



# **PERTH & KINROSS COUNCIL**

## **ANNUAL ACCOUNTS**

**2017/18**

**UN-AUDITED**

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## MANAGEMENT COMMENTARY

### 1. Introduction

This publication contains the financial statements of Perth & Kinross Council and its group for the year ended 31 March 2018.

This management commentary outlines the key messages in relation to financial planning and performance for the year 2017/18 and how this has supported delivery of the Council's strategic objectives. This commentary also looks forward, outlining the future financial plans for the organisation and the challenges and risks which it will face as it strives to meet the needs of the people of Perth and Kinross.

A glossary of terms is set out from page 104.

### 2. Our Vision and Strategic Objectives

Perth and Kinross is situated in a central location in Scotland. It covers a geographical area of around 5,286 km<sup>2</sup>, and has an estimated population of 151,100. Over the past 10 years (2007-2017), the area has experienced a 7.1% increase in its population. During the same time period the Scottish population experienced an increase of 4.9%. The latest population projections over the next 25 years show an 8% increase compared to 5% across Scotland.

The Council's vision is to *create a confident, ambitious and fairer Perth and Kinross, for all those who live and work here*. Through its five strategic objectives, set out within the [Community Plan \(Local Outcomes Improvement Plan\) 2017-27](#) and [Corporate Plan 2018-2022](#), the Council aims to maximise the opportunities available to our citizens to achieve their potential. At the heart of the vision is a desire to see investment in early intervention and prevention focused on building success and reducing the costs of failure.

The five Strategic Objectives which support the delivery of the Council's vision are:

- Giving every child the best start in life
- Developing educated, responsible and informed citizens
- Promoting a prosperous, inclusive and sustainable economy
- Supporting people to lead independent, healthy and active lives
- Creating a safe and sustainable place for future generations

The Corporate Plan does not stand alone. Rather, it forms part of a robust strategic framework that connects the vision of the Council and its partners to the detailed plans that guide the delivery of our services.

This framework ensures that all [Council plans and strategies](#) are driven by and focused towards the delivery of a single shared vision for the area and our services connecting everything we do by a "golden thread" leading from the Community Plan, to individual Services' Business Management and Improvement Plans, through to day to day service delivery by our people.



The recommendations of the [Perth and Kinross Fairness Commission](#), which were endorsed by the Council in 2017, created a specific and collective focus on tackling the causes and consequences of poverty and inequality across the area and are still being progressed.

### 3. The Annual Accounts 2017/18

The Annual Accounts report the financial performance of the Council. Their main purpose is to demonstrate the stewardship of public funds which have been entrusted to it for the delivery of the Council's vision and strategic objectives. The requirements governing the format and content of the Council's Annual Accounts are contained in the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the 2017 Code). The 2017/18 Annual Accounts have been prepared in accordance with this Code.

### 4. The Financial Plan

To support the delivery of the strategic objectives during 2017/18, Perth & Kinross Council approved a balanced gross revenue budget of £434.156m for the General Fund (22 February 2017) and £28.451m for the Housing Revenue Account (25 January 2017). As part of its approach to financial planning, the Council approved its [Medium Term Financial Plan](#) on 4 October 2017 and [Final Revenue Budget for 2018/19 and Provisional Revenue Budgets for 2019/20 and 2020/21](#) on 22 February 2018. The [HRA Budget](#) was also updated on 24 January 2018.

Councils need to account for their spending and income in a way which complies with our legislative responsibilities. Most day to day spending and income is recorded within the General Fund and the costs and income in relation to the management of our housing stock are recorded within the Housing Revenue Account.

Key to the delivery of Council Services is investment in the assets which are used to deliver these services (including schools, houses and infrastructure) and the utilisation of capital funding to stimulate development and regeneration in local areas. In 2017/18 the Council budgeted for capital investment of £96.3m on General Fund activities and £28.2m in respect of the Housing Revenue Account. This expenditure is funded from prudential borrowing, government grants, external funding, capital receipts, revenue contributions and earmarked reserves. The Council have approved a 10 year Composite Capital Budget for 2018/19 to 2027/28 at its meeting on 20 June 2018.

## 5. Performance Management

The Council continues to embed a performance management culture throughout the organisation. It uses a wide range of comprehensive and diverse performance information to manage performance and target service improvements for the people of Perth and Kinross. This is supported by its performance management system which effectively analyses data, tracks progress of indicators and identifies actions to provide and communicate regular and robust performance information to Elected Members and managers. Benchmarking is also used to compare our performance with other organisations to support change and improvement.

Performance is also monitored against the strategic objectives on a regular basis at all levels of the Council and reported publicly via our [public performance reporting mechanisms](#). These include the Annual Public Performance Report; Service Annual and Six Month Performance Reports; online performance dashboards ('PK Performs') and the Council's evidence portal. By monitoring and reporting performance information in this way the Council is able to identify areas for improvement as well as celebrate key successes.

### *2017/18 Performance Summary*

The Council considered individual Service Annual Performance reports on 20 June 2018 and it is anticipated that the Council's Annual Performance Report will be considered on 3 October 2018. These reports provide comprehensive information on the Council's performance for 2017/18. The full range of performance information for 2017/18 can be accessed online at <http://www.pkc.gov.uk/pkperforms>. This includes the Council's Annual Performance Report, the online performance dashboard "PK Performs", Service level performance reports, benchmarking and links to further information. The website is updated with performance reports and data as it becomes available.

For 2017/18 the top performance outcomes are set out in the following table:

Objective	Outcome
<b>Giving every child the best start in life</b>	<ul style="list-style-type: none"> <li>The recent Joint Inspection of Services for children and young people in Perth and Kinross was overwhelmingly positive, including several excellent ratings, which are considered exemplary or sector leading. It concluded that "the life chances and wellbeing of children, young people and families in Perth and Kinross are improving as a result of strong leaders working collaboratively to deliver high quality and effective services".</li> <li>To support the expansion of funded Early Learning and Childcare from 600 to 1,140 hours, three new Strong Start 2 provisions have been established in Errol, Alyth and Tulloch, and 3 Partner Providers now have Strong Start 2 places available. The uptake of places has been steadily increasing, and 89% of two-year-olds with an additional eligibility have a nursery place. The expansion of early learning and childcare will support child development and closing the attainment gap, and is also supporting parents to return to work or study.</li> <li>Of the children entering primary school, 81% of children are meeting their developmental milestones, a 2% increase from 2016/17.</li> <li>Support for children with Additional Support Needs (ASN) has seen 17 additional Pupil Support Assistants recruited and jointly co-ordinated by the Education Additional Support Officer Early Years and the Early Years Officer to ensure consistency of support for children with ASN.</li> <li>Looked After Children and young people are increasingly being accommodated in community placements, with reducing numbers in residential placements and external fostering arrangements. There is a 50% increase in the number of children and young people in Kinship Care placements.</li> <li>There has been a steady reduction in the number of families presenting as homeless over the last three years from 337 in 2015/16 to 306 in 2017/18 which is a 9% reduction.</li> <li>Our Home First model has transformed the way we assist homeless people, enabling us to assist families straight into permanent accommodation avoiding the need for temporary accommodation. This approach has a positive impact on the outcomes for homeless people whilst delivering considerable savings of £676,000 for the Council.</li> </ul>

Objective	Outcome
<b>Developing educated, responsible and informed citizens</b>	<ul style="list-style-type: none"> <li>We have created 17 additional Early Childhood Practitioner posts to expand family learning and parental engagement in early year's settings, improving outcomes for children and young people.</li> <li>The first cohort of "Learn to Teach" candidates have successfully completed their first year as probationer teachers. As a result we will have 11 new teachers in our schools for next session, increasing our schools workforce.</li> <li>The Literacy and Numeracy of school leavers is increasing; 92% of leavers achieved level 4 Literacy and 88% achieved level 4 Numeracy; 77% of leavers achieved level 5 Literacy and 62% achieved level 5 Numeracy.</li> <li>The proportion of 16-19 year-olds participating in education, training or employment within Perth &amp; Kinross (93%) has remained higher than the national average (91%).</li> <li>In 2017/18, 94% of adults aged between 16-64 had qualifications above SCQF level 4, which places Perth and Kinross among the highest local authorities in Scotland and considerably higher than the national average (89%).</li> <li>Our successful housing education programme has increased our focus on wellbeing, early intervention and prevention. The new programme has already been piloted in a number of secondary schools across Perth and Kinross and the initial feedback has been extremely positive.</li> </ul>
Objective	Outcome
<b>Promoting a prosperous, sustainable and inclusive economy</b>	<ul style="list-style-type: none"> <li>Approval was given by Council on 20 November 2017 on the Proposed Perth &amp; Kinross Local Development Plan 2 (LDP2) and its supporting documents. The Proposed Plan represents a major stage in the Development Plan process, setting out the Council's view on the content of the final adopted LDP2. It supports the Council's vision for the future development of Perth and Kinross. The Plan also seeks to promote sustainable economic growth, by setting out a land use framework which builds upon the special qualities of the area which make it an attractive place to live and do business, whilst at the same time recognising the importance of 'place making' and protecting our most valuable assets.</li> <li>The Council have agreed to establish a Joint Committee with Angus, Dundee City and Fife Councils to progress and implement the Tay Cities Deal.</li> <li>The total number of visitors to Perth on the day of the Christmas Light event was estimated to be 80,000. It was estimated that the attendance in the city centre at the time of the lights switch on was 45,000 (40,000 in 2016). In addition, it was estimated that attendances at the other events as part of the Winter Festival in the pre-Christmas period, totalled 37,000 giving a combined total of 117,000. The total net additional economic impact generated was estimated to be approximately £1.8 million.</li> <li>We operated Free Festive Parking initiatives each Saturday in December in all Council operated car parks across the whole Perth and Kinross area. This was in addition to the "Free from Two" initiative which has been well received by residents, visitors and businesses over the last 5 years.</li> <li>We have had good success in attracting investment and jobs such as LTZ, Porsche, Sue Ryder, PS Administration, Bella &amp; Duke, Purvis Group, Persimmon Homes and Food and Drink Park – 5 British Retail Consortium standard food grade units complete with four leased.</li> <li>There was an increase of 24% since last year in the number of unemployed people participating in employability and skills programmes (947 out of 1,170 people who were claimants). As a result of the employability and skills programmes 594 people were assisted into work, an increase of 23% since last year.</li> <li>The number of residential and business premises with access to next generation broadband has increased over the last three years from 63% in 2015/16 to 83.9% in 2017/18 which is an increase of 20.9%.</li> <li>The Non-Domestic Rates collection rate has exceeded the target of 98%. The collection rate of 98.4% has been achieved in an ongoing difficult economic environment in which the Council has supported ratepayers through rating relief delivered under the Community Empowerment Act.</li> <li>The 2017/18 collection level for council tax has exceeded our target and expectations. It is anticipated that we will continue to be one of the top performing councils for council tax collection in 2017/18. Perth &amp; Kinross Council was the second highest performing authority in 2016/17.</li> </ul>

Objective	Outcome
<b>Supporting people to lead independent, healthy and active lives</b>	<ul style="list-style-type: none"> <li>During 2017/18 a total of 159 joint home safety visits were carried out by the Community Wardens and Scottish Fire &amp; Rescue. These visits are essential in helping people stay in their own homes whilst arrangements are put in place to get them access to the services they need.</li> <li>During 2017/18, a total of 159 new housing units were built for social housing. The Council built 42 of these units and bought back 41 properties from the open market.</li> <li>During 2017/18 we adapted 306 council houses and commissioned the Care and Repair Service which delivered 241 adaptations to other housing providers and private home owners.</li> <li>Energy Efficiency/Fuel Poverty - this continues to be one of our main improvement priorities ensuring we increase energy and fuel efficiency for households. From April 2017 to March 2018 there has been: 694 upgraded central heating systems have been installed; 526 houses have received new triple glazed windows and insulated exterior doors; 75 Council houses and 123 privately owned or privately rented houses have been fitted with externally applied wall insulation; 367 Council houses have had cavity wall insulation extractions and re-fills; 82 houses have been fitted with new gas main connections and 28 houses have been fitted with renewable energy measures such as air source heat pumps or solar panels.</li> <li>We have undertaken around 21,000 works orders with 90% of non-specialist work carried out by the Repairs Team, minimising the use of external contractors and maximising our own internal resources.</li> <li>We have continued to build on our previous successes with our Estate Based Initiatives (EBI) projects, which involve and empower customers within their communities to identify and prioritise environmental improvements benefiting the wider community. During 2017/18 over 50 projects were completed throughout Perth and Kinross with a spend of £200,000.</li> </ul>
Objective	Outcome
<b>Creating a safe and sustainable place for future generations</b>	<ul style="list-style-type: none"> <li>Of all household waste collected, 55.5% was recycled or composted, exceeding the national average. There has been a steady increase of 6.5% of waste recycled or composted since 2015/16.</li> <li>We have implemented the new Household Waste and Recycling Service, delivering savings of £220,000 each year.</li> <li>The glass recycling initiative 'Give your glass for CHAS' has successfully completed its second year. The chosen charity CHAS and Rachel House has worked with the Council to promote glass recycling in reducing the amount of glass sent to landfill. So far, in its second year CHAS received £2,017.</li> <li>There has been a reduction of £135,000 in energy consumption costs, despite a rise in energy prices. This is due to adopting a more pro-active role in controlling heating through new and upgraded building control systems; a reduction in building temperatures to a maximum of 19 degrees centigrade; more detailed analysis of recorded energy data and adopting energy reduction measures across the property estate and providing technical engineering support for new build and refurbishment projects.</li> <li>We have supported 22 communities to develop and maintain resilience plans.</li> <li>We secured a Scottish Government Timber Transport grant to upgrade 4 public roads in Highland Perthshire equating to £1,479,000. This work has been successfully completed following extensive community consultation.</li> <li>We have transformed the bus contracts process by implementing a dynamic purchasing system resulting in savings of £650,000 for school transport and £450,000 for local bus service contracts.</li> <li>Community Greenspace have supported a growing network of volunteer path groups across Perth and Kinross who are engaging in fundraising and carrying out practical work to keep paths in their local areas open.</li> </ul>

## 6. Financial Performance

Financial performance is part of the performance management culture with regular reporting to the Strategic Policy and Resources Committee. This section summarises the main elements for 2017/18.

Following publication in 2015 of CIPFA's Telling the Story Review of the Presentation of Local Authority Financial Statements, the 2016 Code changed the segmental reporting arrangements for the Comprehensive Income and Expenditure Statement and introduced the Expenditure and Funding Analysis. The Expenditure and Funding Analysis brings local authority performance reported on the basis of expenditure measured under proper accounting practices together with statutorily defined charges to the General Fund and Housing Revenue Account. Both the Comprehensive

Income and Expenditure Statement and the Expenditure and Funding Analysis include a segmental analysis which requires local authorities to report performance on the basis of how they are structured and how they operate, monitor and manage financial performance.

The 2017 Code requires that Authorities present the segmental analysis on the basis of the organisational structure under which they operate. Additionally, the 2017 Code requires that if a local authority changes the presentation or classification of items in its financial statements, the authority shall reclassify comparative amounts unless reclassification is impracticable. The 2016/17 figures have been restated as far as possible to reflect the utilities and maintenance costs of buildings within the Environment Service where the costs are monitored during the year and the 2017/18 Comprehensive Income and Expenditure Statement reflects this expenditure on that basis.

Although the Expenditure and Funding Analysis reflects the main variances for operational reporting the Council's Comprehensive Income and Expenditure reflects proper accounting practice. As a result there are some major variances between years for individual Services in the Comprehensive Income and Expenditure Statement. For example there is an increase in Education & Children's Service Expenditure of £27.2million between 2016/17 and 2017/18. The majority of this relates to the revaluation of the school estate in 2016/17 with Education & Children's Services credited with revaluation gains from movement in asset valuations of £27.5m. The Comprehensive Income and Expenditure Statement movements are not directly comparable with the movements in the Expenditure and Funding analysis.

#### **a) General Fund Revenue Expenditure for 2017/18**

In 2017/18 the Council incurred actual net expenditure on Services of £345.527m (which is the Cost of Services disclosed in the Comprehensive Income and Expenditure Statement on page 25). When Taxation and Non-Specific Grant Income, Financing and Investment Income and Expenditure and Other Operating Income and Expenditure are included there was a net Deficit on the Provision of Services of £24.296m.

The Expenditure and Funding Analysis information on pages 40 and 41 sets out adjustments between the net Deficit on the Provision of Services of £24.296m included in the Comprehensive Income and Expenditure Statement and the net expenditure (surplus) charged to the General Fund & HRA in the table below of £1.050m. The adjustments of £25.346m represent the difference between the net expenditure of the Council that is chargeable to taxation and rents and the figures reported in the Comprehensive Income and Expenditure Account. The surplus in the Expenditure and Funding Analysis is set out in the way in which the Council organises itself and manages and reports on financial performance.

The following table sets out adjustments to the most recently approved Revenue Budget (18 April 2018) to ensure that budget and actual figures are comparable. These include the Public Finance Initiative, external income and capital accounting adjustments. On a comparable basis the table shows a net under spend of £8.672m which is explained in further detail.



	Updated Budget Per Revenue Monitoring Report No.4 £ '000	Virements £ '000	Capital Accounting Adjustments £ '000	Revised Budget £ '000	Net Expend. Charged to the General Fund & HRA Balances per Expend. & Funding Analysis £ '000	Variance £ '000
<b>COUNCIL SERVICES</b>						
Education & Children's Services	159,399	526	(10,075)	149,850	145,099	(4,751)
Health & Social Care	47,053	190	0	47,243	47,231	(12)
Housing & Community Safety	19,279	(1,788)	540	18,031	16,511	(1,520)
The Environment Service	59,297	260	(5,843)	53,714	52,177	(1,537)
Corporate & Democratic Services	17,958	(1,136)	0	16,822	16,032	(790)
Culture Services	10,316	400	1	10,717	10,775	58
Housing Revenue Account	0	(6,961)	0	(6,961)	(7,161)	(200)
Valuation Joint Board	1,145	0	0	1,145	1,145	0
Non Distributed Costs	1,508	0	0	1,508	1,463	(45)
<b>NET COST OF SERVICES</b>	315,955	(8,509)	(15,377)	292,069	283,272	(8,797)
Taxation & Non-Specific Grant	(323,338)		0	(323,338)	(322,002)	1,336
Finance / Investment / Other	14,442	8,509	15,377	38,328	37,680	(648)
<b>Use of General Fund per Comprehensive Income &amp; Expenditure Statement</b>	7,059	0	0	7,059	(1,050)	(8,109)
Contributions from other Reserves	1,716	0	0	1,716	1,153	(563)
<b>Use of General Fund Balances</b>	<b>8,775</b>	<b>0</b>	<b>0</b>	<b>8,775</b>	<b>103</b>	<b>(8,672)</b>

The under spend on the net cost of Services of £8.797m is comparable with the revenue monitoring positions that have regularly been presented to the Strategic Policy and Resources Committee throughout the financial year. The following section provides a more detailed explanation of the final year end outturns.

**Education & Children's Services** delivered an under spend of **£4.8m**. The main reasons for this are -

- In respect of the Devolved School Management (DSM) Scheme there was a £1.2m under spend reflecting under spends on staff costs (teachers and support staff) (£0.6m), property costs (£0.2m) and supplies & services (educational materials) (£0.3m) and additional income (secondments / contributions towards activities / grants / school meals and school lets) (£0.1m). These resources will be carried forward by schools into 2018/19.
- In 2017/18 schools were awarded Pupil Equity Funding direct from the Scottish Government to contribute towards raising attainment (£1.6m). Expenditure from this Fund is incurred by academic year rather than financial year. On that basis the under spend of £0.7m has been earmarked within Reserves to be utilised by schools in 2018/19.
- In terms of non-DSM budgets there were further over and under spends as follows:
  - Staff under spends were delivered across the whole Service (£1.3m).
  - Savings on supplies and services due to under spends across the whole Service including insurance refunds, early learning & childcare and planned rephasing of a number of projects into 2018/19 (£0.9m).
  - Other over and under spends across on other areas of service delivery provided further net savings including pupil and staff transport and third party payments (£0.4m).

- The Service also generated additional income from a number of sources including grant funding, school meals and external recharges (£0.3m).

**Health and Social Care's** final outturn was in line with the revised management budget that had been adjusted to recognise a projected under spend of £2.5m which is earmarked within the Council's Reserves. This position was reported to the Strategic Policy and Resources Committee and Perth & Kinross Integration Joint Board.

**The Environment Service** under spent by **£1.6m**. There were over and under spends in the following areas -

- Planning and Development's under spend was primarily the result of additional staff slippage and the receipt of additional income from planning and building warrant fees and commercial rents (£0.7m).
- There was an over spend on Winter Maintenance due to the weather conditions throughout 2017/18 (£1.3m).
- Within the Roads Division the net under spend was derived from additional staff slippage, a planned rephasing of projects to 2018/19, reduced roads maintenance due to poor weather conditions and additional income from statutory notices (£1.2m).
- In Regulation there was an under spend due to staff slippage in excess of budget (£0.3m).
- Within Operations there was an under spend from additional income from recyclates and savings on waste disposal contracts (£0.6m).
- The Property Division delivered a net under spend due to savings on property maintenance partially offset by the non-achievement of income targets for professional fees (£0.1m).

**Housing & Community Safety** delivered an under spend of **£1.5m**, which is made up of over and under spends as follows -

- In Housing there was an under spend due to savings on the Care & Repair Scheme and other property costs (£0.3m).
- Within Finance & Support there was an under spend due to additional staff slippage, the accelerated delivery of approved savings and improved housing benefit performance (£0.7m).
- Other under spends within Strategic Planning & Commissioning, Mental Health, Learning & Development and Community Safety contributed to the final position (£0.5m).

**Corporate & Democratic Services** contributed an under spend of **£0.8m** as follows -

- Staff costs were under spent due to slippage in excess of budget (£0.3m).
- The Strategic Policy & Resources Committee of 13 June 2017 also approved the write on of a number of historic credit balances (£0.5m).

The **Housing Revenue Account** under spent by **£0.2m** in line with the decision of the Housing and Health Committee in January 2018 to increase the level of Reserves to £1.0m.

In addition, included under **Taxation and Non-Specific Grant, Finance Investment & Other** and **Contributions from Other Reserves** there is a further net under spend of **£0.1m** which includes additional Council Tax income and the receipt of 2018/19 funding from the Scottish Government in 2017/18 offset by reduced contributions in year to the Capital Fund and Insurance Fund.

General Fund and Housing Revenue Account Balances reduced by £0.1m to £52.099m. When the Housing Revenue Account Balance of £1,000,000 and the earmarked Reserves of £38.991m that are set out on page 43 are excluded this leaves an uncommitted General Fund Balance of £12.108m or 3.6% of the net updated 2018/19 Revenue Budget.

## **b) Composite Capital Budget and Housing Revenue Account 2017/18**

A summary of the Council's capital expenditure is reflected within Note 35 to the Core Financial Statements on page 67. Total gross capital expenditure in 2017/18 was £119,737,000, comprising £28,003,000 on the Council's Housing Revenue Account (HRA) and £91,734,000 on the Council's Composite (General Fund) Programme. The gross expenditure includes:

- £20,436,000 on School Upgrades, including the completion of new Primary Schools in Alyth, Tulloch and Kinross.
- £35,276,000 on Roads & Transport projects, including Structural Maintenance, Bridge Refurbishments, Road Safety measures and the A9/A85 Upgrade project.
- £36,022,000 on other works, including Flood Protection measures (£12,755,000); Perth Theatre Upgrade (£7,271,000); North Muirton Industrial Estate (£1,951,000); Perth Crematorium Upgrade (£1,840,000); Housing & Social Care (£121,000); Housing & Community Safety (£229,000) and property & infrastructure upgrades (£4,386,000). The balance of £7,469,000 relates to expenditure on various property, equipment, vehicles and IT-related works.

- £28,003,000 on the HRA including Affordable Housing New Builds & Buy Backs (£12,435,000), Central Heating, Rewiring, Double Glazing and Energy Efficiency Schemes (£8,930,000) and External Works (£6,638,000).

Capital expenditure is funded by borrowing, asset sales, grants, other capital receipts, and Revenue Budget contributions. The Capital Financing Requirement (CFR, i.e., the underlying requirement to borrow for capital purposes) as at 31 March 2018 was £513,013,000. Actual debt was £467,390,000, comprising long-term borrowing (£357,869,000) and a PPP liability (£113,698,000). The ratio of borrowing to the CFR for 2017/18 has therefore increased to 91.9% (2016/17 88.9%). During the year the CFR increased by £57,781,000, reflecting the capital expenditure above, less capital receipts, grants and contributions and principal loan repayments).

### c) General Fund Reserves

As at 31 March 2018 the Council had uncommitted General Fund balances of £12.108m which represented 3.6% of the Council's updated 2018/19 Revenue Budget. Council policy as set out in the Reserves Strategy approved by Council on 22 February 2018 is to retain uncommitted reserves of between 2% and 4% of net revenue expenditure over the medium term and it is not currently considered imprudent to maintain uncommitted Reserves above 4%. The Council's Reserves Strategy will continue to be reviewed, particularly as the level of total Reserves is expected to reduce due to the delivery of commitments over the next few years. Full details of the Council's General Fund Reserves are shown on page 24 and pages 63 to 66 of the Financial Statements, along with information on future commitments.

The Reserves position is summarised as follows:

	£'000		£'000
General Fund	(51,099)	Revaluation Reserve	(278,016)
Housing Revenue Account	(1,000)	Capital Adjustments Account	(326,381)
Capital Fund	(25,060)	Financial Instruments Adjustment Account	20,548
Renewal and Repair Fund	(20)	Pensions Reserve	90,168
Insurance Fund	(2,815)	Employee Statutory Adjustment Account	4,898
Capital Receipts Reserve	0	<b>TOTAL UNUSABLE RESERVES</b>	<b>(488,783)</b>
Capital Grants Unapplied	(87)		
<b>TOTAL USABLE RESERVES</b>	<b>(80,081)</b>	<b>TOTAL RESERVES</b>	<b>(568,864)</b>

### The Balance Sheet

The Balance Sheet on page 26 summarises the Council's assets and liabilities as at 31 March 2018 and explanatory notes are provided from page 29. Total net assets have increased by £168.611m to £568.864m. Long Term Assets increased by £77.221m, current assets reduced by £11.136m, current liabilities decreased by £2.695m and long term liabilities decreased by £99.831m. The major changes in the Council's Balance Sheet between 31 March 2017 and 31 March 2018 are explained in more detail in the following paragraphs.

#### Long Term Assets

The value of Property, Plant and Equipment increased by £76.851m primarily due to the continuation of the major capital investment being undertaken by the Council described above.

#### Current Assets

Short Term Debtors increased by £2.613m mainly due to an increase in receivables from the Scottish Government and NHS Bodies, slightly offset by reductions in Trade Debtors, grants and recharges in relation to Other Entities including Central Government. The level of Short Term Investments reduced by £4.511m; with a reduction of £8.421m in the level of Cash or Cash Equivalents. This is as a result of increased expenditure on the capital programme and the funding of premiums on debt rescheduling incurred in the year.

#### Current Liabilities

Short Term Borrowing increased by £1.981m reflecting the short term element of the debt maturity profile. Short Term Creditors reduced by £3.704m primarily due to lower amounts payable to NHS bodies, Central Government Grant and Other Entities, slightly offset by movements in Trade Creditors. Current provisions have also reduced by £0.972m, further details are provided at Note 30.

#### Long Term Liabilities

Other Long Term Liabilities reduced by £99.831m primarily due to movements in the net pension liability (£159.771m), public private partnerships (£4.177m) offset by the increase in Long Term Borrowing of £64.890m reflecting the new borrowing undertaken to fund Capital expenditure in 2017/18. The net pension liability reduced due to the strong asset performance and a fall in the value of the liabilities due to a change in the financial and demographic assumptions..

The Council's annual Treasury Management Strategy outlines the Council's policy in relation to borrowing and investment. This is prepared in accordance with the Code of Practice on Treasury Management in Local Authorities. The majority of the Council's borrowing comes from the Public Works Loan Board and market loans. Further details are provided at Note 39.

## Pensions Reserve

International Accounting Standard 19 Revised (IAS19R) requires the disclosure of the Council's share of Tayside Pension Fund's assets and liabilities, both current and future. The information disclosed in the accounts is provided to the Council by the Pension Fund's actuaries following the annual valuation of the Fund. The position at 31 March 2018 indicates a net liability of £90.168m compared to a net pension liability of £249.939m on 31 March 2017 due to changes in the assumptions listed above. This liability is based on a snapshot valuation at 31 March 2018 and is a result of prevailing market conditions at that date. Triennial valuations of the Fund are carried out with the last valuation having taken place at 31 March 2017. Employer's contributions are currently 17% of pensionable pay. For more information see Note 18.

## Provisions, Contingencies and Write Offs

The Council made provision for a number of eventualities which may have a material effect on the financial position of the Council. The reasons for the provisions are outlined in Note 30 on page 63.

There were a number of write-offs of debt and stock during the year which were approved by the Strategic Policy and Resources Committee on 13 June 2018 – [Authority to Write Off Debts and Obsolete Stock - June 2018](#)

No significant events occurred between the Balance Sheet date and the date the Head of Finance signed the accounts which would have a material impact on the 2017/18 Unaudited Annual Accounts.

## d) Accounting Ratios

The following financial indicators have been developed to provide an indication of the sustainability and affordability of the Council's financial plans.

FINANCIAL INDICATOR	2017/18	2016/17	PURPOSE
Uncommitted General Fund Reserve as a proportion of Annual Budgeted Net Expenditure	3.6%	4.6%	Reflects the level of funding available to manage financial risk / unplanned expenditure.
Movement in the Uncommitted General Fund Balance	£(3.435)m	£2.082m	Reflects the extent to which the Council has increased / (decreased) its Uncommitted General Fund Reserve.
Council Tax – In Year Collection Rate	97.3%	97.3%	Demonstrates the Council's effectiveness in collecting council tax debt.
Ratio of Council Tax Income to Overall Level of Funding	21.5%	20.8%	This reflects the Council's capacity to vary expenditure by raising Council Tax Income.
Capital Financing Requirement	£513.013m	£455.232m	Measurement of requirement to borrow for capital purposes.
External Debt Levels	£467.390m	£404.833m	Actual borrowing for capital investment purposes.
Capital Financing Requirement Ratio	91.9%	88.9%	Measurement of prudence in relation to borrowing levels – borrowing only to invest in capital.
Ratio of Financing Costs to Net Revenue Stream	9.6%	6.9%	Measurement of the Council's ability to fund borrowing costs.

## e) Financial Statements

The primary financial statements presented within the Annual Accounts are as follows:

- The **Movement in Reserves Statement** reports movements on the different reserves held by the Council analysed into Usable Reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and Unusable Reserves.
- The **Comprehensive Income and Expenditure Statement** reports the accounting cost of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations which may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.
- The **Balance Sheet** brings together all the assets and liabilities of the Council. It is a statement of the resources of the Council and the means by which they have been financed. It is also a report on the Council's financial position at a particular point in time and represents a snapshot of its financial affairs at the close of the year expressed in accounting terms.

- The **Cash Flow Statement** summarises the inflows and outflows of cash and cash equivalents arising from transactions with third parties on both day to day revenue transactions and capital activities. Cash is defined for the purpose of this statement as cash in hand and deposits repayable on demand less overdrafts repayable on demand. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with an insignificant risk of change in value.

