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Explanatory Foreword by the Assistant Chief Executive

Contents of the Financial Statements

This foreword provides an overview of the financial performance of the Council for the financial year ended 31 March 2007, which is set out in detail in the Financial Statements on the following pages.

The Statements incorporate financial and other information required by the Code of Practice on Local Authority Accounting in the United Kingdom. The Code of Practice required significant changes to be made to the format and content of the financial statements for 2006/07 compared to previous years. Comparative figures for 2005/06 have therefore been adjusted where appropriate to reflect the revised reporting requirements.

Expenditure on Council housing is funded from rental income received and other housing-related income. Any surplus or deficit on the Housing Revenue Account (HRA) is ring-fenced for carry-forward as part of the HRA accumulated financial position. Details of the Housing Revenue Account's financial performance for the year are shown on page 30. Other Council services are funded by charges for services received, government grants and Council tax raised. The cost of these services is met by the Council's General Fund, as detailed on page 9 of the accounts.

Council Restructure

Following a decision taken on 16 December 2005, the Council restructured its services with effect from 1 April 2006, reducing the number of service departments from five to four. Severance costs associated with the restructure have been fully reflected in the appropriate years' financial statements.

The Council's Financial Position

The Income and Expenditure Account on page 9 summarises the actual financial performance of the Council's General Fund and Housing Revenue Account during 2006/07. The Statement of Movement on the General Fund Balance, also on page 9, shows how the deficit for the year, when adjusted for contributions to and from the funds and reserves held by the Council and other statutory and non-statutory adjustments, contributes to the General Fund Balance to be carried forward to 2007/08.

(a) General Fund

The financial statements highlight a General Fund deficit for the year of £1.735m which, when added to the surplus brought forward from the previous year of £1.228m, results in a cumulative deficit of £0.507m at 31 March 2007. The following table shows departmental and corporate expenditure compared to the approved budgets for the year and how this contributed to the position at 31 March 2007.

	Budget 2006/07 £'000	Actual 2006/07 £'000	Under/ (Over) Spend £'000
Chief Executive's Department	4,858	4,080	778
Development, Safety and Regulation	49,369	48,574	795
Education, Culture and Lifelong Learning	106,920	104,616	2,304
Social Work, Housing and Health	53,623	52,877	746
Departmental Expenditure	214,770	210,147	4,623
Miscellaneous Services, debt charges, pension costs etc	(4,343)	(4,672)	329
Equal pay compensation	0	1,272	(1,272)
Contingency fund	(4,201)	0	(4,201)
Total Expenditure to be Funded	206,226	206,747	(521)
Revenue Support Grant/ Non-Domestic Rate Income	154,487	154,487	0
Council Tax/ Community Charge Income	50,511	50,525	14
Total Funding	204,998	205,012	14
Deficit for Year	1,228	1,735	(507)
Surplus brought forward	(1,228)	(1,228)	
Deficit at 31 March 2007	0	507	

Service departments were underspent by £4.623m in 2006/07, of which £1.798m requires to be earmarked to be spent by departments on specific projects during 2007/08.

The Miscellaneous Services Account was underspent by £0.329m.

During 2005/06 the Council began the process of settling equal pay claims from employees working in catering, cleaning and care services, the cost of which was to be spread across its revenue budgets for the five years from 2006/07 to 2010/11. The Council tax level for 2006/07 was therefore set to recover £1.059m towards the cost of this matter. A further £4.236m will be recovered from Council tax generated over the years 2007/08 to 2010/11. The original financial provision for these outstanding claims was made in the 2005/06 accounts, and the level of provision was reviewed for the 2006/07 accounts. Settlement has now been reached with most employees, however a small number of claims remain outstanding. Some employees have rejected the settlement figure offered and may take their claims to an Employment Tribunal. Also, as the Council has not yet introduced Single Status, which will resolve the issue of equal pay, a further year's equal pay compensation requires to be made to the same group of employees. Provision for these costs has been made in the 2006/07 accounts, resulting in a net charge to the 2006/07 accounts of £1.272m. Corresponding funding of £1.300m has been incorporated in the 2007/08 budget.

The Council maintains a contingency fund, as part of the General Fund, to provide for unforeseen or contingent events that may arise during the financial year. The balance in the fund at 1 April 2006, net of earmarked resources, amounted to £1.222m. £3.309m was required to fund the implementation of 2006/07 budget decisions, including implementation of the Bishops Consulting report. A further £0.607m was used for specific issues that arose within service departments during 2006/07. As a consequence of the difficult financial position the Council faced when preparing the revenue budget for 2007/08, the decision was taken to further reduce the Council's workforce. Funding of £1.400m was therefore incorporated in the 2007/08 budget to finance anticipated severance payments. The actual severance payments incurred of £1.507m are reflected within departmental service expenditure in the 2006/07 accounts with funding transferred from the Council's contingency fund to individual services to cover the costs involved. The balance in the contingency fund at 31 March 2007 was therefore (£4.201m), as shown in the previous table, which contributes to the Council's overall financial position at 31 March 2007.

CIPFA guidance recommends that the optimum level of uncommitted General Fund balance is between two and four percent of annual expenditure. The Policy and Resources Committee agreed at its meeting of 6 July 2006 to the principle of achieving an uncommitted General Fund balance of £2.000m by 2009/10.

At its meeting on 3 July 2007 the Leadership Panel considered the deficit at 31 March 2007 of £0.507m against the approved 2007/08 budget and the Council's five-year strategy for funding equal pay. After noting that the current financial strategy would generate a General Fund reserve of £3.492m by 31 March 2011, Members agreed to:

- Earmark £1.000m to assist in funding the 2008/09 budget;
- Commit £1.000m to reserves in recognition of the principle of achieving an uncommitted General Fund balance of £2.000m by 2009/10;
- Approve a package of projects to be undertaken in 2007/08 totalling £1.292m;
- Transfer the balance of £0.200m to the council's 2007/08 contingency fund.

(b) Housing Revenue Account

The Housing Revenue Account on page 30 shows a surplus of £5.075m for the year to 31 March 2007, which compares to a budgeted surplus of £1.468m. This underspend of £3.607m is primarily due to savings on property expenditure of £0.271m, financing costs of £0.570m and changes to the capital programme which removed the need for £2.153m revenue contribution towards capital expenditure. When added to the surplus brought forward from 2005/06 of £12.660m, this results in an accumulated surplus of £17.735m at 31 March 2007. The Council have already agreed that £0.550m should be held in reserve for weather emergencies and £1.574m should be used to fund capital and revenue expenditure in future years. This leaves an uncommitted revenue surplus of £15.611m, options for the use of which will be considered as part of a review of the HRA 30 year business plan during 2007/08.

(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 is used to defray any uninsured losses and for paying excesses on insurance policies.

The Capital fund may be used to finance capital expenditure or to finance the repayment of loans fund principal. The Council's Capital Fund was established in 2005/06, and will be used over a thirty year period to finance the Council's debt charges, thereby releasing other revenue resources to finance annual unitary charge payments for the South Ayrshire Schools Public Private Partnership project.

Movements on the Council's fund balances and reserves during 2006/07 are summarised in the table below.

	<i>General Fund Balance £'000</i>	<i>HRA Balance £'000</i>	<i>Repair & 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 2006	1,228	12,660	117	735	901	15,641
Surplus/ (deficit) for 2006/07	(1,735)	5,075	0	0	0	3,340
Appropriations (to)/ from revenue	0	0	6	(103)	925	828
Balance carried forward at 31 March 2007	(507)	17,735	123	632	1,826	19,809

Trading Operations

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. As part of the Council decision on 16 December 2005 to restructure its services, it was agreed that Property and Design Trading (formerly Building and Works Trading) would be the only statutory trading account maintained by the Council from 1 April 2006. Property and Design Trading has achieved a surplus before notional interest of £0.155m in 2006/07 and a cumulative surplus of £0.461m over the three-year period, thereby satisfying the statutory requirement to break-even.

Council Tax and Non-Domestic Rates Income Account

Details of amounts received and collected in terms of the above items are shown on pages 32 to 34, together with details of rateable values/ numbers of properties for non-domestic properties. Details of the number of dwellings in each Council Tax band and information on discounts, exemptions and reliefs are provided. Additional Council Tax income of £0.014m was collected beyond the level assumed in the 2006/07 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 £0.205m more locally than anticipated, therefore the Council returned funding of this amount to the national non-domestic rates pool.

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 disclosure information is provided to the Council by the Pension Fund actuaries following their annual valuation of the Fund. Formal valuations take place every three years, with the next formal valuation due at March 2008. The Council's balance sheet shows a pension liability of £40.941m at 31 March 2007 compared to a liability of £77.271m at 31 March 2006. This liability and its movement since 31 March 2006 is exclusively due to the accounting requirements of FRS 17 and has no impact on the financial performance of South Ayrshire Council.

Capital Expenditure

Capital expenditure of £14.426m was incurred during the year and payments of £1.424m were made in relation to private sector housing grants and covenant repayments. These were financed by new external borrowing of £4.715m and capital receipts, grants and contributions of £11.135m. External borrowing took place within the parameters of the Prudential Code.

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 38 to 44. This has been prepared under a full UK GAAP compliant methodology. After consolidation, the financial statements show a reduction in the reserves and net assets of £161.173m. This reduction is primarily due to the accounting requirements of FRS 17 and has no impact on the financial performance of South Ayrshire Council.

Public Private Partnership

Financial close on the South Ayrshire Schools Public Private Partnership project was achieved on 18 December 2006. In January 2007 the contractor, Education for Ayrshire (E4a), commenced construction work on two new secondary and three new primary schools, together with an annex to an existing secondary school. The first unitary charge payment, as part of the thirty year contract, will be made to the contractor during 2007/08.

Introduction of the Euro

As at 31 March 2007 the Council had incurred no expenditure and had made no commitments in respect of costs associated with the introduction of the Euro. Prior to any entry into full Euro trading, a significant review of all systems will require to be undertaken.

