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Council Building
The Atrium
137 Glover Street
Perth
PH2 0LQ

Wednesday, 21 September 2016

A Meeting of the **Audit Committee** will be held in the **Hay Room, Dewars Centre, Glover Street, Perth, PH2 0TH** on **Wednesday, 28 September 2016** at **10:00**.

If you have any queries please contact Committee Services on (01738) 475000 or email Committee@pkc.gov.uk.

BERNADETTE MALONE
Chief Executive

Those attending the meeting are requested to ensure that all mobile phones and other communication devices are in silent mode.

Members:

Councillor Dave Cuthbert (Convener)
Councillor Barbara Vaughan (Vice-Convener)
Councillor Henry Anderson
Councillor Kathleen Baird
Councillor Joe Giacobazzi
Councillor Willie Wilson
Councillor Anne Younger

Audit Committee

Wednesday, 28 September 2016

AGENDA

MEMBERS ARE REMINDED OF THEIR OBLIGATION TO DECLARE ANY FINANCIAL OR NON-FINANCIAL INTEREST WHICH THEY MAY HAVE IN ANY ITEM ON THIS AGENDA IN ACCORDANCE WITH THE COUNCILLORS' CODE OF CONDUCT.

- 1 WELCOME AND APOLOGIES/SUBSTITUTES**
- 2 DECLARATIONS OF INTEREST**
- 3 MINUTE OF MEETING OF THE AUDIT COMMITTEE OF 29 JUNE 2016 FOR APPROVAL AND SIGNATURE 5 - 14**
- 4 INTERNAL AUDIT FOLLOW-UP 15 - 28**
Report by Chief Internal Auditor (copy herewith 16/411)
- 5 THE NATIONAL FRAUD INITIATIVE 2014/15 AND 2016/17 29 - 84**
Report by Chief Internal Auditor (copy herewith 16/412)
- 6 INTERNAL AUDIT UPDATE 85 - 96**
Report by Chief Internal Auditor (copy herewith 16/413)
- (i) CORPORATE AND DEMOCRATIC SERVICES**
- (a) 16-05 - INFORMATION SHARING 97 - 110**
(copy herewith 16/414)
- (ii) EDUCATION AND CHILDREN'S SERVICES**
- (a) 16-06(A) - FINANCIAL MANAGEMENT OF THROUGH SCHOOLS 111 - 116**
(copy herewith 16/415)
- (iii) HOUSING AND COMMUNITY CARE**
- (a) 16-07 - FINANCIAL ASSESSMENT AND CHARGING 117 - 134**
(copy herewith 16/416)

(b)	16-08 - ADULT PROTECTION (copy herewith 16/417)	135 - 146
(c)	16-09 - HOUSING OPTIONS (copy herewith 16/418)	147 - 158
6(i)(b)	16-02 - CREDIT CARDS (copy herewith 14/423)	159 - 170
7	DRAFT AUDITED ANNUAL ACCOUNTS 2015/16 AND DRAFT 2015/16 ANNUAL AUDIT REPORT TO MEMBERS AND THE CONTROLLER OF AUDIT Report by Head of Finance (copy herewith 16/424)	171 - 340

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AUDIT COMMITTEE

Minute of meeting of the Audit Committee held in the Hay Room, Dewar's Centre, Glover Street, Perth on Wednesday 29 June 2016 at 10.00am.

Present: Councillors B Vaughan, D Cuthbert, J Giacobazzi, M Roberts (substituting for A Stewart), W Wilson and A Younger.

In Attendance: J Clark, D Henderson, C Irons, M Morrison, L Potter, (up to Art. 544) J Symon and G Taylor (all Corporate and Democratic Services); D Adams and J Cockburn (both Education and Children's Services); H Hope (Environment Service); N Copland and L Robertson (up to Art. 544) both Housing and Community Care).

Also in Attendance: Councillor K Baird (up to Art. 544) and P Tate, Audit Scotland

Apology: Councillor A Stewart

Councillor Vaughan, Convener, Presiding.

536. WELCOME AND APOLOGIES/SUBSTITUTIONS

The Convener welcomed everyone to the meeting. An apology and substitution were noted as above.

537. THANKS

Councillor B Vaughan advised this was her last meeting as Convener and thanked Committee Members, staff and Audit Scotland for their support and help while she had been Convener.

538. DECLARATIONS OF INTEREST

There were no Declarations of Interest made in terms of the Councillors' Code of Conduct.

539. MINUTE

The minute of meeting of the Audit Committee of 30 March 2016 (Arts. 274–282) was submitted and approved as a correct record and authorised for signature.

In response to a question from Councillor W Wilson, J Clark confirmed the audit on the Roads Maintenance Partnership would be undertaken towards the end of the current financial year.

540. INTERNAL AUDIT FOLLOW-UP

There was submitted a report by the Chief Internal Auditor (16/305), presenting the Committee with a current summary of Internal Audit's follow up work. It was noted the figures in Table 1 at Appendix A were correct and figures within the report had not been updated.

Officers from the relevant Services were present to answer members' questions on the progress on outstanding actions as follows:

Corporate and Democratic Services

(a) Audit Scotland 7 – Action Point 4

A reassurance was given that the revised date of September 2016 would be met.

Education and Children's Services

(a) 15–16(b) – City of Perth Early Childhood Centre

A reassurance was given that the revised dates of August 2016 would be met.

The Environment Service

(a) 13-18 – Fleet Management

It was noted the Service Level Agreements between Fleet Management and other Council Services would be finalised by the end of July 2016.

Resolved:

- (i) The current position in respect of the agreed actions arising from internal and external work, be noted;
- (ii) The action plans be progressed, taking into account the recorded audit opinions.

541. INTERNAL AUDIT UPDATE

There was submitted a report by the Chief Internal Auditor (16/306) presenting a summary of Internal Audit's work against the 2015/16 Annual Plan.

In response to a questions from councillor W Wilson, J Clark confirmed the Roads Maintenance Partnership audit (16-22) and the Tayside Contracts audit (16-34) were separate audits and would not be combined and a report would be submitted to Committee on the Housing and Community Care Repairs and Improvements Service audit (16-42) if there were areas of improvement require to be highlighted.

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Resolved:

- (i) The completion of the Internal Audit Plan for 2015/16 be noted.
- (ii) The progress of work on the Internal Audit Plan for 2016/17 be noted.
- (iii) That the Chief Internal Auditor would provide a summary of consultancy and advisory work undertaken, planned or requested during the year as part of the regular Internal Audit Update report be approved.

The Committee considered the following final reports:-

(i) Corporate and Democratic Services

(a) 15-02 – Establishment Approval Process

There was submitted a report by the Chief Internal Auditor (16/307), on a consultancy assignment to provide advice and assurance over the controls in place within the approval process for recruitment and changes in circumstances.

It was noted the level of complexity within the process was unavoidable due to the levels of authorisation required within services, however, work within Human Resources regarding job families may streamline the process.

It was also noted where the time taken to recruit could be in excess of 100 days this would usually be due to a post having to be re-advertised.

Resolved:

- (i) Internal Audit's findings, as detailed in Report 16/307, be noted.
- (ii) A list of Protected Posts as referred to within Report 16/307, be requested from the Corporate Human Resources Manager for circulation to Committee members.

(b) 15-32 – Corporate Governance – Governance Arrangements for Arms-Length External Organisations (ALEOs) and Statutory Bodies

There was submitted a report by the Chief Internal Auditor (16/308), on the audit to ensure (1) there were clearly defined schemes of delegation and financial regulations which define responsibilities and levels of control; (2) the Governance groups terms of reference were subject to regular review to confirm their continuing relevance; (3) the governance framework being developed took account of future requirements and supports effective governance and (4) the governance framework in place supported good governance as well as efficient decision making process.

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In response to a question from Councillor D Cuthbert on the submission of the ALEOs accounts being submitted to a committee, J Symon advised they were not but there were monitoring arrangements in place within services and that was reported on to the Strategic Policy and Resources Committee. It was noted that the Financial Regulations were being reviewed taking into account the required governance arrangements for the Council's ALEO's and the Integrated Joint Board (IJB) to be submitted to Council in December 2016. A revised Scheme of Administration will be submitted to Council in October 2016. It was noted that members of the Scrutiny Committee would like more robust arrangements in place and currently the strength of the internal controls were moderately strong or moderate. Councillor B Vaughan advised there were seven action points to improve processes. Councillor B Vaughan referred to action point 4 which requires that induction training be provided to elected members newly appointed to a board to ensure they understand their role and responsibilities to act as a Council representative and advised although she would have preferred further action to be taken the proposal was acceptable.

Councillor B Vaughan also stated that action points 5, 6 and 7 would be reported to the Scrutiny Committee and any members would be welcome to attend that meeting.

Resolved:

Internal Audit's findings, as detailed in Report 16/308, be noted.

(c) 15-34 – Corporate Risk Management

There was submitted a report by the Chief Internal Auditor (16/309), on a consultancy assignment to ensure the adequacy of corporate risk management within the Council.

Councillor B Vaughan referred to the major role for elected members in Corporate Risk Management.

J Clark added the Service had identified a need for a root and branch review and the consultancy assignment had been undertaken by Scott Moncrieff who had expertise in this area.

Councillors D Cuthbert and W Wilson referred to the style of the report which differed from those provided by the Chief Internal Auditor and that it did not identify action points.

Resolved:

- (i) Internal Audit's findings, as detailed in Report 16/309, be noted.
- (ii) That a report would be submitted to the Strategic Policy and Resources Committee on 30 November 2016 be noted.

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(ii) **The Environment Service**

(a) **15-06 – LEADER**

There was submitted a report by the Chief Internal Auditor (16/310), on an audit to ensure that adequate arrangements were in place in line with LEADER requirements.

Resolved:

Internal Audit's findings, as detailed in Report 16/310, be noted.

(b) **16-15 – Fuel Management**

There was submitted a report by the Chief Internal Auditor (16/311), on an audit to ensure that (1) the Council was obtaining best value when purchasing fuel; (2) there was effective control over the management of fuel held and dispensed at depots; (3) there was effective control over fuel purchased which had not been dispensed at any of the depots and (4) fuel usage figures were reliable and reconciled appropriately to provide assurance that fuel was being issued for the purposes of council business only.

It was noted that the completion of the action points would ensure the internal controls were strong and that improvements to the fuel card system would be made by August 2016.

Councillor D Cuthbert asked if there was vehicle tracking to check mileage of vehicles and that they were taking the shortest route. H Hope advised that some vehicles had tracking devices and that the Transformation Project on Fuel Management may include this aspect if there was potential for savings.

Resolved:

Internal Audit's findings, as detailed in Report 16/311, be noted.

(iii) **Housing and Community Care**

(a) **15-12 – Buy Backs**

There was submitted a report by the Chief Internal Auditor (16/312), on a consultancy assignment to consider the Buy Backs process from first enquiry by an owner of a former local authority property through to completion of the purchase. It also examined management arrangements, monitoring and reporting along with the scope to increase the number of houses purchased through the scheme.

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Councillor D Cuthbert commented that although the report provided advice there were no action points so there would be no evidence that the action had been taken.

J Clark confirmed that Internal Audit would follow up to ensure action was taken.

Councillor D Cuthbert requested a list of properties bought back to see where they were across Perth and Kinross and asked if there was criteria for the purchases.

N Copland advised the criteria was where there was demand in an area for a particular size of property and a list could be provided of the properties bought back.

Councillor W Wilson referred to the format of the report as no outcome or action points were included.

Councillor B Vaughan suggested this was the difference between an audit and a consultancy report and J Clark confirmed that an audit report would have action points unless all control objectives were strong, however, consultancy reports were not treated the same as advice was given in working collaboratively with the service. If there were concerns following the consultancy, a formal audit would be instigated.

Councillor B Vaughan therefore advised she was reluctant to request action points be given for consultancy as advice was given instead, however, she requested that a report be submitted to a future meeting providing advice on the differences between audit and consultancy.

Resolved:

- (i) Internal Audit's findings, as detailed in Report 16/312, be noted.
- (ii) A report be submitted to a future Committee providing advice on the differences between audit and consultancy work.

(b) 15-26 – Universal Credit

There was submitted a report by the Chief Internal Auditor (16/313), on a consultancy assignment to provide assurance of the arrangements in place in preparation for the implementation of Universal Credit in Perth and Kinross.

It was noted that training had been provided by the Job Centre Plus to Housing and Community Care staff in March 2016 and a presentation would be given to elected members on the implementation.

Resolved:

Internal Audit's findings, as detailed in Report 16/313, be noted.

(c) Health and Social Care Integration – Financial Assurance

There was submitted a joint report by the Chief Internal Auditors of Perth and Kinross Council and NHS Tayside (16/314), on the audit to evaluate whether appropriate systems were in place and operating effectively to mitigate risks to the achievement of the objectives identified .

It was noted that the report had been prepared for the Integration Joint Board and was submitted for the Audit Committee's information.

J Clark advised that the audit found the financial processes were being appropriately managed and there were good working relations within the partnership.

Resolved:

Internal Audit's findings, as detailed in Report 16/314, be noted.

(iv) Education and Children's Services

(a) 15-28 – Culture, Sport and Leisure Provision

There was submitted a report by the Chief Internal Auditor (16/315), on a consultancy assignment to provide an overview of Internal Audit's involvement with, and the current position of, arrangements for culture, sport and leisure provision within Perth and Kinross.

Resolved:

Internal Audit's findings, as detailed in Report 16/315, be noted.

542. EXTERNAL AUDIT REPORT

(i) 2015-16 Review of Main Financial Systems

There was submitted a report by Audit Scotland (16/316), on a review of Perth and Kinross Council's main financial systems in 2015/16.

It was noted that Audit Scotland had undertaken a review of Internal Audit and concluded that it generally operates in accordance with the Public Sector Internal Audit Standards and had sound documentation standards and reporting procedures in place.

It was also noted that actions required would be completed by the end of June 2016.

Resolved:

Audit Scotland's finding, as detailed in Report 16/316, be noted.

543. INTERNAL AUDIT ANNUAL REPORT 2015/16

There was submitted a report by the Chief Internal Auditor (16/317) presenting the year – end report and audit opinion for 2015/16.

Resolved:

The Chief Internal Auditor's opinion that reasonable reliance can be placed on the Council's governance arrangements and systems of internal control for 2015/16, subject to management implementation of the agreed actions detailed in Internal Audit reports and summarised in Section 2 of report 16/317, be noted. Whilst limited reliance can be placed on the corporate risk management arrangements for 2015/16, the implementation of the identified improvements should enable reasonable reliance for 2016/17.

544. UNAUDITED ANNUAL ACCOUNTS 2015/16

There was submitted a report by the Head of Finance (16/320) presenting the Council's Unaudited Annual Accounts for the financial year 2015/16 in accordance with the Local Authority Accounts (Scotland) Regulations 2014.

Councillor B Vaughan referred to the valuable session for Councillors held on final accounts.

Resolved:

- (i) The Unaudited Annual Accounts be submitted to the Controller of Audit by 30 June 2016, be approved.
- (ii) The head of Finance be authorised to sign the Unaudited Annual Accounts.

COUNCILLOR J GIACOPAZZI LEFT DURING DISCUSSION OF THE ABOVE ITEM.

IT WAS AGREED THAT THE PUBLIC AND PRESS SHOULD BE EXCLUDED DURING CONSIDERATION OF THE FOLLOWING ITEMS IN ORDER TO AVOID THE DISCLOSURE OF INFORMATION WHICH IS EXEMPT IN TERMS OF SCHEDULE 7A TO THE LOCAL GOVERNMENT (SCOTLAND) ACT 1973

545. INTERNAL AUDIT REPORT

(i) Corporate and Democratic services

(a) 15-17 – IT Disaster Recovery Planning

There was submitted a report by the Chief Internal Auditor (16/318) on the audit to ensure (1) an IT Disaster Recovery Plan exists, is complete and effectively linked to the Council's Business Continuity Plans where appropriate; (2) that there were appropriate supporting procedures to supplement the Disaster Recovery Plan; (3) an inventory of key systems had been developed; (4) an asset register of hardware and software

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was in place; (5) appropriate procedures had been implemented for the review and maintenance of the Disaster Recovery Plan; (6) all contracts with suppliers were up to date and their contact details easily accessible; (7) there had been appropriate engagement with stakeholders to ensure that, in the event of an IT related disaster, priorities for the Council had been understood and agreed prior to the event, (8) there were procedures in place for ensuring the Disaster Recovery Plan was tested regularly and (9) there were arrangements for secure storage of the Disaster Recovery Plan and associated procedures.

It was noted that the audit had been conducted by Scott-Moncrieff instead of being conducted in-house due to a change in resources available.

It was also noted that all Council offices within Perth were included in the planning and alternative storage and the sharing of resources had been examined.

In response to a question from Councillor A Younger, D Adams confirmed both public and private building were being considered as storage options.

The current Disaster recovery Plan & improvements in practices were discussed which would ensure all internal controls were strong.

Resolved:

Internal Audit's findings, as detailed in Report 16/318, be noted.

546. EXTERNAL AUDIT REPORT

(i) 2015/16 Audit – Cyber Attack Preparedness

There was submitted a report by Audit Scotland (16/319) on an audit to review the Council's preparedness to deal with cyber-attacks. The review covered (1) management arrangements – identifying the resources available and oversight provided for cyber security; (2) response arrangements – the arrangements in place to mitigate the risk of cyber-attacks as well as the capacity to deal with them and (3) Incidents – an assessment of cyber-attacks dealt with in the last year.

Discussion followed on the Council's preparedness; all staff and Councillors being risk aware and recent cases of ransomware attacks in other organisations.

Resolved:

Audit Scotland's findings, as detailed in Report 16/319, be noted.

DRAFT

PERTH AND KINROSS COUNCIL

Audit Committee

28 September 2016

INTERNAL AUDIT FOLLOW UP

Report by Chief Internal Auditor

PURPOSE OF REPORT

This report presents a current summary of Internal Audit's 'follow up' work.

1. BACKGROUND AND MAIN ISSUES

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require that the Chief Internal Auditor establishes a follow-up process to monitor and ensure that management actions have been effectively implemented. To assist the Audit Committee, the appendices to this report provide information on those actions that have not been implemented in accordance with the original agreed timetable, or where there is insufficient information on the current situation. Some dates have been revised and agreed with Services in recognition of the need for more time to complete the actions.
- 1.2 Appendix A presents a summary of the number of actions arising from internal and external audit reports.
- Table 1 shows the total number of agreed actions which Internal Audit will be following up even where the originally agreed completion dates have not yet been reached; the total number of actions is 119.
 - Table 2 shows the number of agreed actions that have been reported as incomplete as at their original agreed completion date. These total 21, of which 8 had a completion date of April to June 2016 and are therefore detailed in the following Appendices B to E.
 - A further 13 actions not completed by their original date have been allocated revised dates for completion after 30 June 2016 and progress will be reported on these at a future Committee.
 - The number of agreed actions which have yet to be followed up as the date for completion is after 30 June 2016 is 98.
- 1.3 In both tables, the actions are grouped by Service and reported by 'importance' of the agreed actions. The importance of each action is documented in the original Internal Audit reports considered by Audit Committee. Reported importance ratings range from 'critical', where there are significant financial, reputation, legal, performance, or safety issues, to 'low', where the risks are lower but there may be opportunities for improving processes and procedures. Reports produced by Audit Scotland do not explicitly state the importance of each individual action and are therefore included in the tables as 'not rated'.

- 1.4 Appendices B to E present detailed follow-up information in respect of actions agreed for completion in the period of April to June 2106. The appendices also record service management's explanations of the status of each action point and internal audit comments where relevant.

2. PROPOSALS

- 2.1 It is recommended that the Committee seeks assurance that there are clear and achievable action plans for completing the agreed actions noted above.

3 CONCLUSION AND RECOMMENDATIONS

- 3.1 The Audit Committee is asked to consider the most appropriate action to be taken to progress the agreed Action Plans.
- 3.2 It is recommended that the Audit Committee:
- (i) Note the current position in respect of the agreed actions arising from internal and external work; and
 - (ii) Consider the most appropriate action to be taken to progress the agreed action plans, taking into account the recorded audit opinions.

Author

Name	Designation	Contact Details
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Council Text Phone Number 01738 442573

1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

Strategic Implications	Yes / None
Community Plan / Single Outcome Agreement	None
Corporate Plan	Yes
Resource Implications	
Financial	None
Workforce	None
Asset Management (land, property, IST)	None
Assessments	
Equality Impact Assessment	Yes
Strategic Environmental Assessment	None
Sustainability (community, economic, environmental)	None
Legal and Governance	None
Risk	Yes
Consultation	
Internal	Yes
External	None
Communication	
Communications Plan	None

1. Strategic Implications

1.1 Corporate Plan

1.1.1 The Council's Corporate Plan 2013 – 2018 lays out five outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

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

1.1.2 This report relates to all of these objectives.

2. Assessments

2.1 Equality Impact Assessment

2.1.1 Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.

2.1.2 The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

2.2 Risk

2.2.1 There is a risk to the strength of the control environment if the agreed action plans are not carried out in a timely manner.

3. **Consultation**

3.1 Internal

3.1.1 The Chief Executive and all Directors have been consulted in the preparation of this report.

2. **BACKGROUND PAPERS**

No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above report.

3. **APPENDICES**

Appendix A - Summary of Agreed Actions

Appendix B - Audit Follow-Up Corporate & Democratic Services

Appendix C - Audit Follow-Up Education & Children's Services

Appendix D – Audit Follow Up Housing & Community Care

Appendix E - Audit Follow-Up The Environment Service

Appendix A: Summary .of Agreed Actions

Table 1: All Agreed Actions for Follow-Up (figures in brackets reported in June 2016).
This table includes actions not yet due for completion.

Service	Importance					
	Critical	High	Medium	Low	Not Rated	Total
Corporate & Democratic Services	0 (0)	0 (1)	13 (13)	6 (9)	4 (3)	23 (26)
Education & Children's Services	0 (0)	2 (0)	11 (8)	3 (5)	0 (0)	16 (13)
Housing & Community Care	0 (0)	15 (4)	21 (5)	10 (3)	3 (0)	49 (12)
The Environment Service	0 (0)	4 (0)	20 (10)	5 (3)	2 (0)	31 (13)
All Services	0 (0)	21 (5)	65 (36)	24 (20)	9 (3)	119 (63)

Table 2: All Actions Reported as Incomplete on their Original Agreed Date

Service	Importance					
	Critical	High	Medium	Low	Not Rated	Total
Corporate & Democratic Services	0 (0)	0 (0)	1 (2)	2 (2)	2 (3)	5 (7)
Education & Children's Services	0 (0)	0 (0)	1 (1)	3 (3)	0 (0)	4 (4)
Housing & Community Care	0 (0)	1 (0)	2 (1)	0 (0)	2 (0)	5 (1)
The Environment Service	0 (0)	0 (0)	5 (4)	1 (1)	1 (0)	7 (5)
All Services	0 (0)	1 (0)	9 (8)	6 (6)	5 (3)	21 (17)
Actions with a completion date of April to June 2016 which have not been completed and therefore included on Appendices B to E						8
Those actions where the agreed date is not April to June 2016 which have been previously reported to Audit Committee						13

**Appendix B - Audit Follow-up
Corporate & Democratic Services
(Reporting for All dates on or before: March 2016)**

Action Plan	Dates	Status/Explanation
<p>Audit Scotland 6 - Annual report on the 2011/12 audit Action Point : 11 - Action point 4.1</p> <p>Audit Committee Date: January 2013</p> <p>The Head of Legal Services will review the Minute of Agreement for Tayside Contracts.</p> <p>(L Simpson, Head of Legal and Governance Services)</p>	<p>Jun 2013 Oct 2013 Apr 2014 Dec 2014 Jun 2015 Oct 2015 Apr 2016 Mar 2017</p>	<p>The Minute of Agreement is still awaiting signing by Angus and Dundee Councils.</p> <p>Internal Audit Opinion: accepted, awaiting confirmation of an anticipated date of completion.</p>

Appendix C - Internal Audit Follow-up
Education & Children Services
(Reporting for All dates on or before : March 2016)

Action Plan	Dates	Status/Explanation
<p>14-13 - Management of the Relationship with Live Active Leisure Action Point : 2 - Contract Monitoring Importance: Medium</p> <p>Audit Committee Date: February 2015</p> <p>A new contract is being drawn up for 2015/16 which will ensure that all the current performance indicators are reviewed and that a clear distinction is made between information that is core and material to contract performance which should continue to be presented regularly and other secondary indicators where the information must be collated by Live Active Leisure and available to PKC as required.</p> <p>(F Robertson, Head of Public Sector Reform, Culture and Community Development)</p>	<p>Apr 2015 Apr 2016 Oct 2016</p>	<p>Following the Council's decision to expand the remit for Live Active Leisure, there has been further dialogue regarding the contract. As such, completion of this action has been deferred until October 2016. This will allow negotiations for the new agreement to take place and incorporate the new indicators.</p> <p>Internal Audit Opinion: Accepted</p>

Appendix D - Internal Audit Follow-up
Housing & Community Care
(Reporting for All dates on or before : March 2016)

Action Plan	Dates	Status/Explanation
<p>15-13 - School Transport Contracts Action Point: 5 - Conditions of Contract Importance: Medium</p> <p>Audit Committee Date: March 2016</p> <p>A review of contracts and procedures will be carried out to ensure that the council is fully complying with Protection of Vulnerable Groups (Scotland) Act 2007.</p> <p>(B Atkinson, Director (Housing & Community Care))</p>	<p>Jun 2016 Oct 2016</p>	<p>The Service states that a meeting will be convened in October to progress this issue.</p> <p>Internal Audit Opinion: Satisfactory</p>
<p>15-22 - Self-Directed Support Action Point : 1(a) - Responsibility for SDS Importance: High</p> <p>Audit Committee Date: March 2016</p> <p>The Chief Social Work Officer will review the Scheme of Administration and recommend amendments be made to reflect the Social Care Self-Directed Support (Scotland) Act 2013 roles carried out by Education and Children's Services.</p> <p>(B Atkinson, Director (Housing & Community Care))</p>	<p>Jun 2016 Dec 2016</p>	<p>The Service states that the recommended amendments will be presented to Council in December 2016.</p> <p>Internal Audit Opinion: Satisfactory</p>
<p>15-22 - Self-Directed Support Action Point : 7 - Performance Information Importance: Medium</p>	<p>Jun 2016 Mar 2017</p>	<p>The Service states that the Community Care dashboard development will commence in November 2016 following completion of the Housing</p>

Action Plan	Dates	Status/Explanation
<p>Audit Committee Date: March 2016</p> <p>The Service Manager SDS will liaise with the Business Improvement Team to review the SDS dashboard information to ensure that it is incorporated into the Community Care performance dashboard. A report will be sent to the Service Senior Management Team recommending adoption of revised key indicators. The reporting of performance information to the Community Care Management Team and the Senior Management Team will thereafter be implemented.</p> <p>(S Strathearn, Business Improvement Manager)</p>		<p>Dashboard.</p> <p>This development will also ensure the capture of community Health activity and Hospital activity, to incorporate it into the dashboard to report at a joint Health and Social Care Partnership level.</p> <p>This will be phased in by business area with full completion planned for March 2017. SDS may be considered for early release.</p> <p>Audit opinion: Satisfactory</p>

Appendix E - Audit Follow-up
The Environment Service
(Reporting for All dates on or before: March 2016)

Action Plan	Dates	Status/Explanation
<p>15-13 - School Transport Contracts Action Point: 2 - Authority to Contract Importance: Medium</p> <p>Audit Committee Date: March 2016</p> <p>The authorisation limits for Public Transport Officers and Public Transport Technicians will be reviewed to ensure that they can award contracts with the appropriate authorisation. Updated guidance will be provided to all Public Transport Unit staff.</p> <p>(A Warrington, Public Transport Manager).</p>	<p>Mar 2016 Jun 2016 Dec 2016</p>	<p>The authorised signatories list has been updated and an email issued to staff.</p> <p>Internal procedures will be also be updated to reflect the above as part of Management Action Point 1, relating to the review and updating of procedural documentation.</p> <p>Internal Audit Opinion: Accepted</p>
<p>15-13 - School Transport Contracts Action Point: 7 - Contract Oversight & Performance Monitoring Importance: Medium</p> <p>Audit Committee Date: March 2016</p> <p>The existing contract lists will be expanded to identify the nominated Contract Compliance Officer(s) and underpin the information required for publication on the Contract Register.</p> <p>(A Warrington, Public Transport Manager)</p>	<p>Mar 2016 Jun 2016 Sep 2016</p>	<p>The Service has advised that this task is mostly complete. Given other workload pressures it is anticipated that this task can be completed by September 2016.</p> <p>Internal Audit Opinion: Accepted</p>
<p>15-18 - Planning Applications Action Point: 4 - Reporting on</p>	<p>Jun 2016 Nov 2016</p>	<p>The Service have advised that the Planning Performance</p>

Action Plan	Dates	Status/Explanation
<p>Planning Performance Importance: Medium</p> <p>Audit Committee Date: March 2016</p> <p>The service will ensure that the most recent Planning Performance Framework will be submitted to Committee as soon as is appropriate.</p> <p>(P Marshall, Strategy & Policy Manager)</p>		<p>Framework was submitted to Scottish Ministers in July 2016 with feedback expected in early October 2016. It is anticipated that a report will be submitted to the Enterprise and Infrastructure Committee in November 2016.</p> <p>Internal Audit Opinion: Satisfactory</p>

PERTH AND KINROSS COUNCIL**Audit Committee****28 September 2016****THE NATIONAL FRAUD INITIATIVE 2014/15 and 2016/17****Report by the Chief Internal Auditor****PURPOSE OF REPORT**

This report presents the reported findings of the 2014/15 National Fraud Initiative exercise. It also outlines the preparations currently underway in respect of the 2014/15 exercise.

1. BACKGROUND / MAIN ISSUES

- 1.1 Since April 2015, the Cabinet Office has taken over responsibility for the administration of the National Fraud Initiative (NFI) from the Audit Commission. The NFI constitutes a sophisticated data matching exercise matching electronic data within and between participating public bodies to assist in the prevention and detection of fraud. The NFI exercise in Scotland is Audit Scotland's data matching exercise that runs every two years in line with the published timetable. The Cabinet Office processes the data for the NFI in Scotland on behalf of Audit Scotland. This 2014/15 exercise represents the fifth NFI data matching to be undertaken in Scotland.
- 1.2 The overall aims of the NFI are to serve the public interest by safeguarding public money against losses from fraud or misappropriation and to contribute towards the fight against fraud. It improves the use made of public resources by identifying anomalies in the data held by different authorities and by ensuring that these are highlighted for further investigation. Whilst it is designed to detect fraud, it may also identify instances of administration error or inaccurate data.
- 1.3 The NFI exercise helps participating bodies (such as Local Authorities, Police Scotland, Scottish Fire and Rescue and the other public sector bodies) to identify possible cases of fraud and detect and correct any consequential under or overpayments. The NFI also helps Auditors in assessing the Council's arrangements for preventing, deterring and detecting fraud.
- 1.4 There are broadly three stages in the NFI process:
 1. the submission of the required datasets by public authorities and other organisations;
 2. the processing of the data (data matching) in order to identify anomalies; and
 3. the investigation of the highlighted and reported anomalies.

- 1.5 The Council is responsible for stages 1 and 3; processing of the data (stage 2) is carried out under arrangements put in place by the Cabinet Office. Reports on the Council's involvement and responsibilities have previously been presented to the Audit Committee. More recently, a progress report was presented to Audit Committee in June 2016 (report 16/159 refers) which highlights the outcomes for Perth and Kinross for the 2014/15 exercise.

2. 2014/15 NATIONAL REPORT

- 2.1 The "outcomes" arising directly from the 2014/15 investigations, as reported in Audit Scotland's National Fraud Initiative in Scotland Report of June 2016, are £16.8 million. The Audit Scotland report is attached as Appendix A to this report.
- 2.2 The proportion of the figure attributable to Perth and Kinross Council is £27,712.95, as reported previously to Audit Committee (report 16/159 refers) and comprises Benefit outcomes of £17,108.15 and Creditors of £10,604.80. Action is being taken where possible to ensure that these outcomes are recovered.
- 2.3 Audit Scotland commented in its report that the main outcomes in 2014/2015 have been in matches involving council tax discounts, pensions, blue badges and housing benefits, accounting for 92% in terms of financial outcomes. In addition, the report highlights that outcomes of £5.6m have been identified from matches relating to Council Tax Single Person Discounts, with an average value of £618 per match. Perth & Kinross do not provide the Electoral Register to facilitate this match (see 3.7).

3. 2016/17 PREPARATIONS

- 3.1 Audit Scotland's Report provides a self-appraisal checklist which has been completed for 2016/2017 and actions identified in order to improve arrangements are being taken forward. Part A of this checklist is entitled "for those charged with governance" and is attached at Appendix B for approval by the Audit Committee.
- 3.2 Internal Audit is currently liaising with relevant contacts within Services concerning 2016/2017 requirements and will liaise with the Council's external auditors in due course.
- 3.3 The data submitted is either required for the exercise (mandatory) or recommended (risk based). As previously agreed with external audit, the approach taken by Internal Audit is to encourage the submission of "risk based" data where the available information is of sufficient quality and/or where, after self-assessment of the risk of fraud in these areas, there is perceived to be a potential cost benefit in submitting the data.
- 3.4 It is anticipated for 2016/2017, as in previous exercises, that additional datasets will be requested mid cycle e.g. Council Tax and Electoral register data.

- 3.5 Data protection legislation requires that individuals whose personal information is to be provided for NFI purposes are informed. This is undertaken by the provision of privacy notices. Internal Audit will facilitate the processes whereby, where appropriate, data subjects are notified of the use of their personal data in the exercise for preventing and detecting fraud. In addition, Internal Audit will support Services to ensure that the relevant datasets are submitted in accordance with the NFI timetable.
- 3.6 The proposed Council dataset submissions for 2016/2017 are:

Dataset	Mandatory/Risk Based	Privacy notice required?
Payroll	Mandatory	Yes
Pensions	Mandatory	Yes
Housing	Mandatory	Yes
Housing Waiting Lists		
Blue badges resident parking (transport passes and permits)	Mandatory	Yes
Private supported care home residents	Mandatory	No. (Matches are to dead persons – notices may cause alarm or confusion)
Licenses	Mandatory	Yes
Trade creditors (payments history)	Mandatory	N/A (not personal data)
Trade creditors (standing data)	Mandatory	N/A (not personal data)
Insurance	Mandatory	Yes
Council tax reduction scheme	Mandatory	Yes
Council Tax	Mandatory	Yes
Personal Budgets (direct payments)	Mandatory	Yes

- 3.7 A further mandatory dataset is the Electoral Register, however the Committee has been informed previously that it is the opinion of the Head of Legal and Governance Services that the Council is not able to share this information for the purposes of NFI.
- 3.8 A further update report will be presented to the Audit Committee in due course.

4. CONCLUSION AND RECOMMENDATION

- 4.1 This report outlines the reported findings from the 2014/15 National Fraud Initiative exercise and the action being taken by Perth & Kinross Council in response to the requirements of the National Fraud Initiative for 2016/17.
- 4.2 It is recommended that, in order for Councillors to be fully informed of the activity of officers with regard to the National Fraud Initiative, the Audit Committee notes:
- (i) the outcomes as reported within the National Audit Scotland report of the National Fraud Initiative 2014/15; and
 - (ii) the work being undertaken in preparation for the 2016/17 exercise.
- 4.3 It is further recommended that the Audit Committee approves the section of Audit Scotland's self-appraisal checklist relating to those charged with governance at Appendix B.

Author(s)

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If you or someone you know would like a copy of this document in another language or format, (on occasion only, a summary of the document will be provided in translation), this can be arranged by contacting *Jackie Clark*



Council Text Phone Number 01738 442573

1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

Strategic Implications	Yes / None
Community Plan / Single Outcome Agreement	None
Strategic Plan	Yes
Resource Implications	
Financial	None
Workforce	None
Asset Management (land, property, IST)	None
Assessments	
Equality Impact Assessment	Yes
Strategic Environmental Assessment	None
Sustainability (community, economic, environmental)	None
Legal and Governance	None
Risk	Yes
Consultation	
Internal	Yes
External	None
Communication	
Communications Plan	None

1. Strategic Implications

1.1 Corporate Plan

1.1.1 The Council's Corporate Plan 2013 – 2018 lays out five outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

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

1.1.2 This report relates to all of these objectives.

2. Assessments

2.1 Equality Impact Assessment

2.1.1 Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.

- 2.1.2 The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

2.2 Risk

- 2.2.1 The risks are associated with the level of assurance provided on the control environment in the event that Internal Audit's planned work is not completed on time.

3. **Consultation**

3.1 Internal

- 3.1.1 The Chief Executive, Head of Legal Services and Head of Finance have been consulted in the preparation of this report.

2. **BACKGROUND PAPERS**

No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above report.

3. **APPENDICES**

Appendix 1 – Audit Scotland's Report: The National Fraud Initiative in Scotland

Appendix 2 – Extract from the Self-Assessment Checklist Part A: for those charged with governance

The National Fraud Initiative in Scotland



Prepared by Audit Scotland
June 2016

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Links

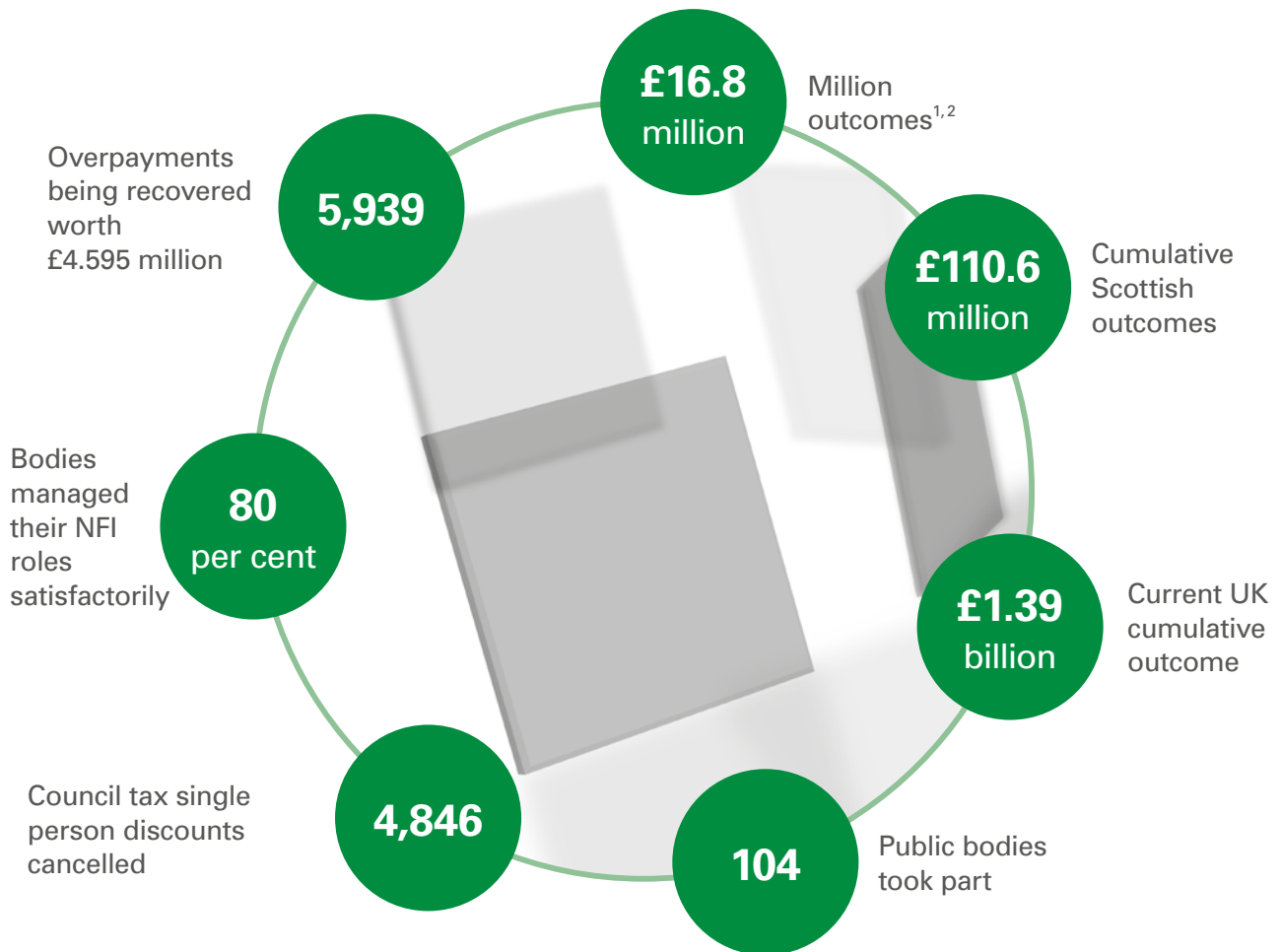


PDF download



Web link

Key facts




Notes:

1. For national reporting purposes, outcomes are collated as at 31 March 2016. Outcomes recorded by participants after this date are included in subsequent reports.
2. The outcome figures referred to in this report include amounts for fraud and error detected and also an estimate for those future losses that have been prevented. Estimates are included where it is reasonable to assume that fraud, overpayments and error would have continued undetected without the NFI data matching.

Summary



Key messages

- 1** Public bodies spend billions of pounds of taxpayers' money for the benefit of the Scottish population, providing services and financial assistance to all citizens including those that need them the most. Systems underpinning public spending can be complex and errors can happen. Unfortunately, there are also some individuals who seek to exploit the systems and fraudulently obtain services and benefits to which they are not entitled.
- 2** Fraud does not recognise organisational or geographic boundaries. Data sharing enables bodies to match data internally and externally. Technology provides an efficient way to connect discrete data sets and can therefore limit the gaps available for fraudsters to manipulate and can help identify those that have. It also supports bodies to identify and implement process and control improvements that should reduce future errors and the costs of correcting these errors.
- 3** Audit Scotland, working closely with public bodies, external auditors and the Cabinet Office, has completed another major data sharing and matching exercise. The National Fraud Initiative (NFI) exercises make a significant contribution to the security and transparency of public sector finances by confirming that services are provided to the correct people and by reducing fraud and error.
- 4** Since we last reported on [The National Fraud Initiative in Scotland](#)  in June 2014, outcomes valued £16.8 million have been recorded and the cumulative outcomes from the NFI in Scotland are now at £110.6 million. These outcomes represent a significant return to the public finances of Scotland at a time when public finances continue to be under pressure. Across the UK the cumulative total is now £1.39 billion.
- 5** What cannot be measured, but is also important, is the deterrent effects that undertaking regular data sharing and matching exercises, such as the NFI, has on persons who may be considering committing fraudulent acts.
- 6** The NFI 2014/15 involved 104 Scottish bodies across three sectors. Scottish bodies submitted 585 data sets which generated 347,715 data matches for further investigation.
- 7** There are 2,522 investigations still in progress and action is being taken to recover £4.2 million of overpayments.

- 8** The benefits of data sharing and matching enabled bodies external to those who submitted the data to identify outcomes of £0.7 million.
- 9** Most organisations take advantage of the opportunities provided by the NFI but some could act more promptly and ensure that appropriate officers are in place who have sufficient time available to investigate matches, stop frauds and correct errors.
- 10** The introduction of the Department for Work and Pensions' Fraud and Error Services (DWP FES) has had some resourcing implications for progressing housing benefit matches.

Recommendations

All participants:

- Audit Committees, or equivalent, should review the self-appraisal checklist at [Appendix 2, Part A \(page 41\)](#) to ensure that they are fully informed of the planning and the progress being made by their officers investigating the NFI 2016/17 exercise.
- All public bodies participating in the NFI should ensure that they maximise the benefits of their participation in the NFI. In particular, they should consider:
 - whether it is possible to work more efficiently on the NFI matches: reviewing the suggestions at [Appendix 3 \(page 45\)](#) should help
 - using the NFI matches in conjunction with alternative matching services either internally or from other providers where appropriate
 - where appropriate using the NFI flexible data matching service and point of application data matching service.