The Code also requires the following to be included within the Annual Accounts:

- The **Statement of Responsibilities for the Annual Accounts** explains the responsibilities of the Council and of the Head of Finance as they relate to the Annual Accounts.
- The **Notes to the Financial Statements** provide further information on the above financial statements.
- The Notes include an **Expenditure and Funding Analysis** which compares the net expenditure that is chargeable to taxation and rents and reconciles it to the Comprehensive Income and Expenditure Account. The service analysis for both the Expenditure and Funding Analysis and the Comprehensive Income and Expenditure Statement are now both provided in the way in which the Council organises itself and manages financial performance
- The **Annual Governance Statement** explains how the Council has complied with the Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives (SOLACE) standard for good corporate governance and meets the requirements of relevant legislation and current good practice.
- The **Remuneration Report** provides details of the Council's remuneration of its senior councillors and senior officers with regard to salary, taxable expenses and pension benefits and states how remuneration arrangements are managed. The report also provides information on exit packages agreed by the Council during the financial year.

#### Supplementary Financial Statements

The supplementary financial statements are as follows:

- The **Housing Revenue Account** shows the major elements of housing revenue account expenditure and how these are funded by rents and other income.
- The **Council Tax Income Account** reports the gross and net income from Council Tax, together with details of the number of properties on which Council Tax is levied, and the charge per property.
- The **Non-Domestic Rates Income Account** shows the gross and net income from non-domestic rates and details the amount payable to the national non domestic pool, and resulting net income for the financial year to the Council that is shown in the Comprehensive Income and Expenditure Statement.
- The **Charitable Trusts** statement includes the summary Income and Expenditure Account and Balance Sheet of those Charitable Trusts and Endowments administered by the Council.
- The **Common Good** statement includes the summary Income and Expenditure Account and Balance Sheet for the Common Good Funds administered by the Council.
- The **Group Accounts** incorporate the share of the Council's Managed Funds, Subsidiaries and Associates into the Group Movement in Reserves Statement, Group Comprehensive Income and Expenditure Statement, Group Balance Sheet, Group Cash Flow Statement and include the Reconciliation of the Single Entity (Council) Surplus or Deficit for the year to the Group Surplus or Deficit.

## **7. Financial Outlook, Risks and Plans for the Future**

The UK economy is going through a period of rising inflation and lower growth, which together with the uncertainties surrounding the outcome of "Brexit" negotiations, makes it difficult to forecast the financial outlook for the public sector.

This uncertainty further exacerbates the pressures which continue to face public sector expenditure at a UK and Scottish level with further reductions in government funding predicted over the medium term. In addition the continued uncertainty around the full impact of the European Union Referendum continues to add further layers of uncertainty over future levels of public sector funding. The impact of these on the Council will be considered in the updates of the Medium Term Financial Plan and Revenue & Capital Budgets and factored into future projections.

The Council approved its latest [Medium Term Financial Plan 2018 - 2023](#) in October 2017. This Plan provided an update on the latest projections for the Council across a number of variables including reductions in funding, population growth and an increase in the number of clients (both young and old people) with more complex care needs. In February 2018 the Scottish Government announced a one year financial settlement for local government that was more favourable than the planning assumptions used in the Medium Term Financial Plan due to the provision of extra revenue funding. The Medium Term Financial Plan reflects sound financial planning by the Council and is critical for the sustainability of key services and the financial stability of the Council. The Council's Reserves Strategy is another key element of its financial planning. It is anticipated that the updated Medium Term Financial Plan will be considered by the Council in October 2018.

Perth & Kinross Council continues to take appropriate action to address the challenging financial climate and the reductions in funding that we anticipate will continue over the next few years. This is underpinned by the regular updating of the Medium Term Financial Plan and by the availability of good quality financial information.

In February 2018 the Council approved a [three year Revenue Budget](#) – final for 2018/19 and provisional for 2019/20 and 2020/21. There is still significant uncertainty around the level and conditions associated with the funding that the Council will receive beyond 2018/19 and this may have a significant impact on the final Revenue Budgets for future years.

### ***Transformation***

The Council continues to experience an unprecedented period of change. This includes addressing the greatest financial challenges in a generation, preparing for substantial population increase in Perth and Kinross, managing rising demand for services and managing the most significant change in public service since the creation of the welfare state – the integration of health and social care – as part of a larger public service reform agenda. The ways we deliver services are increasingly complex and require much greater leadership and flexibility from Elected Members and staff.

Councils' revenue funding from the Scottish Government is projected to further reduce in future years and therefore the Council must continue to deliver significant changes in the way services are delivered.

The Council's Transformation Programme 2015-2020 ensures that it will continue to be prepared to overcome these challenges and to deliver vital services to those in its communities who need them most. To respond effectively to these challenges the Council will be more innovative, creative, flexible and entrepreneurial. To achieve this £6.9m of non-recurring funding has been committed to support transformation and a programme of transformation reviews is well underway.

The Council welcomes a new age of working together with our Community Planning partners, with its communities and with the business and voluntary sectors in its area. It will jointly face the challenges whilst remaining focussed on building a better place to live, work and visit, and protecting the most vulnerable in our communities.

### ***Capital***

The Council considered a 10 year Composite Capital Budget for 2018/19 – 2027/28 at its meeting on 20 June 2018. The HRA Capital Budget for 2018/19 - 2022/23 was approved by the Housing & Communities Committee on 24 January 2018.

The Council's Provisional Composite Capital Budget includes major transport infrastructure improvements, including the anticipated completion of the A9/A85 junction improvement by spring 2019 and the Perth Transport Futures project. Significant investment in improvements to existing infrastructure is also included within the capital budget, particularly within annual rolling programmes and road network improvements. Also included are various school refurbishments along with the replacement of the existing Perth High School. There is further investment included in relation to new technologies such as a replacement for the existing SWIFT Social Work database and significant investment in the Microsoft Estate, as well as the upgrading and replacement of School Audio Visual equipment. Other expenditure is planned in relation to various Flood Protection Schemes, the development of Perth City Centre cultural attractions, parks and public spaces improvements, waste reduction & recycling and property improvements.

The HRA Investment Programme 2018/19 to 2022/23 continues to focus upon the provision of new affordable housing and the enhancement of the existing housing stock, including Energy Efficiency and External Fabric maintenance.

The Capital Financing Requirement is estimated to peak at £788,416,000 in 2023/24 under current approved plans. The annual cost of servicing the borrowing and PPP liabilities is being managed through the Capital Fund Strategy within the Medium Term Financial Plan. This ensures the Council's plan remains affordable, prudent and sustainable.

The Scottish Government published its [Five Year Financial Strategy](#) in May 2018. This document explains the Fiscal Framework and funding arrangements that the Scottish Government now operates within, outlines their approach to financial management and fiscal rules, sets out a range of possible funding scenarios for the Scottish Budget over the next five years based on Scottish Government modelling using the Scottish Fiscal Commission economic and fiscal forecasts as the central scenario. The Strategy also details our key policy priorities and approach to supporting Scotland's economy.

### ***Risk Management***

The effective management of risk in the Council's activities is a vital part of supporting the delivery of positive outcomes for Perth and Kinross, and is a key part of the Council's strategic improvement framework.

The [Risk Management Policy, Strategy and Framework](#) that was approved by the Strategic Policy & Resources Committee on 8 February 2017 reflects the changing circumstances facing the Council. The risk management framework has been developed based on best practice industry standards including the International Standard in Risk Management – ISO: 31000 and the Office of Governance & Commerce (OGC) Management of Risk Guidance (MoR) and guidance from the Association of Local Authority Risk Managers, (ALARM) and is set out in 4 parts:

- Risk Management Policy - statement of the Council's commitment to effective risk management;
- Risk Management Strategy – articulates our overall approach to risk and provides a detailed risk hierarchy;

- Risk Management Appetite Statement – describes the levels of risk the Council is prepared to tolerate in pursuit of our objectives; and
- Risk Management Process Guide - details how the risk management process will be carried out at an operational level.

## **Workforce Management**

The Council values the skills, dedication and passion of its employees who deliver essential services to the people, businesses and communities of Perth and Kinross and who deliver efficiencies and transformation to prepare for the future. The Council is planning for a smaller workforce in future – however, it continues to invest in building the capability and capacity in its workforce through learning and development opportunities, boosting productivity, encouraging innovation and creativity, embracing agility, digital technology and promoting wellbeing and resilience. These commitments will enable it to match its ambition for transforming services, growing the economy, reducing inequalities, protecting the vulnerable and supporting young people to be all they can be.

Financial pressures, demand for Council services, changing demographics and public service reform have informed the development of the Council's transformation programme and continue to drive efficiencies, service redesign and rationalisation which in turn determine workforce requirements. The Council's Building Ambition - Transformation Strategy 2015-20 sets out how it will transform services along with an Organisational Development (OD) Framework. The OD Framework ensures that the Council continues to harness the talent of its people based around the Learn Innovate Grow principles. These principles act as enablers for transforming the organisation and reinforce the commitment to developing its organisational culture.

The new Corporate Workforce Plan 2018-21 recognises the world of work is evolving as public services continue to transform and people's expectations from both an employee and customer perspective change too. This plan has a strong focus on culture and identifies priorities for attracting, retaining and developing talent, healthy working lives and fair work.

The Council's plans include enabling projects which are helping to prepare employees and the organisation for the future – digital skills, mobile working, positive career choices, job families, keeping staff in the loop (communication through change) and more effective processes for workforce flexibility. It recognises that learning is fundamental to growth and continues to organise sharing of knowledge, skills and expertise. Leadership development has continued with new innovative leadership approaches, Business Breakfasts, Senior Manager Briefings, coaching skills and a collaborative leadership development programme with neighbouring councils. The Council continues to invest in training and development opportunities for young people via its Modern Apprenticeship and Graduate Programmes. Together these initiatives help develop and nurture talent to meet future requirements.

The Council's workforce management strategy is inherently linked to the Transformation Programme and the Medium Term Financial Plan. Since 2009, the Council has implemented a range of workforce management measures which are designed to make the best use of opportunities to reshape the workforce on an on-going basis, enable service redesign and deliver a leaner workforce while avoiding compulsory redundancies as far as possible. With a renewed focus on retraining and deploying staff to areas of growth, such as early learning and childcare, and in hard to fill posts, such as teachers, the Council has also successfully used voluntary severance schemes as a means of reshaping the workforce, making significant recurring annual savings through volunteers who seek to exit the organisation. This approach recognises the importance of managing staff costs and also recognises and values the contribution of our employees, as described within our annual workforce report Building Ambition – A Workforce For the 21st Century.

A significant strand of the workforce management measures is enhancing capacity and improving performance, which is focussed on the health and wellbeing of employees, building resilience and ensuring that everyone is at work and being supported to perform to the best of their ability. Effectively, this recognises that as well as reducing the size and cost of our workforce, it is also important to maximise productivity.

The Council's positive people practices celebrate success and recognise employee commitment and contribution with the Securing The Future Awards, Service Recognition Awards, Modern Apprentice Graduation and David White Award. It has also encouraged grassroots innovations through the annual Angel's Share opportunity. Its wellbeing initiatives have been recognised through the award of Healthy Working Lives – Silver Award, Carer Positive Established Kitemark and accreditations as a Living Wage Employer. The Council is proud to be a Fair Work employer and continues to consult and engage with employees and their trade union representatives on improvements in our employment practices and arrangements. This work is strongly connected to the outcomes from the Fairness Commission within Perth and Kinross and recognises the role of the leadership for the Council as one of the area's largest employers.

Information on the involvement of Council staff in Trade Union activity can be found at the following [link](#).

## **8. Supplementary Information**

### **(a) Group Accounts**

The Code of Practice on Local Authority Accounting in the United Kingdom requires the Council to produce group financial statements where it has an interest in entities that meet the definition of subsidiary, associate or joint venture. The Group results are presented alongside the results for the Council in the Annual Accounts. Further details of the associated entities that have been incorporated into the financial statements can be found on page 93.



The Council has an interest in six organisations (detailed on page 93) that do not form part of the main Accounts. The Council includes the results of these organisations in its Group Accounts due to the significant influence it has over their financial and operating practices. The Council also includes Charitable Trusts administered and controlled by the Council and Common Good Funds as managed funds within the Group Accounts.

In accordance with the Code, the 2017/18 Group Accounts Statements are included on pages 88 to 92. The basis for consolidation is set out in the Notes to the Group Accounts Statements on pages 93 to 95. The effect of consolidation is to increase the Council's net assets by £18.111m resulting in a Group Balance Sheet showing net assets of £586.975m at 31 March 2018 as set out on page 90. This position reflects the Council's share of the pension liabilities of the Associate included within the Group Balance Sheet.

#### **(b) Common Good and Charitable Trust Funds**

Common Good Funds are administered by the local authority for the general benefit of the relevant communities. Overall the Common Good Funds recorded an in year deficit of £0.023m which, when applied to the surplus brought forward, results in an accumulated revenue surplus as at 31 March 2018 of £1.962m.

Details of income and expenditure accounts and balance sheets can be found on pages 86 and 87 of the Annual Accounts. These funds are subject to similar accounting policies and procedures to those that are applied to the Council's main accounts. The main source of income to Common Good Funds is rent.

The Council also administers a number of charitable Trust Funds. Details of income and expenditure accounts and balance sheets can be found on page 85 of these Annual Accounts. Overall the Trust Funds recorded an in year deficit of £0.561m which, when applied to the surplus brought forward, results in an accumulated surplus as at 31 March 2018 of £2.630m.

Perth and Kinross Council's Trust Funds, for which the Council is the sole trustee, also have to prepare their own Trustees' Annual Report and these are separately available on the Council website.

#### **(c) Public Private Partnerships**

In September 2000 the Council entered into a 25 year PPP contract for the construction, maintenance and operation of office accommodation and a carpark. In 2017/18 the Council paid £2.732m to the contractor under the terms of the contract.

Between 2009 and 2012 six school campuses were also brought into operation at Blairgowrie, Glenearn, Loch Leven, Strathearn, North Inch and Breadalbane. The contractor's obligation was to construct the schools and is to maintain them to a pre agreed standard. In 2017/18 the Council paid £15.967m to the contractor under the terms of the contract.

### **9. Conclusion**

The Council has continued to demonstrate sound financial management in 2017/18 by delivering services with the resources which are available to it. The pressures being experienced by Services in relation to demand are known and plans are in place to mitigate them. They have also been reflected in the medium and long term financial plans.

We know we will face many challenges in the future from the combined effect of reduced resources; increasing demands and expectations for our services. Yet we are confident that by working more creatively with all our residents and partners, we will not only embrace these challenges but will improve our performance and service delivery.

### **10. Acknowledgements**

As in previous years, we would like to acknowledge the significant work of the finance teams in producing the Annual Accounts and thank colleagues across the Council for their continuing support.

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Bernadette Malone  
Chief Executive  
Perth & Kinross Council

Date:

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Councillor Murray Lyle  
Leader of the Council  
Perth & Kinross Council

Date:

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Stewart Mackenzie  
Head of Finance  
Perth & Kinross Council

Date:



## **ANNUAL GOVERNANCE STATEMENT 2017/18**

### **1 Introduction**

- 1.1 Good governance is key to the success of Perth & Kinross Council. It supports better informed decision making, the efficient use and management of our resources, high quality performance, greater scrutiny and accountability, resulting in better outcomes for the communities we serve.
- 1.2 The purpose of the Governance Statement is to give assurance to the people of Perth and Kinross, our Elected Members, staff, partner agencies and other stakeholders that our governance arrangements are effective and our system of internal control is robust.

### **2 Scope of Responsibility**

- 2.1 As a public body, the Council must act in the public interest at all times. It must behave with integrity, conduct its business in accordance with the rule of the law and demonstrate a strong commitment to ethical values. We must demonstrate and ensure that public money is used economically, efficiently, and effectively to deliver sustainable outcomes for the people of Perth and Kinross.
- 2.2 The Local Government in Scotland Act 2003 also places a specific duty on the Council to make arrangements to secure best value and ensure continuous improvement in terms of the services it delivers to our communities.
- 2.3 A comprehensive and robust governance framework is integral to the Council's ability to discharge these responsibilities and deliver good outcomes. The Annual Governance Statement seeks to provide assurance that our governance framework is appropriate, adequate and effective in enabling the Council to deliver good outcomes and manage risk.
- 2.4 As well as providing assurance as to the effectiveness of the governance arrangements in place for the Council, this Annual Governance Statement also covers the six organisations that are included in the Council's Group Accounts.
- Live Active Leisure Limited (subsidiary)
  - Horsecross Arts Limited (subsidiary)
  - Culture Perth & Kinross Limited (subsidiary)
  - Tayside Valuation Joint Board (associate)
  - Tayside Contracts (associate)
  - Perth & Kinross Integrated Joint Board (joint venture)

### **3 The purpose of the Governance Framework**

- 3.1 Our governance framework comprises the rules, resources, systems, processes, culture and values designed to help us achieve our strategic objectives and provide effective, good quality services in the most cost effective way possible. A crucial part of the governance framework is the system of internal control which is designed to manage the risk of a failure to the achievement of our intended outcomes.
- 3.2 The Council manages risk through a continuous process of identification, assessment, evaluation, prioritisation and mitigation. We evaluate risk on the basis of likelihood and impact in both financial and non-financial terms. We do however need to mitigate and manage risk proportionately; recognising that risk can never be eliminated completely and that only reasonable assurance can ever be given.
- 3.3 The purpose of the governance framework therefore is to ensure that we are using all of our resources effectively to deliver good outcomes for our communities and to provide assurance that we are indeed doing the right things, for the right people at the right time in an open, honest and accountable way.

### **4 Our Governance Framework**

- 4.1 We recognise that the following are fundamental elements of good governance within public sector organisations:-
- Vision, Direction & Purpose
  - Leadership, Culture & Values
  - Stakeholder Engagement
  - Organisational Development
  - Effective Decision Making
  - Internal Controls
  - Scrutiny & Accountability
- 4.2 These fundamental elements of our governance framework reflect and seek to embed the principles of good governance within the International Framework: Delivering Good Governance in the Public Sector developed by CIPFA and the International Federation of Accountants, now incorporated into the 2016 CIPFA Framework for Delivering Good Governance in Local Government, namely :
- Defining outcomes in terms of sustainable economic, social and environmental benefits
  - Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law

- Ensuring openness and comprehensive stakeholder engagement,
- Developing the entity's capacity, including the capability of its leadership and the individuals within it.
- Determining the interventions necessary to optimise the achievement of the intended outcomes.
- Managing risks and performance through robust internal control and strong public financial management.
- Implementing good practices in transparency, reporting and audit to deliver effective accountability.

4.3 Our governance arrangements are underpinned by the fundamental principles and the requirements of legislation and legislative best practice. They can be summarised as follows:

- Our vision is the achievement of the shared priorities and intended outcomes for the citizens of Perth & Kinross defined in our [Local Outcome Improvement Plan](#) and our [Corporate Plan](#). Building Ambition: Our Transformation Strategy together with our Revenue budget for 2018/19, our Capital Programme and our Housing Investment Programme and other strategic documents provide the necessary direction to the organisation to enable it to deliver on its vision and achieve its purpose.
- Whilst 2017/18 has brought change in terms of political and organisational leadership it remains effective. The roles and responsibilities of Elected Members and senior management within the Council are clear and understood. There is effective communication between Members and management through Leaders meetings, Convenors meetings, Member Officer Working Groups and all member briefings where appropriate. There are also regular pre agenda discussions in respect of each scheduled Council and Committee meeting.
- There are effective arrangements in place for the discharge of the following functions:
  - Head of Paid Service
  - Monitoring Officer
  - Chief Finance Officer
  - Chief Social Work Officer
- Our culture and values are reflected in everything we do as an organisation. They are determined by our decision making and behaviours and are reflected in our key corporate and community documents and strategies, our Local Code of Corporate Governance, Elected Member and Employee Codes of Conduct, Whistleblowing and anti- fraud and corruption policies, Elected Member Register of Interests, Gifts & Hospitality Policy and in our suite of policies, processes and procedures ensuring that as a Council we respect the rule of law, behave with integrity, promote a culture of good governance and demonstrate a strong commitment to ethical values.
- We recognise the importance of good stakeholder engagement in redesigning and reshaping public services and we will continue to actively engage with our communities, partners and other stakeholders to ensure that our services best meet their needs. The Council has a strategy for engaging with communities and has agreed a Statement of Intent with its Community Planning Partners to support a co-ordinated approach to community engagement. Our approach to consultations is based on the [National Standards for Community Engagement](#) and we have established a wide range of [consultation processes and procedures](#). The Community Empowerment (Scotland) Act 2015 provides a framework for improving the quality of engagement and participation which will be reflected in our [Local Outcome Improvement Plan](#).
- We recognise that in an increasingly complex and financially challenging public sector landscape we have been able to adapt and evolve our services and workforce to continue delivering cost efficient, high quality services. Our people remain our most valuable asset and as an organisation we will secure the best outcomes for our communities by investing in the development of our workforce and of our leaders to ensure that they have the right skills and have sufficient capacity to deliver. Our approach is outlined in our strategic document Building Ambition – A Workforce for the 21<sup>st</sup> Century and our “Learn, Innovate Grow” philosophy is being embedded across the organisation to create a highly motivated, skilled and agile workforce. There is a programme of leadership development in place for our managers and a comprehensive induction programme is in place for Elected Members. An ongoing training programme will be developed in consultation with Members to ensure that it meets their needs going forward.
- The Council's Scheme of Administration sets out the role of committees in decision-making and the delegated decision-making powers of individual officers. The committees, boards and panels we have established ensure proper democratic engagement and provide an appropriate mechanism for effective decision making and accountability. As a local authority, the extent of our decision making powers are determined by statute and regulation. Our report template is designed to ensure that legal and financial checks are carried out before a report is presented for decision. It also provides that appropriate internal and external consultations and where relevant, options appraisals, ensure that decision makers are appropriately informed to determine the best course of action in the circumstances.
- The Council has developed and implemented a suite of policies, procedures and management processes to ensure that there are appropriate **internal controls** in place in respect of:-
  - Workforce Management
  - Financial Management
  - Officer /Member relations
  - Performance Management
  - Change & Improvement
  - Workforce Planning

- Risk Management
  - Procurement
  - Major Investment Project Management
  - Health & Safety
  - Information Management
  - Information Security
  - Civil Contingencies & Business Continuity
  - Anti-Fraud & Corruption
  - Conflicts of Interests
  - Gifts & Hospitality
  - Whistle-Blowing and Reporting Concerns
  - Complaints Handling
  - Funding External bodies / ALEO's
- As a public body we must be open, transparent and accountable for our decisions, actions and performance. Our management democratic structures and processes are designed to facilitate effective decision making and the proper scrutiny of those decisions and their impact in terms of performance and the achievement of our intended outcomes.
  - The Council has set a three year budget (years 2 /3 provisional). Each budget is allocated to a named budget holder. Budgets are monitored regularly by Service Management Teams and overall financial performance is monitored regularly by the Executive Officer Team. The Strategic Policy & Resources Committee receives regular financial monitoring information as part of the budgetary control framework and provides the required political scrutiny of our financial management and performance.
  - Capital spend is monitored by senior management through the Strategic Investment Group and the Corporate Resources Group, and reported regularly to the Executive Officer Team and the Strategic Policy & Resources Committee as part of the budgetary control framework. The Capital Programme Office monitors project milestones.
  - The annual service planning process ensures that Services meet the needs of customers, and that targets for quality improvements are set and monitored. Individual Business Management & Improvement Plans set out detailed actions and outcomes for each Service and include performance indicators. Service performance is reported regularly to the Executive Officer Team and publicly through the Council's themed committees and the Scrutiny committee. Financial performance is publicly reported through the Strategic Policy & Resources Committee and relevant service committees.
  - The Council publishes an [Annual Performance Report](#) on its performance against the objectives set out within the Corporate Plan and Local Outcome Improvement Plan.
  - The Council's Transformation Programme is scrutinised by Service Management Teams, the Executive Officer Team and the Modernising Governance Member Officer Working Group. Progress is reported regularly to the Council's Strategic Policy & Resources Committee.
  - The Council has a published process for dealing with the following and annually reports on performance in this respect of these areas:
    - complaints from members of the public;
    - requests for access information under the Freedom of Information legislation
    - access information under the Data Protection legislation

## 5 Governance Assurance Process

- 5.1 Assurance evidence has been gathered from Service Management Teams (SMT) by way of self-assessment questionnaires designed around the fundamental elements of good governance and the principles set on in the 2016 CIPFA Framework.
- 5.2 The evidence submitted by services has undergone a process of quality assurance and challenge through the Policy & Governance Group, which is chaired by the Head of Legal & Governance Services.
- 5.3 Each Service Management Team has certified that, having considered the evidence of the financial and non- financial controls within each of their areas, they are satisfied that these are adequate and effective subject to certain improvement actions which have been identified as part of that self-assessment process being implemented.
- 5.4 A Certificate of Assurance to this effect has been signed by each Executive Director and the Depute Chief Executive/ Chief Operating Officer.
- 5.5 Corporate assurance has also been provided as regards the adequacy of the internal controls from the following Officers:
  - Chief Finance Officer ( S 95 Officer)
  - Head of Legal & Governance Services /Monitoring Officer
  - Head of Democratic Services
  - Chief Internal Auditor
  - Corporate Procurement Manager
  - Information Compliance Manager

- Corporate IT Manager
- Corporate HR Manager

5.6 For Arms Length External Organisations reliance has been placed upon:

- unaudited financial statements of the companies (audited accounts will be scrutinised when available);
- assurance self-assessment evaluations
- terms and conditions of Service Level Agreements
- quarterly contract monitoring meetings with Service;
- performance information and financial monitoring reports to Service; and
- presentations to Scrutiny Committee

5.7 For Tayside Contracts Joint Committee and Tayside Valuation Joint Board, reliance has been placed upon each organisation's own Annual Governance Statement.

5.8 For Perth & Kinross Integrated Joint Board reliance has been placed on their own Annual Governance Statement.

5.9 The draft Annual Governance Statement is considered by the Executive Officer Team, Corporate Management Group and the Council's Scrutiny Committee prior to inclusion within the final draft Annual Accounts.

5.10 The Annual Governance Statement is considered by full Council as part of the Audited Annual Accounts.

## 6 2016/17 Governance Statement : Improvement update

6.1 The 2016/17 AGS identified the following areas for further review and/or improvement:-

- Contract management
- Information management
- Risk management
- Procurement
- Workforce management
- Arm's Length external Organisations ( ALEOs)
- Integrated Joint Board

6.2 During the period 2017-18 the following work was undertaken in respect of these areas:-

**Contract management:** the Corporate Procurement Manager and Legal Services have continued to work closely with Services to review and improve contract management practices across the organisation to ensure legal compliance and the delivery of best value.

**Information management:** the priority has been in ensuring organisational readiness for implementation of the new General Data Protection Regulation GDPR. This has involved extensive information process mapping across all services and between partners, education and awareness raising and the appointment of the new statutory Data Protection Officer.

**Risk management:** following approval of the Risk Strategy extensive work has been undertaken to embed the corporate approach to risk management into our business and management processes to facilitate better risk based decision making to enable us to deliver our intended outcomes. A cohort of officers at various levels within the organisation has been trained and accredited as risk practitioners to support service management and operational teams in identifying and managing risk, ensuring that there is a consistent approach to risk management across the Council.

**Procurement:** working with the Council's Corporate Procurement Manager and her team, we have continued to implement our procurement strategy across the organisation to ensure that our processes and practices are aligned to our objectives and that our procurement activity is legally compliant and delivering value for money.

**Workforce management:** under the guidance and direction of the Corporate Human Resources Manager together with the Council's organisational development team, we continue to refine our workforce planning activity to ensure that we have an adequately skilled and agile workforce equipped and motivated to meet the challenges of delivering high quality services in a climate of increasing demand and reducing financial and non-financial resources.

**ALEOs:** with the support of the Council's Scrutiny Committee we have improved the scrutiny and assurance function in respect of our relationships with our three ALEOs to ensure better transparency and more robust accountability to the Council and its stakeholders.

**Integrated Joint Board (IJB):** council officers have provided technical and professional support and continue to work with the Chief Officer and Chief Finance Officer of the Integrated Joint Board to further develop the governance arrangements in respect of the complex relationship between the IJB and the Council as a statutory partner.

6.3 In their Annual Audit report for 2016-17 our external Auditors, KPMG, assessed the effectiveness of our governance arrangements and concluded:

***"We consider the Council to have high standards of governance and accountability. This is provided through an effective governance framework of committees, internal audit, and internal controls. Transparency is achieved through the committee structure and open nature of discussions."***

## 7 Effectiveness of Governance Arrangements for 2017/18

- 7.1 Based on the assurance process outlined above, in terms of effectiveness, the Council's governance arrangements continue to be regarded as fit for purpose in accordance with the governance framework, subject to the areas identified for review or improvement set out in section 9 below.
- 7.2 Our financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2015).
- 7.3 Our assurance arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010).
- 7.4 The Council has designated the Depute Chief Executive (Chief Operating Officer) as the Senior Information Risk Owner with the Head of Legal & Governance Services as Depute. Our information security measures have been reviewed in 2017/18 to ensure continuing compliance with the Public Service Network (PSN) requirements.
- 7.5 The Chief Internal Auditor is the Council's nominated Money Laundering Reporting Officer. There has been no relevant activity in respect of Council during the year.
- 7.6 We have structures in place which support constructive challenge and effective scrutiny to our system of internal control and our broader governance arrangements. In particular:-
- Scrutiny Committee
  - Strategic Resources & Policy Committee
  - Audit Committee
  - Themed Committees
  - Executive Officer Team
  - Corporate Management Group
  - Strategic Investment Group
  - Policy & Governance Group
  - External Audit ( presently KPMG)

## 8 Opinion of the Chief Internal Auditor

- 8.1 Audit activity and performance is detailed in the Annual Report by the Chief Internal Auditor for the year 2017/18. The Chief Internal Auditor has given the following opinion in respect of the effectiveness of the governance arrangements in place.

*"In the Chief Internal Auditor's opinion, reasonable reliance can be placed on the Council's governance arrangements and systems of internal control for 2017/18, subject to management implementation of the agreed actions detailed in Internal Audit reports and summarised at Section 2 above of the Annual Report. Whilst limited reliance can be placed on the corporate risk management arrangements in place throughout 2017/18, the ongoing implementation and embedding of the corporate risk management strategy should enable reasonable reliance for 2018/19."*

## 9 Areas for review /continued improvement action

- 9.1 The following areas have been identified as requiring ongoing monitoring/review or further improvement action:-
1. **Personal Information Management** – following the implementation of the new General Data Protection Regulation and related UK Data Protection Act work must now be undertaken to review all policies, processes and procedures in respect of the Council's handling of personal information, to ensure legislative compliance.
  2. **Information Governance** – broaden the scope of the planned information management review to develop a framework which better supports the Council to manage information risk and to maximise the benefits of information as a corporate asset
  3. **Risk Management** – to further embed risk management into our business and management processes to facilitate better risk based decision making. To undertake a comprehensive review of the Council's strategic risks and to review and refresh the corporate Risk Appetite Statement.
  4. **Organisational structure** – to ensure that roles, responsibilities and lines of accountability are clear and realigned to take account of the new organisational service structure.
  5. **Workforce Planning** – to continue to refine workforce planning across the organisation to ensure that we have a workforce that has the necessary skills, flexibility and capacity to continue to deliver quality services in these increasingly challenging times and to embed workforce planning into our business and financial management processes.
  6. **Service redesign and transformation** – to carry out a strategic review of our current and planned transformation activity to ensure that projects and programmes are aligned to the priorities identified within our new Corporate Plan, make the most effective use of resources and deliver best value to the organisation.
  7. **Procurement and Contract Management** – to continue to review and improve processes and practices across the Council to deliver savings and efficiencies. To work with services to support better procurement, commissioning and contract management as part of the implementation of our Procurement Strategy.

