



Annual Accounts
31st March, 2008



25th September, 2008

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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 South Ayrshire Council (the Council) for the financial year ended 31 March 2008, 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.

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 35.

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 10 of the accounts.

The Council's Financial Position

The Income and Expenditure Account on page 10 summarises the actual financial performance of the Council's General Fund and Housing Revenue Account during 2007/08. The Statement of Movement on the General Fund Balance, also on page 10, 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 of £2.743m to be carried forward to 2008/09.

(a) General Fund

The financial statements highlight a General Fund surplus for the year of £3.250m which, when added to the deficit brought forward from the previous year of £0.507m, results in an accumulated surplus of £2.743m at 31 March 2008. 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 2008.

	Budget 2007/08 £'000	Actual 2007/08 £'000	Under/ (Over) Spend £'000
Chief Executive's Department	5,487	4,438	1,049
Development, Safety and Regulation	48,446	47,371	1,075
Education, Culture and Lifelong Learning	101,280	101,560	(280)
Social Work, Housing and Health	53,726	53,813	(87)
Departmental Expenditure	208,939	207,182	1,757
Miscellaneous Services, debt charges, pension costs etc	2,752	1,220	1,532
Equal pay compensation/ job evaluation/ single status provision	2,700	2,880	(180)
Contingency fund	(1,374)	-	(1,374)
Total Expenditure to be Funded	213,017	211,282	1,735
Revenue Support Grant/ Non-Domestic Rate Income	161,744	161,741	(3)
Council Tax/ Community Charge Income	52,762	52,791	29
Total Funding	214,506	214,532	26
Surplus for Year	1,489	3,250	1,761
Deficit brought forward	(507)	(507)	0
Surplus at 31 March 2008	982	2,743	1,761

Service departments were underspent by £1.757m in 2007/08.

Miscellaneous and corporate expenditure was underspent by £1.532m.

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 levels for 2006/07 and 2007/08 were therefore set to recover £1.059m per year towards the cost of this issue. A further £3.177m will be recovered from Council tax generated over the years 2008/09 to 2010/11. The original financial provision for these outstanding claims was made in the 2005/06 accounts, with the level of provision reviewed for the 2007/08 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, the Council is currently negotiating with the Trade Unions on the implementation of Single Status, with the aim of introducing the new scheme with retrospective effect from 1 October 2007. Its implementation will resolve the issue of equal pay. The annual accounts therefore provide for a further six months equal pay compensation to 30 September 2007 and estimated cost of single status for the remaining six months to 31 March 2008. The combined estimated cost of these two issues in 2007/08 is £2.880m compared to £2.700m assumed when the 2007/08 budget was approved.

The Council maintains a contingency balance, as part of the General Fund, to provide for unforeseen or contingent events that may arise during the financial year. The balance at 1 April 2007, net of earmarked resources, amounted to a planned deficit of £0.726m. £0.421m was allocated for specific issues that arose within service departments during 2007/08. As a consequence of the revenue budget savings for 2008/09, the decision was taken to further reduce the Council's workforce. Funding of £0.500m was therefore incorporated in the 2008/09 budget to finance anticipated severance payments. The actual severance payments incurred of £0.227m are reflected within departmental service expenditure in the 2007/08 accounts with funding transferred from the Council's contingency to individual services to cover the costs involved. The balance in contingency at 31 March 2008 was therefore a deficit of £1.374m as shown in the previous table, which contributes to the Council's overall financial position at 31 March 2008.

In order to determine the Council's overall financial position at 31 March 2008, recognition needs to be given to the commitments made by the council in respect of the 2008/09 budget, the Council's decision to set aside £2.000m uncommitted reserves by 31 March 2010 and the five year strategy for recovery of equal pay costs. Consideration also needs to be given to departments' requests for earmarking of £2.599m from the 2007/08 out-turn, to be spent on specific projects during 2008/09.

A General Fund balance of £2.389m is currently forecast for 31 March 2011, of which £1.500m relates to the policy of achieving a £2.000m uncommitted balance by 31 March 2010.

(b) *Housing Revenue Account*

The Housing Revenue Account on page 35 shows a surplus of £1.956m for the year to 31 March 2008, which compares to a budgeted surplus of £0.096m. This underspend of £1.860m is primarily due to savings on property expenditure of £0.084m, financing costs of £0.574m and an underspend in the capital programme which removed the need for £0.886m revenue contribution towards capital expenditure. When added to the surplus brought forward from 2006/07 of £17.735m, this results in an accumulated surplus of £19.691m at 31 March 2008. The Council has already agreed that £0.550m should be held in reserve for weather emergencies and that £11.779m should be used to fund capital and revenue expenditure in future years. This leaves an uncommitted revenue surplus of £7.362m of which an element will be required for future capital investment, with options for the remainder to be considered as part of the annual review of the HRA 30 year business plan during 2008/09.

(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 2007/08 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 2007	(507)	17,735	123	632	1,826	19,809
Surplus/ (deficit) for 2007/08	3,250	1,956	0	0	0	5,206
Appropriations (to)/ from revenue	0	0	7	(207)	1,880	1,680
Balance carried forward at 31 March 2008	2,743	19,691	130	425	3,706	26,695

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 of £0.141m in 2007/08 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 37 to 39, 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 £0.029m was collected beyond the level assumed in the 2007/08 budget. This includes £0.642m income from second homes over the period 2005/06 to 2007/08. The Council require to transfer this money to a registered social landlord for the provision of affordable housing. There has been a significant increase in the level of reliefs granted in respect of earlier years' council tax. The Scottish Government 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 £0.541m less locally than anticipated, therefore the Council are due funding of this amount from 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 latest formal valuation taking place on 31 March 2008. The Council's balance sheet shows a pension asset of £1.959m at 31 March 2008 compared to a liability of £40.941m at 31 March 2007. This asset and its movement since 31 March 2007 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 £20.023m was incurred during the year and payments of £1.574m were made in relation to private sector housing grants and covenant repayments. These were financed by new external borrowing and cash balances of £5.764m and capital receipts, grants and contributions of £15.833m. 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 43 to 50. 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 £131.387m. 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. Two primary schools and the annex to the secondary school became operational in 2007/08. The first unitary charge payment, as part of the thirty year contract, was made to the contractor during the year.

Introduction of the Euro

As at 31 March 2008 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
25 September 2008

Statement of Accounting Policies

1. General

The Statement of Accounts summarises the Council's transactions for the 2007/08 financial year and its position at the year-end of 31 March 2008. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2007: 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. Exceptional Item – Equal Pay Compensation/Single Status Implementation

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 and single status implementation have been classified as an exceptional item and separately identified within the Net Cost of Services in the Income and Expenditure Account.

4. 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.

5. 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.

6. 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.

7. 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.

8. Overheads and Central Support Service Costs

In accordance with the CIPFA Best Value Accounting Code of Practice 2007 (BVACOP), 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.

9. 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 2007/08.

10. Tangible Fixed Assets

Tangible fixed assets are assets that have physical substance and are held for use in the provision of service or for administrative purposes on a continuing basis.

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 re-valued 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 third year of the latest five-year programme. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains may be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service account.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains before that date have been consolidated in to the Capital Adjustment Account.

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 to the Income and Expenditure Account as accelerated depreciation in that period.

Where an impairment loss is charged to the Income and Expenditure Account but where there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

Disposals: When an asset is disposed or decommissioned, the value of the asset in the balance sheet is written off to the Income and Expenditure account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure account as part of the gain or

loss on disposal. Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account. The receipt is credited to the Useable Capital Receipts Reserve, and can then be used for new capital investment or set aside to reduce the council's underlying need to borrow. Receipts are appropriated to the Reserve from the Statement of Movement on the General Fund Balance.

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 investment properties, non-operational assets under construction 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.

Grants and Contributions: Where grants and contributions are received that are identifiable to fixed assets with a finite life, the amount is credited to the Government Grants Deferred Account. The balance is then written down to revenue to offset depreciation charges made for the related assets in the relevant service revenue account, in line with the depreciation policies applied to them.

11. 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.

12. 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 Adjustment Account for the difference between the two.

13. 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.

14. Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability of another. The term 'financial instrument' covers both financial liabilities and financial assets

a) **Financial Assets**

Trade Debtors: initially measured at fair value and carried at amortised cost in the Balance Sheet

Loans Receivable, Bank Deposits and Investments: initially recognised at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

b) **Financial Liabilities**

Trade Creditors: initially measured at fair value and carried at amortised cost in the Balance Sheet

Borrowings: initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

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 and discounts may be incurred and these are charged or credited to the General Fund in accordance with Statutory Guidance and Proper Accounting Practices. This is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

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. **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.

17. **Interest in Companies and Other Entities**

The council has material interest in companies and other entities that have the nature of subsidiaries, associates and joint ventures and therefore require it to prepare group accounts.

18. **Retirement Benefits**

Employees of the council have the option to join one of two separate pension schemes:

(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. 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 2008.

21. Private Finance Transactions

On 18 December 2006 the Council signed a Public Private Partnership contract agreement which provided for the construction of five 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 two primary schools and the annex to the existing secondary school made available for use by the Council during 2007/08. The first unitary charge payment was therefore made to the contractor during 2007/08. It is currently anticipated that the last school in the construction programme will become available in December 2009.