Local authorities:

- Local authorities should ensure they have sufficient capability to investigate non housing benefit fraud or corporate fraud, including relevant NFI matches.
 - Local authorities that administer pension schemes should consider regular matching to deceased records where they do not already do so.
 - Local authorities should ensure that they embed the regular use of data matching as part of their overall control arrangements to identify council tax discount fraud and error in order to maximise council tax income.
-



Part 1

Background



Key messages

- 1** The NFI is linked to the statutory audit of participating bodies and the results are reported every two years by Audit Scotland.
- 2** Data matching is an effective and efficient method to identify areas for further investigation by connecting discrepancies between different data sets.
- 3** The powers to undertake data matching given to Audit Scotland enable it to look across entity boundaries and national borders.
- 4** The success of the NFI comes primarily from the public servants who investigate the data matches and the external auditors who review their arrangements.

1. [Public audit in Scotland](#)  sets out the shape, principles and common themes of public audit and the priorities identified by the Auditor General and the Accounts Commission. It also drives Audit Scotland's [Corporate plan 2016/17 update](#)  which sets out our vision to be a world-class audit organisation that improves the use of public money and that maximises the difference that public audit makes to public services, the people that they serve and the outcomes that those people experience.

2. Audit Scotland has coordinated another major counter-fraud exercise working together with a range of Scottish public bodies, external auditors and the Cabinet Office to identify fraud and error. These exercises help support participating bodies demonstrate to the public that public money has been spent properly, known as the National Fraud Initiative in Scotland (the NFI), are undertaken every two years and are linked to the statutory audits of the participating bodies. The latest exercise (NFI 2014/15) started in October 2014 and is now nearing completion.

3. The success of the NFI comes primarily from the public servants who:

- investigate the NFI data matches
- identify and stop frauds and errors
- recover overpayments
- hold fraudsters accountable
- improve their systems to help prevent fraud and error.

4. Auditors in the public sector undertake a wider scope audit including reviewing audited bodies' governance and financial management arrangements incorporating action to prevent and detect fraud. Active participation in the NFI is one way in which bodies can demonstrate good governance and sound financial management.

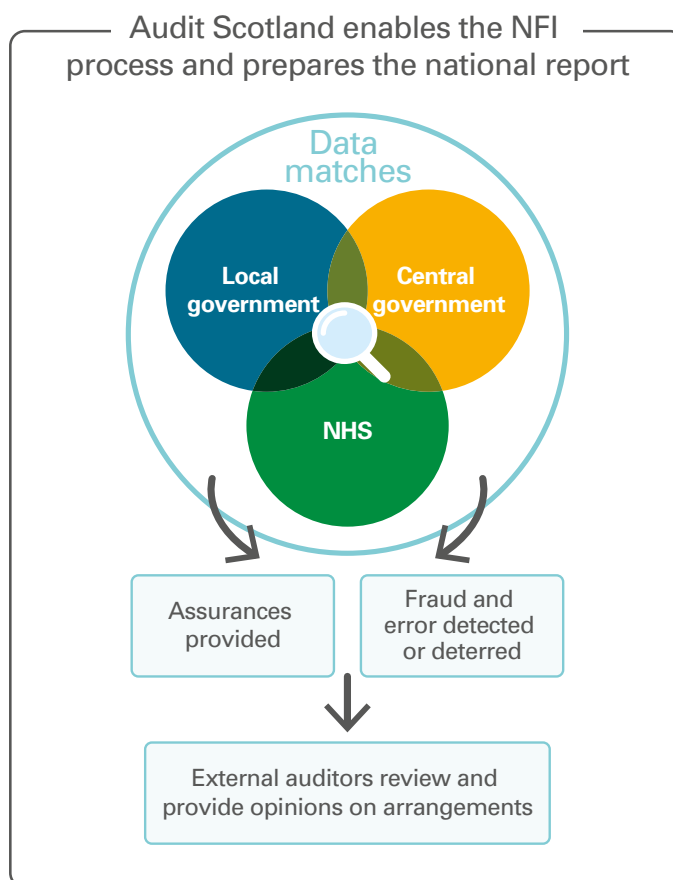
5. The role of external auditors in the NFI is also important. They review and conclude on the effectiveness of the local NFI arrangements. They also provide assurance on the progress being made on the NFI investigations. Auditor conclusions provide the evidence for the [Part 3. Making a difference \(page 28\)](#) section of this report.

6. The public also have a duty to report any change in circumstances that could affect their entitlement to many public services such as pensions, benefits or council tax discounts that they receive. Failure to do so can be serious and lead to overpayment recovery and possibly to fraud prosecution.

7. Exhibit 1 summarises the relationships and responsibilities within the NFI in Scotland.

Exhibit 1

Relationships and responsibilities within the NFI in Scotland



Source: Audit Scotland

8. The NFI in Scotland is now well established with this being the fifth biennial exercise since 2006/07. The NFI enables public bodies to take advantage of computer data matching techniques to detect fraud and error. The NFI remains the largest national fraud detection and prevention scheme that can provide data matches within and between public bodies. Its key features are that it:

- acts as a deterrent to potential fraudsters
- identifies errors and fraud thus enabling appropriate action to recover money and/or press criminal charges
- can provide assurances, similar to a regular health check, that systems are operating well and can also identify where improvements are required
- operates across boundaries between public bodies in different sectors and countries
- represents value for money in terms of the efficiencies deliverable through centralised data processing and identifying targeted high priority matches.

9. The NFI works by using data matching to compare a range of information held on bodies' systems to identify potential inconsistencies or circumstances that could indicate fraud or error which are called 'matches'. A match does not automatically mean that there is a fraud or error and investigations are required to enable the correct conclusion to be drawn for each match. Bodies investigate these and record on a secure web application appropriate outcomes based on their investigations.

10. The outcomes figures used throughout this report capture detected fraud, error, overpayments and recoveries and also, where appropriate, a value for estimated future losses that have been prevented. These estimates are included where it is reasonable to assume that fraud, overpayments and error would have continued undetected without the NFI data matching. A more detailed explanation is included in [Appendix 4 \(page 46\)](#).

11. In total, 104 bodies participated in the 2014/15 NFI exercise. This is a reduction from 2012/13 mainly owing to the local government police and fire authorities being merged into national bodies. Two further education colleges were invited but didn't submit any data.

12. Audit Scotland included data about its own employees in NFI exercises and those of audit firms carrying out external audit work for the Auditor General for Scotland and the Accounts Commission.

13. In total, 585 data sets were submitted for data matching. These returned 347,715 matches and of these 65,778 were identified as recommended matches, being matches with a higher risk of fraud or error. It is up to individual bodies to determine which and how many matches to investigate.







14. Although there has been a reduction in data sets and matches from NFI 2012/13, when Scottish bodies submitted 599 data sets which generated 382,137 data matches, overall outcomes have risen from £16 million to £16.8 million.

15. Exhibit 2 provides some examples of the types of data set matches undertaken.

16. In addition to the main matching exercise, a separate exercise has been undertaken to match electoral registers against those households where council tax single person discounts are being claimed.

Exhibit 2

Examples of the types of data set matches undertaken

Type of data match	Potential fraud or error
 Council tax records to the latest electoral register	A council tax payer gets council tax single person discount but the person is living with other countable adults, and so does not qualify for a discount.
 Housing benefit claimants to employees and public sector occupational pensions	Employees or occupational pensioners may claim benefit without declaring their income or by under-declaring the amounts.
 Employees to employees	An employee may be on long-term sick leave while working at another body.
 Public sector pensions to deceased persons' records	A pensioner's death may not have been reported to the pension authority. The pension continues to be paid to a bank account or may be collected by a relative.
 Blue badges to deceased persons' records	The permit holder's death may not have been reported to the council. The permit may continue to be used fraudulently or be sold for improper use.
 Employees to immigration records ¹	It is unlawful for someone to obtain employment if they are not entitled to reside or work in the UK.

Note: 1. This includes data about refused and expired visas, and visas where there is no right to work and failed asylum applications.

Source: Audit Scotland

17. The data uploads took place in October 2013 and the results were provided to councils in January 2014 to investigate. Two councils, Angus and Perth & Kinross Councils, decided not to upload data for this particular data match. The NFI is one of the proven ways by which councils can address fraud and error in this area. A number of councils also employ credit reference agencies to match single-person details against a wider range of data sets such as credit and utility records. Both of these councils are now doing alternative data matching using these data sets.

18. As this is the area where most outcomes originated for the NFI 2014/15, it is recommended that councils should embed regular data matching in this area as part of their overall control systems to identify and reduce council tax discount fraud and error and maximise council tax income.

19. Audit Scotland carries out the NFI process under powers in The Criminal Justice and Licensing (Scotland) Act 2010. It is important for all parties involved that this exercise is properly controlled and data handled in accordance with the law. The governance arrangements for the NFI are summarised at [Appendix 1 \(page 39\)](#).

20. The NFI is important in the context of the economic climate and fiscal projections for future public sector expenditure. The NFI exercises make a significant contribution to the security and transparency of public sector finances by:

- ensuring that services and benefits are only paid to the correct people
- identifying and reducing fraud and error
- allowing overpayments to be recovered
- enabling penalties to be imposed.

Part 2

Impact and outcomes



Key messages

- 1** Outcomes from the NFI 2014/15 are £16.8 million.
- 2** £14.7 million have been identified directly from the NFI 2014/15 investigations.
- 3** £2.1 million are further savings from the NFI 2012/13.
- 4** 5,939 overpayments are being recovered worth £4.595 million.
- 5** Cumulative NFI outcomes in Scotland are now £110.6 million.
- 6** Across the UK £1.39 billion of NFI outcomes have now been recorded.

Outcomes

21. Since we last reported on the [The National Fraud Initiative in Scotland](#) in June 2014 outcomes valued at £16.8 million have been recorded. Cumulative outcomes from the NFI in Scotland are now at £110.6 million and represent a significant return to the public finances of Scotland.

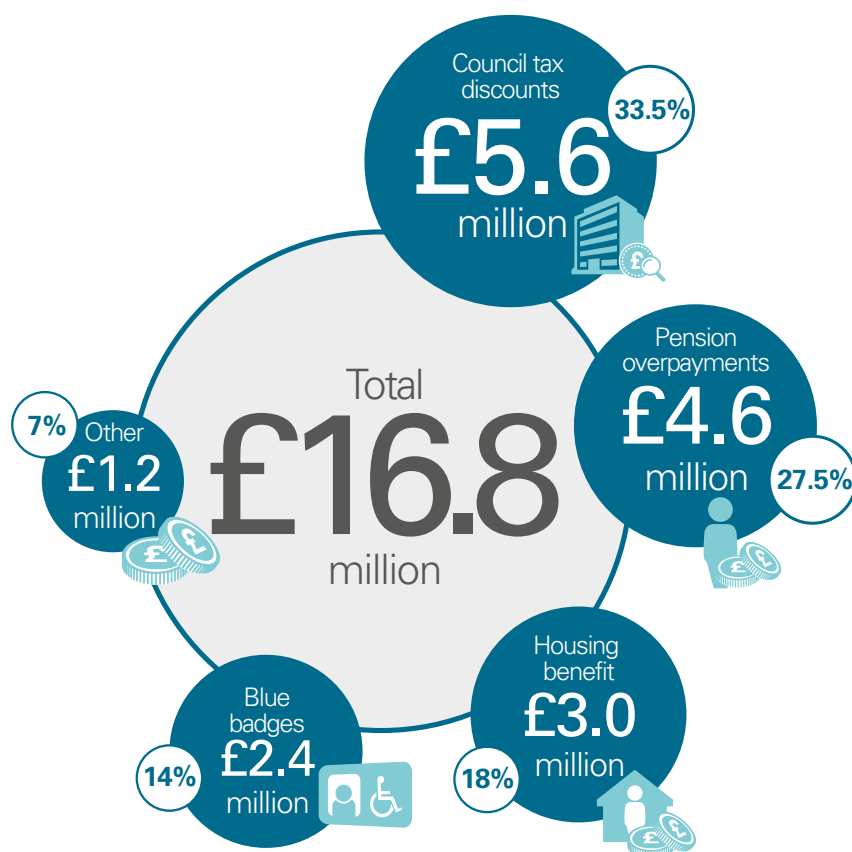
22. The 2014/15 outcomes are split:

- £14.7 million of outcomes from the NFI 2014/15 matches.
- £2.1 million of outcomes from further follow-up work on the NFI 2012/13 matches.

[Exhibit 3 \(page 13\)](#) provides more detail of key outcome areas recorded by bodies as at 31 March 2016.

23. Investigations from NFI 2014/15 are on-going. As at 31 March 2016, there were 2,522 investigations for this exercise still in progress. The evidence from previous exercises is that between reports, significant outcomes continue to be delivered. The last two NFI reports showed that:

- 20 per cent of 2012/13 outcomes arose after March 2014
- 39 per cent of 2010/11 outcomes arose after March 2012
- 43 per cent of 2008/09 outcomes arose after March 2010.

Exhibit 3**Analysis of NFI outcome from April 2014 to March 2016**

Source: The Cabinet Office NFI secure web application

24. If this pattern is continued we could expect to see further outcomes in the region of £2.9 million to £6.3 million from the NFI 2014/15.

25. Importantly once overpayments have been identified appropriate recovery action can be taken. As at 31 March 2016, there was £4.6 million of recovery action being taken in 5,939 cases. This is a slight increase in value from the £4.5 million that was being recovered at the end of NFI 2012/13 in March 2014. There are more overpayments being identified from the NFI 2014 but these are at a lower value than those identified in the 2012/13 NFI exercise.

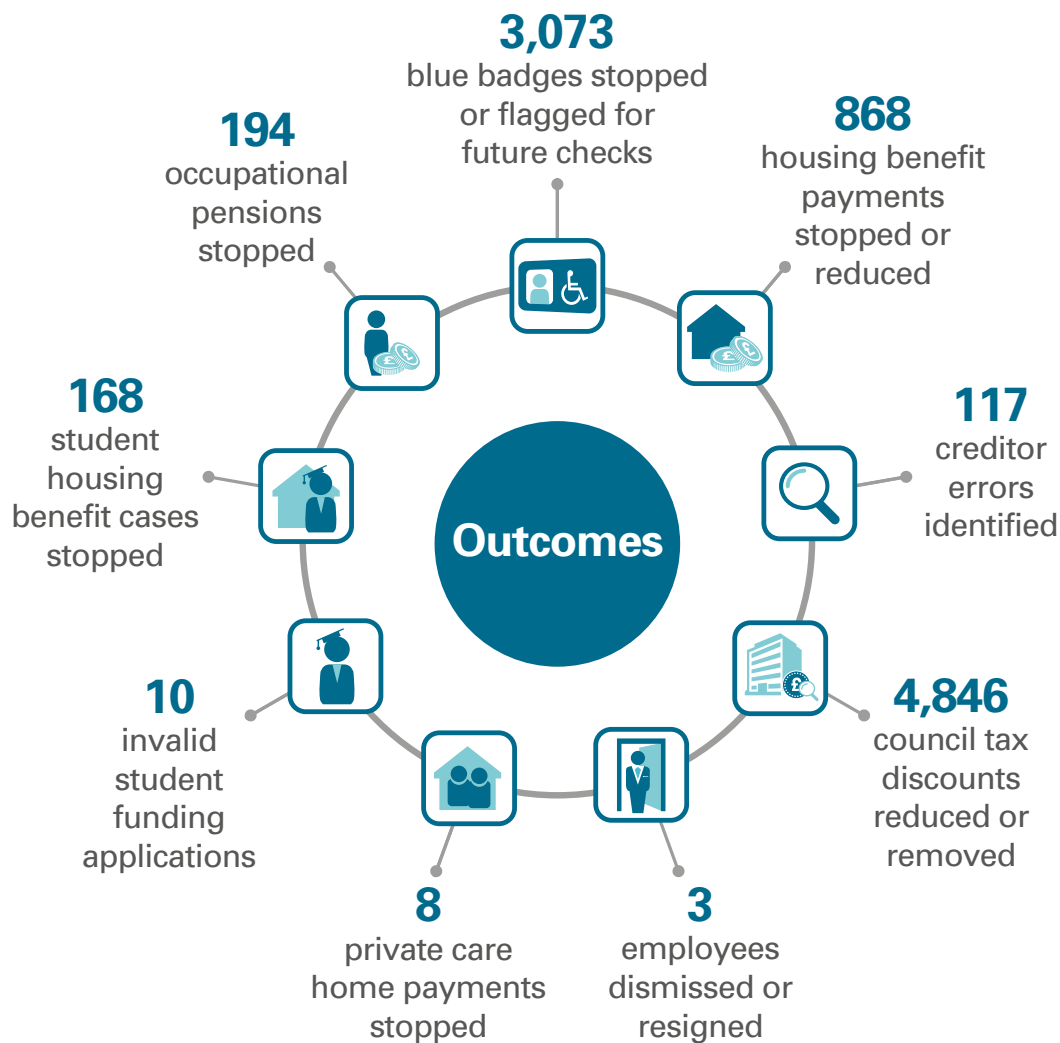
26. What cannot be measured directly is the value of the deterrent effect that the planned biennial NFI data matching has on potential fraudsters. Its significance should not be overlooked and is a key benefit to the Scottish public and taxpayers.

27. Overall outcomes are up on the last NFI exercise by five per cent in Scotland while outcomes have fallen by 2.5 per cent across the UK. Late savings in Scotland are significantly down between exercises at £2 million for 2014/15 compared with £5.5 million for 2012/13. However, no obvious national trend can be assumed from the results of the last five NFI exercises because of changes in the scope of the NFI exercises, the number and variety of bodies participating and in the approach taken by bodies to tackling fraud and error.

28. The NFI is more than the financial value of the financial outcomes recorded
[Exhibit 4](#) sets out the main results from the 2014/15 matches:

Exhibit 4

Main results from the 2014/15 matches



Source: The Cabinet Office NFI secure web application

29. The matches which generated the most outcomes from the current exercise, excluding late savings, in terms of financial outcomes accounting for 92 per cent (£13.6 million) of the total (£14.7 million), are:

- council tax discounts – 38 per cent
- pensions – 31 per cent
- blue badges – 12 per cent
- housing benefits – 11 per cent.

30. When comparing outcomes originating from NFI 2014/15 to those originating from NFI 2012/13, excluding late savings from previous NFI data matching exercises, outcomes are up with council tax reduction outcomes having increased significantly. Blue badge and pension matches have also generated increased levels of outcomes. The largest drop is in the area of housing benefit outcomes which is discussed later.





Council tax single person discounts

31. People living on their own or with no countable adults in the household are eligible for a 25 per cent Single Person Discount (SPD) off their annual council tax bill. Local authorities are responsible for the award of these discounts as part of their administration of council tax and should ensure that they have sufficient evidence to apply these discounts to a person's council tax bill. People's circumstances change and it is important that household details and eligible discounts are kept up to date by councils, while recognising that it is the taxpayer's legal responsibility to notify the council of any changes in their circumstances that would affect this discount.

32. The Scottish Government estimates that two-fifths of chargeable dwellings were entitled to the discount in 2015.¹ [Exhibit 5](#) provides an indicator of the scale of the discount value across Scotland when applied to average council tax band D charge.

Exhibit 5

Council tax SPD estimate

	Number of single person households	955,505
	Scottish band D average charge (2014/15)	£1,149
	25% discount	£287.25
	Annual discount value	£274,468,811

Source: Scottish Local Government Financial Statistics 2014-15

33. This demonstrates that the single person discount is of considerable value. Failure to award discounts correctly and to regularly check household compositions can reduce the council tax income available to spend on council services.

34. This NFI match is a very simple one in that it matches council tax records to the electoral register. A match is returned where a single person discount has been awarded but the electoral register indicates that another countable adult is living there.² A letter can then be issued by council staff seeking clarification of household composition and initiate further investigations if required. Where a second countable person is confirmed or no response provided then the single person discount can be cancelled and recovery sought.

35. There were 75,604 matches returned to the 30 Scottish councils that submitted data. Of these, 16 councils have processed 9,067 matches and recorded £5.6 million outcomes with 430 still being investigated as at 31 March 2016. There are 14 councils who have not recorded any outcomes for this match. The two councils recording the highest outcomes for this match were:

- Renfrewshire Council – 874 discounts cancelled with £1.4 million outcomes
- Aberdeen City Council – 993 discounts cancelled with £1.3 million outcomes.

36. The average return of the 9,067 matches processed is £618 per match which is significantly higher than the £158 per match reported for NFI 2012/13.

37. It is not for Audit Scotland to determine which data matching service a council should use and when. Some councils use additional data matching options to undertake this review and do not record results on the NFI system. The City of Edinburgh Council used alternative data matching arrangements to perform their own separate council tax single person discount match and utilised a variety of alternative data sets including mobile phone accounts, number of bins ordered, credit cards and pay day loans. These arrangements have gained an extra £940,000 of revenue for the council.

38. However, as part of this exercise Audit Scotland checked with all councils to establish that where they were not investigating the NFI matches that they had alternative arrangements in place. All confirmed that they did or that they had arrangements in place to undertake this in the future.

39. Lack of resources and expertise have been cited as reasons by councils to call in data matching companies to complete work on this match rather than investigating the NFI matches internally. These companies are remunerated on either a fixed fee or on a percentage of discount value cancelled. The NFI web application now has built-in mail merge facilities that can deliver similar services as these companies and will generate a letter asking council tax payers to confirm that they are a still single household where a match is returned. If there is no response in say four weeks then the discount can be cancelled.

40. Audit Scotland would recommend that they investigate the NFI matches, in conjunction with other data matching suppliers as they determine appropriate, to ensure that their awarded discounts are kept up to date and that they demonstrate value for money.

Pension outcomes

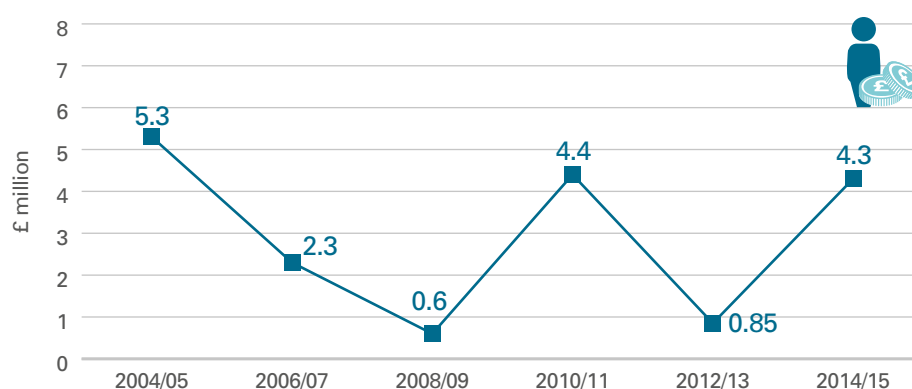
41. The NFI provides pensions administering councils and the Scottish Public Pensions Agency (SPPA) with an efficient and effective means of checking that payments are only being made to living persons. The NFI 2014/15 helped these

bodies identify 194 pensioners whose deaths had not been reported to them. Including other pension-related outcomes (for example, cases where early retirees have returned to work but not reported circumstances that require their pension to be reduced) and forward savings, the amounts for the NFI 2014/15 total £4.6 million (£3.8 million for the NFI 2012/13).

Scottish Public Pensions Agency

42. The NFI recorded outcomes of £4.3 million from its 2014/15 matches against SPPA data. This includes a forward saving estimate for pension outcomes that assumes that the annual pension that would have been paid from date of death until age 85. SPPA matched 172 cases and in 168 of these cases recovery is in progress. This is an increase from the £0.85 million identified from 23 outcomes from NFI 2012/13 matches. [Exhibit 6](#) summarises SPPA pension outcomes since the NFI started.

Exhibit 6 SPPA pension outcomes



Source: The Cabinet Office NFI secure web application

43. The numbers of recommended matches for investigation of the re-employment matches, ie identification of pensioners who may have gone back into employment that should have resulted in an abatement of their pension (generally abatements apply in instances where the pay from the new employment plus the pension exceeds the level of pay at the time of retirement) have increased since NFI 2012/13 from 2,213 to 3,118. This is as a result of the continuation of the work that saw historic teachers re-employment cases being included in SPPA's data for the first time in the previous NFI exercise.

44. For SPPA obtaining up-to-date information on pensioners returning to work and on deceased data from over 50 countries around the world where pensioners live is a constant challenge.

45. However, the SPPA has been undertaking more regular data matching opportunities that have helped lead to an increase in overpayments identified. The SPPA has found the additional mortality screening available from the NFI outside the two-yearly cycles useful in identifying further matches for investigation.

Investment in other regular data matching can significantly help reduce the value of overpayments that may build up.

46. The NFI 2014 report recommended that local authorities that administer pension schemes and are not already using more regular data matching to deceased records should consider doing so. This recommendation remains as these overpayments are often large and recovery difficult and the sooner these are identified the lower the value of overpayments that will be generated and any recovery should be easier.

Case study 1

The City of Edinburgh Council



A NFI pension match identified a fraud in excess of £15,000 which had taken place for almost 13 years.

The match was not a perfect match as a middle initial had been omitted in one of the individual's records. It had previously been picked up by NFI on two separate occasions. Each time the pension officer sent out a Life Certificate for completion and both times the forms were returned duly completed, signed and witnessed.

The third time the match was identified through NFI, a more senior pension officer checked it and noticed that the witness signatures on the previous two Life Certificates were by the same person. As a cautionary measure, a stop was put on the pension and photographic evidence requested. No evidence was received. More investigations were undertaken and a death date of 2003 was identified. The case is now the subject of a police investigation.

Local government

47. While SPPA outcomes are up there has been a significant reduction in local government-run pension scheme outcomes from £2.9 million of outcomes across 73 cases in NFI 2012/13 to £275,756 pension outcomes across 43 cases for the current exercise.

48. There are 11 local government administered pension bodies in Scotland. All investigated their NFI pension matches and four returned outcomes. As in previous NFI exercises, the majority of the outcomes from local government are in the:

- Strathclyde Pension Fund (SPF) administered by Glasgow City Council which has a membership of over 210,000 and which recorded outcomes of £199,130. These outcomes were from 29 cases which are being recovered (£2.2 million of outcomes across 52 cases in NFI 2012/13)
- Lothian Pension Fund administered by The City of Edinburgh Council with over 72,000 members and which achieved an outcome of £30,137 from one case which has been referred to Police Scotland (£0.3 million across three cases in NFI 2012/13).

Blue badges

49. The Disabled Persons' Parking Places (Scotland) Act 2009 was passed by the Scottish Parliament on 26 February 2009 and came into force on 1 October 2009. The Act places a duty on all local authorities to promote the proper use of disabled parking places, and aims to make all disabled persons' parking bays enforceable.

50. The blue badge scheme allows individuals with mobility problems, and who may have difficulty using public transport, to park free at on-street parking meters and pay-and-display machines. Holders are also allowed to park in designated blue badge spaces and may also be permitted to park on single or double yellow lines in certain circumstances.

51. Badges are sometimes used or renewed improperly by people after the death of the badge holder. The use of a blue badge by an unauthorised person is an offence. Importantly by using a blue badge to park without need, the space is denied to people with actual mobility issues. This is the true social cost of this type of fraud.

52. Councils do not always attempt to recover a badge relating to a deceased person to avoid causing distress but, by 'flagging' the relevant records, they can at least ensure that badges are not incorrectly renewed in the future. By sharing information with other departments councils can also recover valuable equipment and aids if they have not been informed of a person's death.

53. Scottish councils have reported correcting 3,073 (2,876 in 2012/13) blue badge records where the NFI helped them to identify that the holder was deceased. North Lanarkshire Council has corrected 838 blue badge records.

54. The Audit Commission first identified the problem of blue badge fraud in a report published in September 2009 and also in their subsequent annual *Protecting the Public Purse* reports. They identified how criminals falsify blue badges or steal genuine ones from cars, and how a blue badge can be sold on the black market. An estimate of £575 has been applied to any cancelled blue badges but they can be sold for more than this.

Case study 2

Glasgow City Council



NFI blue badge matches identified one individual who had two blue badge parking permits registered to them; one in Scotland and one in England. The Scottish permit was subsequently cancelled.

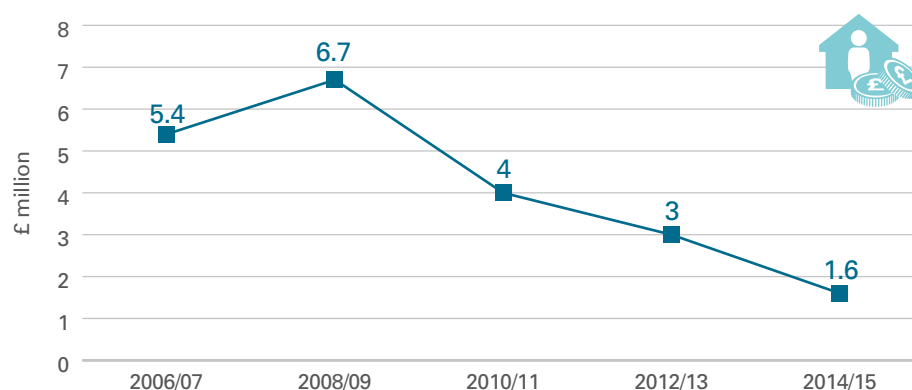
Benefit outcomes

55. The NFI provides councils and the DWP with the opportunity to identify a wide range of benefit frauds and errors. The most common are caused by undeclared occupational pensions and undeclared earnings from public sector employment.

56. Exhibit 7 summarises the benefit outcomes from all the NFI exercises to date, excluding late savings.

Exhibit 7

Housing and other benefits outcomes



Source: The Cabinet Office NFI secure web application

57. This would indicate that there has been a significant decline in benefit outcomes in the last exercise. The possible reasons are:

- previous NFI exercises have detected the most significant and longest running frauds and errors
- the trend may demonstrate the NFI exercise's impact and local measures in deterring fraud
- the efforts of bodies to continuously improve housing benefit systems and participating in the DWP's Fraud and Error Reduction Incentive Scheme aimed at identifying and reducing housing benefit fraud and error
- due to potential frauds having to now be referred to FES by councils and with some delays arising from this new procedure as it beds in.

58. £1.4 million of NFI 2012/13 outcomes were recorded after the last NFI report in June 2014. If this trend is repeated then we would expect to see benefit outcomes increase but be still significantly lower than the last exercise.

59. Although the number of cases recorded with overpayments at 868 is significantly down on the previous exercise of 1,862, the individual value of overpayments has increased from £2,694 to £3,515. This would indicate that resources are still being applied and councils are effectively targeting high-value and high-risk matches first.

60. In terms of value, Glasgow City Council and Renfrewshire Council have so far achieved the highest levels of outcomes from their NFI 2014/15 benefits investigations (£419,095 and £202,278 respectively). This may be due to Glasgow City Council having been involved as a DWP FES pilot from 2013 and therefore processes would be expected to be more mature than for councils

transferring during 2015/16. Renfrewshire Council did not transfer housing benefit fraud investigations to DWP FES until March 2016 and therefore their internal investigations team continued to action matches during 2015/16. Five councils recorded benefits outcomes in excess of £100,000. Aberdeenshire Council, East Lothian Council, Moray Council, North Ayrshire Council, the Scottish Borders Council and Shetland Islands Councils have recorded no benefit outcomes as at 31 March 2016. This is because there were no outcomes following investigations (Moray Council and Shetland Islands Council) or because the investigations are still in progress.

Student funding to housing benefit claims

61. One of the most successful matches in terms of numbers and coverage is student funding to housing benefits. With a few exceptions, mainly lone parents and disabled students, students are not eligible for housing benefits. This match takes council data and matches it against the Student Awards Agency for Scotland (SAAS) student funding data.

62. The match enabled councils to stop 168 housing benefits payments worth £0.3 million to ineligible students. This is a reduction from the 302 payments worth £0.7 million that were stopped as a result of NFI 2012/13.

Housing benefit claims by public sector workers and pensioners

63. It is critical that the public has trust in its public servants. This match identifies errors and frauds that have taken place between public sector payrolls and pensions. By the end of March 2016, councils had identified benefit overpayments from their NFI 2014/15 matches relating to (2012/13 figures are in brackets):

- 441 (1,089) public sector pensioners
- 122 (290) local government employees
- 48 (131) persons working in the NHS in Scotland
- 3 (8) central government employees

Again outcomes are significantly lower than NFI 2012/13.

64. While no overpayments are desirable, [Exhibit 8 \(page 22\)](#) puts some of these figures in the context of the populations involved and it does provide some overall assurance that these areas do not have high levels of fraud and error.

Payroll

65. This match includes all participating bodies' employee payroll data as well as those of MSPs and councillors. This level of transparency is important to demonstrate to the public that they can rely on the honesty of the employees providing their services and their elected representatives.

66. The NFI matches data to identify cases of potential payroll fraud. But investigations can also lead, for example, to the discovery that employees are in breach of conditions of service or EU working time limits. Apart from other consequences, excessive working hours may pose public safety risks.

Exhibit 8

The NFI benefits outcomes compared to source populations

Sector	Number	Overpayments identified	Percentage of overpayments identified in population	Overpayment value
Public sector pensioners	356,000	441	0.12%	£185,556
Local government employees	244,800	122	0.05%	£306,556
NHS employees	161,400	48	0.03%	£38,009
Civil servants	42,300	3	0.01%	£16,408

Source: The Cabinet Office NFI secure web application; *Public Sector Employment in Scotland: Statistics for 4th Quarter 2015*; and the Scottish Public Pensions Agency

Case study 3

Renfrewshire Council



A NFI housing benefit to payroll match identified a case which has been proven as a 'living together' and 'non-commercial tenancy' fraud resulting in £120,000 of housing benefit and council tax benefit having been improperly claimed.

The data match showed a female housing benefit claimant to be living and claiming from the same address as a male council employee. The claimant had been claiming housing benefit and council tax benefit at this address since 2010.

Investigations identified that the council employee had purchased the property in 2010 and that the claimant and employee appeared to be living as a couple.

Previous addresses for the claimant were subsequently examined and it was found that a previous address had been shared with her mother. Further checks into the mother's circumstances showed that the mother and the landlord of this previous address appeared to have been living there as husband and wife. This meant that the claimant's claim for this secondary property for the period 2002 to 2007 was incorrect.

The case against the claimant and the employee has also been reported to the Procurator Fiscal for consideration of proceedings; the second case against the mother and her landlord has been passed to DWP's FES and is on-going.

67. The NFI also matches payroll data to Home Office immigration data. It is unlawful to seek employment if you are not entitled to reside or work in the UK and the NFI provides bodies with a means of supplementing their recruitment checks.

68. As a result of the 2014/15 matches, three public sector employees in Scotland have so far been dismissed after it was confirmed that they did not have permission to reside or work in the UK.

Case study 4

NHS Greater Glasgow and Clyde



A payroll match identified an NHS employee had not renewed his visa and had earned £27,697 while working with the expired visa. The employee was suspended without pay pending investigation. The employee was subsequently dismissed when he did not turn up at a disciplinary hearing.

Student immigration checks

69. Since the NFI 2006/07 the Student Awards Agency for Scotland (SAAS) has been provided with its own matches, identifying cases where students may not hold valid permissions to reside or study in the UK.

70. SAAS has recorded ten cases of students that were found, after investigating the NFI matches with the Home Office, not to be entitled to receive support. This was because either these individuals were not entitled to be in the UK, produced false documents, or they had lied about their personal circumstances. These students had received student support amounting to around £213,316. NFI 2012/13 also resulted in ten cases where students were not entitled to support although lower outcomes of £163,451 were recorded.

Case study 5

Student Awards Agency for Scotland



A student award NFI match highlighted that a student nurse had only limited leave to remain in the United Kingdom and as such was not entitled to receive support. Funding of £14,056 has been overpaid which is not being recovered due to it originating from an error however further future support of £40,344 has now been retracted.

Case study 6

Student Awards Agency for Scotland



An immigration NFI match identified that a non EU foreign national was given an entry clearance visa to enter the United Kingdom as a visitor. The person was not entitled to work and had no recourse to public funds. The individual applied for student funding as a British National and lied on the application about the right to be in the UK. As a result the person fraudulently gained £11,204 in funding. The individual pled guilty at trial and was sentenced to 200 hours community pay back. Recovery action is being taken.

Creditor outcomes

71. The NFI provides an efficient means of checking payments are made only to appropriate creditors. NFI 2014/15 has resulted in 139 creditor outcomes of £0.71 million compared to 105 outcomes worth £1.1 million in 2012/13. Recovery action is taking place for 117 of these overpayments. In other cases overpayments have already been returned or credit notes provided.

Case study 7

Scottish Fire & Rescue Service



NFI creditor matches identified a duplicate payment. An invoice had been paid twice in error owing to two slightly different invoice references being recorded. The amount overpaid was £15,478. The overpayment is being recovered and monthly duplicate payment checks are being implemented to prevent this issue from occurring again.

Payments to private residential care homes

72. The NFI matches information about private residential care home payments to data about deceased persons. This can identify where payments may be continuing for people who have died.

73. The NFI 2014/15 helped councils identify eight cases resulting in overpayments worth £103,111 (£22,150 in NFI 2012/13). All of these overpayments are being recovered.

Case study 8

East Dunbartonshire Council



Five private residential care home resident matches identified that the residents were deceased. Overpayments totalling £89,000, (£45,000 in respect of one resident) were identified and are being recovered. The council has since revised their working practices. Previously the council accepted verbal notifications of the death of care home residents. As a result of the NFI exercise only written notification is now accepted.

Matches benefiting other bodies

74. One of the key benefits in undertaking a UK-wide data matching exercise is that it enables matches to be made between bodies and across national borders.

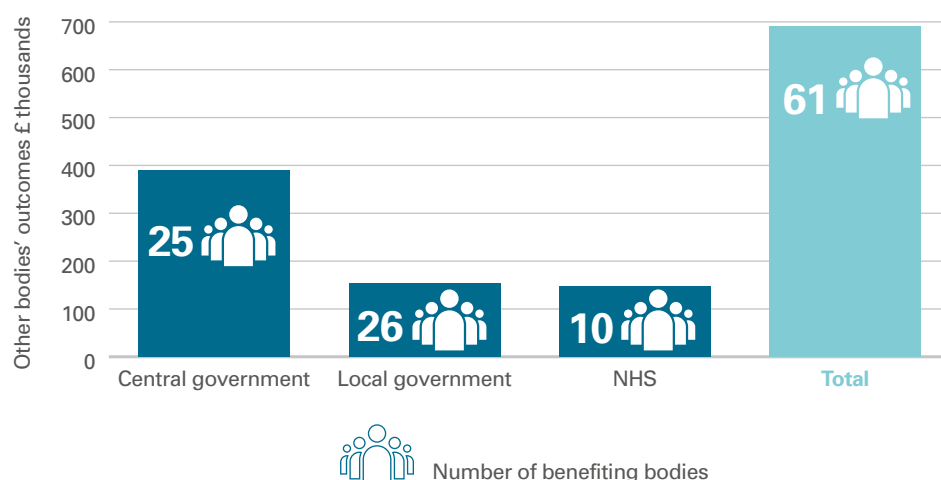
'In Scotland we recognise the importance of working together across organisational boundaries to protect our precious public resources from the risk of fraud, bribery and corruption.'

John Swinney, Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy and Michael Matheson, Cabinet Secretary for Justice

75. [Exhibit 9](#) summarises these for the NFI 2014/15 exercise for Scottish data submitted.

Exhibit 9

Matches benefiting other bodies



Source: The Cabinet Office NFI secure web application

76. The cross-sector scope of the NFI enabled 53 bodies to identify and take action on 396 outcomes worth £691,570. The majority are from cross-body housing benefits to other data sources such as student funding, payroll or pensions. This is a significant reduction in matches benefiting other bodies from NFI 2012/13 when 46 bodies were able to take action on 717 outcomes worth £1.5 million. This again is a reflection of the drop in housing benefit outcomes.

77. In the main these matches related to other Scottish bodies but 15 English councils, the Northern Ireland Housing Executive, Civil Service Pensions and the Northern Ireland Department of Finance and Personnel were also able to identify outcomes from Scottish data.

78. For those participating bodies or sectors taking part in the NFI who may not always identify significant outcomes from their own matches, it is important to appreciate that other bodies and sectors may. If we look at the data submitted by central government and the NHS we see:

- central government bodies recorded direct outcomes of £4.8 million but also enabled £390,549 of outcomes to be identified at other bodies
- the NHS has recorded direct outcomes of £75,331 but also enabled £147,196 of outcomes to be identified at other bodies.

'Fraud does not respect boundaries. Fraudsters use the same tactics and deceptions, and cause the same harm throughout the UK.'

'Fraud in Scotland', Fraud Advisory Panel, 2014

What bodies actually save or recover because of the NFI

79. The estimated value of the NFI to the public purse since we last reported in June 2014 is £16.8 million. However, some of this represents overpayments that will never be recovered and estimated values that have been attached, for example to cancelling a blue badge. These amounts may not translate into cash savings, but they are valuable outcomes nonetheless.

80. Audit Scotland previously canvassed bodies and established from those that responded that the NFI overpayments are usually subject to the same recovery processes that apply to other debt. Most bodies do not keep separate records of the NFI recoveries. Indeed, Audit Scotland would prefer that bodies devoted their resources to investigation work, rather than require them to record the NFI amounts that are often recovered by frequent small payments over long periods of time.

81. Based on the current NFI exercise the recovery rate is 81 per cent, excluding estimates. If we add the estimated forward savings from areas such as benefits and pensions, being public money which has been prevented from being paid out in fraud or error following investigations, we can reasonably estimate that the actual cash savings or recoveries for the public purse are at least half of the total outcomes of £16.8 million.

82. These cash savings and recoveries are an identified cash return to public bodies and taxpayers where fraud and errors have taken place. There are also other costs that are incurred where frauds and errors are identified. These include:

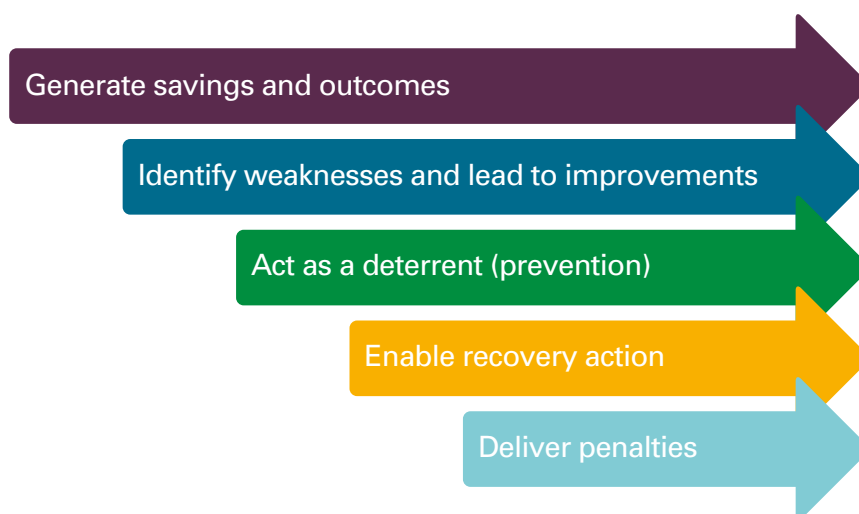
- the cost of investigating, correcting and recovering frauds and errors
- the opportunity cost of investigating, correcting and recovering frauds and errors instead of providing services
- the social cost of awarding incorrect benefits or providing ineligible services
- the reputational cost of failing to prevent frauds or in making errors.

What does the level of outcomes tell us?

83. The NFI impacts on a number of levels and across a number of bodies. These levels can be summarised in [Exhibit 10](#).