Eileen Howat BSc, CPFA
Assistant Chief Executive
28 September 2007

Statement of Accounting Policies

1. General

The Statement of Accounts summarises the Council's transactions for the 2006/07 financial year and its position at the year-end of 31 March 2007. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2006: A Statement of Recommended Practice (the SORP), and applying generally accepted accounting principles. The accounting convention adopted is historical cost, modified by the revaluation of certain categories of fixed assets.

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. Prior Period Adjustments

Where material adjustments applicable to prior years have arisen due to changes in accounting policies or from the correction of fundamental errors, these have been accounted for by restating the appropriate comparative figures for the preceding period.

3. Accruals of Income and Expenditure

Transactions have been recorded on an accruals basis, whereby activity is accounted for in the year that it takes place, not simply when cash payments are made or received.

4. Provisions

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. Provisions are charged to the appropriate service revenue account in the year that the Council becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the balance sheet. Estimated settlements are reviewed at the end of each financial year and appropriate adjustments made to the level of provision.

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 and outstanding equal pay claims.

5. Reserves

The Council sets aside specific amounts as reserves for future policy purposes. Reserves are created by appropriating amounts in the Statement of Movement on the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year and included within the Net Cost of Services in the Income and Expenditure Account. The reserve is then appropriated back into the General Fund Balance statement so that there is no net charge against Council tax for the expenditure in that year.

Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies below.

6. Government Grants (Revenue)

Specific government grants and subsidies are recognised as income at the date that the Council satisfies the conditions for receipt, and have been matched with the expenditure to which they relate within the Net Cost of Services.

General government grants, comprising Revenue Support Grant and Non-Domestic Rate Income, are credited to the Income and Expenditure Account after Net Operating Expenditure.

7. Overheads and Central Support Service Costs

In accordance with the Best Value Accounting Code of Practice, overheads and central support service costs have been allocated to those services that benefit from the supply or service. The costs have been allocated largely on the basis of time spent by staff. Office accommodation has been allocated on the basis of floor area occupied. Corporate and Democratic Core Costs and Non-Distributed Costs have been accounted for as separate headings in the Income and Expenditure Account, as part of the Net Cost of Services.

8. Leases

Annual rentals payable under operating leases are charged to the relevant service revenue account on a straight-line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

The Council had no finance lease agreements in place during 2006/07.

9. Tangible Fixed Assets

Recognition: expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it yields benefits to the Council for more than one financial year. Repairs and maintenance expenditure is charged to revenue as it is incurred.

Measurement: in accordance with the Code of Practice, the following bases have been used for the valuation of fixed assets:

- Operational (specialised) properties - depreciated replacement cost (MV-DRC)
- Operational (non-specialised) properties - open market value in existing use (OMVEU/EUV)
- Non-operational properties - open market value (OMV/MV)
- Local authority housing stock - net realisable value (EUVSH – Existing Use Value Social Housing)
- Infrastructure assets - historical cost
- Community assets - historical cost
- Vehicles - net realisable value (NRV)

Housing stock, land and property are revalued on a five-year rolling programme. The last five year revaluation programme was completed as at 31 March 2005. The valuations shown in these accounts reflect the second year of the latest five-year programme.

Property valuations were carried out by RICS professional staff within the Council's Department of Development, Safety and Regulation.

Impairment: 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.

Depreciation: depreciation is provided for on all assets with a determinable useful life by allocating the value of the assets in the balance sheet over the periods expected to benefit from their use.

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.

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

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.

10. Intangible Assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council is capitalised when it will bring benefits to the Council for more than one financial year. The balance is amortised to the relevant service revenue account over the economic life of the investment to reflect the pattern of consumption of benefits.

Private sector housing grants are charged to the service revenue account in the year they are incurred and matched against the corresponding grant income.

11. Charges to Revenue for Fixed Assets

Service revenue accounts, support services and the trading account are debited with the following amounts to record the real cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service
- impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service
- amortisation of intangible fixed assets attributable to the service

The Council is not required to raise Council tax to cover depreciation, impairment losses or amortisations. However it is required to make an annual provision from revenue to reduce its overall borrowing requirement. Depreciation, impairment losses and amortisations are therefore replaced by this revenue provision in the Statement of Movement on the General Fund Balance, by way of an adjusting transaction with the Capital Financing Account for the difference between the two.

12. Capital Financing

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.

13. Premiums and Discounts Associated with Re-financing of Loans

The Council actively takes advantage of prevailing interest rates in order to re-structure its debt and reduce interest charges to the revenue account. As a result of this strategy, premiums or discounts may be incurred and these are charged or credited to the General Fund in accordance with Statutory Guidance on Proper Accounting Practices.

14. Long Term Investments

Investments in local companies are recorded at the lower of cost or net realisable value.

15. Stocks and Work in Progress

Stocks are included in the balance sheet at either a weighted average price basis (computerised stock), or a 'first-in-first-out' (FIFO) basis. Work in progress is subject to an interim valuation at the year-end and recorded in the balance sheet at cost plus an appropriate proportion of overheads, together with attributable profits and allowances for foreseeable losses.

16. Debtors and Creditors

Revenue and capital accounts have been prepared on an accruals basis, and all known material debtor and creditor items have been brought into account.

17. Covenant Scheme

Certain assets have been funded by means of a 21 year covenant. Interest on the repayments is 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.

18. Pension Costs

- (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 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 core financial statements.
- (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 the year by the Council.

19. VAT

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from them.

20. Exceptional Item – Equal Pay Compensation

Exceptional items are items that are material in terms of an organisation's overall expenditure and are not expected to recur frequently or regularly. The cost to the Council of equal pay compensation has been classified as an exceptional item and separately identified within the Net Cost of Services in the Income and Expenditure Account.

21. Foreign Currency Translation

The Council holds a Euro bank account as part of its economic development activities. The balance on the bank account was translated into sterling currency and incorporated in the Council's balance sheet based on the exchange rate applicable at 31 March 2007.

22. Private Finance Transactions

On 18 December 2006 the Council signed a Public Private Partnership contract agreement which provided for the construction of 5 new schools and an annex to an existing secondary school. In addition to the construction, the contractor will provide a range of hard and soft facilities management services, including the maintenance of the schools concerned, for a 30 year concession. The Council will, in turn, provide the contractor with an appropriate interest in land on the respective sites and a unitary charge payment based on the level of service provided by the contractor to the Council.

Building work commenced in January 2007, with the first school expected to be available for use by the Council in autumn 2007 and the last school available in autumn 2009. The first unitary charge payment will be made to the contractor during 2007/08.

A review of the nature of the PPP transaction has concluded that the project is off-balance sheet and as a consequence the Council will reflect the unitary charge payments to the contractor for services receivable in its Income and Expenditure Account from the date that they become due and payable.

Income and Expenditure Account

2005/06 net expenditure £'000	Service	2006/07 gross expenditure £'000	2006/07 gross income £'000	2006/07 net expenditure £'000
83,308	Education Services	109,808	13,462	96,346
721	Housing Revenue Account	22,169	21,825	344
2,231	General Fund Housing	30,672	28,350	2,322
47,696	Social Work Services	74,271	22,507	51,764
11,152	Culture and Related Services	21,196	9,437	11,759
11,319	Environmental Services	16,862	5,464	11,398
11,326	Roads and Transport Services	21,871	11,560	10,311
2,066	Planning and Development Services	5,038	2,939	2,099
3,853	Corporate and Democratic Core	3,734	724	3,010
2,770	Non Distributed Costs	3,690	4,345	(655)
3,639	Other Central Services to the Public	23,222	18,912	4,310
17,194	Precepts and Levies	17,727	0	17,727
3,917	Exceptional costs of equal pay compensation (note 1)	1,272	0	1,272
201,192	Net Cost of Services	351,532	139,525	212,007
(206)	(Surplus) or deficit on Trading Services (note 4)			(155)
10,792	Interest payable and similar charges			10,582
(1,288)	Interest and investment income			(1,331)
221	Pension interest cost and expected return on pension assets (note 28)			(3,110)
210,711	Net Operating Expenditure			217,993
108,836	Revenue Support Grant			112,998
41,855	Non Domestic Rates redistribution			41,489
47,619	Council Tax and Community Charge income			50,525
198,310	Total Income from Government Grants and Local Taxation			205,012
12,401	(Surplus) or Deficit for the Year			12,981

Statement of Movement on the General Fund Balance

2005/06 £'000		2006/07 £'000
12,401	Deficit for the year on the Income and Expenditure Account	12,981
(7,564)	Net additional amount required by statute and non-statutory proper practice to be credited to the General Fund Balance for the year	(11,246)
4,837	Decrease in the General Fund Balance for the year	1,735
(6,065)	General Fund Balance brought forward	(1,228)
(1,228)	General Fund Balance carried forward	507

**Supporting Analysis to the Statement of Movement
on the General Fund Balance**

2005/06 £'000		2006/07 £'000
	<i>Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on General Fund Balance for the year</i>	
(13,230)	Depreciation and impairment of fixed assets	(22,633)
1,155	Government grants deferred amortisation	743
(2,653)	Amount by which pension costs calculated in accordance with FRS17 differ from contributions due under the pension scheme	3,113
	<i>Amounts not included in the Income and Expenditure Account but required by statute to be included when determining the Movement on the General Fund Balance for the year</i>	
2,647	Loans fund principal repayments	2,594
	<i>Transfers to or (from) the General Fund Balance that are required to be taken into account when determining the Movement on General Fund Balance for the Year</i>	
4,227	Housing Revenue Account balance	5,075
290	Transfer to/ (from) Insurance Fund	(138)
(7,564)	Net additional amount required to be credited to the General Fund balance for the year	(11,246)

Statement of Total Recognised Gains and Losses

2005/06 £'000		2006/07 £'000
12,401	(Surplus) or deficit for the year on the Income and Expenditure Account	12,981
(58,876)	(Surplus) or deficit arising on revaluation of fixed assets	3,835
(13,663)	Actuarial (gains) or losses on pension fund assets and liabilities (note 28)	(33,217)
(926)	Any other (gains) or losses	(966)
(61,064)	Total recognised gains for the year	(17,367)