The Council has reflected the appropriate 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

2006/07 net expenditure £'000	Service	2007/08 gross expenditure £'000	2007/08 gross income £'000	2007/08 net expenditure £'000
94,781	Education Services	107,247	14,380	92,867
344	Housing Revenue Account	23,507	22,126	1,381
2,322	General Fund Housing	32,791	30,854	1,937
51,764	Social Work Services	76,714	24,106	52,608
11,759	Culture and Related Services	21,139	9,473	11,666
11,398	Environmental Services	17,747	6,563	11,184
10,311	Roads and Transport Services	18,253	7,242	11,011
2,099	Planning and Development Services	7,616	5,584	2,032
3,010	Corporate and Democratic Core	4,019	212	3,807
(655)	Non Distributed Costs	4,870	225	4,645
4,310	Other Central Services to the Public	22,056	18,555	3,501
17,727	Precepts and Levies	17,851	0	17,851
1,272	Exceptional costs of equal pay compensation/Single Status (note 1)	2,880	0	2,880
210,442	Net Cost of Services	356,690	139,320	217,370
0	(Gain) or loss on the disposal of fixed assets			(1,009)
(155)	(Surplus) or deficit on Trading Services (note 4)			(164)
10,582	Interest payable and similar charges			9,767
(1,331)	Interest and investment income			(2,014)
(3,110)	Pension interest cost and expected return on pension assets (note 32)			(4,400)
216,428	Net Operating Expenditure			219,550
112,998	Revenue Support Grant			120,939
41,489	Non Domestic Rates redistribution			40,802
50,525	Council Tax and Community Charge income			52,791
205,012	Total Income from Government Grants and Local Taxation			214,532
11,416	(Surplus) or Deficit for the Year			5,018

Statement of Movement on the General Fund Balance

2006/07 £'000		2007/08 £'000
11,416	Deficit for the year on the Income and Expenditure Account	5,018
(9,681)	Net additional amount required by statute and non-statutory proper practice to be credited to the General Fund Balance for the year	(8,268)
1,735	(Increase) or Decrease in the General Fund Balance for the year	(3,250)
(1,228)	General Fund Balance brought forward	507
507	General Fund Balance carried forward	(2,743)

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

2006/07 £'000		2007/08 £'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>	
0	Amortisation of intangible fixed assets	(213)
(21,068)	Depreciation and impairment of fixed assets	(20,485)
743	Government grants deferred amortisation	2,246
0	Net gain on sale of fixed assets	1,009
0	Difference between amounts debited/credited to the Income & Expenditure Account and amounts payable/receivable to be recognised under statutory provisions relating to premiums and discounts on the early repayment of debt	677
(7,970)	Net charges made for retirement benefits in accordance with FRS17	(11,236)
	<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>	
2,594	Loans fund principal repayments	2,717
0	Capital expenditure charged in-year to the General Fund Balance	3,224
11,083	Employers contributions payable to the Strathclyde Pension Fund	11,930
	<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>	
5,075	Housing Revenue Account balance	1,956
(138)	Transfer to/ (from) Insurance Fund	(207)
0	Transfer to/ (from) Repairs & Renewals Fund	7
0	Transfer to/ (from) Capital Fund	107
(9,681)	Net additional amount required to be credited to the General Fund balance for the year	(8,268)

Statement of Total Recognised Gains and Losses

2006/07 £'000		2007/08 £'000
11,416	(Surplus) or deficit for the year on the Income and Expenditure Account for the year	5,018
3,835	(Surplus) or deficit arising on revaluation of fixed assets	(3,895)
(33,217)	Actuarial (gains) and losses on pension fund assets and liabilities (note 32)	(42,206)
(966)	Any other (gains) or losses	15,131
(18,932)	Total recognised (gains) or losses for the year	(25,952)

Balance Sheet as at 31 March 2008

2007 £'000			£'000	2008 £'000
	Fixed assets	(note 13)		
0	Intangible fixed assets		426	
	Tangible fixed assets:			
	Operational assets:			
192,749	Council dwellings		191,068	
228,740	Other land and buildings		225,307	
2,086	Vehicles, plant and equipment		2,757	
39,641	Infrastructure assets		40,965	
923	Community assets		945	
	Non-operational assets:			
17,066	Investment properties		17,758	
0	Assets under construction		392	
2,833	Surplus assets held for disposal		1,850	
484,038	Total fixed assets			481,468
141	Long-term investments	(note 23)		141
67	Long term debtors	(note 24)		184
16,215	Deferred premiums on early repayment of debt	(note 25)		0
0	Asset related to defined benefit pension scheme	(note 32)		1,959
500,461	Total long-term assets			483,752
	Current assets:			
480	Stocks and work in progress		508	
39,011	Debtors	(note 26)	43,471	
(23,078)	Provision for bad and doubtful debts	(note 26)	(24,638)	
39,575	Investments		46,902	66,243
556,449	Total assets			549,995
	Current liabilities:			
(333)	Borrowing repayable on demand or within 12 months		(333)	
(32,235)	Creditors	(note 26)	(30,673)	
(4,245)	Cash overdrawn		(3,210)	
(6,082)	Due to Common Good/ sundry accounts	(note 28)	(5,018)	(39,234)
513,554	Total assets less current liabilities			510,761
	Long term liabilities:			
(183,255)	Borrowing repayable within a period in excess of 12 months	(note 29)		(190,244)
(2,395)	Provisions	(note 27)		(5,821)
(12,065)	Government grants – deferred			(13,846)
(40,941)	Liability related to defined benefit pension scheme			0
274,898	Total assets less liabilities			300,850
	Financed by:	(note 30)		
244,456	Fixed asset restatement account			0
0	Revaluation reserve			4,015
48,649	Capital financing account			0
0	Capital adjustment account			281,950
0	Financial instruments adjustment account			(15,922)
2,925	Capital receipts reserve			2,153
123	Repair & renewal fund			130
1,826	Capital fund			3,706
632	Insurance fund			425
(40,941)	Pension reserve			1,959
(507)	General Fund balance			2,743
17,735	Housing Revenue Account balance			19,691
274,898	Total net worth			300,850

The unaudited accounts were issued on 30 June 2008 and the audited accounts were authorised for issue on 25 September 2008.

Eileen Howat

Eileen Howat BSc, CPFA
Assistant Chief Executive

25 September 2008

Cash Flow Statement

2006/07 £'000			2007/08 £'000
	Revenue activities		
	Cash outflows:		
149,537	Cash paid to or on behalf of employees	145,242	
141,413	Other operating cash payments	170,834	
9,618	Housing benefit paid out	10,537	
35,893	National non-domestic rates payments to national pool	35,482	
17,277	Precepts paid	17,851	
353,738		379,946	
	Cash inflows:		
6,078	Rents (after rebates)	6,444	
57,539	Council tax receipts	60,466	
41,489	National non-domestic rates receipts from national pool	40,802	
35,290	Non-domestic rates receipts	34,485	
112,998	Revenue support grant	121,069	
9,628	DWP grants for benefits	9,928	
56,923	Other government grants	46,889	
12,868	Cash received for goods and services	15,605	
35,043	Other operating cash receipts	53,989	
367,856		389,677	
(14,118)	Net cash outflow/ (inflow) from revenue activities (note 33)		(9,731)
	Returns on investments and servicing of finance		
	Cash outflows:		
10,577	Interest paid	10,595	
	Cash inflows:		
1,741	Interest received	1,977	
8,836	Net cash outflow/ (inflow) from returns on investments and servicing of finance		8,618
	Capital expenditure and financial investment		
	Cash outflows:		
14,426	Purchase of fixed assets	13,273	
882	Other capital cash payments	1,773	
15,308		15,046	
	Cash inflows:		
10,511	Other capital cash receipts	15,720	
0	Capital grant received	1,991	
10,511		17,711	
4,797	Net cash outflow/ (inflow) from capital activities		(2,665)
(485)	Net cash outflow/ (inflow) before financing		(3,778)
	Management of liquid resources		
3,475	Net increase in short-term deposits	6,625	
3,475			6,625
	Financing		
	Cash outflows:		
3,497	Repayments of amounts borrowed	4,021	
3,497		4,021	
	Cash inflows:		
4,865	New loans raised	139	
4,865		139	
(1,368)	Net cash outflow/ (inflow) from financing		(3,882)
1,622	(Increase)/ decrease in cash		(1,035)

Notes to the Core Financial Statements

1. Prior Year Adjustments and Exceptional Items

Prior Year Adjustments

- i) Changes required by 2007 SORP** – The 2007 SORP states that financial assets and financial liabilities held by the council in relation to the same organisation should only be offset against one another and shown in the balance sheet on a net basis under certain circumstances. The Council has applied this principle in 2007/08 and as a result the comparative figures for 2006/07 in the Balance Sheet require to be restated.
- ii) Asset review** – As part of the 2006/07 annual audit process the Council agreed to undertake an asset review with the purpose of aligning the fixed assets shown in the balance sheet with those detailed in the Asset Register. As a result of this review, the comparative figures for 2006/07 in the Balance Sheet have been restated.
- iii) Impairment adjustment** – The closure of Mainholm Academy in April 2006, due to health and safety issues, required the asset value to be impaired in the balance sheet by £9.661m whilst awaiting a decision on the long-term future of the site. During 2007/08 a review of this impairment was undertaken to determine the appropriateness of the value impaired. The results of this review determined that the asset had been over impaired by £1.565m. The partial reversal of this impairment requires to be reflected in the comparative figures for 2006/07.