Exhibit 10

The NFI impacts on a number of levels and across a number of bodies



Source: Audit Scotland

84. A key benefit of the NFI is the fact that by identifying fraud and error the opportunity is provided to bodies to establish why they occurred and then improve their systems. This can be done by:

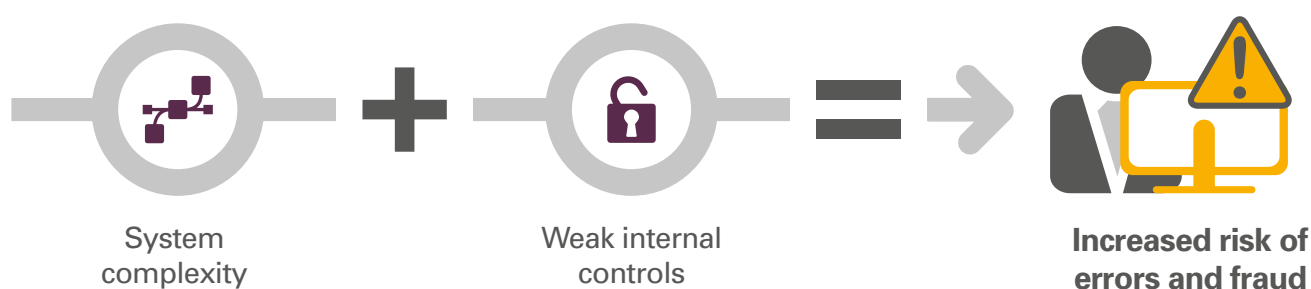
- simplifying system processes
- reviewing and strengthening the internal controls that failed to stop or capture errors or fraud.

85. As a result of this NFI exercise 36 bodies have recorded that they made improvements in order to address control weaknesses. This includes data cleansing and revisions to processes.

86. While it would be difficult to eliminate all errors and prevent all frauds, the NFI can provide the focus for such reviews to take place. [Exhibit 11](#) summarises the circumstances where fraud and error are most likely to be found.

Exhibit 11

Circumstances that increase the risk of error and fraud



Source: Audit Scotland

87. System complexity can result in errors made by either the individual wishing to obtain a service or by the public servant processing the data. Where an individual knowingly exploits systems and controls by providing incorrect information, this is fraud.

88. The most effective approach to reduce the overall cost of fraud and error is to prevent it occurring in the first place. Both fraud and error can be reduced by public bodies establishing and maintaining sound systems of internal controls.

'We will disable fraud, bribery and corruption through improving our systems and controls to support our operations.'

Protecting Public Resources in Scotland, Scottish Government, 2015

89. Audit Scotland does not take a view on whether high levels of the NFI outcomes are a good result or not. High levels of outcomes could be due to increased fraud and error in the system or to poor internal controls in operation.

90. Equally important is the assurance given to these bodies with few matches that in the areas covered by the NFI there do not appear to be significant problems and the deterrent effect, created by the NFI exercise taking place and being communicated to those whose data is included, is working.

Part 3

Making a difference



Key messages

- 1** 80 per cent of participating bodies managed their roles in the 2014/15 NFI exercise satisfactorily.
- 2** The effectiveness of the NFI arrangements have improved in the central government sector but declined slightly in the local government and the NHS sectors.
- 3** Almost half (41 per cent) of bodies need to follow up their matches more promptly.
- 4** Only 31 per cent of audit committees reviewed the NFI 2014 report and carried out the self-assessment checklist contained within it.
- 5** 23 per cent key contacts had not reviewed the NFI 2014 report and carried out the self-assessment checklist contained within it.
- 6** The transfer of investigative staff to the DWP's FES has had major implications for resourcing the NFI in some councils.

Overall findings

91. Local auditors concluded that 80 per cent of participating bodies had managed their role in the NFI 2014/15 exercise satisfactorily (81 per cent in the NFI 2014 report). However, a few showed scope for significant improvement.

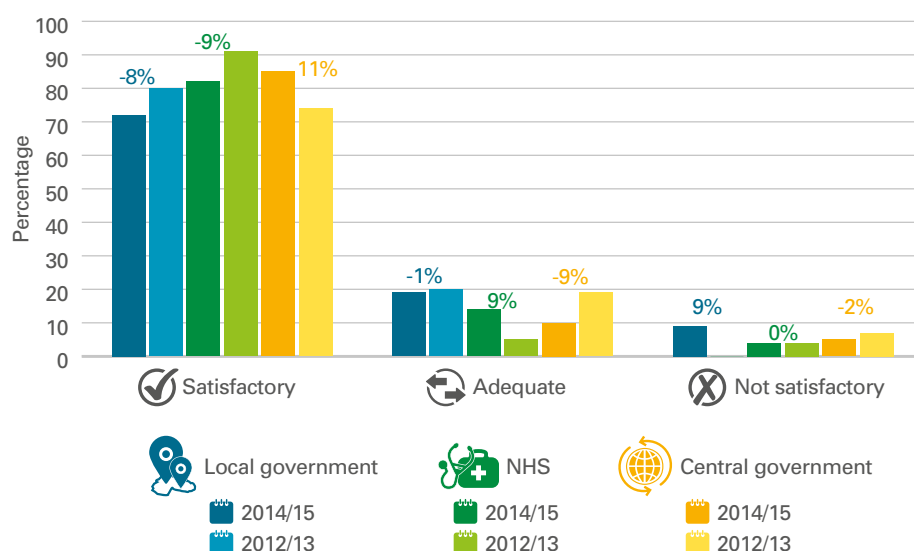
92. [Appendix 2](#) includes a two-part checklist that we encourage all bodies to use to self-appraise their involvement in the NFI prior to and during the NFI 2016/17 exercise. [Part A \(page 41\)](#) is designed to assist audit committee members when reviewing, seeking assurance over or challenging the effectiveness of their body's participation in the NFI. [Part B \(page 42\)](#) is for officers involved in planning and managing the NFI exercise.

93. The conclusions continue to indicate a high degree of commitment to the NFI. Local auditors are providing strong assurance that most participating bodies are taking the NFI seriously by putting adequate arrangements in place. Central government bodies have better arrangements in comparison with NHS and local government sectors.

94. The biggest change from the last exercise is that central government bodies have, overall, significantly improved their arrangements and this is commendable. In comparison, NHS bodies' arrangements declined by nine per cent and local government arrangements declined by eight per cent. This is of concern especially as the NFI 2014 report recommended that bodies should review the appendix to the report in order to try to ascertain whether it is possible to work more efficiently on the NFI matches. It should be noted that bodies are not expected to investigate all NFI matches. A robust risk-based approach, in conjunction with the risk profiling of matches in the NFI system, should be used when selecting matches for investigation.

Exhibit 12

External auditor review of the NFI arrangements



Source: External auditors

95. The transfer of counter-fraud resources from local government to the DWP's FES had major implications for the resourcing of fraud activity in some local authorities. The sector also has the largest range of data sets and number of matches returned. It is not entirely unexpected, therefore, that they have been identified as having scope to improve.

96. Auditors have identified that NHS bodies' arrangements for NFI have weakened. Previously in the NFI 2012/13 arrangements were found to have considerably improved. The quality of arrangements in NHS has now fallen back to just below the level in the NFI 2012/13.

97. Local auditors provided up-to-date information about each body's planning for the NFI 2014/15 exercise as well as progress and results midway through the exercise in June 2015. In reaching their conclusions, auditors did not attach significant weight to the value of NFI outcomes achieved by bodies but instead looked to see that bodies had approached the exercise proportionately and effectively.

98. Overall, local auditors concluded in June 2015 that the majority of participating bodies had managed their role in the NFI 2014/15 exercise satisfactorily so far. However, six participating bodies were found to have scope for significant improvement. As a result, the Assistant Auditor General wrote to these six bodies highlighting the following areas of significant concern:

- [Aberdeenshire Council](#) – no match investigation work carried out owing to a lack of resources
- [Dumfries & Galloway Council](#) – late submission of data sets and limited match investigation work carried out owing to a lack of resources including no dedicated fraud staff in place
- [Dundee City Council](#) – late submission of data sets and limited match investigation work carried out
- [East Ayrshire Council](#) – late submission of data sets and limited match investigation work carried out owing to a lack of resources and forward planning
- [Scottish Borders Council](#) – no match investigation work started
- [Scottish Police Authority](#) – late submission of data sets, no match investigation work started and a lack of clarity regarding roles and responsibilities in relation to NFI.

99. Auditors followed up progress in these six bodies in February 2016 and found improvements in all but two participants. The position was as follows (final auditor assessments are in brackets):

- Aberdeenshire Council had processed 1,682 (73 per cent) matches out of the 2,309 recommended matches and a further 85 were in progress, although none had been closed off to date (adequate).
- Dumfries & Galloway Council had investigated 77 (23 per cent) matches out of 335 recommended matches. However, limited progress had been made with regard to investigations: (not satisfactory).
- Dundee City Council was found to have made progress including improving the prioritisation given to investigating NFI matches. This had resulted in overpayments of £179,000 being identified: (satisfactory).
- In East Ayrshire Council it was found that in the majority of areas there had been improvement and sufficient involvement in the investigation of matches and recording of results (satisfactory).
- Scottish Borders Council received a total of 3,990 matches. 2,827 matches had been closed of which 798 were recommended matches: (satisfactory).
- Scottish Police Authority had made progress, however there are still some recommended matches which have not yet been examined. Auditors were advised that the majority of matches had been followed up, however this was not updated on the NFI system (only ten of the 18 NFI match reports have been opened according to the NFI system): (not satisfactory).

100. Other key aspects of auditor reviews:

- 36 bodies have made improvement controls in order to address control weaknesses identified as a result of NFI activity.
- Seven bodies use alternative data-matching arrangements on areas such as purchase ledger information to help identify duplicate payments and duplicate suppliers, and for single-person discount council tax comparing council tax and employee records.

Areas that need improvement

101. There has been some reduction in the quality of certain aspects of NFI arrangements since our 2014 report. [Exhibit 13 \(page 33\)](#) summarises the key areas where local auditors indicated that there was room for improvement.

102. In June 2015, auditors reported concerns in 34 (41 per cent) bodies in respect of bodies not following up matches promptly and/or not focusing on recommended matches. This is the first time auditors have undertaken a review mid way through a NFI exercise. Previously this was evaluated towards the end of the exercise when most bodies had processed the majority of matches. Issues identified by auditors in June 2015 include staffing changes, year end processes and a lack of resources (91 per cent of bodies correctly gave priority to following up recommended matches in the NFI 2013/14 report and 71 per cent of bodies followed up matches promptly).

















103. The majority of the officers directly involved in preparing for the NFI and following up matches demonstrate commitment. However, auditors identified issues in 16 per cent of bodies in respect of limited NFI skills, insufficient authority and insufficient time available for NFI in respect of officers nominated to coordinate the exercise.

104. Despite the NFI 2014 report recommending that audit committees, or equivalent, should review the self-appraisal checklist included in the report to ensure that they are fully informed of the planning and the progress being made by their officers investigating the NFI 2014/15 exercise, auditors concluded that only 31 per cent of audit committees reviewed the NFI 2014 report including assessing themselves against the checklist contained within it. It was also noted that 19 (23 per cent) bodies reported that the key contact had not reviewed Appendices included in the NFI 2014 report. Interestingly, in 15 of these participating bodies, neither the key contact nor the audit committee (or equivalent) reviewed the self-assessment checklist.

105. Auditors reported that 24 per cent of bodies did not record their outcomes fully on the NFI secure web application. Many could also improve the way they record their investigations and conclusions on the NFI application. Councils report that for some housing benefit matches delays have been experienced in receiving updates from the DWP's FES. Audit Scotland will work with colleagues in the Cabinet Office to improve the clarity of recording requirements and the future arrangements for housing benefit matches.

106. [Appendix 3 \(page 45\)](#) provides some help in this area. However, the likely effect is that the value of the outcomes referred to in this report is understated in some areas.

Exhibit 13**Areas of concern**

Areas of concern	Percentage of bodies needing to improve NFI 2014/15	Percentage of bodies needing to improve NFI 2012/13
Regular reporting of NFI progress and outcomes to both senior management and elected/board members is limited or does not happen	 25%	 24%
There is limited or no internal audit involvement and/or monitoring of the NFI approach and outcomes to ensure identified weaknesses are addressed	 51%	 39%
Bodies are slow to follow up matches and/or not focusing on recommended matches	 41%	 n/a
Bodies submitted data for NFI after the specified processing deadline	 16%	 11%
Officers nominated to coordinate the exercise were not considered suitable for the role	 16%	 10%
Bodies did not record their outcomes fully on the NFI secure web application	 24%	 21%
Audit Committees, or equivalent, did not review the self-appraisal checklist included in the report	 69%	 n/a
Key contacts did not review the self-appraisal checklist included in the report	 23%	 n/a

Source: External auditors

DWP's Fraud and Error Service

107. The introduction of the DWP's FES and the transfer of many experienced and trained counter-fraud experts to the DWP by March 2016 had implications for resourcing of some council's counter-fraud work. The risk for some local government bodies is that they have not ensured that sufficient capacity remains to counter non benefit corporate frauds.

108. Despite the recommendation in the NFI 2014 report for local authorities to take steps to retain or invest in sufficient capability, in the short and long term, to investigate non housing benefit fraud or corporate fraud, including relevant NFI matches, after the FES is introduced, local auditor updates in June 2015 identified that this had not happened in some councils. At that time five Scottish councils had still to make decisions about retaining investigative resources and three councils had already decided not to retain a dedicated corporate fraud investigation resource. In other councils corporate fraud teams have been set up retaining some or all of the experienced counter-fraud experts.

109. Interestingly, of the councils deciding not to retain a corporate fraud resource, Dumfries & Galloway and East Ayrshire Councils were found not have engaged to a satisfactory level with NFI 2014/15 at June 2015 and received reminder letters from Audit Scotland.

110. Auditors will follow up these findings as part of the NFI 2016/17 exercise.

Case study 9

North Ayrshire Council



The council has created a counter-fraud team within its internal audit service, comprising previous housing benefit investigators, which even in its infancy is demonstrating its worth and enhancing the arrangements within the council regarding prevention and detection of fraud. The key strengths of the team include:

- the reporting lines to the Chief Internal Auditor
- the skills mix combines expertise in investigation of internal and external fraud
- added value and follow-up of findings, for example referrals of benefit fraud, are made to DWP; however, where they have council tax implications these are followed up by the counter-fraud team.

During the first year of operation, the team has:

- carried out eight separate internal investigations on council employees with various outcomes including disciplinary action being taken
 - carried out investigations in respect of council tax, discretionary housing payment and the Scottish Welfare Fund which have led to £12,000 of backdated recoveries as well as an on-going cost reduction of a further £10,000
 - reviewed all properties in receipt of 100 per cent non domestic rates Empty Property Relief which resulted in the withdrawal of £60,000 of on-going relief as well as backdated recovery of a further £87,000.
 - recovered five blue badges where there was fraud or misuse of the badge.
-

Part 4

Future of the NFI



Key messages

- 1** The NFI 2016/17 exercise is due to start in July 2016 and will again look to review the suitability of participating bodies.
- 2** The NFI is increasing its opportunities for flexible and real time data matching options aimed at fraud prevention through the application checker module (AppCheck) and the flexible matching service.

Participating bodies and data sets

111. Audit Scotland will continue to look at which bodies should be asked to submit data and which data sets. This exercise mandated a number of data sets for the first time and had previously expanded the number of bodies participating so it is unlikely that the number of bodies will increase significantly.

112. The Cabinet Office has recently launched an AppCheck fraud prevention service, complementing their other detection services. AppCheck is designed to help quickly identify and prevent fraud or mistaken payments from being made in the first place. This ultimately helps protect budgets which can then be deployed to help genuine applicants.

113. They have invested significant resources into developing the AppCheck product to facilitate point of application checking. This preventative service complements the traditional detection tools and allows organisations to stop fraudulent applications from being successful. Stopping them at the point of application reduces administration and future investigation costs. This is valuable at any time, but when overall capacity to tackle fraud and error has been falling it is particularly important. [Exhibit 14 \(page 36\)](#) provides more details.

114. The Cabinet Office also offers a flexible data-matching service which allows participating bodies to re-perform any of the existing NFI data matching at a time convenient to them. This service matches against data from the most recent NFI exercise with regularly refreshed immigration data from the Home Office, as well as student loans and Amberhill police data.

115. The draft data specifications for the NFI 2016/17 are available on the Cabinet Office website (Gov.uk) and key contacts have been notified of these.

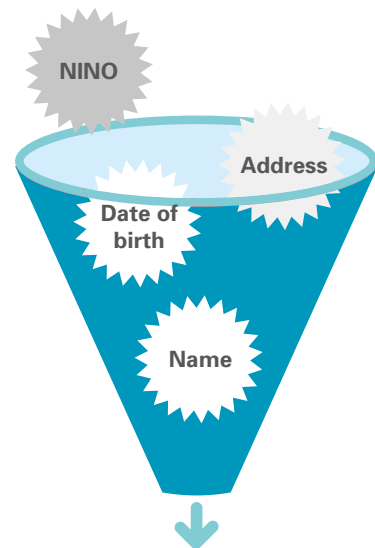
Exhibit 14

Application Checker

AppCheck from the Cabinet Office National Fraud Initiative can help significantly reduce the number of application referrals organisations have to investigate. Using the AppCheck software will ensure that, from the outset, you have a validation and authentication process in place to minimise errors and costly investigations in the future.

- Reduce the risk of your organisation falling victim to fraud by stopping invalid or fraudulent claims at the point of application.
- Establish if an applicant has no right to work – helping to mitigate the risk of falling foul of the latest requirements on employment legislation.
- Reduce and stop the provision of invalid or fraudulent payments.
- Reduce administration and future investigations cost by managing the risk of getting it wrong at application.

Enter the applicant's details into Application Checker



Research against NFI core data and refreshed immigration data

Source: Cabinet office

116. The provision of social care is one of the largest expenditure areas for councils. This is a complex area where client care requirements often change. Audit Scotland would like to work with council social work services to ensure that payments are accurate and reflect the level of care provision provided. This would have to be provided on a voluntary basis but Audit Scotland sees it as an area where a positive impact can be made.

117. A pilot data-matching exercise will be considered to review social work systems containing details of approved care packages, creditor payments to care providers and data about deceased persons.

The NFI 2016/17 aims

118. The overall aims of the NFI are to serve the public interest by:

- safeguarding public money against losses from fraud or misappropriation
- contributing effectively to the fight against fraud.

119. To meet these aims the NFI 2016/17, which will be launched in July 2016, will involve work in the following areas:

- continuing with successful batch data matches and developing the service to offer more flexibility and meet new risks

- putting more emphasis on fraud prevention through the development of real time data-matching services
- extending data matching for fraud purposes to a broader range of organisations and sectors
- for council tax single person discounts to consider mandating this data for the NFI exercises on an annual basis – previously it has been every two years, and this would bring it in to line with the rest of the UK.

120. Audit Scotland looks forward to the next NFI exercise and continuing to work with the Cabinet Office, other UK audit agencies and participating bodies to successfully deliver these aims.

121. In the longer term the roll-out of Universal Credit is expected to have further impact on the number of data sets contributing to the NFI. The future direction of the exercise will be assessed at that time.

Endnotes



- ◀ 1 Scottish Local Government Financial Statistics 2014-15.
- ◀ 2 For NFI data matching, individuals recorded as qualifying for council tax single person discount on the basis that they live with other disregarded adults are excluded.

Appendix 1

Governance arrangements



Background

The following summarises the key legislation and controls governing the NFI data-matching exercise.


Legislation

The NFI 2014/15 exercise was carried out under powers given to Audit Scotland for data matching included in The Criminal Justice and Licensing (Scotland) Act 2010 passed by the Scottish Parliament. Under this legislation:

- Audit Scotland may carry out data-matching exercises for the purpose of assisting in the prevention and detection of fraud or other crime and in the apprehension and prosecution of offenders
- Audit Scotland may require specified persons to provide data for data-matching exercises. These include all the bodies to which the Auditor General for Scotland or the Accounts Commission appoints auditors, licensing boards, and officers, office holders and members of these bodies or boards
- other persons or bodies may participate in Audit Scotland's data-matching exercises on a voluntary basis. Where they do so, the statute states that there is no breach of confidentiality and generally removes other restrictions in providing the data to Audit Scotland
- the requirements of The Data Protection Act 1998 continue to apply
- Audit Scotland may disclose the results of data-matching exercises where this assists the purpose of the matching, including disclosure to bodies that have provided the data and to the auditors appointed by the Auditor General for Scotland and the Accounts Commission
- Audit Scotland may disclose both data provided for data matching and the results of data matching to the Auditor General for Scotland, the Accounts Commission, the Audit Commission, or any of the other UK public sector audit agencies specified in Section 26D of The Public Finance and Accountability (Scotland) Act 2000, for the purposes described above
- wrongful disclosure of data obtained for the purposes of data matching by any person is a criminal offence

- Audit Scotland must prepare and publish a Code of Practice with respect to data-matching exercises. All bodies conducting or participating in its data-matching exercises, including Audit Scotland itself, must have regard to this code
- Audit Scotland may report publicly on its data-matching activities.

Code of data matching practice

The Criminal Justice and Licensing (Scotland) Act 2010 includes important data-protection safeguards such as a requirement for Audit Scotland to prepare a Code of data matching practice, and to consult with the UK Information Commissioner and others before publication. Our code, [*The Code of data matching practice 2010*](#) , was updated in November 2010 to reflect the new legislation and to ensure that the NFI exercises continue to comply with data protection requirements and best practice in notifying individuals about the use of their information for the NFI purposes.

The NFI web application

Bodies access the application via the internet using password access and encryption controls similar to internet banking. The secure website is the safest method of providing the data matches to bodies. The Cabinet Office regularly reviews the application and implements developments to improve its functionality, ease of use, and security.

Interactive training was available to participating bodies and auditors via the web application to support the Cabinet Office and Audit Scotland Guidance.

Security review and accreditation

The National Fraud Initiative (NFI) system has undergone accreditation against HMG Information Assurance Standard No.1&2 (IAS1&2), Issue 4.0 April 2012 and is accredited to handle, store and process information up to a level of Impact Level 3 aggregating to Impact Level 5 covering information with a protective marking of OFFICIAL or legacy protective marking of RESTRICTED. OFFICIAL-SENSITIVE where the caveat is used to cover sensitive personal information can also be processed by the system.

This accreditation involved demonstrating that the NFI is suitably secured and that information risks are managed to government standards.

As well as regular internal reviews by the Cabinet Office, the other UK audit agencies (ie, Audit Scotland, the Wales Audit Office, the Northern Ireland Audit Office and the National Audit Office) now also share a programme of independent audits of the different aspects of the NFI data security.

All of these measures provide current and future NFI participants with assurances that data is processed according to rigorous government security standards.

Appendix 2

Self-appraisal checklist



Part A: for those charged with governance	Yes/No/Partly	Is action required?	Who by and when?
Leadership, commitment and communication			
1 Are we committed to NFI? Has the council/board, audit committee and senior management expressed support for the exercise and has this been communicated to relevant staff?			
2 Is the NFI an integral part of our corporate policies and strategies for preventing and detecting fraud and error?			
3 Have we considered using the real-time matching (Flexible Matching Service) facility and the point of application data-matching service offered by the NFI team to enhance assurances over internal controls and improve our approach to risk management?			
4 Are the NFI progress and outcomes reported regularly to senior management and elected/board members (eg, the audit committee or equivalent)?			
5 Where we have not submitted data or used the matches returned to us, eg council tax single person discounts, are we satisfied that alternative fraud detection arrangements are in place and that we know how successful they are?			
6 Does internal audit, or equivalent, monitor our approach to NFI and our main outcomes, ensuring that any weaknesses are addressed in relevant cases?			
Cont.			

Part A: for those charged with governance	Yes/No/Partly	Is action required?	Who by and when?
7 Do we review how frauds and errors arose and use this information to improve our internal controls?			
8 Do we publish, as a deterrent, internally and externally the achievements of our fraud investigators (eg, successful prosecutions)?			

Part B: for the NFI key contacts and users	Yes/No/Partly	Is action required?	Who by and when?
Planning and preparation			
1 Are we investing sufficient resources in the NFI exercise?			
2 Do we plan properly for NFI exercises, both before submitting data and prior to matches becoming available? This includes considering the quality of data.			
3 Is our NFI Key Contact (KC) the appropriate officer for that role and do they oversee the exercise properly?			
4 Do KCs have the time to devote to the exercise and sufficient authority to seek action across the organisation?			
5 Where NFI outcomes have been low in the past, do we recognise that this may not be the case the next time, that NFI can deter fraud and that there is value in the assurances that we can take from low outcomes?			
6 Do we confirm promptly (using the online facility on the secure website) that we have met the fair processing notice requirements?			
7 Do we plan to provide all NFI data on time using the secure data file upload facility properly?			

Cont.

Part B: for the NFI key contacts and users	Yes/No/Partly	Is action required?	Who by and when?
8 Do we adequately consider the submission of any 'risk-based' data sets in conjunction with our auditors?			
9 Have we considered using the real-time matching (Flexible Matching Service) facility and the point of application data-matching service offered by the NFI team to enhance assurances over internal controls and improve our approach to risk management?			
Effective follow-up of matches			
10 Do all departments involved in NFI start the follow-up of matches promptly after they become available?			
11 Do we give priority to following up recommended matches, high-quality matches, those that become quickly out of date and those that could cause reputational damage if a fraud is not stopped quickly?			
12 Do we recognise that NFI is no longer predominantly about preventing and detecting benefit fraud? Have we recognised the wider scope of NFI and are we ensuring that all types of matches are followed up?			
13 Are we investigating the circumstances of matches adequately before reaching a 'no issue' outcome, in particular?			
14 (In health bodies) are we drawing appropriately on the help and expertise available from NHS Scotland Counter-Fraud Services?			
15 Are we taking appropriate action in cases where fraud is alleged (whether disciplinary action, penalties/cautions or reporting to the Procurator Fiscal)? Are we recovering funds effectively?			
Cont.			

Part B: for the NFI key contacts and users	Yes/No/Partly	Is action required?	Who by and when?
16 Do we avoid deploying excessive resources on match reports where early work (eg, on recommended matches) has not found any fraud or error?			
17 Where the number of recommended matches is very low, are we adequately considering the related 'all matches' report before we cease our follow-up work?			
18 Overall, are we deploying appropriate resources on managing the NFI exercise?			
Recording and reporting			
19 Are we recording outcomes properly in the secure website and keeping it up to date?			
20 Do staff use the online training modules and guidance on the secure website and do they consult the NFI team if they are unsure about how to record outcomes (to be encouraged)?			
21 If, out of preference, we record some or all outcomes outside the secure website have we made arrangements to inform the NFI team about these outcomes?			

Appendix 3

How to work more efficiently



Concerns	How to work more efficiently
Many participants are not using the latest time-saving enhancements to the NFI software.	Ensure staff within the organisations that take part in the NFI keep up to date with new features of the web application and good practice by reading the guidance notes and watching the online training modules before they begin work on the matches.
Matches that are time critical and could identify an overpayment are not acted on first.	Key contacts should schedule staff resources so that time-critical matches, such as housing benefit to students and payroll to immigration, can be dealt with as soon as they are received.
Investigations across internal departments are not coordinated resulting in duplication of effort or delays in identifying overpayments.	Key contacts should coordinate investigations across internal departments and, for example, organise joint investigation of single person discount matches involving housing benefit, to ensure all relevant issues are actioned.
Disproportionate time is spent looking into every match in every report.	Use the tools within the web application, such as the filter and sort options or data analysis software, to help prioritise matches that are the highest risk. This will save time and free up staff for the most important investigations.
Enquiries from other organisations that take part in the NFI are not always responded to promptly.	Prioritise responses to enquiries from other organisations so investigations can be progressed.
Data-quality issues that are highlighted within the web application are not addressed before the next NFI exercise.	Review the quality of the data supplied before the next exercise as external providers normally have to phase in changes to extraction processes. Better data quality will improve the quality of resulting matches.

Source: Cabinet Office NFI team

Appendix 4

Estimation bases



The figures used in this report for detection of fraud, overpayments and errors include outcomes already delivered (actual amounts recorded by participants) and estimates. Estimates are included where it is reasonable to assume that the fraud, overpayment and/or error would have continued undetected without NFI data matching.

Details of estimate calculations used in the report as shown in the table below.

Data match	Basis of calculation of estimated outcomes
Pensions	Cabinet Office formula: annual pension multiplied by the number of years until the pensioner would have reached the age of 85. ¹
Council tax single person discount	Annual value of the discount cancelled multiplied by two years.
Housing benefit	Weekly benefit reduction multiplied by 21 weeks. ²
Blue badges	Number of badges confirmed as deceased multiplied by £575 to reflect lost parking and congestion charge revenue. ³
Payroll	£5,000 per case where an employee is dismissed or resigns, or £10,000 per immigration case (estimated amounts based on future losses prevented where a fraudulent employee resigns or is removed from post).
Private residential care homes	£7,000 per case based on average weekly cost of residential care multiplied by 13 weeks.

Notes:

1. Following a review in February 2016, the 'pensioner age', for outcomes from NFI 2014/15, has been reduced from 90 to 85, to align with the latest average life expectancy for pensioners at age 65
2. Following a review in February 2016, the estimated duration of overpayments, for outcomes from NFI 2014/15, has increased from 13 weeks to 21 weeks to align with the methodology used by DWP to calculate future overpayments prevented from detecting and stopping fraud and error.
3. Following a review in February 2016, for outcomes from NFI 2014/15, this estimate has increased from £500 to £575 to reflect research and statistics relating to blue badge fraud

Source: Cabinet Office NFI team

The National Fraud Initiative in Scotland

This report is available in PDF and RTF formats, along with a podcast summary at:

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Self-appraisal checklist

Part A: for those charges with governance Leadership, commitment and communication	Yes/No/Partly	Is action required	By whom and when?
Are we committed to NFI? Has the council/board, audit committee and senior management expressed support for the exercise and has this been communicated to relevant staff?	Yes	No	
Is the NFI an integral part of our corporate policies and strategies for preventing and detecting fraud and error?	Yes	No	
Have we considered using the real-time matching (Flexible Matching Service) facility and the point of application data-matching service offered by the NFI team to enhance assurances over internal controls and improve our approach to risk management?	Currently considering	Yes	The Chief Internal Auditor will review the benefits of utilising this service by March 2017.
Are the NFI progress and outcomes reported regularly to senior management and elected/board members (e.g. the audit committee or equivalent)?	Yes	No	
Where we have not submitted data or used the matches returned to us, e.g. council tax single person discounts, are we satisfied that alternative fraud detection arrangements are in place and that we know how successful they are?	Partly	Yes	Internal Audit will review actions taken with regard to Council Tax Single Person Discounts by March 2017.
Does internal audit, or equivalent, monitor our approach to NFI and our main outcomes, ensuring that any weaknesses are addressed in relevant cases?	Yes	No	

Do we review how frauds and errors arose and use this information to improve our internal controls?	Yes	No	
Do we publish, as a deterrent, internally and externally the achievements of our fraud investigators (e.g. successful prosecutions)?	Yes	No	

PERTH AND KINROSS COUNCIL**Audit Committee****28 September 2016****INTERNAL AUDIT UPDATE****Report by the Chief Internal Auditor****PURPOSE OF REPORT**

This report presents a summary of Internal Audit's work against the 2016/17 annual plan.

1. BACKGROUND / MAIN ISSUES

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require that the Chief Internal Auditor reports periodically to the Audit Committee on internal audit activity and on performance relative to the approved plan.
- 1.2 Work has continued on assignments included within the Internal Audit Plan for 2016/17.
- 1.3 Since April 2016, Internal Audit has also been involved with six areas of unplanned activity. Of these assignments, five remain outstanding and one has been concluded without any further action required. Internal Audit's unplanned workload is within the resources allocated as part of the Internal Audit Planning process and there are currently no implications for this additional work on the completion of the Internal Audit Plan for 2016/17. However, this work may impact on the ability to complete work in accordance with the original schedule. The Audit Committee will be informed if there is any change to this situation.
- 1.4 Appendix A details those assignments where work has been completed since the last report to Audit Committee. Where appropriate, Internal Audit Reports for these assignments will be presented to the Audit Committee.
- 1.5 Appendix B shows a summary of each audit previously approved as part of the 2016/17 plan, along with the stage of progress for each assignment. The indicative date for the Audit Committee to consider the report is recorded. The achievement of these scheduled dates is dependent upon the level of unplanned investigation work and engagement with Services.
- 1.6 Appendix C details areas of work which are in addition to the approved Internal Audit Plan for 2016/17 arising from either Service requests for assistance or from investigatory work.

2. CONCLUSION AND RECOMMENDATIONS

- 2.1 This report presents a summary of Internal Audit's work against the 2016/17 annual plan. It is currently anticipated that the 2016/17 Internal Audit Plan will be completed within the year.
- 2.2 It is recommended that the Committee notes the progress of work against the plan for 2016/17.

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If you or someone you know would like a copy of this document in another language or format, (on occasion only, a summary of the document will be provided in translation), this can be arranged by contacting *Jackie Clark*



Council Text Phone Number 01738 442573

1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

Strategic Implications	Yes / None
Community Plan / Single Outcome Agreement	None
Strategic Plan	Yes
Resource Implications	
Financial	None
Workforce	None
Asset Management (land, property, IST)	None
Assessments	
Equality Impact Assessment	Yes
Strategic Environmental Assessment	None
Sustainability (community, economic, environmental)	None
Legal and Governance	None
Risk	Yes
Consultation	
Internal	Yes
External	None
Communication	
Communications Plan	None

1. Strategic Implications

1.1 Corporate Plan

1.1.1 The Council's Corporate Plan 2013 – 2018 lays out five outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

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

1.1.2 This report relates to all of these objectives.

2. Assessments

2.1 Equality Impact Assessment

2.1.1 Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.

- 2.1.2 The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

2.2 Risk

- 2.2.1 The risks are associated with the level of assurance provided on the control environment in the event that Internal Audit's planned work is not completed on time.

3. **Consultation**

3.1 Internal

- 3.1.1 The Chief Executive and Head of Finance have been consulted in the preparation of this report.

2. **BACKGROUND PAPERS**

No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above report.

3. **APPENDICES**

Appendix A – Audit Activity Completed Since The Last Report To Audit Committee

Appendix B – Progress With Assignments Approved In The Internal Audit Plan for 2016/17

Appendix C – Progress With Assignments Not Included In The Internal Audit Plan for 2016/17

INTERNAL AUDIT UPDATE

Audit Activity Completed Since the Last Report to Audit Committee

Audit No.	Audit Title	Service
16-02	Credit Cards	Corporate & Democratic Services / All Services
16-05	Information Sharing	Corporate & Democratic Services / All Services
16-06 (a)	Financial Management of All-Through Schools – (a) Fairview School	Education & Children’s Services
16-07	Financial Assessment & Charging	Housing & Community Care
16-08	Adult Protection	Housing & Community Care
16-09	Housing Options	Housing & Community Care

Appendix B

Progress with Assignments Approved In the Internal Audit Plan for 2016/17 as at August 2016

Audit No.	Audit Title	Original Anticipated Audit Committee	Assignment brief approved	Factual accuracy confirmed	Draft Report issued	Final Report issued	Audit Committee Date ^
16-01	Debt Recovery & Write Off	Sep 2016	23 August 2016				November 2016
16-02	Credit Cards	Sep 2016	6 Apr 2016	19 May 2016	21 July 2016	16 September 2016	September 2016
16-03	Sales Ledger	Sep 2016	17 August 2016				November 2016
16-04	SWIFT	Feb 2017					February 2017
16-05	Information Sharing	Sep 2016	20 Apr 2016	25 May 2016	7 June 2016	6 September 2016	September 2016
16-06	Financial Management of All-Through Schools: (a) Fairview School (b) St. John's Academy	Sep 2016	26 May 2016	17 August 2016	17 August 2016	(a) 24 August 2016 (b) November 2016	(a) September 2016 (b) November 2016
16-07	Financial Assessment and Charging	Sep 2016	23 June 2016	14 July 2016	27 July 2016	5 September 2016	September 2016
16-08	Adult Protection	Sep 2016	12 Apr 2016	7 June 2016	9 June 2016	19 August 2016	September 2016
16-09	Housing Options	Nov 2016	10 May 2016	9 August 2016	9 August 2016	31 August 2016	September 2016

16-10	Charging for Services	Feb 2017								November 2016
16-11	Management of Relationship with Horsecross	Nov 2016								February 2017
16-12	Procurement	Nov 2016								February 2017
16-13	Performance & Capacity Management	Sep 2016								February 2017
16-14	Named Person Follow Up	Feb 2017								February 2017
16-15	Fuel Management	Jun 2016	22 Apr 2016	19 May 2016	19 May 2016	19 May 2016	31 May 2016			June 2016
16-16	Transformation	Feb 2017								February 2017
16-17	Pupil Support	Nov 2016								November 2016
16-18	Housing Rents	Feb 2017								November 2016
16-19	Rent Arrears	Feb 2017								February 2017
16-20	LEADER	Feb 2017								February 2017
16-21	Property Maintenance	Nov 2016	10 August 2016	9 September 2016	13 September 2016					November 2016
16-22	Roads Maintenance Partnership	Feb 2017								March 2017
16-23	Personalisation	Feb 2017								February 2017
16-24	Commissioned Services: Care At	Mar 2017								March 2017

	Home								
16-25	Parking Services	Mar 2017							March 2017
16-26	Health & Social Care Partnership – Integrated Joint Board	Mar 2017							March 2017
16-27	Events and Festivals	Mar 2017							March 2017
16-28	BSOG April - September 2016 Grant Claim	Not Applicable	25 May 2016	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
16-29	BSOG October – March 2016 Grant Claim	Not applicable	25 May 2016						No report anticipated
16-30	Cycling Walking Safer Streets Grant Claim	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
16-31	Superconnected Cities Grant Claim	Not applicable							No report anticipated
16-32	Childs Plan	Feb 2017							February 2017
16-33	European Social Fund	Nov 2016							November 2016
16-34	Tayside Contracts	Mar 2017							March 2017
16-35	Transformation	Mar 2017							March 2017
16-36	Corporate Governance	Mar 2017							March 2017
16-37	Universal Credit	Sep 2016							November 2016
16-38	Housing Technology Implementation Plan	Mar 2017							March 2017

^ Dates in bold are when reports have been considered by Audit Committee. Other dates are the current anticipated dates for consideration by Audit Committee where this differs from the originally anticipated date.

It is not anticipated that reports will be required to be issued for the certification of grant claims. Reports will only be issued where weaknesses in controls are identified which require action.

Progress With Assignments Not Included In The Internal Audit Plan for 2016/17

Ass No.	Assignment Description	State of progress	Draft Report issued	Final Report issued	Audit Committee Date
16-40	Bereavement Services	Completed	Not applicable	Not applicable	Not applicable
16-41	Housing & Community Care Internal Controls	Ongoing			
16-42	Housing & Community Care Repairs and Improvements Service	Ongoing			
16-43	Whistleblowing – Staff Parking	Ongoing			
16-44	TES correspondence	Ongoing			
16-45	Whistleblowing – The Environment Service	Ongoing			

When additional work is undertaken during the year, a report will only be issued where the review highlights areas for improvement in the control environment or significant risks.



Internal Audit Report
Corporate
Information Sharing - Assignment No.16-05
August 2016

Final Report

Finance Division
Corporate and Democratic Services
Perth & Kinross Council
Blackfriars Development Centre
North Port
Perth PH1 5LU

Internal Audit

“Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”. Public Sector Internal Auditing Standards (PSIAS)

On 27th March 2013, the Council’s Audit Committee approved the PSIAS as the relevant standard for its Internal Audit activity.

Background and Introduction

This audit was carried out as part of the audit plan for 2016/17, which was approved by the Audit Committee on 30 March 2016.

Information (or data) sharing refers to the sharing of personal information with external agencies and is subject to the provisions of the Data Protection Act (DPA) 1998. The Council is registered with the Information Commissioner’s Office (ICO) for a range of purposes covering the scope of the Council activities including the sharing of information as necessary and required. This includes sensitive personal information as defined by the DPA.

Data sharing occurs where a third party uses the information for their own purpose. It does not apply where a third party processes the information on behalf of the Council, e.g. in performance of a contract. Examples of data sharing would be sharing adult or child concern information with Police Scotland and NHS Tayside, or sharing pupil information with Education Scotland to provide careers advice, etc.

Under the Council’s Data Protection Policy the Senior Information Risk Owner is the Depute Chief Executive (Sustainability, Strategic and Entrepreneurial Development). Responsibility for developing, publishing, maintaining and administering the Data Protection Policy and the Information Security Management System lies with the Head of Legal and Governance Services. Directors are responsible for all aspects of compliance with the DPA within their Service.

Scope and Limitations

The audit was concerned with corporate guidance, policies and procedures and their implementation including a review of relevant documentation, activities and protocols in place across all Services.

However, the work avoided duplication in respect of the planned audits of the Children and Young Persons Act (Scotland) 2014 scheduled for later in the year, which requires particular information sharing arrangements.

The audit comprised a review of the current guidance available for staff relating to the Data Protection Act 1998 and discussion with the Information Compliance Manager. Relevant officers in Services were also contacted. Testing took place in April and May 2016.

Control Objectives and Opinions

This section describes the purpose of the audit and summarises the results. A 'control objective' is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved. Each control objective has been given a rating describing, on the basis of the audit work done, the actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

Control Objective: To ensure that there are adequate corporate arrangements for data protection when sharing information with other organisations.	
<p>Audit Comments:</p> <p>The Data Protection Policy, which is available on the Council's intranet (ERIC) to all staff with access to Council systems, includes a section on Data Sharing. In particular, it states that where data is shared with another organisation a Data Sharing Protocol (or Agreement) must be used. A template for such agreements is available through a hyperlink from the ERIC Data Protection page which reflects the requirements set out in guidance issued by the Information Commissioner on Data Sharing.</p> <p>The Data Sharing section of the Data Protection Policy requires that, where data is to be shared, this is expressed in a Fair Processing Notice. The current template for a Fair Processing Notice includes a term for letting an individual know if their information will be shared.</p> <p>Employee training on Data Protection is included in the set of "Essential" training packages available through "Learn Innovate Grow" and this includes two slides on Data Sharing. Uptake of the module is reviewed periodically by the Information Compliance Manager, and circulated to the members of Executive Officer Team.</p> <p>The Scottish Government Strategic Framework for Data Sharing for Health and Social Care describes enhancements which should be in place for Fair Processing notices used by local authorities when sharing data to inform the development of relevant frontline services.</p> <p>A review of Data Management at the Council was carried out by Audit Scotland in 2013. An agreed action to establish a Data Sharing Register has yet to be implemented.</p>	
Strength of Internal Controls:	Moderately Strong

Control Objective: To ensure that systems and processes are in place for sharing information which comply with legislation and corporate arrangements.	
<p>Audit Comments:</p> <p>All Services have access to the Information Compliance Manager for guidance. However there is no requirement to consult with, or implement any advice from, the</p>	

Internal Audit Report

Information Compliance Manager with regard to Data Sharing Agreements	
With the exception of guidance relating to information sharing to support children's and young people's wellbeing (which is outwith the scope of this audit) there is no further written guidance for officers e.g.regarding instances where data held is later shared, the completion of data sharing templates, or in relation to decisions whether or not to share personal information.	
Strength of Internal Controls:	Moderate

Control Objective: To ensure that adequate protocols are in operation between the Council and organisations with which we share information	
<p>Audit Comments:</p> <p>Testing confirmed that there were no adequate arrangements in place for the management of existing data sharing protocols. Frontline Services were requested to provide details of all information sharing protocols. However, only two fully completed examples of data sharing agreements had been provided to Internal Audit.</p> <p>Nineteen draft protocols are held by the Information Compliance Manager. However none had been signed by both Council representatives and the third party. There is no requirement for the Information Compliance Manager to be notified when such agreements are entered into which could ensure that the agreements were in accordance with relevant legislation.</p> <p>There is little evidence of review of data sharing protocols by Services in accordance with the agreements themselves, the Data Protection Policy and good practice.</p>	
Strength of Internal Controls:	Weak

Management Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

Where the audit has identified areas where a response by management is required, these are listed in Appendix 1, along with an indication of the importance of each 'action point'. Appendix 2 describes these action points in more detail, and records the action plan that has been developed by management in response to each point.

It is management's responsibility to ensure that the action plan presented in this report is achievable and appropriate to the circumstances. Where a decision is taken not to act in response to this report, it is the responsibility of management to assess and accept the risks arising from non-implementation.

