfall in respect of free personal care of £0.640m.

	<b>Budget 2005/06</b>	<b>Actual 2005/06</b>	<b>Over/ (Under) Spend</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Chief Executive's Department	5,065	3,534	(1,531)
Development, Safety & Regulation	28,610	27,450	(1,160)
Education, Culture & Lifelong Learning	96,435	94,660	(1,775)
Environment and Infrastructure	32,192	32,771	579
Social Work, Housing & Health	47,826	47,055	(771)
<b>Departmental Expenditure</b>	<b>210,128</b>	<b>205,470</b>	<b>(4,658)</b>
Miscellaneous Services, Debt Charges, Pension Costs etc	(4,916)	(6,240)	(1,324)
Equal pay compensation	0	3,917	3,917
<b>Total Expenditure to be Funded</b>	<b>205,212</b>	<b>203,147</b>	<b>(2,065)</b>
Revenue Support Grant/ Non-Domestic Rate Income	(151,551)	(150,691)	860
Council Tax/ Community Charge Income	(47,596)	(47,619)	(23)
<b>Funding</b>	<b>(199,147)</b>	<b>(198,310)</b>	<b>837</b>
<b>(Surplus)/ Deficit for Year</b>	<b>6,065</b>	<b>4,837</b>	<b>(1,228)</b>
(Surplus)/ Deficit Brought Forward	(6,065)	(6,065)	
<b>Balance at 31<sup>st</sup> March 2006</b>	<b>0</b>	<b>(1,228)</b>	

During 2005/06 the Council made payments to employees working in catering, cleaning and care services in settlement of equal pay claims. In addition, provision has been made for those claims not yet settled. In total the Consolidated Revenue Account includes £5.295m in respect of equal pay claims, of which £1.378m has been charged against Trading Services and £3.917m has been charged against the net cost of services. The Council plans to fund the equal pay settlement by spreading the cost across its revenue budgets for the five years from 2006/07 to 2010/11.

The 2005/06 accounts include severance costs of £0.569m in respect of employees released from the council as part of the 2006/07 revenue budget savings. Funding for these costs has been provided in the 2006/07 revenue budget.

Service departments have requested that funding of £1.938m be made available during 2006/07 for projects not completed during 2005/06.

The 2006/07 revenue budget assumed that the Council would have an accumulated surplus of £4.364m at 31<sup>st</sup> March 2006. The actual surplus of £1.228m, when adjusted for the equal pay, redundancy and earmarked funds issues highlighted above, compares favourably with the 2006/07 revenue budget assumptions by £0.790m.

#### **b) Housing Revenue Account**

A summary of the Housing Revenue Account income and expenditure is shown on page 22. Income of £21.517m exceeded expenditure of £17.290m, giving a surplus for the year of £4.227m. The surplus for the year requires to be added to the accumulated surplus as at 31<sup>st</sup> March 2005 of £8.433m giving an accumulated balance being carried forward to 2006/07 of £12.660m. 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, £0.363m be used to fund capital and revenue expenditure in future years, £0.154m for the implementation of new computer software and £0.050m for developing Ayr housing office. This leaves an uncommitted balance of £11.543m, options for the use of which will be considered as part of the review of the HRA 30 year business plan during 2006/07.

### c) Funds balances and reserves

South Ayrshire Council operates Repair & Renewal, Insurance and Capital funds as empowered under Schedule 3 of the Local Government (Scotland) Act 1975.

The Repair & Renewal fund is used to finance expenditure incurred in repairing, maintaining, replacing and renewing fixed assets.

The Insurance fund may be used to defray any loss where an authority could have insured against a loss but has not done so and for paying premiums on an insurance policy.

The Capital fund may be used to finance capital expenditure or to finance the repayment of loans fund principal.

Movements on fund balances and reserves are summarised in the table below.

	<i>General Fund Balance £'000</i>	<i>HRA Balance £'000</i>	<i>Repair &amp; Renewal Fund £'000</i>	<i>Insurance Fund £'000</i>	<i>Capital Fund £'000</i>	<i>Total Balances £'000</i>
Balance brought forward at 1 April 2005	6,065	8,433	112	425	0	15,035
Surplus/ (deficit) for 2005/06	(4,837)	4,227				(610)
Appropriations (to)/ from revenue			5	310	901	1,216
<b>Balance carried forward at 31 March 2006</b>	<b>1,228</b>	<b>12,660</b>	<b>117</b>	<b>735</b>	<b>901</b>	<b>15,641</b>

### 3. Trading Services

The Local Government in Scotland Act 2003 repealed 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. Details of the performance of the Council's seven trading services can be found in Note 15 to the Consolidated Revenue Account. Catering and Building cleaning have failed to meet their statutory break-even targets due to exceptional costs incurred in respect of equal pay settlements

### 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. Additional Council Tax income of £0.023m was collected beyond the level assumed in the 2005/06 budget. The Scottish Executive makes assumptions each year in respect of levels of non-domestic rates collected by local authorities and funding is guaranteed at that level. South Ayrshire Council collected £0.564m less locally than anticipated therefore the Scottish Executive provided additional funding of this amount from the national non-domestic rates pool.

### 5. Pension fund

Financial Reporting Standard 17 (FRS17) requires the disclosure of the Council's share of Strathclyde Pension Fund's assets and liabilities, both current and future. The consolidated balance sheet shows a pension liability and corresponding reserve of £77.271m. This liability is exclusively due to the accounting requirements of FRS 17 and has no impact on the financial performance of South Ayrshire Council.

**6. Capital expenditure**

Capital expenditure of £15.486m was incurred during the year and payments of £1.272m were made in relation to private sector housing grants and covenant repayments. These were financed by new external borrowing of £4.922m and capital receipts, grants and contributions of £11.836m. External borrowing took place within the parameters of the Prudential Code.

**7. Group Accounts**

Changes in the 2005 Code of Practice on Local Authority Accounting in the UK introduced a requirement for all local authorities to enhance their statement of accounts with information about their interest in subsidiaries, associates and joint ventures in a set of group accounts. The summarised group financial statements are shown on pages 42 to 50. This has been prepared under a full UK GAAP compliant methodology. After consolidation, the accounts show a reduction in the reserves and net assets of £163.761m. This reduction is primarily due to the accounting requirements of FRS 17 and has no impact on the financial performance of South Ayrshire Council.

**8. Public Private Partnership**

The Council is currently developing an ambitious programme to construct two new secondary and three new primary schools, together with an extension to an existing secondary school. This is being undertaken as part of the Scottish Executive's school estate public private partnership initiative. The preferred bidder to undertake the construction programme and operate the schools thereafter was appointed in December 2005. The programme is expected to achieve financial close by 30<sup>th</sup> September 2006. The first unitary charge payment will be made to the contractor during 2007/08.

**9. 2006/07 Council Restructure**

On the 16<sup>th</sup> of December 2005 the Council agreed to restructure its service departments, with the effect of reducing the number of departments from five down to four. This restructure has no effect on the 2005/06 accounts contained within the following pages but will impact from 2006/07 onwards.

**10. Introduction of the Euro 2006/07**

As at 31<sup>st</sup> March 2006 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*

**Eileen Howat BSc, CPFA  
Head of Finance and ICT  
29 September 2006**



## Statement of Accounting Policies

1. **General** - the abstract has been prepared taking into account the Code of Practice on Local Authority Accounting in the United Kingdom 2005, and applying generally accepted accounting principles. In accordance with FRS 18: Accounting Policies, the Council regularly reviews its accounting policies to ensure that they remain the most appropriate and further ensure that the annual accounts present fairly the financial position of the Council.
2. **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 (MV-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 (EUVSH – Existing use value social housing)
  - 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<sup>st</sup> March 2005. The valuations shown in these accounts reflect the first 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 either used to fund capital expenditure or transferred to the Council's Capital Fund. Capital expenditure net of receipts, grants and contributions is financed by an advance from the Council's loans fund. Interest on outstanding debt 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.
5. **Debt restructuring** - the Council previously took advantage of low interest rates to restructure its loan debt. As a result of this exercise premiums have been incurred and discounts received. These are being charged to the Council's loans fund over the period of the replacement 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<sup>st</sup> March 2006 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, differentiation has been made between corporate and direct services.
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, analysed between current liabilities and long term liabilities.
14. **Provisions** - the Council has made provision, based on past experience, for the loss of income arising from bad and doubtful debts and for successful valuation appeals. Provision has also been made for potential insurance liabilities in respect of the former Strathclyde Regional Council, outstanding equal pay claims and potential losses on roads contracts.
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 increase in the present value of the liabilities of the scheme expected to arise from employee service in the period is charged to service revenue accounts in the year. An appropriation is made to/from the pension reserve so that the amount to be met from government grant and local taxpayers excludes amounts relating to pension costs and returns. The net pension asset or liability is reflected in the balance sheet. Full disclosure in respect of pensions is contained within the notes to the consolidated revenue account, balance sheet and statement of total movement in reserves.
  - 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 4.95% 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<sup>st</sup> March 2006.
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 remaining useful lives of non-property assets. The Estates Manager determines the remaining 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 2006

2004/05 net expenditure £'000	Service	2005/06 gross expenditure £'000	2005/06 gross income £'000	2005/06 net expenditure £'000
84,338	Education Services	102,857	13,359	89,498
(2,189)	Housing Revenue Account (note 13)	17,370	21,517	(4,147)
1,470	General Fund Housing	35,637	33,393	2,244
45,526	Social Work Services	69,547	21,400	48,147
11,982	Culture and Related Services	16,676	3,648	13,028
11,917	Environmental Services	15,371	3,898	11,473
14,455	Roads and Transport Services	16,573	2,251	14,322
2,845	Planning and Development Services	4,224	2,086	2,138
3,735	Corporate and Democratic Core	3,965	299	3,666
1,307	Non Distributed Costs	2,688	0	2,688
4,312	Other Central Services to the Public	39,206	34,922	4,284
0	Exceptional costs of equal pay compensation (note 12)	3,917	0	3,917
<b>179,698</b>	<b>Net Cost of Services</b>	<b>328,031</b>	<b>136,773</b>	<b>191,258</b>
15,015	Precepts and Levies	17,194	0	17,194
4,628	Asset Management Revenue Account (note 4)	2,621	0	2,621
(652)	Trading Services (note 15)	32,308	32,224	84
(712)	Interest and Investment Income	0	967	(667)
(2,209)	Pension Interest Cost and Expected Return on Pension Assets	19,951	19,730	221
<b>195,768</b>	<b>Net Operating Expenditure</b>	<b>400,105</b>	<b>189,394</b>	<b>210,711</b>
2,331	Contribution to/(from) HRA balances (note 13)			4,227
(146)	Contribution to/(from) Pensions Reserve			(2,653)
(1,100)	Contribution to/(from) Repairs & Renewals Fund			0
417	Contribution to/(from) Insurance Fund			290
(8,367)	Contributions to/(from) Capital Financing Account (note 5)			(9,428)
<b>188,903</b>	<b>Amount to be met from government grant and local taxpayers</b>			<b>203,147</b>
(103,819)	Revenue Support Grant			(108,836)
(7,716)	Non Domestic Rate Income from Pool			(7,841)
(34,169)	Non Domestic Rate Income Collected			(34,014)
(45,217)	Council Tax Income			(47,612)
(7)	Community Charge Income			(7)
<b>(190,928)</b>	<b>Amount received from government grant and local taxpayers</b>			<b>(198,310)</b>
<b>(2,025)</b>	<b>(Surplus)/deficit for year</b>			<b>4,837</b>
<b>(4,040)</b>	<b>(Surplus)/deficit brought forward</b>			<b>(6,065)</b>
<b>(6,065)</b>	<b>(Surplus)/deficit carried forward</b>			<b>(1,228)</b>

**Notes to Consolidated Revenue Account:**

1. **Section 5 - Local Government (Scotland) Act 1986 - Publicity Account** - expenditure on publicity and advertising amounted to £0.393m as follows:

2004/05 £'000		2005/06 £'000
28	Recruitment	47
393	Publicity of Services	320
18	Publicity of Events	8
38	Other	18
<b>477</b>	<b>Total</b>	<b>393</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 2005/06 was set at 250%. During 2005/06 the Council made employers' contributions of £8.292m (2004/05 £7.815m). The increase in contributions arises mainly from the increase in levels from 240% to 250%. In accordance with Financial Reporting Standard 17 "Retirement Benefits" (FRS17), the £8.292m contribution meets the obligation on the Council for the year to 31<sup>st</sup> March 2006.