The changes in respect of the 2007 SORP, asset review and impairment adjustment have had the following impact on the comparative figures for 2006/07 compared with those published in the 2006/07 Statement of Accounts (only figures that have changed are included in the table):

	Extract of Balance Sheet in the 2006/07 Statement of Accounts £'000	Financial Assets and Liabilities netting off adjustment £'000	Asset Review £'000	Impairment Adjustment £'000	Extract of 2006/07 comparatives in 2007/08 Balance Sheet £'000
Effect of prior year adjustment (i)					
Current Assets					
Sundry debtors	37,141	1,870			39,011
Current Liabilities					
Sundry creditors	(30,365)	(1,870)			(32,235)
Effect of prior year adjustment (ii) and (iii)					
Fixed assets					
Operational assets:					
Council dwellings	192,708		41		192,749
Other Land and Buildings	230,160		(2,985)	1,565	228,740
Vehicles, plant, etc	2,608		(522)		2,086
Infrastructure assets	39,560		81		39,641
Community assets	1,169		(246)		923
Non-operational assets:					
Investment properties	14,062		3,004		17,066
Surplus assets held for disposal	2,981		(148)		2,833
Financed by:					
Fixed asset restatement account	245,231		(775)		244,456
Capital financing account	47,084			1,565	48,649

Exceptional Item:

Equal Pay and Job Evaluation/ Single Status - the Income and Expenditure Account includes an exceptional item of £2.880m in respect of an adjustment to the provision for equal pay claims dating from 2001/02 and planned implementation of single status.

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 relating to part-year costs for two primary schools and the annex to the secondary school, was made during 2007/08. The final 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 10 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).

The 2007 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 2008.

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
2005/06	(12,007)	11,824	(183)	(23)	(206)	21	(185)
2006/07	(13,324)	13,169	(155)		(155)	20	(135)
2007/08	(11,137)	10,973	(164)		(164)	23	(141)
3 Year (Surplus)/ Deficit			(502)	(23)	(525)	64	(461)

Property and Design Trading employs 203 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 8,380 houses and around 600 other buildings. During the year Property and Design Trading carried out in the order of 32,000 repairs to the housing stock. Approximately 1,100 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 2007/08 amounted to £0.398m as follows:

2006/07 £'000		2007/08 £'000
37	Recruitment	136
313	Publicity of Services	251
42	Publicity of Events	6
32	Other	5
424	Total	398

6. Agency Income – Scottish Water

The Council received £0.315m (£0.271m in 2006/07) 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 2007/08 were:

2006/07 £'000	Public Body	South Ayrshire Council Department/ service provided	2007/08 £'000
		Chief Executive's Department	
197	Ayrshire Valuation Joint Board	Administrative services	202
195	Scottish Enterprise Ayrshire	Skillseeker training	146
		Development, Safety & Regulation	
73	Scottish Government	Harbour dredging	0
104	North Ayrshire Council	CCTV monitoring	112
55	Ayrshire and Arran Health Board	CCTV monitoring	56
80	Strathclyde Police	CCTV monitoring	30
4,781	Scottish Government	Trunk roads maintenance	176
		Education, Culture & Lifelong Learning	
162	Strathclyde Police	Cleaning	167
		Social Work, Housing & Health	
128	East Ayrshire Council	Addiction services	163
184	Strathclyde Police	Building repairs	107
5,959		Total	1,159

8. Summary of Members' Allowances Paid in the Year

The total amount paid in 2007/08 in respect of Members' allowances and salaries was £0.573m (£0.411m in 2006/07). This total comprised basic salary, basic allowances and special responsibility allowances of £0.532m (£0.374m in 2006/07) paid to Members for carrying out their duties, and a further amount of £0.041m (£0.037m in 2006/07) 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:

2006/07 Number	Remuneration Band	2007/08 Number	Left During Year
22	£50,000 - £59,999	24	
15	£60,000 - £69,999	15	3
3	£70,000 - £79,999	5	
1	£80,000 - £89,999	3	
2	£90,000 - £99,999	1	
1	£100,000 - £109,999	3	1
1	£110,000 - £119,999	0	
45	Total	51	4

Remuneration includes gross salary exclusive of employers 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 33 relating to the cash flow statement.

Members of the Council - have direct control over the Council's financial and operating policies. During 2007/08, works and services to the value of £0.423m were commissioned from companies in which three 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 2007/08 totalling £10.363m.

Assisted Organisations – during 2007/08 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 2007/08 South Ayrshire Council incurred the following fees relating to external audit and inspection services from the appointed auditor:

2006/07 £'000		2007/08 £'000
187	Fee payable to Audit Scotland with regard to external audit services carried out by appointed auditor	220
97	Notified fixed charge element payable	100
284	Total	320

12. **Assets held under Leases**

Operating lease expenditure during 2007/08 amounted to £1.673m (2006/07 in £1.782m).

The authority was committed at 31 March 2008 to making payments of £1.358m under operating leases in 2008/09, comprising the following elements:

2006/07 £'000	Vehicles, Plant & Equipment	2007/08 £'000
304	Leases expiring within 1 year	309
921	Leases expiring between 2 and 5 years	1,043
18	Leases expiring after 5 years	6
1,243	Total due in next financial year	1,358

13. Summary of Capital Expenditure and Fixed Asset Disposals

(i) *Movement on Intangible Fixed Assets*

Intangible assets relate wholly to software licenses purchased during the year and are shown at cost. The asset is amortised to the Income and Expenditure Account over the economic life of the licenses, assessed as three years. The movement in intangible assets during 2007/08 was:

	Intangible assets £'000
Opening balance at 1 April 2007	0
Movement 2007/08	
Additions	639
Amortised to Income and Expenditure Account	(213)
Net book value at 31 March 2008	426

(ii) *Movement on Tangible Fixed Assets*

The tables below illustrate the movement in tangible fixed assets, analysed by asset category, arising from the additions, disposals, revaluations and depreciation during the year. The opening net book value at 1 April 2007 incorporates the prior year adjustments as detailed in note 1 to the Statement of Accounts. As a result of these movements, the net book value of fixed assets held at 31 March 2008 was £481.042m.

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 2007	213,620	237,115	8,641	46,231	923	506,530
Accumulated depreciation	(20,871)	(8,375)	(6,555)	(6,590)	0	(42,391)
Net book value at 1 April 2007	192,749	228,740	2,086	39,641	923	464,139
Movement 2007/08:						
Additions	8,166	136	1,386	2,543	11	12,242
Revaluations	8	1,924	3	1	5	1,941
Transfers	(2,485)	(350)	(86)	0	6	(2,915)
Depreciation	(7,336)	(5,085)	(632)	(1,220)	0	(14,273)
Impairment	(34)	(58)	0	0	0	(92)
Net book value at 31 March 2008	191,068	225,307	2,757	40,965	945	461,042

Non-operational assets	Investment properties £'000	Assets under construction £'000	Surplus assets £'000	Total £'000
Gross book value at 1 April 2007	17,066	0	2,833	19,899
Accumulated depreciation	0	0	0	0
Net book value at 1 April 2007	17,066	0	2,833	19,899
Movement 2007/08:				
Additions	413	392	710	1,515
Disposals	0	0	(4,291)	(4,291)
Revaluations	2	0	(31)	(29)
Transfers	277	0	2,638	2,915
Depreciation	0	0	(9)	(9)
Net book value at 31 March 2008	17,758	392	1,850	20,000

(iii) 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 2007/08 together with the sources of finance used to fund the investment.

2006/07 £'000		2007/08 £'000
	Capital investment by service:	
7,009	General Services	11,565
7,417	Housing Revenue Account	8,458
14,426	Capital expenditure additions	20,023
140	Covenant	140
1,284	Private sector housing grants	1,434
15,850	Total capital investment	21,597
	Financed by:	
11,135	Capital receipts, grants and contributions	15,833
4,715	Net funding from external borrowing and cash balances	5,764
15,850	Total financing	21,597

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 2008/09. This includes £4.418m towards the construction of a residential facility for older people and £0.982m for the reconfiguration of Landsburgh House homeless person's hostel, both to be financed by prudential borrowing.

	General Services £'000	Housing £'000	Total £'000
Expenditure:			
Capital investment	18,637	15,062	33,699
Externally funded projects	2,445	0	2,445
	21,082	15,062	36,144
Sources of finance:			
Supported borrowing	8,348	0	8,348
Prudential borrowing	4,418	982	5,400
Capital grants and contributions	8,316	7,637	15,953
Capital funded from current revenue	0	6,443	6,443
	21,082	15,062	36,144

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 2007/08.

Number as at 31 March 2007		Number as at 31 March 2008
8,480	Council dwellings	8,380
864	Operational assets	838
796	Non-operational assets	821
	Infrastructure assets:	
1,157	Road lengths (km)	1,151
320	Bridges	335
18,881	Street lighting units	19,158
1	Pontoons	1
	Community assets:	
49	Cemeteries	49
38	Parks, open spaces and estates	38
1,266	Works of art	1,268
82	Other community assets	83
172	Vehicles and equipment	174

16. Valuation Information

The following table shows the progress on the Council's rolling programme for the revaluation of fixed assets. The financial year 2007/08 is the third 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
2007/08	21,244	0	38	21,282

17. Information about Depreciation Methodologies

As highlighted in the Accounting Policies on page 7, 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.

Useful life	Category	Valuer	Basis of Valuation	Date of last Full Valuation
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
10 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
0 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.

31 March 2007 £'000		31 March 2008 £'000
140,064	General Fund	171,967
136,156	Housing Revenue Account	128,414
(1,322)	Trading Operation	469
274,898	Total	300,850

19. Categories of Financial Instruments

Financial instruments are defined as the investments, lending and borrowing of the Council and include investments, bank deposits, borrowings, debtors and creditors. These are shown on the face of the Balance Sheet and the following table analyses them into prescribed categories.

31 March 2007			31 March 2008	
Long-term £'000	Current £'000		Long-term £'000	Current £'000
		Investments and Lending:		
208	55,508	Loans and receivables	325	65,735
		Borrowing:		
183,255	36,813	Financial liabilities amortised at cost	190,244	34,216

20. Gains and Losses on Financial Instruments

The following table analyses the gains and losses on financial instruments recognised in the Income and Expenditure Account and STRGL.