Achievement of the action plan is monitored through Internal Audit's 'follow up' arrangements.

Management should ensure that the relevant risk profiles are reviewed and updated where necessary to take account of the contents of Internal Audit reports. The

Internal Audit Report

completeness of risk profiles will be examined as part of Internal Audit's normal planned work.

Acknowledgements

Internal Audit acknowledges with thanks the co-operation of Information Compliance Manager, Education and Children's Services, the Environment Service and Housing and Community Care during this audit.

Feedback

Internal Audit welcomes feedback from management, in connection with this audit or with the Internal Audit service in general.

Distribution

This report has been distributed to:

B Malone, Chief Executive

J Fyffe, Senior Depute Chief Executive, ECS (Equality, Community Planning and Public Service Reform)

J Valentine, Depute Chief Executive, Environment (Sustainability, Strategic and Entrepreneurial Development)

J Walker, Depute Chief Executive, HCC (Corporate and Community Development Services) and Chief Operating Officer

S Devlin, Director, Education and Children's Services;

B Renton, Director, The Environment Service;

B Atkinson, Director, (Social Work), Housing and Community Care

D Fraser/ C Johnson, Joint Heads of Community Care;

J Symon, Head of Finance

L Simpson, Head of Legal and Governance Services

A Taylor, Head of Corporate Revenues and IT; Housing and Community Care;

S MacKenzie, Head of Performance and Resources, The Environment Service;

D Henderson, Information Compliance Manager

P Davison, Corporate Research and Information Manager, Education and Children's Services;

K McNamara, Head of Strategic Commissioning and Organisational Development;

G Taylor, Head of Democratic Services

P Dickson, Complaints and Governance Officer

External Audit

Authorisation

The auditor for this assignment was A Gallacher. The supervising auditor was M Morrison.

This report is authorised for issue:

Jacqueline Clark
Chief Internal Auditor
Date: 6 September 2016

Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1.	Data Protection Policy	Medium
2.	Data Protection Webpage	Low
3.	Fair Processing Notices for Health and Social Care	Medium
4.	Information Sharing Management	High
5.	Review of Data Sharing Protocols	High
6.	Information Sharing Risk - Integration Joint Board	Medium

Appendix 2: Action Plan

Action Point 1 - Data Protection Policy

The Data Protection Policy is available on ERIC together with other resources on a dedicated Data Protection page. The policy includes a section on Data Sharing.

The Data Sharing section states the requirement to hold data sharing protocols/agreements for all data sharing and details the elements to be included in Fair Processing Notices. However, the Data Protection Policy does not define data sharing and, whilst it details the limitations of the policy as regards Council Tax, it does not provide examples of where the creation of a data sharing agreement would be necessary or which officers may authorise such an agreement.

Furthermore, there is no written requirement to consult with, or implement advice received from, the Information Compliance Manager with regard to data sharing agreements. As a result, there is a risk that the Council may be sharing data and/or have entered into data sharing agreements which are not compliant with legislation.

Management Action Plan

The Data Protection Policy will be amended appropriately.

Importance:	Medium
Responsible Officer:	D Henderson, Information Compliance Manager
Lead Service:	Corporate and Democratic Services
Date for Completion (Month / Year):	December 2016
Required Evidence of Completion:	Approved Data Protection Policy

Auditor's Comments

Satisfactory

Action Point 2 - Data Protection Webpage

There is scope to improve the presentation on the Council's website page on Data Protection in relation to information sharing. Currently, the Data Protection page only states that the Council may share data in relation to protecting public funds and the legal requirements to share information with other public bodies which are responsible for auditing or administering public funds.

Consideration could be given to providing further details as to the activities where personal information is shared with other agencies, for example to provide integrated care and to develop and improve services.

Management Action Plan

The website will be updated to provide information about data sharing arrangements.

Importance:	Low
Responsible Officer:	D Henderson, Information Compliance Manager
Lead Service:	Corporate and Democratic Services
Date for Completion (Month / Year):	October 2016
Required Evidence of Completion:	Updated web pages

Auditor's Comments

Satisfactory

Action Point 3 - Fair Processing Notices for Health and Social Care

The Scottish Government Strategic Framework (2014 – 2020) for Information Sharing in Health and Social Care identifies that where data is used to inform the development and planning of services there is a need to ensure that Fair Processing Notices reflect this use of data.

“Fair Processing notices should cover the sharing of data for integrated care and analysis for joint planning decisions.”

The current consent forms in use do not address this use of personal data.

Management Action Plan

Fair processing notices used in consent forms for Social Care, will be amended to reflect the uses of personal data in the development and planning of services, as outlined in the Scottish Government Strategic Framework.

Importance:	Medium
Responsible Officer:	Diane Fraser/ Colin Johnson, Heads of Community Care
Lead Service:	Housing and Community Care
Date for Completion (Month / Year):	October 2016
Required Evidence of Completion:	Documents containing revised consent form.

Auditor's Comments

Satisfactory

Action Point 4 - Information Sharing Management

A review of Data Management at the Council was carried out by Audit Scotland in 2013 and an agreed action to establish a Data Sharing Register has yet to be implemented.

Moreover, there is scope to improve the management of Information/Data Sharing protocols in place across the Council.

Requests were made to each of the Services to provide information as to all data sharing agreements in place – using 19 draft agreements, provided by the Information Compliance Manager, as a baseline.

Only two copies of completed data sharing protocols in use within Services were returned to the Auditor, one of which was additional to the original list of agreements.

Management Action Plan

Finalised/signed Data Sharing protocols held by Services will be identified and submitted to the Information Compliance Manager to ensure appropriate data management across the Council, and to inform the production of the corporate Data Sharing Register which will include review arrangements for each protocol.

Importance:	High
Responsible Officers:	S Devlin, Director B Renton, Director B Atkinson, Director
Lead Service:	Education & Children's Services The Environment Service Housing and Community Care
Date for Completion (Month / Year):	December 2016
Required Evidence of Completion:	Presentation of current Data Sharing Protocols held by each Service

Auditor's Comments

Satisfactory

Action Point 5 - Review of Data Sharing Protocols

Reviews of Data Sharing Protocols are in line with good practice and the Data Protection Policy. These reviews should ensure that all terms of the agreement are current and applicable.

However, of the 19 draft agreements, only one had evidence of review and one had been implemented in 2016. The additional agreement, as noted in Action Point 4, had also been recently reviewed.

The remainder dated from 2007 to 2015. Services have not confirmed whether there had been any review of the protocols in operation. A similar point was identified by Audit Scotland in their review of Data Management in 2013.

Management Action Plan

All Data Sharing Protocols held by the Service will be reviewed in line with the requirements of each protocol and good practice. Reviewed protocols will be notified to the Information Compliance Manager to inform the production of the Data Sharing Register.

Importance:	High
Responsible Officer:	A Taylor, Head of Corporate Revenues and IT S MacKenzie, Head of Performance and Resources P Davison, Corporate Research and Information Manager
Lead Service:	Housing and Community Care The Environment Service Education and Children's Services
Date for Completion (Month / Year):	December 2016
Required Evidence of Completion:	Version control for Data Sharing Protocols included in Action Point 4

Auditor's Comments

Satisfactory

Action Point 6 - Information Sharing Risk - Integrated Joint Board

The Risk Management Register presented to Perth and Kinross' Integrated Joint Board on 23 March 2016 identified Information Sharing as one of the Board's main risks. The report named two managers, responsible for the Council's IT infrastructure, as the responsible owners of the Council's risks in relation to Information Sharing for the Integrated Joint Board.

The managers had not been consulted during the preparation of the report, and have no responsibility for staff employed by the Council who may be involved in the sharing of information in respect of Integration Joint Board. It is noted that the Board had asked the Chief Officer to further develop the Risk Register.

Management Action Plan

The Risk Register for the Integrated Joint Board will be revised to ensure that the responsible officers are relevant to Service provision within Health and Social Care.

Importance:	Medium
Responsible Officer:	D Fraser/C Johnson, Heads of Community Care
Lead Service:	Housing and Community Care
Date for Completion (Month / Year):	November 2016
Required Evidence of Completion:	Revised Risk Register for Integrated Joint Board

Auditor's Comments

Satisfactory



Internal Audit Report
Education & Children's Service
Financial Management of Through Schools
Fairview School Assignment No.16-06(a)
August 2016

Final Report

Finance Division
Corporate and Democratic Services
Perth & Kinross Council
Blackfriars Development Centre
North Port
Perth PH1 5LU

Internal Audit

“Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”. Public Sector Internal Auditing Standards (PSIAS)

On 27th March 2013, the Council’s Audit Committee approved the PSIAS as the relevant standard for its Internal Audit activity.

Background and Introduction

This audit was carried out as part of the audit plan for 2016/17, which was approved by the Audit Committee on 30 March 2016.

Financial Policies and Procedures have been prepared by the Education & Children’s Services (ECS) Finance Support Team. They provide the framework for financial management in establishments within the Service.

Fairview School is an additional support needs school for children and young people with severe and complex and enduring additional support needs. The school caters for pupils with severe social communication difficulties including those on the autistic spectrum.

This report details the findings in relation to Fairview School. Visits to the school took place during June 2016.

Scope and Limitations

In order to arrive at an opinion on the achievement of the control objectives, the audit included interviews with the staff in Education & Children’s Service’s Finance Support Team and visits to Fairview School to review and test Financial Procedures.

Control Objectives and Opinions

This section describes the purpose of the audit and summarises the results. A ‘control objective’ is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved. Each control objective has been given a rating describing, on the basis of the audit work done, the actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

Control Objective: To ensure that the school is managed in accordance with the Financial Procedures as laid down by Education and Children’s Service.
Audit Comments: The Council’s Financial Regulations are supplemented by Education & Children’s Services, Financial Policies and Procedures which support financial management of schools and are published on the Council’s intranet, Eric. Testing confirmed that the financial management information was up to date. Monthly monitoring statements were being prepared, reflecting the current budget, committed and spend to date with the projected outturn highlighting any over/under spends. These statements are reviewed by the Head Teacher, and the school’s financial management system is updated to reflect current spend and out turn.

Internal Audit Report

Professional Electronic Commerce on Line System (PECOS) is used for ordering goods and services. The school inventory is updated annually.

The petty cash was found to be held securely and controlled and authorised adequately with proof of purchases available for transactions.

Testing confirmed that financial policies and procedures were in the main being adhered to in respect of school funds. Although the School's Fund Committee was in place the chairperson, treasurer and secretary have not been officially appointed. The minutes were not displayed, were lacking in detail of the topics discussed and made no reference to financial information. These are a requirement of the Financial Policies and Procedures.

The Auditor confirmed that the £250 safe limit for insurance is exceeded on occasions. This is due to a change in process as part of the banking review whereby all money is collected and banked on a monthly basis. The Service advised that the risk surrounding this is being managed by the Finance Support Team who are keeping and monitoring a register of when schools are exceeding their safe limits. The Service further advises that once ParentPay is in place, there will be less of a requirement to collect monies from children or parents, which will minimise the amount of cash held in the schools.

Strength of Internal Controls:	Moderately Strong
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Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

Where the audit has identified areas where a response by management is required, these are listed in Appendix 1, along with an indication of the importance of each 'action point'. Appendix 2 describes these action points in more detail, and records the action plan that has been developed by management in response to each point.

It is management's responsibility to ensure that the action plan presented in this report is achievable and appropriate to the circumstances. Where a decision is taken not to act in response to this report, it is the responsibility of management to assess and accept the risks arising from non-implementation.

Achievement of the action plan is monitored through Internal Audit's 'follow up' arrangements.

Management should ensure that the relevant risk profiles are reviewed and updated where necessary to take account of the contents of Internal Audit reports. The completeness of risk profiles will be examined as part of Internal Audit's normal planned work.

Acknowledgements

Internal Audit acknowledges with thanks the co-operation of the staff at Fairview School and the ECS Finance Support during this audit.

Feedback

Internal Audit welcomes feedback from management, in connection with this audit or with the Internal Audit service in general.

Distribution

This report has been distributed to:

B Malone, Chief Executive

J Fyffe, Senior Depute Chief Executive, ECS (Equality, Community Planning and Public Service Reform)

J Walker, Depute Chief Executive, HCC (Corporate and Community Development Services) and Chief Operating Officer

S Devlin, Director, Education & Children's Services

P McAvoy, Head of Education (Secondary and Inclusion)

S Johnston Head of Education (Early Years & Primary)

K McNamara, Head of Strategic Commissioning and Organisational Development

J Symon, Head of Finance

L Simpson, Head of Legal and Governance Services

F Gillespie, Headteacher, Fairview School

G Boland, Senior Business and Resources Manager

J Cockburn, Finance and Governance Manager

G Taylor, Head of Democratic Services)

P Dickson, Complaints & Governance Officer

External Audit

Authorisation

The auditor for this assignment was J O'Connor. The supervising auditor was M Morrison.

This report is authorised for issue:

Jacqueline Clark
Chief Internal Auditor
Date: 24 August 2016

Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	School Funds	Medium

Appendix 2: Action Plan

Action Point 1 - School Funds

Although a School Fund Management Committee was in place the chairperson, treasurer and secretary have not been formally appointed.

In addition Education and Children's Services Financial Policies and Procedures require that minutes of school fund committee meetings be displayed within the establishment. Testing confirmed that the minutes did not detail the topics discussed, made no reference to financial information and were not displayed.

Management Action Plan

- 1) The school will ensure that the committee is formally appointed.
- 2) School fund minutes to provide detail of topics discussed, including financial information and be appropriately displayed.

Importance:	Medium
Responsible Officer:	F Gillespie, Head Teacher
Lead Service:	Education & Children's Services
Date for Completion (Month / Year):	September 2016
Required Evidence of Completion:	1) Copy of minute formally approving committee 2) Copy of minutes detailing topics discussed, including financial information and confirmation they are displayed.

Auditor's Comments

Satisfactory



Internal Audit Report
Housing and Community Care
Financial Assessment & Charging
Assignment No. 16-07
August 2016

Final Report

Finance Division
Corporate and Democratic Services
Perth & Kinross Council
Blackfriars Development Centre
North Port
Perth PH1 5LU

Internal Audit

“Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”. Public Sector Internal Auditing Standards (PSIAS)

On 27th March 2013, the Council’s Audit Committee approved the PSIAS as the relevant standard for its Internal Audit activity.

Background and Introduction

This audit was carried out as part of the audit plan for 2016/17, which was approved by the Audit Committee on 30 March 2016. The Assessment & Charging Team (ACT) complete financial assessments (FA) for clients accessing residential and non-residential community care services. Information gathered from these assessments is then used to evaluate the individual’s financial situation and set an appropriate level of contribution for chargeable services being provided to them, where applicable. These assessments also assist clients to identify if they are in receipt of all appropriate benefits and discount entitlements; this is commonly referred to as income maximisation.

The Self-Directed Support (Scotland) Act 2013, implemented in February 2014, effected a large change in the way that non-residential services are being provided and how associated charges and calculations are applied. Current charging arrangements are based on a combination of legislative responsibilities and Convention of Scottish Local Authorities (COSLA), Scottish Government and local guidance.

Housing and Community Care’s (HCC) Internal Control team carried out a review on the application of the Contributions Policy in 2015. This report highlighted areas for improvement and actions required. Target dates were set for completion within 2016.

Audit testing was carried out in June and July 2016.

Scope and Limitations

In order to arrive at an opinion on the achievement of the control objectives, the audit included interviews with staff from the ACT and the HCC Internal Control team and a review of documentation relating to FAs and associated charges.

The audit concentrated on testing controls in place within the ACT to ensure that FAs and resultant calculations are carried out timeously and accurately, with relevant information being communicated to services and clients to ensure prompt and accurate invoicing. The audit included sample testing of financial/income maximisation assessments and processes completed by Financial Support Assistants (FSA), Financial Assessment Officers (FAO) and Finance Officers (FO) for both residential and non-residential care.

The audit did not evaluate the level of service provision or care package assessment undertaken by Community Care professionals. In addition, it did not look at one-off chargeable services, such as Occupational Therapy Equipment installation, debt recovery or residential care home charging and reconciliation duties undertaken by the ACT. Similarly the audit did not look at Social Work Appointee processes.

Control Objectives and Opinions

This section describes the purpose of the audit and summarises the results. A 'control objective' is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved. Each control objective has been given a rating describing, on the basis of the audit work done, the actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

Control Objective 1: To ensure that that relevant information and guidance is available to the Assessment and Charging team and their clients	
<p>Audit Comments:</p> <p>Audit confirmed that relevant information is available to clients in receipt of care services through correspondence, leaflets and the PKC website. Some of this information, however, is out of date or incomplete.</p> <p>Enhanced documentation and processes were implemented in December 2015 to improve communication regarding the FA process and invoicing. Whilst, there was limited evidence at the time of the audit to support the application of these, it was observed that the ACT management is working with staff to ensure that these process changes are fully embedded.</p> <p>The ACT management advised that localised procedures are being developed and updated and will be in place by December 2016.</p> <p>Previous internal audit actions have been classed as complete based on the understanding that the improved control environment would be maintained. Audit testing has revealed occasions where controls have not been sustained.</p> <p>Audit observed that ACT members were not carrying out data protection security checks.</p> <p>In addition, there may be merit in introducing call recording facilities to the ACT and FOs. This would provide a level of protection for both clients and staff and enhance training. The Service has recognised that call recording would be beneficial and has carried out initial investigations into the work required to implement this.</p> <p>To ensure that Audit Committee are kept informed of progress, it is proposed that internal audit carry out an extended follow up and update the Committee accordingly in July 2017.</p>	
Strength of Internal Controls:	Weak

Control Objective 2: To ensure that financial assessments and calculation of charges are identified, completed and invoiced promptly	
<p>Audit Comments:</p> <p>There are processes in place to identify when FAs are required and Audit has</p>	

Internal Audit Report

observed ongoing improvements within the ACT to help manage the workload. These include the development of Swift to facilitate more detailed recording and reporting of the FA process, weekly team updates and protected time for FSAs to complete charging calculations. The Service has reported an improvement in clearing the backlog of assessments.

However, Audit testing has highlighted weaknesses in the control environment which has resulted in clients not being assessed and invoiced in a timely manner. This has also impacted on the reliability of Management Information. In light of this, a number of additional controls require to be introduced to ensure that all FAs and calculation of charges are identified, completed and invoiced promptly.

As in control objective 1 it is proposed that internal audit carry out an extended follow up and update the Committee accordingly in July 2017.

Strength of Internal Controls:

Weak

Control Objective 3: To ensure that that charges invoiced are accurate

Audit Comments:

It was observed that the ongoing development work to Swift, as referred to in control objective 2, will assist in simplifying the client calculation process. FSAs will be responsible for data input and verification and the Swift system will calculate the charges based on this information. This model is already in use for clients in receipt of residential services and it is the ACT Managements' intention to have this set up for non-residential clients. Further process improvements are being investigated which will also see Swift communicate directly with Integra to raise invoices without the need for manual input by a FSA.

Even with these developments, the Auditor noted that there is still scope to improve the control environment as there is a lack of documented oversight to provide assurance that all charges have been invoiced accurately. Additional controls are required to detail oversight checking of the entire process from FA, client calculations and resultant invoicing accuracy.

Audit testing revealed that the Service had recently introduced a system for recording cases considered by the Discretion Panel. There is no such system in place for recording cases assessed for deprivation and there is scope to improve the assessment documentation to show review by more than one person.

Auditor observed that there is scope to improve controls in relation to the issue of credit notes and invoices on hold.

As in control objective 1 it is proposed that internal audit carry out an extended follow up and update the Committee accordingly in July 2017.

Strength of Internal Controls:

Moderately Weak

Management Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

Where the audit has identified areas where a response by management is required, these are listed in Appendix 1, along with an indication of the importance of each 'action point'. Appendix 2 describes these action points in more detail, and records the action plan that has been developed by management in response to each point. Appendix 3 lists issues identified during the audit, which would benefit from attention, but are considered to be out-with the scope. This will also be monitored via the follow up arrangements.

It is management's responsibility to ensure that the action plan presented in this report is achievable and appropriate to the circumstances. Where a decision is taken not to act in response to this report, it is the responsibility of management to assess and accept the risks arising from non-implementation.

Achievement of the action plan is monitored through Internal Audit's 'follow up' arrangements.

Management should ensure that the relevant risk profiles are reviewed and updated where necessary to take account of the contents of Internal Audit reports. The completeness of risk profiles will be examined as part of Internal Audit's normal planned work.

Acknowledgements

Internal Audit acknowledges with thanks the co-operation of the ACT and HCC Internal Control Team during this audit.

Feedback

Internal Audit welcomes feedback from management, in connection with this audit or with the Internal Audit service in general.

Distribution

This report has been distributed to:

B Malone, Chief Executive

J Walker, Depute Chief Executive, HCC (Corporate and Community Development Services) and Chief Operating Officer

B Atkinson, Director of Housing & Community Care

A Taylor, Head of Corporate IT and Revenues

J Symon, Head of Finance

K McNamara, Head of Strategic Commissioning and Organisational Development

G. Taylor, Head of Democratic Services

L Simpson, Head of Legal and Governance Services

N Copland, Business and Resource Manager

F Low, Business and Resources Team Leader

P Dickson, Complaints & Governance Officer

Internal Audit Report

External Audit

Other officers may be added if necessary.

Authorisation

The auditor for this assignment was L Ferguson. The supervising auditor was M Morrison.

This report is authorised for issue:

Jacqueline Clark
Chief Internal Auditor
Date:

Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	Published Information and Guidance	Medium
2	Previous Internal Audit Actions	High
3	Data Protection	High
4	Supervisory Oversight	High
5	Annual Review Process	High
6	Deprivation Recording	Low
7	Credit Notes & Invoices on Hold	High
8	Appendix 3: Action Plan	Low

Appendix 2: Action Plan

Action Point 1 - Published Information and Guidance

Audit testing revealed a number of areas in relation to published information and guidance where there is scope for improvement. These are listed below:

- The Auditor observed information published on the Council's website and documents which are given to clients where information was incorrect or incomplete. The Contributions Policy was not available in the link provided to clients. In addition, the financial guidance for entering a care home page was out of date, and there were inconsistencies in the provision of information to residential and non-residential clients regarding the Discretion Panel.
- There is no version control document which would identify and evidence the frequency and review of published information and guidance.
- There was a lack of evidence to confirm that Financial Assessment Request Forms had been completed in all cases tested. The Service states that this may be due to revised procedures being rolled out during April to June.
- There is evidence that the ACT Management is working on collating and updating localised procedures and aims to have these implemented by December 2016.

Management Action Plan

1. Information available on the pck.gov.uk/care charges site and information leaflets provided to clients will be reviewed to ensure up to date information is available.
2. A version control document which outlines all documents/webpages for clients and staff which require review and update will be introduced.
3. Operational staff will be reminded of the requirement to complete the Financial Assessment Request. Reports detailing noncompliance will be provided regularly to CCMT.
4. Procedures will be collated, updated as required and uploaded to the team SharePoint site.

Importance:	Medium
Responsible Officer:	1.,2. & 4. F Low, Business & Resources Team Leader 3. D Fraser / C. Johnston, Heads of Community Care and Business & Resources Team Leader
Lead Service:	Housing & Community Care

Internal Audit Report

Date for Completion (Month / Year):	1.,2.,3. October 2016 4. December 2016
Required Evidence of Completion:	1. Confirmation that PKC website and leaflets have been updated 2. Version control document for published information and guidance which shows evidence of review for current financial year 3. Evidence of reminder 4. Access to ACT SharePoint site to review availability of procedures

Auditor's Comments

Satisfactory

Action Point 2 - Previous Internal Audit Actions

In September 2014 the line management responsibility for the FAOs was transferred from Revenue & Benefits to Business & Resources. Testing confirmed that some procedures for FAOs which were in place whilst within Revenue & Benefits were no longer available. Whilst it is acknowledged that this is due to Service Management change, there are concerns that areas such as lone working and cash collection are not documented.

Similarly, in late 2015, an internal audit report identified the need for additional control in relation to manual bills. Evidence was provided at that time that this had been addressed. Current audit testing has revealed, however, that this control has not been continued. This has resulted in 3 clients not receiving an invoice since November 2015.

Management Action Plan

1. Specific areas highlighted such as lone working procedure and cash handling will be updated immediately. Due to changes in the roles, responsibilities and working practices of the FAOs previous procedures may no longer be relevant. These will be reviewed and where appropriate reinstated; where they are no longer valid, procedures will be reviewed and/or prepared as part of the wider team review of procedures
2. The previously agreed action in relation to manual bills has been reinstated. Clients impacted will be invoiced.

Importance:	High
Responsible Officer:	F. Low, Business & Resources Team Leader
Lead Service:	Housing & Community Care
Date for Completion (Month / Year):	1. December 2016 2. October 2016
Required Evidence of Completion:	1. Procedures for Financial Assessment Officers detailing cash handling and lone working 2. Evidence of manual bill review and evidence of 3 clients being invoiced

Auditor's Comments

Satisfactory

Action Point 3 - Data Protection

Auditor observed that ACT members were not carrying out data protection security checks when dealing with telephone enquiries in line with the Data Protection Act and internal guidance.

The Auditor also noted that telephone calls were not recorded. The monitoring of such calls would provide a level of protection for staff and vulnerable clients and enhance performance and training.

Management Action Plan

1. The Service accept that data protection security checks require to be undertaken, and will liaise with the Information Security Manager to agree a protocol which is appropriate for this client base.
2. Management will liaise with the Information Security Manager and consider implementation of call recording facilities within the current review of performance and quality and available resources.

Importance:	High
Responsible Officer:	F. Low, Business & Resources Team Leader
Lead Service:	Housing & Community Care
Date for Completion (Month / Year):	1. December 2016 2. March 2017
Required Evidence of Completion:	1. Protocol for data protection security checks to be completed by ACT staff 2. Evidence of review

Auditor's Comments

Satisfactory

Action Point 4 - Supervisory Oversight

Audit testing revealed a number of areas in relation to Supervisory oversight where there is scope for improvement. A brief summary of these are listed below:

- Much of the work processed by the ACT is allocated directly to individual staff from Community Care Teams and others. This has created a lack of audit trail to allow oversight. Examples of areas highlighted by audit testing as not being fully completed in line with Supervisory expectations are;
 - Logging and checking of funding memos.
 - Service ceased notification and processing.
 - Transfer of work process.
- Audit testing revealed a lack of documented oversight checks in relation to FA and Income Maximisation.
- The FSAs use the information from FAs to calculate client contributions and invoices. It has been observed that there are process and system controls in place to facilitate checking of information in relation to the work carried out by the FSAs. However, testing confirmed that there is no equivalent check to ensure that invoices issued reflect the calculated charges or that payment information has been entered as appropriate.
- There is no collation of information on volumes and trends of errors made by, and impacting on the work of, the ACT to facilitate training and performance management.

All of the above has an impact on the timely and accurate invoicing of clients, as well as the reliability of management information used by the Service.

Management Action Plan

The Service will review and document procedures and oversight checks for the full scope of the FA and charging process. This will include reviewing the arrangements for the oversight of the allocation of work within the team alongside verifying FAs and invoices and ensuring that there is an adequate audit trail. As per the third action at Action Point 1, the Service will review how errors are communicated to CC teams.

Importance:	High
Responsible Officer:	F. Low, Business & Resources Team Leader
Lead Service:	Housing & Community Care
Date for Completion (Month / Year):	March 2017
Required Evidence of Completion:	Procedure and associated template documents

Auditor's Comments

Satisfactory

Action Point 5 - Annual Review Process

The ACT completes a review process in April each year to update client and charging information. In 2016, there were approximately 3,500 clients in receipt of non-residential services who were subject to review. During the audit it was observed that 59 clients identified as being in receipt of non-residential services showed no indication of review within the ACT records.

A sample of 9 of these clients was tested; of these, 6 clients had not been billed for services for 2016 or referred for a FA.

The audit further noted that there is scope to improve the annual review process to ensure that all clients in receipt of services have been identified. An initial review of information from a Swift report which detailed clients in receipt of services in April revealed a client whom the Service had not identified. This client is receiving services, for which they may be liable to pay a charge, but has never received a FA.

Management Action Plan

1. The 59 cases identified above have been reviewed.
2. The Service will document the annual review procedures and ensure that an audit trail and control checks are implemented. Should any historic cases be highlighted, relevant action will be taken.

Importance:	High
Responsible Officer:	F. Low, Business & Resources Team Leader
Lead Service:	Housing & Community Care
Date for Completion (Month / Year):	1. Complete 2. December 2016
Required Evidence of Completion:	1. Evidence of the review of the 59 cases. 2. Documented annual review procedures

Auditor's Comments

Satisfactory

Action Point 6. Deprivation Recording

“Deprivation” is an assessment of whether a client has given away/spent capital/assets deliberately in order to avoid paying care home fees.

Whilst the Auditor was advised that 2 FOs review each deprivation case, there is no evidence to substantiate this. The deprivation assessment form only requires the signature of one FO and conversations are not documented.

Management Action Plan

The form used to assess deprivation cases has been amended.

Importance:	Low
Responsible Officer:	F. Low, Business & Resources Team Leader
Lead Service:	Housing & Community Care
Date for Completion (Month / Year):	Complete
Required Evidence of Completion:	Amended deprivation assessment form

Auditor's Comments

Satisfactory

Action Point 7 - Credit Notes & Invoices on Hold

Audit observed that, whilst there are manual processes in place within the team for authorisation and review of credit notes, any of the FSAs can raise credit notes on Integra without the need for authorisation. This is a corporate action and will be taken forward as part of 16-03, Sales Ledger Internal Audit, regarding controls on Integra.

The Service completes manual authorisation of credit notes in line with Corporate guidance. There is, however, scope to improve the current control system in relation to investigating and documenting why a credit note is being issued.

The Service receives a report detailing where the invoice and credit note have been raised by the same person. There is a lack of evidence to verify the resultant investigation and any management action taken. Similarly, although there is a control to ensure that invoices on hold are authorised by an FO, audit testing confirmed that there is a lack of evidence of review of these by the ACT to ensure that appropriate and timely action is taken.

Management Action Plan

1. The Service will implement a procedure which outlines steps requiring to be taken to investigate the need for a credit note to be issued; this should also document audit trail requirements for rationale of issuance
2. The Service will document the review of the credit note control report along with resultant discussions/actions
3. The Service will undertake a one-off exercise to ensure that all invoices on hold are reviewed with appropriate action taken. Additionally, the Service will introduce a documented control which provides assurance that invoices which have been placed on hold are being reviewed on a regular, at least once a quarter, basis.

Importance:	High
Responsible Officer:	F. Low, Business & Resources Team Leader
Lead Service:	Housing & Community Care
Date for Completion (Month / Year):	1. & 2. December 2016 3. November 2016

Internal Audit Report

Required Evidence of Completion:	<ol style="list-style-type: none">1. Procedure document2. Evidence of regular review of credit note control reports and discussion as applicable3. Evidence of one-off review of all invoices on hold. Procedure and accompanying template documents
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Auditor's Comments

Satisfactory

Appendix 3: Action Plan

Action Point 8 - Scheme of Administration & Scheme of Delegation

The National Assistance (Assessment of Resources) Regulations 1992 provide the framework for local authorities to charge for care that they provide or arrange in residential care homes.

At time of audit testing the National Assistance (Assessment of Resources) Regulations 1992 is not referenced in either the Scheme of Administration or the HCC Scheme of Delegation.

Management Action Plan

1. These will be updated at the next available opportunity.
2. The Service will liaise with appropriate personnel to update the Scheme of Administration and HCC Scheme of Delegation to reflect National Assistance (Assessment of Resources) Regulations 1992

Importance:	Low
Responsible Officer:	F. Low, Business & Resources Team Leader
Lead Service:	Housing & Community Care
Date for Completion (Month / Year):	1. October 2016 2. June 2017
Required Evidence of Completion:	1. Updated Scheme of Administration 2. Updated Scheme of Delegation

Auditor's Comments

Satisfactory



Internal Audit Report
Housing and Community Care
Adult Protection
Assignment No. 16-08
August 2016

Final Report

Finance Division
Corporate and Democratic Services
Perth & Kinross Council
Blackfriars Development Centre
North Port
Perth PH1 5LU

Internal Audit

In March 2013, the Audit Committee approved the Public Sector Internal Audit Standards (PSIAS) as the relevant standard for its Internal Audit activity. The definition given in the PSIAS is as follows:

“Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”.

Background and Introduction

This assignment forms part of the Internal Audit plan for 2016/17 approved by the Audit Committee on the 30th March 2016. Audit testing was carried out during April and May 2016.

The Adult Support and Protection (Scotland) Act 2007 seeks to protect and benefit adults at risk of being harmed. The Act requires Councils and a range of public bodies to work together to support and protect adults who are unable to safeguard themselves, their property and their rights.

The public bodies are required to work together to take steps to decide whether someone is an adult at risk of harm, balancing the need to intervene with an adult's right to live as independently as possible.

Each Local Authority area across Scotland has an Adult Protection Committee in place. These committees set the strategic direction for multi-agency working at the local level in accordance with the Act.

Scope and Limitations

This audit focussed on the Council’s processes for dealing with referrals as part of the multi-agency approach and adherence to the relevant procedures. The audit did not review the work of the other agencies.

Control Objectives and Opinions

This section describes the purpose of the audit and summarises the results. A ‘control objective’ is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved. Each control objective has been given a rating describing, on the basis of the audit work done, the actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

Control Objective: To provide assurance over the process being followed for the protection of adults referred to the Council
Auditor’s Comments: Operational guidelines include the processes to be followed by staff and the partner agencies, in respect of protecting adults referred to the Council. The guidelines are comprehensive and include the required action when harm, mistreatment or neglect is suspected or has taken place. The guidelines clarify the

roles and responsibilities of those involved.

The guidelines are aligned to the relevant Code of Practice issued by the Scottish Government in April 2014, although there is scope to further align these documents. Similarly, there is benefit in updating some of the Adult Support and Protection literature and the related Council webpages.

Testing confirmed that the process as per the guidelines was followed for 10 of 12 reviewed cases. The two other cases were due to delays in receiving reports. The Service was already reviewing processes in this regard. There was also feedback to the referrer for 11 of these cases. There is scope to expand the Service case file audit template to test for such feedback.

A requirement of the Adult Support and Protection (Scotland) Act 2007 is for an Adult Protection Committee (APC) to review the relevant procedure and practices. The Service advised that the APC approved the guidelines in March 2015. However, the meeting minutes did not formally approve these but resolved that the draft guidance be sent to Committee members for comment.

Awareness and specialist training sessions aimed at ensuring staff can recognise and respond to any identified or suspected harm have been delivered to a mix of staff including those from partner agencies.

The arrangements for the referral of adults at risk of harm are available externally and a communication plan is in place aimed at supporting the protection of vulnerable people in Perth and Kinross.

The Service Business Management Improvement Plan and Adult Support and Protection Statistics contain adult protection performance measures which are reported within the Council and also to the Community Safety and Environment Group. The Service advised that the performance information will also be reported to the Community Planning Partnership. Audit testing revealed minor differences in some of the performance figures. The Service advised the differences were due to timing issues and the manual collation of some data and that a Systems Analyst has been utilised to help address the matter. For 2015/16, 94% of cases were screened within 24 hours, compared with 77% from 2014/15. The Service is planning to further monitor performance standards by telephoning a sample of individuals who were subject to or had submitted a referral.

The separate Tayside Multi-Agency Adult Support and Protection Protocol was presented for approval to the APC in December 2015, but the minutes state that the meeting proceeded inquorate.

Strength of Internal Controls:	Moderately Strong
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Management Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

Where the audit has identified areas where a response by management is required, these are listed in Appendix 1, along with an indication of the importance of each 'action point'. Appendix 2 describes these action points in more detail, and records the action plan that has been developed by management in response to each point.

Internal Audit Report

It is management's responsibility to ensure that the action plan presented in this report is achievable and appropriate to the circumstances. Where a decision is taken not to act in response to this report, it is the responsibility of management to assess and accept the risks arising from non-implementation.

Achievement of the action plan is monitored through Internal Audit's 'follow up' arrangements.

Management should ensure that the relevant risk profiles are reviewed and updated where necessary to take account of the contents of Internal Audit reports. The completeness of risk profiles will be examined as part of Internal Audit's normal planned work.

Acknowledgements

Internal Audit acknowledges with thanks the co-operation of the Council's Adult Protection Coordinator during this audit.

Feedback

Internal Audit welcomes feedback from management, in connection with this audit or with the Internal Audit service in general.

Distribution

This report has been distributed to:

B Malone, Chief Executive;

J Walker, Depute Chief Executive, Corporate and Community Development Services;

B Atkinson, Director (Social Work), Education and Children's Services;

C Johnston, Joint Head of Community Care;

D Fraser, Joint Head of Community Care;

J Symon, Head of Finance;

K McNamara, Head of Strategic Commissioning and Organisational Development;

N Rogerson, Service Manager, Community Safety;

M Notman, Adult Protection Coordinator;

G Taylor, Head of Democratic Services;

P Dickson, Complaints & Governance Officer;

External Audit

Authorisation

The auditor for this assignment was D McCreadie. The supervising auditor was M Morrison.

This report is authorised for issue:

Jacqueline Clark
Chief Internal Auditor
Date: 19 August 2016

Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	Updating of Guidelines	Low
2	Webpage and Literature	Low
3	Approval of Guidelines	Low
4	Referred Cases	Medium
5	Performance Information	Low
6	Quorate Meeting	Medium

Appendix 2: Action Plan

Action Point 1 - Updating of Guidelines

The Adult Support and Protection (Scotland) Act 2007 multi agency guidelines are aligned to the relevant Code of Practice issued by the Scottish Government in April 2014. Audit testing revealed scope to further align these guidelines to the Code, for example, to include Healthcare Improvement Scotland as a public body.

There is also scope for the guidelines to emphasise the legal duty that even where there is doubt a referral should be made and counted as a referral by the Council.

There would be benefit in issuing a reminder to relevant staff once the updated guidelines are approved and issued.

Management Action Plan

The Adult Protection Coordinator will arrange for the Perth and Kinross multi agency guidelines to be updated to include Healthcare Improvement Scotland as a public body and emphasise the legal duty that even where there is doubt a referral should be made and counted as a referral.

The updated guidelines will be presented to the Perth and Kinross Adult Protection Committee for their approval and a reminder will be issued to the relevant staff thereafter.

Importance:	Low
Responsible Officer:	M Notman, Adult Protection Coordinator
Lead Service:	Housing and Community Care
Date for Completion (Month / Year):	September 2016
Required Evidence of Completion:	Extract of approval from APC minutes and reminder issued to relevant staff

Auditor's Comments

Satisfactory

Action Point 2 - Webpage and Literature

There would be benefit in reviewing some of the Adult Support and Protection pages published on the Council's website. For example, the stated aim on the relevant landing page is to ensure that adults at risk are protected from harm, but the page doesn't define the term adult.

Similarly, there is scope to refresh the resource library webpage as the most recent published case was dated 2012.

The leaflet entitled "What is Adult Support and Protection" refers to a new law, although this law was introduced in 2007.

Management Action Plan

The Adult Protection Coordinator will arrange for the Adult Support and Protection pages on the Council's website to be updated, for example, to define the term adult and include a published case which is more recent than 2012.

The "What is Adult Support and Protection" leaflet will also be updated to ensure that it does not refer to a new law.

Importance:	Low
Responsible Officer:	M Notman, Adult Protection Coordinator
Lead Service:	Housing and Community Care
Date for Completion (Month / Year):	July 2016
Required Evidence of Completion:	Extract from updated webpage and updated leaflet

Auditor's Comments

Satisfactory

Action Point 3 - Approval of Guidelines

The Adult Support and Protection (Scotland) Act 2007 requires each Council to set up an Adult Protection Committee (APC) whose responsibilities include reviews of the procedures which safeguard adults at risk in the area.

The latest Perth and Kinross Multi Agency guidelines were presented to the APC for approval in March 2015. However, that meeting did not formally approve the guidelines as the recorded action was for the draft guidance to be circulated to members of the Committee for comment. At the date of audit testing, the latest guidelines had therefore not been formally approved by the Committee.

Management Action Plan

The Adult Protection Coordinator will arrange for the Perth and Kinross Multi Agency guidelines to be formally approved by the Perth and Kinross Adult Protection Committee.

Importance:	Low
Responsible Officer:	M Notman, Adult Protection Coordinator
Lead Service:	Housing and Community Care
Date for Completion (Month / Year):	September 2016
Required Evidence of Completion:	Extract from APC minutes approving guidelines.

Auditor's Comments

Satisfactory

Action Point 4 - Referred Cases

Audit testing of 12 randomly selected cases regarding adults referred to the Council revealed that the correct process had been followed for 10 of these cases.

The two remaining cases related to referrals where there was a delay in receiving the reports. In one case the actions taken by the Service were deemed as adequate by the Auditor. The other case related to an administrative error. At the date of audit testing, the Service was taking action to review processes to minimise the reoccurrence of such an error.

The above testing also revealed that feedback was made to the referrer for 11 cases. The Service advised that the remaining case was an oversight. There is scope to expand the Service case file audit template to include the testing of feedback regarding the outcomes of referrals.

Management Action Plan

The Service is updating and agreeing the referral process to ensure that care homes send referral cases via email wherever possible, or always telephone to follow up.

The case file audit template will be expanded to test for evidence of feedback regarding the outcome of referrals.

Importance:	Medium
Responsible Officer:	M Notman, Adult Protection Coordinator
Lead Service:	Housing and Community Care
Date for Completion (Month / Year):	December 2016
Required Evidence of Completion:	Copy of updated referral process

Auditor's Comments

Satisfactory

Action Point 5 - Performance Information

Audit testing revealed minor differences in the performance information contained in the Standards and Quality Report 2014/15 and the corresponding Adult Support and Protection (ASP) Statistics. The Service accepted that there were such differences, explaining this was due to timing issues and the manual collation of some data.

The Service advised that they had utilised a council Systems Analyst who is reformatting the recording and reporting of this information.

Management Action Plan

The Service will complete their review of the formatting, presentation and reporting of the Adult Support and Protection performance information. This revised performance information will be reported to the Community Care Management Team.

Importance:	Low
Responsible Officer:	M Notman, Adult Protection Coordinator
Lead Service:	Housing and Community Care
Date for Completion (Month / Year):	December 2016
Required Evidence of Completion:	Extract from updated ASP performance information reported to CCMT.

Auditor's Comments

Satisfactory

Action Point 6 - Quorate Meeting

The updated Tayside Multi-Agency Adult Support and Protection Protocol was presented to the Perth and Kinross Adult Protection Committee for their approval on the 4 December 2015.

The relevant minutes resolve that the updated document be approved. However, the minute states that the meeting proceeded inquorate and the minutes need to be ratified at the next quorate Committee meeting.

Whilst the draft minutes for the following APC meeting refer to the inquorate meeting and ratified their approval, there would be benefit in ensuring that when a quorum is not met the meeting either does not continue or each action is recorded as noted then ratified and resolved at the next quorate meeting.

Failure to ensure a quorum may lead to the risk that agreed actions could be deemed invalid and open to challenge.

Management Action Plan

The Adult Protection Coordinator will present a discussion paper to the next Adult Protection Committee meeting scheduled for September 2016.

Dependent on the outcome of the above meeting, a paper will thereafter be presented for approval to a subsequent APC meeting regarding a change to their constitution which clarifies the required action should a meeting be inquorate.

Importance:	Medium
Responsible Officer:	M Notman, Adult Protection Coordinator
Lead Service:	Housing and Community Care
Date for Completion (Month / Year):	December 2016
Required Evidence of Completion:	APC papers which details and approves their quorate rules.

Auditor's Comments

Satisfactory



Internal Audit Report
Housing and Community Care
Housing Options
Assignment No. 16-09
August 2016

Final Report

Finance Division
Corporate and Democratic Services
Perth & Kinross Council
Blackfriars Development Centre
North Port
Perth PH1 5LU

Internal Audit

In March 2013, the Audit Committee approved the Public Sector Internal Audit Standards (PSIAS) as the relevant standard for its Internal Audit activity. The definition given in the PSIAS is as follows:

“Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”.