Balance Sheet as at 31 March 2007

31 March 2006 £'000			31 March 2007 £'000
	Fixed assets (note 13)		
	Operational assets:		
199,539	Council dwellings	192,708	
242,218	Other land and buildings	230,160	
2,776	Vehicles, plant, etc	2,608	
39,504	Infrastructure assets	39,560	
1,115	Community assets	1,169	
	Non-operational assets:		
15,746	Investment properties	14,062	
275	Assets under construction	0	
1,268	Surplus assets held for disposal	2,981	
502,441	Total fixed assets		483,248
141	Long-term investments (note 19)		141
71	Long term debtors (note 20)		67
16,701	Deferred premiums on early repayment of debt (note 21)		16,215
519,354	Total long-term assets		499,671
	Current assets:		
539	Stocks and work in progress	480	
37,682	Debtors (note 22)	37,141	
(22,306)	Provision for bad and doubtful debts (note 22)	(23,078)	
36,100	Short term investments	39,575	
40	Cash floats and imprests	42	54,160
571,409	Total assets		553,831
	Current liabilities:		
(1,333)	Borrowing repayable on demand or within 12 months	(333)	
(29,931)	Creditors (note 22)	(30,365)	
(5,528)	Provision for liabilities (note 23)	(2,395)	
(2,663)	Bank overdraft	(4,287)	
(6,727)	Due to Common Good/ sundry accounts (note 24)	(6,082)	
			(43,462)
525,227	Total assets less current liabilities		510,369
	Long term liabilities:		
(180,887)	Borrowing repayable within a period in excess of 12 months (note 25)		(183,255)
(10,328)	Government grant deferred		(12,065)
(77,271)	Liability related to defined benefit pension scheme (note 28)		(40,941)
256,741	Total assets less liabilities		274,108
	Financed by:		
256,216	Fixed asset restatement account (note 26)		245,231
59,009	Capital financing account (note 26)		47,084
3,146	Usable capital receipts reserve (note 26)		2,925
(77,271)	Pension reserve (note 28)		(40,941)
117	Repair & renewal fund (note 26)		123
735	Insurance fund (note 26)		632
901	Capital fund (note 26)		1,826
1,228	General Fund balance (note 26)		(507)
12,660	Housing Revenue Account balance (note 26)		17,735
256,741	Total net worth		274,108

Eileen Howat BSc, CPFA
Assistant Chief Executive
28 September 2007

Cash Flow Statement

2005/06 £'000			2006/07 £'000
	Revenue activities		
	Cash outflows:		
142,495	Cash paid to or on behalf of employees	149,537	
147,185	Other operating cash payments	141,838	
8,930	Housing benefit paid out	9,618	
34,225	National non-domestic rates payments to national pool	35,893	
17,194	Precepts paid	17,277	
350,029		354,163	
	Cash inflows:		
6,565	Rents (after rebates)	6,778	
55,014	Council tax receipts	57,539	
41,855	National non-domestic rates receipts from national pool	41,489	
34,186	Non-domestic rates receipts	35,290	
108,836	Revenue support grant	112,998	
7,348	DWP grants for benefits	9,628	
47,546	Other government grants	56,923	
13,157	Cash received for goods and services	12,868	
57,681	Other operating cash receipts	34,768	
372,188		368,281	
(22,159)	Net cash outflow/ (inflow) from revenue activities (note 30)		(14,118)
	Returns on investments and servicing of finance		
	Cash outflows:		
10,649	Interest paid	10,577	
	Cash inflows:		
1,409	Interest received	1,741	
9,240	Net cash outflow/ (inflow) from returns on investments and servicing of finance		8,836
	Capital activities		
	Cash outflows:		
15,486	Purchase of fixed assets	14,426	
1,019	Other capital cash payments	882	
16,505		15,308	
	Cash inflows:		
10,522	Other capital cash receipts	10,511	
10,522		10,511	
5,983	Net cash outflow/ (inflow) from capital activities		4,797
(6,936)	Net cash outflow/ (inflow) before financing		(485)
	Management of liquid resources		
16,200	Net increase in short-term deposits	3,475	
16,200			3,475
	Financing		
	Cash outflows:		
4,370	Repayments of amounts borrowed	3,497	
4,370		3,497	
	Cash inflows:		
14,500	New loans raised	4,865	
2,000	New short-term loans	0	
16,500		4,865	
(12,130)	Net cash outflow/ (inflow) from financing		(1,368)
(2,866)	(Increase)/ decrease in cash		1,622

Notes to the Core Financial Statements

1. Prior Year Adjustments and Exceptional Items

Prior Year Adjustments – Changes required by 2006 SORP - As a requirement of the introduction of the 2006 SORP, the Council has adopted three significant new accounting policies in the 2006/07 Statement of Accounts that impact on the comparative figures for 2005/06 in the Income and Expenditure Account:

- Capital financing charges (notional interest) for the use of fixed assets are no longer made to service revenue accounts, support services and trading accounts. This has been replaced by depreciation which is deemed to be a practical methodology for estimating the rate at which resources are being consumed.
- Credits for deferred government grants are now posted to service revenue accounts, support services and trading accounts rather than credited as a corporate income item.
- Gains and losses on the disposal of fixed assets are recognised in the Income and Expenditure Account (no impact for South Ayrshire Council in 2006/07).

Prior Year Adjustment – Review of Trading Services - as outlined in Note 4 (Trading Services) below, a review of the Council's trading services has resulted in the need to restate the comparative figures for 2005/06 in the Income and Expenditure Account.

The changes in respect of the SORP and trading accounts have had the following impact on the comparative figures for 2005/06 compared with those published in the 2005/06 Statement of Accounts (only figures that have changed are included in the table):

	Consolidated Revenue Account in 2005/06 Statement of Accounts £'000	Trading Services adjusted £'000	Removal of capital financing charges £'000	Relocation of government grants deferred credits £'000	HRA & other adjustments £'000	2005/06 comparatives in 2006/07 Income and Expenditure Account £'000
Education Services	89,498		(6,031)	(159)		83,308
Housing Revenue Account	(4,147)				4,868	721
General Fund Housing	2,244		(8)	(71)	66	2,231
Social Work Services	48,147		(451)			47,696
Culture and Related Services	13,028	(281)	(1,461)	(134)		11,152
Environmental Services	11,473		(154)			11,319
Roads and Transport Services	14,322	(78)	(2,256)	(662)		11,326
Planning and Development Services	2,138		(18)	(54)		2,066
Corporate and Democratic Core	3,666		(38)		225	3,853
Non Distributed Costs	2,688		(33)		115	2,770
Other Central Services to the Public	4,284	627	(65)	(1,207)		3,639
Precepts and Levies	17,194					17,194
Exceptional Costs of equal pay compensation	3,917					3,917
Impact on Net Cost of Services	208,452	268	(10,515)	(2,287)	5,274	201,192
Interest payable (formerly AMRA)	2,621		10,537	2,287	(4,653)	10,792
Trading Services	84	(268)	(22)			(206)
Interest and Investment Income	(667)				(621)	(1,288)
Pension Interest Cost and Expected Return on Pension Assets	221					221
Impact on Net Operating Expenditure	210,711	0	0	0	0	210,711

Exceptional Item – Equal Pay - the Income and Expenditure Account includes an exceptional item of £1.272m in respect of an adjustment to the provision for equal pay claims dating from 2001/02. Settlement has now been reached with most employees, however a small number of claims remain outstanding.

2. Undischarged Obligations arising from Long Term Contracts

South Ayrshire Council has entered into a Public Private Partnership Agreement with Education for Ayrshire (E4a) for the construction and operation of two new secondary and three new primary schools, together with an annex to an existing secondary school. The first unitary charge payment of £0.295m, relating to part-year costs for one primary school and the annex to the secondary school, will be made during 2007/08. The last unitary charge payment will be made in 2039/40, at which time the schools will transfer to Council ownership.

3. Departmental Service Expenditure Analysis

The Income and Expenditure Account on page 9 has been prepared in accordance with the Best Value Accounting Code of Practice, which prescribes the categories against which all expenditure and income must be classified to enable comparability with other local authorities in the United Kingdom. Details of the financial performance of the Council's service departments against their approved budgets is contained in the Explanatory Foreword by the Assistant Chief Executive on page 1.

4. 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'. Significant trading operations are required to achieve a break-even position over a rolling three-year period.

The Council previously maintained statutory trading accounts for seven activities. As part of a review of its departmental structures in December 2005, it was concluded that, with effect from 1 April 2006, the only statutory trading account to be maintained should be that of Property and Design Trading (formerly Building and Works Trading). Comparative figures for 2005/06 have therefore been restated to integrate expenditure relating to the six former trading accounts with appropriate service expenditure in the Income and Expenditure Account.

As detailed in Note 1 to the Statement of Accounts, the 2006 SORP requires that notional interest should no longer be applied to Council services, including trading services. Instead they now only receive a depreciation charge. However, to ensure comparability with external companies, a notional interest charge still requires to be applied to trading services to reflect their use of Council assets, as an explanatory note to the financial statements.

The table below shows the favourable financial position for Property and Design Trading for the three-year period ended 31 March 2007.

Property and Design Trading	Turnover £'000	Expenditure £'000	Original (Surplus)/ Deficit £'000	Add back original notional interest £'000	Adjusted surplus £'000	Apply notional interest on assets held at loans fund interest rate £'000	Revised (surplus)/ deficit £'000
2004/05	(16,716)	16,628	(88)	(12)	(100)	22	(78)
2005/06	(12,007)	11,824	(183)	(23)	(206)	21	(185)
2006/07	(13,324)	13,169	(155)		(155)	20	(135)
3 Year (Surplus)/ Deficit			(426)	(35)	(461)	63	(398)

Property and Design Trading employs 182 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 8,480 houses and around 200 other buildings. During the year Property and Design Trading carried out in the order of 46,000 repairs to the housing stock. Approximately 1,500 properties belonging to South Ayrshire Homes are also maintained by this operation.