	Loans and Receivables £'000	Liabilities Measured at Amortised Cost £'000	Total £'000
Interest income	1,859	0	1,859
Interest expense	0	(10,444)	(10,444)
Net gain/(loss) for the year	1,859	(10,444)	(8,585)

As the SORP 2007 required this information to be disclosed for the first time, realistic comparative information for 2006/07 was not available.

21. Fair Value of Assets and Liabilities carried at Amortised Cost

Financial assets and liabilities are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- For PWLB and other loans receivable and payable, fair values have been calculated on comparable new borrowing rates from comparable lenders for similar financial instruments;
- No early repayment or impairment is recognised; and
- the fair value of trade and other receivables and payables is taken to be the invoiced or billed amount.

The fair values are calculated in the following two tables.

31 March 2007		<i>Investments and Lending:</i>	31 March 2008	
Carrying Amount £'000	Fair Value £'000		Carrying Amount £'000	Fair Value £'000
55,716	N/a	Loans and receivables	66,060	66,059

The fair value is less than the carrying amount because the Council's lending figure includes a number of loans where the interest rate receivable is lower than the rates available for similar loans at 31 March 2008. The commitment to receive interest below current market rates reduces the amount that the Council would receive if it agreed to early repayment of the loans.

31 March 2007		Borrowing:	31 March 2008	
Carrying Amount £'000	Fair Value £'000		Carrying Amount £'000	Fair Value £'000
220,068	N/a	Financial liabilities	224,460	238,737
<p>The fair value is more than the carrying amount because the Council's borrowing figure includes a number of loans where the interest rate payable is higher than the rates available for similar loans at 31 March 2008. The commitment to pay interest above current market rates increases the amount that the Council would pay if it agreed to early repayment of the loans.</p>				

As the SORP 2007 required this information to be disclosed for the first time, realistic fair value comparative information for 2006/07 was not available.

22. Nature and Extent of Risks arising from Financial Instruments

The Council's management of treasury risks actively works to minimise the Council's exposure to the unpredictability of financial markets and to protect the financial resources available to fund services. The Council has fully adopted CIPFAs Code of Treasury Management Practices and has written principles for overall risk management as well as written policies and procedures covering specific areas such as credit risk, liquidity risk and market risk.

(i) Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. The Council's policy is to place deposits only with banks and financial institutions whose credit ratings are independently assessed by the Council's treasury advisers as sufficiently secure, and to restrict lending to a prudent maximum amount for each institution.

The following table summarises the Council's potential maximum exposure to credit risk, based on past experience and current market conditions. No credit limits were exceeded during the financial year and the Council expects full repayment on the due date of deposits placed with its counterparties.

	31 March 2008 £'000	Historical Experience of Default adjusted for Market Conditions %	Estimated Maximum Exposure to Default and Uncollectability £'000
Deposits with banks and financial institutions	46,902	0.00	0
Customers (Council Tax, Non-Domestic Rate Income and other income) – net of provision	18,833	0.00	0
			0

The Council's gross debtor was £43.471m against which a provision of £24.638m was made for bad and doubtful debts. A significant proportion of this provision relates to outstanding debts of Council Tax, Community Charge and Non-Domestic Rates income arising in earlier years. Accordingly the Council has fully provided for its estimated maximum exposure to default and uncollectability.

The Council does not generally allow credit for customers, such that £35.339m of the £43.471m balance is past its due date for payment. The past due amount is analysed by age in the following table:

	31 March 2008 £'000
Less than three months	7,845
Three to six months	490
Six months to one year	1,275
More than one year	25,729
	35,339

As the SORP 2007 required this information to be disclosed for the first time, realistic comparative information for 2006/07 was not available.

(ii) Liquidity Risk

The Council's main source of borrowing is HM Treasury's Public Works Loans Board. There is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments. The Council has safeguards in place to ensure that a significant proportion of its borrowing does not mature for repayment at any one time in the future to reduce the financial impact of re-borrowing at a time of unfavourable interest rates. The Council's policy is to ensure that no more than 25% of loans are due to mature within any financial year and 50% within any rolling five-year period through a combination of careful planning of new loans taken out and, where it is economic to do so, making early repayments.

The following table shows the maturity analysis of financial liabilities.

31 March 2007 £'000		31 March 2008 £'000
36,813	Less than one year	34,216
333	Between one and two years	343
611	Between two and five years	406
182,311	More than five years	189,495
220,068		224,460

All trade and other payables are due to be paid in less than one year.

(ii) Market Risk

Interest Rate Risk - Changes in market interest rates influence the interest payable on financial liabilities and the interest receivable on financial assets. For example, an increase in interest rates would mean an increase in the interest charged on borrowing at variable rates and an increased cost to the taxpayer. An increase in interest rates would also mean an increase in the interest income received on lending at variable rates and a reduced cost to the taxpayer.

Changes in market rates also affect the notional fair value of financial assets and liabilities. For example, an increase in interest rates would reduce the fair value of both lending and borrowing at fixed rates. Changes in the fair value of lending and borrowing do not impact upon the taxpayer.

The Council has a number of strategies for managing interest rate risk. The Council has a policy to limit its exposure to variable rate borrowing to a maximum of 25% of its total borrowings. During periods of falling interest rates and where it is economically advantageous to do so, the Council will consider the repayment and restructuring of fixed interest rate debt. The Council takes daily advice from its specialist treasury advisers and actively monitors changes in interest rates to inform decisions on the lending of surplus funds, new borrowings and the restructure of existing borrowings. The risk of loss remains fully with the Council, however in the longer term the Scottish Government reviews the grant support it provides for local authority borrowing every three years. At this review stage the

Scottish Government may, at its discretion, provide more or less support to recognise underlying changes in interest rates.

As the Council is not party to any variable rate borrowing or lending there is no impact to taxpayers and rent payers of changes in interest rates. The following table shows the financial effect on fair values if rates had been 1% higher at 31 March 2008, with all other variables held constant.

	31 March 2008 £'000
Decrease in fair value of fixed rate lending (disclosed in STRGL)	83
Decrease in fair value of fixed rate borrowing (no impact on Income and Expenditure Account or STRGL)	27,913

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Price Risk - The Council does not generally invest in equity shares but does have shareholdings to the value of £0.040m in Freeport (Scotland) Ltd. This shareholding exists to allow the Council voting rights within the company and as these shares are not traded, they are not classified as available for sale. Accordingly, the Council has no exposure to gains or losses arising from movements in the price of the shares.

Foreign Exchange Risk - The Council holds one bank account denominated in Euros for the purposes of an economic development project and is therefore exposed to gains or losses arising from movements in exchange rates.

At 31 March 2008 the value of this financial asset was €0.318m which was translated at the effective exchange rate on that day of £0.796 and is carried in the Balance Sheet at £0.254m. Had the translation taken place using the effective exchange rate on 1 April 2007 the financial asset would have been carried in the Balance Sheet at £0.216m.

23. Long Term Investments

31 March 2007 £'000		31 March 2008 £'000
40	Freeport (Scotland) Ltd (74,000 ordinary shares)	40
100	West of Scotland Loans Fund Limited	100
1	SC Enterprise Fund	1
141		141

24. Long Term Debtors

31 March 2007 £'000		31 March 2008 £'000
2	Local Government (D & F) Act 1964	0
0	PPP residual Value	120
65	Others	64
67		184

PPP residual value – It is estimated that at the end of the schools PPP contract the fair value of the premises transferring to the Council will be £176.617m. PPP accounting arrangements require this sum to be recognised in the Council's balance sheet over the life of the contract, initially as long term debtor with the full value building up over the period of the agreement and transferring to fixed assets at the end of the contract.

Others - The reduction in 'others' reflects home loan repayments made during 2007/08.

25. Deferred Premium on the Early Repayment of Debt

In accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2007: A Statement of Recommended Practice (the SORP), all premiums and discounts on the early repayment of debt are treated as unattached to existing loans. This allows the premiums and discounts to be held in a new Financial Instruments Adjustment Account within the balance sheet and charged to the General Fund as originally planned.

26. Debtors and Creditors

Debtors - the Statement of Accounts includes debtors totalling £43.471m at 31 March 2008 and provisions against these debtors totalling £24.638m, analysed as follows:

31 March 2007 Net Debtor £'000		Gross Debtor £'000	Bad Debt Provision £'000	31 March 2008 Net Debtor £'000
2,239	Council Tax/ Community Charge	23,058	20,629	2,429
16	Department of Works & Pensions	1,658	0	1,658
686	Non-Domestic Rates	2,142	1,593	549
334	Council House Rents	950	563	387
2,105	Her Majesty's Revenue and Customs	1,667	0	1,667
10,553	Sundry Debtors	13,996	1,853	12,143
15,933	Total	43,471	24,638	18,833

Creditors - the Statement of Accounts includes creditors totalling £30.673m at 31 March 2008, analysed as follows:

31 March 2007 £'000		31 March 2008 £'000
1,321	Scottish Government	1,963
3,244	Her Majesty's Revenue and Customs	3,245
1,173	Other Public Bodies	2,334
26,497	Trade and Other Creditors	23,131
32,235	Total	30,673

27. Provisions

Total provisions for liabilities amount to £5.821m, representing provisions made in respect of equal pay claims outstanding at 31 March 2008, provision for the cost of implementing single status with effect from 1 October 2007, provision for the works compensation payment related to the Schools PPP project delay and insurance costs in respect of South Ayrshire Council's share of the former Strathclyde Regional Council's insurance claims.