Background and Introduction

This assignment forms part of the Internal Audit plan for 2016/17, as approved by Audit Committee on 30th March 2016. Audit testing was carried out in June and July 2016.

Housing Options is a process which starts with housing advice when someone approaches a local authority with a housing problem. This means that people are enabled to make realistic assessment of the housing options available to them by looking at their options and choices in the widest sense. This approach includes early intervention and explores all possible tenancy options, for example; using the council and housing associations that are acting as social landlords and also using the private rented sector.

A Housing and Health Committee Report of 27 January 2016 stated that Housing Options is a Scottish Government key priority and that the Scottish Government has supported local authorities to adopt a Housing Options approach to delivering housing advice and assistance by funding five Housing Options Hubs. Perth and Kinross is the lead authority for the Tayside, Fife and Central Hub.

Scope and Limitations

This audit focussed on housing options and adherence to and the adequacy of these arrangements. The audit did not review the day to day work of other social landlords who operate within Perth and Kinross.

Control Objectives and Opinions

This section describes the purpose of the audit and summarises the results. A ‘control objective’ is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved. Each control objective has been given a rating describing, on the basis of the audit work done, the actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

Control Objective: To ensure that adequate arrangements are in place within Housing Options
Audit Comments: The undernoted audit testing confirmed the adequacy of the housing options

arrangements. However, there is scope to review some of these measures.

Customers can access housing options via the Council website; those without a computer can use the Pullar House self service area or use a computer at other locations. Customers requiring assistance can request a telephone interview or attend interviews at the Housing Advice Centre or any Locality.

The housing advice, assistance & support leaflet details how housing options work, how to access the service and explains what happens at interviews. Details of the complaints process is contained in this leaflet, but these processes are not fully aligned to the Council's complaints procedures.

Housing options procedures detail the help and advice which can be offered to customers, such as employment support, addressing physical and mental health needs, housing advice, health advice and budget management support.

Scottish Government housing options guidance of March 2016 is available for staff. This guidance states that the application of housing options should not in any way undermine a customer's statutory homelessness rights.

There would be benefit in updating and reviewing some Service procedures to emphasise the linkage between homelessness and housing options as testing a sample of completed housing option cases revealed a case that could also have been recorded as a homeless application.

The Scottish Government housing options guidance states that regular reports should be made to the appropriate local authority committee on the performance and outcomes of housing options and that the performance management of such should focus on appropriate targets. The guidance suggests the delivery of sustainable housing solutions as an appropriate indicator. Whilst no specific housing options performance targets are currently reported to committee, the Service uses performance information, for example the number of housing options interviews per month, to review performance. The Service Business Management Improvement Plan which is reported to Committee also details performance regarding new tenancies sustained and a narrative regarding housing options.

The Service Risk Profile further detail the risks associated with the provision of adequate and affordable social housing and explains the housing options scheme. In addition, the Service carries out oversight monitoring and in house audit checks.

A Housing and Health Committee report of May 2016 reported that a national housing options training toolkit was being developed in partnership with the Scottish Government and that the toolkit provides staff, agencies and key stakeholders with training and information to support the delivery of effective housing options. At the date of testing, the housing options toolkit was at the scoping stage.

The Scheme of Administration authorises the Housing and Health Committee to exercise the functions of the Council relating to the assessment of housing need. At the date of audit testing, the Scheme of Administration had not been updated to reflect the Housing (Scotland) Act 2014, as referred to in the revised Common Allocations Policy which was approved by the HHC on the 27 January 2016.

Strength of Internal Controls:	Moderately Strong
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Management Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

Where the audit has identified areas where a response is required, these are listed in Appendix 1, along with an indication of the importance of each 'action point'. Appendix 2 describes these action points in more detail, and records the action plan that has been developed by management in response to each point.

It is the Service's responsibility to ensure that the action plan presented in this report is achievable and appropriate to the circumstances. Where a decision is taken not to act in response to this report, it is the responsibility of Service management to assess and accept the risks arising from non-implementation.

Achievement of the action plan is monitored through Internal Audit's 'follow up' arrangements.

Service Management should ensure that the relevant risk profiles are reviewed and updated where necessary to take account of the contents of Internal Audit reports. The completeness of risk profiles will be examined as part of Internal Audit's normal planned work.

Acknowledgements

Internal Audit acknowledges with thanks the co-operation of staff based at the Housing Advice Centre during this audit.

Feedback

Internal Audit welcomes feedback from management, in connection with this audit or with the Internal Audit service in general.

Distribution

This report has been distributed to:

B Malone, Chief Executive;

J Walker, Depute Chief Executive, HCC(Corporate and Community Development Services) and Chief Operating Officer;

L Cameron, Head of Housing & Strategic Commissioning;

J Symon, Head of Finance;

K McNamara, Head of Strategic Commissioning & Development;

C Mailer, Senior Housing Manager;

E Ritchie, Service Manager (Housing);

G Taylor, Head of Democratic Services;

P Dickson, Complaints & Governance Officer;

External Audit

Authorisation

The auditor for this assignment was D McCreadie. The supervising auditor was M Morrison.

This report is authorised for issue:

Jacqueline Clark
Chief Internal Auditor
Date: 31 August 2016

Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	Housing Options and Homelessness Applications	Medium
2	Complaints Procedures	Low
3	Training Toolkit	Low
4	Procedural Guidance	Low
5	Performance Management Information	Low
6	Scheme of Administration	Low

Appendix 2: Action Plan

Action Point 1 - Housing Options and Homelessness Applications

COSLA and Scottish Government guidance from June 2009 states that a homeless application should be completed where an applicant is homeless, or threatened with homelessness within 2 months. Recent Scottish Government guidance of March 2016 confirmed that record-keeping must evidence that the application of the housing options approaches has not in any way undermined a customer's statutory homelessness rights.

There is scope for the procedure entitled Service Enhanced Housing Options (EHO) to specifically emphasise the linkage between homelessness and housing options, as testing of 20 completed housing option cases revealed a case with scope to be recorded as a homeless application. There would be benefit in the Service reviewing their form entitled Homeless Application Process, as this form is used for some cases that may not necessarily be homeless applications.

The Service provided evidence that their audit checklist includes oversight checking that the application of housing options has not undermined a customer's statutory homelessness rights. However, the monitoring and audit control section of the EHO procedures does not specifically include this oversight check.

Management Action Plan

The Service will update their Enhanced Housing Options procedure to specifically emphasise the linkage between homelessness and housing options and include this topic as a check within the monitoring and audit section of the procedure.

The Service will amend the Homeless Application Process form by removing the word homeless from the title as this form is used for some cases that may not necessarily be homeless applications.

Importance:	Medium
Responsible Officer:	E Ritchie, Service Manager
Lead Service:	Housing and Community Care
Date for Completion (Month / Year):	October 2016
Required Evidence of Completion:	Updated EHO procedure and amended homeless application process form.

Auditor's Comments

Satisfactory

Action Point 2 - Complaints Procedures

There is scope for the Service to review the complaints process detailed in their Housing Advice, Assistance & Support leaflet as it does not refer to the timescales or the two steps detailed in the Council's complaints procedures.

Complaints guidance is available to staff via the intranet and this guidance advises how claims should be resolved. This information is not referred to in the above leaflet, although the Council's complaints leaflet was also on display at the Housing Advice reception area.

There is scope to review the housing options self-assessment service procedures to ensure they are fully aligned to the Council's complaints arrangements as the procedures do not detail the requirement for staff to log complaint details on Eric and refer to an out of date Making a Formal Complaint leaflet.

Management Action Plan

The Service will amend their Housing Advice, Assistance and Support leaflet to make specific reference to the Council's Complaints leaflet.

The Service will review the complaints sections within their Housing Options Self-Assessment Service procedures to ensure that it is fully aligned with the Council's complaints arrangements.

Importance:	Low
Responsible Officer:	E Ritchie, Service Manager
Lead Service:	Housing and Community Care
Date for Completion (Month / Year):	October 2016
Required Evidence of Completion:	Amended housing leaflet and Housing Options Self-Assessment Service procedure.

Auditor's Comments

Satisfactory

Action Point 3 - Training Toolkit

The Housing and Community Care six month performance summary 2015 presented to the Housing and Health Committee (HCC) on 4 November 2015 reported that the development of a housing options training toolkit was on track to be piloted by Perth and Kinross Council in December 2015.

A further HCC report of 25 May 2016 reported on the delivery of positive outcomes including the development of a national toolkit in partnership with the Scottish Government.

At the date of audit testing, the housing options training toolkit had not been piloted and is at the scoping stage.

The Service advised that the pilot had been delayed as it is now planned that this toolkit will be used by all Scottish Local Authorities.

Management Action Plan

The Service will continue to be involved in the Training Toolkit Steering Group to ensure that the toolkit is piloted in the first quarter of 2017.

Importance:	Low
Responsible Officer:	E Ritchie, Service Manager
Lead Service:	Housing and Community Care
Date for Completion (Month / Year):	March 2017
Required Evidence of Completion:	Evidence of training delivered as part of the toolkit.

Auditor's Comments

Satisfactory

Action Point 4 - Procedural Guidance

The in house quality controls checks detailed in the Housing Options Self-Assessment procedures would benefit from review as the Service advised that they do not relate to Housing Options Self-Assessments, but to the Enhanced Housing Options processes which have their own set of procedures.

The Enhanced Housing Options (EHO) procedures are dated Nov 2013 and were last reviewed in Apr 2014. The Service advised that the review of these procedures had been put on hold whilst they awaited the updated Housing Options guidance from the Scottish Government which was received in late March 2016.

Management Action Plan

The Service will review the audit section within their Housing Options Self-Assessment procedure and update the Enhanced Housing Options procedure to ensure compliance with the Housing Options Guidance.

Importance:	Low
Responsible Officer:	E Ritchie, Service Manager
Lead Service:	Housing and Community Care
Date for Completion (Month / Year):	October 2016
Required Evidence of Completion:	Reviewed Housing Options Self-Assessment procedure. Amended Enhanced Housing Options procedure.

Auditor's Comments

Satisfactory

Action Point 5 - Performance Management Information

Scottish Government housing options guidance states that the performance management of housing options should focus on appropriate targets, listing the delivery of sustainable housing solutions as an appropriate performance indicator. The guidance states that regular reports on the performance and outcomes of housing options and its role in addressing housing needs should be made to the appropriate local authority committee.

Housing options performance information is regularly reviewed internally by the Service. The Service Business Management Improvement Plan includes a narrative about housing options and is reported to committee.

However, no dedicated housing options performance information or appropriate targets are reported to committee, although performance regarding new tenancies sustained is reported as part of a Service tenancies indicator. The Service advised this matter was being progressed by them as part of the Scottish Government review of the housing options guidance.

Management Action Plan

The Service will seek clarity from the Scottish Government regarding performance indicators for Housing Options as part of the review of the housing options guidance.

Importance:	Low
Responsible Officer:	E Ritchie, Service Manager
Lead Service:	Housing and Community Care
Date for Completion (Month / Year):	January 2017
Required Evidence of Completion:	Correspondence with the Scottish Government.

Auditor's Comments

Satisfactory

Action Point 6 - Scheme of Administration

The Scheme of Administration authorises the Housing and Health Committee to exercise the functions of the Council relating to the assessment of housing need, the approval of the Local Housing Strategy to address the needs identified and the Scheme of Allocation of Council houses.

At that date of audit testing, the Scheme of Administration had not been updated to reflect the Housing (Scotland) Act 2014, as referred to in the revised Common Allocations Policy which was approved by the Housing and Health Committee on 27 January 2016.

Management Action Plan

The Head of Democratic Services will arrange for the Scheme of Administration to be updated to detail the Committee and the Officer that will be responsible for the exercising the functions contained in the Housing (Scotland) Act 2014

Importance:	Low
Responsible Officer:	C Flynn, Democratic Services Manager
Lead Service:	Corporate and Democratic Services
Date for Completion (Month / Year):	October 2016
Required Evidence of Completion:	Extract from Updated Scheme of Administration

Auditor's Comments

Satisfactory



Internal Audit Report
Corporate & Democratic Services/All Services
Credit Cards Assignment No. 16-02
September 2016

Final Report

Finance Division
Corporate and Democratic Services
Perth & Kinross Council
Blackfriars Development Centre
North Port
Perth PH1 5LU

Internal Audit

“Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”. Public Sector Internal Auditing Standards (PSIAS)

On 27th March 2013, the Council’s Audit Committee approved the PSIAS as the relevant standard for its Internal Audit activity.

Background and Introduction

This audit was carried out as part of the audit plan for 2016/17, which was approved by the Audit Committee on 30 March 2016.

The Council’s credit card facility is managed by the Incomes Team of the Finance Division. The Senior Incomes Officer is responsible for the administration of the Council’s credit card account, currently held with National Westminster Bank as part of the contract for banking services provided by the Royal Bank of Scotland.

This audit covered the use of credit cards throughout the Council as well as the corporate control exercised by the Finance Division.

Audit testing was carried out in April and May 2016.

Scope

In order to arrive at an opinion on the achievement of the control objectives, the audit included interviews with the staff in Finance Division. Officers with credit cards within Services will be contacted as part of this review.

Control Objectives and Opinions

This section describes the purpose of the audit and summarises the results. A ‘control objective’ is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved. Each control objective has been given a rating describing, on the basis of the audit work done, the actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

Control Objective 1: To ensure that adequate arrangements are in place for the requesting and authorising of Council Credit Cards.	
Audit Comments: The Corporate Credit Card Guidelines (CCCG), which are published on Eric and are accessible to all Services, include the process to be followed for requesting and authorising Council credit cards. All credit card request forms are subject to rigorous scrutiny prior to authorisation and issue.	
Strength of Internal Controls:	Strong

Internal Audit Report

Control Objective 2: To ensure that credit cards are used appropriately and are subject to appropriate control within Services.	
<p>Audit Comments:</p> <p>The CCCG provide guidance for the use of credit cards, including indicating what credit cards can and cannot be used for. There is scope to enhance the CCCG with regard to clarifying arrangements for the cancellation of cards, the process for card holders to follow when their cards have been compromised and the requirement to destroy PINs.</p> <p>Credit cards were mostly used appropriately by Services, and there is evidence of controls in place in some areas. However there were occasions where the transactions were not supported by fully completed or authorised payment request forms or supported by receipts.</p> <p>In some instances, credit cards have, with the permission of the credit card holder, been used routinely by officers other than the credit card holder and not all credit cards are held securely in accordance with the guidelines.</p>	
Strength of Internal Controls:	Moderate

Control Objective 3: To ensure that credit card expenditure is adequately reconciled throughout the Council	
<p>Audit Comments:</p> <p>Council credit card statements are reconciled to the Council's bank account on a regular basis. Additionally, credit card statements are reconciled to source documentation by each service, although there were occasions where there were items of expenditure for which there was no proof of purchase.</p> <p>The CCCG highlight that Finance Division will conduct routine compliance checks of credit card purchases at Service locations, however no such checks have been undertaken.</p>	
Strength of Internal Controls:	Moderately Strong

Management Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

Where the audit has identified areas where a response by management is required, these are listed in Appendix 1, along with an indication of the importance of each 'action point'. Appendix 2 describes these action points in more detail, and records the action plan that has been developed by management in response to each point.

It is management's responsibility to ensure that the action plan presented in this report is achievable and appropriate to the circumstances. Where a decision is taken not to act in response to this report, it is the responsibility of management to assess and accept the risks arising from non-implementation.

Internal Audit Report

Achievement of the action plan is monitored through Internal Audit's 'follow up' arrangements.

Management should ensure that the relevant risk profiles are reviewed and updated where necessary to take account of the contents of Internal Audit reports. The completeness of risk profiles will be examined as part of Internal Audit's normal planned work.

Acknowledgements

Internal Audit acknowledges with thanks the co-operation of staff within Corporate and Democratic Services, Education & Children's Services, Housing & Community Services and The Environment Service during this audit.

Feedback

Internal Audit welcomes feedback from management, in connection with this audit or with the Internal Audit service in general.

Distribution

This report has been distributed to:

B Malone, Chief Executive

J Valentine, Depute Chief Executive, Environment (Sustainability, Strategic and Entrepreneurial Development)

J Walker, Depute Chief Executive, HCC (Corporate and Community Development Services) and Chief Operating Officer

Keith McNamara, Head of Strategic Commissioning and Organisational Development

B Renton, Director (The Environment Service)

S MacKenzie, Head of Performance and Resources

G Boland, Service Manager (Contracts and Financial Management)

A Taylor, Head of Finance & Support Services (Housing & Community Care)

N Copland, Business & Resources Manager (Housing & Community Care)

J Coburn, Finance Manager (Education & Children's Services)

J Symon, Head of Finance

G Taylor, Head of Democratic Services

P Dickson, Complaints & Governance Officer

External Audit

Authorisation

The auditor for this assignment was J O'Connor. The supervising auditor was M Morrison.

This report is authorised for issue:

J Clark

Chief Internal Auditor

Date: 16 September 2016

Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	Corporate Credit Card Guidelines	Low
2	In-house Catering and Corporate Hospitality	Medium
3	Purchasing Goods and Services by Credit Card	Medium
4	Segregation of Duties	Medium
5	Incomes Team Credit Card Management	Medium
6	Card Holder Security Arrangements	Medium

Appendix 2: Action Plan

Action Point 1 - Corporate Credit Card Guidelines

The guidelines for the administration, use and security of credit cards are available to all staff on the intranet, Eric.

There is scope to improve the Guidelines in order to clarify arrangements for the cancellation of cards (e.g. when a member of staff leaves or moves post), the process for card holders to follow when their cards have been compromised and the requirement to destroy PINs. Furthermore, there is an inconsistency between the titling of the document as to whether these are guidelines to staff or are formal procedures to be followed.

Management Action Plan

The Guidelines / Procedures will be clarified and will include the procedures to be followed regarding the cancellation of cards, the process to be followed when cards have been compromised and for the destruction of PINs. The Guidelines will be subject to version control.

Importance:	Low
Responsible Officer:	R Goldby, Senior Incomes Officer
Lead Service:	Corporate & Democratic Services
Date for Completion (Month / Year):	December 2016
Required Evidence of Completion:	Copy of updated guidelines with version control.

Auditor's Comments

Satisfactory

Action Point 2 - In-house Catering and Corporate Hospitality

Corporate and Democratic Services use a credit card routinely for purchasing fresh food from a supermarket for in-house catering and corporate hospitality. In addition to the credit card being presented, a store reward card is also presented at each transaction. At the time of the audit, there was no reward card for the Council.

Whilst the Credit Card Guidelines do not reference the use of such a reward card, Education & Children's Services Financial Policies and Procedures clearly state that it is not acceptable to use these for petty cash purchases.

In addition, although purchases made through the credit card for corporate hospitality include items specifically excluded by the Guidelines, it is acknowledged that this relates to business need.

Management Action Plan

1. The Service has obtained and is using a Council reward card.
2. The credit card guidelines will be updated to ensure that they clearly state that personal reward cards should not be used when purchasing goods and services through the credit card.
3. The Head of Legal and Governance Services will review the relevant Gifts and Hospitality policy to ensure that there is clarity regarding the provision of corporate hospitality.
4. The credit card guidelines will subsequently be linked to the revised Gifts and Hospitality Policy

Importance:	Medium
Responsible Officer:	1. R Hughes, Senior Civic and Members Services Officer 2. & 4. R Goldby, Senior Incomes Officer 3. L Simpson, Head of Legal & Governance Services
Lead Service:	Corporate & Democratic Services
Date for Completion (Month / Year):	1. Complete 2. December 2016 3. & 4. March 2017
Required Evidence of Completion:	1. Use of Council reward card 2. & 4. Updated guidelines 3. Updated Gifts and Hospitality Policy and guidelines

Auditor's Comments

Satisfactory

Action Point 3 - Purchasing Goods and Services by Credit Card

As per the credit card guidelines, when purchasing an item using a Council credit card, a fully completed and adequately authorised Credit Card Payment Request form should be completed prior to any purchase. Guidelines also require the presentation of corresponding receipts.

In February 2016, the Finance Division contacted all card holders to get assurance that they had read and understood the guidelines/procedures. Despite all credit card holders confirming their understanding, testing of credit card transactions throughout the Council revealed examples of:

- purchases made without a completed credit card payment request form;
- credit card request forms completed but not detailing the relevant ledger codes;
- credit card payment request forms not being appropriately authorised; and
- credit card payment request forms not being supported by proof of purchase.

Management Action Plan

1 - 3. The Services will monitor the use of credit cards and periodically undertake compliance checks to ensure that all transactions are supported by the appropriate documentation which is appropriately authorised.

4. The Finance Division will undertake a follow up / compliance check on those cards where issues have been highlighted by Internal Audit to ensure that the paperwork is fully completed and authorised in line with the procedures/guidelines.

Importance:	Medium
Responsible Officer:	1. N Copland, Business & Resources Manager 2. S Welsh, Finance and Governance Team Leader 3. C Robertson, Corporate Accounting Manager 4. R Goldby, Senior Incomes Officer
Lead Service:	1. Housing & Community Care 2. The Environment Service 3. & 4. Corporate & Democratic Services

Internal Audit Report

Date for Completion (Month / Year):	1. & 3. November 2016 2. Completed 4. February 2017
Required Evidence of Completion:	Evidence of checks

Auditor's Comments

Satisfactory

Action Point 4 - Segregation of Duties

The Guidelines state that “Under no circumstances should an employee authorise the use of the Council credit card to purchase any item requested by them even though it would be for a genuine business expense.”

However, in two Services, there were instances where the officer authorising the use of the credit card was also the officer requesting the purchase.

Management Action Plan

The Services should monitor the use of credit cards and periodically undertake compliance checks to ensure that appropriate segregation of duties can be demonstrated.

Importance:	Medium
Responsible Officer:	1. N Copland, Business & Resources Manager 2. S Welsh, Finance & Governance Team Leader
Lead Service:	1. Housing & Community Care 2. The Environment Service
Date for Completion (Month / Year):	1. November 2016 2. Completed
Required Evidence of Completion:	Evidence of monitoring

Auditor's Comments

Satisfactory

Action Point 5 - Incomes Team Credit Card Management

Credit Card Guidelines state that the Incomes Team will conduct compliance checks on a periodic basis. If such compliance checks had been carried out, the majority of the above issues might have been highlighted prior to the audit, thus improving the control over the use of credit cards.

The Central Finance Manager confirmed that checks are not carried out due to the lack of resources.

Management Action Plan

1. The Financial Regulations which are currently being updated will transfer the requirement for the compliance checks to Service Financial Controllers.
2. – 5. Each Service's Operational Financial Regulations will subsequently require to be updated for this and other changes arising from the review of the Financial Regulations.

Importance:	Medium
Responsible Officer:	1. C Robertson, Corporate & Democratic Services 2. C Robertson, Corporate & Democratic Services 3. J Cockburn, Finance and Governance Manager 4. N Copland, Business & Resources Manager 5. F Crofts, Finance & Resources Manager
Lead Service:	1. & 2. Corporate & Democratic Services 3. Education & Children's Services 4. Housing & Community Care 5. The Environment Service
Date for Completion (Month / Year):	1. December 2016 2. - 5. March 2107
Required Evidence of Completion:	1. Financial Regulations 2. - 5. Operational Financial Regulations and evidence of first control check

Auditor's Comments

Satisfactory

Action Point 6 - Card Holder Security Arrangements

The Guidelines state that the card holder should hold the card securely in the office unless there is appropriately documented prior agreement from the Head of Finance. Furthermore, the guidelines also state that only the named card holder is authorised to use the Council credit card and that no other employee should be permitted access to or use of the card.

The Auditor found that one card was accessible to four different officers within the same team, and all four officers used the card. The security of this card was further compromised by a photocopy of both sides of the card being provided to a hotel in order to secure a booking.

Some cards in use by officers within Housing and Corporate & Democratic Services were routinely removed from the office due to business need but without the appropriate agreement of the Head of Finance being in place.

Management Action Plan

1. - 3. Services will review their security arrangements for holding and storing cards.
4. The Environment Service will undertake an exercise to review the requirement for credit cards to ensure that officers who require to use credit cards hold one in their own name.
5. & 6. Housing & Community Care and Corporate & Democratic Services will request the agreement of the Head of Finance for the removal of specific credit cards from the office for business need.

Importance:	Medium
Responsible Officer:	1. & 4. S Welch, Finance & Governance Team Leader 2. & 5. N Copland, Business & Resources Team Leader 3. & 6. G Taylor, Head of Democratic Services
Lead Service:	The Environment Service Housing & Community Care Corporate & Democratic Services
Date for Completion (Month / Year):	1. & 3. Completed 2. & 4. November 2016 5. October 2016
Required Evidence of Completion:	Review of credit card holders and approval of removal from office of credit card

Auditor's Comments

Satisfactory

PERTH AND KINROSS COUNCIL

Audit Committee

28 September 2016

**DRAFT AUDITED ANNUAL ACCOUNTS 2015/16 AND
DRAFT 2015/16 ANNUAL AUDIT REPORT TO MEMBERS AND THE
CONTROLLER OF AUDIT**

Report by the Head of Finance

PURPOSE OF REPORT

This report presents the Council's Draft Audited Annual Accounts for the financial year 2015/16 in accordance with the Local Authority Accounts (Scotland) Regulations 2014 and includes the Draft 2015/16 Annual Report to Members and the Controller of Audit. The report also provides an update on the Council's new external auditors from financial year 2016/17.

1. BACKGROUND

- 1.1. The Unaudited Annual Accounts for 2015/16 were considered by the Audit Committee on 29 June 2016 (Report No. 16/320 refers) which authorised the Head of Finance to sign the Accounts and submit them to Audit Scotland by the statutory deadline of 30 June 2016.
- 1.2. The Annual Accounts are prepared in accordance with the 2015/16 CIPFA Code of Practice on Local Authority Accounting ("the Code").
- 1.3. These accounts also comply with the Local Authority Accounts (Scotland) Regulations 2014 which revoked the Local Authority Accounts (Scotland) Regulations 1985.
- 1.4. The Unaudited Annual Accounts were available for public inspection between 30 June and 20 July (inclusive). Audit Scotland, the Council's external auditors, received no objections during this period.

2. ANNUAL ACCOUNTS 2015/16

- 2.1 The audit of the Annual Accounts took place between July and early September 2016 during which time Audit Scotland considered whether the 2015/16 Annual Accounts:
 - Gave a true and fair view, in accordance with applicable law and the 2015/16 Code, of the state of the affairs of the group and the Council

as at 31 March 2016 and of the income and expenditure of the group and the Council for the year then ended;

- Had been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union, as interpreted and adapted by the 2015/16 Code; and
- Had been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

2.2 Audit Scotland's findings are set out in the Draft 2015/16 Annual Audit Report to Members and the Controller of Audit and covering memo which are set out in Appendix 1 to this Committee report. The findings to be reported under ISA260: Report to those Charged with Governance are also included. A Letter of Representation is included in their covering memo. The Draft 2015/16 Annual Audit Report to Members and the Controller of Audit also includes the findings in relation to Perth and Kinross Charitable Trusts which were distributed separately to Trustees.

2.3 The key messages from the 2015/16 audit are set out under five themes on pages 3 and 4 of Appendix 1 and are summarised as follows:

- Unqualified auditor's report on the 2015/16 Perth and Kinross Council financial statements.
- The Council has a strong financial position.
- The Council has effective, overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.
- Systems of internal control operated effectively during the year.
- The Council has a strong track record of partnership working.
- There is a strong focus on performance management and a sound framework for monitoring and reporting performance against Council priorities.
- The Council has a robust approach to public performance reporting.
- Along with other Councils, Perth and Kinross Council faces rising demand for services and continued funding pressures.

2.4 At this time the 2015/16 Annual Accounts remain unsigned. Approval of the Accounts at today's meeting will provide authorisation for the Leader of the Council, the Chief Executive and the Head of Finance to sign them. Once signed the Accounts will be passed to Audit Scotland so that they may issue their opinion in the form of an audit certificate.

2.5 It is anticipated that the final 2015/16 Annual Audit Report to Members and the Controller of Audit will be issued by Audit Scotland following completion of the final accounts process. The final Report and the signed Audited Annual Accounts for 2015/16 will be considered by the Council on 5 October 2016.

- 2.6 The Draft Audited Accounts (unsigned) are attached to this report at Appendix 2.

3. ANNUAL ACCOUNTS 2016/17

- 3.1 The Council has received confirmation from Audit Scotland that, following the recent audit tender exercise on behalf of the Accounts Commission, KPMG have been appointed as its external auditors for financial years 2016/17 to 2020/21.

4. CONCLUSION AND RECOMMENDATIONS

- 4.1 The External Audit findings on the 2015/16 Audit are set out in the Draft 2015/16 Annual Audit Report to Members and the Controller of Audit which is attached Appendix 1 to this report. The Unaudited Annual Accounts were submitted to Audit Scotland on 29 June 2016.
- 4.2 It is recommended that the Committee:
- i. Notes the contents of Audit Scotland's Draft 2015/16 Annual Audit Report to Members and the Controller of Audit and covering memo.
 - ii. Approves the 2015/16 Annual Accounts and authorises the Leader of the Council, the Chief Executive and the Head of Finance to sign them.
 - iii. Notes the appointment of KPMG as the Council's external auditors for financial years 2016/17 to 2020/21.

Author(s)

Name	Designation	Contact Details
Scott Walker	Chief Accountant	committee@pkc.gov.uk 01738 475515
Alison O'Brien	Corporate Accounting Manager	committee@pkc.gov.uk 01738 475516

Approved

Name	Designation	Date
John Symon	Head of Finance	21 September 2016

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You can also send us a text message on 07824 498145.
All Council Services can offer a telephone translation facility.

ANNEX

1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

Strategic Implications	Yes / None
Community Plan / Single Outcome Agreement	None
Corporate Plan	Yes
Resource Implications	
Financial	Yes
Workforce	Yes
Asset Management (land, property, IST)	Yes
Assessments	
Equality Impact Assessment	Yes
Strategic Environmental Assessment	Yes
Sustainability (community, economic, environmental)	Yes
Legal and Governance	None
Risk	None
Consultation	
Internal	Yes
External	None
Communication	
Communications Plan	None

1. Strategic Implications

1.1. Corporate Plan

- 1.1.1. The Council's Corporate Plan 2013 – 2018 lays out five outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

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

- 1.1.2 This report relates to all of these objectives.

2. Resource Implications

2.1. Financial

- 2.1.1. There are no direct financial implications arising from this report other than those reported within the body of the main report.

2.2. Workforce

- 2.2.1. There are no direct workforce implications arising from this report other than those reported within the body of the main report.

2.3. Asset Management (land, property, IT)

- 2.3.1. There are no direct asset management implications arising from this report other than those reported within the body of the main report.

3. **Assessments**

3.1. Equality Impact Assessment

- 3.1.1. Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.
- 3.1.2. The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

3.2 Strategic Environmental Assessment

- 3.2.1 The Environmental Assessment (Scotland) Act 2005 places a duty on the Council to identify and assess the environmental consequences of its proposals.
- 3.2.2 The information contained within this report has been considered under the Act. However, no action is required as the Act does not apply to the matters presented in this report.

3.3 Sustainability

- 3.3.1 Under the provisions of the Local Government in Scotland Act 2003 the Council has to discharge its duties in a way which contributes to the achievement of sustainable development. In terms of the Climate Change Act, the Council has a general duty to demonstrate its commitment to sustainability and the community, environmental and economic impacts of its actions.
- 3.3.2 The information contained within this report has been considered under the Act. However, no action is required as the Act does not apply to the matters presented in this report.

4. Consultation

4.1 Internal

- 4.1.1 The Chief Executive and all Directors have been consulted in the preparation of this report.

2. BACKGROUND PAPERS

- 2.1 No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above report.

3. APPENDICES

Appendix 1 – Audit Scotland’s Draft 2015/16 Annual Audit Report to Members and the Controller of Audit

Appendix 2 – 2015/16 Audited Annual Accounts (Unsigned)

Perth & Kinross Council
Audit Committee

28 September 2016

Perth & Kinross Council 2015/16 Annual Audit Report

1. International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires auditors to report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. We are drawing to your attention matters for your consideration before the financial statements are approved and certified. We also present for your consideration our draft annual report on the 2015/16 audit which identifies significant findings from the financial statements audit. The section headed "Significant findings from the audit in accordance with ISA260" in the attached annual audit report sets out the issues identified. This report will be issued in final form after the financial statements have been certified
2. Our work on the financial statements is now substantially complete. Subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of financial statements for final review, we anticipate being able to issue an unqualified auditor's report on 28 September 2016 for both the council and charities. The proposed reports are attached at Appendix A (council) and Appendix B (charities). There are no anticipated modifications to either of the independent auditor's reports. .
3. In presenting this report to the Audit Committee we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.
4. We are required to report to those charged with governance all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature and request that these misstatements be corrected. We have no unadjusted misstatements to bring to your attention.
5. As part of the completion of our audit we seek written assurances from the Accountable Officer on aspects of the financial statements and judgements and estimates made. A draft letters of representation under ISA580 are attached at [Appendix C \(council\)](#) and [Appendix D \(charities\)](#). These should be signed and returned by the Accountable Officer/Trustees with the signed financial statements prior to the independent auditor's opinion being certified.

Outstanding matters

6. There are some areas where we still require additional information and these are identified below:
7. **Letter of representation.** This letter, otherwise known as the ISA 580 letter, is required immediately before the certification of the financial accounts statements on 28 September 2016.
8. **Whole of Government Accounts (WGA).** The council is responsible for preparing a consolidation pack for inclusion in the WGA which are the consolidated financial statements for all branches of government in the UK. This has been submitted and an electronic version of the audited template is required to be submitted to the National Audit Office by 30 September 2016. This will be submitted following approval of the financial statements.

APPENDIX A: Council's Proposed Independent Auditor's Report

Independent auditor's report to the members of Perth & Kinross Council and the Accounts Commission for Scotland

I certify that I have audited the financial statements of Perth & Kinross Council and its group for the year ended 31 March 2016 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and authority-only Movement in Reserves Statements, Comprehensive Income and Expenditure Statements, Balance Sheets, and Cash Flow Statements, the authority-only Housing Revenue Account, the Statement of Movements on the Housing Revenue Account Balance, the Council Tax Income Account, the Non Domestic Rate Income Account, Charitable Trusts, Common Good and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the 2015/16 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Head of Finance and auditor

As explained more fully in the Statement of Responsibilities, the Head of Finance is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the council and its group and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Annual Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2015/16 Code of the state of the affairs of the council and its group as at 31 March 2016 and of the income and expenditure of the council and its group for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2015/16 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Opinion on other prescribed matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014; and
- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Annual Governance Statement has not been prepared in accordance with Delivering Good Governance in Local Government; or
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

Stephen Boyle CPFA
Assistant Director (Audit Services)
Audit Scotland
4th Floor, South Suite
The Athenaeum Building
8 Nelson Mandela Place
Glasgow
G2 1BT

28 September 2016

APPENDIX B: Charitable Funds' Proposed Independent Auditor's Report

Independent auditor's report to the trustees of Perth & Kinross Council Charitable Funds and the Accounts Commission for Scotland

I certify that I have audited the financial statements of Perth & Kinross Council Charitable Funds for the year ended 31 March 2016 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the statement of the financial activities, the balance sheet, the statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standard (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the trustees and auditor

As explained more fully in the Trustees' Annual Report, the trustees are responsible for the preparation of the financial statements which give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts or disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the charity's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the state of the charity's affairs as at 31 March 2016 and of its incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulation 8 of The Charities Accounts (Scotland) Regulations 2006.

Opinion on other prescribed matter

In my opinion the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Stephen Boyle CPFA
Assistant Director (Audit Services)
Audit Scotland
4th Floor, South Suite
The Athenaeum Building
8 Nelson Mandela Place
Glasgow
G2 1BT

28 September 2016

Stephen Boyle is eligible to act as an auditor in terms of Part VII of the Local Government (Scotland) Act 1973.

APPENDIX C: Council's Letter of Representation (ISA 580)

Stephen Boyle
Assistant Director (Audit Services)
Audit Scotland
4th Floor, South Suite
The Athenaeum
8 Nelson Mandela Place
Glasgow
G2 1BT

28 September 2016

Dear Stephen,

Perth & Kinross Council – Annual Accounts 2015/16

1. This representation letter is provided in connection with your audit of the financial statements of Perth & Kinross Council and its group for the year ended 31 March 2016 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of Perth & Kinross Council and its group, as at 31 March 2016 and its comprehensive income & expenditure for the year then ended.
2. I confirm to the best of my knowledge and belief, and having made appropriate enquiries of the Chief Executive, the Executive Officer Team and the Council, the following representations given to you in connection with your audit of Perth & Kinross Council for the year ended 31 March 2016.

General

3. I acknowledge my responsibility and that of Perth & Kinross Council for the financial statements. All the accounting records requested have been made available to you for the purposes of your audit. All material agreements and transactions undertaken by Perth & Kinross Council have been properly reflected in the financial statements. All other records and information have been made available to you, including minutes of all management and other meetings.
4. The information given in the Annual Accounts, including the Management Commentary and Remuneration Report, presents a balanced picture of Perth & Kinross Council and is consistent with the financial statements.
5. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those identified in the auditor's report to those charged with governance (ISA260).

Financial Reporting Framework

6. The financial statements have been prepared in accordance with Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and in accordance with the requirements of Local Government (Scotland) Act 1973, the Local Government in Scotland Act 2003 and the

Local Authority Accounts (Scotland) Regulations 2014 including all relevant presentation and disclosure requirements.

7. Disclosure has been made in the financial statements of all matters necessary for them to show a true and fair view of the transactions and state of affairs of Perth & Kinross Council and its group for the year ended 31 March 2016.

Accounting Policies & Estimates

8. All material accounting policies adopted are as shown in the Statement of Accounting Policies included in the financial statements. The continuing appropriateness of these policies has been reviewed since the introduction of IAS 8 and on a regular basis thereafter, and takes account of the requirements set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
9. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. There are no changes in estimation techniques which should be disclosed due to their having a material impact on the accounting disclosures.

Going Concern

10. I have assessed the Council and its group's ability to carry on as a going concern and have disclosed, in the financial statements, any material uncertainties that have arisen as a result.

Related Party Transactions

11. All transactions with related parties have been disclosed in the financial statements. I have made available to you all the relevant information concerning such transactions, and I am not aware of any other matters that require disclosure in order to comply with the requirements of IAS24, as interpreted by Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Remuneration Report

12. The remuneration report has been prepared in accordance with the requirements and includes all eligible remuneration for the disclosed council officers and elected members.
13. All exit packages agreed in 2015/16 and included in the accounts were notified to Tayside Pension Fund to enable complete information to be provided to the actuaries for the IAS19 disclosures.

Events Subsequent to the Balance Sheet Date

14. There have been no material events since the date of Balance Sheet which necessitate revision of the figures in the financial statements or notes thereto including contingent assets and liabilities.
15. Since the date of the Balance Sheet no events or transactions have occurred which, though properly excluded from the financial statements, are of such importance that they should be brought to your notice.

Corporate Governance

16. I acknowledge as Section 95 Officer my responsibility for the corporate governance arrangements. I confirm that I have disclosed to the auditor all deficiencies in internal control of which I am aware.

17. The corporate governance arrangements have been reviewed and the disclosures I have made are in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16. There have been no changes in the corporate governance arrangements or issues identified, since 31 March 2016, which require disclosure.

Fraud

18. I have considered the risk that the financial statements may be materially misstated as a result of fraud. I have disclosed to the auditor any allegations of fraud or suspected fraud affecting the financial statements. There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the financial statements.

Assets

19. The assets shown in the Balance Sheet at 31 March 2016 were owned by Perth & Kinross Council, other than assets which have been purchased under operating leases or PFI/PPP arrangements. Assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

Liabilities

20. All liabilities have been provided for in the books of account, including the liabilities for all purchases to which title has passed prior to 31 March 2016.

Carrying Value of Assets and Liabilities

21. The assets and liabilities have been recognised, measured, presented and disclosed in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16. There are no plans or intentions that are likely to affect the carrying value of classification of the assets and liabilities within the financial statements.

Provisions and contingent liabilities

22. Provisions and contingent liabilities have been made in the financial statements for all material liabilities which have resulted or may be expected to result, by legal action or otherwise, from events which had occurred by 31 March 2016 and of which the Council could reasonably be expected to be aware. The amount recognised as a provision is the best estimate of the expenditure likely to be required to settle the present obligation at 31 March 2016.

Commitments

23. All commitments under capital contracts have been disclosed in Note 22 to the Accounts. Any other significant commitments or obligations which might adversely affect the Council have been disclosed.

Leases

24. All leasing arrangements have been reviewed and correctly classified as operating or finance within the financial statements. Lease arrangements granted by the Council have been classified and disclosed within the financial statements.

Loans Fund

25. All borrowings have been confirmed as being compliant with the provisions of the Local Government (Scotland) Act 1975.

Local Government in Scotland Act 2003

26. Following the introduction of the statutory duty to demonstrate Best Value under the Local Government Scotland Act 2003, trading service accounts should be prepared for all significant trading operations in accordance with guidance issued by CIPFA/LASAAC. Following a review the Council have identified that there are no significant trading operations

Other Matters

27. Except as disclosed in the financial statements, the results for the period were not materially affected by:
- transactions of a sort not usually undertaken by Perth & Kinross Council;
 - circumstances of an exceptional or non-recurrent nature;
 - charges or credits relating to prior periods;
 - any change in the basis of accounting.

Yours sincerely

John Symon ACA

Head of Finance

Appendix D: Charitable Fund's Letter of Representation (ISA 580)

Mr Stephen Boyle
Assistant Director
Audit Scotland
4th Floor, South Suite
The Athenaeum Building
8 Nelson Mandela Place
Glasgow
G21BT

28 September 2016

Dear Stephen

Perth & Kinross Council Charitable Funds - Financial statements 2015/16

1. This representation letter is provided in connection with your audit of the financial statements of Perth & Kinross Council Charitable Funds (the Funds) for the year ended 31 March 2016 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the Funds as at 31 March 2016 and its statement of financial activities for the year then ended.
2. I confirm to the best of my knowledge and belief, and having made appropriate enquiries of the trustees, the following representations are given to you in connection with your audit of Perth & Kinross Council Charitable Funds for the year ended 31 March 2016.

General

3. I acknowledge my responsibility and that of the Charity Trustees for the financial statements. All the accounting records requested have been made available to you for the purposes of your audit. All material agreements and transactions undertaken by the Funds have been properly reflected in the financial statements. All other records and information have been made available to you, including minutes of all management and other meetings.
4. I confirm that the trusts included in the Funds' financial statements presented for audit are all the trusts that require an audit, where the sole trustee is Perth & Kinross Council.
5. The information given in the financial statements, including the Trustees' Annual Report, presents a balanced picture of the Funds and is consistent with the financial statements. I am not aware of any uncorrected misstatements.

Financial Reporting Framework

6. The financial statements have been prepared in accordance with the Charities and Trustee Investment (Scotland) Act 2005, Charities Accounts (Scotland) Regulations 2006 (as amended), Accounting and Reporting by Charities: Statement of Recommended Practice (revised 2015) (the SORP) and the provisions of the charity's constitution.
7. Disclosure has been made in the financial statements of all matters necessary for them to show a true and fair view of the transactions and the state of affairs of the Perth & Kinross Council Charitable Funds for the year ended 31 March 2016.

Accounting Policies & Estimates

8. All material accounting policies adopted are as shown in the Statement of Accounting Policies included in the financial statements. The continuing appropriateness of these policies has been reviewed since the introduction of IAS 8 and on a regular basis thereafter, and takes account of the relevant regulations and the SORP.
9. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. There are no changes in estimation techniques which should be disclosed due to their having a material impact on the accounting disclosures.

Related Party Transactions

10. All transactions with related parties have been disclosed in the financial statements. I have made available to you all the relevant information concerning such transactions, and I am not aware of any other matters that require disclosure in order to comply with the requirements of IAS24.