5. Section 5 - Local Government (Scotland) Act 1986 - Publicity Account

Expenditure on publicity and advertising during 2006/07 amounted to £0.465m as follows:

2005/06 £'000		2006/07 £'000
47	Recruitment	52
320	Publicity of Services	335
8	Publicity of Events	42
18	Other	36
393	Total	465

6. Agency Income – Scottish Water

The Council received £0.271m from Scottish Water as an agency fee in respect of water and sewerage charges collected by the Council on their behalf.

7. Local Authorities (Goods and Services) Act 1970

The Local Authority (Goods and Services) Act 1970 specifies the conditions under which the Council can provide goods and services to other public bodies.

The main services provided by the Council to other public bodies in 2006/07 were:

2005/06 £'000	Public Body	South Ayrshire Council Department/ service provided	2006/07 £'000
		Chief Executive's Department	
176	Ayrshire Valuation Joint Board	Administrative services	197
166	Scottish Enterprise Ayrshire	Skillseeker training	195
		Development, Safety & Regulation	
0	Burns Festival	Event management	387
0	Scottish Executive	Harbour dredging	73
96	North Ayrshire Council	CCTV monitoring	104
73	Ayrshire and Arran Health Board	CCTV monitoring	55
30	Strathclyde Police	CCTV monitoring	80
497	Scottish Executive	Trunk roads maintenance	4,781
		Education, Culture & Lifelong Learning	
154	Strathclyde Police	Cleaning	162
		Social Work, Housing & Health	
107	East Ayrshire Council	Addiction services	128
53	Strathclyde Police	Building repairs	184
1,352		Total	6,346

8. Summary of Members' Allowances Paid in the Year

The total amount paid in 2006/07 in respect of Members' allowances was £0.411m (£0.417m in 2005/06). This total comprised basic and special responsibility allowances of £0.374m (£0.387m in 2005/06) paid to Members for carrying out their duties, and a further amount of £0.037m (£0.030m in 2005/06) paid as reimbursement of expenses.

9. Officers' Remuneration – the number of employees whose remuneration, excluding pension contributions, was £50,000 or more in bands of £10,000 were:

2005/06 Number	Remuneration Band	2006/07 Number	Left During Year
19	£50,000 - £59,999	22	2
18	£60,000 - £69,999	15	1
1	£70,000 - £79,999	3	2
2	£80,000 - £89,999	1	1
2	£90,000 - £99,999	2	0
1	£100,000 - £109,999	1	0
1	£110,000 - £119,999	1	0
44	Total	45	6

Remuneration includes gross salary exclusive of employer's pension contributions, taxable expenses, the money value of benefits and any severance payments made.

10. Related Party Transactions

Central Government - has effective control over the general operations of the Council, providing the statutory framework within which the Council operates, providing the terms of many transactions that the Council has with other parties (e.g., housing benefits) and also providing the majority of funding in the form of grants. Details of transactions with government departments are set out in note 30 relating to the cash flow statement and note 13 relating to the capital account.

Members of the Council - have direct control over the Council's financial and operating policies. During 2006/07, works and services to the value of £41,000 were commissioned from companies in which two members had an interest. Contracts were entered into in full compliance with the Council's standing orders.

Other Public Bodies – the Council has substantial interests in other public bodies, details of which are disclosed in the Group balance sheet.

In addition the Council received grants and other income from Ayrshire and Arran Health Board in 2006/07 totalling £8.023m.

Assisted Organisations – during 2006/07 the Council provided funding to organisations including grants to voluntary organisations, Rural Communities grant funding and business grants. None of these grants exceeded 50% of the organisations' total funding, on terms that gave the Council effective control over their operations.

11. External Audit Fees

In 2006/07 South Ayrshire Council incurred the following fees relating to external audit and inspection services from the appointed auditor:

2005/06 £'000		2006/07 £'000
188	Fee payable to Audit Scotland with regard to external audit services carried out by appointed auditor	187
102	Notified fixed charge element payable	97
290	Total	284

12. Assets held under Leases

Operating lease expenditure during 2006/07 amounted to £1.782m (2005/06 - £1.953m).

The authority was committed at 31 March 2007 to making payments of £1.243m under operating leases in 2007/08, comprising the following elements:

2005/06 £'000	Vehicles, Plant & Equipment	2006/07 £'000
278	Leases expiring within 1 year	304
1,334	Leases expiring between 2 and 5 years	921
19	Leases expiring after 5 years	18
1,631	Total due in next financial year	1,243

13. Summary of Capital Expenditure and Fixed Asset Disposals**(i) Movement on Fixed Assets**

The tables below illustrate the movement in fixed assets, analysed by asset category, arising from the additions, disposals, revaluations and depreciation during the year. As a result of these movements, the net book value of fixed assets held at 31 March 2007, was £483.248m.

Operational assets	Council dwellings £'000	Other land and buildings £'000	Vehicles, plant, etc £'000	Infrastructure £'000	Community assets £'000	Total £'000
Gross book value at 1 April 2006	213,792	250,904	4,247	44,979	1,115	515,037
Accumulated depreciation	(14,253)	(8,686)	(1,471)	(5,475)	0	(29,885)
Net book value at 1 April 2006	199,539	242,218	2,776	39,504	1,115	485,152
Movement 2006/07:						
Additions	7,417	5,611	65	1,212	49	14,354
Revaluations	0	(3,409)	(60)	0	5	(3,464)
Transfers	(6,950)	(10,527)	275	0	0	(17,202)
Depreciation	(7,298)	(3,733)	(448)	(1,156)	0	(12,635)
Net book value at 31 March 2007	192,708	230,160	2,608	39,560	1,169	466,205

Non-operational assets	Investment properties £'000	Assets under construction £'000	Surplus assets £'000	Total £'000
Gross book value at 1 April 2006	15,746	275	1,268	17,289
Accumulated depreciation	0	0	0	0
Net book value at 1 April 2006	15,746	275	1,268	17,289
Movement 2006/07:				
Additions	72	0	0	72
Disposals	(2,033)	0	(5,986)	(8,019)
Revaluations	976	0	(1,333)	(357)
Transfers	(699)	(275)	18,180	17,206
Depreciation	0	0	513	513
Impairment	0	0	(9,661)	(9,661)
Net book value at 31 March 2007	14,062	0	2,981	17,043

The impairment in the previous table of £9.661m relates to the closure of Mainholm Academy in April 2006 due to major health and safety issues. A decision has still to be taken on the long-term future of the site.

(ii) Capital Expenditure and Financing

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.

The undernoted table shows the capital investment for General Services and Housing for 2006/07 together with the sources of finance used to fund the investment.

2005/06 £'000		2006/07 £'000
	Capital investment by service:	
6,883	General Services	7,009
8,603	Housing Revenue Account	7,417
15,486	Capital expenditure additions	14,426
140	Covenant	140
1,132	Private sector housing grants	1,284
16,758	Total capital investment	15,850
	Financed by:	
11,836	Capital receipts, grants and contributions	11,135
4,922	Net funding from external borrowing and cash balances	4,715
16,758	Total financing	15,850

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.

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 and matched against the corresponding grant income.

14. Capital Commitments in Future Years

The following table shows the approved capital investment programmes for both General Services and Housing for 2007/08. This includes £1.000m towards the construction of a residential facility for older people, to be financed by prudential borrowing. The Council has committed a further £3.500m to this project in 2008/09, also to be financed by prudential borrowing.

	General Services £'000	Housing £'000	Total £'000
Expenditure:			
Capital investment	7,150	11,181	18,331
Externally funded projects	3,364	0	3,364
	10,514	11,181	21,695
Sources of finance:			
Supported borrowing	5,650	0	5,650
Prudential borrowing	1,000	0	1,000
Capital grants and contributions	3,864	5,870	9,734
Capital funded from current revenue	0	5,311	5,311
	10,514	11,181	21,695

15. Information on Assets held

The undernoted table shows a summary of the assets held by the Council which were used in the wide range of services provided during 2006/07.

Number as at 31 March 2006		Number as at 31 March 2007
8,782	Council dwellings	8,480
808	Operational assets	864
659	Non-operational assets	796
	Infrastructure assets:	
1,157	Road lengths (km)	1,157
320	Bridges	320
18,832	Street lighting units	18,881
1	Pontoons	1
	Community assets:	
49	Cemeteries	49
38	Parks, open spaces and estates	38
1,210	Works of art	1,266
83	Other community assets	82
168	Vehicles and equipment	172

16. Valuation Information

The following table shows the progress on the Council's rolling programme for the revaluation of fixed assets. The financial year 2006/07 is the second year of the latest five-year rolling programme cycle. Additional information will be added as the programme progresses. The valuations are carried out by RICS professional staff within the Council's Department of Development, Safety and Regulation.

Valued at current value in:	Other Land & Buildings £'000	Vehicles, Plant & Equipment £'000	Non Operational £'000	Total £'000
2005/06	229,789	30	1,242	231,061
2006/07	1,529	0	15,307	16,836

17. Information about Depreciation Methodologies

As highlighted in the Accounting Policies on page 6, depreciation is provided for on all assets with a determinable useful life on a straight-line basis inclusive of the year of acquisition. The period for each applicable category is shown in the table below.

<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 2007
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

18. Analysis of Net Assets Employed

The undernoted table shows the net assets employed by the various operations of the Council.

<i>2006 £'000</i>		<i>2007 £'000</i>
145,990	General Fund	139,171
135,235	Housing Revenue Account	135,958
(1,265)	Trading Operation	(1,322)
279,960	Total	273,807

19. Long Term Investments

<i>2006 £'000</i>		<i>2007 £'000</i>
40	Freeport (Scotland) Ltd (74,000 ordinary shares)	40
100	West of Scotland Loans Fund Limited	100
1	SC Enterprise Fund	1
141		141

20. Long Term Debtors

2006 £'000		2007 £'000
2	Local Government (D & F) Act 1964	2
69	Others	65
71		67

The reduction in 'other loans' reflects home loan repayments made during 2006/07.