**8. Scrutiny and Assurance** – to further refine the scrutiny and assurance functions in respect of our ALEOs and Integrated Joint Board.

- 9.2 It should be noted that significant work has already been undertaken to review processes and improve internal controls in these areas. The assurance process has not identified any area which is not already the subject of current or planned improvement activity.

**STATEMENT**

The Governance Framework has been in place for the financial year ending 31 March 2018 and up to the date of approval of the Annual Accounts. The Council is legally required to conduct an annual review of the effectiveness of its governance arrangements and to publish a reporting statement, known as the Annual Governance Statement, with its Annual Accounts.

This Statement confirms that a comprehensive review of the Council's corporate governance arrangements has been undertaken and reports on the effectiveness of its arrangements and in particular its internal controls. The review has been carried out in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Framework: Delivering Good Governance in Local Government 2016.

The review of the effectiveness of the Council's system of internal control and overall governance framework has been informed by different sources providing assurance and assessing risk:-

- Service Management Teams
- Executive Officer Team
- Chief Finance Officer
- Monitoring Officer
- Chief Internal Auditor
- Policy & Governance Group
- Internal Audit
- External Audit
- External Agencies and Inspectorates.

Internal Audit have provided assurance for the year 2017/18 and an Internal Audit plan is in place for 2018/19 that will focus on areas which have been identified as corporate or service specific risks.

The Deputy Chief Executive and Executive Directors who have responsibility within the Scheme of Delegation for the development and maintenance of the system of internal control has provided assurance that the internal controls and governance arrangements within their service are effective and have been reviewed.

The Chief Financial Officer has provided assurance that the financial arrangements in place conform to the relevant CIPFA requirements and that our expenditure is lawful.

The Monitoring Officer has provided assurance that our governance arrangements ensure compliance with relevant laws, regulations, internal policies and procedures.

We are satisfied that our governance arrangements and in particular, our system of internal control, continue to be regarded as fit for purpose in accordance with the governance framework.

Governance improvement actions will be delivered where possible through existing improvement plans and change programmes to avoid duplication of effort. A plan for the improvement activity is outlined in Appendix 1. Oversight of governance improvement activity will be maintained through the Corporate Management Group with support from the Policy & Governance Group who will regularly monitor progress. Progress will be reported to the Council's Executive Officer Team and the Council's Scrutiny Committee.

We are also reassured by the fact that the areas identified for further development are already in progress. This provides assurance to our communities that this Council has a good understanding of its key risks and is committed to continuously improving the effectiveness of our governance framework to ensure that we deliver our intended outcomes.

Signed:

Signed:

Bernadette Malone  
Chief Executive  
Date

Councillor Murray Lyle  
Leader of the Council  
Date

**ANNUAL GOVERNANCE STATEMENT 2017-18**  
**CORPORATE IMPROVEMENT ACTION PLAN 2018-19**

ACTION	LEAD OFFICER	TIMESCALE/ comment	RELEVANT ACTION PLAN
<b>Personal Information Management</b> 1. Review all policies, processes and procedures in respect of the Council's handling of personal information, to ensure legislative compliance. 2. Continue programme or training across all services. 3. Provide advice and guidance as required to ALEOs, IJB and TACTRAN in relation to their statutory obligations	Information Compliance Manager	Ongoing	
<b>Information Governance</b> 1. Develop a new strategy and associated framework to better support the Council to manage information risk and to maximise the benefits of information as a corporate asset.	Head of Legal & Governance Services/ Information Compliance Manager	31/12/18	
<b>Risk management</b> 1. Roll out programme of risk workshops across organisation 2. Deliver programme of risk and assurance workshops for IJB 3. Undertake a comprehensive review of the Council's strategic risks 4. Review and refresh the corporate Risk Appetite Statement	Head of Legal & Governance Services/ risk practitioners	30/09/18  31/12/18	
<b>Organisational structure</b> 1. Ensure that roles, responsibilities and lines of accountability are clear and realigned to take account of the new organisational service structure.	Executive Officer Team/ Head of Democratic Services	31/08/18	
<b>Workforce Planning</b> 1. Continue to refine and embed workforce planning into our business and financial management processes across the organisation.	Corporate Human Resources Manager	ongoing	
<b>Health &amp; wellbeing</b> 1. Review our existing Health & Wellbeing Strategy to ensure that our procedures and approaches build organisational resilience, address mental health issues effectively and enhance productivity.	Corporate Human Resources Manager	31/12/18	
<b>Service redesign and transformation</b> 1. Carry out a strategic review of our current and planned transformation activity to ensure that projects and programmes are aligned to the priorities identified within our new Corporate Plan, make the most effective use of resources and deliver best value to the organisation.	Head of Strategic Commissioning & OD	31/12/18	
<b>Procurement and Contract Management</b> 1. Continue to monitor, review and improve processes and practices in respect of procurement, commissioning and contract management across the Council to deliver savings and efficiencies. 2. Undertake a review of our systems used to monitor third party spend in order to capture better quality performance data. 3. Agree and document a clearly defined contract management cycle for each contract.	Corporate Procurement Manager	Ongoing  31/03/19  31/03/19	
<b>Scrutiny and Assurance -</b> 1. Monitor, review and refine the scrutiny and assurance functions in respect of the Council's relationship with:- <ul style="list-style-type: none"> <li>• ALEOs</li> <li>• Integrated Joint Board</li> </ul>	Head of Legal & Governance Services/ • Head of PSR, Culture & Com Dev • IJB CO/CFO	31/03/19	

**Independent auditor's report to the members of Perth and Kinross Council and the Accounts Commission (to follow in September)**



**Independent auditor's report to the members of Perth and Kinross Council and the Accounts Commission  
cont'd (to follow in September)**

**Independent auditor's report to the members of Perth and Kinross Council and the Accounts Commission  
cont'd (to follow in September)**

## MOVEMENT IN RESERVES STATEMENT

	General Fund Balance £'000	Housing Revenue Account £'000	Capital Fund £'000	Renewal & Repair Fund £'000	Insurance Fund £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves (Note 32) £'000	Total Authority Reserves £'000
<b>Balance at 1 April 2016</b>	(54,908)	(782)	(23,925)	(1,234)	(3,111)	(1,788)	(87)	(85,835)	(352,352)	(438,187)
<u>Movement in reserves during 2016/17</u>										
Total Comprehensive Income and Expenditure	(12,455)	3,423	0	0	0	0	0	(9,032)	46,966	37,934
Adjustments from income & expenditure charged under the accounting basis to the funding basis (Note 5)	16,849	(2,801)	0	0	0	462		14,510	(14,510)	0
<b>Decrease in 2016/17</b>	4,394	622	0	0	0	462	0	5,478	32,456	37,934
Transfers to/(from) Other Statutory Reserves	(888)	(640)	310	951	267	0	0	0	0	0
Balance at 31 March 2017 carried forward	(51,402)	(800)	(23,615)	(283)	(2,844)	(1,326)	(87)	(80,357)	(319,896)	(400,253)
<u>Movement in reserves during 2017/18</u>										
Total Comprehensive Income and Expenditure	20,786	3,510	0	0	0	0	0	24,296	(192,907)	(168,611)
Adjustments from income & expenditure charged under the accounting basis to the funding basis (Note 5)	(22,236)	(3,110)	0	0	0	1,326	0	(24,020)	24,020	0
<b>(Increase) or Decrease in 2017/18</b>	(1,450)	400	0	0	0	1,326	0	276	(168,887)	(168,611)
Transfers to/(from) Other Statutory Reserves	1,753	(600)	(1,445)	263	29	0	0	0		0
<b>Balance at 31 March 2018 carried forward</b>	(51,099)	(1,000)	(25,060)	(20)	(2,815)	0	(87)	(80,081)	(488,783)	(568,864)

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

Restated 2016/17				2017/18			
Gross Expenditure £'000	Income £'000	Net Expenditure £'000		Notes	Gross Expenditure £'000	Income £'000	Net Expenditure £'000
<b>COUNCIL SERVICES</b>							
142,742	(6,042)	136,700	Education & Children's Services		170,984	(7,107)	163,877
121,834	(70,412)	51,422	Health & Social Care		121,973	(70,560)	51,413
52,842	(39,599)	13,243	Housing & Community Safety		53,432	(34,809)	18,623
86,733	(16,080)	70,653	The Environment Service		88,200	(16,377)	71,823
20,588	(4,349)	16,239	Corporate and Democratic Services		24,910	(4,924)	19,986
10,729	(363)	10,366	Culture Services		14,412	(498)	13,914
30,340	(26,887)	3,453	Housing Revenue Account		31,644	(26,898)	4,746
1,161	0	1,161	Valuation Joint Board		1,145	0	1,145
466,969	(163,732)	303,237	<b>COST OF SERVICES</b>		506,700	(161,173)	345,527
0	(635)	(635)	Other Operating Income and Expenditure	8	0	(808)	(808)
24,389	(1,444)	22,945	Financing and Investment Income and Expenditure	9	35,289	(1,276)	34,013
0	(334,579)	(334,579)	Taxation and Non-Specific Grant Income	10	0	(354,436)	(354,436)
491,358	(500,390)	(9,032)	<b>(Surplus)/Deficit on Provision of Services</b>		541,989	(517,693)	24,296
		(29,121)	Surplus on revaluation of non current assets				(7,867)
		76,087	Remeasurement of the net defined benefit liability				(185,040)
			Other Comprehensive Income and Expenditure				(192,907)
		37,934	<b>Total Comprehensive Income and Expenditure</b>				(168,611)

## BALANCE SHEET

<u>31 March 2017</u>		Notes	<u>31 March 2018</u>
£'000			£'000
996,182	Property, Plant & Equipment	21	1,073,033
27,581	Heritage Assets	22	27,581
14,710	Investment Property	23	13,858
110	Intangible Assets	24	329
1,438	Assets Held for Sale	25	2,313
461	Long Term Debtors	26	589
<u>1,040,482</u>	<b>Long Term Assets</b>		<u>1,117,703</u>
25,048	Short Term Investments		20,537
895	Assets Held for Sale	25	116
483	Inventories	27	445
28,556	Short Term Debtors	28	31,169
24,157	Cash and Cash Equivalents	44	15,736
<u>79,139</u>	<b>Current Assets</b>		<u>68,003</u>
(14,195)	Short Term Borrowing	39	(16,176)
(58,334)	Short Term Creditors	29	(54,630)
(1,289)	Provisions	30	(317)
<u>(73,818)</u>	<b>Current Liabilities</b>		<u>(71,123)</u>
(1,950)	Provisions	30	(1,473)
(279,963)	Long Term Borrowing	39	(344,853)
(363,637)	Other Long Term Liabilities	18,36	(199,393)
<u>(645,550)</u>	<b>Long Term Liabilities</b>		<u>(545,719)</u>
<u>400,253</u>	<b>NET ASSETS</b>		<u>568,864</u>
80,357	Usable Reserves		80,081
319,896	Unusable Reserves	32	488,783
<u>400,253</u>	<b>TOTAL RESERVES</b>		<u>568,864</u>

The Unaudited Annual Accounts were issued on 27 June 2018.

S Mackenzie CPFA  
Head of Finance  
27 June 2018

## CASH FLOW STATEMENT

<u>2016/17</u>		Notes	<u>2017/18</u>
£'000			£'000
9,032	<b>Surplus/(Deficit) on the provision of services</b>		(24,296)
42,167	Adjustments to net surplus or deficit on the provision of services for non cash movements		70,442
(22,414)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		(35,875)
<u>28,785</u>	Net cash flows from Operating Activities		<u>10,271</u>
(49,534)	Investing Activities	42	(82,238)
36,870	Financing Activities	43	63,546
<u>16,121</u>	Net increase/(decrease) in cash and cash equivalents		<u>(8,421)</u>
8,036	Cash and cash equivalents at the beginning of the reporting period		24,157
<u><u>24,157</u></u>	Cash and cash equivalents at the end of the reporting period	44	<u><u>15,736</u></u>

## STATEMENT OF RESPONSIBILITIES FOR THE ANNUAL ACCOUNTS

### The Council's Responsibilities

The Council is required:

- to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for those affairs under Section 95 of the Local Government (Scotland) Act 1975. In this Council that officer is the Head of Finance.
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003).
- approve the Annual Accounts for signature.

I confirm that these Annual Accounts were approved for signature by those charged with governance at the meeting of the Audit Committee on 27 June 2018.

Councillor Murray Lyle  
Leader of the Council

Date:

### The Responsibilities of the Head of Finance

The Head of Finance is responsible for the preparation of the Council's Annual Accounts, which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, is required to present a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year.

In preparing these Annual Accounts, the Head of Finance has:

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

The Head of Finance has also:

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

I certify that the Annual Accounts give a true and fair view of the financial position of the Council and its group at the reporting date and the transactions of the Council and its Group for the year ended 31 March 2018.

Stewart Mackenzie CPFA  
Head of Finance  
Date: 27 June 2018

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Accounting Policies

### General

The Annual Accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) and adapted to the Code of Practice as required by the Local Authority Accounts (Scotland) Regulations 2014 and section 12 of the Local Government in Scotland Act 2003. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and supported by International Financial Reporting Standards. The Annual Accounts are intended to present a true and fair view of the financial position and transactions of the authority and have been prepared in accordance with the fundamental accounting principles of relevance, reliability, comparability, understandability and materiality.

The accounting convention adopted in the Annual Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

### Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, or when the Council is entitled to the income not simply when cash payments are made or received.

In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including those rendered by the Council's officers) are recorded as expenditure when the services are received, rather than when payments are made.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where there is evidence that debts are unlikely to be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Where the Council is acting as an agent for another party (e.g. in the collection of Non Domestic Rates and Water & Wastewater), income and expenditure are recognised only to the extent that commission is receivable by the Council for the agency services rendered or the Council incurs expenses directly on its own behalf in rendering the services.

### Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

### Changes in Accounting Policies and Estimates and Errors

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events or conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. Changes in accounting estimates are accounted for prospectively, i.e., in the current and future years affected by the change. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

### Charges to Revenue for Non-Current Assets

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

- depreciation attributable to the assets used by the relevant service;
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off;
- amortisation of intangible fixed assets attributable to the service.

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



## Contingent Assets and Liabilities

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent Assets and liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

## Employee Benefits

### Benefits Payable During Employment

Short-term employee benefits (those that fall due wholly within 12 months of the year-end), such as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees, are recognised as an expense in the year in which employees render service to the Council. An accrual is made against services in the Surplus or Deficit on the Provision of Services for the cost of holiday entitlements and other forms of leave earned by employees but not taken before the year-end and which employees can carry forward into the next financial year. Any accrual made is required under statute to be reversed out of the General Fund Balance by a credit to the Employee Statutory Absences Adjustment Account in the Movement in Reserves Statement.

### Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to terminate the employment of an officer.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for termination benefits related to pensions enhancements and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

### Post-Employment Benefits

Employees of the Council are members of two separate pension schemes: The Scottish Teachers' Superannuation Scheme and the Local Government Pension Scheme.

The Scottish Teachers' Superannuation Scheme is a statutory unfunded defined final benefit salary scheme administered nationally by the Scottish Public Pensions Agency on behalf of the Scottish Government. There are no investment assets built up under the scheme to meet pension liabilities. The contributions paid into the scheme by the Council and teaching employees are determined nationally and member's pension benefits are prescribed under the Teachers' Superannuation (Scotland) Regulations 2005 with the Scottish Government being responsible for meeting the scheme's liabilities.

Other employees, subject to certain qualifying criteria, are eligible to join the Local Government Pension Scheme (LGPS). The LGPS is a statutory funded defined final benefit salary scheme operated through local pension funds. Perth & Kinross Council and its employees pay contributions into the Tayside Pension Fund administered by Dundee City Council calculated at a level to balance the pension liabilities with investment assets. The contributions paid into the scheme by employees and member pension benefits are prescribed, for the period to which the accounts relate, by the Local Government Pensions Scheme (Scotland) Regulations 1998 as amended. Perth & Kinross Council's contributions, as employer, into the Tayside Pension Fund are subject to the advice of the Fund actuary.

Both schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council. However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot be attributed specifically to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet and the Education Service line in the Comprehensive Income and Expenditure Statements is charged with the employer's contributions payable to Teachers' Pensions in the year.

The Local Government Scheme is accounted for as a defined benefits scheme. The liabilities of the Tayside Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees. Liabilities are discounted to their value at current prices, using a discount rate of 2.7% which is based on the indicative rate of return on the high quality corporate bond index (i Boxx AA).

The assets of the Tayside Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:

- quoted securities – current bid price;
- unquoted securities – professional estimate;
- unlisted securities – current bid price;
- property – market value.

The change in the net pension's liability is analysed into the following components:

- Service cost comprising:
  - current service cost – the increase in liabilities as result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
  - past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
  - net interest on the net defined liability / (asset), i.e. net interest expense for the authority – the change during the period in the net defined benefit liability / (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability / (asset) at the end of the period – taking into account any changes in the net defined benefit liability / (asset) during the period as a result of contribution and benefit payments;
- Remeasurements comprising:
  - the return on plan assets - excluding amounts included in net interest on the net defined benefit liability / (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
  - the net defined benefit liability / (asset) – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
- Contributions paid to the Tayside Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact on the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

#### Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

#### Career Average Revalued Earnings Scheme (CARE)

The Local Government Pension Scheme changed from Final Salary to Career Average Revalued Earnings (CARE) on 1 April 2015, with a change of accrual rate from 1/60<sup>th</sup> to 1/49<sup>th</sup>. Employees who were previously paying into the Final Salary scheme were automatically transferred into the new CARE scheme on 1 April 2015.

#### **Events after the Reporting Period**

Events after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Annual Accounts are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Annual Accounts are adjusted to reflect such events;
- those that are indicative of conditions that arose after the reporting period – the Annual Accounts are not adjusted to reflect such events, but where a category of events would have a material effect disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Annual Accounts.

#### **Fair Value Measurement**

The Council measures some of its non-financial assets such as surplus assets and investment properties at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the authority's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: unobservable inputs for the asset or liability.

### **Financial Liabilities**

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount respectively is deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over the term of the replacement loan. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

### **Financial Assets**

Financial assets are loans and receivables that have fixed or determinable payments but are not quoted in an active market.

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are then measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For deposits that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the agreement.

However, the Council has made loans to various organisations at less than market rates (soft loans). When a soft loan is made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. In subsequent years interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the de-recognition of an asset are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

### **Foreign Currency**

Where the Council enters into a transaction in foreign currency the transaction is converted into sterling at the exchange rate applicable on the date the transaction is effective.

### **Government Grants and Contributions**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments; and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attaching to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants/contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Account. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account once they have been applied.

### **Heritage Assets**

Heritage Assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. Heritage Assets include museum and gallery collections and works of art. These assets are held by the Council in pursuit of its overall objectives in relation to the maintenance of the heritage. From 1 April 2016 Culture Perth & Kinross had responsibility for the delivery and development of museum and library services in Perth & Kinross. The Trust manages the museum and gallery collections on behalf of the Council, however the Council will continue to be custodian of the collections.

#### Tangible Heritage Assets

The Council's Heritage Assets are held in the Perth Museum & Gallery, Fergusson Gallery and Alyth Museum. The collections include Art, History and Natural History and are held in support of Council objectives i.e. to increase knowledge, understanding and appreciation of the local area and its history. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment.

However, some of the measurement rules are relaxed in relation to heritage assets as detailed below. The Council has embarked upon a revaluation programme for all collection items deemed to have significant value, these being mainly items within Fine and Applied Art collections. In recognition of the key qualitative characteristics of the financial statements, i.e. understandability, relevance, reliability and comparability, the Council has chosen to apply a £10,000 de-minimis level for which items will be recognised within the balance sheet. The exclusion of individual items having a value of less than £10,000 does not impact upon the characteristics of the financial statements and a summary of the main collections and applicable accounting treatment is as follows.

#### Art Collection

The Fine Art collection includes paintings and sketches in various mediums, and although international in scope, its greatest strength is in the holding of Scottish pictures. The collection seeks to retain a balance between the historical and the contemporary whilst continuing to develop the holdings of works of specifically local interest. The Applied Art collection has been acquired since 1785 through purchase, gift or bequest. It covers a wide variety of objects and materials, within which the collections of Perth silver and Perthshire glass are unsurpassed in terms of national importance.

Subject to the de-minimis noted above, items donated or acquired are valued by the curators at point of acquisition; in addition, there is a five year rolling programme of valuation to ensure all significant items in the Art collection are valued. All valuations are undertaken by the curators having relevant knowledge and experience and with reference to appropriate commercial markets.

Art collection items are held in the Council balance sheet at market value and are tested annually for impairment, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment.

As the assets within the art collection are deemed to have indeterminate lives and a high residual value, the Council does not consider it appropriate to charge depreciation.

#### History Collection

The History collection includes social history, archaeology, arms & armour, costume, archives, coins, medals & stamps, photography and world cultures collections. These items cannot be readily and/or reliably valued due to their diverse nature. The cost of valuation would be disproportionate in terms of any benefit derived to the user of the financial statements and the History collection is consequently excluded from the Council Balance Sheet.

#### Natural History Collection

The Natural History collection includes zoology, botany and geology collections. No market exists for these items and collections and there is no comparable data to form the basis of valuation. The cost of obtaining valuations would be disproportionate in terms of any benefit derived to the user of the financial statements and Natural History collections are consequently excluded from the Council Balance Sheet.

#### Heritage Assets – General

The Council may dispose of heritage assets which have a doubtful provenance or are unsuitable for public display. The proceeds of such items are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

The promotion of other cultural events and programmes during the year makes it difficult to reliably estimate the percentage of the Art Collection on display for public viewing. All items not on display are held in secure storage and access is permitted to scholars and others for research purposes.

The Culture Perth & Kinross Collections Management Framework provides guidance on the collection, disposal or lending of heritage assets.

#### **Intangible Assets**

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council. Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and restricted to that incurred during the development phase (research expenditure is not capitalised). Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

#### **Interests in Companies and Other Entities**

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities and require it to prepare group accounts. In the Council's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

#### **Inventories**

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. Work in progress is valued at the cost of direct materials and labour plus attributable overheads based on the normal level of activity less any attributable losses.

#### **Investment Properties**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale. Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

### **Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

#### The Council as Lessee

Operating Leases - Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

#### The Council as Lessor

Operating Leases - Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

### **Overheads and Support Services**

The costs of overheads and support services are only charged to the HRA and charities in accordance with the total absorption costing principle.

### **Property, Plant and Equipment**

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

#### Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (e.g. repairs and maintenance) is charged as an expense when it is incurred.

#### Measurement

Assets are initially measured at cost, comprising:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management;
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located where there is a legal or constructive obligation to do so.

The Council does not capitalise borrowing costs incurred whilst assets are under construction. The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition will not increase the cash flows of the Council. In the latter case, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure and community assets – depreciated historical cost;
- assets under construction – historical cost
- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH). The Council values these assets using the Beacon approach (Adjusted Vacant Possession)
- other land and buildings – current value based on existing use value (EUV) for operational assets where there is an active market, or if there is no market based evidence of current value because of the specialist nature of the asset and/or the asset is rarely sold, depreciated replacement cost (DRC) using the instant build approach;

- all other assets – current value, determined by the amount that would be paid for the asset in its existing use (existing use value – EUV).

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

Where decreases in value are identified, the revaluation loss is accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- where there is no balance in the Revaluation Reserve or insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

#### Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- where there is no balance in the Revaluation Reserve or insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

#### Disposals and Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses. Depreciation is not charged on Assets Held for Sale. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal.

Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal are categorised as capital receipts. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement. The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

#### Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Leasehold properties	over period of lease
Roads and bridges	15-30 years
Other infrastructure assets	10-30 years
Vehicles, plant and equipment	3-15 years
Council Buildings	up to 50 years
Council Dwellings	10-30 years
Intangible Fixed Assets	3-5 years

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

### **Private Finance Initiative (PFI) and Similar Contracts**

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement;
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease);
- lifecycle replacement costs – debited to the relevant service in the Comprehensive Income and Expenditure Statement.

### **Provisions**

The Council is required to make provisions where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. Provision has been made for bad and doubtful debts in respect of Council Tax, Community Charge, Housing Rents and other items of income, where appropriate. In all cases the level of provision is based on experience and an assessment of the prospects of recovering the related debt.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the council becomes aware of the obligation, and measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the council settles the obligation.

### **Reserves**

Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments and retirement benefits and that do not represent usable resources for the Council – these reserves are explained in the relevant notes.

### **Revenue Expenditure Funded from Capital under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

### **VAT**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.



## **2. Accounting Standards that have been issued but have not yet been adopted**

IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers will be adopted by the Code with effect from 1 April 2018. The transitional arrangements include that the Accounting Standards are adopted prospectively and as a consequence there is no impact on the 2017/18 accounts. It is anticipated that any impact on the Council accounts during the period of application, i.e. Financial Year 2018/19, will relate mainly to the revised presentational requirements for IFRS 9 Financial Instruments.

## **3. Critical Judgements in Applying Accounting Policies**

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Annual Accounts are:

### **Public Sector Funding**

There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

### **Public Private Partnership (PPP)**

The Council is deemed to control the services provided under the agreement for the provision of educational establishments. The accounting policies for PPP schemes and similar arrangements have been applied and the assets under the contract are included within Property, Plant and Equipment on the Council's Balance Sheet. Note 36 provides further details.

## **4. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty**

The Annual Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are in respect of the Council's Net Pensions Liability and Property and Plant and Equipment.

### Uncertainty

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.

### Effect if Actual Results Differ from Assumptions

The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a reduction in the pension liability of £16,811,000. However, the assumptions interact in complex ways. During 2017/18, the Council's actuaries advised that the net pension liability had reduced by £159,771,000 following an updating of assumptions.

### Uncertainty

Property, Plant and Equipment assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.

### Effect if Actual Results Differ from Assumptions

If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £565,000 for every year that useful lives had to be reduced.

## 5. Adjustments between Accounting Basis and Funding Basis under Regulations

	Usable Reserves				2016/17
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Total	
	£'000	£'000	£'000	£'000	£'000
<u>Adjustments involving the Capital Adjustment Account</u>					
Depreciation and impairment on non-current assets	(31,808)	(13,670)		(45,478)	(42,628)
Revaluation Losses on Property, Plant & Equipment	(6,768)	(40)		(6,808)	(6,543)
Reversal revaluation gains	1,542			1,542	27,586
Movements in Fair Value of Investment Properties	628			628	(171)
Amortisation of Intangible Assets	(162)			(162)	(39)
Capital grants and contributions credited to the Comprehensive Income & Expenditure Statement	27,888	4,546		32,434	20,831
Amounts of non current assets written off on disposal as part of the gain/loss	(1,912)	(450)		(2,362)	(3,180)
<u>Items not debited or credited to the Comprehensive Income &amp; Expenditure Statement</u>					
Statutory provision for repayment of debt	15,999	3,810		19,809	18,053
Capital expenditure charged to the General Fund and HRA balances	2,808	3,762		6,570	9,112
<u>Adjustments involving the Capital Receipts Reserve</u>					
Transfer of sale proceeds credited as part of the gain/loss on disposal	1,993	597	(2,590)	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure			3,916	3,916	3,842
<u>Adjustments involving the Capital Grants Unapplied Account</u>				0	0
<u>Adjustments involving the Financial Instruments Adjustment Account</u>	468	145		613	512
Premiums charged in year to Comprehensive Income & Expenditure Statement	(10,037)			(10,037)	0
<u>Adjustments involving the Pensions Reserve</u>					
Employer's pensions contributions and direct payments to pensioners payable in the year	16,060	1,011		17,071	16,707
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(39,518)	(2,822)		(42,340)	(28,738)
<u>Adjustments involving Short Term Accumulated Absences Account</u>					
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	583	1		584	(834)
<b>Total Adjustments</b>	<b>(22,236)</b>	<b>(3,110)</b>	<b>1,326</b>	<b>(24,020)</b>	<b>14,510</b>

## 6. Expenditure and Funding Analysis - 2017/18

	Net Expenditure charged to the General Fund and HRA Balances £000	Adjustments between the Funding and Accounting Basis £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000
Education & Children's Services	145,099	18,778	163,877
Health & Social Care	47,231	4,182	51,413
Housing & Community Safety	16,511	2,112	18,623
The Environment Service	52,177	19,646	71,823
Corporate and Democratic Services	16,032	3,954	19,986
Culture Services	10,775	3,139	13,914
Housing Revenue Account	(7,161)	11,907	4,746
Valuation Joint Board	1,145	0	1,145
Non Distributed Costs	1,463	(1,463)	0
<b>Cost of Services</b>	<b>283,272</b>	<b>62,255</b>	<b>345,527</b>
Other Income and Expenditure	(284,322)	(36,909)	(321,231)
<b>(Surplus) or Deficit on Provision of Services</b>	<b>(1,050)</b>	<b>25,346</b>	<b>24,296</b>
Opening General Fund and HRA Balance	(52,202)		
(Surplus) or Deficit on General Fund and HRA Balance in Year	(1,050)		
Transfers from other Statutory Reserves	1,153		
<b>Closing General Fund and HRA Balance at 31 March 2018</b>	<b>(52,099)</b>		

This note provides a reconciliation of the main adjustments to Net Expenditure Chargeable to the General Fund and HRA Balances to arrive at the amounts in the Comprehensive Income and Expenditure Statement. The relevant transfers between Reserves are explained in the Movement in Reserves Statement.

### Notes to the Expenditure and Funding Analysis - adjustments between funding and accounting basis

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes Note A £ '000	Net change for the Pensions Adjustments Note B £ '000	Other Differences Note C £ '000	Total Adjustments £ '000
<b>COUNCIL SERVICES</b>				
Education & Children's Services	13,178	6,126	(526)	18,778
Health & Social Care	1,224	2,925	33	4,182
Housing & Community Safety	10	2,038	64	2,112
The Environment Service	14,582	5,216	(152)	19,646
Corporate and Democratic Services	1,654	2,302	(2)	3,954
Culture Services	3,139	0	0	3,139
Housing Revenue Account	10,548	1,360	(1)	11,907
Non Distributed Costs	0	(1,463)	0	(1,463)
<b>Cost of Services</b>	<b>44,335</b>	<b>18,504</b>	<b>(584)</b>	<b>62,255</b>
Other Operating Expenditure and Income	(228)	0	0	(228)
Financing and Investment Income and Expenditure	(10,399)	6,765	(613)	(4,247)
Taxation and Non-Specific Grant Income	(32,434)	0	0	(32,434)
<b>Other income and expenditure from the Expenditure and Funding Analysis</b>	<b>(43,061)</b>	<b>6,765</b>	<b>(613)</b>	<b>(36,909)</b>
<b>Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>1,274</b>	<b>25,269</b>	<b>(1,197)</b>	<b>25,346</b>

## Expenditure and Funding Analysis - 2016/17

	Net Expenditure charged to the General Fund and HRA Balances £000	Adjustments between the Funding and Accounting Basis £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000
Education & Children's Services	153,750	(9,513)	144,237
Health & Social Care	49,226	2,196	51,422
Housing & Community Safety	14,323	(161)	14,162
The Environment Service	47,526	14,671	62,197
Corporate and Democratic Services	12,652	3,587	16,239
Culture Services	9,908	458	10,366
Housing Revenue Account	(6,277)	9,730	3,453
Valuation Joint Board	1,161	0	1,161
Non Distributed Costs	1,441	(1,441)	0
<b>Cost of Services</b>	<b>283,710</b>	<b>19,527</b>	<b>303,237</b>
Other Income and Expenditure	(278,694)	(33,575)	(312,269)
<b>(Surplus) or Deficit on Provision of Services</b>	<b>5,016</b>	<b>(14,048)</b>	<b>(9,032)</b>
Opening General Fund and HRA Balance	(55,690)		
(Surplus) or Deficit on General Fund and HRA Balance in Year	5,016		
Transfers to other Statutory Reserves	(1,528)		
<b>Closing General Fund and HRA Balance at 31 March 2017</b>	<b>(52,202)</b>		

This note provides a reconciliation of the main adjustments to Net Expenditure Chargeable to the General Fund and HRA Balances to arrive at the amounts in the Comprehensive Income and Expenditure Statement. The relevant transfers between reserves are explained in the Movement in Reserves Statement.