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 formal valuation being carried out as at 31<sup>st</sup> March 2005. The employer's contribution will increase to 260% in 2006/07.

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 2005/06 is as follows:

2004/05 £'000		2005/06 £'000
	<b>Amount Charged to Revenue</b>	
11,132	Current service costs	11,409
76	Past service costs	85
483	Curtailement and settlements	2,020
<b>11,691</b>	<b>Total Operating Charge</b>	<b>13,514</b>
	<b>Amount Credited to Revenue</b>	
17,539	Expected return on employers assets	19,730
(15,330)	Interest on pension liabilities	(19,951)
<b>2,209</b>	<b>Net Return</b>	<b>(221)</b>
<b>9,482</b>	<b>Net Revenue Account Cost</b>	<b>13,735</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 2005/06 the employer's contribution was set at 208% of the employees' contribution rate. The Council paid £4.766m (2004/05 £4.672m) for employer's contributions to the Scottish Executive.

3. **External audit fees** – in 2005/06 South Ayrshire Council incurred the following fees relating to external audit and inspection services from the appointed auditor:

2004/05 £'000		2005/06 £'000
194	Agreed audit fee	188
88	Notified fixed charge element	102
<b>282</b>	<b>Total</b>	<b>290</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.

2004/05 £'000	<i>Asset Management Revenue Account</i>	2005/06 £'000
(13,436)	Capital charges	(16,133)
(1,772)	Deferred grants account	(2,287)
12,092	Depreciation	13,230
7,634	Interest	7,696
110	Expenses	115
<b>4,628</b>	<b>Transfer to Consolidated Revenue Account</b>	<b>2,621</b>

The significant increase in capital charges to services is primarily due to additional assets incorporated in the asset register and revaluations of existing assets.

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 (£10.583m), the contribution from the deferred government grant account (£2.287m), and the payment of improvement grants (£1.132m).

2004/05 £'000	<i>Contributions to Capital Financing Account</i>	2005/06 £'000
(9,463)	Excess of principal over depreciation	(10,583)
1,772	Deferred government grant account	2,287
(676)	Improvement grants	(1,132)
<b>(8,367)</b>	<b>Transfer to revenue account</b>	<b>(9,428)</b>

6. **Agency Income – Scottish Water** - The Council received £0.277m 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:

<b>2004/05 Number</b>	<b>Remuneration Band</b>	<b>2005/06 Number</b>
151	£40,000 - £49,999	192
14	£50,000 - £59,999	19
17	£60,000 - £69,999	18
0	£70,000 - £79,999	1
3	£80,000 - £89,999	2
3	£90,000 - £99,999	2
1	£100,000 - £109,999	1
0	£110,000 - £119,999	1
<b>189</b>	<b>Total</b>	<b>236</b>

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

<b>2004/05 £'000</b>		<b>2005/06 £'000</b>
201	Members allowances	200
191	Special responsibility allowance	187
20	Travel and subsistence	19
1	Fares etc	1
7	Telephone expenses	7
4	Conference and accommodation expenses	3
<b>424</b>	<b>Total</b>	<b>417</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 2005/06 were:

<b>2004/05 £'000</b>		<b>2005/06 £'000</b>
	<b>Chief Executive's Department</b>	
183	Administrative service	176
175	Training	166
	<b>Development, Safety &amp; Regulation</b>	
230	Specific project work	75
198	Ongoing services	484
	<b>Education, Culture &amp; Lifelong Learning</b>	
17	Administrative services	21
	<b>Environment and Infrastructure</b>	
62	Roads maintenance	43
261	Repairs	53
511	Catering	558
151	Cleaning	162
2,329	Recycling	1,535
45	Leisure projects	38
0	Grounds maintenance	2
	<b>Social Work, Housing &amp; Health</b>	
38	Criminal justice	28
26	Fieldwork	107
62	Community care	38
	<b>Miscellaneous services</b>	
0	G8 Summit	70
<b>4,288</b>	<b>Total</b>	<b>3,556</b>

## 10. Leasing

Operating lease expenditure during 2005/06 amounted to £1.953m (2004/05 - £1.891m).

The authority was committed at 31<sup>st</sup> March 2006 to making payments of £1.631m under operating leases in 2006/07, comprising the following elements:

<b>2004/05 £'000</b>	<b>Vehicles, Plant &amp; Equipment</b>	<b>2005/06 £'000</b>
308	Leases expiring within 1 year	278
1,529	Leases expiring between 2 and 5 years	1,334
39	Leases expiring after 5 years	19
<b>1,876</b>	<b>Total due in next financial year</b>	<b>1,631</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:

<b>2004/05 £'000</b>	<b>Central Government Grants</b>	<b>2005/06 £'000</b>
103,819	Revenue support grant	108,836
7,716	Non-domestic rate income	7,841
7,099	Council tax benefit subsidy	7,351
21,652	Housing benefit subsidy	22,351
12,621	Specific grants	15,242
1,796	School Buildings Improvement Fund	2,264
20,511	Other government grants	19,673

In addition the Council received grants from other public bodies in 2005/06 as follows:

<b>2004/05 £'000</b>	<b>Other Public Bodies</b>	<b>2005/06 £'000</b>
181	European Regional Development Fund	50
5,901	Ayrshire and Arran Health Board	7,301
125	Westrains	242
150	Energy Efficiency Grant	0
913	Other Grants	766

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

<b>2004/05 £'000</b>	<b>Contributions to Organisations</b>	<b>2005/06 £'000</b>
302	North Ayr and Girvan Social Inclusion Partnerships	272
142	Ayrshire and Arran Tourist Board	143

## 12. Exceptional item - equal pay compensation

The Consolidated Revenue Account includes £5.295m in respect equal pay claims dating from 2001/02. Of this sum, £1.378m has been charged against the council's statutory trading accounts for Catering and Cleaning to represent the impact on the trading accounts for the three financial years to 31<sup>st</sup> March 2006. The remaining £3.917m has been included within the net cost of services on the Consolidated Revenue Account



**13. HRA Surplus**

The actual surplus of £4.227m shown on the Housing Revenue Account differs from that shown in the 'net cost of services' section of the Consolidated Revenue Account of £4.147m due to the reporting requirements of FR317 "Accounting for Retirement Benefits". The difference of £0.080m is contained within the pension sections of the consolidated revenue account.

**14. Departmental Service Expenditure Analysis**

The Consolidated Revenue Account on page 10 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:

<i>2004/05 net expenditure £'000</i>	<i>Service</i>	<i>2005/06 gross expenditure £'000</i>	<i>2005/06 gross income £'000</i>	<i>2005/06 net expenditure £'000</i>
3,397	Chief Executive's Department	43,848	40,314	3,534
24,372	Development, Safety & Regulation	44,882	17,432	27,450
88,794	Education, Culture & Lifelong Learning	105,983	11,323	94,660
32,844	Environment and Infrastructure	91,478	58,707	32,771
44,980	Social Work, Housing & Health	71,232	24,177	47,055
(2,189)	Housing Revenue Account	17,370	21,517	(4,147)
1,854	Miscellaneous Services	16,289	12,993	3,296
0	Exceptional item - equal pay compensation	3,917	0	3,917
<b>194,061</b>	<b>Net Cost of Services</b>	<b>394,999</b>	<b>186,463</b>	<b>208,536</b>
4,628	Asset Management Revenue Account	2,621	0	2,621
(712)	Interest and Investment Income	0	667	(667)
(2,209)	Pension Interest Cost and Expected Return on Pension Assets	19,951	19,730	221
<b>195,768</b>	<b>Net Operating Expenditure</b>	<b>417,571</b>	<b>200,000</b>	<b>210,711</b>
2,331	Contribution to/(from) HRA balances			4,227
(146)	Contribution to/(from) Pensions Reserve			(2,653)
(1,100)	Contribution to/(from) Repairs & Renewals Fund			0
417	Contribution to/(from) Insurance Fund			290
(8,367)	Contributions to/(from) Capital Financing Account			(9,428)
<b>188,903</b>	<b>Amount to be met from government grant and local taxpayers</b>			<b>203,147</b>
(103,819)	Revenue Support Grant			(108,836)
(7,716)	Non Domestic Rate Income from Pool			(7,841)
(34,169)	Non Domestic Rate Income Collected			(34,014)
(45,217)	Council Tax Income			(47,612)
(7)	Community Charge Income			(7)
<b>(190,928)</b>	<b>Amount received from government grant and local taxpayers</b>			<b>(198,310)</b>
<b>(2,025)</b>	<b>(Surplus)/deficit for year</b>			<b>4,837</b>
<b>(4,040)</b>	<b>(Surplus)/deficit brought forward</b>			<b>(6,065)</b>
<b>(6,065)</b>	<b>(Surplus)/deficit carried forward</b>			<b>(1,228)</b>

## 15. 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 and Infrastructure operate all of these trading services. The table shows the financial position of each trading account for the three-year period ended 31<sup>st</sup> March 2006.

	<i>Trading Service</i>	<i>(Surplus)/ Deficit 2003/04 £'000</i>	<i>(Surplus)/ Deficit 2004/05 £'000</i>	<i>(Surplus)/ Deficit 2005/06 £'000</i>	<i>3 Year (Surplus)/ Deficit £'000</i>
(i)	Building works	(611)	(88)	(183)	(882)
(ii)	Catering	(130)	(172)	467	165
(iii)	Building cleaning	(48)	(100)	326	178
(iv)	Golf courses	(97)	(227)	(173)	(497)
(v)	Grounds maintenance	(241)	10	(166)	(397)
(vi)	Leisure	(85)	(3)	(109)	(197)
(vii)	Roads	(52)	(72)	(78)	(202)
	<b>Total Trading</b>	<b>(1,264)</b>	<b>(652)</b>	<b>84</b>	<b>(1,832)</b>

Two operations (Catering and Building Cleaning) have failed to meet their statutory target of generating revenues not less than expenditure over the three-year period. However, both of these operations incurred significant expenditure during 2005/06 in order to settle equal pay claims dating back to 2001/02. The impact of this exceptional expenditure on the trading accounts' statutory target is shown below.