21. Deferred Premium on the Early Repayment of Debt

<i>Movements in year</i>	<i>Balance at 31 March 2006 £'000</i>	<i>Additions £'000</i>	<i>Premiums Released £'000</i>	<i>Balance at 31 March 2007 £'000</i>
Loans premium	16,701	13	499	16,215

22. Amounts due to or from Related Parties

Debtors - the Statement of Accounts includes debtors totalling £37.141m at 31 March 2007 and provisions against these debtors totalling £23.078m, analysed as follows:

<i>31 March 2006 Net Debtor £'000</i>		<i>Gross Debtor £'000</i>	<i>Bad Debt Provision £'000</i>	<i>31 March 2007 Net Debtor £'000</i>
1,726	Council Tax/ Community Charge	22,281	20,042	2,239
211	Department of Works & Pensions	84	0	84
865	Non-Domestic Rates	2,274	1,588	686
209	Council House Rents	830	496	334
564	Revenue Support Grant	0	0	0
1,973	Her Majesty's Revenue and Customs	2,105	0	2,105
9,828	Sundry Debtors	9,567	952	8,615
15,376	Total	37,141	23,078	14,063

Creditors - the Statement of Accounts includes creditors totalling £30.365m at 31 March 2007, analysed as follows:

<i>31 March 2006 £'000</i>		<i>31 March 2007 £'000</i>
4,098	Scottish Executive	695
3,167	Her Majesty's Revenue and Customs	3,244
3,453	Other Public Bodies	5,228
2,144	Loan Interest	2,544
17,069	Trade and Other Creditors	18,654
29,931	Total	30,365

23. Provisions

Total provisions for liabilities amount to £2.395m, representing provisions made in respect of equal pay claims outstanding at 31 March 2007 and insurance costs in respect of South Ayrshire Council's share of the former Strathclyde Regional Council's insurance claims.

24. Due to Common Good/ Sundry Accounts

The net creditor shown in the balance sheet of £6.082m is made up of deposits by the Common Good, Trusts and various Sundry Accounts with the Council's loans fund. An analysis of these accounts is provided on pages 35 to 37 of the financial statements.

25. Borrowing Repayable Within a Period in Excess of 12 Months

2006 £'000		2007 £'000
	Analysis of loan by type	
452	Covenant	312
139,007	Public Works Loan Board	143,872
41,285	Market loans	38,985
143	European Investment Bank	86
180,887	Total outstanding	183,255
	Analysis of loan by maturity	
332	1 to 2 years	333
809	2 to 5 years	611
13,276	5 to 10 years	17,777
63,446	10 to 25 years	51,510
103,024	25+ years	113,024
180,887	Total outstanding	183,255

The former Kyle and Carrick District Council entered into a covenant scheme financing arrangement for the acquisition of six new sports halls. The capital costs were spread over twenty-one years, with the seventeenth capital payment made in 2006/07. The sports halls are included within fixed assets in the balance sheet and the outstanding covenant scheme liability of £0.452m is represented in the balance sheet as short term borrowing of £0.140m and long-term borrowing of £0.312m.

26. Reserves

The tables below detail the movement on reserves in the year.

	Repair & renewal fund £'000	Insuranc e fund £'000	Capital fund £'000	General fund balance £'000	HRA balance £'000
Opening balance as at 1 April 2006	117	735	901	1,228	12,660
Gains/(losses) on the fund	6	(103)	43	(1,735)	5,075
Net amount transferred between reserves	0	0	882	0	0
Closing balance	123	632	1,826	(507)	17,735

	Fixed asset restatement account £'000	Capital financing account £'000	Useable capital receipts reserve £'000	Pension reserve £'000
Opening balance as at 1 April 2006	256,216	59,009	3,146	(77,271)
Gains/(losses) on the fund	(10,985)	(19,296)	8,032	36,330
Net amount transferred between reserves	0	7,371	(8,253)	0
Closing balance	245,231	47,084	2,925	(40,941)

Repair and Renewal Fund

The balance on the Repair and Renewal Fund at 1 April 2006 was £0.117m. Interest of £0.006m was applied to the fund during 2006/07 resulting in a balance at 31 March 2007 of £0.123m. There are no commitments against this balance for financial year 2007/08.

Insurance Fund

The balance on the Insurance Fund at 1 April 2006 was £0.735m. During 2006/07, £0.397m was used to finance insurance premiums, £0.259m was transferred to the fund and interest of £0.035m was applied, resulting in a balance at 31 March 2007 of £0.632m. There are no commitments against this balance for financial year 2007/08.

Capital Fund

The Council's Capital Fund was established during 2005/06, primarily to assist in funding the Council's Schools PPP project. The balance on the fund at 1 April 2006 was £0.901m. Capital receipts during 2006/07 of £0.882 m were invested in the fund and interest of £0.043 was applied, resulting in a balance at 31 March 2007 of £1.826m. The Council plans to make further investment to the fund throughout the lifetime of the Schools PPP project. The fund will be utilised to fund appropriate expenditure from 2007/08 onwards.

General Fund Balance

As explained in the Explanatory Foreword by the Assistant Chief Executive on pages 1 to 4 of the financial statements, the General Fund deficit of £0.507m needs to be considered alongside the Council's revenue budget for 2007/08 and the strategy for financing equal pay costs, severance payments and planned expenditure during 2007/08.

Housing Fund Balance

The accumulated Housing Revenue Account surplus at 31 March 2007 is £17.735m. As explained in the Assistant Chief Executive's report on pages 1 to 4 of the financial statements, £2.124m has been set-aside for specific purposes. Options for the use of the remaining £15.611m will be considered as part of the annual review of the HRA 30 year business plan during 2007/08.

27. Scheme of Delegation for Schools

The Council approved a revised Scheme of Delegation for Schools on 9 June 2004. The scheme supports the development planning and improvement agenda by providing for the carry-forward of individual school budget surpluses or deficits. As detailed in the Explanatory Foreword by the Assistant Chief Executive on pages 1 to 4, funds totalling £1.798m have been earmarked by departments to be spent in 2007/08, of which £0.259m relates to schools.

28. Retirement Benefits

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 employees' contributions and for 2006/07 was set at 260%. During 2006/07 the Council made employers' contributions of £8.658m (2005/06 £8.292m). The increase in contributions arises mainly from the increase in levels from 250% to 260%. In accordance with Financial Reporting Standard 17 "Retirement Benefits" (FRS17), the £8.658m contribution meets the obligation on the Council for the year to 31 March 2007.

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 March 2006. The employer's contribution will increase to 270% in 2007/08.

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.

(i) Analysis of Amount Charged to Operating Profit

2005/06 £'000		2006/07 £'000
	Amount charged to Net Cost of Services	
11,409	Current service costs	13,456
85	Past service costs	(4,488)
2,020	Curtailment and settlements	2,112
13,514		11,080
	Amount credited to Net Operating Expenditure	
(19,730)	Expected return on employers assets	(24,577)
19,951	Interest on pension liabilities	21,467
221		(3,110)
13,735	Net Income and Expenditure Account Cost	7,970

(ii) Analysis of Amount Recognised in the Statement of Total Recognised Gains and Losses (STRGL)

2005/06 £'000		2006/07 £'000
56,605	Actual return less expected return on pension scheme assets	297
8,019	Experience gains and losses arising on the scheme liabilities	925
(50,961)	Changes in assumptions underlying the present value of the scheme liabilities	31,995
13,663	Actuarial gain/ (loss) in pension plan	33,217
0	Increase/ (decrease) in irrecoverable surplus from membership fall and other factors	0
13,663	Actuarial gain/ (loss) recognised in STRGL	33,217

(iii) Movement in Surplus/ Deficit during the Year

2005/06 £'000		2006/07 £'000
(88,281)	Surplus/ (deficit) at beginning of the year	(77,271)
(11,409)	Current service cost	(13,456)
9,657	Employer contributions	9,588
1,425	Contribution in respect of unfunded benefits	1,495
(85)	Past service costs	4,488
(2,020)	Impact of settlements and curtailments	(2,112)
(221)	Net return on assets	3,110
13,663	Actuarial gains/ (losses)	33,217
(77,271)	Surplus/ (deficit) at end of year	(40,941)

(iv) **Analysis of the Council's Assets and Liabilities in respect of Strathclyde Pension Fund**

2006 £'000		2007 £'000
272,662	Equity investments	284,799
36,827	Bonds	47,574
32,583	Property	38,697
16,523	Cash	16,988
358,595	Share of assets	388,058
(413,863)	Scheme liabilities	(407,716)
(22,003)	Unfunded liabilities	(21,283)
(435,866)	Share of estimated liabilities	(428,999)
(77,271)	Net assets/ (liabilities) in Strathclyde Pension Fund	(40,941)

The pension scheme assets are valued at fair value (principally market value for investments). 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 £40.941m at 31 March 2007 has a substantial impact on the net worth of the Council as recorded in the balance sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit of the Local Government Superannuation Scheme will be made good by making appropriate contributions over the remaining working life of employees, as assessed by the Scheme actuary.

The valuations are as at 31 March 2007, and are provided by Hymans Robertson, the independent actuaries to Glasgow City Council Fund. The main assumptions used in the calculations are:

2006 City Fund		2007 City Fund
3.1%	Rate of inflation	3.2%
4.6%	Rate of increase in salaries	4.7%
3.1%	Rate of increase in pensions	3.2%
4.9%	Rate for discounting scheme liabilities	5.4%

The Hymans Robertson actuarial valuation at 31 March 2007 includes the financial impact of the assumption that 25% of pension fund members retiring after that date will elect to take an additional tax-free lump sum in lieu of part of their pension. The effect of this assumption of £4.681m is included in 'past service costs' in the Net Cost of Services in the Income and Expenditure Account.

(v) **Pension Reserve**

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.