### Notes to the Expenditure and Funding Analysis - adjustments between funding and accounting basis

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes Note A £ '000	Net change for the Pensions Adjustments Note B £ '000	Other Differences Note C £ '000	Total Adjustments £ '000
<b>COUNCIL SERVICES</b>				
Education & Children's Services	(12,014)	2,155	346	(9,513)
Health & Social Care	551	1,567	78	2,196
Housing & Community Safety	(498)	344	(7)	(161)
The Environment Service	12,178	2,263	230	14,671
Corporate and Democratic Services	2,620	849	118	3,587
Culture Services	458	0	0	458
Housing Revenue Account	9,217	444	69	9,730
Valuation Joint Board	0	0	0	0
Non Distributed Costs	0	(1,441)	0	(1,441)
<b>Cost of Services</b>	<b>12,512</b>	<b>6,181</b>	<b>834</b>	<b>19,527</b>
Other Operating Expenditure and Income	(200)	0	0	(200)
Financing and Investment Income and Expenditure	(17,882)	5,850	(512)	(12,544)
Taxation and Non-Specific Grant Income	(20,831)	0	0	(20,831)
<b>Other income and expenditure from the Expenditure and Funding Analysis</b>	<b>(38,913)</b>	<b>5,850</b>	<b>(512)</b>	<b>(33,575)</b>
<b>Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>(26,401)</b>	<b>12,031</b>	<b>322</b>	<b>(14,048)</b>

## Explanation to the Expenditure and Funding Analysis

### Adjustments for Capital Purposes

Note A Adjustments for Capital Purposes adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

- **Other operating expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- **Financing and investment income and expenditure** – the statutory charges for capital financing and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- **Taxation and non-specific grant income and expenditure** – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for conditions which were satisfied in the year.

### Net Change for the Pensions Adjustments

Note B Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- **For services** this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- **For Financing and investment income and expenditure** – the net interest on the defined benefit liability is charged to the Comprehensive Income and Expenditure Statement

### Other Differences

Note C Other differences between the amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- **For Financing and investment income and expenditure** the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts and stepped interest rate loans
- **For services** this represents the removal of the increase or decrease in the employee statutory adjustment account.

## 7. Transfer (to)/from General Fund Reserves

The Reserves Strategy that the Council approved in February 2018 earmarked funding towards specific or known future commitments. The following table sets out the updated balances as at 31 March 2018 for these Earmarked Reserves taking cognisance of the final year-end position.

	Balance as at 1 April 2017 £'000	Transfers (In)/Out £'000	Balance as at 31 March 2018 £'000
Transformation Programme (including Workforce Management and Organisational Change)	(13,682)	2,711	(10,971)
Affordable Housing (Resources accrued from reduced Council Tax Discounts)	(4,024)	(969)	(4,993)
Developer Contributions: Commuted Sums & Infrastructure and Affordable Housing	(4,698)	409	(4,289)
Revenue Budget Flexibility	(2,833)	(905)	(3,738)
Health and Social Care Partnership	(598)	(2,226)	(2,824)
Perth High School	(2,116)	127	(1,989)
Secondary Schools	(1,399)	(400)	(1,799)
Remodelling of Residential Care (Children & Young People)	0	(1,700)	(1,700)
Revenue Grants	(694)	(624)	(1,318)
Devolved School Management (DSM)	(1,103)	(102)	(1,205)
Revenue Budget 2018/19 Commitment - RSG	0	(943)	(943)
Car Parking	(417)	(156)	(573)
Community Action Partnerships	0	(312)	(312)
Perth City Centre Projects	(392)	122	(270)
Bridge Feasibility Studies	(808)	548	(260)
Perth & Kinross Marketing & Promotional Scheme	(435)	200	(235)
Flood Prevention Works	(291)	66	(225)
Planning Appeals and Public Inquiries	(196)	(9)	(205)
Energy and Water Management	(200)	0	(200)
Modern Apprentices/Graduate Trainees	(121)	(51)	(172)
Central Energy Efficiency Fund	(150)	(1)	(151)
Contaminated Land	(123)	(26)	(149)
Culture	(240)	118	(122)
Financial Assistance	(100)	(16)	(116)
Discretionary Non Domestic Rates Relief Scheme	0	(100)	(100)
Corporate Feasibility Studies	(100)	45	(55)
Public Service Network	(140)	101	(39)
Investment in Improvement funds	(75)	37	(38)
Crematorium Abatement Levy	(500)	500	0
Environmental Initiatives	(212)	212	0
Local Government Elections	(212)	212	0
Earmarked Balances at 31 March 2018	(35,859)	(3,132)	(38,991)

### Purpose of Earmarked General Fund Balances

**Transformation Programme (including Workforce Management and Organisational Change)** – the Reserves Strategy in February 2017 approved these resources as earmarked to support the Council's transformation programme including the costs of any workforce management and cultural change measures required to respond to future financial challenges. The application of these resources will be reported to the Strategic Policy & Resources Committee through the revenue monitoring process.

**Affordable Housing (Resources accrued from reduced Council Tax Discounts)** - these reserves have been generated as a result of the Council's policy on varying the level of council tax charged for long term empty properties and second homes. These resources can only be used for the provision of affordable housing. The application of these resources will be reported to the Strategic Policy & Resources Committee through the revenue monitoring process.

**Developer Contributions: Commuted Sums & Infrastructure and Affordable Housing** - the Enterprise & Infrastructure Committee approved supplementary guidance on 3 September 2014 for developer contributions covering community greenspace, primary education, Auchterarder A9 junction improvements, affordable housing and transport infrastructure. These sums are held in the Council's Reserves until they are applied to relevant schemes. The application of these resources will be reported to the Strategic Policy & Resources Committee through the revenue and capital monitoring process.

**Revenue Budget Flexibility** – to assist in the management of the Revenue Budget, the Council's approved budget flexibility scheme permits Services to carry forward under or over spends from one financial year into future financial years within set limits and with the prior approval of Council. The amount carried forward can only be utilised for purposes approved by Council.

**Health and Social Care Partnership** - the Strategic Policy and Resources Committee approved earmarking £598,000 as part of the 2016/17 Revenue Monitoring Report 3 (Report 17/45 refers) for future partnership transformation projects of which £248,000 continues to be earmarked. The Committee approved in the 2017/18 Revenue Monitoring Report 2 a further £2,564,000 to be earmarked for future social care activity with a further £12,000 increase to reflect the year end position.

**Perth High School** - these resources were earmarked as part of 2016/17 Revenue Monitoring Report 1 to the Strategic Policy and Resources Committee (Report No. 16/400 refers) for future maintenance works at Perth High School.

**Secondary Schools** – £649,000 of these resources were earmarked as part of the 2015/16 Revenue Monitoring Report 1 to the Strategic Policy & Resources Committee (report 15/395 refers) to equip the new secondary school at Bertha Park. A further £650,000 was approved as part of the 2016/17 and 2017/18 Revenue Budget processes as budget flexibility and £100,000 transferred from the amount earmarked for Investment and Learning. The 2017/18 Revenue Monitoring Report 3 (report 18/41 refers) approved a further £400,000 from the Education and Children's Services budget towards this project.

**Remodelling of Residential Care (Children & Young People)** – The Council meeting of 16 August 2017 approved the review and remodelling of residential care (children and young people) and the financial resources to fund this transformation project (Report No.17/262 refers). The Council approved £500,000 from transformation funding and £500,000 for uncommitted Reserves and up to £700,000 from the Education and Children Services budget. 2017/18 Revenue Monitoring Report 3 to the Strategic Policy & Resources Committee approved £300,000 to be transferred from Education and Children Services to this earmarked balance (Report No.18/41 refers) and a further £400,000 as part of the year end position.

**Revenue Grants** - these grants are being carried forward in reserves as the grant conditions have been met but the expenditure has not been fully incurred.

**Devolved School Management (DSM)** – the amount shown is the accumulated sum available to be carried forward at 31 March 2018 under the approved scheme for managing these budgets. The purposes for which the earmarked amount can be used and the procedures for its management and control are detailed in the Council's approved DSM scheme.

**Revenue Budget 2018/19 Commitment – Revenue Support Grant** – The Scottish Government has paid grant in 2017/18 which is to be applied to the 2018/19 revenue budget and have therefore been earmarked for this purpose. This was approved in the 2017/18 Revenue Monitoring Report 4 to the Strategic Policy & Resources Committee (Report No.18/133 refers).

**Car Parking** – this balance is the accumulated surplus at 31 March 2018 which is restricted in its application under the Road Traffic Regulation Act 1984. Any proposals to utilise these resources will require approval by the Strategic Policy and Resources Committee.

**Community Action Partnership** – £232,000 was approved for earmarking for Communities in the 2017/18 Revenue Monitoring Report 3 by the Strategic Policy & Resources Committee (Report No.18/41 refers), with a further £70,000 approved in Revenue Monitoring Report 4 (Report 18/133 refers), and a further increase of £10,000 as part of the year end position.

**Perth City Centre Projects** – this balance will be utilised for projects in Perth City Centre. The application of these resources will be reported to the Strategic Policy & Resources Committee through the revenue monitoring process.

**Bridge Feasibility Studies** - the Council originally earmarked £808,000 for testing and assessment of the Queens Bridge, Perth and Old Perth Bridge (Report No. 17/60 refers) with the remaining balance to be utilised in 2018/19.

**Perth & Kinross Marketing & Promotional Scheme** - these resources were earmarked as part of 2016/17 Revenue Monitoring to the Strategic Policy and Resources Committee (Report No. 16/400 refers) and continue to have £235,000 earmarked for this purpose to be utilised in 2018/19.

**Flood Prevention Works** – these resources were earmarked as part of the 2017/18 Reserves Strategy for the completion of improvement works required as a consequence of severe weather (Report No. 17/48 refers). There is £225,000 remaining from the original allocation.

**Planning Appeals and Public Inquiries** – under spends in previous years have been earmarked to fund future planning appeal and public inquiry expenses. The application of these resources will be reported to the Strategic Policy & Resources Committee through the revenue monitoring process.

**Energy and Water Management** – the Council approved the transfer of £200,000 to an Energy and Water Management Reserve as part of the Revenue Budget process in February 2014. This is to deal with any potential over spends on energy and water management associated with severe weather.

**Modern Apprentices/Graduate Trainees** - the Strategic Policy and Resources Committee approved the transfer of the underspend on modern apprentices and graduate trainees during 2017/18 to fund future expenditure in this area.

**Central Energy Efficiency Fund** – this fund is a means of pooling grant received from the former Scottish Executive together with savings achieved from the implementation of energy conservation and efficiency schemes to fund expenditure on further schemes of the same type. The application of these resources will be reported to the Strategic Policy & Resources Committee through the revenue monitoring process.

**Contaminated Land** – these resources are earmarked to fund future remediation work to comply with the Council's statutory duty. The application of these resources will be reported to the Strategic Policy & Resources Committee through the revenue monitoring process.

**Culture** – Council has previously approved funding of £400,000 towards the bid for City of Culture (reports 15/417 and 16/445 refer). £122,000 of resources are available for further cultural initiatives including staffing.

**Financial Assistance** – at its meeting on 9 February 2006 the Council approved the creation of a recurring budget to fund its anticipated contribution to the Mod and other events across Perth and Kinross.

**Discretionary Non Domestic Rates Relief Scheme** - the amount shown is earmarked for a Rates Relief Scheme targeted at key vacant property across Perth and Kinross and was approved by the Strategic Policy & Resources Committee of 13 September 2017 (Report No. 17/281 refers).

**Corporate Feasibility Studies** – these resources were approved to be earmarked at the Strategic Policy & Resources Committee (Report No.16/179 refers) for use in future years.

**Public Service Network** – these resources are earmarked in reserves to fund ongoing work required beyond initial accreditation. The application of these resources will be reported to the Strategic Policy & Resources Committee through the revenue monitoring process.

**Investment in Improvement Funds** - this amount is earmarked for specific projects in accordance with reports approved by the Strategic Policy & Resources Committee. The application of these resources will be reported to the Strategic Policy & Resources Committee through the revenue monitoring process, with additional reports on progress in utilising the resources to be submitted to that committee where necessary.

**Crematorium Abatement Levy** – income from financial years 2012/13 to 2016/17 was previously earmarked for future investment at Perth Crematorium to comply with mercury abatement legislation. These resources have been applied during

2017/18 to reduce the debt repayments as approved in Revenue Monitoring Report 4 to the Strategic Policy & Resources Committee (Report No. 18/133refers).

**Environmental Improvements** – these resources were applied in 2017/18 for environmental initiatives.

**Local Government Elections** – these resources were applied in 2017/18 as a contribution to local elections.

## 8. Other Operating Expenditure / Income

	2017/18 £'000	2016/17 £'000
Gains on the Disposal of Non Current Assets	(208)	(200)
Share of Tayside Contracts surplus	(600)	(435)
Total	<u>(808)</u>	<u>(635)</u>

## 9. Financing and Investment Income and Expenditure

	2017/18 £'000	2016/17 £'000
Interest payable and similar charges	19,060	18,157
Premiums	10,037	0
Pensions interest cost and expected return on pensions assets	6,765	5,850
Interest receivable and similar income	(229)	(375)
Income and expenditure in relation to investment properties and changes in their fair value	(1,620)	(687)
Total	<u>34,013</u>	<u>22,945</u>

## 10. Taxation and Non Specific Grant Incomes

	2017/18 £'000	2016/17 £'000
Council Tax Income	(76,171)	(69,420)
Non Domestic Rates	(51,844)	(57,228)
Non Ringfenced Government Grants	(193,987)	(187,100)
Capital Grants and Contributions	(32,434)	(20,831)
Total	<u>(354,436)</u>	<u>(334,579)</u>

## 11. Material Items of Income and Expense

There have been no material items of income and expenditure during 2017/18 which are not disclosed on the face of the Comprehensive Income and Expenditure Statement.

## 12. Premiums and Discounts on Debt Rescheduling Written Down

The Code requires that any premiums or discounts arising from debt rescheduling should be written off in the year they were incurred, except in limited circumstances where they would qualify as a 'modification' of debt. During 2017/18, there were no such debt modifications. However, following the debt scheduling undertaken during the year, £14,129,000 of PWLB debt was prematurely repaid and incurred premiums of £10,037,000. As debt "extinguishment", the premiums have been debited to the Comprehensive Income & Expenditure Statement in full in line with the Code. As permitted by Statutory Guidance, the premiums incurred during the year have been debited to the Financial Instrument Adjustment Account (FIAA).

The net amount of premium and discount debited to the General Fund and HRA for transactions prior to 1 April 2007 (as permitted by statutory guidance) from the Financial Instruments Adjustment Account was £597,000 (2016/17 £497,000).



### 13. General Grants, Bequests and Donations

Perth & Kinross Council is represented on, exercises influence over and provides grants to a large number of outside bodies which provide services to the public, consistent with the Council's statutory responsibilities.

During 2017/18 a total of £14,605,000 (2016/17 £14,607,000) was paid out in support of these organisations ranging from remission of hall rents of a few pounds to the contribution towards the operational and other costs of Live Active Leisure Limited of £4,818,000 (2016/17 £4,788,000). Details of grants are shown below.

	2017/18 £'000	2016/17 £'000
Service Level Agreements with Outside Organisations	3,549	3,454
Live Active Leisure Limited	4,818	4,788
Culture Perth & Kinross	3,479	3,330
Horsecross Arts Ltd	1,186	1,205
Churches Action for the Homeless	240	271
Pitlochry Festival Theatre	220	220
Perth Money Advice Service	359	428
Shaw Trust	143	143
Perthshire Women's Aid	103	120
Perth & Kinross Heritage Trust	85	83
Perth & Kinross Countryside Trust	30	60
Vacant Property Grants	53	47
Perth & Kinross Sports Council	11	11
Other Miscellaneous Grants	329	447
	<b>14,605</b>	<b>14,607</b>

### 14. Expenditure and Income Analysed by Nature

The Council's expenditure and income is analysed as follows:

Expenditure/Income	2017/18 £'000	2016/17 £'000
<b>Expenditure</b>		
Employee benefits expenses	198,397	189,531
Other services expenses	208,357	205,678
Contribution to Integration Joint Board	46,924	48,229
Support service recharges	2,171	2,118
Depreciation, amortisation, impairment	50,278	21,795
Interest payments	35,862	24,007
<b>Total Expenditure</b>	<b>541,989</b>	<b>491,358</b>
<b>Income</b>		
Fees, charges and other service income	127,503	125,403
Interest and investment income	1,276	1,444
Taxation and Non-Specific Grant Income	354,436	334,579
Government grants and contributions	34,271	38,764
Gain on the disposal of assets	207	200
<b>Total Income</b>	<b>517,693</b>	<b>500,390</b>
<b>Deficit/(Surplus) on the Provision of Services</b>	<b>24,296</b>	<b>(9,032)</b>

## Service Income and Expenditure including Internal Recharges

The service lines in the Comprehensive Income and Expenditure Statement exclude internal recharges. These are also eliminated in the Expenditure and Funding Analysis. The income and expenditure for each service, inclusive of internal recharges, are shown below.

	2017/18			2016/17		
	Expenditure	Income	Net	Expenditure	Income	Net
	£'000	£'000	£'000	£'000	£'000	£'000
Education & Children's Services	171,149	(7,273)	163,876	157,666	(13,429)	144,237
Health & Social Care	121,973	(70,560)	51,413	126,494	(75,072)	51,422
Housing & Community Safety	54,728	(36,105)	18,623	55,604	(41,442)	14,162
The Environment Service	103,346	(31,522)	71,824	103,925	(41,727)	62,198
Corporate and Democratic Services	25,210	(5,224)	19,986	20,780	(4,542)	16,238
Culture Services	14,412	(498)	13,914	10,729	(363)	10,366
Housing Revenue Account	32,657	(27,911)	4,746	31,332	(27,879)	3,453
Valuation Joint Board	1,145	0	1,145	1,161	0	1,161
	<u>524,620</u>	<u>(179,093)</u>	<u>345,527</u>	<u>507,691</u>	<u>(204,454)</u>	<u>303,237</u>

## 15. Agency Services

Agency arrangements operate in some Services where the Council undertakes work on behalf of other local authorities; Scottish Water; government; and other public bodies. The main items of income and related expenditure, which are included within the Comprehensive Income and Expenditure Account, are shown below.

	2017/18	2017/18	2016/17	2016/17
	Income	Expenditure	Income	Expenditure
	£'000	£'000	£'000	£'000
<u>Education &amp; Children's Services</u>				
Provision of Pupil Support				
Assistants to other local authorities	148	148	147	147
<u>The Environment Service</u>				
Receipts from other local authorities for cross boundary bus services	16	16	20	20
<u>Corporate and Democratic Services</u>				
Income from Scottish Water	444	444	444	444
Totals	<u>608</u>	<u>608</u>	<u>611</u>	<u>611</u>

## 16. External Audit Costs

In 2017/18 Perth and Kinross Council incurred the following fees relating to external audit services provided in accordance with the Code of Audit Practice:

	2017/18	2016/17
	£'000	£'000
External Audit Fees	<u>281</u>	<u>279</u>

This includes £2,500 in respect of the audit of charitable trusts where the Council is the sole trustee (2016/17 £3,000).

## 17. Termination Benefits

The Council terminated the contracts of a number of employees in 2017/18, incurring liabilities of £1,561,000 (£1,663,000 in 2016/17). These were in relation to 116 officers (134 in 2016/17) from all Services across the Council throughout 2017/18 and will deliver full year recurring savings of approximately £1.4 million.

## 18. Post-Employment Benefits

International Accounting Standard 19 'Employee Benefits' (IAS 19) prescribes how pension costs and liabilities are to be disclosed in the financial statements. The standard requires employing organisations to account for post-employment benefits in the period in which they are committed to give them, even if the actual payment of these benefits will be many years in the future. The following notes are prepared in accordance with the code guidance on disclosure requirements in respect of IAS 19.

Perth & Kinross Council participates in two different pension schemes, one for teaching staff and a separate scheme for all other employees.

### Pensions Schemes Accounted for as Defined Contribution Schemes

#### *Teachers*

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Scottish Government. The Scheme provides teachers with specified 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 technically a defined benefit scheme. However, the Scheme is unfunded and the Scottish Government uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this Annual Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2017/18, the Council paid £9,258,392 to the Teachers' Pensions scheme in respect of teachers' retirement benefits, representing 17.2% of pensionable pay. The figures for 2016/17 were £9,012,045 and 17.2%. There were no contributions remaining payable at the year-end. Additional payments relating to added year's benefits, which the Council has inherited from predecessor authorities or awarded itself, together with related increases, amounted to £218,664 (2016/17 £254,534).

### Pension Schemes Accounted for as Defined Benefit Pension Schemes

#### *Local Government Pension Scheme*

The post-employment scheme for other employees, subject to certain qualifying criteria, is the Local Government Pension Scheme (LGPS) which is administered in this area by Dundee City Council in respect of all local authorities and admitted bodies in the former Tayside area. This is a multi-employer scheme in which it is possible for an employer to identify its share of the assets and liabilities on a consistent and reasonable basis. Employer's liabilities can be evaluated directly by the Actuary at any time on membership data.

#### Benefits

- It is a Career Average Revalued Earnings scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level to balance the pension's liability with investment assets.
- The pensions accrual rate guarantees a pension based on 1/49th of career average revalued earnings and years of pensionable service. There is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for lump sum up to the limit set by the Finance Act 2004. The scheme's normal retirement age is 65. Pensions are increased annually in line with changes to the Pensions (Increases) Act 1971 and Section 59 of the Social Security Pensions Act 1975.

#### Governance

- The Tayside Pension Fund is operated under the regulatory framework for the LGPS in Scotland and the governance of the scheme is the responsibility of the Tayside Pension Fund Committee. This Committee is comprised solely of elected members of Dundee City Council. Employing authorities (including Perth & Kinross Council) are represented at the Tayside Pension Fund Representative Forum.
- Policy is determined in accordance with the Local Government Pension Scheme (Scotland) Regulations. Management of the Fund's investments is carried out by the Fund's Investment Advisory Panel which selects and appoints a number of external investment managers/partners and monitors their investment performance.
- Under the Regulations, employers fall into three categories, scheme employers (also known as scheduled bodies) such as Perth & Kinross Council, community admission bodies and transferee admission bodies. Admission agreements are generally assumed to be open-ended. However, either party can voluntarily terminate the admission agreement by giving an appropriate period of notice to the other parties. Any deficit arising from the cessation valuation will usually be levied on the departing admission body as a capital payment.

## Principal Risks

- The principal risks to the scheme are the longevity assumptions, statutory changes to the scheme, changes to inflation, bond yields and the performance of the investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge the General Fund the amount due by statute as described in the accounting policy note.

## Discretionary Post-employment Benefits

- Discretionary post-retirement benefits on early retirements are an unfunded defined benefit arrangement, under which liabilities are recognised when an award is made. There are no plan assets built up to meet these pension liabilities.

The contributions paid into the scheme by employees and member pension benefits are prescribed, for the period to which the accounts relate, by the Local Government Pensions Scheme (Scotland) Regulations 1998 as amended. Perth & Kinross Council's contributions, as an employer, into the Tayside Pension Fund are subject to the advice of the Fund actuary.

The Local Government Pension Scheme allows for the award of discretionary post-employment benefits upon early retirement. This is an unfunded defined benefit final arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet the pension's liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

## Career Average Revalued Earnings Scheme (CARE)

The Local Government Pension Scheme changed from Final Salary to Career Average Revalued Earnings (CARE) on 1 April 2015, with a change of accrual rate from 1/60<sup>th</sup> to 1/49<sup>th</sup>. Employees who were previously paying into the Final Salary scheme were automatically transferred into the new CARE scheme on 1 April 2015.

## Transactions Relating to Post-Employment Benefits

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Council is required to make against Council Tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year.

### Local Government Pension Scheme

	2017/18 £'000	2016/17 £'000
Comprehensive Income and Expenditure Statement		
Cost of Services		
- Service Cost	35,575	22,888
Financing and Investment Income and Expenditure		
- Net Interest on the Defined Liability	6,539	5,612
Administration Expenses	226	238
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	<u>42,340</u>	<u>28,738</u>
Remeasurement of the net defined benefit liability comprising:		
Expected return on pension fund assets in excess of interest	(43,823)	(112,019)
Other actuarial (gains)/losses on assets	13,236	0
Changes in demographic assumptions	(51,310)	0
Changes in financial assumptions	(42,737)	188,247
Experience Gain on defined benefit obligation	<u>(60,406)</u>	<u>(141)</u>
Total Post Employment Benefit (Credited)/Charged to the Comprehensive Income & Expenditure Statement	<u>(185,040)</u>	<u>76,087</u>
Movement in Reserves Statement		
- Reversal of net charges made to the surplus or deficit on the Provision of Services for post-employment benefits in accordance with the code	<u>(42,340)</u>	<u>(28,738)</u>
Actual amount charged against the General Fund Balance for pensions in the year:		
Employers' contributions and direct payments payable to Tayside Pension Fund	<u>17,071</u>	<u>16,707</u>

## Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit scheme is as follows:

	31 March 2018 £'000	31 March 2017 £'000
Present Value of the Defined Benefit Obligation	829,299	937,102
Present Value of Unfunded Obligation	25,248	29,061
Closing Defined Benefit Obligation	854,547	966,163
Fair Value of Pension Fund Assets (Bid Value)	(764,379)	(716,224)
<b>Net Liability in Balance Sheet</b>	<b>90,168</b>	<b>249,939</b>

A reconciliation of Perth & Kinross Council's share of the present value of Tayside Pension Fund's defined benefit obligation (liabilities) is as follows:

	31 March 2018 £'000	31 March 2017 £'000
Opening Defined Benefit Obligation	966,163	750,499
Current Service Cost	30,613	22,473
Interest Cost	25,857	27,201
Change in Financial Assumptions	(42,737)	188,247
Change in demographic assumptions	(51,310)	0
Experience Gain on Defined Benefit Obligation	(60,406)	(141)
Liabilities Extinguished on Settlement	0	(6,812)
Estimated Benefits Paid Net of Transfers In	(22,361)	(21,353)
Past Service Costs (including Curtailments)	4,962	2,637
Contributions by Scheme Participants	5,557	5,294
Unfunded Pension Payments	(1,791)	(1,882)
Closing Defined Benefit Obligation	854,547	966,163

A reconciliation of the movements in Perth & Kinross Council's share of the fair value of Tayside Pension Fund's assets is as follows:

	31 March 2018 £'000	31 March 2017 £'000
Opening Fair Value of Scheme Assets	716,224	588,678
Interest on Assets	19,318	21,589
Return on Assets Less Interest	43,823	112,019
Other actuarial gains/(losses)	(13,236)	0
Administration Expenses	(226)	(238)
Contributions by Employer Including Unfunded	17,071	16,707
Contributions by Scheme Participants	5,557	5,294
Estimated Benefits Paid Plus Unfunded Net of Transfers (Out)/In	(24,152)	(23,235)
Settlement Prices Paid	0	(4,590)
Closing Fair Value of Scheme Assets	764,379	716,224

Perth & Kinross Council's share of Tayside Pension Fund's assets at 31 March 2018 comprised:

	31 March 2018		31 March 2017	
	£'000	%	£'000	%
Equities	531,887	70%	515,614	72%
Gilts	37,341	5%	47,479	6%
Other Bonds	86,930	11%	70,647	10%
Property	86,864	11%	70,665	10%
Cash	21,357	3%	11,819	2%
<b>Total</b>	<b>764,379</b>	<b>100%</b>	<b>716,224</b>	<b>100%</b>

A further breakdown of the assets is as follows:

	28 February 2018	28 February 2017
<b>Equities</b>		
Consumer	12%	10%
Financials	13%	10%
Industrials	11%	8%
Energy and Utilities	3%	3%
Materials	5%	4%
Healthcare	4%	4%
Information Technology	8%	6%
Telecommunications	1%	1%
Pooled Investments	13%	26%
	<u>70%</u>	<u>72%</u>
<b>Gilts</b>		
Government Bonds	1%	6%
<b>Other Bonds</b>		
Corporate Bonds	15%	10%
Venture Capital / Partnerships	0%	0%
	<u>15%</u>	<u>10%</u>
<b>Property</b>		
Retail	3%	3%
Commercial	6%	5%
Alternatives and Cash	2%	2%
	<u>11%</u>	<u>10%</u>
<b>Cash</b>		
Forward Foreign Exchange Contracts	3%	2%
<b>Total</b>	<u><u>100%</u></u>	<u><u>100%</u></u>

### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Barnett Waddingham Public Sector Consulting, an independent firm of actuaries. Estimates for the Tayside Pension Fund are based on the latest full valuation of the scheme as at 31 March 2018.

#### The principal assumptions used by the actuary have been:

	2017/18	2016/17
<b>Mortality Assumptions:</b>		
<b>Longevity at 65 for Current Pensioners:</b>		
- Men	20.3	21.4
- Women	22.2	23.5
<b>Longevity at 65 for Future Pensioners:</b>		
- Men	22.1	23.7
- Women	24.1	25.8
Rate of Inflation CPI	2.3%	2.7%
Rate of Inflation RPI	3.3%	3.6%
Rate of Increase in Salaries	3.3%	3.7%
Rate of Increase in Pensions	2.3%	2.7%
Rate for Discounting Scheme Liabilities	2.6%	2.7%
Take-up of Option to Convert Annual Pension into Retirement Lump Sum	n/a	10.0%

The liabilities show the underlying commitments that the Council has in the long run to pay post-employment (retirement) benefits. The net liability of £90,168,000 has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains sound.

- The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due) as assessed by the scheme actuary.
- Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contribution expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2019 is £14,892,000.

### Sensitivity Analysis

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the tables above. The sensitivity analysis below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Adjustment to discount rate	+0.1%	0.0%	-0.1%
- Present value of total obligation	£837,736,000	£854,547,000	£871,713,000
- Projected Service cost	£28,559,000	£29,273,000	£30,005,000
Adjustment to long term salary increase	+0.1%	0.0%	-0.1%
- Present value of total obligation	£857,374,000	£854,547,000	£851,744,000
- Projected Service cost	£29,287,000	£29,273,000	£29,259,000
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	-0.1%
- Present value of total obligation	£868,911,000	£854,547,000	£840,482,000
- Projected Service cost	£29,992,000	£29,273,000	£28,571,000
Adjustment to mortality age rating assumption	+ 1 year	None	-1 year
- Present value of total obligation	£886,652,000	£854,547,000	£823,642,000
- Projected Service cost	£30,207,000	£29,273,000	£28,368,000

### 19. Related Parties

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

#### Scottish Government

The Scottish Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. Council Tax bills). Grants received from government departments are set out in the subjective analysis in Note 14 on expenditure and income analysed by nature.