28. Due to Common Good/ Sundry Accounts

The net creditor shown in the balance sheet of £5.018m 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 40 to 42 of the financial statements.

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

31 March 2007 £'000		31 March 2008 £'000
	Analysis of loan by type	
312	Covenant	172
143,872	Public Works Loan Board	145,868
38,985	Market loans	44,173
86	European Investment Bank	31
183,255	Total outstanding	190,244
	Analysis of loan by maturity	
333	1 to 2 years	343
611	2 to 5 years	406
17,777	5 to 10 years	20,613
51,510	10 to 25 years	37,009
113,024	25+ years	131,873
183,255	Total outstanding	190,244

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 eighteenth capital payment made in 2007/08. The sports halls are included within fixed assets in the balance sheet and the outstanding covenant scheme liability of £0.312m is represented in the balance sheet as short term borrowing of £0.140m and long-term borrowing of £0.172m.

30. Reserves

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

	Opening balance at 1 April 2007 £'000	Gains/(losses) on the fund £'000	Net amount transferred between reserves £'000	Closing Balance at 31 March 2008 £'000
Revaluation reserve	0	4,335	(320)	4,015
Capital adjustment account	293,105	(19,959)	8,804	281,950
Financial instruments adjustment account	(16,215)	293	0	(15,922)
Capital receipts reserve	2,925	9,485	(10,257)	2,153
Repair & renewal fund	123	7	0	130
Capital fund	1,826	107	1,773	3,706
Insurance fund	632	0	(207)	425
Pension reserve	(40,941)	42,900	0	1,959
General fund balance	(507)	3,043	207	2,743
HRA balance	17,735	1,956	0	19,691
Total	258,683	42,167	0	300,850

Revaluation Reserve and Capital Adjustment Account

The 2006 Statement of Recommended Practice introduced the requirement to maintain a Revaluation Reserve and Capital Adjustment Account with effect from 1 April 2007, replacing the Fixed Asset Restatement Account (FARA) and Capital Financing Account (CFA). These requirements have been fully consolidated in to the 2007 Statement of Recommended Practice. The closing balances on both the FARA and the CFA have been consolidated into the opening balance on the new Capital Adjustment Account. The purpose of the new reserves is as follows:

- **Revaluation Reserve** - Store of gains on revaluation of fixed assets not yet realised through sales.
- **Capital Adjustment Account** – Store of capital resources set aside to meet past expenditure.

Financial Instruments Adjustment Account

The 2007 Statement of Recommended practice introduced the requirement to maintain a Financial Instruments Adjustment Account to allow for differences in statutory requirements and proper accounting practices for borrowings and investments. The opening balance on the fund of £16.215m was transferred from Deferred Premium on the early repayment of debt held in the 2006/07 Balance Sheet, as detailed in note 25. £0.293m was released to the General Fund during 2007/08.

Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds of fixed asset sales and other contributions available to finance capital investment. The balance on the reserve at 1 April 2007 was £2.925m, £9.485m was added to the reserve during 2007/08, £8.484m was applied to fund capital investment and £1.773m transferred to the Capital Fund.

Repair and Renewal Fund

The balance on the Repair and Renewal Fund at 1 April 2007 was £0.123m. Interest of £0.007m was applied to the fund during 2007/08 resulting in a balance at 31 March 2008 of £0.130m. There are no commitments against this balance for financial year 2008/09.

Insurance Fund

The balance on the Insurance Fund at 1 April 2007 was £0.632m. During 2007/08 a review of the fund was undertaken where it was ascertained that a balance of £0.425m should be maintained in the fund to meet the cost of any uninsured losses occurring in the year. £0.207m was transferred to the General Fund at the end of 2007/08 to reduce the level of the Fund to the required amount.

Pension Reserve

The Pension Reserve is a balancing account which allows the inclusion of the Pension asset in the balance sheet as detailed in note 32.

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 2007 was £1.826m. Capital receipts during 2007/08 of £1.773m were invested in the fund and interest of £0.107m was applied, resulting in a balance at 31 March 2008 of £3.706m. 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 2008/09 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 surplus of £2.743m needs to be considered alongside the Council's revenue budget for 2008/09 and the strategy for financing equal pay costs, severance payments and planned expenditure during 2008/09.

Housing Fund Balance

The accumulated Housing Revenue Account surplus at 31 March 2008 is £19.691m. As explained in the Assistant Chief Executive's Explanatory Foreword on pages 1 to 4 of the financial statements, £12.329m has been set-aside for specific purposes. Options for the use of the remaining £7.362m will be considered as part of the annual review of the HRA 30 year business plan during 2008/09.

31. 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 £2.599m have been earmarked by departments to be spent in 2008/09, of which £0.238m relates to schools.

32. 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 2007/08 was set at 270%. During 2007/08 the Council made employers' contributions of £8.991m (2006/07 £8.658m). The increase in contributions arises mainly from the increase in levels from 260% to 270%. In accordance with Financial Reporting Standard 17 "Retirement Benefits" (FRS17), the £8.991m contribution meets the obligation on the Council for the year to 31 March 2008.

The employers' 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 2008. The employers' contribution will increase to 280% in 2008/09.

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

2006/07 £'000		2007/08 £'000
	Amount charged to Net Cost of Services	
13,456	Current service costs	11,743
(4,488)	Past service costs	1,173
2,112	Curtailment and settlements	2,720
11,080		15,636
	Amount credited to Net Operating Expenditure	
(24,577)	Expected return on employers assets	(27,799)
21,467	Interest on pension liabilities	23,399
(3,110)		(4,400)
7,970	Net Income and Expenditure Account Cost	11,236

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

2006/07 £'000		2007/08 £'000
297	Actual return less expected return on pension scheme assets	(39,603)
925	Experience gains and losses arising on the scheme liabilities	(849)
31,995	Changes in assumptions underlying the present value of the scheme liabilities	82,658
33,217	Actuarial gain/ (loss) in pension plan	42,206
0	Increase/ (decrease) in irrecoverable surplus from membership fall and other factors	0
33,217	Actuarial gain/ (loss) recognised in STRGL	42,206

(iii) Movement in Surplus/ Deficit during the Year

2006/07 £'000		2007/08 £'000
(77,271)	Surplus/ (deficit) at beginning of the year	(40,941)
(13,456)	Current service cost	(11,743)
9,588	Employer contributions	10,108
1,495	Contribution in respect of unfunded benefits	1,822
4,488	Past service costs	(1,173)
(2,112)	Impact of settlements and curtailments	(2,720)
3,110	Net return on assets	4,400
33,217	Actuarial gains/ (losses)	42,206
(40,941)	Surplus/ (deficit) at end of year	1,959

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

31 March 2007 £'000		31 March 2008 £'000
284,799	Equity investments	276,822
47,574	Bonds	54,887
38,697	Property	37,522
16,988	Cash	12,061
388,058	Share of assets	381,292
(407,716)	Scheme liabilities	(357,785)
(21,283)	Unfunded liabilities	(21,548)
(428,999)	Share of estimated liabilities	(379,333)
(40,941)	Net assets/ (liabilities) in Strathclyde Pension Fund	1,959

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 valuations are as at 31 March 2008, and are provided by Hymans Robertson, the independent actuaries to Glasgow City Council Fund. The main assumptions used in the calculations are:

31 March 2007 City Fund		31 March 2008 City Fund
3.2%	Rate of inflation	3.6%
4.7%	Rate of increase in salaries	5.1%
3.2%	Rate of increase in pensions	3.6%
5.4%	Rate for discounting scheme liabilities	6.9%

The Hymans Robertson actuarial valuation at 31 March 2008 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.

(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.

<i>Pension Reserve</i>	2007/08 £'000	2006/07 £'000	2005/06 £'000	2004/05 £'000	2003/04 £'000
Difference between the expected and actual return on assets <i>Percentage of assets</i>	(39,603) <i>(10.4%)</i>	297 <i>0.1%</i>	56,605 <i>15.8%</i>	9,305 <i>3.4%</i>	35,644 <i>14.4%</i>
Experience gains/ (losses) on liabilities <i>Percentage of the total present value of liabilities</i>	(849) <i>(0.2%)</i>	925 <i>0.2%</i>	8,019 <i>1.8%</i>	(847) <i>(0.2%)</i>	250 <i>0.1%</i>
Actuarial gains and losses recognised in movement in reserves <i>Percentage of the total present value of liabilities</i>	42,206 <i>11.1%</i>	33,217 <i>7.7%</i>	13,663 <i>3.1%</i>	(58,524) <i>(16.1%)</i>	35,894 <i>13.0%</i>

- Scottish Teachers' Pension Scheme** – the teachers' pension scheme is administered directly by the Scottish Government. 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 Government. During 2007/08 the employer's contribution was set at 13.5% of the employees' contribution rate. The Council paid £5.554m (2006/07 £4.908m) for employer's contributions to the Scottish Executive.