	<i>Trading Service</i>	<i>Ordinary expenditure 2005/06 £'000</i>	<i>Equal pay expenditure 2005/06 £'000</i>	<i>Total expenditure 2005/06 £'000</i>	<i>Total Income 2005/06 £'000</i>	<i>(Surplus) / Deficit 2005/06 £'000</i>
(i)	Building & Works	11,792	0	11,792	(11,975)	(183)
(ii)	Catering	3,408	679	4,087	(3,620)	467
(iii)	Building Cleaning	2,155	699	2,854	(2,528)	326
(iv)	Golf Courses	1,931	0	1,931	(2,104)	(173)
(v)	Grounds Maintenance	4,589	0	4,589	(4,755)	(166)
(vi)	Leisure	3,118	0	3,118	(3,227)	(109)
(vii)	Roads	3,937	0	3,937	(4,015)	(78)
	<b>Total</b>	<b>30,930</b>	<b>1,378</b>	<b>32,308</b>	<b>(32,224)</b>	<b>84</b>

As a result of the decision by the Council on 16<sup>th</sup> December 2005 to restructure its service departments, the Council has reviewed its activities and concluded that as from 2006/07, a statutory trading account should only be maintained for Building & Works. The services currently provided by the remaining six trading accounts will be integrated with existing front-line operations.

**(i) Building Works**

Building works employs 189 tradesmen and general labourers. Operations are based at two depots, Ayr and Girvan, with a 24 hour emergency service provided 365 days a year. The workload consists of maintaining the council's 8,782 houses and around 200 other buildings. During the year Building works carried out approximately 44,000 repairs to the housing stock. Approximately 1,200 South Ayrshire Homes properties are also maintained by this operation.

**(ii) Catering**

Catering employs 345 full and part-time staff. Meals are supplied to secondary and primary schools, lunch clubs, community centres, Social Work residential homes and the meals at home service. Catering is also provided at staff canteens and for civic functions. The operation is increasingly involved in health initiatives promoted by the Scottish Executive including 'Hungry for Success', breakfast clubs and the issue of free bread and fruit at schools. Before exceptional items, Catering recorded a surplus in 2005/06 of £0.212m, which would have resulted in a three-year surplus of £0.514m.

**(iii) Building cleaning**

Building Cleaning employs 482 full-time and part-time staff. All of the Council's 200 properties comprising schools, Social Work residential homes, libraries, sports and activity centres and office accommodation, are cleaned by staff from this operation. Before exceptional items, Building Cleaning recorded a surplus in 2005/06 of £0.373m, which would have resulted in a three-year surplus of £0.521m.

**(iv) Golf courses**

This division employs 25 staff (including seasonal workers) to operate the eight golf courses owned by the Council (Belleisle, Seafield and Dalminging in Ayr; Loch Green, Darley and Fullarton in Troon; Girvan; and 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 122 operatives and handles a wide range of grounds related work including maintenance of the Council's parks, golf courses, cemeteries, bowling greens, sports pitches and other open spaces.

**(vi) Leisure**

This operation employs 103 full-time and part-time staff in a wide range of leisure, sport and physical activities throughout South Ayrshire. Staffing levels are further increased by seasonal employees. The council operates seven activity centres and five 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 via the Council's leisure card.

**(vii) Roads**

Roads maintenance employs approximately 50 manual operatives based at two depots, Coylton and Girvan. The operation 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

2004/05 £'000		2005/06 £'000
52,541	<b>Gross charge</b>	55,589
(1,260)	<i>Deduct:</i> Exemptions	(1,515)
(68)	Disabled relief	(73)
(1,818)	Discounts	(5,047)
46,365	<b>Net council tax</b>	48,954
(7,081)	<i>Deduct:</i> Rebates	(7,490)
7,122	<i>Less</i> government grants	7,451
13	Other items	12
(1,193)	Provision for bad debts	(1,256)
(49)	(Gain)/loss on benefits to be transferred to Miscellaneous Services	39
(92)	Grant on claimant error transferred to cost of collection	(101)
0	Council tax on second homes	(129)
45,085	<b>In year council tax income</b>	47,480
132	Prior year adjustments	132
45,217	<b>Total council tax income</b>	47,612

#### 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<sup>st</sup> 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 2005/06

<b>Council tax band</b>	<b>Valuation band</b>								<b>Total</b>
	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>F</b>	<b>G</b>	<b>H</b>	
Total number of properties	7,489	12,453	8,216	7,412	8,989	4,302	2,674	226	<b>51,761</b>
<i>Less</i> exemptions/ deductions	293	283	159	96	82	37	32	4	<b>986</b>
<i>Less</i> adjustment for single discount	964	1,259	764	609	570	210	96	5	<b>4,477</b>
<i>Less</i> adjustment for double discount	90	120	91	102	92	30	44	0	<b>509</b>
Effective number of properties	6,136	10,791	7,202	6,605	8,245	4,019	2,502	209	<b>45,709</b>
Band D equivalent factor (ratio)	6	7	8	9	11	13	15	18	
Band D equivalent number of properties	4,091	8,393	6,402	6,605	10,077	5,805	4,170	418	<b>45,961</b>
Class 17 & 24 Dwellings				13					<b>13</b>
<b>Total</b>	<b>4,091</b>	<b>8,393</b>	<b>6,402</b>	<b>6,618</b>	<b>10,077</b>	<b>51,805</b>	<b>4,170</b>	<b>418</b>	<b>45,974</b>
<i>Less</i> provision for non-collection 3 per cent									1,379
<b>Council tax base 2005/06</b> <i>(equivalent to a Band D Council tax of £1.062.81)</i>									<b>44,595</b>

## 3. Council tax properties and council tax charges

<b>Valuation band</b>	<b>Number of chargeable properties</b>	<b>Total council tax charge £</b>
A	6,136	708.54
B	10,791	826.63
C	7,202	944.72
D	6,618	1,062.81
F	8,245	1,298.99
F	4,019	1,535.17
G	2,502	1,771.35
H	209	2,125.62
<b>Total</b>	<b>45,722</b>	

## Non-domestic rate income account

2004/05 £'000		2005/06 £'000
40,722	<b>Gross charge</b>	42,057
(5,905)	<i>Deduct:</i> Reliefs & Remissions	(7,194)
(521)	Provision for bad debts	(696)
34,296	<b>Net non-domestic rate income</b>	34,167
(127)	Prior year adjustments	(153)
34,169	<b>Total non-domestic rate income</b>	34,014
	<b>National non-domestic rate pool (NNDRP):</b>	
41,885	NDRI Distributable	41,855
34,169	Contribution to NNDRP	34,014
7,716	<b>Net contribution from NNDRP</b>	7,841

## 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 2005/06**

<i>Commercial Subjects</i>	<i>Number</i>	<i>Rateable Value</i>
Shops	1,360	30,376
Public Houses	123	2,810
Offices (Including Banks)	636	9,119
Hotels, Boarding Houses, etc	100	3,763
Industrial & Freight Transport subjects	858	16,860
Leisure, Entertainment, Caravans and Holiday sites	448	5,447
Garages and petrol stations	109	1,382
Cultural	24	311
Sporting subjects	155	326
Education and Training	82	6,894
Public Service Subjects	187	4,360
Quarries, Mines, etc	9	357
Petrochemical	4	48
Religious	95	850
Health Medical	92	3,301
Other	168	770
Care Facilities	60	1,847
Advertising	48	75
Undertaking	7	1,527
<b>Total all subjects</b>	<b>4,565</b>	<b>90,440</b>

Rate levied 2005/06: 46.55p (rateable value greater than £29,000)  
 46.10p (rateable value less than or equal to £29,000)

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

<b>2004/05 £'000</b>		<b>2005/06 £'000</b>
7	Arrears written off now recovered	7
<b>7</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 2006

2004/05 Actual £'000		2005/06 Actual £'000
3,539	Employee costs	2,934
1,024	Allocation of central administration etc	1,119
214	Insurances	335
256	Accommodation	294
380	Supplies and services	300
<b>5,413</b>	<b>Supervision and management</b>	<b>4,082</b>
102	Redecoration allowances	85
9,364	Repairs and maintenance	8,584
<b>9,466</b>	<b>Repairs and maintenance</b>	<b>8,669</b>
502	Voids	538
94	Increase in bad debt provision	93
<b>596</b>	<b>Lost rents</b>	<b>631</b>
77	Transport costs	65
271	Administrative costs	253
400	Payments to agencies, etc	402
<b>748</b>	<b>Other expenditure</b>	<b>720</b>
89	Principal	(153)
3,133	Interest	3,072
46	Expenses	46
(486)	Interest on revenue balances	(597)
(1,062)	Return on pension assets	(650)
929	Interest cost on pension	657
<b>2,649</b>	<b>Financing costs</b>	<b>2,375</b>
<b>0</b>	<b>CFCR</b>	<b>0</b>
<b>(9)</b>	<b>Contribution to/(from) pension reserve</b>	<b>(87)</b>
<b>18,863</b>	<b>Total expenditure</b>	<b>17,290</b>
(19,902)	Dwelling rents	(20,040)
(1,053)	Non dwelling rents	(1,126)
(23)	Housing support grant	(141)
(216)	Other income	(210)
<b>(21,194)</b>	<b>Total income</b>	<b>(21,517)</b>
<b>(2,331)</b>	<b>Net (surplus)/deficit</b>	<b>(4,227)</b>
<b>(6,102)</b>	<b>Surplus brought forward</b>	<b>(8,433)</b>
<b>(8,433)</b>	<b>Accumulated (surplus) / deficit at end of year</b>	<b>(12,660)</b>



**Notes to Housing Revenue Account:**

1. A provision of £0.452m is included in the consolidated balance sheet for doubtful debts on housing rents.
2. At 31 March 2006, the Council held various types of accommodation, and had the following number and types of houses.