#### Tayside Valuation Joint Board

The Tayside Valuation Joint Board provides services on behalf of Perth & Kinross, Angus and Dundee Councils. The Council does not have any direct control or influence over the board and the amount payable to this body for valuation services and electoral registration services was £1,409,000 (2016/17 £1,422,000). £1,145,000 is disclosed in the Comprehensive Income and Expenditure Statement under Valuation Joint Board and £264,000 under Corporate and Democratic Services for electoral and registration services.

#### Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2017/18 is shown in the Remuneration Report. During 2017/18, four councillors had an interest in businesses from which the Council commissioned works and services to the value of £40,952; £22,427, £21,844 and £175 respectively. Contracts were entered into in full compliance with the Council's standing orders and the Councillors' Code of Conduct.

In addition the Council makes revenue and capital payments to a large number of organisations on which Council members are represented.

#### Live Active Leisure Ltd

This organisation provides leisure services within the area served by the Council. A grant was provided in 2017/18 amounting to £4,818,000 (2016/17 £4,788,000). It is a sole member Company with the Council as that member.

#### Horsecross Arts Ltd

This organisation operates Perth Concert Hall and Perth Theatre. A grant was provided in 2017/18 amounting to £1,186,000 (2016/17 £1,205,000). It is a sole member Company with the Council as that member.

### Culture Perth & Kinross Ltd

This organisation has operated libraries, museums and arts galleries in Perth & Kinross since 1 April 2016. A grant was provided in 2017/18 amounting to £3,479,000 (2016/17 £3,330,000). It is a sole member Company with the Council as that member.

### Tayside Contracts Joint Committee

This organisation provides roads maintenance; catering and cleaning services to the Council. Payments to Tayside Contracts in 2017/18 amounted to £25,300,000 (2016/17 £21,826,000). The Joint Committee is administered and controlled by Dundee City, Angus and Perth & Kinross Councils.

### Health and Social Care Partnership

This organisation is a joint venture between Perth & Kinross Council and Tayside Health Board and has since 1 April 2016 provided an integrated Health and Social Care service. Payments to the Health & Social Care Partnership in 2017/18 amounted to £46,924,000 (2016/17 £48,229,000).

## **20. Leases**

### Council as Lessee

The Council operates a Lease Car Scheme which is available to eligible employees and lease rental payments are recovered from employees. The car leasing agreements are due to expire during the financial years 2018/19 to 2020/21.

The Council has also acquired the use of a number of properties by entering into leasing arrangements. The majority of such properties are used for office accommodation and any capital works undertaken within these premises are written down over the shorter of the lease term or the useful life of the property.

The future minimum lease payments due under non-cancellable leases in future years are:

	2017/18	2016/17
	£'000	£'000
Not later than one year	303	302
Later than one year and not later than five years	849	885
Later than five years	324	505
	<u>1,476</u>	<u>1,692</u>

The expenditure charged to the Services lines in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

	2017/18	2016/17
	£'000	£'000
Minimum lease payments	299	617
Sublease payments receivable	(15)	(13)
	<u>284</u>	<u>604</u>

### Council as Lessor

The Council leases out property under operating leases at normal market rents with the following purpose:

Land for the generation of rental income arising from its use; land and buildings, which include offices and shops, for the supply of suitable business accommodation to promote economic development or satisfy social needs, or to solely generate rental income for the Council.

The future minimum lease payments receivable under non-cancellable leases in future years are:

	2017/18	2016/17
	£'000	£'000
Not later than one year	1,290	1,054
Later than one year and not later than five years	4,471	3,643
Later than five years	47,496	44,584
	<u>53,257</u>	<u>49,281</u>



The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. There were no material adjustments in respect of contingent rents during the years 2016/17 and 2017/18.

## 21. Property, Plant and Equipment

Movements on Fixed Assets 2017/18 in respect of Property, Plant & Equipment are shown below:

<b>Movements in 2017/18</b>	<b>Council Dwellings £'000</b>	<b>Other Land &amp; Buildings £'000</b>	<b>Vehicles Plant &amp; Equipment £'000</b>	<b>Infrastructure Assets £'000</b>	<b>Community Assets £'000</b>	<b>Sub Total c/fwd £'000</b>
<u>Gross Book Value</u>						
As at 1 April 2017	314,534	531,183	43,064	256,648	17,747	1,163,176
Additions	20,585	32,717	7,126	49,841	824	111,093
Donations	0	0	0	0	0	0
Revaluation increases recognised in the Revaluation Reserve	0	8,415	0	0	0	8,415
Revaluation decreases recognised in the Revaluation Reserve	0	(2,855)	0	0	0	(2,855)
Revaluation increases recognised in the Surplus/Deficit on the Provision of Services	0	1,006	0	0	0	1,006
Revaluation decreases recognised in the Surplus/Deficit on the Provision of Services	0	(12,494)	0	0	0	(12,494)
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0
Derecognition - disposals	(2,119)	(342)	(4,248)	0	0	(6,709)
Asset reclassifications	6,412	27,443	0	0	0	33,855
As at 31 March 2018	<u>339,412</u>	<u>585,073</u>	<u>45,942</u>	<u>306,489</u>	<u>18,571</u>	<u>1,295,487</u>
<u>Depreciation</u>						
As at 1 April 2017	(36,028)	(30,812)	(27,938)	(98,906)	(8,146)	(201,830)
Depreciation charge for 2017/18	(13,531)	(15,320)	(5,759)	(9,826)	(1,042)	(45,478)
Depreciation written out to the Revaluation Reserve - revaluation gain	0	3,152	0	0	0	3,152
Depreciation written out to the Revaluation Reserve - revaluation loss	0	200	0	0	0	200
Depreciation written out to the Surplus/Deficit on the Provision of Services - revaluation gain	0	370	0	0	0	370
Depreciation written out to the Surplus/Deficit on the Provision of Services - revaluation loss	0	5,712	0	0	0	5,712
Derecognition - disposals	1,746	0	4,171	0	0	5,917
Asset reclassifications						0
As at 31 March 2018	<u>(47,813)</u>	<u>(36,698)</u>	<u>(29,526)</u>	<u>(108,732)</u>	<u>(9,188)</u>	<u>(231,957)</u>
Net Book Value at 31 March 2018	<u>291,599</u>	<u>548,375</u>	<u>16,416</u>	<u>197,757</u>	<u>9,383</u>	<u>1,063,530</u>

## Property, Plant and Equipment cont'd

### Movements in 2017/18

	Sub total b/fwd £'000	Surplus Assets £'000	Assets Under Construction £'000	Total PPE £'000	PFI Assets Included in PPE £'000
<u>Gross Book Value</u>					
As at 1 April 2017	1,163,176	18	34,818	1,198,012	134,152
Additions	111,093	12	8,251	119,356	0
Donations	0	0	1,350	1,350	0
Revaluation increases recognised in the Revaluation Reserve	8,415	0	0	8,415	0
Revaluation decreases recognised in the Revaluation Reserve	(2,855)	0	(1,350)	(4,205)	0
Revaluation increases recognised in the Surplus/Deficit on the Provision of Services	1,006	20	0	1,026	0
Revaluation decreases recognised in the Surplus/Deficit on the Provision of Services	(12,494)	(25)	0	(12,519)	0
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0
Derecognition - disposals	(6,709)	(45)	0	(6,754)	0
Asset reclassifications	33,855	935	(34,481)	309	0
As at 31 March 2018	<u>1,295,487</u>	<u>915</u>	<u>8,588</u>	<u>1,304,990</u>	<u>134,152</u>
<u>Depreciation</u>					
As at 1 April 2017	(201,830)	0	0	(201,830)	(8,896)
Depreciation charge for 2017/18	(45,478)	0	0	(45,478)	(4,461)
Depreciation written out to the Revaluation Reserve - revaluation gain	3,152	0	0	3,152	0
Depreciation written out to the Revaluation Reserve - revaluation loss	200	0	0	200	0
Depreciation written out to the Surplus/Deficit on the Provision of Services - revaluation gain	370	0	0	370	0
Depreciation written out to the Surplus/Deficit on the Provision of Services - revaluation loss	5,712	0	0	5,712	0
Derecognition - disposals	5,917	0	0	5,917	0
Asset reclassifications	0	0	0	0	0
As at 31 March 2018	<u>(231,957)</u>	<u>0</u>	<u>0</u>	<u>(231,957)</u>	<u>(13,357)</u>
Net Book Value at 31 March 2018	<u>1,063,530</u>	<u>915</u>	<u>8,588</u>	<u>1,073,033</u>	<u>120,795</u>

## Property, Plant and Equipment cont'd

### Comparative Movements in 2016/17

	Council Dwellings £'000	Other Land & Buildings £'000	Vehicles Plant & Equipment £'000	Infrastructure Assets £'000	Community Assets £'000	Sub Total c/fwd £'000
<u>Gross Book Value</u>						
As at 1 April 2016	295,912	476,654	40,287	226,841	16,674	1,056,368
Additions	20,581	11,844	5,220	29,807	1,073	68,525
Revaluation increases recognised in the Revaluation Reserve	0	22,524	0	0	0	22,524
Revaluation decreases recognised in the Revaluation Reserve	0	(1,844)	0	0	0	(1,844)
Revaluation increases recognised in the Surplus/Deficit on the Provision of Services	0	18,935	0	0	0	18,935
Revaluation decreases recognised in the Surplus/Deficit on the Provision of Services	0	(8,680)	0	0	0	(8,680)
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0
Derecognition - disposals	(4,802)	(40)	(2,443)	0	0	(7,285)
Asset reclassifications	2,843	11,790	0	0	0	14,633
As at 31 March 2017	314,534	531,183	43,064	256,648	17,747	1,163,176
<u>Depreciation</u>						
As at 1 April 2016	(25,176)	(33,140)	(24,826)	(90,756)	(7,102)	(181,000)
Depreciation charge for 2016/17	(13,334)	(14,615)	(5,485)	(8,150)	(1,044)	(42,628)
Depreciation written out to the Revaluation Reserve - revaluation gain	0	5,820	0	0	0	5,820
Depreciation written out to the Revaluation Reserve - revaluation loss	0	324	0	0	0	324
Depreciation written out to the Surplus/Deficit on the Provision of Services - revaluation gain	0	8,650	0	0	0	8,650
Depreciation written out to the Surplus/Deficit on the Provision of Services - revaluation loss	0	2,149	0	0	0	2,149
Derecognition - disposals	2,482	0	2,373	0	0	4,855
Asset reclassifications	0	0	0	0	0	0
As at 31 March 2017	(36,028)	(30,812)	(27,938)	(98,906)	(8,146)	(201,830)
Net Book Value at 31 March 2017	278,506	500,371	15,126	157,742	9,601	961,346

## Property, Plant and Equipment cont'd

### Comparative Movements in 2016/17

	Sub total b/fwd £'000	Surplus Assets £'000	Assets Under Construction £'000	Total PPE £'000	PFI Assets Included in PPE £'000
<u>Gross Book Value</u>					
As at 1 April 2016	1,056,368	18	20,195	1,076,581	134,752
Additions	68,525	0	25,586	94,111	0
Revaluation increases recognised in the Revaluation Reserve	22,524	0	1,350	23,874	0
Revaluation decreases recognised in the Revaluation Reserve	(1,844)	(345)	0	(2,189)	0
Revaluation increases recognised in the Surplus/Deficit on the Provision of Services	18,935	0	0	18,935	0
Revaluation decreases recognised in the Surplus/Deficit on the Provision of Services	(8,680)	(11)	0	(8,691)	(600)
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0
Derecognition - disposals	(7,285)	0	0	(7,285)	0
Asset reclassifications	14,633	356	(12,313)	2,676	0
As at 31 March 2017	1,163,176	18	34,818	1,198,012	134,152
<u>Depreciation</u>					
As at 1 April 2016	(181,000)	0	0	(181,000)	(4,873)
Depreciation charge for 2016/17	(42,628)	0	0	(42,628)	(4,477)
Depreciation written out to the Revaluation Reserve - revaluation gain	5,820	0	0	5,820	0
Depreciation written out to the Revaluation Reserve - revaluation loss	324	0	0	324	0
Depreciation written out to the Surplus/Deficit on the Provision of Services - revaluation gain	8,650	0	0	8,650	0
Depreciation written out to the Surplus/Deficit on the Provision of Services - revaluation loss	2,149	0	0	2,149	454
Derecognition - disposals	4,855	0	0	4,855	0
Asset reclassifications	0	0	0	0	0
As at 31 March 2017	(201,830)	0	0	(201,830)	(8,896)
Net Book Value at 31 March 2017	961,346	18	34,818	996,182	125,256

### Capital Commitments

At 31 March 2018, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2017/18 and future years budgeted to cost £21.099m. Similar commitments at 31 March 2017 were £41.288m. The total commitment is made up of the following:

	2017/18 £'000	2016/17 £'000
Education Projects	5,065	16,412
Perth Theatre Upgrade	0	7,514
Roads & Bridges Improvement Schemes	10,653	13,010
Flood Prevention	4,476	795
Environmental Improvements	0	1,212
Other Capital Projects	905	2,345
	<u>21,099</u>	<u>41,288</u>

## Valuation of Assets

### Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at its current value is revalued at least every five years. All valuations were carried out internally with the exception of Council Dwellings which were carried out by the District Valuer. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

Surplus Assets are valued annually on a fair value basis. In terms of the fair value hierarchy, all Surplus Assets are valued at Level 2 and there were no transfers between Levels during the year.

	Council Dwellings £'000	Other Land and Buildings £'000	Surplus Assets £'000	Total £'000
Carried at historical cost	89,290	14,456	12	103,758
Values at current value as at:				
31 March 2018	0	103,119	885	104,004
31 March 2017	0	253,243	0	253,243
31 March 2016	0	146,481	18	146,499
31 March 2015	250,122	14	0	250,136
31 March 2014	0	67,760	0	67,760
Total Cost or Valuation	339,412	585,073	915	925,400

### Changes in Estimates

The Council has made no material changes to accounting estimates for Property, Plant and Equipment in 2017/18.

## 22. Heritage Assets

### Reconciliation of the carrying value of Heritage Assets held by the Council

	2017/18 Art Collection £'000	2017/18 War Memorials £'000	2017/18 Total £'000	2016/17 Art Collection £'000	2016/17 War Memorials £'000	2016/17 Total £'000
Cost or Valuation						
Balance at 1 April	27,535	46	27,581	26,243	46	26,289
Revaluations	0	0	0	1,292	0	1,292
Balance at 31 March	27,535	46	27,581	27,535	46	27,581

### Art Collection

The collection of Fine Art maintained and preserved by Culture Perth & Kinross, on behalf of Perth & Kinross Council is varied and includes oil paintings (approx 1,225 items), watercolours (900), drawings (4,000), prints (1,500), and sculptures (150). The Fine Art collection also includes J D Fergusson and Margaret Morris archives which number approximately 30,000 items.

The Art Collection also includes silver, glass, ceramics, furniture, Oriental materials, horology and metalwork; these are collectively identified as Applied Art.

Curators within Culture Perth & Kinross commenced in 2011/12 a rolling programme of valuation for the Fine and Applied Art collections. Items and collections having significant value are added to the Council balance sheet as the valuation programme progresses.

A rolling programme of valuation is ongoing with items and collections of significant value being added to the Council balance sheet as the valuation programme continues. This programme includes the curatorial valuation of the Margaret Morris archives, which resulted in £3.4m being added to the value of Heritage Assets. The sculptures were valued in 2015/16 which resulted in a further £2.2m being added to the value of Heritage Assets, the most noteworthy of these being sculptures by Eric Gill and JD Fergusson with a cumulative value of £1.3M. An additional £1.3m was added to the value of Heritage Assets in 2016/17 following the curatorial valuation of prints, ephemera, watercolours and drawings. Of particular note are the Beatrix Potter Fungi Studies Collection and the watercolour 'A Frosty Morning' by Sir George Clausen with a cumulative value of £0.5m. There have been no significant additions to Heritage Assets in 2017/18.

#### *Additions and Disposals of Heritage Assets*

There has been no significant addition, either by purchase or donation, to the Fine and Applied Art collection during the current and previous five financial years. The majority of the collections are held in perpetuity, or have disposal conditions attached, and consequently no Fine and Applied Art disposals have occurred during the current and previous five financial years.

### **Further Information on the Museum and Art Gallery Collection**

#### **Art Collection**

##### **Fine and Applied Art**

The Fine Art collection owes its existence largely to the 1926 bequests of local patrons Robert Hay Robertson and Robert Brough, although the first painting entered the collection as early as 1785.

The collection is international in its scope and numbers over 4,000 items. It includes an interesting group of Italian 'Old Masters', a small but important group of 19th Century French works, a good group of 17th century Dutch and Flemish paintings and work by English artists including a small but highly important collection of natural history watercolours by Beatrix Potter.

Its greatest strength however lies in its holding of Scottish pictures. These span the 16th to the 21st century and include such important works as Loch Katrine by Horatio McCulloch and D Y Cameron's The Wilds of Assynt, as well as pictures with strong local connections. Amongst these are pictures by local artists, local topographical views and portraits of local individuals. The collection seeks to retain a balance between the historical and the contemporary aspects whilst continuing to develop the holdings of works of specifically local interest.

In 1991 the collection was effectively doubled in size with the gifting of the J D Fergusson Art Foundation's collection of artworks by the Scottish 'Colourist' John Duncan Fergusson (1874-1961) and its associated archive. This collection is housed at the Fergusson Gallery in Perth.

The Applied Art collection has been acquired since 1785 through purchase, gift or bequest. It covers a wide variety of objects and materials, within which the collections of Perth silver and Perthshire glass are unsurpassed in terms of national importance. The ceramics collection contains significant collections of Staffordshire flat-back figures and Martinware studio pottery as well as a collection of studio pottery produced by potters native to or resident in the Perth & Kinross area. Other smaller collections include furniture, timepieces, oriental and other items.

The promotion of other cultural events and programmes during the year makes it difficult to reliably estimate the percentage of the Art Collection on display for public viewing. However, all items are held in secure storage and access is permitted to scholars and others for research purposes.

The Culture Perth & Kinross Limited Collections Management Framework provides guidance on the collection, disposal or lending of heritage assets.

### **23. Investment Properties**

	2017/18	2016/17
	£'000	£'000
Rental income from investment property	(1,047)	(1,069)
Direct operating expenses arising from investment property	74	211
Balance at end of year	<u>(973)</u>	<u>(858)</u>

The following table summarises the movement in the fair value of investment properties over the year:

	2017/18 £'000	2016/17 £'000
Balance at start of year	14,710	17,558
Additions	0	0
Disposals	(335)	0
Net gains/(losses) from fair value adjustments	628	(171)
Reclassifications: to Property, Plant and Equipment	(1,145)	(2,676)
Other movements	0	(1)
Balance at end of year	<u>13,858</u>	<u>14,710</u>

All of the Authority's investment properties are valued at Level 2 on the fair value hierarchy. Values as at 31 March 2017 and 31 March 2018 are as follows:

	Other Significant Observable Inputs (Level 2)	
	2017/18 £'000	2016/17 £'000
Recurring fair value measurements using:		
Industrial and Commercial Land	12,356	12,026
Shops and Offices	1,150	1,967
Other Investment Properties	352	717
Total Fair Value	<u>13,858</u>	<u>14,710</u>

## Valuation Techniques used to Determine Level 2 and 3 Fair Values for Investment Properties

### Significant Observable Inputs – Level 2

The majority of the value of Industrial and Commercial Land relates to sites leased out on ground leases. Market data is available at national and local levels from sector specialists to provide the valuers with information, such as trends and rent yields, for the commercial and industrial markets. Local market activity for ground leases tends to follow national trends and valuations are undertaken using a discounted income approach. Ground leases are longer term arrangements and sites of this nature enjoy 100% occupancy levels; the rental income stream is known and market data for rent yields is available, all of which are observable input. As a result of the conditions of the ground lease agreement, there is no unobservable input. The valuation of investment land leased out on a ground lease therefore requires the use of observable market data and minimal, if any, unobservable data and is regarded as Level 2.

Market data providing information on trends and rent yield is available from sector specialists for leased Shops and Offices. Local market data is used to assist the valuation process, and valuations are undertaken using the income approach, discounted using market rates to arrive at a net present value for the income stream. The valuer will also consider other factors, such as the age and condition of the property, when arriving at the final valuation. This requires judgement, however any unobservable input is not considered to be significant in terms of any adjustment to the fair value of the property. The valuation of the shops and offices is mainly representative of the available market data, and the valuation input is primarily based on observable data. Therefore the properties are categorised as Level 2.

Other Investment Properties primarily relate to land held for development by the private sector, which will generate a receipt to the Council on disposal. Sites held for redevelopment are valued on the basis of the highest and best use of the site, taking into account adjacent and surrounding property, recent market activity, and development plan restrictions. The valuation of these sites is therefore based upon observable input, i.e. local market data, and as such will be regarded as Level 2.

### Highest and Best Use of Investment Properties

In estimating the fair value of the authority's investment properties, the highest and best use of the properties is their current use.

### Valuation Techniques

There has been no change in the valuation techniques used during the year for investment properties.

### Valuation Process for Investment Properties

The fair value of the Council's investment property is measured annually at each reporting date. All valuations are carried out internally, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The Council's valuation experts work closely with finance officers reporting directly to the Head of Finance on a regular basis regarding all valuation matters.

## 24. Intangible Assets

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

	2017/18 Assets £'000	2016/17 Assets £'000
Balance at start of year		
Gross carrying amount	222	134
Accumulated amortisation	(112)	(73)
Net carrying amount at start of year	110	61
Additions: Purchases	381	88
Amortisation for the period	(162)	(39)
Net carrying amount at end of year	<u>329</u>	<u>110</u>
Comprising:		
Gross carrying amounts	604	222
Accumulated amortisation	(275)	(112)
	<u>329</u>	<u>110</u>

Intangible Assets includes the cost of software licences and the additional development of Concerto, the Council's Corporate Asset Management software. Costs in relation to Concerto were incurred during 2014/15, with further development carried out in 2015/16, 2016/17 and 2017/18, and will provide future benefit to the Council. This is amortised over the seven year licence term, which commenced during 2014/15. Further software licences deemed to provide future benefit to the council have been included and amortised over their deemed useful life.

## 25. Assets Held for Sale

	Current		Non Current	
	2017/18 £'000	2016/17 £'000	2017/18 £'000	2016/17 £'000
Balance outstanding at start of year	895	895	1,438	2,188
Assets newly classified as held for sale:				
- Property, Plant and Equipment	334	0	502	0
Revaluation Losses	0	0	0	0
Revaluation Gains	0	0	450	0
Assets sold	(1,113)	0	(77)	(750)
Transfers from non-current to current	0	0	0	0
Other movements	0	0	0	0
Balance outstanding at year end	<u>116</u>	<u>895</u>	<u>2,313</u>	<u>1,438</u>



## 26. Long Term Debtors

	2017/18 £'000	2016/17 £'000
Other Entities & Individuals	589	461
Total	<u>589</u>	<u>461</u>

## 27. Inventories

	Consumables & Maintenance Materials	
	2017/18 £'000	2016/17 £'000
Balance outstanding at start of year	483	384
Purchases	2,834	2,796
Recognised as an expense in the year	(2,869)	(2,692)
Written off balances	(3)	(5)
Balance outstanding at end of year	<u>445</u>	<u>483</u>

## 28. Debtors

	2017/18 £'000	2017/18 £'000	2016/17 £'000	2016/17 £'000
	Gross	Net	Gross	Net
Scottish Government		8,832		4,960
Central Government		6,733		7,429
Other Local Authorities		186		122
NHS Bodies		1,743		1,231
Public Corps & Trading funds		85		0
Other Entities & Individuals	13,864		15,822	
less Impairment	<u>(8,530)</u>		<u>(9,747)</u>	
		5,334		6,075
Trade	5,597		5,943	
less Impairment	<u>(812)</u>		<u>(721)</u>	
		4,785		5,222
Council Tax & Community Charge	16,395		16,033	
less Impairment	<u>(12,924)</u>		<u>(12,516)</u>	
		3,471		3,517
Total		<u>31,169</u>		<u>28,556</u>

## 29. Creditors

	2017/18 £'000	2016/17 £'000
Scottish Government	(401)	(419)
Central Government	(4,570)	(4,702)
Other Local Authorities	(493)	(711)
NHS Bodies	(118)	(1,471)
Public Corporations and Trading Funds	(400)	(365)
Other Entities and Individuals	(16,656)	(20,041)
Trade Creditors	(31,992)	(30,625)
Total	<u>(54,630)</u>	<u>(58,334)</u>

## 30. Provisions Other than Bad and Doubtful Debts

### Self-Insured/Uninsured Losses

The Insurance Fund makes provision for losses arising from Property, Employers' Liability, Public Liability, Motor, Fidelity Guarantee, Computer, Engineering and Travel/Personal Accident claims.

The provision provides for an estimate of all liabilities likely to be incurred by the Council in respect of self-insured and uninsured losses in respect of incidents that have arisen prior to 1 April 2018.

### Dilapidations

The Council had previously made a provision for the estimated liability to reinstate a building to its original specification and design as detailed in the operating lease. Negotiations with the landlord's agent concluded during 2017/18 and the provision was released in settlement of the claim.

### Perth Office Project

The Council has made provision for the final claim received from a contractor for a project within the 2016/17 capital programme. Negotiations with the contractor concluded during 2017/18 and the provision was released in full in settlement of the claim.

### Canal Street Car Park

The Council had previously made provision for a compensation claim received from a contractor for a project within the 2016/17 capital programme. The claim is currently under negotiation and the provision remains to meet any potential liability.

### Commercial Rent

The Council manages the rental leases for a number of commercial properties. The Council had previously made provision for rent refunds due to the downturn in the economic climate affecting retail trading performance. The provision related to a specific lease and negotiations for the years 2014/15 and 2015/16 concluded during financial year 2017/18 resulting in settlement of the claim for those years. Negotiations for 2016/17 will commence during 2018/19 and a provision remains at 31 March 2018 to meet any potential liability for the years 2016/17 and 2017/18.

	Self Insured/ Uninsured Losses £'000	Dilapidations £'000	Perth Office Project £'000	Canal Street Car Park £'000	Commercial Rent £'000	Total £'000
Balance as at 1 April 2017	2,067	750	183	49	190	3,239
Additional provisions made in 2017/18	263	0	0	0	20	283
Amounts used in 2017/18	(629)	(690)	(183)	0	(118)	(1,620)
Unused amounts reversed in 2017/18	0	(60)	0	0	(52)	(112)
Balance as at 31 March 2018	<u>1,701</u>	<u>0</u>	<u>0</u>	<u>49</u>	<u>40</u>	<u>1,790</u>
Balance Sheet Disclosure:						
Less than 12 months	228	0	0	49	40	317
Over 12 months	1,473	0	0	0	0	1,473
	<u>1,701</u>	<u>0</u>	<u>0</u>	<u>49</u>	<u>40</u>	<u>1,790</u>

## 31. Usable Reserves

Movements in the Council's Usable Reserves are detailed in the Movement in Reserves Statement and notes 5 and 6.

### 32. Unusable Reserves

	2017/18 £'000	2016/17 £'000
Revaluation Reserve	(278,016)	(278,190)
Capital Adjustments Account	(326,381)	(308,251)
Financial Instruments Adjustment Account	20,548	11,124
Pensions Reserve	90,168	249,939
Employee Statutory Adjustment Account	4,898	5,482
Total Unusable Reserves	<u>(488,783)</u>	<u>(319,896)</u>

#### Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- re-valued downwards or impaired and the gains are lost;
- used in the provision of services and the gains are consumed through depreciation; or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	2017/18 £'000	2016/17 £'000
Balance at 1 April	(278,190)	(258,256)
Upward revaluation of assets	(11,872)	(30,986)
Downward revaluation of assets and impairment losses not charged to the (Surplus)/Deficit on the Provision of Services	4,005	1,865
	<u>(286,057)</u>	<u>(287,377)</u>
Difference between fair value depreciation and historical cost depreciation	7,707	7,539
Accumulated gains on assets sold or scrapped	334	1,648
Amount written off to the Capital Adjustment Account	8,041	9,187
Balance at 31 March	<u>(278,016)</u>	<u>(278,190)</u>

#### Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 5 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

	2017/18 £'000	2016/17 £'000
Balance at 1 April	(308,251)	(272,201)
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement		
Charges for depreciation and impairment of non current assets	45,478	42,628
Revaluation losses/(gains) on Property, Plant and Equipment	5,266	(21,043)
Amortisation of intangible assets	162	39
Amounts of non current assets written off on disposal as part of the gain/loss	2,362	3,180
	<u>(254,983)</u>	<u>(247,397)</u>
Adjusting amounts written out of the Revaluation Reserve	<u>(8,041)</u>	<u>(9,187)</u>
	<u>(263,024)</u>	<u>(256,584)</u>
Capital financing applied in the year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	(3,916)	(3,842)
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	(32,434)	(20,831)
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(19,809)	(18,053)
Capital expenditure charged against the general fund and HRA balances	<u>(6,570)</u>	<u>(9,112)</u>
	<u>(325,753)</u>	<u>(308,422)</u>
Movements in the fair value of the Investment Properties	(628)	171
Balance at 31 March	<u><u>(326,381)</u></u>	<u><u>(308,251)</u></u>

#### Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account (FIAA) is used to hold the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

The Council uses the Account to manage the balance of premiums and discounts which existed at 31 March 2007, which arose on the early redemption of loans. These are charged to the General Fund and Housing Revenue Account (HRA) in accordance with statutory provisions, and so spreading the burden on Council Tax and Housing Rents. These statutory arrangements allow for the annual charges to be made in accordance with the original amortisation schedules which existed at that time.

The Council also uses the FIAA to hold the difference in interest charges which arises on stepped interest rate loans. These typically have low interest rates in the early years before "stepping up" to a higher interest rate. Interest on such loans is now required to be charged consistently over the life of the loan using the Effective Interest Rate Method. The difference in the cumulative charges under this new method to 31 March 2007 was debited to the FIAA, and is to be charged to the General fund and the HRA over the life of the loans under the statutory provisions.

Accordingly, the balance on the FIAA as at 31 March 2018 in respect of the above provisions will be charged to the General Fund and HRA over the next 50 years. The movements on the FIAA during the year are shown below:

	2017/18 £'000	2016/17 £'000
Balance at 1 April	11,124	11,636
Amount of premiums incurred during the year debited to the FIAA in accordance with statutory requirements	10,037	0
Proportion of discounts incurred in previous financial years credited against the General Fund & HRA Balance in accordance with statutory requirements in the year	4	4
Proportion of premiums incurred in previous financial years charged against the General Fund & HRA Balance in accordance with statutory requirements in the year	(601)	(501)
Difference on restatement of Stepped Interest Rate Loans	(16)	(15)
Balance at 31 March	<u><u>20,548</u></u>	<u><u>11,124</u></u>

### Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pensions funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall between the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2017/18 £'000	2016/17 £'000
Balance at 1 April	249,939	161,821
Actuarial Gains or (Losses) on Pensions Assets and Liabilities	(185,040)	76,087
Reversal of Items Relating to Retirement Benefits Debited or Credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	42,340	28,738
Employer's Pensions Contributions and Direct Payments to Pensioners Payable in the Year	(17,071)	(16,707)
Balance at 31 March	<u>90,168</u>	<u>249,939</u>

### Employee Statutory Adjustment Account

The Employee Statutory Adjustment Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2017/18 £'000	2016/17 £'000
Balance at 1 April	5,482	4,648
Cancellation of accrual made at the end of the preceding year	(5,482)	(4,648)
Amounts accrued at the end of the current year	4,898	5,482
Balance at 31 March	<u>4,898</u>	<u>5,482</u>

## **33. Impairment Losses**

Movements in the value of properties during the year were mainly due to the revaluation of the operational depots, tips and car parks portfolio during 2017/18. Any losses arising have been assessed as a revaluation loss rather than a loss attributed to deterioration in the anticipated level of the performance of the properties.