33. 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*

2006/07 £'000			2007/08 £'000
11,416	General Fund (surplus)/ deficit	5,018	
(9,681)	Net additional amount required by statute and non-statutory proper practice to be credited to the General Fund Balance for the year	(8,268)	
1,735	(Increase)/Decrease in the General Fund balance for the year		(3,250)
2,599	Housing Revenue Account (surplus)/ deficit	2,089	
(7,674)	Net additional amount required by statute and non-statutory proper practice to be credited to the HRA Balance for the year	(4,045)	
(5,075)	Increase in the HRA balance for the year		(1,956)
(3,340)	Net (increase)/ decrease in the General Fund and HRA balance for the year		(5,206)
	Adjust surplus for items accounted for elsewhere in cash flow statement:		
(8,836)	Loans fund interest	(8,618)	
(2,596)	Loans fund principal	(2,717)	
0	Capital grant received	1,991	
0	Capital financed from current revenue	(3,104)	
(11,432)			(12,448)
	Adjust surplus for internal items:		
(1,225)	Contributions to funds	(1,924)	
397	Use of funds	10,936	
0	Other internal items	(3,040)	
(828)			5,972
	Adjust surplus for movements in working capital		
(1,799)	Increase/ (decrease) in debtors	2,792	
(59)	Increase/ (decrease) in stock and work in progress	26	
(4)	Increase/ (decrease) in loans to other parties	(67)	
2,699	(Increase)/ decrease in sundry creditors	(1,864)	
645	(Increase)/ decrease in other creditors	1,064	
1,482			1,951
(14,118)	Net cash outflow/ (inflow) from revenue activities		(9,731)

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

	Balance at 1 April 2007 £'000	2007/08 Movement £'000	Balance at 31 March 2008 £'000
Cash on hand	(42)	42	0
Overdrafts	4,287	(1,077)	3,210
(Increase)/ decrease in cash	4,245	(1,035)	3,210
Debt due within 1 year	333	0	333
Debt due after 1 year	182,943	4,022	186,965
Covenant scheme	312	(140)	172
Increase/ (decrease) in debt	183,588	3,882	187,470
Short term investments	(39,575)	(6,625)	(46,200)
(Increase)/ decrease in liquid resources	(39,575)	(6,625)	(46,200)
Movement in Net Debt	148,258	(3,778)	144,480

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

	Balance at 1 April 2007 £'000	2007/08 Movement £'000	Balance at 31 March 2008 £'000
Management of Liquid Resources			
Short term investments	39,575	6,625	46,200
Management of Financing			
Short-term borrowing	333	0	333
Covenant Loans	312	(140)	172
Local Bonds/EIB Loans	39,071	4,161	43,232
PWLB Loans	143,872	(139)	143,733
	183,588	3,882	187,470

(iv) Analysis of Other Government Grants

2006/07 £'000		2007/08 £'000
	Education, Culture and Lifelong Learning	
3,544	School fund	3,404
999	Additional resources for schools	0
672	New teachers	1,158
661	Probationer teachers	771
652	Hungry for Success	487
256	Additional support staff	387
642	New community schools	658
472	Support for teachers	316
538	Inclusion	538
396	New Opportunities funding	614
437	National grid for learning	109
395	Determined to succeed	100
298	Continuous professional development	298
292	Study support	292
259	Additional support for learning	259
253	Alternatives to exclusion	253
222	Discipline Task Group	222
163	In service training	154
171	New Futures Fund Successor Fund	93
0	Early years Childcare	165
149	Curriculum for Excellence	155
133	Workforce expansion	130
132	Supporting parents	184
117	Job sizing – teachers	117
85	Language learning and teaching	87
11	Assessment for learning	9
63	Free fruit for schools	63
0	Chartered Teachers programme	52
0	School of Ambition	63
	Development, Safety and Regulation	
4,873	Local roads	176
1,671	Strategic Waste Fund	899
143	Anti-social behaviour noise unit	70
0	Rural public transport	
	Social Work, Housing and Health	
1,347	Criminal justice management	1,207
1,161	Changing Children's Services Fund	590
8,396	Supporting People	7,976
565	Homeless strategy	674
301	Mental illness	301
0	Telecare	157
158	Fostering & adoption	130
116	Social work training	116
44	Registered social Landlords	62
43	Fast track children's hearings	0
	Chief Executive's	
13,636	Rent rebates benefit subsidy	13,808
7,775	Council tax benefit subsidy	7,966
552	Council tax benefit administration	583
552	Rent rebate administration	583
78	Discretionary Housing Grant	73
41	Fraud incentive subsidy	0
	Other	
3,173	Sundry Grants	380
	Capital grants	
0	Additional capital grant	1,108
0	Tackling the school run	164
187	CWSS	199
30	20mph	182
69	Contaminated Land	338
56,923	Total	48,880

HRA Income and Expenditure Account

2006/07 £'000		2007/08 £'000
	Income	
(19,844)	Dwelling rents	(20,361)
(1,185)	Non dwelling rents	(1,327)
(402)	Housing Support Grant	0
(106)	Housing Estate Regeneration Fund grant	(157)
(288)	Other income	(281)
(21,825)	Total Income	(22,126)
	Expenditure	
9,059	Repairs and maintenance	9,829
4,847	Supervision and management	5,082
7,367	Depreciation and impairment of fixed assets	7,692
764	Other expenditure	787
132	Increase in bad debt provision	117
22,169	Total Expenditure	23,507
344	Net Cost of HRA Services as included in the Council Income and Expenditure Account	1,381
173	HRA share of Corporate and Democratic Core	212
517	Net Cost of HRA Services	1,593
0	(Gain) or Loss on disposal of fixed assets	(927)
2,937	Interest payable and similar charges	2,788
145	Amortisation of premiums and discounts	132
(901)	Interest and investment income	(1,343)
(99)	Pension interest cost and expected return on pension assets	(154)
2,599	(Surplus) or deficit for the year on HRA services	2,089

Statement of Movement on the HRA Balance

2006/07 £'000		2007/08 £'000
2,599	(Surplus) or deficit for the year on the HRA Income and Expenditure Account	2,089
	Additional amounts required by statute and non-statutory proper practice to be taken into account when determining the increase or decrease in the HGRA balance	
73	Difference between any item of income and expenditure determined in accordance with the SORP and determined in accordance with statutory requirements	285
0	Gain or loss on sale of HRA fixed assets	927
99	HRA share of contributions to or from the Pension Reserve	24
0	Capital expenditure funded by the Housing Revenue Account	3,104
(7,846)	Transfer to or from the Capital Adjustment Account	(8,385)
(5,075)	(Increase) or decrease in the Housing Revenue Account Balance	(1,956)
(12,660)	Housing Revenue Account surplus brought forward	(17,735)
(17,735)	Housing Revenue Account surplus carried forward	(19,691)

Notes to the Housing Revenue Account

1. A provision of £0.563m is included in the balance sheet for doubtful debts on housing rents.
2. At 31 March 2008, the Council held various types of accommodation and had the following number and types of houses.

31 March 2007 Number of Houses	Type of accommodation	31 March 2008 Number of houses
2,513	1 and 2 apartment	2,502
3,685	3 apartment	3,630
2,108	4 apartment	2,074
174	5 or more apartment	174
8,480	Total	8,380

31 March 2007 Number of Houses	By area	31 March 2008 Number of houses
4,861	Ayr	4,812
1,051	Troon	1,035
747	Prestwick	737
795	Maybole	785
1,026	Girvan	1,011
8,480	Total	8,380

3. At 31 March 2008, rent arrears amounted to £0.767m, being 3.5% of gross rent collectable (2006/07 £0.700m, being 3.3% of gross rent collectable).
4. The surplus for the year of £1.956m, when added to the surplus brought forward from 2006/07 of £17.735m, results in an accumulated surplus of £19.691m at 31 March 2008. Members have already agreed that £0.550m should be held in reserve for weather emergencies and £11.779m should be used to fund capital and revenue expenditure in future years. This leaves an uncommitted revenue surplus of £7.362m, options for the use of which will be considered as part of a review of the HRA 30 year business plan during 2008/09.
5. The rental income lost due to void properties amounted to £0.334m in 2007/08 (2006/07 £0.428m).

Collection of Council Tax, Rates and Community Charge

Council Tax Income Account

2006/07 £'000		2007/08 £'000
58,465	Gross council tax levied	61,281
(1,707)	Deduct: Exemptions	(1,849)
(80)	Disabled relief	(86)
(5,173)	Discounts	(5,455)
51,505	Net Council tax	53,891
(7,840)	Deduct: Council tax benefits	(8,088)
7,818	Less government grants	8,090
21	Other items	15
(1,102)	Provision for bad debts	(1,152)
39	(Gain)/loss on benefits to be transferred to Miscellaneous Services	27
(111)	Grant on claimant error transferred to cost of collection	(124)
(112)	Council tax on second homes	0
50,218	In year Council tax income	52,659
299	Prior year adjustments	125
50,517	Transfer to General Fund	52,784

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:

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

Councils can vary the rate of council tax discount for unoccupied homes within their area in accordance with the Council Tax (Discount for Unoccupied Dwellings) (Scotland) Regulations 2004. South Ayrshire have agreed to grant a discount of 25% to second homes and long term empty properties from 1 September 2005, previously the discount awarded was 50%. The additional council tax income collected due to the reduced level of discount requires to be transferred to registered social landlords for the provision of new-build, affordable social housing in areas determined by the local authority.

Additional income of £0.642m is included within the general fund and earmarked for use by registered social landlords.