<b>31 March 2005 Number of Houses</b>	<b>Type of accommodation</b>	<b>31 March 2006 Number of houses</b>
2,556	1 and 2 apartment	2,533
4,007	3 apartment	3,900
2,258	4 apartment	2,169
188	5 or more apartment	180
<b>9,009</b>	<b>Total</b>	<b>8,782</b>

<b>31 March 2005 Number of Houses</b>	<b>By area</b>	<b>31 March 2006 Number of houses</b>
3,675	Ayr North	3,603
1,524	Ayr South	1,486
1,103	Troon	1,074
779	Prestwick	761
847	Maybole	808
1,081	Girvan	1,050
<b>9,009</b>	<b>Total</b>	<b>8,782</b>

3. At 31<sup>st</sup> March 2006, rent arrears amounted to £0.658m, being 3.1% of gross rent collectable. (2004/05 £0.696m, being 3.3% of gross rent collectable)

## Consolidated Balance Sheet as at 31 March 2006

2005 £'000		2006 £'000
	<b>Fixed assets (note 1):</b>	
	<i>Operational assets</i>	
203,814	Council dwellings	199,539
184,574	Other land and buildings	242,218
1,249	Vehicles, plant, etc	2,776
37,747	Infrastructure assets	39,504
924	Community assets	1,115
<b>428,308</b>		<b>485,152</b>
20,272	<i>Non-operational assets</i>	17,289
<b>448,580</b>	<b>Total fixed assets</b>	<b>502,441</b>
<b>17,210</b>	<b>Loans premium (note 3)</b>	<b>16,701</b>
<b>141</b>	<b>Long term investments (note 4)</b>	<b>141</b>
<b>104</b>	<b>Loans (note 5)</b>	<b>71</b>
	<b>Current assets:</b>	
520	Stocks and work in progress	539
38,811	Sundry debtors (note 9)	37,682
(20,814)	Provision for bad and doubtful debts (note 9)	(22,306)
19,900	Short term investments	36,100
40	Cash floats and imprests	40
<b>38,457</b>		<b>52,055</b>
<b>504,492</b>	<b>Total assets</b>	<b>571,409</b>
	<b>Less: Current liabilities:</b>	
2,370	Temporary and other loans repayable within a year	1,333
28,651	Sundry creditors (note 11)	29,931
292	Provision for liabilities (note 10)	5,528
5,529	Bank overdraft	2,663
6,447	Due to Common Good/ sundry accounts (note 6)	6,727
<b>43,289</b>		<b>46,182</b>
<b>461,203</b>	<b>Total assets less current liabilities</b>	<b>525,227</b>
	<b>Less: Long term liabilities:</b>	
167,128	Long term borrowing (note 7)	180,435
592	Covenant scheme (notes 2 & 7)	452
<b>167,720</b>	<b>Total long term liabilities excluding pension liability</b>	<b>180,887</b>
<b>293,483</b>	<b>Total assets before pension liability</b>	<b>344,340</b>
88,281	Less: Pension liability (note 8)	77,271
<b>205,202</b>	<b>Total net assets</b>	<b>267,069</b>
	<b>Financed by:</b>	
204,611	Fixed asset restatement account	256,216
59,852	Capital financing account	59,009
4,460	Usable capital receipts reserve	3,146
9,525	Government grant deferred	10,328
(88,281)	Pension reserve (note 8)	(77,271)
	<i>Reserves and fund balances:</i>	
112	Repair & renewal fund (note 12)	117
425	Insurance fund (note 13)	735
0	Capital fund (note 14)	901
6,065	General fund surplus (note 15)	1,228
8,433	Housing fund surplus (note 16)	12,660
<b>205,202</b>	<b>Total net worth</b>	<b>267,069</b>

Eileen Howat

Eileen Howat BSc, CPFA  
Head of Finance and ICT  
29 September 2006

## Notes to Consolidated Balance Sheet at 31 March 2006

## 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>
10 to 40 years	Operational (specialised) Properties	Estates Manager	Depreciated Replacement Cost (MV-DRC)	31 March 2006
5 to 99 years for buildings/ up to 999 years for land	Operational (non-specialised) Properties	Estates Manager	Open Market Value Existing Use (OMVEU/EUV)	31 March 2004
11 to 99 years for buildings/ up to 999 years for land	Non-operational Properties	Estates Manager	Market Value (OMV/MV)	31 March 2003
30 years	Local Authority Housing Stock	Estates Manager	Net Realisable Value (EUVSH)	31 March 2005
Up to 40 years	Infrastructure Assets	Not applicable	Historical Cost	Not Applicable
99 to 999 years	Community Assets	Not applicable	Historical Cost	Not Applicable
1 to 7 years	Vehicles	Transport Manager	Net Realisable Value (NRV)	Not Applicable

The following statement shows the progress of the Council's five-year rolling programme for the revaluation of fixed assets.

<i>Valued at current value in</i>	<i>Other Land &amp; Buildings £'000</i>	<i>Vehicles, Plant &amp; Equipment £'000</i>	<i>Non Operational £'000</i>	<i>Total £'000</i>
2005-06	229,789	30	1,242	231,060
<b>Total</b>	<b>229,789</b>	<b>30</b>	<b>1,242</b>	<b>231,060</b>

The financial year 2005/06 is the first year of the latest five-year rolling programme cycle. Additional information will be added as the programme progresses.

## (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<sup>st</sup> March 2006, was £502.441m.

	<i>Council dwellings</i> £'000	<i>Operational assets</i> £'000	<i>Non-operational assets</i> £'000	<i>Infrastructure assets</i> £'000	<i>Community assets</i> £'000	<i>Vehicles and equipment</i> £'000	<i>Total</i> £'000
Gross book value as at 1 April 2005	210,843	203,843	20,272	42,094	924	2,307	480,283
Revaluations	(14)	44,553	(1,535)	0	15	244	43,243
Additions	8,603	2,728	345	2,885	176	749	15,486
Disposals	(5,640)	(220)	(673)	0	0	(153)	(6,686)
Transfer	0	0	(1,120)	0	0	1,120	0
<b>Gross book value as at 31 March 2006</b>	<b>213,792</b>	<b>250,904</b>	<b>17,289</b>	<b>44,979</b>	<b>1,115</b>	<b>4,247</b>	<b>532,326</b>
Depreciation as at 1 April 2005	7,029	19,269	0	4,347	0	1,058	31,703
Released on revaluation / disposal	(188)	(14,833)	0	0	0	(27)	(15,048)
Charge for year	7,412	4,250	0	1,128	0	440	13,230
<b>Balance as at 31 March 2006</b>	<b>14,253</b>	<b>8,686</b>	<b>0</b>	<b>5,475</b>	<b>0</b>	<b>1,471</b>	<b>29,885</b>
<b>Net book value as at 31 March 2006</b>	<b>199,539</b>	<b>242,218</b>	<b>17,289</b>	<b>39,504</b>	<b>1,115</b>	<b>2,776</b>	<b>502,441</b>

#### 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 2005/06. These sports halls are held within fixed assets. The covenant scheme liability of £0.592m is represented in the consolidated balance sheet as a temporary loan of £0.140m and long term borrowing of £0.452m.

#### Note 3 - Loans premium

<i>Movements in year</i>	<i>Balance 31 March 2005</i> £'000	<i>Additions</i> £'000	<i>Premiums Released</i> £'000	<i>Balance 31 March 2006</i> £'000
Loans premium	17,210	0	509	16,701

#### Note 4 - Investments

	<i>2005</i> £'000	<i>2006</i> £'000
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**

	<b>2005</b> <b>£'000</b>	<b>2006</b> <b>£'000</b>
Local Government (D & F) Act 1964	2	2
Others	102	69
	<b>104</b>	<b>71</b>

The reduction in "other loans" represents home loan repayments made during 2005/06.

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

This sum is made up of deposits by the various Sundry Accounts and Common Good with the Council's loans fund. An analysis of these accounts is provided on pages 38 to 40 of the financial statements.

**Note 7 - Analysis of borrowing**

<b>2005</b> <b>£'000</b>		<b>2006</b> <b>£'000</b>
	<b><i>Analysis of loan by type</i></b>	
592	Covenant	452
124,641	Public Works Loan Board	139,007
42,487	Local Bonds	41,428
<b>167,720</b>	<b>Total outstanding</b>	<b>180,887</b>
	<b><i>Analysis of loan by maturity</i></b>	
1,333	1 to 2 years	332
1,007	2 to 5 years	809
16,261	5 to 10 years	13,276
149,119	10+ years	166,470
<b>167,720</b>	<b>Total outstanding</b>	<b>180,887</b>

Local Bonds (1 to 2 years) include European Investment Bank 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 in respect of the Strathclyde Pension Fund are valued at fair value (principally market value for investments) and consist of:

<b>2005 £'000</b>		<b>2006 £'000</b>
203,740	Equity investments	272,662
36,857	Bonds	36,827
26,407	Property	32,583
8,762	Cash	16,523
<b>275,766</b>	<b>Share of assets</b>	<b>358,595</b>
(346,253)	Scheme liabilities	(413,863)
(17,794)	Unfunded liabilities	(22,003)
<b>(364,047)</b>	<b>Share of estimated liabilities</b>	<b>(435,866)</b>
<b>(88,281)</b>	<b>Net assets/ (liabilities) in Strathclyde Pension Fund</b>	<b>(77,271)</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 £77.271m at 31<sup>st</sup> March 2006 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<sup>st</sup> March 2006, and are provided by Hymans Robertson, the independent actuaries to Glasgow City Council Fund. The main assumptions used in the calculations are:

<b>2005 City Fund</b>		<b>2006 City Fund</b>
2.9%	Rate of inflation	3.1%
4.4%	Rate of increase in salaries	4.6%
2.9%	Rate of increase in pensions	3.1%
5.4%	Rate for discounting scheme liabilities	4.9%

**Note 9 - Debtors and Provisions for Bad and Doubtful Debts**

At 31<sup>st</sup> March 2006 the accounts include debtors totalling £37.682m and provisions against these debtors totalling £22.306m, analysed as follows:

<b>2005 Net Debtor £'000</b>		<b>Gross Debtor £'000</b>	<b>Bad Debt Provision £'000</b>	<b>2006 Net Debtor £'000</b>
1,618	Council Tax/ Community Charge	21,040	19,314	1,726
213	Department of Works & Pensions	211	0	211
1,132	Non-Domestic Rates	2,583	1,718	865
228	Council House Rents	661	452	209
860	Revenue Support Grant	564	0	564
1,721	Her Majesty's Revenue and Customs	1,973	0	1,973
12,225	Sundry Debtors	10,650	822	9,828
<b>17,997</b>	<b>Total</b>	<b>37,682</b>	<b>22,306</b>	<b>15,376</b>

**Note 10 - Provision for liabilities**

Total provisions for liabilities amount to £5.528m, representing provisions made in respect of future roads contract losses, equal pay claims outstanding at 31<sup>st</sup> March 2006 and insurance costs in respect of South Ayrshire Council's share of the former Strathclyde Regional Council's insurance claims.

Since 31<sup>st</sup> March 2006 a significant element of equal pay claims have been resolved. The Council has since reviewed the level of provision as at 31<sup>st</sup> March 2006 and still considers it to be appropriate based on the settlement of equal pay claims to date.

**Note 11 - Creditors**

At 31<sup>st</sup> March 2006 the accounts include creditors totalling £29.931m, analysed as follows:

<b>2005 Creditor £'000</b>		<b>2006 Creditor £'000</b>
2,634	Scottish Executive	4,090
2,932	Her Majesty's Revenue and Customs	3,167
6,066	Other Public Bodies	3,453
1,979	Loan Interest	2,144
14,840	Trade and Other Creditors	17,069
<b>28,651</b>	<b>Total</b>	<b>29,931</b>

**Note 12 – Repair and Renewal fund**

The balance on the Repairs and Renewals Fund at 1<sup>st</sup> of April 2005 was £0.112m. Interest of £0.005m was applied to the fund during 2005/06 resulting in a balance at 31<sup>st</sup> March 2006 of £0.117m. There are no commitments against this balance for financial year 2006/07.