### 34. Grants

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2017/18.

	2017/18 £'000	2016/17 £'000
<b>Credited to Taxation and Non Specific Grant Income</b>		
Scottish Government	22,303	16,973
Scottish Government Bodies & Directorates	2,429	1,349
Developer Contributions	2,833	1,186
Other Third Party Contributions	4,869	1,323
	<u>32,434</u>	<u>20,831</u>
<b>Credited to Services</b>		
Scottish Government	6,218	4,713
Scottish Government Directorates (incl Historic Scotland; NHS)	299	228
Sport Scotland	48	441
Local Authority	77	33
Other Scottish Government Bodies	310	230
Other Third Party Contributions	595	1,690
	<u>7,547</u>	<u>7,335</u>

### 35. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under PFI/PPP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed below.

	2017/18 £'000	2016/17 £'000
Capital Financing Requirements b/fw d	455,232	411,091
<u>Capital Expenditure</u>		
Property, Plant & Equipment	119,737	94,199
Revenue Expenditure funded from Capital	<u>1,575</u>	<u>2,216</u>
	<u>121,312</u>	<u>96,415</u>
	<u>576,544</u>	<u>507,506</u>
<u>Sources of Finance</u>		
Capital Receipts	(3,143)	(2,061)
Government Grants and Contributions	(34,009)	(23,048)
Revenue Contributions	(6,570)	(9,112)
Loans Fund Principal Repayments	<u>(19,809)</u>	<u>(18,053)</u>
	<u>(63,531)</u>	<u>(52,274)</u>
Closing Capital Financing Requirement c/fw d	<u>513,013</u>	<u>455,232</u>
Movement	57,781	44,141
<u>Analysed as:</u>		
Increase in need to borrow	61,958	47,957
Net assets acquired under PPP contract	<u>(4,177)</u>	<u>(3,816)</u>
	<u>57,781</u>	<u>44,141</u>

### 36. Public Finance Initiatives and Similar Contracts

The Council has an obligation for 25 years commencing September 2000 in respect of a unitary charge payment to be made for office accommodation and a car park.

The unitary charge for 2017/18 for the office accommodation was £2,346,000 (2016/17 £2,341,000). In 2015/16 the facilities management element of the service charge was renegotiated resulting in a reduced unitary charge payment.

The unitary charge for 2017/18 for the car park was £386,000 (2016/17 £407,000).

Future agreed payments will increase in line with inflation. The unitary charge payments for 2018/19 for the office accommodation will be £2,423,000 and for the car park is £401,000.

The project agreement for provision of the facilities included the transfer of four Council properties to the operator in exchange for reduced annual payments over the life of the agreement. At the end of this project these assets do not revert back to the Council.

The Council has an obligation for six school campuses in a Public Private Partnership with Axiom Education (Perth and Kinross) Ltd. North Inch Primary was brought into operation in 2011/12. Breadalbane Campus at Aberfeldy was completed in 2010/11 and the campuses at Blairgowrie, Perth South, Kinross, Crieff and the Roman Catholic School Campus were brought into operation during 2009/10. The Council will make unitary charge payments until the contract ends in 2042, at which time the campuses will be handed back to the Council at no cost. The estimated capital value of the scheme is £127,687,000.

The unitary charge for 2017/18 for the campuses operating in the year was £15,967,000 (2016/17 £15,432,000).

Future agreed payments will increase in line with inflation. The unitary charge payments for 2018/19 for all school campuses will be £16,598,000.

Movements in Fixed Assets under Public Private Partnerships during the year were:

	2017/18 £'000	2016/17 £'000
Net Book Value at 1 April 2017	125,256	129,879
Additions	0	0
Revaluations	0	(146)
Depreciation	(4,461)	(4,477)
Net Book Value at 31 March 2018	<u>120,795</u>	<u>125,256</u>

Movements in Public Private Partnership Liabilities during the year were:

	2017/18 £'000	2016/17 £'000
Liabilities at 1 April 2017	117,875	121,691
Amounts repaid in year	(4,177)	(3,816)
Liabilities at 31 March 2018	<u>113,698</u>	<u>117,875</u>
Disclosed in the Balance Sheet as:		
Long Term Liabilities	109,225	113,698
Creditors	4,473	4,177
Liabilities at 31 March 2018	<u>113,698</u>	<u>117,875</u>

Future Public Private Partnership liabilities due to be met:

	Repayment of liability £'000	Interest £'000	Service Charges £'000	Lifecycle Maintenance £'000	Contingent Rentals £'000	TOTAL £'000
Due within one year	4,473	5,861	5,918	1,048	1,816	19,116
Due in 2 to 5 years	17,293	20,643	25,488	8,727	8,857	81,008
Due in 6 to 10 years	20,593	18,593	34,395	15,191	15,238	104,010
Due in 11 to 15 years	20,017	13,914	37,958	15,930	21,794	109,613
Due in 16 to 20 years	28,056	8,747	43,314	12,299	31,601	124,017
Due in 21 to 25 years	23,266	2,147	34,208	10,495	27,074	97,190
Total	<u>113,698</u>	<u>69,905</u>	<u>181,281</u>	<u>63,690</u>	<u>106,380</u>	<u>534,954</u>

These figures are based on the actual cash amount estimated to be payable and not on prices at 31 March 2018.

### 37. Authorisation of Annual Accounts

The Unaudited Annual Accounts were authorised for issue by the Head of Finance on 27 June 2018. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2018, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

### 38. Contingent Liabilities

The Council has made provision for insurance claims where appropriate and has an Insurance Fund to manage insurable risks. There is also a contingent liability in respect of potential insurance claims incurred but not reported which cannot be forecast with any certainty.

There is a contingent liability relating to Municipal Mutual Insurance (MMI), who were the insurers for Tayside Regional Council (TRC). Following a Supreme Court judgement in November 2012 a scheme of arrangement has been put in place where MMI will seek to recover, from the scheme members or successors, 25% (and increase from 15% applied after April 2016) of all claims paid out since 1993 on policies taken out by TRC (less an overall total reduction of £50,000). Perth and Kinross Council is one of the successor bodies of TRC. There remains uncertainty as to whether the remaining assets of the TRC Insurance Fund will be sufficient to meet all future liabilities due to the long time horizon for certain types of claims.

The Council has received a claim in relation to mesothelioma where an individual may have been exposed to asbestos while they were employed by the Council and its predecessor authority. It is not possible to determine with any certainty whether there is any liability at this time until the claim is fully investigated.

The Limitation (Childhood Abuse) (Scotland) Act 2017 came into force on 4 October 2017 and removed the time limit on raising civil court actions relating to childhood abuse. Consequently the Council may in future be the subject of court action relating to past events. It is not possible to estimate the potential financial effect due to a number of uncertainties. The number of claims which may arise, and the extent of compensation which could arise. Additionally the extent of reimbursement which might arise from historic or current insurance policies cannot currently be assessed.

The Council has a number of contracts for the upgrade and redevelopment of buildings and infrastructure. Claims relating to compensation for works and land purchases for several schemes are currently being negotiated, however, no reliable estimate can be made at this time in respect of any potential amount to be paid by or to be received by the Council.

The Council previously identified a potential issue in terms of fixed assets included in the Council Balance Sheet which should, potentially, be included in the Balance Sheet of the Common Good Funds instead. Property titles are being reviewed when land and/or buildings are declared surplus to operational needs and, until all property titles for all former burghs are reviewed, there remains the possibility that some assets may require to be transferred between the Council and Common Good balance sheets.

The Council operates services from a number of properties that it does not own. In the future there may be a liability in respect of property costs to reinstate buildings to their original specification and design.

The Council has identified a potential liability in respect of casual and supply staff who may be entitled to employee benefits, such as occupational sick pay and maternity pay, similar to those available to permanent staff. At this time, it is



not possible to determine the number of individuals involved. Therefore, no reliable estimate of the cost of providing retrospective access to these benefits can be made.

The Council has a potential liability in respect of financial guarantees for the Tayside Pension Fund in respect of Scheduled Bodies and Admitted Bodies should they cease to exist, withdraw from the Pension Scheme or otherwise become unable to continue covering any unfunded liabilities. These bodies include Tayside and Central Scotland Transport Partnership, Live Active Leisure Ltd, Horsecross Arts Limited, Perth & Kinross Countryside Trust, Perth & Kinross Society for the Blind, Perth Citizens' Advice Bureau and Culture Perth & Kinross. In addition the Council has a potential liability in respect of pensions for the Convention of Scottish Local Authorities (COSLA) should the organisation cease to exist.

### 39. Financial Instruments

Accounting regulations require the 'financial instruments' (investment, lending and borrowing of the Council) shown on the balance sheet to be further analysed into various defined categories. The investments, lending and borrowing disclosed in the balance sheet are made up of the following categories of 'financial instruments'.

	Long-Term		Current		Total	
	31 March 2018	31 March 2017	31 March 2018	31 March 2017	31 March 2018	31 March 2017
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Borrowings</b>						
Financial liabilities at amortised cost	344,853	279,963	16,176	14,195	361,029	294,158
Total borrowings	344,853	279,963	16,176	14,195	361,029	294,158
<b>Investments</b>						
Loans and receivables	489	401	36,454	49,302	36,943	49,703
Total investments	489	401	36,454	49,302	36,943	49,703

Lender Option Borrower Option (LOBO) borrowings of £44.443m have been included in long term borrowing as at 31 March 2018 but have a call date in the next 12 months.

The above long term figures are based on the 2017 Code which requires that in undertaking Effective Interest Rate (EIR) calculations, the maturity period for a LOBO is taken as being the contractual period to maturity.

### Financial Instruments Gains / Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Account in relation to financial instruments are as follows:

	Financial Liabilities	Financial Assets		
	Liabilities measured at amortised cost	Loans and receivables	Total 2017/18	Total 2016/17
	£'000	£'000	£'000	£'000
Interest expense	11,639	0	11,639	10,756
Losses on derecognition	0	0	0	0
Interest payable and similar charges	11,639	0	11,639	10,756
Interest income	0	(283)	(283)	(426)
Interest and investment income	0	(283)	(283)	(426)
Gains on revaluation	10,037	0	10,037	0
Losses on revaluation	13	0	13	14
Surplus arising on revaluation of financial assets	10,050	0	10,050	14
Net loss/(gain) for the year	21,689	(283)	21,406	10,344

### Fair Value of Liabilities Carried at Amortised Cost

The fair value of each class of financial assets and liabilities which are carried in the balance sheet as at 31 March 2018 at amortised cost is disclosed below.

## Methods and Assumptions in valuation technique:

The fair value of an instrument is determined by calculating the Net Present Value (NPV) of future cash flows, which provides an estimate of the value of payments in the future in today's terms.

The discount rate used in the NPV calculation is the rate applicable in the market on the date of valuation for an instrument with the same structure, terms and remaining duration. For debt, this will be the new borrowing rate since premature repayment rates include a margin which represents the lender's profit as a result of rescheduling the loan; this is not included in the fair value calculation since any motivation other than securing a fair price should be ignored. In addition, lenders do not have the ability to force the Council to repay debt early.

The rates quoted in this valuation were obtained by the Council's treasury management consultants from the market on 31 March 2018, using bid prices where applicable.

The calculations are made with the following assumptions:

- For Public Works Loans Board (PWLB) debt, the discount rates used are the rates for new borrowing as per rate sheet number 127/18.
- For other market debt and investments the discount rates used are the rates available for an instrument with the same terms from a comparable lender.
- Interpolation techniques have been used between available rates where the exact maturity period was not available
- No early repayment or impairment is recognised.
- Fair values have been calculated for all instruments in the portfolio, but only those which are materially different from the carrying value have been disclosed.

The fair values are calculated as follows:

	31 March 2018		31 March 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
Public Works Loans Board (PWLB)	312,011	369,712	245,170	311,361
Lender Option Borrower Option (LOBO)	44,812	65,464	44,831	67,097
Local Authority Bonds	0	0	0	0
Short term borrowing	1,507	1,502	1,384	1,379
Other (Special Loans)	2,243	2,242	2,273	2,275
Other Market Loans	456	466	500	519
Financial Liabilities	361,029	439,386	294,158	382,631

Fair value is more than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the balance sheet date. The difference between the carrying amount and the fair value therefore represents the premium the Council would need to pay to the lender in the event these loans were to be repaid at that date. For comparison, if the Council were to have repaid all the loans to the PWLB on the balance sheet date, a total of £454.6m would have been payable after applying the PWLB's premature redemption rates applicable on that date. This is higher than the Fair Value shown in the table above, as the PWLB premature redemption rates include an additional profit margin over their comparative new borrowing rates.

## Fair Value of Assets Carried at Amortised Cost

	31 March 2018		31 March 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
Cash (including petty cash)	15,736	15,736	24,157	24,160
Deposits with Banks and Building Societies	20,537	20,537	25,048	25,065
Mortgages	123	123	108	108
Loans to Others	550	550	390	390
Financial Assets	36,946	36,946	49,703	49,723

The fair value is the same as the carrying amount in 2017/18 as the carrying amount reflects the prevailing interest rates.

## Nature and Extent of Risks Arising from Financial Instruments

The Council's management of treasury risks is intended 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 CIPFA's 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 the short-term lending of surplus funds to banks, building societies, Money Market Funds and other local authorities as well as credit exposures to the Council's customers. It is the policy of the Council to place deposits only with a limited number of high quality banks, building societies and Money Market Funds whose credit rating, together with other market information, is independently assessed as sufficiently secure by the Council's treasury advisers and to restrict lending to a prudent maximum amount and duration for each institution.

The following analysis summarises the Council's potential maximum exposure to credit risk, based on past experience and current market conditions.

	Amounts at 31 March 2018	Historical experience of default	Historical experience adjusted for market conditions as at 31 March 2018	Estimated maximum exposure to default and uncollectability
	£'000	%	%	£'000
Deposits with banks and other financial institutions	37,629	0	0	0
Loans to Others	673	0	0	0
Debtors	12,277	14.1	14.1	1,731
Total	50,579	-	-	1,731

The Council's overall exposure to credit risk in relation to its deposits in banks and other financial institutions of £37.63m above cannot be assessed generally, as the risk of non-payment of the principle sums or interest is specific to each individual institution. Experience indicates that any such non-payment is rare, and there is no evidence that any risk of default existed at 31 March 2018. The repayment profile of these deposits, including loans to others, is shown below:

	31 March 2018 £'000	31 March 2017 £'000
Less than three months	17,092	41,295
Three to six months	13,013	12,515
Six months to one year	7,524	-
More than one year	-	-
<b>Total</b>	<b>37,629</b>	<b>53,810</b>

### Loans to Others

The Council initiates a legal charge on property where, for example, clients require assistance with payment of care fees, but cannot pay immediately until such time as their property is sold. The total amount outstanding as at 31 March 2018 in this category is £550,000 and experience of default is minimal. The Council has granted mortgages for essential property repairs in shared ownership properties. The total amount outstanding as at 31 March 2018 is £123,000 with no experience of default. The total amount of Loans to Others of £673,000 can be analysed as follows:

	31 March 2018 £'000	31 March 2017 £'000
Less than three months	50	6
Three to six months	43	3
Six months to one year	86	92
More than one year	494	397
<b>Total</b>	<b>673</b>	<b>498</b>

### Debtors

The Council does not generally allow credit for customers, such that £10.725m of the £12.277m balance is past its due date for payment.

	31 March 2018 £'000	31 March 2017 £'000
Less than three months	7,507	7,226
Three to six months	456	311
Six months to one year	1,112	1,370
More than one year	1,650	1,573
<b>Total</b>	<b>10,725</b>	<b>10,480</b>

## (ii) Liquidity Risk

The Council has access to borrowings from the money markets to cover day to day cashflow needs, as well as borrowing from the Public Works Loans Board or money markets for longer term funding requirements. As a result there is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments. The Council manages its portfolio in conjunction with interest rate forecasts to reduce the risk of a large proportion of its borrowing maturing at a time of higher interest rates, and so reduce the financial impact of re-financing at an unfavourable time. In addition, the monitoring of interest rate movements for the identification of debt rescheduling opportunities to amend the maturity profile, as well as achieving savings in interest charges, is undertaken on a continuous basis to further mitigate any refinancing risks.

The maturity structure of financial liabilities is as follows (at nominal value):

Loans outstanding	On 31 March 2018 £'000	On 31 March 2017 £'000
Public Works Loans Board	310,000	243,209
Market debt	43,692	43,749
Temporary borrowing	1,506	1,383
Local bonds	2,236	2,625
Bank Overdraft	1,393	4,639
<b>Total</b>	<b>358,827</b>	<b>295,605</b>
Less than 1 year	15,192	16,865
Between 1 and 2 years	12,267	10,218
Between 2 and 5 years	28,028	33,340
Between 5 and 10 years	33,140	33,621
Between 10 and 15 years	2,500	6,475
More than 15 years	267,700	195,086
<b>Total</b>	<b>358,827</b>	<b>295,605</b>

In the more than 15 years category there are £43.2m of LOBO borrowings which have a call date in the next 12 months.

## (iii) Market Risk

### Interest rate risk

The Council is exposed to interest rate risk in two different ways: the first being the uncertainty of interest paid/received on variable rate instruments and the second being the effect of fluctuations in interest rates on the fair value of an instrument.

The current interest rate risk for the council is summarised below:

- Reductions in interest rates will affect interest earned on variable rate investments, and reduces income credited to the Comprehensive Income and Expenditure Statement. There would only be a small reduction in the interest payable on variable rate borrowing.
- Increases in interest rates will affect interest paid on variable rate borrowings, and increases interest expense charged to the Comprehensive Income and Expenditure Account, but offset by increased investment returns.
- The fair value of fixed rate financial assets will fall if interest rates rise. This will not impact on the balance sheet for assets held at amortised cost, but will impact on the disclosure note for fair value. It would have a negative effect on the balance sheet for any assets held at fair value in the balance sheet, which would also be reflected in the Comprehensive Income & Expenditure Statement. However, no such assets at fair value were held by the Council as at 31 March 2018.
- The fair value of fixed rate financial assets will rise if interest rates fall. This will not impact on the balance sheet for liabilities held at amortised cost, but will impact on the disclosure note for fair value.

The Council has a number of strategies for managing interest rate risk. The policy is to keep a maximum of 35% of its borrowings in variable rate loans. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans may be repaid early to limit exposure to losses, whilst fixed deposits may be undertaken for longer periods (within policy and counterparty limits).

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget throughout the year. This allows any favourable or adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

According to this assessment strategy, at 31 March 2018, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£'000
Increase in interest payable on variable rate borrowings	483
Increase in interest receivable on variable rate investments	(457)
Impact on Comprehensive Income and Expenditure Statement	<u>26</u>
Share of overall impact debited to the HRA	6

The impact of a 1% fall in interest rates would have been an estimated cost of £279,000 to the Council as a result of a reduction in investment income, whilst it would be unlikely that the lenders of the market loans borrowed would pass on the reduction in rates payable. However, there would be a small reduction of £14,000 payable on other small loan balances. Therefore the net cost of a 1% fall in interest rates would be £265,000, of which £63,000 would be debited to the HRA.

#### Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

#### Price Risk

The Council does not invest in equities, however does invest in other tradable instruments but with the intention of holding them until their maturity date. Therefore, the Council does not actively trade in such instruments, and is therefore not exposed to gains or losses on movements in their price.

### **40. Devolved School Management (DSM) Schools**

The accumulated balance on the General Fund at 31 March 2018 includes net surplus funds of £1,205,000 (31 March 2017 £1,103,000) in respect of schools participating in the Devolved School Management scheme. There are a number of schools with surpluses totalling £1,214,000 and a number of schools carrying forward deficits amounting to £9,000. These surpluses and deficits are earmarked in 2017/18 for the individual schools concerned. There is Pupil Equity Funding from the Scottish Government of £720,000 which is being carried forward to 2018/19 for schools within the Council's earmarked general fund balances.

### **41. Operating Activities**

The cash flows for operating activities include the following items:

	2017/18 £'000	2016/17 £'000
Interest received	(297)	(497)
Interest paid	18,048	19,804
	<u>17,751</u>	<u>19,307</u>

### **42. Investing Activities**

	2017/18 £'000	2016/17 £'000
Purchase of property, plant and equipment, investment property and intangible assets	(119,073)	(93,817)
Purchase of short-term and long-term investments	(57,537)	(67,548)
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	2,590	3,380
Proceeds of short-term and long-term investments	62,048	87,620
Other receipts for investing activities	29,734	20,831
	<u>(82,238)</u>	<u>(49,534)</u>

#### 43. Financing Activities

	2017/18 £'000	2016/17 £'000
Cash receipts of short and long-term borrowing	134,371	82,485
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI contracts	(4,177)	(3,816)
Repayments of short and long-term borrowing	(66,648)	(41,799)
Net cash flows from financing activities	<u>63,546</u>	<u>36,870</u>

#### 44. Cash and Cash Equivalents

The balance of Cash and Cash equivalents is made up of the following elements:

	2017/18 £'000	2016/17 £'000
Cash held by officers	36	36
Bank current accounts	(1,393)	(4,641)
Short-term deposits with banks	17,093	28,762
Total cash and cash equivalents	<u>15,736</u>	<u>24,157</u>

#### 45. Trust Funds

Perth & Kinross Council administers a number of Charitable Funds of varying sizes. The Income and Expenditure Account and Balance Sheet are detailed on page 85.

These funds include Educational Trusts and other trusts which are primarily for the residents of Perth & Kinross. An exercise is currently being undertaken to amalgamate many of the non-educational trusts in order for the funds to be more readily accessible.

The Perth & Kinross Educational Trust gives financial assistance towards scholarships, second or subsequent degrees, mature students and further education. Assistance is also provided to schools for sports facilities and special equipment, promoting visual arts and education in music and drama. There are also preferences for certain beneficiaries usually named schools for prizes etc. Also within the Perth & Kinross Educational Trust there are eight individual endowments for maintaining, furnishing and equipping school buildings.

The other charitable trusts purposes include giving financial assistance to the poor in different areas of Perth & Kinross, assistance for libraries and art galleries and the maintenance of memorials.

	31 March 2018 £'000	31 March 2017 £'000
Educational Trust - Financial Assistance		
Net assets	888	943
Net(Incoming)/Outgoing Resources before other recognised gains and losses	(5)	(1)
Educational Trust - Endowments		
Net assets	53	54
Net (Incoming) Resources before other recognised gains and losses	1	(3)
Other Charitable Trusts		
Net assets	1,689	2,194
Net (Incoming)/Outgoing Resources before other recognised gains and losses	(443)	(283)
TOTAL Net Assets	<b>2,630</b>	<b>3,191</b>
TOTAL Net (Incoming)/Outgoing Resources before other recognised gains and losses	<b>(447)</b>	<b>(287)</b>

Detailed Accounts for the Charities are available from the Head of Finance, 2 High Street, Perth, PH1 5PH.

#### 46. The Statutory Loans Fund

The Local Authority (Capital Financing and Accounting) (Scotland) Regulations 2016 came into force on 1 April 2016. These made various changes to the way the Loans Fund was operated and accounted for. Changes to the Council's Loans Fund policies were approved by the Council on 20 December 2017 (report 17/414 refers), relating to the repayment period and method that capital advances (expenditure) were repaid (charged) on an annual basis.

The Loans Fund is an internal fund operated by the Council to manage the amortisation of capital expenditure (capital advances) over the life of the various assets being funded by borrowing, and also to manage the external borrowing raised to finance the capital expenditure. Whilst both elements of the Loans Fund operate independently of each other, because they are based on the same capital plans they will broadly be consistent to each other over the long term. However, significant differences may arise over the short-term. This may include, for example, delaying external borrowing due to unfavourable prevailing interest rates, where the Council's daily cashflow remains positive, or where the Council has significant levels of Reserves.

The annuity repayment method is used for all internal capital advances through the Loans Fund. The Council also defers the repayment of Loans Fund advances until the asset being funded is completed and operational. The Council repays/amortises the capital advances over the life of the asset being funded, up to a maximum of 50 years.

The value of Loans Fund advances outstanding at 31 March 2018 is £399,997,000. This is made up as follows:

	Advances 1 April 2017 £'000	Repaid 2017/18 £'000	New Advances 2017/18 £'000	Advances 31 March 2018 £'000
General Fund	217,415	(8,440)	53,239	262,214
Prudential Borrowing	41,136	(3,385)	5,255	43,006
Sub Total	258,551	(11,825)	58,494	305,220
HRA	79,488	(3,808)	19,097	94,777
Total	338,039	(15,633)	77,591	399,997

The future repayments of these advances is summarised in the table below:

	General Fund £'000	Prudential Borrowing £'000	Sub Total: General Fund £'000	Housing Revenue Account £'000	Total £'000
Within 1 Year	5,164	3,269	8,433	4,352	12,785
Between 1 and 2 Years	4,947	3,029	7,976	4,263	12,239
Between 2 and 5 Years	14,793	6,956	21,749	12,181	33,930
Between 5 and 10 Years	20,960	7,752	28,712	20,200	48,912
Between 10 and 15 Years	19,018	7,698	26,716	15,962	42,678
Between 15 and 20 Years	17,056	7,327	24,383	10,620	35,003
Between 20 and 25 Years	19,181	4,067	23,248	11,552	34,800
More than 25 Years	161,095	2,908	164,003	15,647	179,650
Total	262,214	43,006	305,220	94,777	399,997

Comparison of the Capital advances above with the capital debt of £353.692m shows that the Council is currently "under-borrowed" by around £46.3m. This reflects the strategy adopted in recent years of utilising cash balances (which have arisen due to reserves held by the Council in the short term) to reduce the level of short term investments held by the Council, instead of undertaking new borrowing. This strategy reduced the risks and low returns associated with investments in recent years.

The latest approved General Fund (Composite) Capital Budget and Housing Investment Programme includes the amount of capital expenditure to be funded by borrowing (ie new Loans Fund advances) in each of the next 10 years is as follows:

	General Fund	Housing Investment Programme	Total
	£'000	£'000	£'000
2018/19	49,558	10,846	60,404
2019/20	35,628	4,828	40,456
2020/21	78,366	5,298	83,664
2021/22	87,015	4,492	91,507
2022/23	59,942	23,485	83,427
2023/24	17,202	0	17,202
2024/25	7,302	0	7,302
2025/26	7,302	0	7,302
2026/27	7,302	0	7,302
2027/28	7,302	0	7,302
Total	356,919	48,949	405,868

All the above Loans Fund repayments have been included in the Loan Charge estimates within the approved Medium Term Financial Plans, and therefore remain affordable under the current Loan Charge Budget strategy.



## HOUSING REVENUE ACCOUNT

The Housing Revenue Account (HRA) Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Councils charge rents to cover expenditure in accordance with the legislative framework which may be different from the accounting cost. The increase or decrease in the year, on the basis on which rents are raised, is shown in the Statement of Movements on the Housing Revenue Account Balance.

<u>2016/17</u>			<u>2017/18</u>	
£'000			£'000	£'000
	<b>Income</b>			
(25,662)	Dwelling Rents	(25,718)		
229	less Voids	279		
			(25,439)	
(675)	Non-Dwelling Rents	(530)		
253	less Voids	95		
			(435)	
(1,032)	Other Income		(1,024)	
<u>(26,887)</u>	<b>Total Income</b>			(26,898)
	<b>Expenditure</b>			
7,322	Repairs & Maintenance		7,474	
7,870	Supervision & Management		8,850	
13,543	Depreciation, impairment and revaluation losses on non current assets		13,710	
(250)	Movement in the Impairment of Debtors		(656)	
1,855	Other expenditure		2,266	
<u>30,340</u>	<b>Total Expenditure</b>			31,644
<u>3,453</u>	<b>Net Expenditure for HRA Services as included in the Comprehensive Income and Expenditure Statement</b>			4,746
337	HRA services' share of Corporate and Democratic Core			342
<u>3,790</u>	<b>Net Expenditure for HRA Services</b>			5,088
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:			
78	(Gain)/loss on sale of HRA Non-Current Assets			(147)
2,429	Interest payable and similar charges			2,682
(6)	Interest and investment income			(18)
392	Net Interest on the net defined benefit liability			451
(3,260)	Capital Grants and Contributions Receivable			(4,546)
<u>3,423</u>	<b>Deficit for the year on HRA services</b>			3,510

## STATEMENT OF MOVEMENTS ON THE HOUSING REVENUE ACCOUNT BALANCE

The Statement of Movement on the Housing Revenue Account balance reconciles the Housing Revenue Account to the HRA balance, an earmarked element of the Council's General Fund Balance.

<u>2016/17</u> £'000		<u>2017/18</u> £'000	<u>2017/18</u> £'000
(782)	Balance on the HRA at the end of the Previous Year		(800)
3,423	Deficit for the year on the HRA Income and Expenditure Account	3,510	
<u>(2,801)</u>	Adjustments between Accounting Basis and Funding Basis Under Statute	<u>(3,110)</u>	
<u>622</u>	Net Decrease before Transfers to or from Reserves	400	
(640)	Transfer from Reserves	<u>(600)</u>	
(18)	Increase in Year on the HRA		(200)
<u>(800)</u>	Balance on the HRA at the end of the Current Year		<u>(1,000)</u>

### Note to the Statement of Movement on the HRA Balance

<u>2016/17</u> £'000		<u>2017/18</u> £'000	<u>2017/18</u> £'000
	<b>Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year</b>		
(78)	Gain/(Loss) on sale of HRA Non-current assets	147	
(13,463)	Depreciation and impairment of non current assets	(13,710)	
(80)	Revaluation Losses on Property, Plant and Equipment	0	
3,260	Capital Grants and Contributions credited to the Comprehensive Income and Expenditure Statement	4,546	
(69)	Adjustments involving Short Term Accumulated Absences Account	1	
(1,924)	Reversal of items relating to retirement benefits credited to the Comprehensive Income and Expenditure Statement	<u>(2,822)</u>	
<u>(12,354)</u>			(11,838)
	<b>Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year</b>		
1,088	Employer's pension contributions and direct payments to pensioners payable in the year	1,011	
121	Adjustments involving the Financial Instruments Adjustment Account	145	
3,378	Statutory provision for the repayment of debt	3,810	
4,966	Capital expenditure charged to the HRA balances	<u>3,762</u>	
<u>9,553</u>			8,728
<u>(2,801)</u>	<b>Net additional amount required by statute to be debited to the HRA Balance for the year</b>		<u>(3,110)</u>

## NOTES TO THE HOUSING REVENUE ACCOUNT

### 1. **Housing Stock** at 31 March 2018

	No. of Dwellings 31 March 2018	<i>No. of Dwellings 31 March 2017</i>
Sheltered accommodation	285	289
Detached/Semi-Detached/Terraced	3,606	3,578
High Rise Flats	136	135
Tenement Flats/Other Flats/Maisonettes	3,513	3,465
Total	<u>7,540</u>	<u>7,467</u>

### 2. **Rent Arrears** at 31 March 2018

	Gross Arrears 31 March 2018		<i>Gross Arrears 31 March 2017</i>	
	£'000	% of Income	£'000	% of Income
Houses	1,679	6.5	2,508	10.1
Other Subjects	59	11.1	65	9.7
Totals	<u>1,738</u>	<u>6.6</u>	<u>2,573</u>	<u>10.1</u>

### 3. **Impairment of Debtors**

In 2017/18 an impairment of £1,125,532 has been provided in the Balance Sheet, a decrease of £655,606 from the impairment in 2016/17.