Pension Reserve	2006/07 £'000	2005/06 £'000	2004/05 £'000	2003/04 £'000	2002/03 £'000
Difference between the expected and actual return on assets <i>Percentage of assets</i>	297 0.1%	56,605 15.8%	9,305 3.4%	35,644 14.4%	(68,951) (35.3%)
Experience gains/ (losses) on liabilities <i>Percentage of the total present value of liabilities</i>	925 0.2%	8,019 1.8%	(847) (0.2%)	250 0.1%	662 0.3%
Actuarial gains and losses recognised in movement in reserves <i>Percentage of the total present value of liabilities</i>	33,217 7.7%	13,663 3.1%	(58,524) (16.1%)	35,894 13.0%	(68,289) (26.3%)

- Scottish Teachers' Pension Scheme** – the teachers' pension scheme is administered directly by the Scottish Executive. 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. During 2006/07 the employer's contribution was set at 12.5% of the employees' contribution rate. The Council paid £4.908m (2005/06 £4.766m) for employer's contributions to the Scottish Executive.

29. Authorisation of Accounts for Issue

The Statement of Accounts were originally authorised for issue by Eileen Howat, Assistant Chief Executive on 28 June 2007. This is the date up to which events after the balance sheet date have been recognised in the financial statements.

30. Notes relating to Cash Flow

(i) *Reconciliation of Net Surplus or Deficit on the Income and Expenditure Account to the Revenue Activities Net Cash Flow in the Cash Flow Statement*

2005/06 £'000			2006/07 £'000
12,401	General Fund (surplus)/ deficit	3,312	
(7,564)	Net additional amount required by statute and non-statutory proper practice to be credited to the General Fund Balance for the year	(1,577)	
4,837	Decrease in the General Fund balance for the year		1,735
3,428	Housing Revenue Account (surplus)/ deficit	2,599	
(7,655)	Net additional amount required by statute and non-statutory proper practice to be credited to the HRA Balance for the year	(7,674)	
(4,227)	Increase in the HRA balance for the year		(5,075)
610	Net (increase)/ decrease in the General Fund and HRA balance for the year		(3,340)
	<i>Adjust surplus for items accounted for elsewhere in cash flow statement:</i>		
(9,240)	Loans fund interest	(8,836)	
(2,373)	Loans fund principal	(2,596)	
(11,613)			(11,432)
	<i>Adjust surplus for internal items:</i>		
(1,216)	Contributions to funds	(1,225)	
0	Use of funds	397	
(1,216)			(828)
	<i>Adjust surplus for movements in working capital</i>		
(3,130)	Increase/ (decrease) in debtors	(1,799)	
19	Increase/ (decrease) in stock and work in progress	(59)	
(33)	Increase/ (decrease) in loans to other parties	(4)	
(6,516)	(Increase)/ decrease in sundry creditors	2,699	
(280)	(Increase)/ decrease in other creditors	645	
(9,940)			1,482
(22,159)	Net cash outflow/ (inflow) from revenue activities		(14,118)

(ii) Reconciliation of Movement in Cash to Movement in Net Debt

	Balance at 1 April 2006 £'000	2006/07 Movement £'000	Balance at 31 March 2007 £'000
Cash on hand	(40)	(2)	(42)
Overdrafts	2,663	1,624	4,287
(Increase)/ decrease in cash	2,623	1,622	4,245
Debt due within 1 year	1,333	(1,000)	333
Debt due after 1 year	180,887	2,368	183,255
Increase/ (decrease) in debt	182,220	1,368	183,588
Short term investments	(36,100)	(3,475)	(39,575)
(Increase)/ decrease in liquid resources	(36,100)	(3,475)	(39,575)
Movement in Net Debt	148,743	(485)	148,258

(iii) Reconciliation of Relevant Movements in Financing and Management of Liquid Resources to the Balance Sheet

	Balance at 1 April 2006 (£'000)	2006/07 Movement (£'000)	Balance at 31 March 2007 (£'000)
Management of Liquid Resources			
Short term investments	36,100	3,475	39,575
Management of Financing			
Short-term borrowing	1,333	(1,000)	333
Covenant Loans	452	(140)	312
Local Bonds/EIB Loans	41,428	(2,357)	39,071
PWLB Loans	139,007	4,865	143,872
	182,220	1,368	183,588

(iv) Analysis of Other Government Grants

2005/06 (£'000)		2006/07 (£'000)
	Education, Culture and Lifelong Learning	
2,264	School fund	3,544
0	Additional resources for schools	999
0	New teachers	672
0	Probationer teachers	661
549	Hungry for Success	652
642	New community schools	642
349	Support for teachers	571
738	Inclusion	538
921	New Opportunities funding	502
437	National grid for learning	437
168	Determined to succeed	395
298	Continuous professional development	298
292	Study support	292
197	Additional support for learning	259
253	Alternatives to exclusion	253
221	Discipline Task Group	222
154	In service training	163
0	New Futures Fund Successor Fund	155
0	Curriculum for Excellence	149
127	Workforce expansion	133
52	Supporting parents	132
0	Job sizing – teachers	117
0	Language learning and teaching	85
33	Assessment for learning	11
116	Higher Still	0
87	Primary foreign language	0
16	Secondary education	0
	Development, Safety and Regulation	
0	Local roads	4,873
1,563	Strategic Waste Fund	1,740
0	Anti-social behaviour noise unit	81
109	Rural public transport	0
	Social Work, Housing and Health	
1,110	Criminal justice management	1,317
1,229	Changing Children's Services Fund	1,161
8,990	Supporting People	8,396
304	Homeless strategy	565
301	Mental illness	301
0	Fostering & adoption	158
103	Social work training	116
386	Fast track children's hearings	43
	Chief Executive's	
13,722	Rent rebates benefit subsidy	14,148
8,925	Council tax benefit subsidy	7,775
415	Council tax benefit administration	552
415	Rent rebate administration	552
116	Fraud incentive subsidy	41
164	Verification framework	0
	Other	
1,780	Sundry Grants	3,222
47,546	Total	56,923

HRA Income and Expenditure Account

2005/06 £'000		2006/07 £'000
	Income	
(19,502)	Dwelling rents	(19,844)
(1,126)	Non dwelling rents	(1,185)
(141)	Housing Support Grant	(402)
0	Housing Estate Regeneration Fund grant	(106)
(210)	Other income	(288)
(20,979)	Total Income	(21,825)
	Expenditure	
8,669	Repairs and maintenance	9,059
4,757	Supervision and management	4,847
7,415	Depreciation and impairment of fixed assets	7,367
766	Other expenditure	764
93	Increase in bad debt provision	132
21,700	Total Expenditure	22,169
721	Net Cost of HRA Services as included in the Council Income and Expenditure Account	344
225	HRA share of Corporate and Democratic Core	173
946	Net Cost of HRA Services	517
2,950	Interest payable and similar charges	2,937
146	Amortisation of premiums and discounts	145
(621)	Interest and investment income	(901)
7	Pension interest cost and expected return on pension assets	(99)
3,428	(Surplus) or deficit for the year on HRA services	2,599

Statement of Movement on the HRA Balance

2005/06 £'000		2006/07 £'000
3,428	(Surplus) or deficit for the year on the HRA Income and Expenditure Account	2,599
(87)	HRA share of contributions to or from the pension reserve	99
(7,568)	Transfer to or from the Capital Financing Account	(7,846)
0	Government grant deferred amortisation matching depreciation	73
(4,227)	(Increase) or decrease in the Housing Revenue Account Balance	(5,075)
(8,433)	Housing Revenue Account surplus brought forward	(12,660)
(12,660)	Housing Revenue Account surplus carried forward	(17,735)

Notes to the Housing Revenue Account

1. A provision of £0.496m is included in the balance sheet for doubtful debts on housing rents.
2. At 31 March 2007, the Council held various types of accommodation and had the following number and types of houses.

31 March 2006 Number of Houses	Type of accommodation	31 March 2007 Number of houses
2,533	1 and 2 apartment	2,513
3,900	3 apartment	3,685
2,169	4 apartment	2,108
180	5 or more apartment	174
8,782	Total	8,480

31 March 2006 Number of Houses	By area	31 March 2007 Number of houses
5,089	Ayr	4,861
1,074	Troon	1,051
761	Prestwick	747
808	Maybole	795
1,050	Girvan	1,026
8,782	Total	8,480

3. At 31 March 2007, rent arrears amounted to £0.700m, being 3.3% of gross rent collectable (2005/06 £0.658m, being 3.1% of gross rent collectable).
4. The surplus for the year of £5.075m, when added to the surplus brought forward from 2005/06 of £12.660m, results in an accumulated surplus of £17.735m at 31 March 2007. Members have already agreed that £0.550m should be held in reserve for weather emergencies and £1.574m should be used to fund capital and revenue expenditure in future years. This leaves an uncommitted revenue surplus of £15.611m, options for the use of which will be considered as part of a review of the HRA 30 year business plan during 2007/08.
5. The rental income lost due to void properties amounted to £0.428m in 2006/07 (2005/06 £0.538m).