Events Subsequent to the Balance Sheet Date

11. There have been no material events since the date of Balance Sheet which necessitate revision of the figures in the financial statements or notes thereto including contingent assets and liabilities.
12. Since the date of the Balance Sheet no events or transactions have occurred which, though properly excluded from the financial statements, are of such importance that they should be brought to your notice.

Corporate Governance

13. I acknowledge, as trustee, my responsibility for the corporate governance arrangements. I confirm that I have disclosed to the auditor all deficiencies in internal control of which I am aware. There have been no changes in the corporate governance arrangements or issues identified, since 31 March 2016, which require disclosure.

Fraud

14. I have considered the risk that the financial statements may be materially misstated as a result of fraud. I have disclosed to the auditor any allegations of fraud or suspected fraud affecting the financial statements. There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the financial statements.

Assets

15. The assets shown in the Balance Sheet at 31 March 2016 were owned by the Charitable Funds. Assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

Liabilities

16. All liabilities have been provided for in the books of account, including the liabilities for all purchases to which title has passed prior to 31 March 2016. There are no contingent liabilities arising either under formal agreements or through informal undertakings requiring disclosure in the accounts.

Carrying Value of Assets and Liabilities

17. The assets and liabilities have been recognised, measured, presented and disclosed in accordance with the SORP. There are no plans or intentions that are likely to affect the carrying value of classification of the assets and liabilities within the financial statements.

Provisions

18. There are no provisions required for material liabilities which have resulted or may be expected to result, by legal action or otherwise, from events which had occurred by 31 March 2016 and of which the trustees could reasonably be expected to be aware.

Other Matters

19. Except as disclosed in the financial statements, the results for the period were not materially effected by:
- transactions of a sort not usually undertaken by the Charitable Funds
 - circumstances of an exceptional or non-recurrent nature
 - charges or credits relating to prior periods
 - any changes in the basis of accounting

Yours sincerely

John Symon,
Trustee

Perth & Kinross Council

2015/16 Annual audit
report to Members and
the Controller of Audit

DRAFT

Key contacts

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G2 1BT

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Website: www.audit-scotland.gov.uk

The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies (www.audit-scotland.gov.uk/about/ac/). Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General (www.audit-scotland.gov.uk/about/).

The Accounts Commission has appointed Stephen Boyle as the engagement lead for the audit of Perth & Kinross Council for the period 2012/13 to 2015/16.

This report has been prepared for the use of Perth & Kinross Council and no responsibility to any member or officer in their individual capacity or any third party is accepted.

The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

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Key messages

Audit of financial statements

- Unqualified auditor's report on the 2015/16 Perth and Kinross Council financial statements.
- Unqualified auditor's report on the Perth and Kinross Council Charitable Funds financial statements administered by the council.

Financial management and sustainability

- The council has a strong financial position with £85.8m usable reserves. Its reserves have increased by 60% over the last five years, primarily as a result of a planned approach to meeting both the anticipated future financial constraints in the public sector and for the delivery of large infrastructure projects. Unplanned underspends in service departments have also contributed to the growth in reserves.
- In 2015/16 the council planned to use £13.8m of its usable reserves, but the final outturn reported sizeable underspends in the three main services along with additional income which resulted in an increase to reserves of £2.2m. Many of the underspends were anticipated early in the financial year and the council employs budget flexibility to allow for activities spanning more than one financial year. There is however, scope to increase this flexibility during the year to enable it to adjust planned expenditure for anticipated underspends.
- The council has previously estimated that it needs to make £39 million of savings over the next three years and identifies the delivery of its transformation programme as being key to its future financial sustainability. The size of required savings could be higher in the event of changes in underlying assumptions.

Governance and transparency

- The council has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making,
- It is currently reviewing its governance arrangements to ensure they remain appropriate following changes to its group structure
- Systems of internal control operated effectively during the year.
- The council's arrangements in relation to the prevention and detection of fraud and corruption and for investigating and reporting data matches identified by the NFI are satisfactory.



Best Value

- The council has a strong track record of partnership working
- There is a strong focus on performance management and a sound framework for monitoring and reporting performance against the council's priorities.
- Appropriate SPI arrangements were in place within the council for 2015/16.
- The council has a robust approach to public performance reporting and the website provides links to further details on specific performance at a service-level.



Outlook

- In common with other councils, Perth & Kinross Council faces rising demand for services and continued funding pressures alongside managing major reforms in welfare and health and social care. Effective arrangements for best value will be essential for efficient use of available resources. Strong governance and leadership will be needed to achieve continuous improvement. The arrangements in place with the PKC IJB will be key to delivering the integrated health and social care agenda

Introduction

summarised at [appendix II](#) and [appendix III](#), include recommendations for improvements.

1. This report is a summary of our findings arising from the 2015/16 audit of Perth and Kinross Council (the council). The report is divided into sections which reflect our public sector audit model.
2. The management of the council is responsible for:
 - preparing financial statements which give a true and fair view
 - implementing appropriate internal control systems
 - putting in place proper arrangements for the conduct of its affairs
 - ensuring that the financial position is soundly based.
3. Our responsibility, as the external auditor of the council, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports,

6. [Appendix IV](#) is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that the council understands its risks and has arrangements in place to manage these risks. The council and management should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.
9. This is the final year of the current five year audit appointment. From 2016/17 the auditor of the council will be KPMG. In accordance with agreed protocols and International Standards on Auditing we will be liaising with the incoming auditors as part of this transition.

10. A new Code of Audit Practice was published in May 2016 and will apply to all audits from financial year 2016/17. This will focus the audit on four key areas:
 - Financial sustainability
 - Financial management
 - Governance and transparency; and
 - Value for money
11. In addition from 2016/17, as well as the annual audit report, other significant outputs, such as the annual audit plan, will be published on Audit Scotland's website.

Audit of the 2015/16 financial statements

Audit opinion	<ul style="list-style-type: none"> We have completed our audit and issued an unqualified independent auditor's report on the council's accounts.
Going concern	<ul style="list-style-type: none"> The financial statements of the council, its group and the associated charitable trusts have been prepared on the going concern basis. We are unaware of any events or conditions that may cast significant doubt on the council, its group and associated charitable trusts ability to continue as a going concern.
Other information	<ul style="list-style-type: none"> We review and report on other information published with the financial statements, including the management commentary, annual governance statement and the remuneration report. A new approach to compiling the AGS was introduced for the 2015/16 financial statements however this has still to be fully embedded. We have nothing further to report in respect of these statements.
Charitable trusts	<ul style="list-style-type: none"> We have completed our audit of the 2015/16 financial statements of the charitable funds administered by Perth & Kinross Council and issued an unqualified independent auditor's report.
Group accounts	<ul style="list-style-type: none"> Perth & Kinross Council has accounted for the financial results of two subsidiaries, two associates, the common good funds and sundry trusts in its group accounts for 2015/16. The overall effect of consolidating these balances on the group balance sheet is to increase total reserves and net assets by £13.034 million.
Whole of government accounts	<ul style="list-style-type: none"> The council submitted a consolidation pack for audit and the certified return was submitted to the National Audit Office by the 30 September deadline.

Submission of financial statements for audit

12. We received the unaudited financial statements on 23 June 2016, in accordance with the agreed timetable. The working papers were of a good standard and council staff provided good support to the audit team which assisted the delivery of the audit to deadline.
13. In 2015/16, for the first time, local government group accounts are required to include the financial results of Integration Joint Boards (IJBs) in their area, where material. The Perth & Kinross IJB was established on 3 October 2015 but was not operational until 1 April 2016 (see paragraphs 121-128). Consequently, as the amounts concerned in 2015/16 are not material, they have not been consolidated into the group accounts.

Overview of the scope of the audit of the financial statements

14. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit Committee in March 2016.
15. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2015/16 agreed fee for the audit was set out in the Annual Audit Plan. We undertook additional audit work relating to the Bellwin Grant which resulted in an additional fee of £2,500. Our overall fee for the year was therefore £283,500.

16. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements and consequently had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. [Appendix J](#) sets out the significant audit risks identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.
17. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

18. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).
19. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial

statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

20. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of the council we set our planning materiality for 2015/16 at £4.1 million (1% of gross expenditure). We report all misstatements greater than £0.1 million. Performance materiality was calculated at £2 million, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.
21. For the audit of the council's charitable trusts materiality has been set at £657 (1% of gross expenditure). Due to the size and nature of the investments held by the charitable trusts a separate materiality is appropriate for this area and has been set at £20,800 (1% of gross assets).

22. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that our original calculation remained appropriate.

Evaluation of misstatements

23. All misstatements identified during the audit, which exceeded our misstatement threshold, have been amended in the financial statements.
24. A number of presentational and monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to

amend the unaudited financial statements. The effect of these adjustments none of which had an impact on the overall position, is to:

- increase both income and expenditure on the group comprehensive income and expenditure statement (CIES) by £1.3 million with £0.9 million of this also being reflected in the council CIES
- reclassify grant income of £0.4 million from services to taxation and non specific grant income
- reduce debtors by £0.23 million, decrease provisions by £0.56 million and increase creditors by £0.33 million on the council balance sheet
- reduce dwelling rent and increase other income on the Housing Revenue Account by £0.7 million.
- increase by £3 million the gross rate levied and reliefs for 2015/16 on the Non Domestic Rate Income Account (NDRI)
- reduce the previous years gross rates and reliefs by £0.1 million on the NDRI
- reduce prior year impairment of bad debt on the NDRI by £0.4 million and increase the contribution to the National Non-Domestic Poll by the same amount.

Significant findings from the audit

25. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
- the auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures
 - significant difficulties encountered during the audit

- significant matters arising from the audit that were discussed, or subject to correspondence with management
 - written representations requested by the auditor
 - other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process
26. The following table details those issues or audit judgements that, in our view, require to be communicated to those charged with governance in accordance with ISA 260.

Table 1: Significant findings from the audit

Significant findings from the audit in accordance with ISA260	
Perth & Kinross Council	<div><p>Annual governance statement (AGS): A new approach to compiling the AGS was introduced for the 2015/16 financial statements. It was however difficult to evaluate how effective the new approach was as there was not a full audit trail to evidence the process applied. For example it was not clear:</p><ul style="list-style-type: none">who completed returns/assurance statements as these were not always signedwhat challenge process was undertaken by the Policy & Governance Group and service management teamshow the improvements areas fed in to the AGS.<p>During our audit work we were subsequently provided with signed returns/assurance statements (although these were not dated), the minutes of the Policy and Governance meeting of 30 May 2016were expanded to better reflect the process and updates were made to the unaudited AGS to highlight improvement areas. Whilst the revised process introduced this year takes a more robust approach to compiling the AGS it is important that this is completed and evidenced prior to the statement being approved by Scrutiny Committee to ensure the statement fully reflects all strands of the governance process.</p></div>

Appendix IV – Action plan no. 1

Significant findings from the audit in accordance with ISA260

Tayside Contracts – Minute of Agreement: In 2011/12 it was agreed that the Minute of Agreement would be reviewed by March 2013 to ensure it reflected the actual operation and governance of Tayside Contracts. Legal representatives from the three councils have met at various points over the years however, a revised Minute of Agreement has yet to be agreed.

The council had anticipated a signed agreement in 2015/16 however this target was not achieved as all three constituent councils had been unable to reach a consensus. The council is hopeful of a conclusion being reached in a matter of weeks.

Perth & Kinross Charitable Funds

Charitable Trusts Governance documentation: As reported in 2014/15 governance documentation for several trusts could not be located as a consequence of the age of the trust, in some cases dating back over 100 years. As a result, classification of these funds between restricted, unrestricted and endowment funds can not readily be established and is it not possible to verify whether spend in these areas was in line with the original stated purpose for these individual trusts.

Disclosures in the charities accounts identified the trusts for which governance documentation is not held and on what basis the trustees account for and use these funds. All funds are treated as endowments and where there is an absence of governance documentation the council rely on custom and practice to inform any decisions by the trustees in respect of the trusts expenditure and use of assets. The process of amalgamating smaller charities with a view to streamlining the administrative requirements and establishing clearer governance arrangements is continuing. We are not aware of any matters which would materially impact the financial statements.

Future accounting developments

Group Accounts

27. From 1 April 2016 IJBs are accountable for the provision of health and social care. IJBs will be required to produce financial statements in compliance with the Code of Practice on Local Authority Accounting in the United Kingdom. Where material the financial results of the local IJBs will need to be reflected in the council's group accounts in 2016/17. The council will need to include the IJB in its plans for the preparation and audit of the 2016/17 group accounts, including consideration of assurance arrangements relating to the annual governance statement.

28. A new cultural trust (Culture Perth & Kinross) was established in April 2016 with responsibility for delivery and development of museums and galleries, libraries, archives, arts development and some creative learning services. The total value of services being delivered by arms-length organisations following the establishment of this new trust will almost double to approximately £10 million in 2016/17.

29. The inclusion of the cultural trust and the IJB will increase the complexity of the council's group accounts

Highways network assets

30. The 2016/17 local government accounting Code will adopt a new measurement requirement for the valuation of the highways network assets. The highway network assets will be measured on a

depreciated replacement cost basis. This will have a significant impact on the value of local authority balance sheets. The council is actively working on this and has identified the increase in its assets will be around £2.5 billion.

Financial management and sustainability



Financial management

31. In this section we comment on the council's financial outcomes and assess the council's financial management arrangements.

Financial outcomes

32. In cash terms, funding through taxation and grant income has increased in 2015/16 by 6.5% (£21.7 million) to £357.7 million. Of this increase £16 million related to capital grants and contributions. The council's financial statements reported £321.9 million expenditure on the cost of services with an overall surplus of £12.7 million after funding and financing activity are deducted.

33. The council sets an annual budget to meet its service and other commitments for the forthcoming financial year. The 2015/16 budget was agreed at the council meeting on 12 February 2015. The setting of the annual budget impacts directly on residents as it determines council tax and other fees and charges. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management. These reports are prepared on a different basis to the accounting policies used in the financial statements.

34. The council had planned to use £13.8 million of its reserves during 2015/16, but the final position was an increase to reserves of £2.2 million. This resulted in an underspend against budget of £16 million which represents 3.9% of budgeted net expenditure. This was largely due to underspends across a number of its service departments as outlined below. Underspends were generally achieved on employee costs, property costs and supplies and services and extra income was also received in the year. Key variations in performance against budget are detailed in the management commentary within the financial statements and include:

- Education and Children's Services underspent by £5.5 million (£1.3 million from devolved school management).
- Housing and Community Care underspent by £3.3 million.
- The Environment Service underspent by £4.4 million.

- additional council tax income of £2.5 million through both an increase in the number of new properties across the council and improvements in the collection rates achieved
- other budgets delivered savings of £0.3 million primarily as a result of a higher than expected share of Tayside Contract's surplus for the year

35. The council is required by legislation to maintain a separate housing revenue account (HRA) and to ensure that rents are set to at least cover the costs of its social housing provision. Rent levels are therefore a direct consequence of the budget set for the year. The Housing and Health Committee set a break even budget for 2015/16 in January 2015.

36. The annual accounts reported an overall HRA deficit of £2.35 million. Adjusting this deficit to remove the accounting entries required by the Code, the HRA balance decreased by £0.678 million before transfers from reserves. The council has previously agreed to reduce the level of council tax discounts on second homes and long term unoccupied dwellings to create funding to support the development of affordable housing. Approval to use £0.82 million of the affordable housing earmarked reserve within the general fund was agreed in September 2015 with only £0.66m used in the year. The closing earmarked HRA balance within the general fund was £0.782 million (prior year £0.8 million) which is broadly in line with the level the council aims to maintain of £0.8 million.

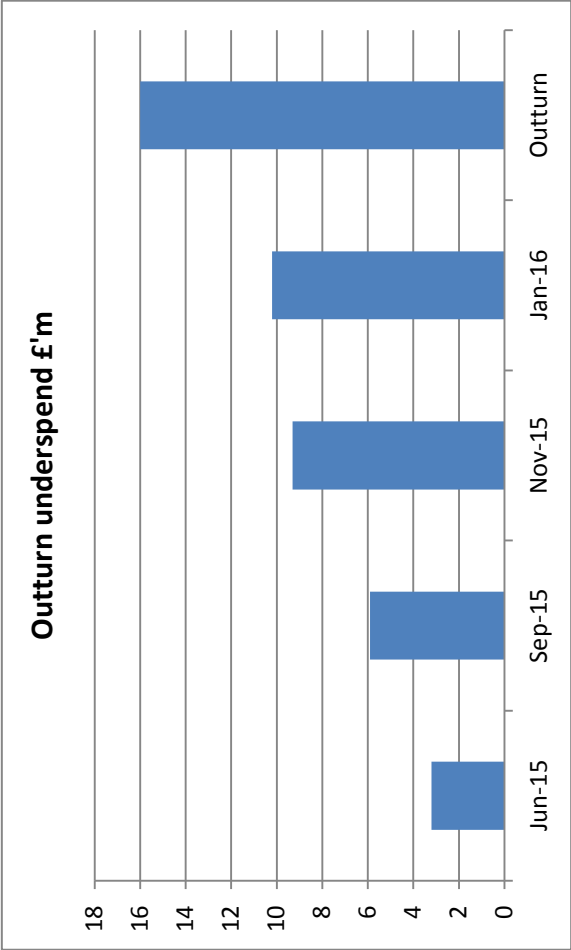
Financial management arrangements

- 37.** As auditors, we need to consider whether councils have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
- the proper officer has sufficient status within the council to be able to deliver good financial management
 - financial regulations are comprehensive, current and promoted within the council
 - reports monitoring performance against budgets are accurate and provided regularly to budget holders
 - monitoring reports do not just contain financial data but are linked to information about performance
 - members provide a good level of challenge and question budget holders on significant variances.
- 38.** We assessed the role and status of the proper officer against CIPFA's "Statement on the role of the Chief Financial Officer in Local Government" and concluded that the council complies with the statement's five principles.
- 39.** We reviewed the council's financial regulations, which are revised biennially, and concluded that they are comprehensive and current. The financial regulations are available on the council's intranet site. The scheme of administration was updated in October 2015, however this does not contain reference to the Public Bodies (Joint Working) (Scotland) Act. We have been advised by officers that a further update to the scheme of administration which is to be taken

to the December 2016 council meeting will include reference to this Act.

- 40.** Financial monitoring reports (revenue and capital) are submitted to both the executive officers team (EOT) and the Strategic Policy & Resources Committee every second month from September to April. Revenue reports are comprehensive but are wholly focussed on the forecasting outturn and do not show the actual spend to date against budget. The reports provide explanations for how the budget variances (both over- and underspends) occurred but currently only formally consider how any net underspends will be utilised in February in conjunction with the budget setting process and reserves strategy. Proposals to manage resources between financial years are considered under the council's approved revenue budget flexibility scheme in February each year. From 2016/17 each monitoring report will include reference to the council's approach to managing any net underspends achieved.
- 41.** The size of the projected underspends (which also include additional income) reported to members for 2015/16 are summarised in Exhibit 1. The outturn position of £16 million includes year end factors which are not included in the in-year monitoring reports. For 2015/16 these were a post year end review of council tax provision (£1.3 million), increased share of surplus from Tayside Contracts (£0.4 million), movements on earmarked reserves (£1.7 million) and additional government grants received late in the year (£0.5 million).

Exhibit 1: Revenue monitoring 2015/16 – underspends (£million)



Source: Perth & Kinross Council's committee papers

42. The council has consistently underspent against its approved budget for a number of years as shown in Exhibit 2. Given this trend, there is scope to better align agreed budgets by challenging services on the timing of savings. The revenue monitoring report presented to the Strategic Policy and Resources Committee on 21 September 2016 is projecting an underspend of £0.94 million in 2016/17.

Exhibit 2: Underspends against budgeted expenditure 2012-2016

	2012	2013	2014	2015	2016
Budget £m	408.3	379.1	388.2	393.6	409.5
Underspend £m	7.4	10.2	11.1	12.9	16.0
%age underspend	1.7%	2.7%	2.9%	3.3%	3.9%

Source: Perth & Kinross Council financial statements and revenue budgets

43. In previous years it was highlighted that the business improvement team was working towards integrating service performance reporting and budget monitoring. This has yet to be implemented. This integration of reporting would allow members to more readily evaluate whether the underspend were having a detrimental impact on service delivery on a timeous basis.

Appendix IV – Action plan no. 2

44. The Audit Scotland report *Financial Reporting and Scrutiny: Why the Accounts Matter* was considered by the Audit Committee in March 2016 and members agreed to use the appendix to this report in scrutinising the annual accounts. As part of this decision members requested training on the financial statements which was delivered by CIPFA on 27th June 2016.

Conclusion on financial management

45. We have concluded that there is scope for the council to review aspects of its financial management arrangements. Services are routinely under spending against approved budgets which has contributed to unplanned increases in the size of the council's reserves (refer paragraph 50 below). There is scope to refine the in year financial management arrangements to consider the impact of underspends on service performance.

Financial sustainability

46. The council delivers a broad range of services, both statutory and discretionary, to its communities. Financial sustainability means that the council has the capacity to meet the current and future needs of its communities.
47. In assessing financial sustainability we are concerned with whether:
- there is an adequate level of reserves
 - spending is being balanced with income in the short term
 - long term financial pressures are understood and planned for
 - investment in services and assets is effective.
48. Effective long-term financial planning, asset management and workforce planning are crucial to sustainability.

Reserves

49. The council approves the strategy for managing reserves annually in February. The reserves position at 31 March 2016 is in line with that strategy.
50. The council budgeted to use £13.8 million of useable reserves during 2015/16, however the final position was an increase to the general fund of £2.2 million.
51. There has been a significant strengthening of the council's financial position over the past four years, achieved during a sustained downturn in public sector funding. Overall the level of usable reserves held by the council has continued to increase with a rise of £5.9 million in 2015/16. As demonstrated in Exhibit 3, usable reserves have increased by £32.4 million (60.7%) since 2011/12. The main increases related to the general fund (£18.2 million) and the capital fund (£13.5 million).
52. As part of its approach to managing the impact of the reduction in public finances, £16 million of the general fund is held as an earmarked reserve for the transformation programme (including workforce management) (see paragraph 59).
53. The majority of the balance of £23.9 million in the capital fund as at March 2016 (£21 million) relates to revenue contributions and savings on loans charges applied to the fund in accordance with the council's approved policy to secure funding for the capital programmes in the medium to long term. This balance will be utilised in future years (see paragraph 72).

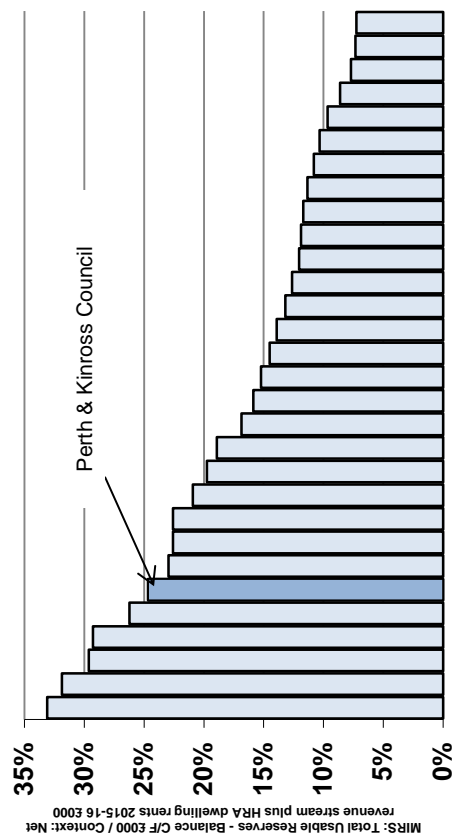
Exhibit 3: Usable reserves

Description	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m
General fund	36.7	41.7	48.0	52.7	54.9
Housing revenue	0.8	0.8	0.9	0.8	0.8
Capital fund	10.4	12.8	15.8	19.3	23.9
Capital grants unapplied	1.0	0.7	0.1	0.1	0.1
Capital receipt reserve	2.9	2.1	1.8	1.8	1.8
Repair & renewal fund	0.5	0.5	0.5	1.4	1.2
Insurance fund	1.1	2.0	3.4	3.8	3.1
Total Usable Reserves	53.4	60.6	70.5	79.9	85.8

Source: Perth & Kinross Council financial statements

54. Exhibit 4 below presents the council's usable reserves position in relation to net revenue stream for 2015/16 in comparison to other Scottish councils, excluding Orkney and Shetland (net revenue stream being presented as general revenue grant, council tax, non domestic rates and dwelling rents). The Scottish average usable

reserves as a proportion of net revenue% (excluding Orkney and Shetland) is 16.8%. Perth and Kinross Council has the sixth highest percentage across Scotland at 24.7%.

Exhibit 4: Usable Reserves as a proportion of net revenue

Source: Scottish councils' unaudited accounts 2015/16 (excluding Orkney/Shetland)

55. By definition the useable reserves detailed at Exhibit 3, with the exception of part of the general fund, are earmarked for specific purposes. The principal purposes of holding a general fund reserve are to provide a contingency fund to meet unexpected events; as a working balance to help cushion the impact of uneven cash flows and a means of building up funds, referred to as earmarked portion of the general fund.

56. The council's planned commitments from the general fund balance amounts to £41.4 million covering 33 separate areas including the transformation programme (including workforce management), revenue budget flexibility, affordable housing strategy and devolved school management budgets.

57. The council agreed as part of its reserves strategy in February 2016 that any amount of uncommitted reserves in excess of 4% of the net revenue budget is earmarked for future costs in relation to its transformation programme. The earmarked portion for the transformation programme increased by £3.1 million to £16 million (2014/15 increased by £4.1 million to £12.9 million). This represents the main reason for the continuing increase in earmarked reserves during 2015/16. The council plans to use its reserves to transform its services and invest in large infrastructure projects in future years, while sustaining its financial sustainability.

Financial planning

58. The Scottish Government notified councils of the provisional financial settlement for 2016/17 in December 2015 with an update given on the figures in January 2016. The council agreed the 2016/17 budget of £323.1 million and provisional budgets for the following two years in February 2016. The settlement represented a significant decrease in the funding expected and the council has agreed savings of approximately £39 million and council tax income assumptions of £6 million over the next three years to support its financial position (£22 million and £1 million respectively in 2016/17). Anticipated reductions in the local government settlement

are captured as scenarios in the council's medium term financial plan. Updated figures are to be reported to council in October 2016 and are expected to increase the savings required following a review of the underlying assumptions. The council's transformation programme will be key to achieving the required savings.

Transformation programme

59. The *Building Ambition: The Council's Transformation Strategy 2015-2020* was approved in July 2015. This strategy now identifies forty one wide ranging review areas which the council will consider in terms of its seven transformation themes:

- **Efficiency** – embedding efficiency and productivity into the fabric of the organisation to make the best use of human, financial and other resources
- **Redesign** – generating innovative ideas to transform services, to deliver different ways of working, and to keep the council at the forefront of modern councils
- **Targeted savings/Increased income** – making the best use of financial resources, to prioritise services to areas of greatest need, avoid additional future costs and proactively pursue commercial opportunities as a means of generating income, to offset the need to make savings
- **Partnerships** – participating in effective place-based partnership and integrated service provision between public services, to deliver services which best meet customer needs

- **Tackling Inequality** – pursuing preventative approaches to tackle disadvantage, prejudice and discrimination.
- **Community co-production** - engaging with the energy, wisdom, experience, knowledge, skills and other assets of communities. Recognising the vital role that people have in shaping and improving their own areas – making a difference to the places that they know best
- **Technology** – maximise the opportunities for transforming customer services, and improving efficiency through technological advancements

60. Progress on the transformation projects is regularly monitored by members and officers. The latest update to the Strategic Policy & Resources Committee in June 2016 highlighted that projects were mostly on target with slippage in only a few areas.
61. The transformation programme is underpinned by a medium term financial plan, the latest update to which was approved by the council in July 2015. The plan sets out the likely savings targets over 5 years to 2020/21 using three scenarios low, mid-range and high level changes in the assumptions used (e.g. pay award, demographics, government settlements, council tax increases, fees and charges). It is subject to on-going review and amendments were approved by the Strategic Policy and Resources Committee in September 2015. It was also considered by members as part of the 2016/17 revenue budget setting process in December 2015 and February 2016 and a further update is expected to be considered at the October 2016 council meeting.

62. Whilst many of the more readily achievable savings have already been made, services are required to continue to identify recurring savings going forward through the transformation programme and the budget process.

Capital programme 2015/16

63. The council in February 2015 approved its 2015/16 general services and housing capital programmes for £64.4 million and £21.1 million respectively (refer Exhibit 5). Actual capital expenditure was £44.8 million and £21.6 million respectively. This represents an underspend of 30.4% on the general services programme although the council has been able to fully deliver on its housing capital programme this year.
64. The capital programme's main expenditure in the year is detailed in the management commentary in the council's financial statements and is outlined in Exhibit 5 below. The other capital programmes included environmental improvements, community care projects, property upgrades and efficiency schemes as well as flood mitigation schemes.

Exhibit 5: Capital programme expenditure 2015/16 (£'m)

Expenditure area	Budget	Actual
School upgrades	16.8	9.9
Roads & transport projects	10.1	11.4
Other capital programmes (e.g. flood mitigation)	37.5	23.5
Affordable housing	8.2	6.1
Housing heating, rewiring and energy efficiency	5.5	3.8
Housing external works including double glazing	3.8	2.6
Other housing improvements	3.6	9.1
Total	85.5	66.4

Source: Perth & Kinross Council audited financial statements

65. In previous years we have reported on significant underspends against the council's total capital programme as highlighted in Exhibit 6. Capital expenditure has consistently been below budget with the exception of 2014/15. Actions were undertaken by the council to improve delivery of the capital programmes against budget however this trend of underspend has continued in 2015/16.

Appendix IV – Action plan no. 2

Exhibit 6: Total capital spend against original budget

Description	2012	2013	2014	2015	2016
Original budget	53.4	65.4	71.5	71.3	85.5
Under-(over-) spend £'m	13.0	23.2	13.5	(1.7)	19.1
Under-(over) spend %age	24.3%	35.5%	18.9%	(2.4%)	22.3%

Source: Perth & Kinross Council committee papers

66. Capital expenditure in 2015/16 was £66.4 million with the sources of funding, other than borrowing, totalling £63.5 million resulting in an increase of £2.9 million in the council's capital financing requirement (CFR). The CFR represents the council's need to borrow to finance capital expenditure.

67. The Prudential Code is a professional code of practice designed to support local authorities in taking capital investment decisions. The Code's objectives aim to ensure that, within a clear framework, the capital investment plans of local authorities are prudent and sustainable. The Head of Finance reviews the capital financing requirement on an annual basis and reports to the council on a series of prudential indicators as recommended by the Prudential Code. Performance against these indicators is reported to council regularly and this helps the council to plan its capital investment.

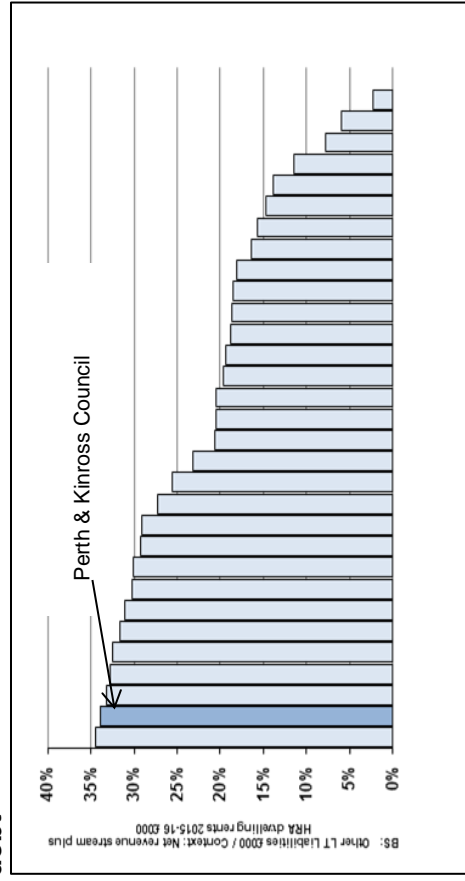
Treasury Management

- 68.** High levels of debt may reduce a council's budget flexibility going forward as revenue resource has to be set aside to service that debt. The impact that debt levels have on net revenue expenditure will be affected by interest rates and repayment periods.
- 69.** The council's capital financing requirement (CFR) at 31 March 2016 was £411.1 million (March 2015 £408.2 million) while the gross external debt was £37.7 million lower at £373.4 million (2014/15: £375.1 million).
- 70.** The treasury management strategy agreed in February 2015 anticipated the need for further long term borrowing of £108 million over the six years to 2020/21 with £7 million expected in 2015/16. During the year the council borrowed £20 million but also repaid £19.7 million of its debt.
- 71.** The council's net external debt of £316.2 million as at 31 March 2016 comprises three main areas:
- borrowing of £251.7 million (2014/15: £249.7 million), 80% of which is at fixed rate and is a repayable over the long term
 - Public Finance Initiative (PFI) liability of £121.7 million (2014/15: £125.4 million) continues to paid over the life time of the agreements
 - deposits and investments held of £57.2 million (2014/15: £56.7 million) represent 17.9% of the council's net revenue stream
- 72.** The council's capital budget in February 2015 recognised the increasing pressure on its external debt over the longer term and

approved setting aside a further £1 million per annum to the capital fund. The council's current projections estimate that the capital fund will be fully utilised by 2024/25 and it is working towards a solution to the projected deficit on servicing the debt in the following years.

- 73.** Whilst the council's net external debt as a proportion of net revenue spend is comparable with other Scottish councils it has a high exposure to other long term liabilities as a proportion of total debt as shown in Exhibit 7. This represents the council's three PFI projects (a schools project to deliver six school campuses, an office accommodation project and a car park project). Accounting requirements mean that the council must recognise both the asset acquired under the PFI scheme and the related liability in its balance sheet.

Exhibit 7: Other long term liabilities as a proportion of total debt



Source: Scottish councils' unaudited accounts 2015/16 (excluding Orkney/Shetland)

74. Exposure to PFI debt is of interest as many local authorities have also incurred high contingent rental increases in recent years making servicing this debt more expensive.
75. The council's contingent rental to service the PFI debt as at 31 March 2016 is projected to be £112.4 million over the remainder of the contracts (2014/15: £117.8 million). PFI obligations of this degree reduce the council's flexibility in dealing with future funding challenges that are likely to present themselves across the public sector.

Asset Management

76. The council's transformation programme identifies several areas for review covering asset management. The council is currently reviewing its corporate property assets and its schools estate to:
- provide a property estate which is fit for purpose, integrated with partner organisations' asset management plans, maximising collaborative opportunities, and is in appropriate geographical locations. A project board has been established and meetings with other public sector organisations have discussed property collaboration opportunities.
 - make the most effective and efficient use of buildings, and staff across the schools estate. The scope and criteria of this project is to be established in August 2016 with option appraisal on the estate thereafter.

77. An outline business case is being developed for the council vehicle fleet utilisation and optimisation review scheduled to commence in 2016/17.

Workforce Management

78. Effective workforce management is essential to ensure that the council maximises the effectiveness of its employees. Refer paragraphs 149 – 155 below for details of a local follow-up audit undertaken this year.

Pension liability

79. The council is a member of the Tayside Pension Fund which is a multi employer defined benefit scheme. In accordance with pension accounting standard IAS19 'Retirement Benefits' the council has recognised its share of the net liabilities for the pension fund in the balance sheet. The pension liability represents the difference between expected future pension payments and the underlying value of pension fund assets available to meet this cost.
80. The valuation as at 31 March 2016 provided by the scheme's actuaries decreased the council's share of the deficit from £178 million last year to £161.8 million this year.
81. A small change to the actuarial assumptions applied can have a significant impact on the liability. The scale of the movements in the council's pension liability over the last 5 years, arising from the annual valuation, can be seen in Exhibit 8 below.

Exhibit 8: Movement in Net Pension liability 2011 to 2016

	2011/12	2012/13	2013/14	2014/15	2015/16
Assets	418.8	492.5	531.6	593.8	588.7
Liabilities	(618.5)	(681.6)	(797.6)	(771.8)	(750.5)
Net	(199.7)	(189.1)	(266.0)	(178.0)	(161.8)

Source: Perth & Kinross Council audited financial statements

82. Officers have confirmed that the assumptions used by the actuary were reasonable and have explained in Note 4 to the financial statement the impact of small changes in these assumptions. We have examined the impact of small changes in these assumptions. We have examined the assumption used in 2015/16 and these are all within expected parameters. We are satisfied, therefore, that the pension liability as at 31 March 2016 is reasonable.

83. The Tayside Pension Fund was 99.8% funded and had assets of £2,396 million at the 2014 triennial valuation. The next valuation will take place in 2017. The last triennial valuation reduced the actual rate of contributions payable by the council for the period April 2015 to March 2018 to 17.0% of pensionable payroll.

Conclusion on financial sustainability

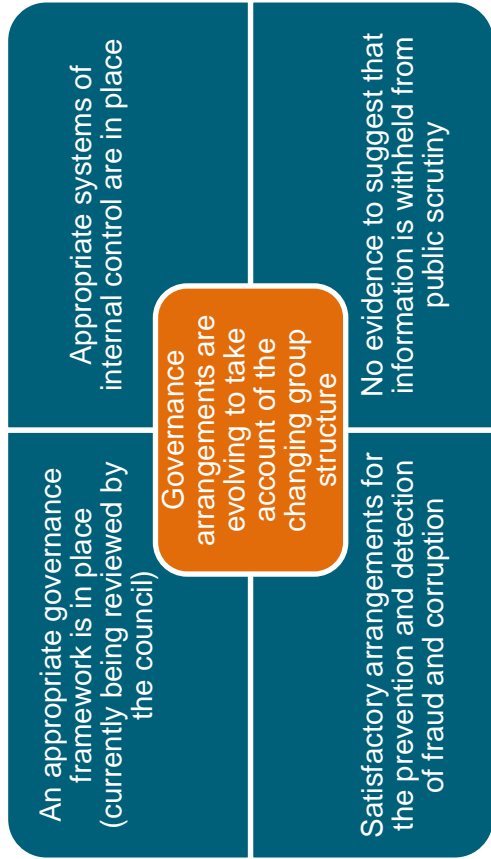
84. We have concluded that the council has considerable reserves to support its service priorities, but it is consistently underspending its annual budgets. Medium term financial plans are in place to support the council's financial sustainability. Overall we conclude that the financial position is sustainable currently and in the foreseeable

future, however the council need to ensure that if the ongoing underspends in revenue and capital continue that they are not reducing the quality and range of its services.

Outlook

- 85.** Councils face increasingly difficult financial challenges. Public sector budgets are reducing and demand for council services is increasing. With further funding reductions expected, councils face tough decisions to balance their budgets. These decisions must be based on a clear understanding of the current financial position and the longer-term implications of decisions on services and finances.
- 86.** In common with many other councils, Perth & Kinross Council is now reporting gaps between income and the cost of providing services over the next few years and a significant savings programme has been developed to mitigate this risk.

Governance and transparency



88. Members and management of the council are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements.

Corporate governance

89. The current governance framework is centred around Perth & Kinross Council which is supported by a number of standing committees including:

- Strategic Policy and Resources Committee which determines the strategic policy of the council and monitors the financial position
- Scrutiny Committee responsible for monitoring overall performance at a council and service level and considering national reports from scrutiny bodies
- Audit Committee responsible for ensuring action is taken to improve controls and address concerns raised by both internal and external auditors

90. There are also a number of theme related committees in place including, Lifelong Learning Committee, Housing & Health Committee, Enterprise & Infrastructure Committee and Environment Committee. The committee structure reflects the themes of the Perth & Kinross Community Plan and the council's Corporate Plan.

91. This structure allows members to scrutinise performance and hold officers to account. In previous years we have commented that committee structure can result in duplication of effort and inefficient use of member and officer time as the same reports are considered by several committees. The council agreed that a review of the entire decision-making structure will be undertaken in preparation for the local government elections in May 2017.

92. The Head of Legal and Governance is currently undertaking a review of the governance framework. This is expected to address changes required as a result of integration of health and social care services (e.g. updates to the Scheme of Administration to reflect the

Public Bodies (Joint Working) (Scotland) Act 2014) – refer paragraph 39.

93. The council's standing orders took effect from January 2013. The Scheme of Administration which sets out the membership, powers and responsibilities of the council's committees, sub-committees and working groups and lists the areas where the council has delegated decision-making to officers was updated in October 2015. The council also reviews its financial regulations every two years. The last review was in October 2014.

94. The standing orders, scheme of administration and financial regulations taken together address principal risk areas and are in line with our expectations.

95. A review of the senior management structure was approved in June 2015 with a view to increasing capacity, introducing more flexible arrangements and moving toward new models of management and delivery over the next two years. Implementation of the new structures began in October 2015.

96. We concluded that the council has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.

Risk management

97. An internal audit report of the council's risk management processes in March 2016 highlighted several improvement areas. Officers are currently reviewing risk management arrangements and have

agreed to implement these improvements to further embed risk management within its business planning process. This includes redefining the council's risk appetite, revising the risk management strategy and outlining clearer responsibilities for reporting and monitoring risks. The council expect to have a more robust approach to risk management once these changes are implemented.

Local code of corporate governance

98. The council developed and adopted a local code of corporate governance in 2012 which reflects the key components as set out in the CIPFA/SOLACE Framework Corporate Governance in Local Government: A Keystone for Community Governance. The local code has not been subject to review since its introduction and this is to be addressed through the next phase of the on-going review of the governance framework. It is anticipated a revised code will be in place by following the local government elections in May 2017.

Internal control

99. As part of our audit we reviewed the high level controls in a number of systems fundamental to the preparation of the financial statements. Our objective was to obtain evidence to support our opinion on the council's financial statements.

100. We reported our findings to the Audit Committee in June 2016. No material weaknesses in the accounting and internal control systems were identified which could adversely affect the ability to record,

process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements. Our findings included a number of recommendations to further enhance the control system in operation.

Internal audit

101. Internal audit provides members and management of the council with independent assurance on risk management, internal control and corporate governance processes. To avoid duplication, we place reliance on internal audit work where possible. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work.

102. As part of our 2015/16 audit we undertook a review of internal audit and concluded that it generally operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place. An external quality assessment is planned for 2016/17. We placed formal reliance on the work of internal audit on payroll this year.

ICT audit

103. Scottish public bodies continue to be the target of cyber attacks and related activities. The council has previously experienced degradation in its internet connection as an indirect consequence of a targeted hacking attack elsewhere and has been subjected to increasingly sophisticated threats. We reviewed the council's

preparedness to deal with cyber attacks and found that it is well aware of the cyber risks it is subjected to. The challenges faced with regard to information security have been identified and will be reported upon annually. However, growing challenges around cyber security are putting increasing pressure on both information security and ICT resources to deliver technical measures and increase awareness among staff.

104. At the time of our review, the council had not experienced any cyber-attacks which led to system outages, such as a ransomware attack or a distributed denial of service (DDOS) attack. On a daily basis, however, any number of electronic threats are fielded, from virus and spam emails to malicious connection attempts.

105. The council's awareness of the cyber attacks and the actions taken to address the risks identified should help it to minimise the impact. Our report to the June Audit Committee highlighted further actions that could be taken to strengthen the council's existing controls including preparing an action plan to prioritise and deal with the challenges identified, testing incident management plans, ensuring appropriate staff training is completed and appropriate edge security is in place.

Arrangements for maintaining standards of conduct and the prevention and detection of fraud and corruption

106. The Strategic Policy & Resources Committee approved a Counter Fraud and Corruption Strategy in February 2015. This update

addressed the requirements of both the 2010 Bribery Act and the CIPFA Code of Practice on Managing the Risk of Fraud issued in October 2014.

107. An internal audit report to the March 2016 Audit Committee highlighted that not all staff dealing with planning applications were aware of the council's bribery and corruption policy. Officers have indicated that a review is currently being undertaken to ensure all services are aware of the policy.

108. The council has employee and Councillor codes of conduct in place and the 'Achieving and Maintaining Standards' policy sets out the action to be taken in the event of expected standards not being achieved.

109. Overall, we concluded that the council has satisfactory arrangements in place for maintaining standards of conduct and the prevention and detection of fraud and corruption.