## COUNCIL TAX INCOME ACCOUNT

The Council Tax Income Account shows the gross income raised from Council Taxes levied and deductions made under statute. The resultant net income is transferred to the Comprehensive Income and Expenditure Statement of the Council.

<u>2016/17</u>			<u>2017/18</u>
£'000			£'000      £'000
86,192	<b>Gross Charge</b>		93,886
(2,957)	Deduct -	Exemptions	(3,175)
(113)		Disabled Relief	(149)
(6,680)		Discounts and Reductions	(6,706)
(6,155)		Council Tax Reduction Scheme	(6,188)
<u>70,287</u>	<b>Net Council Tax</b>		<u>77,668</u>
	Deduct -		
(6)		Ministry Of Defence Properties	(6)
6		Contribution Received	<u>6</u>
			0
(950)	Provision for Bad and Doubtful Debts		(1,051)
<u>69,337</u>	<b>Total Council Tax Income</b>		<u>76,617</u>
83	Adjustments for prior years for Council Tax and Community Charge		(446)
<u>69,420</u>	<b>Total Council Tax / Community Charge Income to Comprehensive I&amp;E Statement</b>		<u>76,171</u>

## NOTES TO THE COUNCIL TAX INCOME ACCOUNT

### 1. CALCULATION OF THE COUNCIL TAX BASE

	A	B	C	D	E	F	G	H	31.3.18 TOTAL	31.3.17 TOTAL
No. of Properties	8,816	14,774	12,114	10,665	11,581	7,541	6,121	677	72,289	71,710
Exemptions	(833)	(766)	(518)	(337)	(308)	(136)	(76)	(20)	(2,994)	(2,942)
Disabled Relief	76	2	7	30	(38)	9	(80)	(6)	0	0
Discounts	(1,380)	(1,911)	(1,321)	(1,071)	(889)	(446)	(296)	(63)	(7,377)	(7,278)
Effective No. of Properties	6,679	12,099	10,282	9,287	10,346	6,968	5,669	588	61,918	61,490
Ratio	240/360	280/360	320/360	360/360	473/360	585/360	705/360	882/360		
Band D Equivalents	4,449	9,411	9,139	9,287	13,594	11,323	11,101	1,441	69,745	65,078
Contributions in lieu									6	6
TOTAL									69,751	65,084
Provision for non-payment at 2.0% (2016/17 2.5%)									(1,395)	(1,627)
COUNCIL TAX BASE									68,356	63,457

### 2. THE COUNCIL TAX CHARGE

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

Each property is placed in one of eight valuation bands (A-H) in accordance with their value as at 1 April 1991. 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.

Certain persons including students, those in detention and those with a severe mental impairment are disregarded when assessing the number of occupants for Council tax purposes. Where there is only one occupant in a dwelling a discount of 25% is given.

Purpose built holiday homes and some job related dwellings may be awarded a 50% discount. Dwellings used as a second home receive no discount and long-term empty dwellings may be subject to a 200% charge. Reductions may be granted where a dwelling has been adapted to meet the needs of a disabled person or where major repair work is being carried out.

The valuation bands, the fractions used in calculating the Council Tax payable for each valuation band and the actual charges determined for 2017/18 are set out below:

Valuation Band	Property Valuation Range	Fraction of band D	2017/18 Actual Charge	2016/17 Actual Charge
A	£0 - £27,000	240/360	£787.33	£772.00
B	£27,001 - £35,000	280/360	£918.56	£900.67
C	£35,001 - £45,000	320/360	£1,049.78	£1,029.33
D	£45,001 - £58,000	360/360	£1,181.00	£1,158.00
E	£58,001 - £80,000	473/360	£1,551.70	£1,415.33
F	£80,001 - £106,000	585/360	£1,919.12	£1,672.67
G	£106,001 - £212,000	705/360	£2,312.79	£1,930.00
H	Over £212,000	882/360	£2,893.45	£2,316.00

## NON DOMESTIC RATE INCOME ACCOUNT

The Non-Domestic Rate Account is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Non-Domestic Rate Account. The statement shows the gross income from the rates and deductions made under statute. The net income is paid to the Scottish Government as a contribution to the national Non-Domestic Rate pool.

<u>2016/17</u>		<u>2017/18</u>	
£'000		£'000	£'000
74,129	<b>Gross Rate Levied</b>		76,780
0	Transitional Relief		(1,490)
			75,290
	Deduct:		
(2,526)	Rate Rebates	(2,619)	
(15,622)	Reliefs, Charities etc.	(17,256)	
(269)	Provision for Bad and Doubtful Debts	(225)	
			(20,100)
	Adjustments to Previous Years:		
(2,157)	Gross Rate Levied	(2,072)	
107	Reliefs, Charities etc.	(27)	
522	Impairment for Bad and Doubtful Debts and Abatements	(89)	
			(2,188)
54,184	<b>Net Non Domestic Rate Income</b>		53,002
(54,511)	Contribution to National Non Domestic Rate Pool	(53,193)	
57,555	Contribution from National Non Domestic Rate Pool	52,035	
3,044	Net contribution from National Non Domestic Rate Pool		(1,158)
57,228	<b>Total Non Domestic Rate Income (before Council retentions)</b>		51,844
0	Non-Domestic Rate Income Retained by Council (Business Rates Incentivisation Scheme)		0
	<b>Total Non Domestic Rate Income to Comprehensive Income and Expenditure Statement</b>		51,844
327	Discretionary Relief funded by the Council		191

## NOTES TO THE NON DOMESTIC RATE INCOME ACCOUNT

### 1. NON DOMESTIC RATES

All non domestic rate income collected by Scottish local authorities is paid into a national pool. It is redistributed to authorities in proportion to the resident population in each authority's area and therefore bears no direct relationship to the amount collected by those authorities. The rate poundage set by the Scottish Government for 2017/18 was 46.6p (2016/17 48.4p).

The Small Business Bonus Scheme, introduced from 1 April 2008, provides relief to businesses based on their combined rateable value. From 1 April 2014 the combined rateable value threshold has been set at £35,000 with relief available on all individual properties with a rateable value of £18,000 or less. Subject to eligibility, this provides relief of between 25% and 100%. This scheme replaced the Small Business Rates Relief Scheme.

A supplement of 2.6p (2016/17 for 2.6p) was charged on properties with a rateable value of over £51,000 (£35,000 for 2016/17) to contribute towards the additional cost of the scheme.

### 2. RATEABLE SUBJECTS AND VALUES

<i>No. of Subjects at 1 April 2016</i>	<i>Rateable Value £'000 at 1 April 2016</i>		<i>No. of Subjects at 1 April 2017</i>	<i>Rateable Value £'000 at 1 April 2017</i>
1,662	38,667	Shops	1,673	36,344
89	1,652	Public Houses	87	1,820
993	15,094	Offices (including banks)	1,025	14,270
220	9,940	Hotels etc.	232	13,706
1,536	21,227	Industrial Subjects etc.	1,569	22,812
1,546	9,451	Leisure, Entertainment, Caravans etc.	1,587	11,250
157	3,451	Garages and Petrol Stations	151	4,186
61	1,083	Cultural	63	1,306
424	1,323	Sporting Subjects	423	1,639
119	14,111	Education and Training	121	14,862
401	6,907	Public Service Subjects	413	8,064
1	0	Communications	1	0
27	417	Quarries, Mines etc.	23	407
2	4,065	Petrochemical	2	3,597
246	1,748	Religious	246	1,602
117	6,503	Health, Medical	113	6,777
721	1,533	Other	709	1,775
71	3,055	Care Facilities	67	3,276
22	90	Advertising	34	125
67	8,031	Undertaking	82	10,760
<u>8,482</u>	<u>148,348</u>	Total	<u>8,621</u>	<u>158,578</u>

## CHARITABLE TRUSTS

The Council administers Perth & Kinross Educational Trust and various other Charitable Trusts and Endowments. The figures below summarise the aggregate income and expenditure for the year and the assets and liabilities at 31 March 2018.

### INCOME AND EXPENDITURE ACCOUNT FOR YEAR TO 31 MARCH 2018

	2017/18 £'000	2017/18 £'000	2016/17 £'000
<b>INCOMING RESOURCES</b>			
Incoming resources from generated funds:			
Investment Income	122		138
Other incoming resources	<u>0</u>		<u>5</u>
<b>Total Incoming Resources</b>		122	<u>143</u>
<b>RESOURCES EXPENDED</b>			
Costs of generating funds:			
Investment management costs	16		18
Charitable activities	69		91
Governance costs	11		13
Reorganisation of trusts	<u>473</u>		<u>308</u>
<b>Total Resources Expended</b>		569	<u>430</u>
<b>Net Incoming Resources Before Other Recognised Gains &amp; Losses</b>		(447)	(287)
<b>OTHER RECOGNISED GAINS</b>			
Gain/(Losses) on Investment assets		(114)	398
<b>Net Movement in Funds for the Year</b>		(561)	111
<b>RECONCILIATION OF FUNDS</b>			
Total Funds Brought Forward at 1 April 2017		3,191	3,080
<b>TOTAL FUNDS CARRIED FORWARD AT 31 MARCH 2017</b>		<u><u>2,630</u></u>	<u><u>3,191</u></u>

### BALANCE SHEET AS AT 31 MARCH 2018

	31 March 2018 £'000	31 March 2018 £'000	31 March 2017 £'000
<b>FIXED ASSETS</b>			
Tangible Assets		95	100
Investments		2,393	2,971
<b>CURRENT ASSETS</b>			
Debtors	7		8
Investments - Amounts due by Perth & Kinross Council Loans Fund	<u>151</u>		<u>152</u>
	158		
<b>LIABILITIES</b>			
Creditors: amounts falling due within one year	<u>(16)</u>		(40)
<b>NET CURRENT ASSETS</b>		142	120
<b>NET ASSETS</b>		<u><u>2,630</u></u>	<u><u>3,191</u></u>
<b>TOTAL FUNDS</b>		<u><u>2,630</u></u>	<u><u>3,191</u></u>

#### Notes to Charitable Trusts

- The market value of Investments at 31 March 2018 was £2,393,000 (31 March 2017 £2,971,000).
- The unaudited accounts were issued on 27 June 2018.

Stewart Mackenzie CPFA  
Head of Finance  
27 June 2018



## COMMON GOOD

The Council administers the Common Good Accounts for ten former burghs within Perth & Kinross. The figures below summarise the aggregate income and expenditure for the year and detail the Assets and Liabilities at 31 March 2018.

### INCOME AND EXPENDITURE ACCOUNT FOR YEAR TO 31 MARCH 2018

	2017/18 £'000	2017/18 £'000	2016/17 £'000
<b>EXPENDITURE</b>			
Grants to Voluntary Organisations	177		177
Christmas Lighting	72		90
Property Costs	37		17
Supplies & Services	10		7
		296	291
<b>INCOME</b>			
Rents, Fees, Charges etc.	258		262
Interest on Loans	14		18
Other	1		2
		273	282
<b>(DEFICIT) FOR THE YEAR</b>		(23)	(9)
Revenue Balance Brought Forward		1,985	1,994
Revenue Balance Carried Forward		1,962	1,985

### BALANCE SHEET AS AT 31 MARCH 2018

	31 March 2018 £'000	31 March 2018 £'000	31 March 2017 £'000
<b>FIXED ASSETS</b>		4,923	4,614
<b>CURRENT ASSETS</b>			
Debtors	6		9
Investments	2,115		2,142
Revenue Advances to Perth & Kinross Council Loans Fund	190		142
	2,311		2,293
<b>CURRENT LIABILITIES</b>			
Creditors and Accruals	(83)		(50)
<b>NET CURRENT ASSETS</b>		2,228	2,243
<b>TOTAL NET ASSETS</b>		7,151	6,857
<b>RESERVES</b>			
Revenue		1,962	1,985
Capital		386	386
Capital Adjustment Account		80	80
Revaluation Reserve		4,723	4,406
		7,151	6,857

The unaudited accounts were issued on 27 June 2018.

Stewart Mackenzie CPFA  
Head of Finance  
27 June 2018

## NOTES TO THE COMMON GOOD ACCOUNTS

- Depreciation on Common Good Funds is charged on buildings, based on current value less residual value over the remaining useful life of the property. The buildings have a life expectancy of over 50 years and depreciation has been charged on a straight line basis over that period.

### 2. Common Good Reserve Funds

The movements in the individual Common Good Funds Revenue Reserves are summarised below:

FUND	Balance at 1 April 17	Income 2017/18	Expenditure 2017/18	Balance at 31 March 18
	£'000	£'000	£'000	£'000
Perth City	1,325	246	232	1,339
Aberfeldy	122	1	1	122
Alyth	20	1	0	21
Auchterarder	322	23	60	285
Blairstown	21	0	0	21
Coupar Angus	1	0	1	0
Crieff	9	1	0	10
Kinross	158	1	2	157
Pitlochry	7	0	0	7
<b>TOTAL</b>	<b>1,985</b>	<b>273</b>	<b>296</b>	<b>1,962</b>

### 3. Common Good Fixed Assets

Some of the fixed assets included in the Council Balance Sheet should potentially be included in the Balance Sheet of the Common Good Funds instead.

A review of property and land titles is undertaken once an asset has been declared surplus to operational needs. Until all property titles of the former burghs are reviewed there remains the possibility that some assets may require to be transferred between the Balance Sheets of the Council and Common Good Funds.

# GROUP MOVEMENT IN RESERVES STATEMENT

	General Fund Balance	Housing Revenue Account	Capital Fund	Renewal & Repair Fund	Insurance Fund	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	TOTAL Authority Reserves	Authority's share of subsidiaries	Authority's share of associates & joint ventures	TOTAL Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance at 1 April 2016</b>	(54,908)	(782)	(23,925)	(1,234)	(3,111)	(1,788)	(87)	(85,835)	(352,352)	(438,187)	(14,884)	1,850	(451,221)
<u>Movement in reserves during 2016/17</u>													
Total Comprehensive Income and Expenditure	(12,455)	3,423	0	0	0	0	0	(9,032)	46,966	37,934	9,077	6,543	53,554
Adjustments from income & expenditure charged under the accounting basis to the funding basis	16,849	(2,801)	0	0	0	462	0	14,510	(14,510)	0	0	0	0
<b>Decrease in 2016/17</b>	4,394	622	0	0	0	462	0	5,478	32,456	37,934	9,077	6,543	53,554
Transfers to/(from) Other Statutory Reserves	(888)	(640)	310	951	267	0	0	0	0	0	0	0	0
<b>Balance at 31 March 2017 carried forward</b>	(51,402)	(800)	(23,615)	(283)	(2,844)	(1,326)	(87)	(80,357)	(319,896)	(400,253)	(5,807)	8,393	(397,667)
<u>Movement in reserves during 2017/18</u>													
Total Comprehensive Income and Expenditure	20,786	3,510	0	0	0	0	0	24,296	(192,907)	(168,611)	(8,040)	(12,657)	(189,308)
Adjustments from income & expenditure charged under the accounting basis to the funding basis	(22,236)	(3,110)	0	0	0	1,326	0	(24,020)	24,020	0	0	0	0
<b>(Increase) or Decrease in 2017/18</b>	(1,450)	400	0	0	0	1,326	0	276	(168,887)	(168,611)	(8,040)	(12,657)	(189,308)
Transfers to/(from) Other Statutory Reserves	1,753	(600)	(1,445)	263	29	0	0	0	0	0	0	0	0
<b>Balance at 31 March 2018 carried forward</b>	(51,099)	(1,000)	(25,060)	(20)	(2,815)	0	(87)	(80,081)	(488,783)	(568,864)	(13,847)	(4,264)	(586,975)

# GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

<i>Restated 2016/17 Net Expenditure £'000</i>		Note	2017/18	
			Gross Expenditure £'000	Income £'000
				Net Expenditure £'000
<b>SERVICES</b>				
136,700	Education & Children's Services		170,984	(7,107)
51,422	Health & Social Care		121,973	(70,560)
13,243	Housing & Community Safety		53,432	(34,809)
70,653	The Environment Service		88,200	(16,377)
16,239	Corporate and Democratic Services		24,910	(4,924)
9,038	Culture Services		26,000	(10,044)
3,453	Housing Revenue Account		31,644	(26,898)
1,161	Valuation Joint Board		1,145	0
425	Charitable Trusts		569	0
27	Common Good		296	(259)
302,361	<b>COST OF SERVICES</b>		519,153	(170,978)
(635)	Other Operating Expenditure / Income		0	(808)
22,351	Financing and Investment Income and Expenditure	4	35,060	(1,112)
(334,579)	Taxation and Non-Specific Grant Income		0	(354,436)
(10,502)	<b>Deficit/(Surplus) on Provision of Services</b>		554,213	(527,334)
496	Share of the Deficit on the provision of services by Associates and Joint Ventures			3,059
(10,006)	<b>Group Deficit/(Surplus)</b>			29,938
(29,084)	Surplus on revaluation of non current assets			(8,184)
84,462	Remeasurement of the net defined benefit liability			(194,928)
2,069	Other gains and (losses)			(153)
6,113	Share of the other comprehensive income and expenditure of Associates and Joint Ventures			(15,981)
63,560	Other Comprehensive Income and Expenditure			(219,246)
53,554	<b>Total Comprehensive Income and Expenditure</b>			(189,308)

## GROUP BALANCE SHEET

31 March 2017		Notes	31 March 2018
£'000			£'000
1,012,251	Property, Plant & Equipment		1,089,462
27,581	Heritage Assets		27,581
14,710	Investment Property		13,858
110	Intangible Assets		329
1,438	Assets Held for Sale		2,313
693	Investment in Joint Venture		0
461	Long Term Debtors		589
<b>1,057,244</b>	<b>Long Term Assets</b>		<b>1,134,132</b>
30,161	Short Term Investments	5	25,045
895	Assets Held for Sale		116
553	Inventories		528
29,896	Short Term Debtors	6	32,231
35,587	Cash and Cash Equivalents		26,528
<b>97,092</b>	<b>Current Assets</b>		<b>84,448</b>
(14,195)	Short Term Borrowing		(16,176)
(61,434)	Short Term Creditors	7	(57,817)
(1,289)	Provisions		(317)
<b>(76,918)</b>	<b>Current Liabilities</b>		<b>(74,310)</b>
(1,950)	Provisions		(1,473)
(279,963)	Long Term Borrowing		(344,853)
(19,134)	Liabilities in associates and joint ventures		(5,518)
(378,704)	Other Long Term Liabilities		(205,451)
<b>(679,751)</b>	<b>Long Term Liabilities</b>		<b>(557,295)</b>
<b>397,667</b>	<b>NET ASSETS</b>		<b>586,975</b>
80,357	Usable Reserves		80,081
319,896	Unusable Reserves		488,783
(12,634)	Group Reserves		8,330
10,048	Charitable and Common Good Reserves		9,781
<b>397,667</b>	<b>TOTAL RESERVES</b>		<b>586,975</b>

The unaudited Accounts were issued on 27 June 2018.

Stewart Mackenzie CPFA  
Head of Finance  
27 June 2018

## GROUP CASH FLOW STATEMENT

<u>2016/17</u>		<u>Notes</u>	<u>2017/18</u>
<i>£'000</i>			<i>£'000</i>
10,006	<b>Surplus/(Deficit) on the provision of services</b>		(26,879)
42,768	Adjustments to net surplus or deficit on the provision of services for non cash movements		73,219
(22,414)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		(35,875)
<u>30,360</u>	Net cash flows from Operating Activities		<u>10,465</u>
(49,715)	Investing Activities	10	(83,113)
36,904	Financing Activities	11	63,589
<u>17,549</u>	Net increase/(decrease) in cash and cash equivalents		<u>(9,059)</u>
18,038	Cash and cash equivalents at the beginning of the reporting period		35,587
<u><u>35,587</u></u>	Cash and cash equivalents at the end of the reporting period		<u><u>26,528</u></u>

**RECONCILIATION OF THE SINGLE ENTITY (SURPLUS)/DEFICIT FOR THE YEAR TO THE GROUP  
SURPLUS**

<u>2016/17</u> £'000		<u>2017/18</u> £'000
(9,032)	(Surplus)/Deficit on the single entity Comprehensive Income & Expenditure Statement for the year	24,296
	Add:	
(102)	• Managed Funds - Charitable Trusts & Common Good	584
(693)	• Joint Venture	693
1,189	• Associates	2,366
(1,368)	• Subsidiaries	1,999
<u>(10,006)</u>	(Surplus)/Deficit for the year on the Group Comprehensive Income & Expenditure Statement	<u>29,938</u>

## NOTES TO THE GROUP ACCOUNTS

### 1. Combining Entities

The results of Tayside Valuation Board which is jointly administered with Dundee City and Angus Councils have been included in the Group Accounts. The Council is exempt from including the Board as a subsidiary under the "rebuttable presumption" which recognises that the Scottish Government exercises a dominant influence on the Board evidenced particularly by its ability to reconstitute or abolish statutory bodies or otherwise influence their operating and financial policies.

A number of Councillors have voting rights on the Board. The Council has an obligation to contribute to the Joint Board losses or deficits and the ability to exercise significant influence over it. The Joint Board has therefore been incorporated in the Group Accounts under the equity method of Accounting for Associates.

For the purpose of consolidation and incorporation within the Group Accounts recognition has been made of the Council's interest which is based on its share of the contributions made to the Tayside Valuation Board, which in 2017/18 was 41.14% (2016/17 40.71%). The accounting period for the Board is the year to 31 March 2018 and the Board Statements of Accounts presents fairly its individual financial position.

The individual accounts relating to Tayside Valuation Joint Board are published separately, and can be obtained from the Director of Corporate Services, Dundee City Council, Dundee House, 50 North Lindsay Street, Dundee, DD1 1QE.

In addition, the Council has also included Live Active Leisure Ltd., Horsecross Arts Ltd. and Culture Perth & Kinross Ltd. as Subsidiaries within its Group Accounts in accordance with IAS 27 Consolidated and Separate Financial Statements, and in particular SIC 12 Consolidation – Special Purpose Entities. These organisations deliver services on behalf of the Council and the Council therefore obtains benefit from their operations. In addition, service delivery is managed through Service Level Agreements specific to the service provision required from the organisations by the Council. Live Active Leisure Ltd., Horsecross Arts Ltd. and Culture Perth & Kinross Ltd. are governed by company and charitable trust regulation. For the purpose of consolidation and incorporation within the Group Accounts it has been assumed that the Council's interest in these organisations is 100% due to the nature of Council control and direction over their operations.

Live Active Leisure Ltd., Horsecross Arts Ltd. and Culture Perth & Kinross Ltd. are arm's length companies with sole member status with the Council being the sole member in both companies.

The individual accounts relating to these organisations are published separately, and can be obtained from the following addresses:-

Live Active Leisure Ltd.	Caledonia House, Hay Street, Perth, PH1 5HS.
Horsecross Arts Ltd.	Perth Concert Hall, Mill Street, Perth, PH1 5HZ.
Culture Perth & Kinross Ltd.	A K Bell Library, 2-8 York Place, Perth, PH2 8EP

The income, expenditure, assets and liabilities of the Charitable Trusts which are administered and controlled by the Council have also been included as a managed fund. The nature of the assets of the managed fund are heritable property, investments and debtors. The assets are not the property of Perth & Kinross Council and are subject to charitable trust regulations. The Income and Expenditure Account of the Charitable Trusts is detailed on page 85 of the Annual Accounts.

The income, expenditure, assets and liabilities of the Common Good Accounts which are administered and controlled by the Council have also been included as a managed fund. The nature of the assets of the managed fund are heritable property, investments and debtors. The assets are the property of Perth & Kinross Council and are subject to the Accounting Code of Practice. The Income and Expenditure Account of the Common Good is detailed on page 86 of the Annual Accounts.

Perth & Kinross Council's share of the assets and liabilities of Tayside Contracts Joint Committee which is jointly administered and controlled with Dundee City Council and Angus Council has been included in the Group Accounts using the equity method for an associate due to the Council having significant influence rather than joint control over the entity. The Council's investment in Tayside Contracts for 2017/18 is 33.0% (2016/17 32.9%). Copies of Tayside Contracts Joint Committee's individual accounts are published separately, and can be obtained from Head of Financial Services, Tayside Contracts, 1 Soutar Street, Dundee, DD3 8SS.

Perth and Kinross Integration Joint Board (IJB) is the statutory body established to integrate health and social care services between the Council and NHS Tayside. The IJB Board consists of eight voting members, four of whom are Perth & Kinross Council councillors. The Council can therefore exercise joint control over the arrangement and the IJB has been consolidated into the Council Group accounts as a joint venture using the equity method and a percentage share of 50%. Copies of the Perth & Kinross Integration Joint Board individual accounts are published separately and can be obtained from the Chief Financial Officer, Perth & Kinross Integration Joint Board, 2 High Street, Perth, PH1 5PH.

In addition the CIPFA Code requires the realignment of accounting policies for entities included within the Group Accounts. The pension liability at 31 March 2018 for Horsecross Arts Ltd of £712,000 has been included within the Group Reserves balance at 31 March 2018.



Tayside and Central Scotland Transport Partnership (TACTRAN) is a statutory body established under the Transport (Scotland) Act 2005. The partnership covers Angus, Dundee City, Perth & Kinross and Stirling Council areas. The results of TACTRAN have been excluded from Perth & Kinross Council's Group accounts on the grounds of materiality.

## 2. Nature of Combination

The Council inherited its interest in the Tayside Valuation Board following the reorganisation of local government in 1996. It is considered that the Council's interest was obtained on an acquisition basis. However, as no consideration was given, no goodwill requires to be accounted for.

## 3. Financial Impact of Consolidation and Going Concern

The effect of inclusion of the Subsidiaries and Associates listed above in the Group Balance Sheet is to increase both reserves and net assets by £18,111,000 (2016/17 £2,586,000 decrease).

All Subsidiaries and the Associate have prepared their accounts on a 'going concern' basis. The Council's Group Accounts have been prepared on a 'going concern' basis as there is no reason to suggest that future funding will not continue. Apart from the disclosures made in the Notes to the Group Accounts there were no material amounts or details in relation to associates or managed funds.

## 4. Group Comprehensive Income & Expenditure Statement – Financing and Investment Income & Expenditure

	2017/18 £'000	2016/17 £'000
Council Financing and Investment Income & Expenditure	34,013	22,945
Subsidiaries	(43)	(40)
Charitable Trusts	(8)	(536)
Common Good	(14)	(18)
	<u>33,948</u>	<u>22,351</u>

## 5. Group Balance Sheet - Investments

	2017/18 £'000	2016/17 £'000
Council Investments	20,537	25,048
Charitable Trusts Investments	2,393	2,971
Common Good Investments	2,115	2,142
Total Group Investments	<u>25,045</u>	<u>30,161</u>

## 6. Group Balance Sheet – Short term Debtors (net of provisions)

	2017/18 £'000	2016/17 £'000
Net Debtors Balance - Note 28 to the Financial Statements	31,169	28,556
Subsidiary Debtors	1,049	1,323
Charitable Trust		
Debtors	158	160
Inter-company elimination	(151)	(152)
Common Good		
Debtors	196	151
Inter-company elimination	(190)	(142)
Total Group Debtors	<u>32,231</u>	<u>29,896</u>

## 7. Group Balance Sheet – Short term Creditors

	2017/18 £'000	2016/17 £'000
Net Creditors Balance - Note 29 to the Financial Statements	(54,630)	(58,334)
Charitable Trust		
Creditors	(16)	(40)
Inter-company elimination	151	152
Common Good		
Creditors	(83)	(50)
Inter-company elimination	190	142
	<u>(54,388)</u>	<u>(58,130)</u>
Subsidiary Creditors	(3,429)	(3,304)
Total Group Creditors	<u>(57,817)</u>	<u>(61,434)</u>

## 8. Group Balance Sheet - Pension Liability

	2017/18 £'000	2016/17 £'000
Net Pensions Liability at 31 March - Note 18 to the Financial Statements	(90,168)	(249,939)
Subsidiaries	<u>(6,058)</u>	<u>(15,067)</u>
Group Pension Liability at 31 March	<u>(96,226)</u>	<u>(265,006)</u>

## 9. Group Cash Flow Statement

There has been no impact on the Group Cash Flow Statement from the inclusion of the Tayside Valuation Joint Board, Tayside Contracts Joint Committee, or the Perth & Kinross Integration Joint Board. Cash transactions between the Joint Boards and the Council are already included within the Council's Cash Flow Statement and there were no dividend transactions.

The impact of the inclusion of Live Active Leisure Ltd., Horsecross Arts Ltd. and Culture Perth & Kinross Ltd. within the Group Cash Flow Statement is to increase the movement in the net cash position by £10,792,000 (2016/17, increase of £11,430,000). A cash increase of £9,186,000 represents the Council's 100% share of Live Active Leisure Ltd., a cash increase of £263,000 represents the Council's 100% share of Horsecross Arts Ltd and a cash increase of £1,343,000 represents the Council's 100% share of Culture Perth & Kinross.

## 10. Group Cash Flow – Investing Activities

	2017/18 £'000	2016/17 £'000
Council Investing Activities	(82,238)	(49,534)
Subsidiaries	<u>(875)</u>	<u>(181)</u>
	<u>(83,113)</u>	<u>(49,715)</u>

## 11. Group Cash Flow – Financing Activities

	2017/18 £'000	2016/17 £'000
Council Financing Activities	63,546	36,870
Subsidiaries	<u>43</u>	<u>34</u>
	<u>63,589</u>	<u>36,904</u>

## 12. Related Party Transactions

The under noted balances, which all relate to the supply of goods and services, existed between the Tayside Valuation Joint Board and the Council at the year-end:

	Balance Due		Balance Due	
	From 31.3.18 £'000	To 31.3.18 £'000	From 31.3.17 £'000	To 31.3.17 £'000
Tayside Valuation Joint Board	26	0	1	0

## **REMUNERATION REPORT FOR FINANCIAL YEAR 2017/18**

### **1. Introduction**

[The Local Authority Accounts \(Scotland\) Amendment Regulations 2011 \(SSI No. 2011/64\)](#) require local authorities in Scotland to prepare a Remuneration Report as part of their Annual Accounts. The disclosures within this report have been prepared in accordance with guidance issued by the Scottish Government on 13 May 2011 in [Local Government Finance Circular No 8/2011](#) (subsequently updated). This guidance prescribes the content and format of the information presented within the Remuneration Report and specifies that remuneration disclosures are to be based upon taxable expenses and benefits. The disclosures are set out in accordance with proper accounting practice as prescribed by the [Code of Practice on Local Authority Accounting in the UK](#) and include prior year comparative figures.

### **2. Audit of Remuneration Report**

The Remuneration Report is a statement in its own right rather than a note to the accounts and certain disclosures within the report are subject to audit.

All information disclosed in Tables 1 to 7 in this Remuneration Report will be audited by the Council's appointed auditor KPMG. The other sections of the Remuneration Report will be reviewed by KPMG to ensure that they are consistent with the financial statements.