Collection of Council Tax, Rates and Community Charge

Council Tax Income Account

2005/06 £'000		2006/07 £'000
55,589	Gross charge	58,465
(1,515)	Deduct: Exemptions	(1,707)
(73)	Disabled relief	(80)
(5,047)	Discounts	(5,173)
48,954	Net Council tax	51,505
(7,490)	Deduct: Rebates	(7,840)
7,451	Less government grants	7,818
12	Other items	21
(1,256)	Provision for bad debts	(1,102)
39	(Gain)/loss on benefits to be transferred to Miscellaneous Services	39
(101)	Grant on claimant error transferred to cost of collection	(111)
(129)	Council tax on second homes	(112)
47,480	In year Council tax income	50,218
132	Prior year adjustments	299
47,612	Total Council tax income	50,517

Notes to the Council Tax Income Account

1. Council Tax Income

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

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

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

2. Calculation of the Council Tax Charge Base 2006/07

Council tax band	Valuation band								Total
	A	B	C	D	E	F	G	H	
Total number of properties	7,520	12,460	8,339	7,693	9,033	4,345	2,719	229	52,338
Less exemptions/ deductions	302	306	186	110	77	46	26	3	1,056
Less adjustment for single discount	981	1,274	798	622	586	217	106	6	4,590
Less adjustment for double discount	91	100	84	92	87	38	38	8	538
Effective number of properties	6,146	10,780	7,271	6,869	8,283	4,044	2,549	212	46,154
Band D equivalent factor (ratio)	6	7	8	9	11	13	15	18	
Band D equivalent number of properties	4,097	8,384	6,463	6,869	10,124	5,841	4,248	424	46,450
Class 17 & 24 Dwellings				11					11
Total	4,097	8,384	6,463	6,880	10,124	5,841	4,248	424	46,461
Less provision for non-collection 3 per cent									1,162
Council tax base 2006/07 (equivalent to a Band D Council tax of £1,110.64)									45,299

3. Council Tax Properties and Council Tax Charges

Valuation band	Number of chargeable properties	Total Council tax charge
A	6,146	£740.43
B	10,780	£863.83
C	7,271	£987.24
D	6,880	£1,110.64
E	8,283	£1,357.45
F	4,044	£1,604.26
G	2,549	£1,851.07
H	212	£2,221.28
Total	46,165	

Non-Domestic Rate Income Account

2005/06 £'000		2006/07 £'000
42,057	Gross charge	42,254
(7,194)	Deduct: Reliefs & Remissions	(6,850)
(696)	Provision for bad debts	(707)
34,167	Net non-domestic rate income	34,697
(153)	Prior year adjustments	589
34,014	Total non-domestic rate income	35,286
	National non-domestic rate pool (NNDRP):	
41,855	NDRI Distributable	41,489
34,014	Contribution to NNDRP	35,286
7,841	Net contribution from NNDRP	6,203

Notes to the Non-Domestic Date Income Account

- 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.
- Rateable Subjects and Values 2006/07**

<i>Commercial Subjects</i>	<i>Number</i>	<i>Rateable Value £'000</i>
Shops	1,370	31,593
Public Houses	123	2,835
Offices (Including Banks)	621	8,982
Hotels, Boarding Houses, etc	96	3,896
Industrial & Freight Transport subjects	856	17,081
Leisure, Entertainment, Caravans and Holiday sites	465	5,351
Garages and petrol stations	111	1,404
Cultural	26	313
Sporting subjects	145	428
Education and Training	79	6,838
Public Service Subjects	185	4,420
Communications (non-formula)	7	120
Quarries, Mines, etc	9	357
Petrochemical	4	48
Religious	95	850
Health Medical	89	3,326
Other	173	779
Care Facilities	56	1,762
Advertising	50	75
Undertaking	30	2,992
Total all subjects	4,590	93,450

Rate levied 2006/07: 45.30p (rateable value greater than £29,000)
44.90p (rateable value less than or equal to £29,000)

Community Charge - Years prior to 31 March 1993

2005/06 £'000		2006/07 £'000
7	Arrears written off now recovered	8

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

Common Good and Sundry Accounts

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.

Common Good Income and Expenditure Account

Total 2005/06 £'000		Ayr £'000	Troon £'000	Prestwick £'000	Maybole £'000	Girvan £'000	Total 2006/07 £'000
	Expenditure						
313	Property costs	244	0	0	0	0	244
376	Donations & contributions	416	0	0	0	0	416
33	Other expenditure	45	0	0	0	0	45
722		705	0	0	0	0	705
	Income						
688	Rents	528	0	17	0	0	545
256	Interest on loans	225	1	14	0	0	240
944		753	1	31	0	0	785
222	Surplus/(deficit) for year	48	1	31	0	0	80
430	Surplus brought forward	319	29	300	1	3	652
652	Accumulated surplus	367	30	331	1	3	732

Balance Sheet as at 31 March 2007

2006 £'000			2007 £'000
13,310	Fixed assets		13,745
	Current assets		
1	Loans	1	
35	Stock	3	
5,340	Loans Fund investment	4,720	
5,376			4,724
18,686	Total assets		18,469
	Less: Current liabilities		
(55)	Creditors		(5)
18,631	Total assets less liabilities		18,464
	Financed by:		
3,600	Capital Reserve		0
652	Revenue Reserve		732
4,876	Usable Capital Receipts Reserve		4,194
9,503	Revaluation Reserve		13,538
18,631	Total net worth		18,464

Notes to the Common Good Account

1. Valuation of Fixed Assets

Property valuations were carried out by RICS professional staff within the Council's Department of Development, Safety and Regulation and are at valuation dates between 2002/03 and 2006/07 dependant on the category of asset.

2. Movement in Fixed Assets

	Land £'000	Buildings £'000	Community assets £'000	Total £'000
Gross book value as at 31 March 2006	3,518	9,726	66	13,310
Revaluations	151	389	(100)	440
Transfers	(101)	(4)	100	(5)
Gross book value as at 31 March 2007	3,568	10,111	66	13,745

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 adjusted for disposals.

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.

2005/06 £'000	Revenue accounts	2006/07 £'000
1,349	Balance at 1 April 2006	1,466
145	Income for year	106
(28)	Expenditure during year	(26)
1,466	Balance at 31 March 2007	1,546

2006 £'000	Balance Sheet as at 31 March	2007 £'000
	Assets	
193	Investments	193
1,273	Current assets – temporary deposit in Loans Fund	1,353
1,466	Total assets	1,546
	Reserves	
979	Revenue	1,059
487	Capital	487
1,466	Total reserves	1,546

Other Funds

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

2006 £'000		2007 £'000
	Assets	
11	Balance due by Loans Fund	9
3	Investments	3
14	Total assets	12
	Reserves	
14	Revenue	12
14	Total reserves	12

Group Accounts

Introduction

The Code of Practice on Local Authority Accounting in the United Kingdom 2006: A Statement of Recommended Practice (2006 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.

Combining Entities

The Council has an interest in one subsidiary and five associate companies. Further details of each entity are detailed in the notes to the Group Accounts on pages 43 to 44. The subsidiary and associate companies share a common accounting period ending 31 March 2007.

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/ panel.

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 Ayrshire 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 Reserve), and its share of other gains & losses. The Council has not paid any consideration for its interests and thus there is no goodwill involved in the acquisitions.

Financial Impact of Consolidation

For three of the six entities, the Council has a share in a net liability. The net liabilities of Police and Fire 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 £161.173m, representing the Council's share of the net liabilities of the entities.

Group Income and Expenditure Account
Year ended 31 March 2007

<i>2005/06 net expenditure £'000</i>	<i>Service</i>	<i>2006/07 gross expenditure £'000</i>	<i>2006/07 gross income £'000</i>	<i>2006/07 net expenditure £'000</i>
83,308	Education Services	109,808	13,462	96,346
721	Housing Revenue Account	22,169	21,825	344
2,223	General Fund Housing	30,664	28,350	2,314
47,696	Social Work Services	74,271	22,507	51,764
10,982	Culture and Related Services	21,026	9,437	11,589
11,319	Environmental Services	16,862	5,464	11,398
11,326	Roads and Transport Services	21,871	11,560	10,311
2,066	Planning and Development Services	5,038	2,939	2,099
3,605	Corporate and Democratic Core	3,494	724	2,770
2,770	Non Distributed Costs	3,690	4,345	(655)
3,466	Other Central Services to the Public	23,090	18,878	4,212
3,917	Exceptional item - equal pay compensation	1,272	0	1,272
17,194	Precepts and levies	17,727	0	17,727
377	Common Good fund	671	243	428
272	Share of operating results of associates	1,977	828	1,149
201,242	Net Cost of Services	353,630	140,562	213,068
(5)	(Profit) or loss on disposal of assets			(26)
(206)	Trading Services			(155)
10,792	External interest payable (formerly AMRA)			10,582
721	Share of interest payable of associates			610
(1,288)	Interest and investment Income			(1,323)
(295)	Share of interest and investment income of associates			(311)
221	Pension interest cost and expected return on pension assets			(3,110)
8,730	Share of pension interest cost and expected return on pension assets of associates			9,145
219,912	Net Operating Expenditure			228,480
108,836	Revenue Support Grant			112,998
41,855	Non Domestic Rates redistribution			41,489
47,619	Council Tax and Community Charge income			50,525
198,310	Total income from government grants and local taxation			205,012
21,602	Group Income and Expenditure (surplus)/ deficit for year			23,468

**Reconciliation of the Single Entity Surplus/
Deficit to the Group Surplus/ Deficit**

2005/06 £'000		2006/07 £'000
12,401	(Surplus)/ deficit for the year on the Council's Income and Expenditure Account	12,981
0	Adjustment for transactions with other group entities	0
12,401	Surplus in the Group Income and Expenditure Account attributable to the Council	12,981
	Surplus/ deficit in the Group Income and expenditure account attributable to group entities (adjusted for intra-group transactions):	
(222)	Subsidiaries	(80)
9,423	Associates	10,567
21,602	(Surplus)/ deficit for the year on the Group Income and Expenditure Account	23,468

Statement of Total Recognised Gains and Losses

2005/06 £'000		2006/07 £'000
21,602	(Surplus)/ deficit for the year on the Group Income and Expenditure Account	23,468
(57,411)	(Surplus) or deficit arising on revaluation of fixed assets	4,076
2,772	Actuarial (gains) or losses on pension fund assets and liabilities	(49,006)
(817)	Any other (gains) or losses	(960)
(33,854)	Total recognised (gains) or losses for the year	(22,422)