National Fraud Initiative in Scotland

110. The National Fraud Initiative (NFI) in Scotland brings together data from councils, police boards, fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including housing benefit fraud, occupational pension fraud and payroll fraud. If fraud or overpayments are not identified in a body, and the NFI exercise has

been undertaken properly, assurances may be taken about internal arrangements for preventing and detecting fraud.

111. The NFI exercise identified 4,547 matches, of which 1,038 cases were recommended for investigation. In addition to the recommended cases a proportion of the remaining cases were considered using a risk based approach. Of the 1,682 cases investigated the total monies recovered or being pursued so far of £27,713 related to one duplicate payment (£10,605) and ten housing benefit claims (£17,108). No frauds were identified.

112. The council is one of only two Scottish councils that do not submit the electoral register as part of the National Fraud Initiative submission. To ensure that the risk of fraud relating to council tax single occupancy discounts is minimised the council procured a data matching exercise.

113. A report to the March 2016 Audit Committee highlighted that 218 of the 2,162 matches identified for investigation were found to have claimed this discount incorrectly (total £108,798). Of this £84,243 has been collected with arrangements in place to recover the balance.

114. Overall, we concluded that the council has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI.

Transparency

115. Local residents should be able to hold the council to account for the services it provides. Transparency means that residents have access to understandable, relevant and timely information about how the council is taking decisions and how it is using its resources. We have considered this under various headings including:

- clarity and presentation of financial statements – a copy of the council's unaudited accounts was made available on the website. The format of the accounts complies with the Code and the narrative sections are written, as far as possible, in plain English to provide the reader with an understanding of the council's business
- budget monitoring reports – refer paragraphs 40 - 43
- performance reporting - refer paragraphs 139 - 141
- registers of interest – these are available on the website

116. Overall we have concluded that the council is open and transparent and we have not encountered any evidence to suggest that information is routinely and unjustifiably withheld from public scrutiny although improvements in budget monitoring reports could be made (refer paragraph 45).

Freedom of Information requests

117. The Freedom of Information (Scotland) Act 2002 (FOI) established a general public right of access to all information held by Scottish public authorities. The council's performance in relation to FOI

requests is reported annually to the executive officer team and the Scrutiny Committee.

118. The report to the June 2016 committee confirmed that 1,368 FOI requests had been received in 2015. This was a slight decrease of 1.2% on the 2014 figure of 1,385. Requests from individuals remain the largest category (42%) followed by requests from the media (22%) and businesses (17%).

119. The committee was advised that the statutory requirement to respond within 20 working days was met for 96.9% of requests and 83% of cases received at least some of the information requested. 43 requests for a review of the decision were received which equated to 3.1% of the total requests received. Two requestors subsequently withdrew and the council's decision on 24 of the remaining requests was upheld.

120. Overall the council's approach to managing the FOI requests it receives is effective.

Integration of health and social care

121. The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act provides the framework for the integration of health and social care services in Scotland.

122. In the council, a Pathfinder Board was set up to lead on and oversee the transition to integrated services. The Board submitted the integration scheme which was passed by the Scottish Parliament on 3 October 2015 at which point the Pathfinder Board

became the Perth and Kinross Integration Joint Board for Health and Social Care (IJB) with responsibility for delivering services that meet local and national outcomes.

123. The integration scheme between Perth & Kinross Council and NHS Tayside sets out the key governance arrangements. It also sets out the requirement to identify and collate a core set of indicators and measures which relate to integrated functions to enable the reporting of performance targets and improvement measures.

124. The IJB board comprises a wide range of service users and partners including four elected councillors nominated by the council and four Directors nominated by NHS Tayside. It is supported by a chief officer who provides overall strategic and operational advice and is directly accountable to the IJB board and the chief executives of both the council and NHS Tayside. The chief officer provides regular reports to the council and the NHS board and is a member of the council's executive officer team.

125. The integration scheme sets out the approach to dealing with any overspends in the year. In the first two years responsibility for meeting overspends lies with the partner delivering the service. Thereafter the overspend could be allocated based on each partners proportionate contribution to the IJB budget.

126. In May 2016 the IJB considered two Audit Scotland reports – [Health and Social Care Integration](#) published in December 2015 and [Changing Models of Health and Social Care](#) published in March 2016. Officers have developed an action plan to address the risk

identified in the reports and members noted the progress being made.

127. The IJB is in the process of developing a transformation programme to support the case for change set out in the Clinical Strategy for Scotland and the Strategic Plan for Scotland. This recognises the on-going challenges faced in relation to demand for health and social care services, issues with recruiting to certain medical disciplines and the financial pressures across the public sector.

128. The programme will be based on the triple aims of improving the experience of care; improving the health of the population and reducing per capital costs of health care and will be addressed through 5 workstreams:

- prevention and early intervention
- person centred care
- working with communities
- reducing inequalities and promoting healthy living and
- making best use of resources

Housing benefits performance audit

129. Separate from the audit of the council's housing benefit subsidy claim, Audit Scotland carries out a programme of housing benefit risk assessments.

130. In December 2013 Audit Scotland reported that the council needed to do more to improve its accuracy performance and to ensure that its intervention activity was effectively targeted with nine risks to

continuous improvement highlighted. The risk assessment in December 2015 found that seven of these risks had been addressed, one was no longer relevant and that further work requires to be undertaken to ensure the accuracy of processing. The council's improvement action plan highlighted officers are to scrutinise individual's performance statistics and use this information to aid in enhancing the accuracy of processing.

council services and there is a sustained national focus on their use. Where council services are being delivered by third party organisations it will be crucial that the council implements robust assurance and governance arrangements to deliver best value while at the same time ensuring an appropriate level of accountability for public money (refer paragraph 28 re new cultural trust). Community planning and health and social care integration will require an ongoing focus on governance and assurance to ensure that the council's priorities are being achieved.

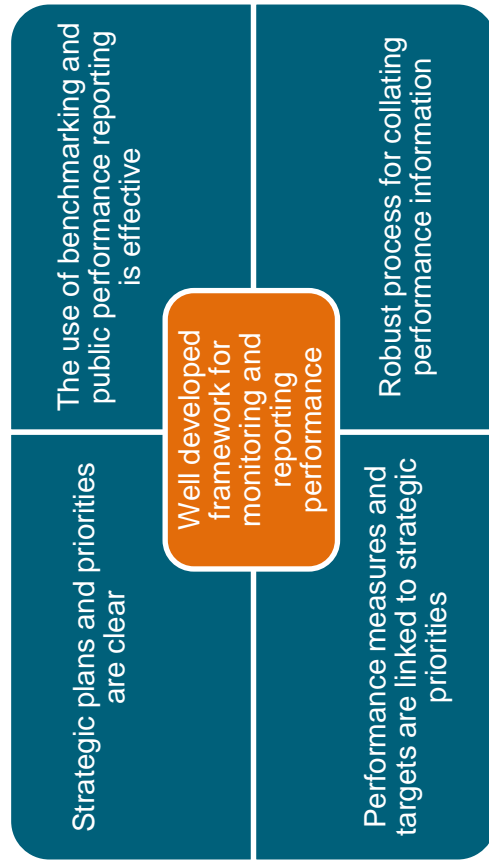
Local scrutiny plan

131. The 2016/17 Local Scrutiny Plan (LSP) prepared by the Local Area Network (LAN) of scrutiny partners was considered by the council in May 2016. The LAN's view was that further improvement could be made in relation to housing and specific scrutiny covering housing rent arrears would benefit the council. The Scottish Housing Regulator has scheduled this review for January 2017. The LAN did not identify any other specific additional scrutiny for 2016/17.

Outlook

132. Councils will continue to operate in a changing environment within continuing financial constraints. Under these circumstances councils will be obliged to consider the delivery of services by different means. Good governance will be particularly important where council resources and service delivery are devolved to third party organisations.
133. Partnership, joint working and arm's length organisations have become increasingly popular vehicles for planning and delivering

Best Value



- 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.

136. The Corporate Plan 2013-2018 sets out how the council will support the Community Plan and identifies the high-level strategic objectives the council is working towards to meet local needs.

137. In June 2016 a three year Business Plan was agreed to sit alongside the Corporate Plan. This considers the significant changes being undertaken, for example, IJB, new Trust models for culture and sport, transformation programme, Community Empowerment Act and draw together corporate strands from the services BMIPs. This is an internally facing document covering the same period as the medium term financial plan. It outlines how the council plans to address the challenges of public service reform, increasing demand and reducing budgets as well as its approach to managing new models of service delivery, locality planning, collaborative working and strategic partnerships such as the City Deal.

138. Discussions with officers highlighted the main risks to the medium term budget strategy include: savings based on reshaping the teachers workforce; implementation of the living wage; borrowing costs; health and social care integration given the council area's demographics; and the potential impact of Britain leaving the European Union.

134. Best value is a key factor to consider when planning policies, programmes and projects and when taking any spending decisions. The council should have systems and processes to ensure that it can demonstrate that it is delivering best value by assessing and reporting on the economy, efficiency, effectiveness and equality in service provision.

135. The council has a strong track record of partnership working and the Community Plan/Single Outcome Agreement (SOA) 2013-2023 outlines a vision for the area centred around the five strategic objectives:

- giving every child the best start in life
- developing educated, responsible and informed citizens

Performance management

139. The council has a strong focus on performance management and has a sound framework for monitoring and reporting performance against the council's priorities.

140. There is good alignment between the Community Plan/SOA 2013-2023 and the council's corporate plan. The Corporate Plan 2013-2018 is supported by services' Business Management and Improvement Plans (BMIPs). This is a well established approach to planning and performance management within the council with further improvements envisaged through the corporate business plan.

141. Annual guidance is produced giving all officers involved in corporate data collection information about the process and their roles and responsibilities. It outlines the process and timetable for collection (at corporate and service level). The Strategic Planning, Improvement and Risk Team collects data against each of the corporate performance indicators and produces an annual performance report. The council's website also provides links to further details on specific performance at a service-level. The 2015/16 annual performance report is expected to be considered by the council in October 2016.

Overview of performance targets in 2015/16

142. The annual performance report 2015/16 summarises the council performance against the Community Plan/SOA 2013/23 and the council's corporate plan 2013-18. The report showed performance

improvements in 52 (71%) of the local outcome areas with 11 (15%) demonstrating consistent performance and 10 (14%) highlighted as needing attention. The report identifies the areas the council and community planning partners will be focussing on in 2016/17. These cover seven key themes:

- inclusive economic growth
- developing the approach to locality planning
- developing the approach to health and social care
- supporting vulnerable families
- helping older people stay at home longer
- targeted intervention to reduce inequalities
- protecting, reforming and improving public services.

143. The council participates in the Local Government Benchmarking Framework (LGBF). It includes a checklist of these within its corporate guidance for BMIPs. The council provides comparison over time and against targets within its services annual performance reports, SOA performance reports and LGBF

144. In April 2016 the council considered its performance against the 2014/15 LGBF indicators published by the Improvement Service in January 2016. Its performance, when compared to Scotland, showed:

- 10 indicators (30%) are in the upper quartile (2013/14: 29%)

- 15 indicators (46%) are in the upper middle quartile (2013/14: 45%)
 - 5 indicators are (15%) in the lower middle quartile (2013/14: 19%)
 - 3 indicators are (9%) in the lower quartile (2013/14: 12%)
145. The three areas where the council was classified in the lower quartile were:
- the percentage of A class roads that should be considered for maintenance treatment;
 - people aged 65 or over with intensive needs receiving care at home; and
 - the percentage of young people entering positive destinations.

Statutory performance indicators (SPIs)

146. The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The Commission does not prescribe how councils should report but expects councils to provide citizens with fair, balanced and engaging performance information reporting.
147. For 2015/16 three (SPIs) were prescribed:
- SPI 1: covering a range of information relating to areas of corporate management such as employees, assets and equalities and diversity
 - SPI 2: covering a range of information relating to service performance

- SPI 3: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.
148. Overall we concluded that the council's arrangements for publication were satisfactory. BMIPs report progress against indicators on a six-monthly basis and further details are available on the pkperforms page of the website.

Local performance audit work

149. In November 2013 the Accounts Commission and Auditor General published a report on Scotland's public sector workforce. The report highlighted a number of key messages on workforce changes across Scotland in the public sector and made a number of recommendations to the Scottish Government, central government bodies, the NHS, COSLA and local authorities. Local follow up work was undertaken during 2015/16 on the 2013 report to determine the extent to which audited bodies were implementing the recommendations. The findings from this work is likely to be reflected in sector specific overview reports
150. The council's executive officer team considered the 2013 report at a meeting in August 2014 and concluded that whilst the council had arrangements in place which satisfy many of the requirements identified in the Audit Scotland good practice guide, there was scope to further develop and enhance existing arrangements for both workforce planning and workforce change programmes.
151. A new organisational development framework was approved in June 2015 based around the "Learn Innovate Grow" principles. An

update to the 2010 framework for managing workforce change in was agreed in June 2016 designed to support the implementation of the council's transformation strategy.

152. The recently agreed corporate business plan highlighted further improvements including implementing a more systematic approach to workforce planning across services and implementing a number of workforce projects such as job families, recruit within and job and organisation design.

153. The business plan also recognises the challenges of recruiting and retaining staff and the need to ensure appropriate succession planning is in place to avoid losing essential skills and knowledge, particularly when considering further changes in staffing numbers.

154. A voluntary severance scheme has been in place for a number of years (Exhibit 9). Although there is no overarching forecast of expected staff numbers, skill needs and cost on a rolling basis over the entire council, requirements are considered under the transformation programmes and the workforce change framework.

Exhibit 9: Exit packages 2010 to 2016

Year	No. of exit packages	Cost of exit packages (£'m)
2010/11	118	3.6
2011/12	31	0.7
2012/13	40	1.1
2013/14	135	2.0
2014/15	24	0.2
2015/16	150	3.4
Total	498	11.0

Source: Perth & Kinross Council audited financial statements

155. Overall we concluded that the council has a range of workforce measures in place that are working effectively to promote a culture of change to address the changing public sector landscape

National performance audit reports

156. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2015/16, a number of reports were issued which are of direct interest to the council. These are outlined in [appendix III](#).

III. Perth & Kinross Council has processes in place to ensure that all national reports and their impact on the council are considered by Members.

Procurement

157. In 2009 the Scottish Government introduced an annual evidence-based assessment, the procurement capability assessment (PCA), to monitor public bodies' adoption of good purchasing practice and as a basis for sharing best practice.

158. Due to legislative changes around procurement the assessment is in need of updating and a new assessment regime – the Procurement & Commercial Improvement Plan (PCIP) – replaced the PCA in 2015. PCIP focuses on policies and procedures driving procurement performance and the results delivered. As this approach adopts new assessment methods and scoring the results will not be comparable to the previous PCA. The council's first assessment under PCIP is scheduled for September 2016.

159. A transformation project highlights achieving further savings from procurement activities through closer management of suppliers, maximizing use of collaborative procurement consortia, development of professional procurement skills for staff, improved monitoring and reporting systems, and managing demand through re-specifying products and services. As part of this project the council participated in a mock assessment under the national Procurement and Commercial Improvement Programme (PCIP) at the end of October 2015 and plans to use the findings from this to implement improvements prior to the formal assessment being undertaken..

Following the public pound

160. The Council has a local Code of Guidance based on the Code of Guidance on Funding External Bodies and Following the Public Pound issued by the Accounts Commission in co-operation with COSLA. A review of the local Code and other relevant documents is presently being carried out by officers of the Following the Public Pound Group to ensure that they are fit for purpose and relevant to the current operational requirements. A review of existing funding arrangements will be undertaken once the new Code of Guidance has been adopted to ensure they comply with the Code and all relevant statutory requirements

161. The Strategic Policy & Resources Committee was advised in February 2016 that a Following the Public Pound Toolkit would be produced and this is expected to be in place by the end of the year.

Equalities

162. The Equality Act 2010 introduced a new public sector 'general duty' which encourages equality to be mainstreamed into public bodies' core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set. The council's 2015 report is available on its website.

Outlook

163. In common with other councils, Perth & Kinross Council faces the key challenges of reducing budgets, an aging population with higher levels of need and the public expectation of high quality services. Savings have been made in recent years largely through a net reduction in workforce expenditure as a result of changes in the workforce composition. As choices on how to address funding gaps become increasingly difficult, councils will have to focus on making the very best use of all available resources and to challenge existing ways of doing things. A strong and effective performance management framework will be critical to the success of the council achieving its key priorities and achieving best value.

Appendix I: Significant audit risks

The table below sets out the audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion.

Audit Risk		Assurance procedure	Results and conclusions
Risk of material misstatement			
Internal financial controls A robust system of internal financial controls is essential to reduce the risk of material error in the financial statements. In times of economic challenge, the council's financial systems may be exposed to increased risk of fraud or manipulation. Auditing standards (ISA 240 The auditor's responsibility to consider fraud in an audit of financial statements) require auditors to presume a risk of fraud where income streams are significant. The council receive a significant amount of income in addition to Scottish Government funding. The extent and complexity of these income streams introduces an increased risk of fraud. <i>Risk: The council's financial position is exposed to error. Fraud and manipulation may not be detected.</i>		Testing of key internal financial controls. Review of internal audits work in specific areas (i.e. payroll). Targeted testing of risk areas and report to members as appropriate. Review the council's involvement in the National Fraud Initiative.	No significant issues were found in relation to controls in place across the key financial systems Audit testing also confirmed that income was properly accounted for in the financial year.

Audit Risk	Assurance procedure	Results and conclusions
<p>Management override of controls</p> <p>Management has the ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p><i>Risk: The accounts are material misstated.</i></p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates for bias.</p> <p>Evaluating significant transactions that are outside the normal course of business.</p>	<p>Satisfactory explanations for variances between income and expenditure were provided by officers. No outstanding issues.</p> <p>Journal adjustments were tested and no indications of management override of controls were found.</p> <p>Judgements and estimations applied were tested to confirm they were appropriate and reasonable. No issues highlighted with the judgements and estimates applied.</p>
<p>Performance and governance disclosures</p> <p>The Local Authority Accounts (Scotland) Regulations 2014 require the financial statements to include:</p> <ul style="list-style-type: none"> • a management commentary which includes details of the council's strategic performance during the year • an annual governance statement providing assurance that the governance framework is operating effectively <p>In previous years the performance information has not been available to inform the completion of the unaudited accounts. Similarly all self assessments to inform the</p>	<p>Review the management commentary and the annual governance statement.</p> <p>Consider the process/evidence supporting these statements.</p> <p>Review of internal audit findings for corporate governance and corporate risk management.</p>	<p>As in previous years the annual performance report was not produced in time to inform the management commentary although a link to where this can be accessed is included in the accounts.</p> <p>A new approach to compiling the AGS was put in place this year but the effectiveness of the new approach was diluted as there was not a full audit trail to evidence the process had been appropriately applied. Refer action plan point 1 Appendix IV.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>council's view on its governance arrangements had not been completed prior to consideration of the unaudited accounts.</p> <p><i>Risk: The unaudited accounts available to members and the public do not reflect a complete picture of the council's activities during the year.</i></p>		
<p>Charities governance documentation</p> <p>The governance documentation for several trusts could not be located as a consequence of the age of the trusts, in some cases dating back over 100 years. To address this, in previous years, the council has treated all funds as endowments and where there was an absence of governance documentation it relied on custom and practice to inform any decisions by the trustees in respect of the trusts' expenditure and use of assets.</p> <p><i>Risk: The funds are not accounted for accurately or used for the appropriate purpose.</i></p>	<p>Audit of the charities financial statements to ensure compliance with requirements.</p> <p>On-going monitoring and inclusion in annual audit report as appropriate.</p>	<p>The 2015/16 accounts reflected which trusts have/do not have governance documentation and that all trusts are treated as endowments.</p> <p>A further eight trusts were amalgamated into the Welfare Trust in 2015/16 and a further trust was transferred to an external charity.</p>
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<p>Financial position</p> <p>Along with all other public bodies in Scotland, the council is facing the prospect of having to make significant budget savings. At the same time as the council aims to support the local economy and maintain service</p>	<p>On-going monitoring and inclusion in annual audit report as appropriate.</p> <p>Submit information on the council's workforce management arrangements to inform a national study follow up.</p>	<p>Refer financial management and sustainability section paragraphs 58 to 62 and Best Value section paragraphs 149 to 155</p> <p>The council is anticipating savings in excess</p>

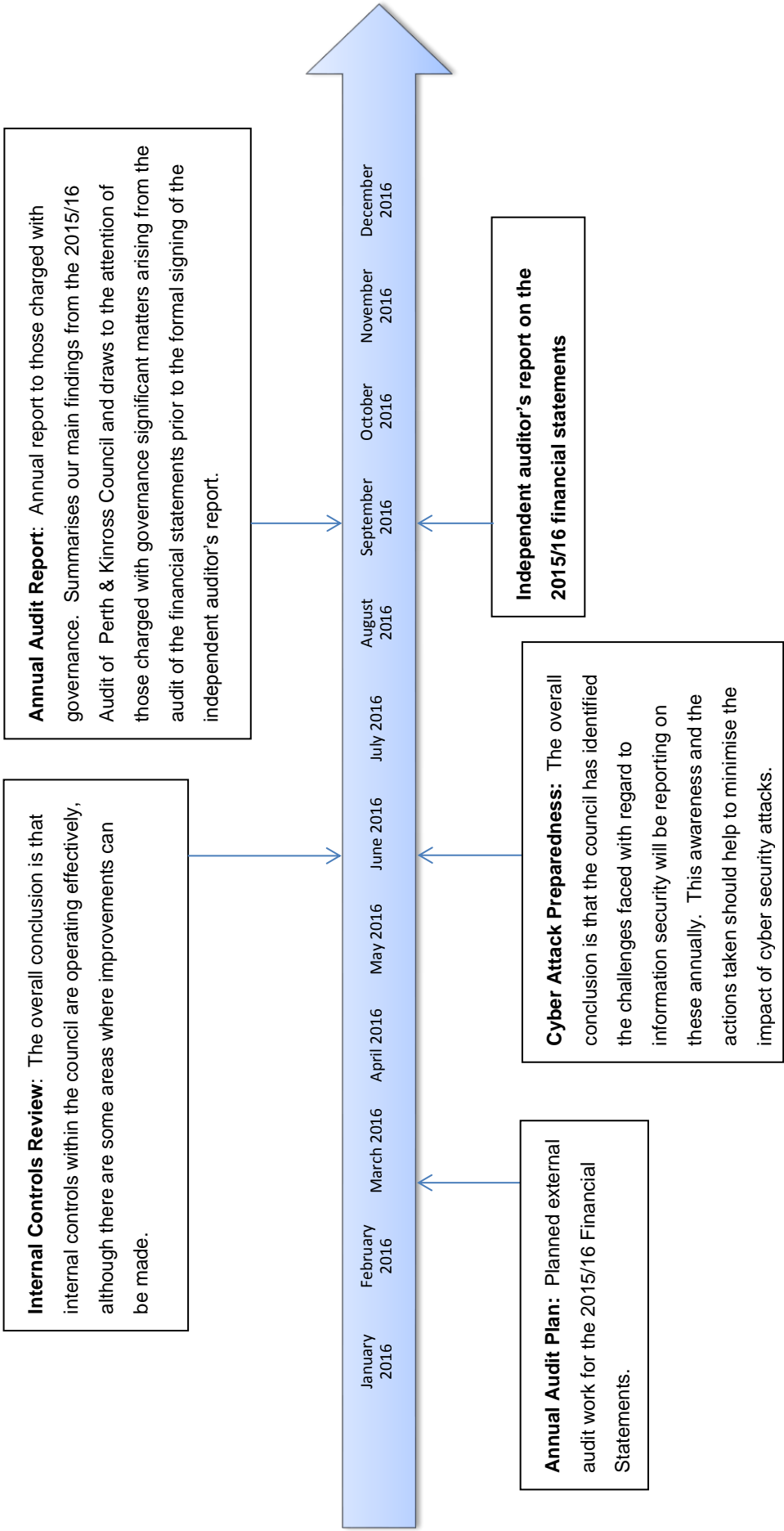
Audit Risk	Assurance procedure	Results and conclusions
<p>provision, it is likely to face a reduction in resources. <i>Risk: The council is unable to secure the efficiencies required without impacting on services.</i></p>	<p>Review of internal audit findings for reserves strategy.</p>	<p>of the £39 million previously identified will be needed and the transformation programme will be key to delivering on these. Internal Audit report on reserves strategy confirmed there are effective arrangements in place and internal controls were strong</p>
<p>Capital expenditure In previous years we have reported on significant underspends against the council's capital programme. The outturn for 2014/15 represented progress in delivering the original programme with a 2.4% overspend, although we highlighted that the council was again unable to deliver fully on its housing capital programme. In 2015/16 gross capital expenditure is projected to be underspent against the original budget by £17.1 million (20%). This comprises a general fund capital programme underspend of £17.6 million and a housing investment programme overspend of £0.5 million. <i>Risk: The council is unable to deliver efficient and effective services and contribute to a prosperous, sustainable and inclusive economy for its area due to</i></p>	<p>On-going monitoring of capital budget, plans and monitoring reports and inclusion in annual audit report as appropriate. Review of internal audit findings for the housing investment programme.</p>	<p>The final outturn position for 2015/16 was an underspend of 30.4 % on the general services programme although the council was able to fully deliver on its housing capital programme in the year. Refer financial management and sustainability section paragraphs 63 to 67. On-going issue refer Action Plan point 2 Appendix IV.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p><i>delays in investment or improvements to the asset base.</i></p> <p>Performance management</p> <p>The council's performance indicates a relatively positive picture overall with only a few areas of performance declining. However, effectively managing performance will remain a key challenge as financial pressures increase. The council will need to use its performance information to understand and manage the impact of spending decisions.</p> <p><i>Risk: The council's resources are not directed at priority areas and outcomes are not demonstrated.</i></p>	<p>Review of processes to collate statutory performance indicators</p> <p>On-going monitoring of the performance management framework and inclusion in annual audit report as appropriate.</p>	<p>The 2015/16 annual performance report provides a balanced view of the council's performance against key indicators in the year and highlights areas in need of attention along with priorities to be addressed in 2016/17. The annual accounts include a reference to the pkperforms webpage which includes a link to the latest performance report.</p> <p>Annual guidance on compiling and reporting performance indicators is issued to officers and an internal verification process to ensure information is accurately reported is in place.</p>
<p>Locality planning</p> <p>The Community Empowerment (Scotland) Act 2015 places a new statutory duty to tackle inequalities and specifically creates a statutory duty on community planning partnerships to develop, publish and implement local outcome improvement plans setting out how partners will tackle stubborn inequalities across the area.</p> <p><i>Risk: The council fail to tackle inequalities within its locality areas.</i></p>	<p>On-going monitoring and inclusion in annual audit report as appropriate.</p>	<p>Community Planning Partnership aims to have locality outcome improvement plans in place by Summer 2017. No impact on the 2015/16 audit.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Health & social care integration</p> <p>The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act provides the framework for the integration of health and social care services in Scotland.</p> <p>In the council, a Pathfinder Board was set up to lead on and oversee the transition to integrated services. The Board submitted the integration scheme which was passed by the Scottish Parliament on 3 October 2015 at which point the Pathfinder Board became the Perth and Kinross Integration Joint Board for Health and Social Care (IJB) with responsibility for delivering services that meet local and national outcomes.</p> <p><i>Risk: Integration does not deliver the intended outcomes.</i></p>	<p>On-going monitoring and inclusion in annual audit report as appropriate.</p>	<p>Refer governance and transparency section – paragraphs 121 to 128.</p> <p>This remains an ongoing issue for the council.</p>
<p>Cultural trust</p> <p>A cultural trust is to be established in April 2016. The total value of services being delivered by arms-length organisations will double to approximately £10 million. The council has a statutory requirement to follow the public pound in respect of commissioned services.</p> <p><i>Risk: Governance and monitoring arrangements are ineffective for the new arms length organisation.</i></p>	<p>On-going monitoring and include in report to members as appropriate.</p> <p>Review of internal audit findings for following the public pound.</p>	<p>Service level agreements are in place between the council and Culture Perth & Kinross which adequately cover the governance and monitoring arrangements agreed between the parties.</p> <p>We note that the council will be undertaking a further review of Trust arrangements for culture in early 2017</p>

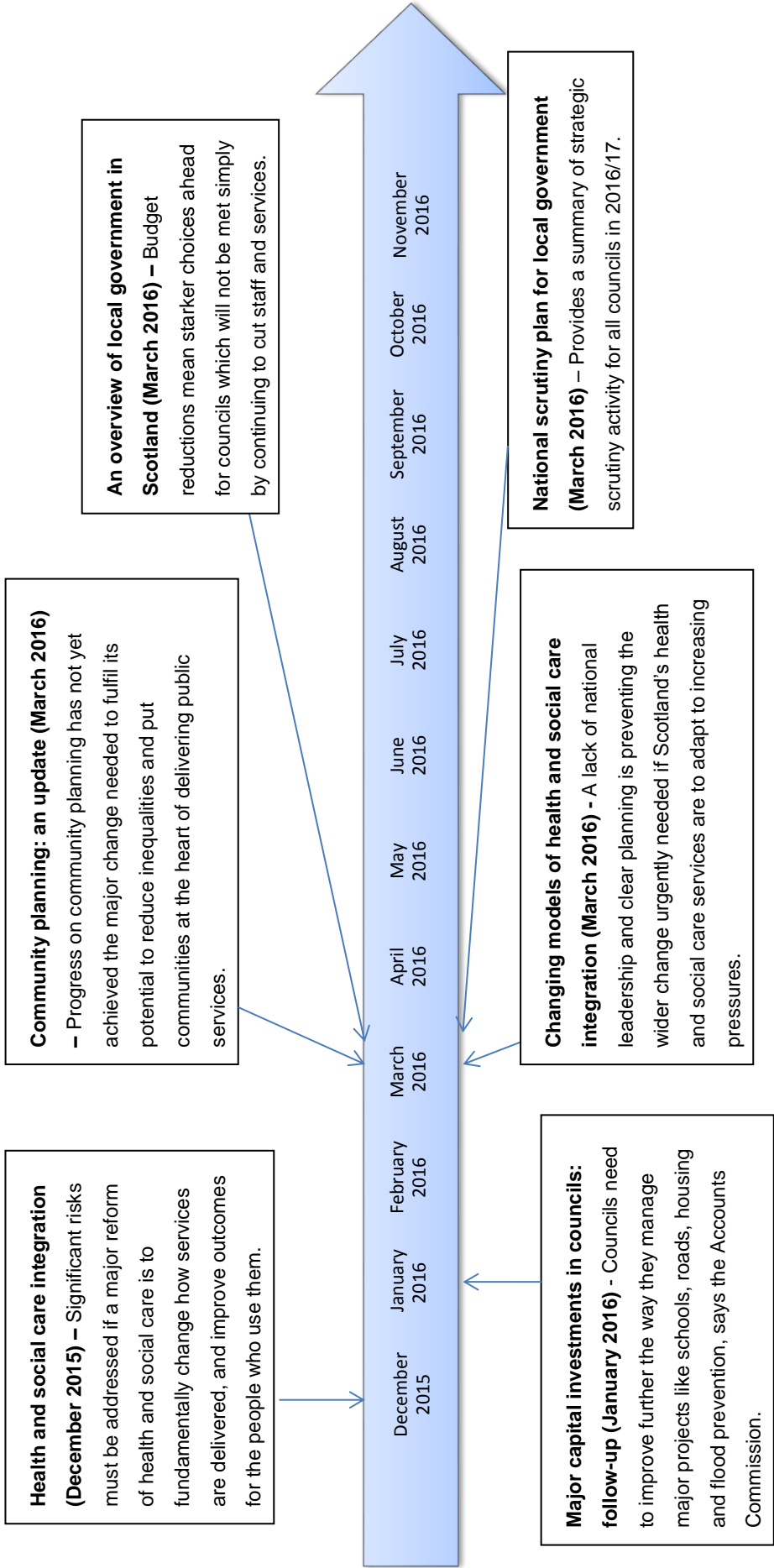
Audit Risk	Assurance procedure	Results and conclusions
<p>Cyber security</p> <p>Scottish public organisations continue to be the target of cyber attacks and related activities. Previously the council experienced degradation in its internet connection as a consequence of a targeted hacking attack and has been subjected to increasingly sophisticated and targeted threats.</p> <p><i>Risk: Cyber attacks result in the loss of personal or sensitive data or systems are unavailable impacting on service delivery.</i></p>	<p>We will review the council's preparedness to deal with cyber attacks.</p> <p>Review of internal audit findings for IT disaster recovery.</p>	<p>Our report submitted to the June 2016 Audit Committee found the council is aware of the issues faced and the actions taken to address the risks identified should help it to minimise the impact.</p>

Appendix II: Summary of local audit reports 2015/16



Appendix III: National reports

Summary of Audit Scotland national reports 2015/16



Appendix IV: Action plan

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
1.	26	<p>A new approach to compiling the Annual Governance Statement (AGS) was introduced for the 2015/16 financial statements. It was however difficult to evaluate how effective the new approach was as there was no audit trail to evidence the process applied.</p> <p>Risk <i>The AGS does not accurately reflect the governance arrangements within the council's group.</i></p> <p>Recommendation Prior to members' consideration of the AGS all appropriate assurances should be received and considered.</p>	<p>Whilst verbal assurances had been received prior to consideration of the draft Governance Statement, written Certificates of each Service's assurance were available prior to submission of the Final Accounts.</p> <p>For the AGS 2016/17 we will ensure that written certificates are available prior to submission of the draft statement</p>	<p>Head of Legal & Governance Services</p> <p>June 2017</p>

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
2.	43, 65	<p>The council continues to underspend against budget (both revenue and capital). There is scope to better align budgets with services' actual spend. In addition, the monitoring reports presented to committee do not include information on service performance so members are unable to evaluate whether the underspends are having a detrimental impact on service delivery.</p> <p>Risk <i>There is an adverse impact on service delivery.</i></p> <p>Recommendation The council should review its budget setting and monitoring procedures to ensure they remains fit for purpose. This review should consider the inclusion of performance information to provide a clearer basis for decision making.</p>	<p>The Council is aware of this position and has managed under spends and additional income effectively over the medium term. Significant sums were removed from the 2016/17 revenue budget when the final revenue budget was set in February 2016 to reflect historical spend. In addition the executive officer team has already met (06/09/16) to discuss the 2015/16 final outturns with a view to removing any recurring underspends from Service base budgets prior to setting the 2017/18 final revenue budget in February 2017.</p> <p>The revenue monitoring report has also been amended to remind members that reported underspends may be considered for use during the current financial year or as part of the revenue budget strategy for future years.</p>	Head of Finance (ongoing)



PERTH & KINROSS COUNCIL

ANNUAL ACCOUNTS

2015/16

AUDITED

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MANAGEMENT COMMENTARY

1. Introduction

This publication contains the financial statements of both Perth and Kinross Council and its group for the year ended 31 March 2016.

This management commentary outlines the key messages in relation to the Council and the group's financial planning and performance for the year 2015/16 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 we will face as we strive to meet the needs of the people of Perth and Kinross.

A glossary of terms is set out from page 98.

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 km², and has an estimated population of 149,930. Over the past 10 years (2005-2015), the area has experienced an 8.6% increase in its population. During the same time period the Scottish population experienced an increase of 5.1%.

Our vision is of a confident and ambitious Perth and Kinross, to which everyone can contribute and in which all can share. Through our strategic objectives set out within the [Corporate Plan 2013-18](#) and [SOA/ Community Plan 2013-23](#) we aim to maximise the opportunities available to our citizens to achieve their potential. At the heart of our vision is a desire to see investment in early intervention and prevention focused on building success and reducing the costs of failure. The Corporate Plan 2013 – 2018 states that -



It is during our very earliest years and even pre-birth that a large part of the pattern for our future adult life is set. Giving every child the best start in life is a key opportunity to improve their chances of enjoying a positive future, regardless of their family circumstances. At the heart of our approach is a focus on enabling all children and young people to develop the skills and attributes required to be successful, take responsibility, make effective contributions to society and demonstrate a well-placed confidence about the things they do and say.

It is unacceptable that, because of a lack of income, families can be dragged into a cycle of deprivation or that older people can be deprived of the right to live in dignity. By removing barriers to employment, encouraging investment in business, skills and infrastructure and attracting new investment and employment into the area we are determined to address the root causes of poverty once and for all.

Reducing health inequalities is vital to achieving sustainable economic growth. If Perth and Kinross is to live up to its potential in terms of economic success,

healthy life expectancy must increase – particularly among those whose lives are currently cut short due to deprivation or other inequalities.

Ensuring that Perth and Kinross is a place where everyone enjoys a pleasant and safe environment is important to the health and wellbeing of all our communities. We are committed to focusing our energies on tackling the issues which may negatively impact on communities and their environment to ensure they remain safe, strong and sustainable in the future.

3. The Annual Accounts 2015/16

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 us for the delivery of the Council's vision and strategic objectives. The requirements governing the format and content of the Councils' Annual Accounts are contained in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The 2015/16 Annual Accounts have been prepared in accordance with this Code.

4. The Financial Plan

As part of our medium term financial planning, Perth and Kinross Council approved balanced gross revenue budgets to support the delivery of our strategic objectives within the General Fund (£424.761m) on 12 February 2015 and Housing Revenue Account (£26.63m) on 28 January 2015. 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 (page 13) and the costs and income in relation to the management of our housing stock are recorded within the Housing Revenue Account (pages 64 to 66).

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 regeneration in local areas. In 2015/16 the Council budgeted for capital investment of £64.418m on General Fund activities and £21.074m 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.

5. Performance Management

The Council continues to embed a performance management culture throughout the organisation. We use 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 our 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.

We monitor our performance against our strategic objectives on a regular basis at all levels of the Council and report this information publicly via our [public performance reporting mechanisms](#). These include the Annual Public Performance Report; Public Performance Summary; 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.

2015/16 Performance Highlights

Themed Committees have been considering individual Service Annual Performance reports during May/June 2016. The Council's Annual Performance Report will be considered by the Council on 5 October 2016. These reports provide comprehensive information on the Council's performance for 2015/16. The full range of performance information available for 2015/16 can be accessed online at <http://www.pkc.gov.uk/pkperforms>. This includes the Council's Annual Performance Report, our 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 2015/16 the top performance highlights are set out in the following table:

Objective	Highlight
Giving every child the best start in life	<ul style="list-style-type: none"> Successfully extended the provision of 600 hours of free Early Learning and Childcare to include defined groups of two year olds, including children who are in need of protection or who are looked after. Augmented the work of the Permanence Team and improved the support to Approved Kinship Carers. The proportion of children who are looked after in kinship care continues to grow and we now have as many children placed with Kinship Carers as with Foster Carers. Reduced the impact of homelessness on children and families by moving families straight into permanent instead of temporary accommodation. Reduced the number of overcrowded households from 141 in the previous year to 127 bettering our target of 135 for 2015/16. Supported vulnerable children and families, including kinship carers, through advice and assistance from Welfare Rights and the Welfare Fund Team.
Developing educated, responsible and informed citizens	<ul style="list-style-type: none"> There has been clear growth in the wider achievements of young people, with over 800 young people achieving an Achievement Award this year, and around 50% of all S4 and S5 leavers who depart school without achieving a level 6 (Higher grade) award leaving with at least one vocational qualification. More than 120 pupils from nine Perth and Kinross secondary schools have now benefitted from the Career Ready programme, supported by 30 local employers, which offers a structured way for employers to engage with schools to mentor senior pupils, deliver employability master classes and offer paid summer internships. More people with complex needs are now entering employment or further education when they leave school. This has been achieved by working collaboratively with Education and Children's Services to make the transition between services easier. The "Transitions within the Community" project received a Gold Securing the Future Award in 2015. Our Employment Support Team successfully supported 148 people with complex needs in paid jobs, voluntary and work experience placements. Outstanding results at NAT5 and Higher level

Objective	Highlight
Promoting a prosperous, sustainable and inclusive economy	<ul style="list-style-type: none"> • The 2014 Employment Land Audit recorded an existing supply of 160 hectares of marketable land; this is some 25 hectares more than the supply required per our 2014-2019 Local Development Plan. 54 hectares of the total employment land has been identified as immediately available serviced business land. • The latest figures for the food and drink sector align with new Scottish Government definitions. There were 2,100 people employed within this sector in 2014. The Council's investment in Perth Food and Drink Park has the potential to sustain up to 400 jobs once the park is fully occupied. • For the period April 2015 to January 2016, 689 individuals were assisted into work. It is anticipated that the 700 job outcome target for 2015/16 will be exceeded. The introduction of additional wage incentives such as the Scotland Employer Recruitment Incentive will assist in achieving the target. • We have continued to develop our cultural assets, improve our visitor facilities and invest in major infrastructure projects. This includes the redevelopment of Perth Theatre, the ongoing refurbishment of Perth Museum and Art Gallery, new research facilities at the Fergusson Gallery, the refurbishment of Coupar Angus Library and the installation of WiFi in all Perth and Kinross Libraries. • The use of digital cultural services is increasing as we continue to improve and expand our website and social media use and content. Online content is currently being developed to further increase engagement with unique and important museum collections and also increase the range of services available for customers using smart phones, tablets and other mobile devices. • Collected 98.5% of income due from Council Tax in 2015/16 (Scottish Average in 2014/15 was 95.5%). • Launched new rent arrears arrangements focusing on early intervention and earlier escalation of rent arrears. The "Rent 1st" Campaign was introduced to support a change in culture towards the payment of rent. • Supported the development and expansion of the Perth & Kinross Credit Union with additional offices opening in Blairgowrie, Crieff and Letham.
Supporting people to lead independent, healthy and active lives	<ul style="list-style-type: none"> • Participation in sport and active recreation is very good and increasing in key areas. The promotion of swimming lessons has seen the number of swimmers increase, and participants in Active Schools have also increased. • Sport and Active Recreation staff have worked to remove barriers to participation in sport amongst under-represented and marginalised groups. • 2015 saw the launch of the Carers Strategy which introduced participatory budgeting for Carers in Perth & Kinross. • Supported people with complex needs through working with our partners to deliver a range of projects as part of the Integrated Care Fund. • Enabled individuals to take more choice and control over their health and social care support by working with our partners. We undertook a number of activities to allow people to remain in their own home or in a homely setting such as Rapid Response, Immediate Discharge Service, Reablement, Home and Day Services. • Our Reablement Service is key to supporting people following discharge from hospital with over 50% of people no longer requiring ongoing support following this intervention.

Objective	Highlight
Creating a safe and sustainable place for future generations	<ul style="list-style-type: none"> The number of community groups supported by Community Capacity Building staff has increased partly due to powers now available through the Community Empowerment Act particularly asset transfer. Due to multi agency working Perth & Kinross has the 5th lowest frequency of reconvictions within Scotland. The Anti-Social Behaviour Investigators work closely with Housing, Police and other partners to use early intervention and problem solving techniques to resolve situations and this is reflected in our performance indicators where all our targets were achieved in this area. Launched our Estate Based Initiative programme where council tenants and local residents identified community improvement projects in their local neighbourhoods. Over 30 projects were delivered. As at 29 February 2016, five commercial and fifteen residential properties have been brought back into use with funding from Perth and Kinross Council and Perth and Kinross Heritage Trust. In addition, a further 144 properties have been brought back into use with support, guidance and information provided to owners by the Vacant Property Development Officer and Support Assistant. The Vacant Property Development Officer was awarded a Shelter Scotland "Outstanding Individual" award in recognition of her personal contribution. Significant recent adverse weather impacts have alerted communities to the benefits of developing and sustaining local community resilience plans. The Council has been keen to support this activity and 2015/16 has seen an unprecedented increase in the number of plans supported, with 20 in place and a further 5 in the pipeline.