### **3. Remuneration of Senior Councillors**

- 3.1 The remuneration of Councillors is regulated by the [Local Governance \(Scotland\) Act 2004 \(Remuneration\) regulations 2007 \(SSI No. 2007/183\)](#). The Regulations provide for the grading of Councillors for the purposes of remuneration arrangements, as either, the Leader of the Council, the Civic Head (Provost), Senior Councillors or Councillors. The Leader of the Council and the Civic Head cannot be the same person for the purposes of payment of remuneration. A Senior Councillor is a Councillor who holds a significant position of responsibility in the Council's political management structure.
- 3.2 When determining the level of remuneration for Councillors the Scottish Ministers considered the recommendations of the former Scottish Local Authority Remuneration Committee (SLARC). SLARC was an advisory Non-Departmental Public Body set up in 2005 to advise Scottish Ministers on the remuneration, allowances and expenses incurred by local authority councillors. The Committee was stood down in February 2013.
- 3.3 The Regulations set out the salary that is to be paid to the Leader of the Council in accordance with bandings also set out in the Regulations. The Regulations also permit the Council to remunerate one Civic Head, which in the case of Perth & Kinross Council is the Provost, and set out the maximum salary that may be paid to that Civic Head. For 2017/18 the maximum salary for the Leader of Perth & Kinross Council is £33,857 and the Council has agreed that the Civic Head be paid 75% of the salary of the Leader, which for 2017/18 is a maximum of £25,392. The actual amounts for 2017/18 are lower due to the election of a new Council on 5 May 2017 and the resulting delay in appointments to the new Council until 17 May 2017. Please refer to Table 1.
- 3.4 In addition to the Leader of the Council and Civic Head, Regulations also set out the maximum number of Senior Councillors the Council may have; the maximum yearly amount that may be paid to a Senior Councillor (75% of the total yearly amount payable to the Leader of the Council) and the maximum yearly amount payable by the Council for all Senior Councillors. Perth & Kinross Council may have a maximum of 14 Senior Councillors with a maximum salary of £25,392 and a maximum yearly amount payable for all Senior Councillors of £296,240 in 2017/18 (excluding the Council Leader, Civic Head, Conveners and Vice Conveners of Joint Boards and the Tayside Community Justice Authority). The Council is able to exercise local flexibility in the determination of the precise number of Senior Councillors and their salary within these maximum limits. Perth & Kinross Council's policy in 2017/18 was to pay Senior Councillors up to 90% of the maximum of £25,392 as prescribed by SLARC.
- 3.5 The Regulations also set out the remuneration payable to Councillors with the responsibility of a Convener or a Vice-Convener of a Joint Board such as Tayside Valuation Joint Board. The Regulations require the remuneration to be paid by the Council of which the Convener or Vice-Convener is a member. Joint Board Conveners and Vice-Conveners are considered to be Senior Councillors for remuneration disclosure purposes. In financial year 2017/18, one Councillor from Perth & Kinross Council served as Convener of the Tayside Valuation Joint Board. The remuneration paid by the Council to this Councillor in the role of Convener was recharged by the Council to the Tayside Valuation Joint Board.
- 3.6 During 2017/18 Perth & Kinross Council had a total of 26 Senior Councillors and a further Councillor that served as a Convener of a Joint Board who is treated as a Senior Councillor for the purposes of the Remuneration Report. Prior to the Local Government elections in May 2017, there were 15 Senior Councillors and a Convener of a Joint Board, and post-election there were 14 Senior Councillors. Details are provided in Table 1. Together with the Leaders of the Council and the Provosts, the total remuneration including taxable expenses paid to these Councillors was £277,964. The individual amounts payable to the Leaders of the Council, the Provosts, Senior Councillors of Perth & Kinross Council and the Convener of a Joint Board in 2017/18 are set out in Table 1. The Regulations also permit the Council to pay contributions or other payments as required to the Local Government Pension Scheme in respect of those Councillors who elect to become Councillor Members of the pension scheme.

**Table 1: Remuneration of Senior Councillors, Conveners and Vice-Conveners of Joint Boards for Financial Year 2017/18**

<b>Name and Post Title</b>	<b>Salary, Fees &amp; Allowances 2017/18</b> £	<b>Taxable Expenses 2017/18 (Note 1)</b> £	<b>Total Remuneration 2017/18</b> £	<b>Total Remuneration 2016/17</b> £
<b>FROM 17 MAY 2017 TO 31 MARCH 2018 (Note 2)</b>				
Ian Campbell Council Leader, Convener Strategic Policy & Resources Committee (to 05/02/18); Leader Largest Opposition Party (01/04/17 to 03/05/17)	26,509	90	<b>26,599</b>	10,761
Murray Lyle Council Leader, Convener Strategic Policy & Resources Committee (from 07/03/18); Convener Planning & Development Management Committee (to 06/03/18); Convener Local Review Body (01/04/17 to 03/05/17)	22,764	111	<b>22,875</b>	22,771
Dennis Melloy Provost (Civic Head)	22,204	109	<b>22,313</b>	n/a
Kathleen Baird Convener Licensing Board (from 13/07/17)	14,449	7	<b>14,456</b>	n/a
Peter Barrett Convener Housing & Communities Committee	19,885	98	<b>19,983</b>	n/a
Rhona Brock Convener Licensing Committee	19,885	7	<b>19,892</b>	n/a
Dave Doogan Leader of the Opposition; Convener Housing & Health Committee (1/4/17 to 03/05/17)	21,967	115	<b>22,082</b>	22,795
Eric Drysdale Convener Audit Committee	19,885	101	<b>19,986</b>	n/a
Angus Forbes Convener Environment & Infrastructure Committee (from 07/03/18)	1,558	0	<b>1,558</b>	n/a
Grant Laing Convener Scrutiny Committee	19,885	137	<b>20,022</b>	n/a
Rosalind McCall Convener Planning & Development Management Committee (from 07/03/18)	1,558	0	<b>1,558</b>	n/a
Caroline Shiers Convener Lifelong Learning Committee	19,885	0	<b>19,885</b>	n/a
Colin Stewart Convener Environment & Infrastructure Committee (to 06/03/18)	18,363	0	<b>18,363</b>	n/a
William Wilson Convener Local Review Body	19,885	101	<b>19,986</b>	n/a
<b>FROM 1 APRIL 2017 TO 3 MAY 2017 (Note 2)</b>				
Ian Miller Council Leader & Convener Strategic Policy and Resources Committee	3,093	35	<b>3,128</b>	33,888
Elizabeth Grant Provost (Civic Head)	2,320	0	<b>2,320</b>	25,345
Henry Anderson Convener Licensing Board	2,082	35	<b>2,117</b>	22,847
Robert Band Convener Lifelong Learning Committee	2,082	46	<b>2,128</b>	22,867
Dave Cuthbert Convener Audit Committee	2,082	0	<b>2,082</b>	17,057
Bob Ellis Convener Licencing Committee	2,082	7	<b>2,089</b>	22,775
Alan Grant Convener Environment Committee	2,082	0	<b>2,082</b>	22,743
Tom Gray Convener Development Management Committee	2,082	31	<b>2,113</b>	22,813

<b>Name and Post Title</b>	<b>Salary, Fees &amp; Allowances 2017/18</b>	<b>Taxable Expenses 2017/18 (Note 1)</b>	<b>Total Remuneration 2017/18</b>	<b>Total Remuneration 2016/17</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
John Kellas Convener Enterprise & Infrastructure Committee	2,082	22	<b>2,104</b>	22,836
Elspeth MacLachlan Convener Tayside Valuation Board	1,933	20	<b>1,953</b>	21,210
Archibald MacLellan Chair of the Fairness Commission	2,082	7	<b>2,089</b>	22,340
Douglas Pover Convener Community Safety Committee	2,082	24	<b>2,106</b>	22,835
Mac Roberts Leader Largest Opposition Party (to 11/10/16)	0	0	<b>0</b>	12,142
Alexander Stewart Convener Scrutiny Committee (to 30/06/16)	0	0	<b>0</b>	5,703
Barbara Vaughan Convener of Scrutiny Committee	2,082	13	<b>2,095</b>	22,833
<b>TOTAL (Note 3)</b>	<b>276,848</b>	<b>1,116</b>	<b>277,964</b>	376,561

Notes:

- (1) Taxable Expenses relate to meals provided by the Council.
- (2) The remuneration details of Councillors who held senior roles both before and after the May 2017 election are noted in the list of Senior Councillors from 17 May 2017 to 31 March 2018.
- (3) After adjusting for the salaries of the Leaders of the Council, Civic Heads (Provost) and the Convenor of a Joint Board, the total salary paid to Senior Councillors in 2017/18 was £220,552 which compares with the maximum under Regulations of £296,240.

- 3.7 The arrangements for political decision making structures within Perth & Kinross Council as at 31 March 2018, which encompassed the salaries of all Elected Members including the Council Leader, Civic Head and Senior Councillors, were agreed at the meeting of the Council on 17 May 2017 (Report No. 17/81 refers) and are available on the Council's website at [Council Meeting](#).
- 3.8 The Council paid the following salaries and expenses to all Councillors (including those listed in Table 1 above) in financial year 2017/18:

**Table 2: Remuneration Paid to Councillors 1 April 2017 to 31 March 2018**

Type of Remuneration	2017/18 £	2016/17 £
Salaries	751,323	784,882
Taxable Expenses	2,710	2,142
Total	<u>754,033</u>	<u>787,024</u>

- 3.9 The annual return of Councillors' salaries and expenses for 2017/18 is available for any member of the public to view at Perth & Kinross Council, 2 High Street, Perth; Culture Perth & Kinross Ltd. libraries and Council local area offices during normal working hours and is also available on the Council's website at [Councillors Expenses](#)
- 3.10 The information in the annual return of Councillors' salaries and expenses for 2017/18 differs from the information presented within the Remuneration Report as the Remuneration Report excludes the payment of expenses which are not subject to taxation such as car mileage expenses; expenditure on public transport and subsistence expenses.

#### **4. Remuneration of Senior Employees**

- 4.1 The Council is required to publish the remuneration of Senior Employees as defined by the disclosure regulations. Senior Employees are defined with reference to their management authority; to the political restriction placed upon their post under [section 2\(1\) \(a\), \(b\) or \(c\) of the Local Government Housing Act 1989](#) and with reference to their reporting relationship to the Council's 'Head of Paid Service' or Chief Executive. The disclosure requirements also include any employee whose annual remuneration is £150,000 or more. No employee of Perth & Kinross Council was remunerated at this level in 2017/18.

- 4.2 The application of the disclosure regulations in relation to the management structure of Perth & Kinross Council defines the following post-holders as Senior Employees in 2017/18:
- The Chief Executive as the Statutory Head of Paid Service.
  - The Senior Depute Chief Executive and Depute Chief Executive as officers responsible for the management of the authority to the extent that they may direct or control the major activities of the authority either solely or collectively.
  - The Head of Legal & Governance Services as the Council's statutory monitoring officer; the Head of Finance as the Council's proper officer for financial administration and the Director of Social Work then Head of Children & Families as the Council's statutory Chief Social Work officer.
- 4.3 The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services sets the salaries for the Chief Executives of Scottish local authorities.
- 4.4 The remuneration of Senior Employees of Perth & Kinross Council and its Subsidiaries for 2017/18 is detailed in Table 3 below:

**Table 3: Remuneration of Senior Employees of the Council and its Subsidiaries for Financial Year 2017/18**  
(Job titles as at 31 March 2018)

Name and Post Title	Salary, Fees & Allowances 2017/18 £	Total Remuneration 2017/18 £	Total Remuneration 2016/17 £
Bernadette Malone Chief Executive (Note 1)	136,320	<b>136,320</b>	<i>135,121</i>
John Fyffe Senior Depute Chief Executive (retired 31/03/18)	118,738	<b>118,738</b>	<i>116,627</i>
John Walker Depute Chief Executive & Chief Operating Officer (left 08/02/17 on grounds of ill health)	0	<b>0</b>	<i>128,500</i>
James Valentine Depute Chief Executive	114,021	<b>114,021</b>	<i>111,248</i>
William Atkinson Director of Social Work (retired 30/06/17)	27,237	<b>27,237</b>	<i>92,828</i>
Jacqueline Pepper Head of Children & Families Chief Social Work Officer (started post 01/05/17)	78,108	<b>78,108</b>	<i>n/a</i>
Lisa Simpson Head of Legal & Governance Services	89,139	<b>89,139</b>	<i>87,890</i>
John Symon Head of Finance (retired 30/06/17) (Note 2)	22,307	<b>35,491</b>	<i>87,890</i>
Stewart MacKenzie Head of Finance (started post 01/07/17)	63,851	<b>63,851</b>	<i>n/a</i>
Gwilym Gibbons Horsecross Arts Limited – Chief Executive (left 28/02/18)	70,958	<b>70,958</b>	<i>70,160</i>
Michael Griffiths Horsecross Arts Limited – Interim Chief Executive (from 19/3/18)	2,692	<b>2,692</b>	<i>n/a</i>
James Moyes Live Active Leisure – Chief Executive	78,300	<b>78,300</b>	<i>77,525</i>
Helen Smout - Culture Perth & Kinross Limited – Chief Executive	57,569	<b>57,569</b>	<i>57,006</i>
<b>TOTAL</b>	<b>859,240</b>	<b>872,424</b>	<i>964,795</i>

Notes:

- (1) The substantive salary for the Chief Executive is laid down in COSLA Circular CO/149. The Chief Executive's remuneration in 2017/18 included a fee of £6,532 for acting as Returning Officer for the UK Parliamentary General Election 2017 and £1,266 for acting as Returning Officer for the EU Referendum.
- (2) Total remuneration includes £13,184 compensatory added years payment.

- 4.5 Election fees are included with Senior Employee salaries. No other taxable benefits or bonuses were received by the above named Senior Employees of Perth & Kinross Council in 2017/18.

## 5. General Disclosure of Remuneration by Pay Band

- 5.1 In accordance with the disclosure regulations, Table 4 below details the number of Perth & Kinross Council employees (including teachers) whose annual remuneration in 2017/18 was £50,000 or more including Senior Employees subject to individual disclosure in section 4 of this report. The information is presented, as required, in bandings of £5,000.

**Table 4: Remuneration of Employees by Pay Band for 2017/18**

Remuneration Bands	Number of Employees	
	2017/18	2016/17
£50,000-£54,999	80	79
£55,000-£59,999	44	42
£60,000-£64,999	9	10
£65,000-£69,999	2	4
£70,000-£74,999	3	5
£75,000-£79,999	6	2
£80,000-£84,999	14	11
£85,000-£89,999	2	3
£90,000-£94,999	0	2
£95,000-£99,999	1	0
£100,000-£104,999	1	0
£105,000-£109,999	0	0
£110,000-£114,999	1	2
£115,000-£119,999	1	0
£120,000-£124,999	0	0
£125,000-£129,999	0	1
£130,000-£134,999	0	0
£135,000-£139,999	1	1
Total	165	162

The increase in the number of employees included in Table 4 primarily reflects a 1% pay award in 2017/18.

**Table 5: The number of Exit Packages with Total Cost per band and Total Cost of Compulsory and Other Redundancies**

(a) Exit package cost band (including special payments)	(b) Number of compulsory redundancies		(c) Number of other departures agreed		(d) Total number of exit packages by cost band (b) + (c)		(e) Total cost of exit packages in each band	
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18 £'000	2016/17 £'000
£0 - £20,000	0	0	93	110	93	110	217	204
£20,001 - £40,000	0	0	12	9	12	9	350	261
£40,001 - £60,000	0	0	3	7	3	7	167	337
£60,001 - £80,000	0	0	4	3	4	3	269	189
£80,001 - £100,000	0	0	1	2	1	2	90	173
Over £100,000	0	0	3	3	3	3	468	499
<b>Total</b>	<b>0</b>	<b>0</b>	<b>116</b>	<b>134</b>	<b>116</b>	<b>134</b>	<b>1,561</b>	<b>1,663</b>

- 5.2 The costs included within Table 5 above are all non-recurring and include payments to individual officers and to the relevant Superannuation Fund.
- 5.3 All of the individual exit packages included within Table 5 above have been subject to a full business case outlining the implications for the Council. In terms of the financial assessment for each business case, the maximum payback period is up to five years. The departure of the individuals included in the above table has delivered significant recurring savings to the Council and also facilitated the delivery of an ambitious and challenging transformation / modernisation programme.
- 6. Remuneration by Subsidiary Bodies of Perth & Kinross Council**
- 6.1 Councillors and Senior Employees of Perth & Kinross Council serve as Board members; officials and technical advisors to subsidiary bodies of the Council. In 2017/18, the Head of Legal & Governance Services and Head of Democratic Services served as proper officers to the Tayside and Central Scotland Transport Partnership (TACTRAN). No remuneration was paid to Councillors and Senior Employees of Perth & Kinross Council by subsidiary bodies of the Council in 2017/18.
- 7. Disclosure of Pension Benefits**
- 7.1 The disclosure regulations require the separate disclosure of accrued pension benefits for Senior Councillors and Senior Employees of Perth & Kinross Council. Pension Benefits for councillors and local government employees are provided through the Local Government Pension Scheme (LGPS). Councillors have only been eligible to join this scheme since May 2007.
- 7.2 Councillor's pension benefits are based on career average pay. The councillor's pay for each year or part year ending 31 March (other than the pay in the final year commencing 1 April) is increased by the increase in the cost of living as measured by the appropriate index between the end of that year and the last day of the month in which their membership of the scheme ends. The total of the revalued pay is then divided by the period of membership to calculate the career average pay. This is the value used to calculate the pension benefits.
- 7.3 From 1 April 2015 a career average scheme was implemented for local government employees. This means that pension is built up based on the pensionable pay for each year. The benefit is added to the employee's pension account plus inflation

increases. The scheme's normal retirement age for both councillors and employees will vary dependant on age and length of pensionable service.

- 7.4 From 1 April 2009 a tiered contribution scheme was introduced with contributions from scheme members being based on how much pay falls into each tier. Prior to 2009 contribution rates were set at 6% for all non-manual employees.

**Tiered Pension Contribution Rates for Local Government Pension Scheme Members in 2017/18**

Actual Pensionable pay	Contribution Rate 2017/18
On earnings up to and including £20,700	5.5%
On earnings above £20,700 and up to £25,300	7.25%
On earnings above £25,300 and up to £34,700	8.5%
On earnings above £34,700 and up to £46,300	9.5%
On earnings above £46,300	12%

- 7.5 Pensionable Pay includes salary, plus any contractual elements of pay such as shift payment, night working payment, standby and the monetary value of any accommodation or other allowances in kind pertaining to employment.
- 7.6 Under the scheme there is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for lump sum up to the limit set by the Finance Act 2004. The pension is built up based on pensionable pay in the year with an accrual rate of 1/49<sup>th</sup> added to the pension account. (Prior to 2015 the accrual rate was 1/60<sup>th</sup> of final pensionable salary and years of pensionable service. Prior to 2009 the accrual rate guaranteed a pension based on 1/80<sup>th</sup> and a lump sum based on 3/80<sup>th</sup> of final pensionable salary and years of pensionable service).
- 7.7 The value of accrued benefits have been calculated on the basis of the age at which the person will first become entitled to receive a pension on their retirement without reduction on account of its payment at that age; without exercising any option to commute pension entitlement into a lump sum; and without any adjustment for the effects of future inflation. The pension figures shown relate to the benefits that the person has accrued as a consequence of their local government service, and not just their current appointment.

**7.8 Pension Entitlements of Senior Councillors**

The pension entitlements of Senior Councillors of Perth & Kinross Council for the year to 31 March 2018 are shown in Table 6 below, together with the contribution made by the Council to each Senior Councillor's pension during the year.

**Table 6: Pension Entitlements of Senior Councillors and the Convener of Tayside Valuation Board for Financial Year 2017/18**

Name and Post Title	In-year pension contributions		Accrued Pension Benefits			
	2017/18 £	2016/17 £		as at 31/03/2018 £'000	as at 31/03/2017 £'000	Difference £'000
<b>SENIOR COUNCILLOR BETWEEN 17 MAY 2017 AND 31 MARCH 2018 (Note 1)</b>						
Ian Campbell Council Leader, Convener Strategic Policy & Resources Committee (to 05/02/18); Leader of the Opposition (01/04/17 to 03/05/17)	4,601	1,823	Pension Lump Sum	n/a n/a	3 1	n/a n/a
Murray Lyle Council Leader, Convener Strategic Policy & Resources Committee (from 07/03/18); Convener Planning & Development Management Committee (to 06/03/18); Convener Local Review Body (01/04/17 to 03/05/17)	3,965	3,866	Pension Lump Sum	4 2	4 2	0 0
Dennis Melloy Provost (Civic Head)	3,869	n/a	Pension Lump Sum	5 2	n/a n/a	n/a n/a
Kathleen Baird Convener Licensing Board (from 13/07/17)	3,326	n/a	Pension Lump Sum	1 0	n/a n/a	n/a n/a
Peter Barrett Convener Housing & Communities Committee	3,475	n/a	Pension Lump Sum	4 0	n/a n/a	n/a n/a
Rhona Brock Convener Licensing Committee	3,475	n/a	Pension Lump Sum	2 0	n/a n/a	n/a n/a
Dave Doogan Leader of the Opposition; Convener Housing & Health Committee (01/04/17 to 03/05/17)	3,829	3,866	Pension Lump Sum	2 0	2 0	0 0
Eric Drysdale Convener Audit Committee	3,475	n/a	Pension Lump Sum	0 0	n/a n/a	n/a n/a
Angus Forbes Convener Environment & Infrastructure Committee (from 07/03/18)	2,683	n/a	Pension Lump Sum	0 0	n/a n/a	n/a n/a
Grant Laing Convener Scrutiny Committee	3,475	n/a	Pension Lump Sum	2 n/a	n/a n/a	n/a n/a



Name and Post Title	In-year pension contributions		Accrued Pension Benefits			
	2017/18 £	2016/17 £		as at 31/03/2018 £'000	as at 31/03/2017 £'000	Difference £'000
Rosalind McCall Convener Planning & Development Management Committee (from 07/03/18)	2,683	n/a	Pension Lump Sum	0 0	n/a n/a	n/a n/a
Caroline Shiers Convener Lifelong Learning Committee	3,475	n/a	Pension Lump Sum	3 1	n/a n/a	n/a n/a
Colin Stewart Convener Environment & Infrastructure Committee (to 06/03/18)	3,413	n/a	Pension Lump Sum	0 0	n/a n/a	n/a n/a
William Wilson Convener Local Review Body	0	n/a	Pension Lump Sum	0 0	n/a n/a	n/a n/a
<b>SENIOR COUNCILLOR BETWEEN 1 APRIL 2017 AND 3 MAY 2017 (Note 1)</b>						
Ian Miller Council Leader & Convener Strategic Policy and Resources Committee	526	5,744	Pension Lump Sum	7 3	7 3	0 0
Elizabeth Grant (Note 2) Provost (Civic Head)	0	0	Pension Lump Sum	0 0	0 0	0 0
Henry Anderson Convener Licensing Board	354	3,866	Pension Lump Sum	2 0	2 0	0 0
Robert Band Convener Lifelong Learning Committee	354	3,866	Pension Lump Sum	5 2	5 2	0 0
Dave Cuthbert Convener Audit Committee	354	2,900	Pension Lump Sum	2 0	2 0	0 0
Bob Ellis Convener Licencing Committee	354	3,866	Pension Lump Sum	4 0	3 0	1 0
Alan Grant (Note 2) Convener Environment Committee	0	0	Pension Lump Sum	0 0	0 0	0 0
Tom Gray Convener Development Management Committee	354	3,866	Pension Lump Sum	4 0	3 0	1 0
John Kellas Convener Enterprise & Infrastructure Committee	354	3,866	Pension Lump Sum	4 2	5 2	(1) 0
Elspeth MacLachlan Convener Tayside Valuation Board	329	3,590	Pension Lump Sum	3 1	3 1	0 0
Archibald MacLellan Chair of the Fairness Commission	0	773	Pension Lump Sum	n/a n/a	6 2	n/a n/a
Douglas Pover Convener Community Safety Committee	354	3,866	Pension Lump Sum	2 0	2 0	0 0
Mac Roberts Leader of the Opposition (to 11/10/16)	0	3,404	Pension Lump Sum	8 11	7 11	1 0
Alexander Stewart Convener Scrutiny Committee (to 30/6/16)	0	967	Pension Lump Sum	7 14	7 14	0 0
Barbara Vaughan (Note 2) Convener of Scrutiny Committee	0	0	Pension Lump Sum	0 0	0 0	0 0
<b>TOTAL</b>	<b>49,077</b>	<b>50,129</b>				

Notes:

- (1) The remuneration details of Councillors who held senior roles both before and after the May 2017 election are noted in the list of Senior Councillors from 17 May 2017 to 31 March 2018.
- (2) The pension benefits shown relate to the benefits that the individual has accrued as a consequence of their total local government service, including any service with a Council subsidiary body, and not just their current appointment. Councillors have only been eligible to join the Local Government Pension Scheme since May 2007. Provost Elizabeth Grant and Councillors Alan Grant and Barbara Vaughan had elected not to become members of the Local Government Pension Scheme. Councillor MacLellan left the scheme on 20 June 2016.

## 7.9 Pension Entitlements of Senior Employees

The pension entitlements of Senior Employees of Perth & Kinross Council and its Subsidiaries for the year to 31 March 2018 are shown in Table 7 below, together with the contribution made by the Council to each Senior Employee's pension during the year.

**Table 7: Pension Entitlements of Senior Employees of the Council and its Subsidiaries for Financial Year 2017/18  
(Post titles as at 31 March 2018)**

Name and Post Title	In-year pension contributions		Accrued Pension Benefits			
	2017/18 £	2016/17 £		as at 31/03/2018 £'000	as at 31/03/2017 £'000	Difference £'000
Bernadette Malone Chief Executive	21,849	21,633	Pension Lump Sum	63 129	51 101	12 28
John Fyffe Senior Depute Chief Executive (retired 31/03/18)	20,025	19,827	Pension Lump Sum	66 146	64 145	2 1
John Walker Depute Chief Executive & Chief Operating Officer (left 08/02/17 on grounds of ill health)	0	16,155	Pension Lump Sum	n/a n/a	48 99	n/a n/a
James Valentine Depute Chief Executive	19,101	18,912	Pension Lump Sum	50 100	48 99	2 1
William Atkinson (Note 1) Director of Social Work (retired 30/06/17)	0	0	Pension Lump Sum	0 0	0 0	0 0
Jacqueline Pepper Chief Social Work Officer (started post 01/05/17)	14,422	n/a	Pension Lump Sum	18 22	n/a n/a	n/a n/a
Lisa Simpson Head of Legal & Governance Services	15,091	14,941	Pension Lump Sum	5 0	3 0	2 0
John Symon Head of Finance (retired 30/06/17)	3,773	14,941	Pension Lump Sum	31 60	31 60	0 0
Stewart MacKenzie Head of Finance (started post 01/07/17)	14,319	n/a	Pension Lump Sum	33 59	n/a n/a	n/a n/a
Gwilym Gibbons Horsecross Arts Limited – Chief Executive (Left 28/02/18)	11,092	11,927	Pension Lump Sum	4 0	3 0	1 0
Michael Griffiths (Note 2) Horsecross Arts Limited – Interim Chief Executive (from 19/3/18)	0	0	Pension Lump Sum	n/a n/a	n/a n/a	n/a n/a
James Moyes Live Active Leisure - Chief Executive	13,311	13,179	Pension Lump Sum	44 93	42 92	2 1
Helen Smout Culture Perth & Kinross Limited - Chief Executive	9,787	9,691	Pension Lump Sum	16 20	15 20	1 0
<b>TOTAL</b>	<b>142,770</b>	<b>141,206</b>				

Notes:

(1) William Atkinson left the scheme on 31 March 2016.

(2) Michael Griffiths has opted out of the pension scheme.

Signed:

Bernadette Malone  
Chief Executive

Perth & Kinross Council

Date:

Councillor Murray Lyle  
Leader of the Council

Perth & Kinross Council

Date:

## **GLOSSARY**

### **ACCOUNTING PERIOD**

The period of time covered by the accounts, normally a period of twelve months commencing on 1 April. The end of the accounting period is the Balance Sheet date.

### **ACCRUALS**

Sums included in the final accounts to recognise revenue and capital income and expenditure earned or incurred in the financial year, but for which actual payment had not been received or made as at 31 March.

### **BEACON METHOD (ADJUSTED VACANT POSSESSION METHOD)**

Based on the (vacant possession) market value of the asset which is the adjusted to reflect the assets' use for social housing with a sitting tenant.

### **CAA**

Capital Adjustment Account

### **CAPITAL EXPENDITURE**

Expenditure on the acquisition of a fixed asset, which will be used in providing services beyond the current accounting period, or expenditure which adds to and not merely maintains the value of an existing fixed asset.

### **CAPITAL FINANCING**

Funds raised to pay for capital expenditure. There are various methods of financing capital expenditure including borrowing, leasing, direct revenue financing, usable capital receipts, capital grants, capital contributions, revenue reserves and earmarked reserves.

### **CAPITAL RECEIPT**

The proceeds from the disposal of land or other fixed assets. Proportions of capital receipts can be used to finance new capital expenditure, within rules set down by the Government but they cannot be used to finance revenue expenditure.

### **CONTINGENT LIABILITY**

A contingent liability is either:

- A possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control; or
- A present obligation arising from past events where it is not probable that a transfer of economic benefits will be required, or the amount of the obligation cannot be measured with sufficient reliability.

### **CORPORATE & DEMOCRATIC CORE**

The corporate and democratic core comprises all the activities that local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

### **CREDITOR**

Amount owed by the Council for work done, goods received or services rendered within the accounting period, but for which payment has not been made by the Council by the end of that accounting period.

### **CRR**

Capital Receipts Reserve

### **CURRENT VALUE**

The measurement of operational assets used for the delivery of Council services. Property, plant and equipment is measured on the basis of service potential using existing use value for assets where an active market exists, existing use value-social housing for operational Council dwellings or depreciated replacement cost for assets where there is no market and/or the asset is specialised.

### **DISCOUNTED CASH FLOW METHOD**

Quantifies the cash-generating potential, stated at present value, of the housing operation taking into account the estimated future income and expenditure streams.

### **DEBTOR**

Amount owed to the Council for works done, goods received or services rendered within the accounting period, but for which payment has not been received by the Council by the end of that period.

### **EXISTING USE VALUE FOR SOCIAL HOUSING (EUV-SH)**

Is the estimated amount for which a property should exchange on the date of valuation, between a willing buyer and a willing seller in an arm's length transaction.

### **FAIR VALUE**

Fair value is the price that would be received to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date

**FIAA**

Financial Instruments Adjustment Account

**IMPAIRMENT**

A reduction in the value of a fixed asset to below its carrying amount on the Balance Sheet.

**MATERIALITY**

The concept that the Statement of Accounts should include all amounts which, if omitted, or mis-stated, could be expected to lead to a distortion of the financial statements and ultimately mislead a user of the accounts.

**NET BOOK VALUE**

The amount at which fixed assets are included in the Balance Sheet, i.e. their historical costs or current value less the cumulative amounts provided for depreciation.

**NON-DISTRIBUTED COSTS**

These are overheads which cannot be directly allocated to a specific area of activity and as such are not apportioned to services.

**PPE**

Property, Plant & Equipment

**PRIOR YEAR ADJUSTMENT**

Material adjustments applicable to previous years arising from changes in accounting policies or from the correction of fundamental errors. This does not include normal recurring corrections or adjustments of accounting estimates made in prior years.

**PROVISION**

An amount put aside in the accounts for future liabilities or losses which are certain or very likely to occur but the amounts or dates of when they will arise are uncertain.

**PUBLIC WORKS LOAN BOARD (PWLb)**

A Central Government Agency, which provides loans from one year and above to authorities at interest rates that are 1% higher than those at which the Government can borrow itself.

**REVENUE EXPENDITURE**

The day-to-day expenses of providing services.