**Note 13 – Insurance fund**

The Insurance Fund balance was £0.425m at 1<sup>st</sup> April 2006. During 2005/06 £0.200m was transferred to the fund and interest of £0.020m was applied, resulting in a balance at 31<sup>st</sup> March 2006 of £0.735m. The 2006/07 revenue budget assumes the use of £0.340m to finance insurance premiums.

**Note 14 – Capital fund**

The Council's Capital Fund was established during 2005/06. Capital receipts of £0.901m were invested in the fund and represent the balance shown in the consolidated balance sheet at 31<sup>st</sup> March 2006. The Council intends to make further investment to the fund in 2006/07. The fund will be utilised to fund debt charges from 2007/08 onwards.

**Note 15 – General Fund balances**

As explained in the Head of Finance and ICT's report on pages 3 to 6 of the financial statements, the General Fund balance of £1.228m needs to be considered along side the Council's revenue budget for 2006/07 and the strategy for financing equal pay costs, redundancy payments and planned expenditure during 2006/07. There remains an uncommitted balance of £0.790m at 31<sup>st</sup> March 2006.

**Note 16 – Housing Fund balance**

The accumulated Housing Revenue Account surplus at 31<sup>st</sup> March 2006 is £12.660m. As explained in the Head of Finance and ICT's report on pages 3 to 6 of the financial statements, £1.117m has been set-aside for specific purposes. Options for the use of the remaining £11.543m will be considered as part of the review of the HRA 30 year business plan during 2006/07.



## Statement of Total Movement in Reserves

2004/05 £'000		2005/06 £'000	2005/06 £'000
	Surplus/(deficit) for the year		
2,025	General Fund	(4,837)	
2,331	Housing Revenue Account	4,227	
(621)	Add back movements on specific revenue reserves	1,216	
(146)	Deduct appropriation from pension reserve	(2,653)	
(58,524)	Actuarial gains and losses relating to pensions	13,663	
<b>(54,935)</b>	<b>Total increase/(decrease) in revenue reserves (note 1)</b>		<b>11,616</b>
2,936	Increase/(decrease) in usable capital receipts	(1,314)	
<b>2,936</b>	<b>Total increase/(decrease) in capital reserves (note 2)</b>		<b>(1,314)</b>
93,074	Gains/(losses) on the revaluation, or the impairment, on fixed assets	58,016	
<b>93,074</b>	<b>Total increase/(decrease) in unrealised value of fixed assets (note 3)</b>		<b>58,016</b>
<b>(5,480)</b>	<b>Value of assets sold, disposed of or decommissioned (note 3)</b>		<b>(6,411)</b>
6,754	Capital receipts set aside	8,585	
(9,403)	Revenue resources set aside	(10,583)	
1,096	Deferred grants released	1,155	
<b>(1,613)</b>	<b>Total increase/(decrease) in amount set aside to finance capital investment (note 4)</b>		<b>(843)</b>
<b>1,241</b>	<b>Other movements in capital reserves (note 4)</b>		<b>803</b>
<b>35,223</b>	<b>Total movement in net worth</b>		<b>61,867</b>

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

## Notes to Statement of Movement in Reserves

### 1) Movement in revenue reserves

Details of the amounts held within the General Fund balances, HRA balances, Repair & Renewal, Insurance and Capital funds are provided in the Consolidated Balance Sheet and supplementary notes.

	<i>General Fund Balances</i> £'000	<i>HRA Balances</i> £'000	<i>Repair &amp; Renewal Fund</i> £'000	<i>Insurance Fund</i> £'000	<i>Capital Fund</i> £'000	<i>Pension Reserve</i> £'000
Balance brought forward at 1 April 2005	6,065	8,433	112	425	0	(88,281)
Surplus/ (deficit) for 2005/06	(4,837)	4,227				
Appropriations (to)/ from revenue			5	310	901	(2,653)
Actuarial gains/ (losses) relating to pensions						13,663
<b>Balance carried forward at 31 March 2006</b>	<b>1,228</b>	<b>12,660</b>	<b>117</b>	<b>735</b>	<b>901</b>	<b>(77,271)</b>

*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>2002/03</i> £'000	<i>2002/03</i> %	<i>2003/04</i> £'000	<i>2003/04</i> %	<i>2004/05</i> £'000	<i>2004/05</i> %	<i>Pension Reserve</i>	<i>2005/06</i> £'000	<i>2005/06</i> %
(68,951)	(35.3%)	35,644	14.4%	9,305	3.4%	Difference between the expected and actual return on assets	56,605	15.8%
662	0.2%	250	0.1%	(847)	(0.2%)	Experience gains/ (losses) on liabilities	8,019	1.6%
(68,289)	(26.3%)	35,894	13.0%	(58,524)	(16.1%)	Actuarial gains and losses recognised in movement in reserves	13,663	3.1%

### 2) Movement in realised capital reserves

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.

	<i>Usable Capital Receipts</i> £'000
Amounts receivable in 2005/06	10,522
Amounts applied to finance new capital investment in 2005/06	11,836
<b>Total increase/ (decrease) in realised capital resources in 2005/06</b>	<b>(1,314)</b>
Balance brought forward at 1 April 2005	4,460
<b>Balance carried forward at 31 March 2006</b>	<b>3,146</b>

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

The Fixed Asset Restatement Account 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.

	<i>Fixed Asset Restatement Account £'000</i>
Gains/ (losses) on revaluation of fixed assets in 2005/06	58,016
<b>Total increase/ (decrease) in unrealised capital resources in 2005/06</b>	<b>58,016</b>
Amounts written off fixed assets for disposal in 2005/06	(6,411)
<b>Total movement in reserve in 2005/06</b>	<b>51,605</b>
Balance brought forward at 31 March 2005	204,611
<b>Balance carried forward at 31 March 2006</b>	<b>256,216</b>

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

The Capital Financing Account 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 require to be written off to the Consolidated Revenue Account.

	<i>Capital Financing Account £'000</i>	<i>Government Grants Deferred £'000</i>
<i>Capital receipts set aside in 2005/06</i>		
- usable receipts applied	8,585	
<b>Total capital receipts set aside in 2005/06</b>	<b>8,585</b>	
<i>Revenue resources set aside in 2005/06</i>		
- reconciling amount for provision for loan payment	(10,583)	
<b>Total revenue resources set aside in 2005/06</b>	<b>(10,583)</b>	
Grants applied to capital investment in 2005/06	1,155	3,090
Amounts credited to Asset Management Revenue Account in 2005/06		(2,287)
<b>Movement in government grants deferred</b>	<b>1,155</b>	<b>803</b>
<b>Total movement in reserves in 2005/06</b>	<b>(843)</b>	<b>803</b>
Balance brought forward at 1 April 2005	59,852	9,525
<b>Balance carried forward at 31 March 2006</b>	<b>59,009</b>	<b>10,328</b>

## Cash Flow Statement

2004/05 £'000		2005/06 £'000	2005/06 £'000
	<b>Revenue activities</b>		
	<b>Cash outflows</b>		
134,390	Cash paid to or on behalf of employees	142,495	
158,420	Other operating cash payments	164,379	
7,617	Housing benefit paid out	8,930	
34,169	National non-domestic rates – payments to national pool	34,225	
<b>334,596</b>		<b>350,029</b>	
	<b>Cash inflows</b>		
6,639	Rents (after rebates)	6,565	
52,427	Council tax receipts	55,014	
41,885	National non-domestic rates receipts from national pool	41,855	
33,994	Non-domestic rates receipts	34,186	
101,872	Revenue support grant	108,836	
8,780	DWP grants for benefits	7,348	
51,911	Other government grants (note 4)	57,964	
53,365	Other operating cash receipts	60,420	
<b>350,873</b>		<b>372,188</b>	
<b>(16,277)</b>	<b>Net cash inflow from revenue activities (note 1)</b>		<b>(22,159)</b>
	<b>Servicing of capital</b>		
10,421	Interest paid	10,649	
(600)	Interest received	(1,409)	
<b>9,821</b>	<b>Net cash outflow from servicing of capital</b>		<b>9,240</b>
	<b>Capital activities</b>		
	<b>Cash outflows:</b>		
14,419	Purchase of fixed assets	15,486	
676	Other capital cash payments	1,019	
<b>15,095</b>	<b>Total payments</b>	<b>16,505</b>	
	<b>Cash inflows:</b>		
12,703	Capital cash receipts	10,522	
<b>12,703</b>	<b>Total income</b>	<b>10,522</b>	
<b>2,392</b>	<b>Net cash outflow from capital activities</b>		<b>5,983</b>
<b>(4,064)</b>	<b>Net cash outflow/ (inflow) before financing</b>		<b>(6,936)</b>
	<b>Management of liquid resources (note 3):</b>		
<b>(1,125)</b>	(Decrease)/ increase in investments		<b>16,200</b>
	<b>Financing</b>		
	<b>Cash outflows</b>		
20,827	Repayments of amounts borrowed	4,370	
	<b>Cash inflows</b>		
10,700	New short term loans raised	2,000	
7,000	New long term loans raised	14,500	
<b>3,127</b>	<b>Net cash outflow/ (inflow) from financing</b>		<b>(12,130)</b>
<b>(2,062)</b>	<b>(Increase)/ decrease in cash</b>		<b>(2,866)</b>

## Notes to Cash Flow Statement

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

2004/05 £'000		2005/06 £'000	2005/06 £'000
(2,025)	General Fund (Surplus)/ Deficit	4,837	
(2,331)	Housing Revenue Account (Surplus)/ Deficit	(4,227)	
<b>(4,356)</b>	<b>(Surplus)/ Deficit for the year</b>		<b>610</b>
	<b>Adjust surplus for items accounted for elsewhere in cash flow statement</b>		
(9,821)	Loans fund interest	(9,240)	
(2,628)	Loans fund principal	(2,373)	
<b>(12,449)</b>			<b>(11,613)</b>
	<b>Adjust surplus for internal items</b>		
(425)	Contributions to funds	(1,216)	
1,046	Use of funds	0	
<b>621</b>			<b>(1,216)</b>
	<b>Adjust surplus for movements in working capital</b>		
1,856	Increase/ (Decrease) in debtors	(3,130)	
977	(Increase)/ Decrease in sundry creditors	(6,516)	
(2,816)	Increase in other creditors	(280)	
(79)	Increase/ (Decrease) in stock and work in progress	19	
(31)	Decrease in loans	(33)	
<b>(93)</b>			<b>(9,940)</b>
<b>(16,277)</b>	<b>Net cash inflow from revenue activities</b>		<b>(22,159)</b>

## Note 2 – Reconciliation to Net Debt

	£'000	£'000
Increase in cash	(2,866)	
Decrease in debt	12,130	
Decrease in liquid resources	(16,200)	
Decrease in debt in period		(6,936)
Net debt at 1 April 2005		155,679
		148,743