2. Calculation of the Council Tax Charge Base 2007/08

<i>Council tax band</i>	<i>Valuation band</i>								<i>Total</i>
	<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>	<i>E</i>	<i>F</i>	<i>G</i>	<i>H</i>	
Total number of properties	7,522	12,483	8,379	7,934	9,091	4,385	2,742	238	52,774
<i>Less</i> exemptions/ deductions	355	340	228	111	100	48	28	3	1,213
<i>Less</i> adjustment for single discount	974	1,286	801	633	603	222	113	7	4,639
<i>Less</i> adjustment for double discount	94	114	95	100	97	46	30	6	582
Effective number of properties	6,099	10,743	7,255	7,090	8,291	4,069	2,571	222	46,340
Band D equivalent factor (ratio)	6	7	8	9	11	13	15	18	
Band D equivalent number of properties	4,066	8,356	6,449	7,090	10,133	5,877	4,285	444	46,700
Class 17 & 24 Dwellings	0	0	0	17	0	0	0	0	17
Total	4,066	8,356	6,449	7,107	10,133	5,877	4,285	444	46,717
<i>Less</i> provision for non-collection 3 per cent									1,168
Council tax base 2007/08 (equivalent to a Band D Council tax of £1,153.95)									45,549

3. Council Tax Properties and Council Tax Charges

<i>Valuation band</i>	<i>Number of chargeable properties</i>	<i>Total Council tax charge</i>
A	6,099	£769.30
B	10,743	£897.52
C	7,255	£1,025.73
D	7,107	£1,153.95
E	8,291	£1,410.38
F	4,069	£1,666.82
G	2,571	£1,923.25
H	222	£2,307.90
Total	46,357	

Non-Domestic Rate Income Account

2006/07 £'000		2007/08 £'000
42,254	Gross charge	41,715
(6,850)	Deduct: Reliefs & Remissions	(6,205)
(707)	Provision for bad debts	(710)
34,697	Net non-domestic rate income	34,800
589	Prior year adjustments	(588)
35,286	Total non-domestic rate income	34,212
	National non-domestic rate pool (NNDRP):	
41,489	NDRD Distributable	40,802
35,286	Contribution to NNDRP	34,212
6,203	Net contribution from NNDRP	6,590

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 2007/08**

<i>Commercial Subjects</i>	<i>Number</i>	<i>Rateable Value £'000</i>
Shops	1,381	32,455
Public Houses	122	2,859
Offices (Including Banks)	644	8,952
Hotels, Boarding Houses, etc	97	3,977
Industrial & Freight Transport subjects	848	17,123
Leisure, Entertainment, Caravans and Holiday sites	485	5,455
Garages and petrol stations	106	1,399
Cultural	27	318
Sporting subjects	145	427
Education and Training	77	6,720
Public Service Subjects	201	4,439
Communications (non-formula)	5	119
Quarries, Mines, etc	9	356
Petrochemical	4	48
Religious	94	844
Health Medical	88	3,336
Other	175	883
Care Facilities	53	1,745
Advertising	48	72
Undertaking	30	2,966
Total all subjects	4,639	94,493

Rate levied 2007/08: 44.40p (rateable value greater than £29,000)
44.10p (rateable value less than or equal to £29,000)

Community Charge - Years prior to 31 March 1993

2006/07 £'000		2007/08 £'000
8	Arrears written off now recovered	7

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 2006/07 £'000		Ayr £'000	Troon £'000	Prestwick £'000	Maybole £'000	Girvan £'000	Total 2007/08 £'000
	Expenditure						
244	Property costs	475	0	0	0	8	483
416	Donations & contributions	245	0	15	0	0	260
45	Other expenditure	61	0	1	0	0	62
705		781	0	16	0	8	805
	Income						
545	Rents	495	0	19	0	0	514
240	Interest on loans	230	1	4	0	0	235
0	Other Income	8	0	0	0	8	16
785		733	1	23	0	8	765
80	Surplus/(deficit) for year	(48)	1	7	0	0	(40)
652	Surplus brought forward	367	30	331	1	3	732
732	Accumulated surplus	319	31	338	1	3	692

Balance Sheet as at 31 March 2008

2007 £'000		2008 £'000
13,745	Fixed assets	13,763
	Current assets	
1	Loans	0
3	Stock	2
0	Debtors and Prepayments	3
4,720	Loans Fund investment	3,429
4,724		3,434
18,469	Total assets	17,197
	Less: Current liabilities	
5	Creditors	26
18,464	Total assets less liabilities	17,171
	Financed by:	
732	Revenue Reserve	692
4,194	Usable Capital Receipts Reserve	2,924
13,538	Revaluation Reserve	13,555
18,464	Total net worth	17,171

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 2007/08 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 2007	3,568	10,111	66	13,745
Revaluations	0	7	0	7
Transfers	10	1	0	11
Gross book value as at 31 March 2008	3,578	10,119	66	13,763

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

Of the 101 trusts held, 11 are registered with the Office of the Scottish Charity Regulator (OSCR) and have charitable status. These charitable Trusts are separately identified in the table below.

2006/07 Total £'000	Revenue accounts	Registered Charitable Trusts £'000	Other Trusts £'000	2007/08 Total £'000
1,466	Balance at 1 April 2007	858	688	1,546
106	Income for year	48	32	80
(26)	Expenditure during year	(58)	(48)	(106)
1,546	Balance at 31 March 2008	848	672	1,520

2007 Total £'000	Balance Sheet as at 31 March	Registered Charitable Trusts £'000	Other Trusts £'000	2008 Total £'000
	Assets			
193	Investments	139	51	190
1,353	Current assets – temporary deposit in Loans Fund	709	621	1,330
1,546	Total assets	848	672	1,520
	Reserves			
1,059	Revenue	569	525	1,094
487	Capital	279	147	426
1,546	Total reserves	848	672	1,520

Other Funds

The Council maintains additional funds in respect of the Sports Council, Provost's Fund and Development of Active Regional & Sustainable Tourism (DART), as shown in the table below:

2007 Total £'000		2008 Total £'000
	Assets	
9	Balance due by Loans Fund	259
3	Investments	3
12	Total assets	262
	Reserves	
12	Revenue	262
12	Total reserves	262

Group Accounts

Introduction

The Code of Practice on Local Authority Accounting in the United Kingdom 2007: A Statement of Recommended Practice (2007 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 48 to 50. The subsidiary and associate companies share a common accounting period ending 31 March 2008.

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
- The Board of Strathclyde Fire & Rescue
- Strathclyde Partnership for Transport
- 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 two 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.

The inclusion of the subsidiary and associate companies in the group Balance Sheet reduces both the reserves and net assets by £131.387m, representing the Council's share of the net assets or liabilities of the entities.

Group Income and Expenditure Account
Year ended 31 March 2008

<i>2006/07 net expenditure £'000</i>	<i>Service</i>	<i>2007/08 gross expenditure £'000</i>	<i>2007/08 gross income £'000</i>	<i>2007/08 net expenditure £'000</i>
94,781	Education Services	107,247	14,380	92,867
344	Housing Revenue Account	23,507	22,126	1,381
2,314	General Fund Housing	32,783	30,854	1,929
51,764	Social Work Services	76,714	24,106	52,608
11,589	Culture and Related Services	20,969	9,473	11,496
11,398	Environmental Services	17,747	6,563	11,184
10,311	Roads and Transport Services	18,253	7,242	11,011
2,099	Planning and Development Services	7,616	5,584	2,032
2,770	Corporate and Democratic Core	3,784	212	3,572
(655)	Non Distributed Costs	4,870	225	4,645
4,212	Other Central Services to the Public	21,947	18,514	3,433
1,272	Exceptional item - equal pay compensation	2,880	0	2,880
17,727	Precepts and levies	17,851	0	17,851
428	Common Good fund	764	243	521
1,149	Share of operating results of associates	1,848	59	1,789
211,503	Net Cost of Services	358,780	139,581	219,199
(26)	(Profit) or loss on disposal of assets			(967)
(155)	Trading Services			(164)
10,582	Interest payable and similar charges			9,767
610	Share of interest payable of associates			604
(1,323)	Interest and investment Income			(2,014)
(311)	Share of interest and investment income of associates			(467)
(3,110)	Pension interest cost and expected return on pension assets			(4,400)
9,145	Share of pension interest cost and expected return on pension assets of associates			9,887
226,915	Net Operating Expenditure			231,445
112,998	Revenue Support Grant			120,939
41,489	Non Domestic Rates redistribution			40,802
50,525	Council Tax and Community Charge income			52,791
205,012	Total income from government grants and local taxation			214,532
21,903	Group Income and Expenditure (surplus)/ deficit for year			16,913

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

2006/07 £'000		2007/08 £'000
11,416	(Surplus)/ deficit for the year on the Council's Income and Expenditure Account	5,018
	Surplus/ deficit in the Group Income and expenditure account attributable to group entities (adjusted for intra-group transactions):	
(80)	Subsidiaries	40
10,567	Associates	11,855
21,903	(Surplus)/ deficit for the year on the Group Income and Expenditure Account	16,913

Statement of Total Recognised Gains and Losses

2006/07 £'000		2007/08 £'000
21,903	(Surplus)/ deficit for the year on the Group Income and Expenditure Account	16,913
4,076	(Surplus) or deficit arising on revaluation of fixed assets	(7,010)
(49,006)	Actuarial (gains) or losses on pension fund assets and liabilities	(80,763)
(960)	Any other (gains) or losses	15,142
(23,987)	Total recognised (gains) or losses for the year	(55,718)