Group Balance Sheet as at 31 March 2007

31 March 2006 £'000			31 March 2007 £'000
	Fixed assets		
	Operational assets:		
199,539	Council dwellings	192,708	
255,462	Other land and buildings	243,839	
2,776	Vehicles, plant etc	2,608	
39,504	Infrastructure assets	39,560	
1,181	Community assets	1,235	
	Non-operational assets:		
15,746	Investment properties	14,062	
275	Assets under construction	0	
1,268	Surplus assets held for disposal	2,981	
515,751	Total fixed assets		496,993
141	Long term investments		141
72	Long term debtors		68
16,701	Deferred premiums on the early repayment of debt		16,215
10,884	Share of investment in associates		11,142
543,549	Total long-term assets		524,559
	Current assets:		
574	Stocks and work in progress	483	
37,682	Debtors	37,141	
(22,306)	Provision for bad and doubtful debts	(23,078)	
36,100	Short term investments	39,575	
40	Cash floats and imprests	42	
			54,163
595,639	Total assets		578,772
	Current liabilities:		
(1,333)	Borrowing repayable on demand or within 12 months	(333)	
(29,986)	Creditors	(30,370)	
(5,528)	Provision for liabilities	(2,395)	
(2,663)	Bank overdraft	(4,287)	
(1,387)	Due to Common Good/ sundry accounts	(1,362)	
			(38,747)
554,742	Total assets less current liabilities		539,975
	Long term liabilities		
(180,887)	Borrowing repayable within a period in excess of 12 months		(183,255)
(10,328)	Government grant deferred		(12,065)
(2,246)	Share of long term liabilities of associates		(1,661)
(270,768)	Liability related to defined benefit pension scheme		(230,059)
90,513	Total assets less liabilities		112,935
	Financed by:		
274,845	Fixed asset restatement account		264,247
57,766	Capital financing account		46,688
8,369	Usable capital receipts reserve		7,555
(270,768)	Pension reserves		(230,059)
4,660	Group reserves		4,695
117	Repair & renewal fund		123
735	Insurance fund		632
901	Capital fund		1,826
1,228	General fund balance		(507)
12,660	Housing Revenue Account balance		17,735
90,513	Total net worth		112,935

Eileen Howat BSc, CPFA
Assistant Chief Executive
28 September 2007

Group Cash Flow Statement

2005/06 £'000			2006/07 £'000
(22,436)	Net cash outflow/ (inflow) from revenue activities		(14,203)
	Returns on investments and servicing of finance		
10,649	Interest paid	10,577	
(1,665)	Interest received	(1,981)	
8,984	Net cash outflow/ (inflow) from returns on investments and servicing of finance		8,596
	Capital activities		
	Cash outflows:		
15,486	Purchase of fixed assets	14,426	
1,038	Other capital cash payments	1,391	
16,524		15,817	
	Cash inflows:		
10,532	Capital cash receipts	10,521	
10,532		10,521	
5,992	Net cash outflow/ (inflow) from capital activities		5,296
(7,460)	Net cash outflow/ (inflow) before financing		(311)
	Management of liquid resources		
16,457	(Decrease)/ increase in investments	2,855	
16,457			2,855
	Financing		
	Cash outflows		
4,370	Repayments of amounts borrowed	3,498	
		3,498	
	Cash inflows		
14,500	New long term loans raised	4,866	
2,000	New short term loans raised	0	
		4,866	
(12,130)	Net cash outflow/ (inflow) from financing		(1,368)
(3,133)	(Increase)/ decrease in cash		1,176

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 13 to 29. The following notes provide additional information in relation to other combining entries.

1. Accounting Policies

Prior Year Adjustments

As a result of the introduction of the Statement of Recommended Practice (SORP 2006), for accounting periods ending on or after 31 March 2007 all group entities financial statements are now fully UK GAAP compliant. No adjusting entries are therefore required to align South Ayrshire Council's accounts with those of the other group entities in 2006/07. The comparative figures for 2005/06 have been adjusted to reflect the changes required by the 2006 SORP.

A reconciling adjustment is required to the opening balances of Strathclyde Passenger Transport Authority and Strathclyde Concessionary Travel Scheme Joint Board associate companies due to changes to South Ayrshire Council's percentage share in their assets and liabilities between the two years 2005/06 and 2006/07.

Balances held between the Council and its Associates

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

2. Details of Combining Entities

In addition to the information included in the consolidated Group Accounts on pages 38 to 42, 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 35 to 36 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 2006/07, South Ayrshire Council contributed £10.459m or 4.20% of the Board's estimated running costs. Its share of the year-end net liability of £140.861m (2005/06 £143.783m) 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 2006/07, South Ayrshire Council contributed £6.534m or 4.79% of the Board's estimated running costs. Its share of the year-end net liability of £37.785m (2005/06 £38.721m) 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 2006/07, South Ayrshire Council contributed £1.707m or 4.98% of the Board's estimated running costs. Its share of the year-end net liability of £1.852m (2005/06 £3.002m) 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 2006/07, South Ayrshire Council contributed £0.244m or 6.18% of the Board's estimated running costs. Its share of the year-end net asset of £0.616m (2005/06 £0.685m) 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 2006/07, South Ayrshire Council contributed £0.731m or 33.35% of the Board's estimated running costs. Its share of the year-end net assets of £0.245m (2005/06 £0.038m liability) is included in the Group Balance Sheet. Copies of Ayrshire Valuation Joint Board's accounts may be obtained from the Treasurer to Ayrshire Valuation Joint Board, County Buildings, Wellington Square, Ayr KA7 1DR.

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

2005/06 £'000	Council's Share (33.35%) of AVJB	2006/07 £'000
718	Gross income	750
14	Net operating expenditure	(31)
192	Fixed assets	187
47	Current assets	95
47	Liabilities due within one year	95
229	Liabilities due after one year	(58)
(38)	Capital and reserves	245

3. 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 £161.173m, representing the Council's share of the net liabilities of the entities.

4. 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 £0.085m and increases the net fund position for the year by £0.080m. The incorporation of the associate companies has no effect on the Group Cash Flow statement. A reconciliation of the surplus for the year of £3.420m to the net cash inflow from revenue activities of £14.203m is as follows:

2005/06 £'000			2006/07 £'000
4,837	(Increase)/ decrease in South Ayrshire Council General Fund balance for year	1,735	
(4,227)	(Increase)/ decrease in HRA balance for year	(5,075)	
(222)	(Increase)/ decrease in Common Good Fund balance for year	(80)	
388			(3,420)
(3,111)	Movement in current assets	3,562	
(6,874)	Movement in current liabilities	(2,062)	
(1,216)	Movement in fund balances	(828)	
(11,623)	Adjustment for non-cash transactions	(11,455)	
(22,824)			(10,783)
(22,436)	Net Cash outflow/ (inflow) from revenue activities		(14,203)

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 Assistant Chief Executive; and
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

The Assistant Chief Executive's Responsibilities

The Assistant Chief Executive 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 the United Kingdom (the SORP) is required to present fairly the financial position of the Council at the accounting date, and its income and expenditure for the year ended 31 March 2007.

In preparing this statement of accounts, the Assistant Chief Executive has:

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

The Assistant Chief Executive 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 2006/07 Statement of Accounts for South Ayrshire Council. The statement also covers the other bodies whose activities have been incorporated into our group accounts, as detailed on pages 38 to 44, where reliance has been placed on the individual bodies' Statements of Internal Financial Control and their Chief Internal Auditors' Annual Reports. We acknowledge our responsibility for ensuring that an effective system of internal financial control is maintained and operated in connection with the resources concerned.

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

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

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

The Internal Audit function within South Ayrshire Council is responsible directly to the Chief Executive for the independent appraisal of the Council's internal systems of control. The Internal Audit section operates in accordance with the Chartered Institute of Public Finance and Accountancy's Code of Practice for Internal Audit in Local Government in United Kingdom. The section undertakes an annual programme of work approved by the Council 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 those issues and to assist managers in the performance of their duties and responsibilities in these areas. Significant matters (including non-compliance with audit recommendations) arising from internal audit work are reported directly to the Chief Executive and the Council.

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
Assistant Chief Executive
28 September 2007

South Ayrshire Council – Local Code of Corporate Governance

Compliance Statement for 2006/07

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 April 2003.

This statement is the fourth 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 38 to 44.

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; and
- 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 2006/07

The exercise undertaken for this fourth assessment involved:

- (1) reviewing progress against the improvement actions identified at the end of 2005/6; and
- (2) re-appraising the departmental and corporate positions against the templates as at 31 March 2007.

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 2006/07, a range of improvements have been achieved in relation to areas of previous shortfall, namely:

- Revised Corporate Risk Strategy approved (May 2006);
- Revised Employee Code of Conduct approved and issued (July 2006);
- Strategic Risk Register established and reported to Members (Sept 2006); and
- Tracking of responses to external audit improvement actions initiated (March 2007).

Improvement Actions for 2007/08

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 Standards and Governance panel.

Assurance for 2006/07

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 2006/07.

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: **28 September 2007**

Thomas Cairns, Chief Executive

Signed: _____

Date: **28 September 2007**

Hugh Hunter, Leader of the Council

Independent auditor's report to the members of South Ayrshire Council and the Accounts Commission for Scotland

I certify that I have audited the financial statements of South Ayrshire Council and its group for the year ended 31 March 2007 under Part VII of the Local Government (Scotland) Act 1973. These comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Statement of Total Recognised Gains and Losses, Balance Sheet, Cash Flow Statement, HRA Income and Expenditure Account, Statement of Movement on the HRA Balance, Council Tax Income Account, Non-Domestic Rate Income Account, Common Good and Sundry Accounts, the Group Accounts and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Assistant Chief Executive and auditor

The Assistant Chief Executive'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 2006 - A Statement of Recommended Practice (the 2006 SORP) are set out in the Statement of Responsibilities.

My 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.

I report my opinion as to whether the financial statements present fairly the financial position of the local authority and its group in accordance with applicable laws and regulations and the 2006 SORP, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973. I also report if, in my opinion, the Explanatory Foreword is not consistent with the financial statements, if the local authority has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I 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. I report if, in my opinion, they do not comply with the SORP or if they are misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statements cover all risk and controls. Neither am I required to form an opinion on the effectiveness of the local authority's corporate governance procedures or its risk and control procedures.

I read the other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises the Explanatory Foreword by the Assistant Chief Executive. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my 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 Assistant Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the local authority and its group's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me 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 my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion

- the financial statements present fairly, in accordance with applicable laws and regulations and the 2006 SORP, the financial position of the local authority and its group as at 31 March 2007 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.

*Peter Tait CPFA
Assistant Director of Audit (Local Government)*

*Audit Scotland
7th Floor
Plaza Tower
East Kilbride
G74 1LW*

28 September 2007