Analysis of net debt	Balance at 1 April 2005 £'000	2005/06 Movement £'000	Balance at 31 March 2006 £'000
Cash on hand	(40)	0	(40)
Overdrafts	5,529	(2,866)	2,663
<b>Sub Total (A)</b>	<b>5,489</b>	<b>(2,866)</b>	<b>2,623</b>
Debt due within 1 year	2,370	(1,037)	1,333
Debt due after 1 year	167,128	13,307	180,435
Covenant Scheme	592	(140)	452
<b>Sub Total (B)</b>	<b>170,090</b>	<b>12,130</b>	<b>182,220</b>
Short term investments	(19,900)	(16,200)	(36,100)
<b>Sub Total (C)</b>	<b>(19,900)</b>	<b>(16,200)</b>	<b>(36,100)</b>
<b>Total (A)+(B)+(C)</b>	<b>155,679</b>	<b>(6,936)</b>	<b>148,743</b>

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

	Balance at 1 April 2005 £'000	2005/06 Movement £'000	Balance at 31 March 2006 £'000
<b>Management of Liquid Resources</b>			
Short term deposits	19,900	16,200	36,100
<b>Management of Financing</b>			
PWLB Loans	126,777	12,364	139,141
Covenant Loans	732	(139)	593
Local Bonds/EIB Loans	42,581	(95)	42,486
	<b>170,090</b>	<b>12,130</b>	<b>182,220</b>

## Note 4 – Analysis of Other Government Grants

	<b>2005/06</b> <b>£'000</b>
Rent rebates benefit subsidy	13,722
Police	10,418
Supporting People	8,990
Council tax benefit subsidy	8,925
School fund	2,264
Sundry Grants	1,780
Strategic Waste Fund	1,503
Criminal justice management	1,110
Fast track children's hearings	386
New community schools	642
Changing Children's Services Fund	1,229
Inclusion	738
Council tax benefit administration	415
National grid for learning	437
Rent rebate administration	415
New Opportunities funding	921
Secondary education	16
Homeless strategy	304
Continuous professional development	298
In service training	154
Mental illness	301
Rural public transport	109
Alternatives to exclusion	253
Study support	292
Support for teachers	349
Verification framework	104
Fraud incentive subsidy	116
Higher Still	116
Workforce expansion	127
Hungry for Success	549
Supporting parents	52
Social work training	103
Discipline Task Group	221
Additional support for learning	197
Primary foreign language	87
Assessment for learning	33
Determined to succeed	168
<b>Total</b>	<b>57,964</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.

<b>2004/05 £'000</b>	<b>Revenue accounts</b>	<b>2005/06 £'000</b>
1,326	Balance at 1 April	1,349
69	Income for year	145
(46)	Expenditure during year	(28)
<b>1,349</b>	<b>Balance at 31 March</b>	<b>1,466</b>

<b>2005 £'000</b>	<b>Balance Sheet as at 31 March</b>	<b>2006 £'000</b>
	<b>Assets</b>	
193	Investments	193
1,156	Current assets – temporary deposit in Loans Fund	1,273
<b>1,349</b>	<b>Total assets</b>	<b>1,466</b>
	<b>Reserves</b>	
932	Revenue	1,049
417	Capital	417
<b>1,349</b>	<b>Total reserves</b>	<b>1,466</b>

### (b) Other Funds

<b>2005 £'000</b>		<b>2006 £'000</b>
15	Balance due by Loans Fund	11
3	Investments	3
<b>18</b>		<b>14</b>



**Abstract of Common Good Accounts**  
**For the year ended 31 March 2006**

**Revenue Accounts**

<i>Total 2004/05</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>						
574	Property costs	313	0	0	0	0	313
360	Donations & contributions	376	0	0	0	0	376
25	Other expenditure	30	0	3	0	0	33
<b>959</b>		<b>719</b>	<b>0</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>722</b>
	<b>Income</b>						
625	Rents	668	0	20	0	0	688
151	Interest on loans	240	1	14	0	1	256
<b>776</b>		<b>908</b>	<b>1</b>	<b>34</b>	<b>0</b>	<b>1</b>	<b>944</b>
<b>(183)</b>	<b>Surplus/(deficit) for year</b>	<b>189</b>	<b>1</b>	<b>31</b>	<b>0</b>	<b>1</b>	<b>222</b>
<b>613</b>	<b>Surplus brought forward</b>	<b>131</b>	<b>27</b>	<b>268</b>	<b>1</b>	<b>3</b>	<b>430</b>
<b>430</b>	<b>Accumulated surplus</b>	<b>320</b>	<b>28</b>	<b>299</b>	<b>1</b>	<b>4</b>	<b>652</b>

**Balance Sheet as at 31 March 2006**

<i>2005 £'000</i>		<i>2006 £'000</i>
<b>14,723</b>	<b>Fixed assets (note 1 &amp; 2)</b>	<b>13,310</b>
	<b>Current assets:</b>	
1	Loans	1
35	Stock	35
5,083	Loans Fund Investment	5,340
<b>5,119</b>	<b>Total current assets</b>	<b>5,376</b>
<b>19,842</b>	<b>Total assets</b>	<b>18,686</b>
	<b>Less: Current liabilities</b>	
10	Creditors and Accruals	55
<b>10</b>	<b>Total current liabilities</b>	<b>55</b>
<b>19,832</b>	<b>Total net assets</b>	<b>18,631</b>
	<b>Financed by:</b>	
3,600	Capital Reserve	3,600
430	Revenue Reserve	652
4,885	Usable Capital Receipts Reserve (Note 3)	4,876
10,917	Revaluation Reserve (Note 4)	9,503
<b>19,832</b>	<b>Total net worth</b>	<b>18,631</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 2005/06 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 2005	5,163	9,194	66	14,723
Revaluations	255	532	(2,200)	(1,413)
Additions	0	0	0	0
Disposals	0	0	0	0
Transfers	(2,200)	0	2,200	0
<b>Gross book value as at 31 March 2006</b>	<b>3,518</b>	<b>9,726</b>	<b>66</b>	<b>13,310</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

2004/05 £'000	By service	2005/06 £'000
1,851	Roads - transport	2,772
1,451	Education	1,604
5,020	General Services	2,507
6,097	Housing revenue account	8,603
<b>14,419</b>	<b>Capital expenditure additions</b>	<b>15,486</b>
140	Covenant	140
676	Private sector housing grants	1,132
<b>15,235</b>	<b>Total payments</b>	<b>16,758</b>
	<b>Financed by:</b>	
5,469	Net funding from external borrowing and cash balances	4,922
9,766	Capital receipts, grants and contributions	11,836
<b>15,235</b>	<b>Total financing</b>	<b>16,758</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. The Prudential Code plays a key role in capital finance in local authorities. Local authorities determine their own programmes for capital investment in fixed assets that are central to the delivery of quality services. The Prudential Code was developed by CIPFA, the Chartered Institute of Public Finance and Accountancy, as a professional code of practice to support local authorities in taking their decisions. Local authorities are required by Regulation to have regard to the Prudential Code when carrying out their duties in Scotland under part 7 of the Local Government in Scotland Act 2003.

One of the main performance indicators within the code relates to the Capital Financing Requirement, which highlights the underlying need to borrow for capital purposes. The table below details the current position for South Ayrshire Council.

2004/05 £		2005/06 £
<b>189,651</b>	<b>Opening Capital Financing Requirement</b>	<b>191,802</b>
	<b>Capital investment</b>	
14,419	Capital expenditure additions	15,486
816	Other capital payments	1,272
	<b>Sources of finance</b>	
(9,766)	Capital receipts, grants and contributions	(11,836)
(3,318)	Sums set aside from revenue (includes direct revenue financing, loans fund principal repayment and any voluntary set aside)	(3,134)
<b>191,802</b>	<b>Closing Capital Financing Requirement</b>	<b>193,590</b>

*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 £15.486m which corresponds to the service breakdown detailed in the table above.

## Group Accounts

### Introduction

The code of practice on Local Authority Accounting in the United Kingdom 2005: A statement of Recommended Practice (2005 SORP) requires local authorities to consider their interest in all types of entity. This includes other local authorities or similar bodies defined in section 106 of the Local Government (Scotland) Act 1973 e.g. statutory bodies such as Police, Fire and Valuation Boards. Authorities are required to prepare a full set of group accounts in addition to their own Council's accounts where they have a material interest in such entities. The disclosure requirements of the 2005 SORP are mandatory for accounting periods ending on or after 31<sup>st</sup> March 2006.

### Combining Entities

The Council has an interest in one subsidiary and a number of associate companies. Further details of each entity are detailed in the notes to the Group Accounts on pages 48 to 50. The subsidiary and associate companies share a common accounting period ending 31<sup>st</sup> March 2006.

The subsidiary incorporated is:

The Common Good Fund

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

The associate companies incorporated are:

Strathclyde Police Joint Board  
Strathclyde Fire Joint Board  
Strathclyde Passenger Transport Authority (SPTA)  
Strathclyde Concessionary Travel Scheme Joint Board, and  
Ayrshire Valuation Joint Board.

Each of these five associate companies is an independent joint board whose function is to provide services on behalf of its constituent councils. The representative members of each board are elected councillors appointed by constituent authorities. South Ayrshire Council has two appointed members on each of the Strathclyde Police, Fire, and Transport Authority Joint Boards. The council has one member representing its interests on the Concessionary Travel Scheme Joint Board and five members on the Valuation Joint Board.

### Nature of Combination

The Council inherited its 100% interest in the subsidiary company from Kyle & Carrick District Council following the re-organisation of local government in 1996. The subsidiary has been consolidated into the group accounts on an acquisition basis. Shares of the associate companies have also been accounted for on an acquisition basis using the equity method – the Council's share of the net assets or liabilities of each entity is incorporated and adjusted each year by the Council's share of the entities' results (recognised in the Group Income & Expenditure Reserve), and its share of other gains & losses. The Council has not paid any consideration for its interests and thus there is no goodwill involved in the acquisition.

### Financial Impact of Consolidation

For four of the six entities, the Council has a share in a net liability. The net liabilities of Police, Fire and Ayrshire Valuation Joint Board arise from the inclusion of liabilities related to the defined benefit pension scheme as required by FRS17. For SPTA, this liability arises from long-term

borrowing to fund improvements to railway stations and other passenger transport facilities that cannot be classified as capital investment under accounting regulations.

The inclusion of the Subsidiary and Associate Companies in the group Balance Sheet reduces both the reserves and net assets by £163.761m, representing the Council's share of the net liabilities of the entities.