Group Balance Sheet as at 31 March 2008

31 March 2007 £'000			31 March 2008 £'000
	Fixed assets		
0	Intangible fixed assets	426	
	Tangible fixed assets:		
	Operational assets:		
192,749	Council dwellings	191,068	
242,419	Other land and buildings	239,004	
2,086	Vehicles, plant etc	2,757	
39,641	Infrastructure assets	40,965	
989	Community assets	1,011	
	Non-operational assets:		
17,066	Investment properties	17,758	
0	Assets under construction	392	
2,833	Surplus assets held for disposal	1,850	
497,783	Total fixed assets		495,231
141	Long term investments		141
68	Long term debtors		184
16,215	Deferred premiums on the early repayment of debt		0
10,944	Share of investment in associates		13,612
0	Asset related to defined benefit pension scheme		1,959
525,151	Total long-term assets		511,127
	Current assets:		
483	Stocks and work in progress	510	
39,011	Debtors	43,474	
(23,078)	Provision for bad and doubtful debts	(24,638)	
39,575	Short term investments	46,902	66,248
581,142	Total assets		577,375
	Current liabilities:		
(333)	Borrowing repayable on demand or within 12 months	(333)	
(32,240)	Creditors	(30,699)	
(4,245)	Bank overdraft	(3,210)	
(1,362)	Due to sundry accounts	(1,589)	(35,831)
542,962	Total assets less current liabilities		541,544
	Long term liabilities		
(183,255)	Borrowing repayable within a period in excess of 12 months		(190,244)
(2,395)	Provision for liabilities		(5,821)
(12,065)	Government grant deferred		(13,846)
(1,352)	Share of long term liabilities of associates		0
(230,150)	Liability related to defined benefit pension scheme		(162,170)
113,745	Total assets less liabilities		169,463
	Financed by:		
0	Revaluation reserve		21,959
311,869	Capital adjustment account		287,238
0	Financial instruments adjustment account		(15,922)
7,555	Capital receipts reserve		5,592
(230,150)	Pension reserves		(160,211)
4,662	Group reserves		4,112
123	Repair & renewal fund		130
632	Insurance fund		425
1,826	Capital fund		3,706
(507)	General fund balance		2,743
17,735	Housing Revenue Account balance		19,691
113,745	Total net worth		169,463

The unaudited accounts were issued on 30 June 2008 and the audited accounts were authorised for issue on 25 September 2008.

Eileen Howat

Eileen Howat BSc, CPFA
Assistant Chief Executive

25 September 2008

Group Cash Flow Statement

2006/07 £'000			2007/08 £'000
(14,203)	Net cash outflow/ (inflow) from revenue activities		(9,714)
	Returns on investments and servicing of finance		
10,577	Interest paid	10,595	
(1,981)	Interest received	(2,212)	
8,596	Net cash outflow/ (inflow) from returns on investments and servicing of finance		8,383
	Capital expenditure and financial investment		
	Cash outflows:		
14,426	Purchase of fixed assets	13,273	
1,391	Other capital cash payments	3,056	
15,817		16,329	
	Cash inflows:		
10,521	Capital cash receipts	15,735	
0	Capital grants	1,991	
10,521		17,726	
5,296	Net cash outflow/ (inflow) from capital activities		(1,397)
(311)	Net cash outflow/ (inflow) before financing		(2,728)
	Management of liquid resources		
2,855	(Decrease)/ increase in investments	5,334	
2,855			5,334
	Financing		
	Cash outflows		
3,498	Repayments of amounts borrowed	4,021	
		4,021	
	Cash inflows		
4,866	New long term loans raised	139	
		139	
(1,368)	Net cash outflow/ (inflow) from financing		(3,882)
1,176	(Increase)/ decrease in cash		(1,276)

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 14 to 34. The following notes provide additional information in relation to other combining entries.

1. Accounting Policies

The financial statements in the Group Accounts are prepared in accordance with the policies set out in the Statement of Accounting Policies on pages 5 to 9.

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, in terms of UK GAAP requirements, with those of the other group entities in 2007/08.

There were 3 prior year adjustments required to South Ayrshire Council's single entity accounts as detailed below:

- Changes required by 2007 SORP
- Asset review
- Impairment adjustment

Further detail on these adjustments can be found in note 1 on page 14, Notes to the Core Statements. All of the above adjustments have been fully incorporated in to the prior year comparators contained in the Group statements on pages 44 to 47.

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 44 to 47, the accounting regulations require specific disclosures about the combining entities and the nature of their business.

The Common Good Fund was inherited by South Ayrshire Council from Kyle & Carrick District Council following the 1996 local government re-organisation. The Fund comprises 5 distinct sub-funds, Ayr, Prestwick, Troon, Maybole and Girvan. The Council controls 100% of the fund and administers it for the interest and benefit of the people in the aforementioned areas. All expenditure is met from annual income or reserves. All required disclosures are detailed on pages 40 to 41 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 2007/08, South Ayrshire Council contributed £10.392m or 4.20% of the Board's estimated running costs. Its share of the year-end net liability of £119.120m (2006/07 £140.877m) 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.

The Board of Strathclyde Fire & Rescue 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 2007/08, South Ayrshire Council contributed £6.732m or 4.80% of the Board's estimated running costs. Its share of the year-end net liability of £33.698m (2006/07 £38.059m) is included in the Group Balance Sheet. Copies of Strathclyde Fire Service's accounts may be obtained from the Treasurer to the Board of Strathclyde Fire & Rescue, Bothwell Road, Hamilton ML03 OEA.

Strathclyde Partnership for Transport 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 Government 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 2007/08, South Ayrshire Council contributed £1.733m or 4.98% of the Board's estimated running costs. Its share of the year-end net asset of £3.086m (2006/07 £1.543m liability) is included in the Group Balance Sheet. Copies of Strathclyde Partnership for Transport accounts may be obtained from the Treasurer to Strathclyde Partnership for Transport, 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 2007/08, South Ayrshire Council contributed £0.189m or 6.21% of the Board's estimated running costs. Its share of the year-end net asset of £0.575m (2006/07 £0.616m) 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 Boards 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 2007/08, South Ayrshire Council contributed £0.727m or 32.98% of the Board's estimated running costs. Its share of the year-end net assets of £0.599m (2006/07 £0.242m) 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%.

2006/07 £'000	Council's Share (32.98%) of AVJB	2007/08 £'000
750	Gross income	792
(31)	Net operating expenditure	(21)
187	Fixed assets	176
95	Current assets	98
95	Liabilities due within one year	98
(58)	Liabilities due after one year	(423)
245	Capital and reserves	(599)

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 £131.387m, 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 reduces the net cash inflow position by £0.017m and reduces the net fund position for the year by £0.040m. The incorporation of the associate companies has no effect on the Group Cash Flow statement. A reconciliation of the surplus for the year of £5.166m to the net cash inflow from revenue activities of £9.714m is as follows:

2006/07 £'000			2007/08 £'000
1,735	(Increase)/ decrease in South Ayrshire Council General Fund balance for year	(3,250)	
(5,075)	(Increase)/ decrease in HRA balance for year	(1,956)	
(80)	(Increase)/ decrease in Common Good Fund balance for year	40	
(3,420)			(5,166)
3,562	Movement in current assets	2,819	
(2,062)	Movement in current liabilities	(888)	
(828)	Movement in fund balances	5,972	
(11,455)	Adjustment for non-cash transactions	(12,451)	
(10,783)			(4,548)
(14,203)	Net Cash outflow/ (inflow) from revenue activities		(9,714)

Statement of Responsibilities for the Statement of Accounts

The Authority'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 in accordance with proper practices as set out in the CIPFA/ LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the code of practice').

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
- complied with the Code of Practice.

The Assistant Chief Executive has also:

- kept proper accounting records which were up to date
- 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 2007/08 Statement of Accounts for South Ayrshire Council. The statement also covers the other bodies whose activities have been incorporated into the group accounts, as detailed on pages 43 to 49, 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

Eileen Howat BSc, CPFA
Assistant Chief Executive
25 September 2008

South Ayrshire Council - Local Code of Corporate Governance

Compliance Statement for South Ayrshire Council for 2007/08

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 fifth 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 43 to 50.

Background:

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

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

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

Assessment for 2007/08:

The exercise undertaken for this fifth assessment involved:

- (1) reviewing progress against the improvement actions identified at the end of 2006/07; and
- (2) re-appraising the departmental and corporate positions against the templates as at 31 March 2008

A summary of this assessment has been prepared for Members, which was discussed at the Leadership Panel Meeting on 3 July 2008.

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

This position reflects the fact that during 2007/08, a range of improvements have been achieved in relation to areas of previous shortfall, namely:

- Introduction of the Standards and Governance Panel (agreed May 2007)
- Introduction of Public Consultation Officer Network and agreement to adopt the National Standards for Community Engagement (agreed Sept 2007)
- Introduction of Chief Officer Performance Appraisal (agreed July 2007)

Improvement Actions for 2008/09:

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 2007/08:

Each of the directors and corporate lead officers has confirmed that their assessments of the Council's arrangements are correct as at the end of 2007/08.

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 its improvement plan for 2008/09.

Signed:  _____

Date: 25 September 2008

David Anderson, Chief Executive

Signed:  _____

Date: 25 September 2008

Hugh Hunter, Leader of the Council

Independent Auditor's Report

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 2008 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Statement of Total Recognised Gains and Losses, Balance Sheet and Cash-Flow Statement, the HRA Income and Expenditure Account, Statement of Movement on the HRA Balance, the Council Tax Income Account, the Non-Domestic Rate Income Account, Common Good and Sundry Accounts, the Group Accounts and the related notes and the Statement of Accounting Policies. 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 relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2007 - A Statement of Recommended Practice (the 2007 SORP) are set out in the Statement of Responsibilities for the financial statements.

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, in accordance with relevant legal and regulatory requirements and the 2007 SORP the financial position of the local authority and its group and its income and expenditure for the year, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

I also report to you if, in my opinion, the local government body 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 compliance with the SORP, and I report if, in my opinion, they do not. I am not required to consider whether these statements cover all risk and controls, or form an opinion on the effectiveness of the local government body'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 only the Explanatory Foreword. 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. My 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 most appropriate to the local authority's and its group 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 relevant legal and regulatory requirements and the 2007 SORP, the financial position of South Ayrshire Council and its group as at 31 March 2008 and its income and expenditure for the year then ended
- have been properly prepared in accordance with the Local Government (Scotland) Act 1973.



*Peter Tait CPFA
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25 September 2008