**Group Revenue Account**  
**Year ended 31 March 2006**

2004/05 net expenditure £'000	Service	2005/06 gross expenditure £'000	2005/06 gross income £'000	2005/06 net expenditure £'000
79,685	Education Services	96,881	13,359	83,522
(5,437)	Housing Revenue Account	14,271	21,517	(7,246)
1,153	General Fund Housing	35,622	33,393	2,229
45,236	Social Work Services	69,125	21,400	47,725
10,923	Culture and Related Services	15,200	3,648	11,552
11,739	Environmental Services	15,214	3,898	11,316
12,525	Roads and Transport Services	14,349	2,251	12,098
2,826	Planning and Development Services	4,208	2,086	2,122
3,578	Corporate and Democratic Core	3,682	299	3,383
1,308	Non Distributed Costs	2,656	0	2,656
4,093	Other Central Services to the Public	38,948	34,877	4,071
0	Exceptional item - equal pay compensation	3,917	0	3,917
(2,448)	Government grants amortised during the year	0	3,419	(3,419)
(4,224)	Profit or loss on disposal of assets	4	1,571	(1,567)
59	Share of operating results of Associates	2,184	201	1,983
818	Common Good fund	677	300	377
<b>162,134</b>	<b>Net Cost of Services</b>	<b>316,938</b>	<b>142,219</b>	<b>174,719</b>
15,015	Precepts and Levies	17,194	0	17,194
10,880	External interest payable (formerly AMRA)	10,859	0	10,859
694	Share of interest payable of Associates	679	0	679
(779)	Trading Services	32,103	32,224	(121)
(863)	Interest and Investment Income	0	667	(667)
(263)	Share of interest and investment income of Associates		292	(292)
(2,209)	Pension Interest Cost and Expected Return on Pension Assets	19,951	19,730	221
6,037	Share of Pension Interest Cost and Expected Return on Pension Assets of Associates	8,773	42	8,731
<b>190,646</b>	<b>Net Operating Expenditure</b>	<b>406,497</b>	<b>195,174</b>	<b>211,323</b>
2,331	Contribution to/(from) HRA balances			4,227
(146)	Contribution to/(from) Pensions Reserve			(2,653)
(1,100)	Contribution to/(from) Repairs & Renewals Fund			0
417	Contribution to/(from) Insurance Fund			290
(759)	Contributions to/(from) Capital Financing Account			(728)
4,217	Reversal of profit or loss on disposal of assets			1,562
(6,703)	Contribution to/(from) Group Reserve			(10,874)
<b>188,903</b>	<b>Amount to be met from government grant and local taxpayers</b>			<b>203,147</b>
(103,819)	Revenue Support Grant			(108,836)
(7,716)	Non Domestic Rate Income from Pool			(7,841)
(34,169)	Non Domestic Rate Income Collected			(34,014)
(45,217)	Council Tax Income			(47,612)
(7)	Community Charge Income			(7)
<b>(190,928)</b>	<b>Amount received from government grant and local taxpayers</b>			<b>(198,310)</b>
<b>(2,025)</b>	<b>(Surplus)/deficit for year</b>			<b>4,837</b>
<b>(4,040)</b>	<b>(Surplus)/deficit brought forward</b>			<b>(6,065)</b>
<b>(6,065)</b>	<b>(Surplus)/deficit carried forward</b>			<b>(1,228)</b>

## Group Balance Sheet as at 31 March 2006

2005 £'000		2006 £'000
	<b>Fixed assets:</b>	
	<i>Operational assets</i>	
203,814	Council dwellings	199,539
199,231	Other land and buildings	255,462
1,249	Vehicles, plant, etc	2,776
37,747	Infrastructure assets	39,504
990	Community assets	1,181
<b>443,031</b>		<b>498,462</b>
20,272	<i>Non-operational assets</i>	17,289
<b>463,303</b>	<b>Total fixed assets</b>	<b>515,751</b>
<b>17,210</b>	<b>Loans premium</b>	<b>16,701</b>
<b>10,583</b>	<b>Share of investment in Associates</b>	<b>12,206</b>
<b>141</b>	<b>Long term investments</b>	<b>141</b>
<b>105</b>	<b>Loans</b>	<b>72</b>
	<b>Current assets:</b>	
555	Stocks and work in progress	574
38,811	Sundry debtors	37,682
(20,814)	Provision for bad and doubtful debts	(22,306)
19,900	Short term investments	36,100
40	Cash floats and imprests	40
<b>38,492</b>		<b>52,090</b>
<b>529,834</b>	<b>Total assets</b>	<b>596,961</b>
	<b>Less: Current liabilities:</b>	
2,370	Temporary and other loans repayable within a year	1,333
28,661	Sundry creditors	29,986
292	Provision for liabilities	5,528
5,529	Bank overdraft	2,663
1,364	Due to sundry accounts	1,387
<b>38,216</b>		<b>40,897</b>
<b>491,618</b>	<b>Total assets less current liabilities</b>	<b>556,064</b>
	<b>Less: Long term liabilities:</b>	
167,128	Long term borrowing	180,435
592	Covenant scheme	452
548	Share of long term liabilities of Associates	1,198
<b>168,268</b>	<b>Total long term liabilities excluding pension liability</b>	<b>182,085</b>
<b>323,350</b>	<b>Total assets before pension liability</b>	<b>373,979</b>
237,002	Less: Pension liability	270,671
<b>86,348</b>	<b>Total net assets</b>	<b>103,308</b>
	<b>Financed by:</b>	
221,057	Fixed asset restatement account	271,245
61,605	Capital financing account	61,741
9,593	Usable capital receipts reserve	8,365
12,072	Government grant deferred	12,427
(237,002)	Pension reserve	(270,671)
	<i>Reserves and fund balances:</i>	
225	Repairs & renewals fund	174
507	Insurance fund	759
103	Capital fund	985
3,690	Group Income & Expenditure reserve	4,395
6,065	General fund surplus	1,228
8,433	Housing fund surplus	12,630
<b>86,348</b>	<b>Total net worth</b>	<b>103,308</b>

Eileen Howat

Eileen Howat BSc, CPFA  
Head of Finance and ICT  
29 September 2006

## Group Statement of Total Movement in Reserves

### Capital Reserves

	Fixed Asset Restatement Account £'000	Capital Financing Account £'000	Useable Capital Receipts £'000	Government Grant Deferred £'000	Total £'000
<b>Balance brought forward from 1 April 2005</b>					
- South Ayrshire Council	204,611	59,852	4,460	9,525	278,448
- Subsidiary	10,917	3,600	4,885	0	19,402
- Associates	5,529	(1,847)	248	2,547	6,477
- Reconciling amount due to revised % share of associates assets/liabilities	127	138	35	87	387
<b>Amounts set aside to finance capital investment</b>					
- South Ayrshire Council	0	(1,622)	10,522	(2,287)	6,613
- Subsidiary	0	0	10	0	10
- Associates	8	465	60	(210)	323
<b>Effects of disposal of fixed assets</b>					
- South Ayrshire Council	(6,411)	0	0	0	(6,411)
- Subsidiary	0	0	0	0	0
- Associates	(57)	0	0	0	(57)
<b>Gains/(Losses) on revaluation of fixed assets</b>					
- South Ayrshire Council	50,010	0	0	0	50,010
- Subsidiary	(1,414)	0	0	0	(1,414)
- Associates	(81)	0	0	0	(81)
<b>Amounts applied to finance new capital investment in 2005/06</b>					
- South Ayrshire Council	0	1,155	(11,836)	3,090	(7,591)
- Subsidiary	0	0	(19)	0	(19)
- Associates	0	0	0	(325)	(325)
<b>Balance carried forward at 31 March 2006</b>	<b>271,245</b>	<b>61,741</b>	<b>8,365</b>	<b>12,427</b>	<b>353,778</b>

### Revenue Reserves

	General Fund Balances £'000	HRA Balances £'000	Repair & Renewal Fund £'000	Insurance Fund £'000	Capital Fund £'000	Pension Reserve £'000	Group Reserves £'000	Total £'000
<b>Balance brought forward from 1 April 2005</b>								
- South Ayrshire Council	6,065	8,433	112	425	0	(88,281)	0	(73,246)
- Subsidiary	0	0	0	0	0	0	430	430
- Associates	0	0	113	82	103	(148,721)	3,260	(145,163)
- Reconciling amount due to revised % share of associates assets/liabilities	0	0	0	0	0	(17,743)	275	(17,468)
<b>Surplus/(Deficit) for 2005/06</b>								
- South Ayrshire Council	(4,837)	4,227	0	0	0	0	0	(610)
- Subsidiary	0	0	0	0	0	0	222	222
- Associates	0	0	0	0	0	0	158	158
<b>Appropriations (tn)/From revenue</b>								
- South Ayrshire Council	0	0	5	310	901	(2,653)	0	(1,437)
- Subsidiary	0	0	0	0	0	0	0	0
- Associates	0	0	(56)	(58)	(19)	(10,390)	50	(10,473)
<b>Actuarial gains/(losses) relating to pensions</b>								
- South Ayrshire Council	0	0	0	0	0	13,663	0	13,663
- Subsidiary	0	0	0	0	0	0	0	0
- Associates	0	0	0	0	0	(16,546)	0	(16,546)
<b>Balance carried forward at 31 March 2006</b>	<b>1,228</b>	<b>12,660</b>	<b>174</b>	<b>759</b>	<b>985</b>	<b>(270,671)</b>	<b>4,395</b>	<b>(250,470)</b>



## Group Cash Flow Statement

2004/05 £'000		2005/06 £'000	2005/06 £'000
(16,104)	<i>Net cash inflows from revenue activities</i>		(22,436)
	<b>Servicing of Capital</b>		
10,421	Interest paid	10,649	
(751)	Interest received	(1,665)	
9,670	<i>Net cash inflows from servicing of capital</i>		8,984
	<b>Capital Activities</b>		
	<i>Cash outflows</i>		
14,419	Purchase of fixed assets	15,486	
1,267	Other capital cash payments	1,038	
15,686	<i>Total payments</i>	16,524	
	<i>Cash inflows</i>		
15,717	Capital cash receipts	10,532	
15,717	<i>Total income</i>	10,532	
(31)	<i>Net cash outflow/ (inflow) from capital activities</i>		5,992
(6,465)	<i>Net cash outflow/ (inflow) before financing</i>		(7,460)
	<b>Management of liquid resources</b>		
1,126	<i>(Decrease)/ increase in investments</i>		16,451
	<b>Financing</b>		
	<i>Cash outflows</i>		
20,827	Repayments of amounts borrowed	4,370	
	<i>Cash inflows</i>		
10,700	New short term loans raised	2,000	
7,000	New long term loans raised	14,500	
3,127	<i>Net cash outflow/ (inflow) from financing</i>		(12,130)
(2,212)	<i>(Increase)/ decrease in cash</i>		(3,133)

## Notes to Group Accounts

The notes required for the accounts of South Ayrshire Council as the holding company are disclosed separately within the financial statements on pages 1 to 41. The following notes provide additional information in relation to other combining entries.

### Note 1 – Details of combining entities

In addition to the information included in the consolidated Group Accounts on pages 42 to 47, the accounting regulations require specific disclosures about the combining entities and the nature of their business.

**The Common Good Fund** was inherited by South Ayrshire Council from Kyle & Carrick District Council following the 1996 local government re-organisation. The Fund comprises 5 distinct sub-funds, Ayr, Prestwick, Troon, Maybole and Girvan. The Council controls 100% of the fund and administers it for the interest and benefit of the people in the aforementioned areas. All expenditure is met from annual income or reserves. All required disclosures are detailed on pages 39 to 40 of these accounts.

**Strathclyde Police Joint Board** is the statutory body established under the Strathclyde Combined Police Area Amalgamation Scheme Order 1995 and provides a range of policing on behalf of the 12 local authorities in the West of Scotland. In 2005/06, South Ayrshire Council contributed £10.066m or 4.20% of the Board's estimated running costs. Its share of the year-end net liability of £142.999m (2004/05 £104.693m) is included in the Group Balance Sheet. Copies of Strathclyde Police Service's accounts may be obtained from the Treasurer to Strathclyde Police Joint Board, Glasgow City Chambers, Glasgow G2 1DU.

**Strathclyde Fire Joint Board** is the statutory body responsible for overseeing the activities of Strathclyde Fire & Rescue, which provides emergency cover on behalf of the 12 local authorities in the West of Scotland. In 2005/06, South Ayrshire Council contributed £6.412m or 4.79% of the Board's estimated running costs. Its share of the year-end net liability of £38.176m (2004/05 £32.235m) is included in the Group Balance Sheet. Copies of Strathclyde Fire Service's accounts may be obtained from the Treasurer to Strathclyde Fire Joint Board, Bothwell Road, Hamilton ML03 OEA.

**Strathclyde Passenger Transport Authority** is the statutory body responsible for formulating the public transport policy on behalf of the 12 local authorities in the West of Scotland. The majority of its funding comes directly from the Scottish Executive to fund the Rail Franchise payment and to ensure the delivery of rail services within the Board's area as specified in the rail franchise agreement. In 2005/06, South Ayrshire Council contributed £3.546m or 4.40% of the Board's estimated running costs. Its share of the year-end net liability of £1.866m (2004/05 £1.881m) is included in the Group Balance Sheet. Copies of Strathclyde Passengers Service's accounts may be obtained from the Treasurer to Strathclyde Passenger Transport Authority, Consort House, 12 West George Street, Glasgow G2 1HN.

**Strathclyde Concessionary Travel Scheme Joint Board** comprises the 12 local authorities in the West of Scotland and oversees the operation of the concessionary fares scheme for public transport within its area. The costs of the scheme are met by the 12 Councils and by a grant from the Scottish Executive. The Strathclyde Passenger Transport Executive administers the scheme on behalf of the Board. In 2005/06, South Ayrshire Council contributed £3.041m or 6.21% of the Board's estimated running costs. Its share of the year-end net asset of £0.687m (2004/05 £0.466m) is included in the Group Balance Sheet. Copies of Strathclyde Concessionary Travel Scheme's accounts may be obtained from the Treasurer to Strathclyde Concessionary Travel Scheme, Consort House, 12 West George Street, Glasgow G2 1HN.

**Ayrshire Valuation Joint Board** was established in 1996 at local government re-organisation by Act of Parliament. The Board maintains the electoral, council tax and non-domestic rates registers for the three councils of East, North and South Ayrshire. The Board's running costs are met by the three member councils. Surpluses or deficits on the Board's operations are shared between the councils. In 2005/06, South Ayrshire Council contributed £0.717m or 33.34% of the Board's estimated running costs. Its share of the year-end net liability of £0.038m (2004/05 £0.343m) is included in the Group Balance Sheet. Copies of Ayrshire Valuation Joint Board's accounts may be obtained from the Treasurer to Ayrshire Valuation Joint Board, County Buildings, Wellington Square, Ayr KA7 1DR.

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

2004/05 £'000	Council's Share (33.34%) of AVJB	2005/06 £'000
699	Gross income	718
6	Net operating expenditure	14
164	Fixed assets	192
32	Current assets	47
32	Liabilities due within one year	47
507	Liabilities due after one year	229
(343)	Capital and Reserves	(38)

#### Note 2 – Financial impact of combination

The effect of the inclusion of the above bodies on the group Balance Sheet is to reduce both the reserves and net assets by £163.761m, representing the Council's share of the net liabilities of the entities.

#### Note 3 – Adjustments to Council's results to align with UK GAAP

The following adjustments are required to the details contained within the Council's Consolidated Revenue Account to align it with the UK GAAP requirements for Group Accounting arrangements:

- The removal of £10.538m (2004/05 £8.275m) of notional interest from the net cost of service with a corresponding removal from the Asset Management Account.
- The inclusion of a gain of £1.562m (2004/05 gain of £3.823m) on the disposal of assets within net operating expenditure
- The inclusion of £3.419m (2004/05 £2.448m) of capital grants written off to services within net cost of services.
- The removal of all entries except external interest payable from the Asset Management Revenue Account.

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

#### Note 4 – Group Movement in Reserves

A reconciling adjustment is required to the opening reserve balances of the Police and SPT Concessionary Travel associate companies due to changes to South Ayrshire Council's percentage share in their assets and liabilities between the two years, 2004/05 and 2005/06.

**Note 5 - Group Cash Flow Statement**

The incorporation of the Common Good Fund as a subsidiary within the group cash flow statement increases the net cash inflow position by £0.277m and reduces the net deficit for the year by £0.222m. The incorporation of the associate companies has no effect on the Group Cash Flow statement. A reconciliation of the deficit for the year of £4.615m to the net cash inflow from revenue activities of £22.436m is as follows:

	<b>2005/06 £'000</b>	<b>2005/06 £'000</b>
South Ayrshire Council (Surplus)/ deficit for year		4,387
Common Good (Surplus)/deficit for year		(222)
<b>Deficit for the year</b>		<b>4,615</b>
Add back HRA surplus	(4,227)	
Movement in current assets	(3,111)	
Movement in current liabilities	(6,874)	
Movement in fund balances	(1,216)	
Adjustment for non-cash transactions	(11,623)	(27,051)
<b>Net Cash inflow from revenue activities</b>		<b>(22,436)</b>

## **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 South Ayrshire Council the designated 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<sup>st</sup> March 2006.

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 2005/06 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 statement does not cover the other bodies whose activities have been incorporated into our group accounts, as detailed on pages 42 to 50. However a statement for the group will be provided for 2006/07 when the intention is to place reliance on the individual bodies' Statements of Internal Financial Control and their Chief Internal Auditors' Annual Reports.

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 and is revised as required to reflect evolving risks and changes within the Council.

All internal audit reports identifying system weaknesses and/or non-compliance with expected controls are brought to the attention of management and include appropriate recommendations and agreed action plans. It is management's responsibility to ensure that proper consideration is given to internal audit reports and that appropriate action is taken on all audit recommendations. An ongoing review process is in place to monitor the progress on the implementation of these 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 BSc, CPFA**  
**Head of Finance and ICT**  
**29 September 2006**

## South Ayrshire Council - Local Code of Corporate Governance

### Compliance Statement for South Ayrshire Council for 2005/6

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

This statement is the third full year assessment of compliance for the Council alone, and is based on appraisals made by each of its directors and corporate lead officers in relation to their specific responsibilities. The statement does not relate to any of the other bodies whose activities have been incorporated into our group accounts, as detailed on pages 42 to 50.

#### Background:

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

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

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

#### Assessment for 2005/6:

The exercise undertaken for this third assessment involved:

- (1) reviewing progress against the improvement actions identified at the end of 2004/5; and
- (2) re-appraising the departmental and corporate positions against the templates as at 31<sup>st</sup> March 2006

A summary of this assessment was reviewed by Members at the Policy and Resources Committee on 24 May 2006, and can be viewed on the Council's Website at: <http://www.south-ayrshire.gov.uk/committees/publications/2006/pr2405/24506pr4.pdf>

The overall position is that all 36 requirements were met, with only a small degree of shortfall being identified in the detailed analysis of 11 of these requirements.

This position reflects the fact that during 2005/6, a range of improvements have been achieved in relation to areas of previous shortfall, namely:

- Updated Council Business Plan for 2005/6-8 agreed (21 Sept 2005)
- South Ayrshire Community Plan agreed (14 Dec 2005)
- Financial Regulations and Standing Orders updated and training provided
- Risk management arrangements overhauled and training & seminars provided

**Improvement Actions for 2006/7:**

Improvement actions have been identified to address the specific areas of shortfall, the agreed programme having been added into / cross referenced within the Council's Performance Management System. This will ensure that officers and departments review their progress against them on a quarterly basis, alongside the regular monitoring of their service plan commitments. This will allow any areas of concern, difficulty or significant progress against the Code to be brought to the attention of the Corporate Management Team on the same quarterly basis, with overview reports being provided to the Performance Appraisal and Audit Sub Committee.

**Assurance for 2005/6:**

Each of the directors and corporate lead officers have confirmed that their assessments of the Council's arrangements are correct as at the end of 2005/6.

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

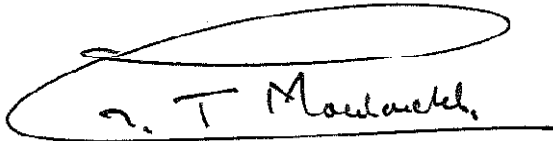
We also confirm the Council's commitment to following through on the attached improvement plan.

Signed:



Date: 29 September 2006

**Thomas Cairns, Chief Executive**



Signed:

Date: 29 September 2006

**Gibson T. Macdonald, Leader of the Council**



## **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 of South Ayrshire Council and its group for the year ended 31 March 2006 under Part VII of the Local Government (Scotland) Act 1973. These comprise the Consolidated Revenue Account, the Housing Revenue Account, the Council Tax, Non-Domestic Rates and Community Charge Income Accounts, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement, the Sundry Accounts, the Abstract of Common Good Accounts, the Capital Account, and the Group Accounts and related notes. These financial statements have been prepared under the Statement of Accounting Policies set out within them.

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 auditor**

The Head of Finance and ICT's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2005 - A Statement of Recommended Practice (the 2005 SORP) are set out in the Statement of Responsibilities.

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

We report our opinion as to whether the financial statements present fairly the financial position of the local authority in accordance with applicable laws and regulations and the 2005 SORP, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973. We also report if, in our opinion, the Explanatory Foreword is not consistent with the financial statements, if the local authority 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, and the Corporate Governance Compliance Statement, reflect the authority's compliance with the SORP. We report if, in our opinion, they do not comply with the SORP or if they are misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statements cover all risk and controls. Neither are we required to form an opinion on the effectiveness of the local authority's corporate governance procedures or its risk and control procedures.

We read the other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword and the Report by the Head of Finance and ICT. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

**Independent auditors' report to the members of South Ayrshire Council and the Accounts Commission for Scotland (continued)**

**Basis of audit opinion**

We conducted our audit in accordance with Part VII of the Local Government (Scotland) Act 1973 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Accounts Commission. 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 the local authority'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, in accordance with applicable laws and regulations and the 2005 SORP, the financial position of the local authority and its group as at 31 March 2006 and its income and expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

**Emphasis of matter - failure to comply with a statutory requirement**

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosure made in note 15 to the consolidated revenue account concerning the local authority's duty under section 10 of the Local Government in Scotland Act 2003 in respect of their significant trading operations. Local authorities have a duty under section 10 of the Local Government in Scotland Act 2003 to conduct each of their significant trading operations so that income is not less than expenditure over each three year period. As disclosed in note 15 to the consolidated revenue account the authority failed to comply with this statutory requirement for the three year period ending 31 March 2006 in respect of the catering and building cleaning trading operations.

*KPMG LLP*

**KPMG LLP**  
*Chartered Accountants*  
*Registered Auditor*

191 West George Street  
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29 September 2006