6. Financial Performance

Our financial performance is part of our performance management culture with regular reporting to the Strategic Policy and Resources Committee. This section summarises the main elements for 2015/16.

a) General Fund Revenue Expenditure for 2015/16

In 2015/16 the Council incurred actual net expenditure on Services of £344.913m (which is the Deficit on Provision of Services before the inclusion of Taxation and Non-Specific Grant income disclosed in the Comprehensive Income and Expenditure Statement on page 13). The most recent monitoring position, which was approved by the Strategic Policy and Resources Committee on 20 April 2016, indicated a budgeted contribution from Reserves of £13.809m against a projected contribution of £4.627m – a reduction of £9.182m. The final position was a contribution to Reserves of £2.238 m – a further reduction of £6.865m.

The main reasons for these variances are set out below. These variances reflect the organisational structure of the Council and do not necessarily align with the CIPFA classification included in the Comprehensive Income and Expenditure Account that is set out on page 13.

Education and Children's Services (ECS) delivered savings of £5.5m as follows -

- £1.3m in respect of the Devolved School Management (DSM) Scheme from under spends on staff costs, property costs, supplies & services and income. These resources will be carried forward by schools into 2016/17.
- In terms of non-DSM budgets there were further under spends from:
 - additional staff slippage of £1.7m;
 - property costs of £1.3m due to reduced non-domestic rates bills and energy costs;
 - supplies and services of £0.5m
 - additional income (including grants) of £0.7m.

Housing and Community Care (HCC) delivered savings of £3.3m as follows -

- Older People - £1m under spend due to the use of resources carried forward from 2014/15, accelerated savings and staff slippage partially offset by over spends on care at home and care home placements;
- Learning Disabilities – under spend of £0.7m due to staff slippage and savings on respite care and supported living payments
- Finance & Support Services – under spend of £1.1m due to accelerated savings, staff slippage and additional income.
- Other net under spends across Housing, Adult Support and Wellbeing Services and Other Community Care Services delivered further savings of £0.5m.

The Environment Service (TES) delivered savings of £4.4m as follows -

- Planning and Regeneration – under spend of £1.6m due to staff slippage, additional income from building warrants and planning applications and managed under spends in line with grant funding applications
- Property – under spend of £1.2m due to savings on energy costs, water charges, property maintenance and a renegotiation of facilities management costs.
- Roads there is a net under spend of £1.6m from slippage in the bridge refurbishment programme and savings on the gully emptying project. In addition there were significant costs incurred during 2015/16 in relation to flooding in July 2015 and Storms Desmond and Frank in December 2015 and January 2016. The Council has been awarded funding from the Scottish Government through the Bellwin Scheme towards the cost of responding to these events.

The Council Tax Income Account delivered further additional income of £2.5m as follows –

- The Council continues to experience significant growth in the number of new properties across the whole of Perth and Kinross which delivered £0.8m of additional income.
- This additional income was partly offset by increases in discounts & exemptions less under spends on the Council Tax Reduction Scheme of £0.2m.
- A review of previous year collection levels has been undertaken resulting in an adjustment to collection levels which delivered a further under spend of £1.9m.

Other budgets across the Council delivered net under spends of £0.3m primarily from the Council's share of Tayside Contracts surplus for 2015/16 which was significantly more than budget.

b) **Composite Capital Budget 2015/16 & Housing Revenue Account**

A summary of the Council's capital expenditure is reflected within Note 36 to the Financial Statements on page 55. Total gross capital expenditure in 2015/16 was £66m (excluding capital financed from current revenue. The gross expenditure includes:

- £9.9m on school upgrades, including new primary schools in Alyth and Oakbank, and extensive upgrades to Errol Primary School and the sports facilities at Perth High School.
- £11.4m on roads & transport projects, including structural maintenance, bridge refurbishments, road junction/access improvements and road safety measures.
- £23.5m on other programmes including flood mitigation schemes (£2.2m), various environmental improvements (£1.2m), community care projects (£1.1m) and property upgrades & energy efficiency schemes (£1.8m).
- £21.6m on the Housing Revenue Account including affordable housing (£6.1m), central heating, rewiring and energy efficiency schemes (£3.8m) and external works including double glazing (£2.6m).

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 2016 was £411.091m. Actual debt was £365.368m, comprising borrowing (£243.677m at nominal value) and a PPP liability (£121.691m). The ratio of borrowing to the CFR for 2015/16 was therefore 88.9% (2014/15 90.3%). During the year the CFR increased by £2.890m, reflecting the capital expenditure above, less capital receipts, grants and contributions (£46.530m) and principal loan repayments (£16.956m).

c) **General Fund Reserves**

As at 31 March 2016 the Council had uncommitted General Fund balances of £13.461m which represented 4% of the Council's annual budgeted net expenditure. Council policy is to retain uncommitted reserves of between 2% and 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 12 and pages 52 to 54 of the Financial Statements, along with information on future commitments.

The Reserves position is summarised as follows:

	£'000		£'000
General Fund	(54,908)	Revaluation Reserve	(258,256)
Housing Revenue Account	(782)	Capital Adjustments Account	(272,201)
Capital Fund	(23,925)	Financial Instruments Adjustment Account	11,636
Renewal and Repair Fund	(1,234)	Pensions Reserve	161,821
Insurance Fund	(3,111)	Employee Statutory Adjustment Account	4,648
Capital Receipts Reserve	(1,788)	TOTAL UNUSABLE RESERVES	(352,352)
Capital Grants Unapplied	(87)		
TOTAL USABLE RESERVES	(85,835)	TOTAL RESERVES	(438,187)

d) The Balance Sheet

The Balance Sheet on page 14 summarises the Council's assets and liabilities as at 31 March 2016 and explanatory notes are provided from page 17. Total net assets have increased by £64.774m to £438.187m. Long Term Assets have increased by £43.356m, current assets increased by £8.806m, current liabilities reduced by £6.775m and long term liabilities reduced by £5.837m. The major changes in the Council's Balance Sheet between March 2015 and March 2016 are explained in more detail in the following paragraphs.

Long Term Assets

The value of Property, Plant and Equipment has increased by £41.111m primarily in response to a continuation of the major capital investment being undertaken by the Council.

Current Assets

The level of Short Term Debtors increased by £3.950m mainly due to a number of grants and recharges in relation to Central Government, the NHS and Capital projects, a refund due from a supplier in relation to a specific capital project, prepaid utilities relocation works and grants receivable in relation to capital projects and a reduction in the provision for Council Tax bad debts. The level of Cash or Cash Equivalents increased by £5.353m due to a reduction in the Authority's Current Account Overdrafts (£3.782m), and increased Short Term Deposits (£1.571m) as a result of undertaking new short term borrowing to take advantage of low interest rates.

Current Liabilities

Short Term Borrowing reduced by £11.573m, reflecting the short term element of the debt maturity profile. This was partially offset by the increase in Short Term Creditors of £4.824m primarily due to amounts payable under the Voluntary Severance Scheme, a prepaid receipt in relation to the sale of land, a balance due to Scottish Water at the year-end, an outstanding repayment of a restricted Scottish Government Grant and various movements in Trade Creditors.

Long Term Liabilities

Other Long Term Liabilities reduced by £20.048m due to reduced liabilities under PFI contracts, together with movements in pension assumptions which was partially offset by the increase in Long Term Borrowing of £13.585m reflecting the maturity profile of existing debt and the new borrowing undertaken to fund Capital expenditure in 2015/16.

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 market loans and from borrowing from the Public Works Loan Board. Further details are provided at Note 40.

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 2016 indicates a net liability of £161.821m compared to a net pension liability of £178.054m on 31 March 2015. This liability is based on a snapshot valuation at 31 March 2016 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 2014. Employer's contributions are currently 17% of pensionable pay. For more information see Note 19.

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 31 on page 51.

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 15 June 2016 - [Authority to Write Off Debts and Obsolete Stock - June 2016](#).

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 2015/16 Unaudited Annual Accounts.

e) **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	2015/16	2014/15	PURPOSE
Uncommitted General Fund Reserve as a proportion of Annual Budgeted Net Expenditure	4%	4.0%	Reflects the level of funding available to manage financial risk / unplanned expenditure.
Movement in the Uncommitted General Fund Balance	£0.151m	£(0.070)m	Reflects the extent to which the Council has increased / (decreased) its Uncommitted General Fund Reserve.
Council Tax – In Year Collection Rate	97.3%	97.0%	Demonstrates the Council's effectiveness in collecting council tax debt.
Ratio of Council Tax Income to Overall Level of Funding	19.5%	20.1%	This reflects the Council's capacity to vary expenditure by raising Council Tax Income.
Final Net Service Expenditure compared to Budgeted Net Service Expenditure (see Deficit / (Surplus) on Provision of Services – Page 13)	£(16.412)m	£(12.880)m	Measurement of how final expenditure compares with the budgeted position and is a reflection on the effectiveness of financial management.
Capital Financing Requirement	£411.091m	£408.201m	Measurement of requirement to borrow for capital purposes.
External Debt Levels	£365.368m	£368.459m	Actual borrowing for capital investment purposes.
Capital Financing Requirement Ratio	88.9%	90.3%	Measurement of prudence in relation to borrowing levels – borrowing only to invest in capital.
Ratio of Financing Costs to Net Revenue Stream	6.1%	9.0%	Measurement of the Council's ability to fund borrowing costs.

f) **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 (Surplus) or Deficit on Provision of Services line shows the true economic cost of providing Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for Council Tax and council house rent setting purposes.
- 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 **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 continues to show signs of recovery with inflation and unemployment falling and growth taking place in a number of sectors. However this does not lessen 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 outcome of the European Union Referendum adds a further layer of uncertainty over future levels of public sector funding. The impact of this on the Council will be considered in the updates of the Medium Term Financial Plan and Revenue & Capital Budgets.

The Council approved its latest [Medium Term Financial Plan](#) in July 2015. This Plan provided an update on the latest projections for the Council across a number of scenarios including reductions in funding, population growth and an increase in the number of older people with more complex care needs. The Scottish Government announced a one year financial settlement for local government that was much worse than the planning assumptions used in the Medium Term Financial Plan. 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.

In February 2016 the Council approved a [three year Revenue Budget](#) – final for 2016/17 and provisional for 2017/18 and 2018/19. This Revenue Budget process was one of the most challenging to date both in terms of the reductions in funding and timescales following the Spending Review by the UK Government. Information received late in the process from the Scottish Government in relation to the additional funding towards Health and Social Care also added further complexity to the process.

Perth and Kinross Health and Social Care Partnership assumed responsibility for adult social care and a range of health services from 1 April 2016. The partnership is responsible for strategic and financial oversight of these services. The Council has received written directions from the partnership setting out their requirements. Significant activity has taken place including approval of an Integration Scheme by the Scottish Government which sets out the terms and conditions of the relationship between the Council, the Health Board and the Partnership. The development of a strategic plan has commenced which sets out the services which will be provided by the Partnership. Work will also be undertaken to ensure that effective financial stewardship of the Partnership and the Council continues and to ensure this new partnership is well placed to deliver integrated services.

Perth and 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 (MTFP) and by the availability of good quality financial information.

The Council approved the Composite Capital Budget 2016/17 - 2022/23 at its meeting on 22 June 2016. The HRA Capital Budget for 2016/17 - 2020/21 was approved by the Housing & Health Committee on 27 January 2016.

The Council's capital plans include major transport infrastructure improvements in North/West Perth. Also included are various school replacements and refurbishments to modernise the school estate and address increasing school rolls; road network improvements; various Flood Prevention Schemes and the development of Perth City Centre cultural attractions and improvements. Other ongoing expenditure includes road safety measures; parks and public spaces improvements; waste reduction and recycling and property improvements. The HRA Investment Programme 2016/17 to 2020/21 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 Council's Capital Financing Requirement is estimated to peak at £709,898,000 in 2022/23. 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 includes provision to increase the Loan Charges budget by £1,000,000 per annum, thereby ensuring that the Council's plans remain affordable, prudent and sustainable.

There will be a change to accounting policies in 2016/17 as a result of the move to measuring Highways Network Assets at Depreciated Replacement Cost in accordance with the measurement methodologies specified in the CIPFA Code of Practice on Transport Infrastructure Assets. The Infrastructure Assets are currently measured at historic cost and it is anticipated that the change in the measurement basis will result in an estimated £2.5 billion increase in the current value of the assets. The change in accounting policy will be applied prospectively as the 2016/17 CIPFA Code of Practice on Local Authority Accounting will include an exceptional adaptation to IAS 1 Presentation of Financial Statements which removes the requirement to restate the opening balances at 1 April 2016 and preceding year information.

a) **Transformation**

The Council is facing an unprecedented period of change. This includes addressing the greatest financial challenges in a generation, preparing for substantial population increase in Perth and Kinross, alongside 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 has reduced by 5 % in 2016/17 (in real terms), bringing the real terms reduction in revenue funding since 2010/11 to 11 % (source: Audit Scotland). To meet these challenges, the Council must deliver significant changes in the way services are delivered.

The Council's Transformation Programme 2015-2020 ensures that we will continue to be prepared to overcome these challenges and to deliver vital services to those in our community who need them most. To respond effectively to these challenges the Council must be more innovative, creative, flexible and entrepreneurial. To achieve this £8.9m of non-recurring funding has been committed to support transformation and a programme of transformation reviews is well underway.

We welcome a new age of working together with our Community Planning partners, with our communities and with the business and voluntary sectors. We will jointly face the challenges, we will build a better place to live, work and visit, and will protect the most vulnerable in our community.

b) **Risk Management**

The Council's Risk Management Framework ensures that Corporate Business Risks and Service Risks are reviewed and updated regularly to ensure they are controlled effectively, to reduce the frequency of risk events occurring and minimise the severity of the consequences if they do occur. The [Corporate Risk Management Strategy](#) (which was approved by the Strategic Policy and resources Committee) includes the key risks associated with the delivery of the Community Plan and Corporate Plan. Service Risk Profiles include more detailed service level risks and these are managed by Service Management Teams. Risk management at a project level is a key element of the Council's project management methodology.

The Council's key risks for 2016 - 2017 are:

- Support the most vulnerable in our society during welfare reform
- Protect adults at risk
- Protect vulnerable children and families
- Effectively manage changing financial circumstances
- Deliver the Council's capital programme
- Maintain security of information and prevent public sector fraud and corruption
- Health and safety
- Effective corporate governance
- Growing the economy
- Policy and legislative reform agenda

c) Workforce Management

Financial pressures, demand for Council services, changing demographics and public service reform informed the development of the Council's second transformation programme and continue to drive efficiencies, service redesign and rationalisation which in turn determine workforce requirements. The Council's updated Building Ambition - Transformation Strategy 2015-20 sets out how we will transform services as well as introducing an Organisational Development (OD) Framework. The OD Framework ensures that the Council continues to harness the talent of our people based around the Learn Innovate Grow principles. These principles act as enablers for transforming the organisation and reinforce the commitment to developing our organisational culture. A corporate approach to workforce planning as set out in the Corporate Workforce Plan 2013-18 ensures that the Council maintains a balanced and skilled workforce. Young people are our future leaders. Over the last four years we have increased the range and number of opportunities for young people to train and work with the Council. We have seen a 65% increase in young people aged between 16 and 24 within the Council's workforce between 2012 and 2016. The quality of provision for young people has been recognised by Investors in Young People who awarded the Council the Gold Standard.

The Council's plans also include enabling projects which are helping to prepare employees and the organisation for the future – positive career choices, job families, job design and more effective processes for workforce flexibility. We recognise that learning is fundamental to growth and continue to organise sharing of knowledge, skills and expertise. Leadership development has continued with Business Breakfasts, Senior Manager Briefings, coaching skills and a collaborative leadership development programme with neighbouring councils. Together these initiatives help develop and nurture talent to meet future requirements.

The workforce management strategy is inherently linked to the Council's Transformation Programme and our 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. 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 21st Century Workforce (Report 16/216).

A significant strand of the workforce management measures is enhancing capacity and improving performance, which is focussed on the health and wellbeing of employees, 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.

In 2015/16 the average days lost to sickness absence per full time equivalent (fte) employee were 8.7 days for teachers and 9.6 days for other council staff (this compares with 6.9 days and 9.1 days respectively in 2014/15). The increase in sickness absence levels for both groups is in part explained by a change in the basis of the calculation and in part by an increase in medium and long term absences which are being addressed through positive support to prevent and minimise sickness absence in future.

The Council's positive people practices for wellbeing have been recognised through the award of Healthy Working Lives – Bronze Award, Carer Positive Kitemark and becoming an Accredited Living Wage Employer.

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 79.

The Council has an interest in four organisations (detailed on page 79) 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 2015/16 Group Accounts Statements are included on pages 74 to 78. The basis for consolidation is set out in the Notes to the Group Accounts Statements on pages 79 to 81.

The Group Reserves have also been restated by £1.035m to include the pension liability for Horsecross Arts Ltd. to realign accounting policies for entities included within the Group Accounts.

The effect of consolidation is to increase the Council's net assets by £13.034m resulting in a Group Balance Sheet showing net assets of £451.221m at 31 March 2016 as set out on page 76. This position reflects the Council's share of the pension liabilities of the Associate included within the Group Balance Sheet.

(b) Common Good and 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 £0.073m which, when applied to the surplus brought forward, results in an accumulated revenue surplus as at 31 March 2016 of £1.994m.

Details of income and expenditure accounts and balance sheets can be found on pages 72 & 73 of these 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 71 of these accounts. Overall the Trust Funds recorded an in year deficit of £0.105m which, when applied to the surplus brought forward, results in an accumulated surplus as at 31 March 2016 of £3.080m.

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 2015/16 the Council paid £2.893m 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 2015/16 the Council paid £15.414m to the contractor under the terms of the contract.

9. Conclusion

The Council has continued to demonstrate sound financial management in 2015/16 by delivering services with the resources which are available to us. The pressures being experienced by Services in relation to demand are known to us and plans are in place to mitigate them and these have been reflected in our 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 team in producing the annual accounts and thank colleagues across the Council for their continuing support.

Bernadette Malone
Chief Executive
Perth & Kinross Council

Date: 28 September 2016

Councillor Ian Miller
Leader of the Council
Perth & Kinross Council

Date: 28 September 2016

John Symon
Head of Finance
Perth & Kinross Council

Date: 28 September 2016

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 33) £'000	Total Authority Reserves £'000
Balance at 1 April 2014	(48,041)	(907)	(15,832)	(412)	(3,410)	(1,833)	(102)	(70,537)	(11,377)	(81,914)
<u>Movement in reserves during 2014/15</u>										
Deficit on the provision of services	3,104	45	0	0	0	0	0	3,149	0	3,149
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	0	(294,648)	(294,648)
Total Comprehensive Income and Expenditure	3,104	45	0	0	0	0	0	3,149	(294,648)	(291,499)
Adjustments between accounting basis & funding basis under regulations	(13,363)	802	0	0	0	1	0	(12,560)	12,560	0
Net (increase)/decrease before transfers to earmarked reserves	(10,259)	847	0	0	0	1	0	(9,411)	(282,088)	(291,499)
Transfers to/(from) Other Statutory Reserves	5,630	(740)	(3,484)	(1,014)	(392)	0	0	0	0	0
(Increase)/decrease in 2014/15	(4,629)	107	(3,484)	(1,014)	(392)	1	0	(9,411)	(282,088)	(291,499)
Balance at 31 March 2015	(52,670)	(800)	(19,316)	(1,426)	(3,802)	(1,832)	(102)	(79,948)	(293,465)	(373,413)
<u>Movement in reserves during 2015/16</u>										
(Surplus)/Deficit on the provision of services	(15,093)	2,353	0	0	0	0	0	(12,740)	0	(12,740)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	0	(52,034)	(52,034)
Total Comprehensive Income and Expenditure	(15,093)	2,353	0	0	0	0	0	(12,740)	(52,034)	(64,774)
Adjustments between accounting basis & funding basis under regulations (note 5)	8,469	(1,675)	0	0	0	44	15	6,853	(6,853)	0
Net (increase)/decrease before transfers to earmarked reserves	(6,624)	678	0	0	0	44	15	(5,887)	(58,887)	(64,774)
Transfers to/(from) Other Statutory Reserves	4,386	(660)	(4,609)	192	691	0	0	0	0	0
(Increase)/decrease in 2015/16	(2,238)	18	(4,609)	192	691	44	15	(5,887)	(58,887)	(64,774)
Balance at 31 March 2016 carried forward	(54,908)	(782)	(23,925)	(1,234)	(3,111)	(1,788)	(87)	(85,835)	(352,352)	(438,187)

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2014/15		2015/16			
Actual Net Expenditure £'000	Notes	Actual Gross Expenditure £'000	Actual Income £'000	Actual Net Expenditure £'000	Budgeted Net Expenditure £'000
COUNCIL SERVICES					
146,328	Education Services	153,401	(5,952)	147,449	153,810
79,012	Social Work Services	100,938	(18,827)	82,111	81,346
19,859	Roads and Transport Services	25,471	(5,667)	19,804	21,095
4,913	Planning and Development Services	9,214	(7,207)	2,007	5,016
8,427	Housing Services (General Fund)	46,375	(37,667)	8,708	12,152
18,986	Cultural & Related Services	20,645	(671)	19,974	20,078
24,121	Environmental Services	30,645	(3,924)	26,721	26,107
2,074	Central Services	7	3,988	(1,771)	2,217
2,694	Other Expenditure	8	4,900	(453)	4,447
4,285	Corporate and Democratic Core		4,343	0	4,343
(805)	Housing Revenue Account		31,538	(26,928)	4,610
309,894	COST OF SERVICES	431,458	(109,067)	322,391	336,295
(1,255)	Other Operating Expenditure / Income	9		644	1,049
30,036	Financing and Investment Income and Expenditure	10		21,878	22,018
(335,526)	Taxation and Non-Specific Grant Income	11		(357,653)	(355,690)
3,149	(Surplus)/Deficit on Provision of Services			(12,740)	3,672
(185,698)	Surplus on revaluation of non current assets			(19,396)	(19,396)
(108,950)	Remeasurement of the net defined benefit liability			(32,638)	(32,638)
(294,648)	Other Comprehensive Income and Expenditure			(52,034)	(52,034)
(291,499)	Total Comprehensive Income and Expenditure			(64,774)	(48,362)

BALANCE SHEET

<u>31 March 2015</u>		Notes	<u>31 March 2016</u>
£'000			£'000
854,470	Property, Plant & Equipment	22	895,581
24,059	Heritage Assets	23	26,289
17,699	Investment Property	24	17,558
43	Intangible Assets	25	61
2,116	Assets Held for Sale	26	2,188
300	Long Term Debtors	27	366
<u>898,687</u>	Long Term Assets		<u>942,043</u>
46,156	Short Term Investments		45,120
274	Assets Held for Sale	26	895
466	Inventories	28	384
26,729	Short Term Debtors	29	30,679
2,683	Cash and Cash Equivalents	45	8,036
<u>76,308</u>	Current Assets		<u>85,114</u>
(25,065)	Short Term Borrowing	40	(13,492)
(50,841)	Short Term Creditors	30	(55,665)
(204)	Provisions	31	(178)
<u>(76,110)</u>	Current Liabilities		<u>(69,335)</u>
(1,130)	Provisions	31	(1,756)
(224,598)	Long Term Borrowing	40	(238,183)
(299,744)	Other Long Term Liabilities	19,37	(279,696)
<u>(525,472)</u>	Long Term Liabilities		<u>(519,635)</u>
<u>373,413</u>	NET ASSETS		<u>438,187</u>
79,948	Usable Reserves		85,835
293,465	Unusable Reserves	33	352,352
<u>373,413</u>	TOTAL RESERVES		<u>438,187</u>

The unaudited accounts were issued on 29 June 2016 and the audited accounts were authorised for issue on 28 September 2016.

J A Symon ACA
Head of Finance
28 September 2016

CASH FLOW STATEMENT

<u>2014/15</u>		Notes	<u>2015/16</u>
<u>£'000</u>			<u>£'000</u>
(3,149)	Surplus/(deficit) on the provision of services		12,740
59,462	Adjustments to net surplus or deficit on the provision of services for non cash movements		59,522
(22,103)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		(37,852)
<u>34,210</u>	Net cash flows from Operating Activities		<u>34,410</u>
(80,693)	Investing Activities	43	(27,222)
44,426	Financing Activities	44	(1,835)
<u>(2,057)</u>	Net increase / (decrease) in cash and cash equivalents		<u>5,353</u>
4,740	Cash and cash equivalents at the beginning of the reporting period		2,683
<u><u>2,683</u></u>	Cash and cash equivalents at the end of the reporting period	45	<u><u>8,036</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 28 September 2016.

Councillor Ian Miller
Leader of the Council

Date: 28 September 2016

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 2016.

J A Symon ACA
Head of Finance
Date: 28 September 2016

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies

General

The Annual Accounts have been prepared in accordance with proper accounting practices 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 2015/16 and the Service Reporting Code of Practice (SeRCOP) 2015/16, supported by International Financial Reporting Standards (IFRS). 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, 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.

There will be a change to accounting policies in 2016/17 as a result of the move to measuring Highways Network Assets at Depreciated Replacement Cost in accordance with the measurement methodologies specified in the CIPFA Code of Practice on Transport Infrastructure Assets. Infrastructure Assets are currently measured at historic cost and it is anticipated that the change in the measurement basis will result in an estimated £2.5 billion increase in the current value of the assets. The change in accounting policy will be applied prospectively as the 2016/17 CIPFA Code of Practice on Local Authority Accounting will include an exceptional adaptation to IAS 1 Presentation of Financial Statements which removes the requirement to restate the opening balances at 1 April 2015 and preceding year information.

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 3.3% 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 1/60th to 1/49th. 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 a loan to a charitable organisation at less than market rates (soft loan). 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. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally 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 has taken on responsibility for the delivery and development of museum and library services in Perth & Kinross. The Trust will manage 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 Council 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 Council 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; to attempt 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 Heritage Service 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 Council Heritage Service Collecting Policy 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 charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2015/16 (SerCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on surplus assets in Property, Plant and Equipment.

These two cost categories are defined in SerCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

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 arrived at this valuation using the Beacon approach (Adjusted Vacant Possession) for the first time in 2014/15 in accordance with LASAAC guidance;

- 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

For 2015/16, the accounting standards that require to be reported relate to:

- Amendments to IAS 19 Employee Benefits (Defined benefit Plans – Employee Contributions)
- Annual Improvements to IFRSs (2010 – 2012 Cycle):

- Amendment to IFRS 11 Joint Arrangements (Accounting for Acquisitions of Interests in Joint Operations)
- Amendment to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (Clarification of Acceptable Methods of Depreciation and Amortisation)
- Annual Improvements to IFRS's (2012 – 2014 Cycle):
 - Amendments to IAS 1 Presentation of Financial Statements (Disclosure Initiative)
The changes to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the introduction of the new Expenditure and Funding Analysis

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 37 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 2016 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 £13,840,000. However, the assumptions interact in complex ways. During 2015/16, the Council's actuaries advised that the net pension's liability had decreased by £16,233,000 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 £507,000 for every year that useful lives had to be reduced.

5. Adjustments between Accounting Basis and Funding Basis under Regulations

	Usable Reserves				Total	2014/15
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied		
	£'000	£'000	£'000	£'000	£'000	£'000
<u>Adjustments involving the Capital Adjustment Account</u>						
Depreciation and impairment on non-current assets	(27,556)	(13,128)	0	0	(40,684)	(41,568)
Revaluation Losses on Property, Plant & Equipment	(8,644)	(294)	0	0	(8,938)	(3,309)
Reversal revaluation gains	11,809	293			12,102	9,314
Movements in Fair Value of Investment Properties	136	0	0	0	136	(2,137)
Amortisation of Intangible Assets	(11)	0	0	0	(11)	(33)
Capital grants and contributions credited to the Comprehensive Income & Expenditure Statement	29,775	5,007	0	0	34,782	18,753
Amounts of non current assets written off on disposal as part of the gain/loss	(3,470)	(995)	0	0	(4,465)	(2,106)
<u>Items not debited or credited to the Comprehensive Income & Expenditure Statement</u>						
Statutory provision for repayment of debt	13,914	3,042	0	0	16,956	15,762
Capital expenditure charged to the General Fund and HRA balances	4,340	4,194	0	0	8,534	10,434
<u>Adjustments involving the Capital Receipts Reserve</u>						
Transfer of sale proceeds credited as part of the gain/loss on disposal	2,143	1,050	(3,193)	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	3,237		3,237	3,047
<u>Adjustments involving the Capital Grants Unapplied Account</u>						
	0	0	0	15	15	0
<u>Adjustments involving the Financial Instruments Adjustment Account</u>						
	438	124	0	0	562	589
<u>Adjustments involving the Pensions Reserve</u>						
Employer's pensions contributions and direct payments to pensioners payable in the year	15,332	1,045	0	0	16,377	17,181
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(30,730)	(2,052)	0	0	(32,782)	(38,187)
<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	993	39	0	0	1,032	(300)
Total Adjustments	8,469	(1,675)	44	15	6,853	(12,560)

6. Transfer (to)/from General Fund Reserves

	Balance as at 1 April 2015 £'000	Transfers (In)/Out £'000	Balance as at 31 March 2016 £'000
Transformation Programme (including Workforce Management)	(12,963)	(3,003)	(15,966)
Revenue Budget Flexibility	(5,143)	(140)	(5,283)
Affordable Housing (Resources accrued from reduced Council Tax Discounts)	(3,168)	(561)	(3,729)
Developer Contributions: Commuted Sums & Infrastructure	(2,732)	(910)	(3,642)
Car Parking	(2,204)	536	(1,668)
Developer Contributions: Affordable Housing	(1,097)	(272)	(1,369)
Devolved School Management Balances	(1,284)	26	(1,258)
Perth City Centre Regeneration	(1,200)	0	(1,200)
Secondary Schools	0	(1,149)	(1,149)
Revenue Grants	(1,054)	228	(826)
Essential Maintenance & Compliance Works	(860)	145	(715)
Community Empowerment Act 2015	0	(650)	(650)
Evidence to Success	0	(624)	(624)
Crematorium Abatement Levy	(300)	(100)	(400)
Public Service Network	(390)	35	(355)
Planning Appeals and Public Inquiries	(344)	44	(300)
Modern Apprentices/Graduate Trainees	(329)	38	(291)
Perth Office Programme	(610)	366	(244)
UK City of Culture	0	(239)	(239)
Central Energy Efficiency Fund	(179)	(52)	(231)
Environmental Initiatives	(220)	0	(220)
Investment in Improvement Funds	(684)	466	(218)
Energy and Water Management	(200)	0	(200)
Local Government Elections	(106)	(91)	(197)
Contaminated Land	(109)	(14)	(123)
Investment in Learning Programme	(135)	35	(100)
Corporate Feasibility Studies	0	(100)	(100)
Financial Assistance	(180)	100	(80)
Events	(100)	50	(50)
Rural Warden	0	(20)	(20)
Funding of Capital Expenditure at Perth Theatre	(3,202)	3,202	0
Local Integration Reserve Fund	(500)	500	0
Community Safety / Community Wellbeing Initiatives	(67)	67	0
Earmarked Balances at 31 March 2016	(39,360)	(2,087)	(41,447)

Purpose of Earmarked General Fund Balances

Transformation Programme (including Workforce Management) –The Reserves Strategy in February 2016 approved these resources as earmarked to support the Council's transformation programme including the costs of any workforce management 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.

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.

Affordable Housing (Resources accrued from reduced Council Tax Discounts) - the Council has previously agreed to reduce the level of Council Tax Discounts on Second Homes and Long Term Unoccupied Dwellings to 10% to create funding to support the development of affordable housing within the Perth & Kinross area in partnership with Registered Social Landlords. 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 a comprehensive affordable housing policy on 29 August 2007. As a consequence, commuted sums are received from some developers in lieu of the provision of affordable housing. These sums are held in the Council's Reserves until they are applied to schemes for the provision of affordable housing. Additionally, contributions are provided by developers towards the cost of providing and maintaining public open space, play areas and Infrastructure. The application of these resources will be reported to the Strategic Policy & Resources Committee through the revenue monitoring process.

Car Parking – this balance is the accumulated surplus at 31 March 2016 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.

Devolved School Management Balances – the amount shown is the accumulated sum available to be carried forward at 31 March 2016 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.

Perth City Centre Regeneration – 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.

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 £500,000 was approved as part of the 2016/17 Revenue Budget process as budget flexibility.

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.

Essential Maintenance and Compliance Works – these resources have been earmarked to fund the dilapidations works associated with the Perth Office Programme. The application of these resources will be reported to the Strategic Policy & Resources Committee through the revenue monitoring process.

Community Empowerment Act 2015 – these resources were approved to be earmarked to expand the provisions of the Small Business Bonus and Fresh Start Schemes by the Strategic Policy & Resources Committee on 15 June 2016 (report 16/266 refers).

Evidence to Success – these resources were earmarked as part of the setting of the 2015/16 Revenue Budget in February 2014 and will be utilised in 2016/17.

Crematorium Abatement Levy – income from financial years 2012/13 until 2015/16 has been earmarked for future investment at Perth Crematorium to comply with mercury abatement legislation. The application of these resources will be reported to the Strategic Policy & Resources Committee through the revenue monitoring process.

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

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.

Modern Apprentices/Graduate Trainees - The Strategic Policy and Resources Committee approved the transfer of the underspend on modern apprentices and graduate trainees during 2015/16 to fund future expenditure in this area.

Perth Office Programme - these resources are earmarked in reserves to fund future expenditure on the Perth Office Programme. The application of these resources will be reported to the Strategic Policy & Resources Committee through the revenue monitoring process.

UK City of Culture – Council approved funding of £250,000 towards the bid for City of Culture (report 15/417 refers). £239,000 of resources are available for future years.

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.

Environmental Initiatives – these resources are earmarked in reserves for future environmental initiatives. 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.

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.

Local Government Elections – these resources are earmarked in reserves as a contribution to local elections. The application of these resources will be reported to the Strategic Policy & Resources Committee through the revenue monitoring process.

Contaminated Land – under spends in 2015/16 and previous years have been 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.

Investment in Learning Programme (ILL) – under spends in financial year 2011/12 have been earmarked within Reserves to deal with future expenditure on the ILL Programme including infrastructure works at Moyness Road, Blairgowrie.

Corporate Feasibility Studies – these resources were approved to be earmarked at the Strategic Policy & Resources Committee (report 16/179 refers) for use in future years.

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.

Events – These resources were earmarked as part of the revenue budget approved in February 2013 for investment in outdoor and cultural events. These resources have been partly used in 2015/16 with the balance to be used in 2016/17. The application of these resources will be reported to the Strategic Policy & Resources Committee through the revenue monitoring process.

Rural Warden - these resources were earmarked as part of the 2015/16 Revenue Budget to provide pilot funding for a partnership approach to community safety in Highland Perthshire and will be utilised in 2016/17.

Funding of Capital Expenditure at Perth Theatre – these resources were earmarked in reserves to fund investment in Perth Theatre. During 2015/16 these resources have been transferred to the Capital Fund. The application of these resources will be reported to the Strategic Policy & Resources Committee through the capital monitoring process.

Local Integration Reserve Fund – The Strategic Policy and Resources Committee approved the transfer of £500,000 during 2014/15 to a Local Integration Reserve Fund (Report No. 14/407 refers). These resources were released in 2015/16 to assist with health and social care.

Community Safety / Community Wellbeing Initiatives – reduced requisitions in 2011/12 from Tayside Fire and Rescue Board and Tayside Joint Police Board allowed the identification of resources to support preventative initiatives linked to community wellbeing and safety. The balance of these resources were utilised in 2015/16.

7. Central Services

This heading includes areas of expenditure that cannot be attributed or apportioned to the main services provided by the Council.

	2015/16 £'000	2014/15 £'000
Local Tax Collection	1,531	1,366
Registration of Births, Deaths and Marriages	163	96
Electoral Registration /Elections	538	495
Licensing	(118)	(118)
Emergency Planning	1	4
General Grants and Financial Assistance	102	231
	<u>2,217</u>	<u>2,074</u>

8. Other Expenditure

Other Expenditure is detailed as follows. In 2015/16 Valuation services were provided by a joint board on behalf of Perth & Kinross, Angus and Dundee City Councils.

	2015/16 £'000	2014/15 £'000
Valuation	1,093	1,162
Commercial Property	2,988	1,246
Irrecoverable Costs of Support to Outside Bodies	188	59
Harbour	178	227
Total	<u>4,447</u>	<u>2,694</u>

The harbour at Perth is a commercial port. Income from harbour dues during the year amounted to £98,000 (2014/15 £87,000) and the net deficit was £178,000 (2014/15 net deficit £227,000).

9. Other Operating Expenditure / Income

	2015/16 £'000	2014/15 £'000
Losses/(Gains) on the Disposal of Non Current Assets	1,239	(912)
Share of Tayside Contracts surplus	(595)	(343)
Total	<u>644</u>	<u>(1,255)</u>

10. Financing and Investment Income and Expenditure

	2015/16 £'000	2014/15 £'000
Interest payable and similar charges	17,808	17,516
Pensions interest cost and expected return on pensions assets	5,677	11,809
Interest receivable and similar income	(455)	(391)
(Income) and expenditure in relation to investment properties and changes in their fair value	(1,152)	1,102
Total	<u>21,878</u>	<u>30,036</u>

11. Taxation and Non Specific Grant Incomes

	2015/16 £'000	2014/15 £'000
Council Tax Income	(69,494)	(67,578)
Non Domestic Rates	(59,158)	(55,395)
Non Ringfenced Government Grants	(194,219)	(193,800)
Capital Grants and Contributions	(34,782)	(18,753)
Total	<u>(357,653)</u>	<u>(335,526)</u>

12. Material Items of Income and Expense

There have been no material items of income and expenditure during 2015/16 which are not disclosed on the face of the Comprehensive Income and Expenditure Statement.

13. 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 2015/16, there were no such debt modifications.

The net amount of premium and discount debited to the General Fund and HRA for transactions prior to 1 April 2012 (as permitted by statutory guidance) from the Financial Instruments Adjustment Account (FIAA) was £547,000 (2014/15 £574,000).

14. General Grants, Bequests and Donations

Perth and 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 2015/16 a total of £9,956,000 (2014/15 £9,885,000) 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 £3,844,000 (2014/15 £3,997,000). Details of grants are shown below.

	2015/16 £'000	2015/16 £'000	2014/15 £'000	2014/15 £'000
Education Services				
- Service Level Agreements with Voluntary Organisations		468		486
Social Work Services				
- Service Level Agreements with Voluntary Organisations	2,868		3,046	
- Other Grants	93		0	
<i>Sub Total Social Work Services</i>		2,961		3,046
Housing Services (General Fund)				
- Churches Action for the Homeless	236		231	
- Perth and Kinross Community Mediation	55		55	
<i>Sub Total Housing (General Fund)</i>		291		286
Planning & Development Services				
- Perth & Kinross Heritage Trust	83		83	
- Perth & Kinross Countryside Trust	60		70	
- Vacant Property Grants	31		0	
- Visit Scotland	28		28	
<i>Sub Total Planning & Development</i>		202		181
Cultural & Related Services				
- Live Active Leisure Limited	3,844		3,997	
- Horsecross Arts Ltd: Perth Concert Hall	866		866	
- Horsecross Arts Ltd: Perth Repertory Theatre	321		321	
- Pitlochry Festival Theatre	220		220	
- Shaw Trust	158		0	
- Perth & Kinross Sports Council	11		15	
<i>Sub Total Cultural & Related</i>		5,420		5,419
Central Services				
- Citizens Advice Bureau	388		249	
- Perthshire Women's Aid	124		104	
- Other	102		114	
<i>Sub Total Central Services</i>		614		467
		<u>9,956</u>		<u>9,885</u>

15. Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Expenditure Reporting Code of Practice. However, decisions about resource allocation are taken by the Council on the basis of internal management reports analysed across service areas. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, impairment losses and amortisations are charged to services in the Comprehensive Income and Expenditure Statement);
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year;
- expenditure on some support services is budgeted for centrally and not charged to Services.

The income and expenditure of the Council's principal services recorded in the management reports for the year is as follows:

Segmental Analysis 2015/16	Education & Children's Services £'000	Housing & Community Care £'000	The Environment Service £'000	Total £'000
Fees, charges and other service income	(5,165)	(48,088)	(12,671)	(65,924)
Government Grants and contributions	(1,462)	(34,921)	(1,429)	(37,812)
Total Income	(6,627)	(83,009)	(14,100)	(103,736)
Employee expenses	108,807	40,754	24,001	173,562
Other service expenses	62,709	111,901	31,040	205,650
Support Service Recharges	6,781	4,121	2,987	13,889
Total Operating Expenses	178,297	156,776	58,028	393,101
Net Cost of Services	171,670	73,767	43,928	289,365

	2015/16 £'000
Reconciliation to Net Cost of Services in Group Comprehensive Income and Expenditure Statement	
Cost of Services in Service Analysis	289,365
Add services not included in main analysis	1,052
Add amounts not reported to management	31,974
Net cost of services in Comprehensive Income and Expenditure Statement	322,391
Group operating results	3,072
Net cost of services in Group Comprehensive Income and Expenditure Statement	325,463

Reconciliation to Subjective Analysis 2015/16	Service Analysis	Services not in Analysis	Not reported to management	Group Results in Cost of Services	Net Cost of Services	Corporate Amounts	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges and other service income	(65,924)	(2,368)	10	(27,505)	(95,787)	(1,120)	(96,907)
Surplus or deficit on associates and joint ventures	0	0	0	1,868	1,868	(630)	1,238
Interest and Investment Income	0	0	0	0	0	(633)	(633)
Income from council tax	0	0	0	0	0	(69,494)	(69,494)
Government grants and contributions	(37,812)	(291)	(2,682)	0	(40,785)	(288,160)	(328,945)
Total Income	(103,736)	(2,659)	(2,672)	(25,637)	(134,704)	(360,037)	(494,741)
Employee expenses	173,562	15,123	9,696	19,320	217,701	6,138	223,839
Other service expenses	205,650	(11,412)	(12,581)	8,148	189,805	(32)	189,773
Support Service Recharges	13,889	0	0	0	13,889	0	13,889
Depreciation, amortisation and impairment	0	0	37,531	1,241	38,772	0	38,772
Interest payments	0	0	0	0	0	17,920	17,920
Gain on disposal of non-current assets	0	0	0	0	0	1,361	1,361
Total Operating Expenses	393,101	3,711	34,646	28,709	460,167	25,387	485,554
(Surplus) / Deficit on the provision of services (Group Comprehensive I&E)	289,365	1,052	31,974	3,072	325,463	(334,650)	(9,187)

Segmental Analysis 2014/15	<i>Education & Children's Services</i>	<i>Housing & Community Care</i>	<i>The Environment Service</i>	<i>Total</i>
	£000	£000	£000	£000
Fees, charges and other Service income	(5,275)	(45,539)	(11,733)	(62,547)
Government Grants and contributions	(1,930)	(33,045)	(1,356)	(36,331)
Total Income	(7,205)	(78,584)	(13,089)	(98,878)
Employee expenses	105,386	39,351	23,506	168,243
Other Service expenses	60,400	105,799	32,303	198,502
Support Service Recharges	6,328	3,720	2,822	12,870
Total Operating Expenses	172,114	148,870	58,631	379,615
Total Net Cost of Services	164,909	70,286	45,542	280,737

2014/15
£'000

Reconciliation to Net Cost of Services in Group Comprehensive Income and Expenditure Statement

Cost of Services in Service Analysis	280,737
Add services not included in main analysis	1,327
Add amounts not reported to management	27,830
Net cost of services in Comprehensive Income and Expenditure Statement	309,894
Group operating results	2,164
Net cost of services in Group Comprehensive Income and Expenditure Statement	312,058

**Reconciliation to Subjective Analysis
2014/15**

	<i>Service Analysis</i>	<i>Services not in Analysis</i>	<i>Not reported to management</i>	<i>Group Results in Cost of Services</i>	<i>Net Cost of Services</i>	<i>Corporate Amounts</i>	<i>Total</i>
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges and other service income	(62,547)	(1,579)	8	(26,206)	(90,324)	(1,141)	(91,465)
Surplus or deficit on associates and joint ventures	0	0	0	955	955	(379)	576
Interest and Investment Income	0	0	0	0	0	(562)	(562)
Income from council tax	0	0	0	0	0	(67,578)	(67,578)
Government grants and contributions	(36,331)	(543)	(1,844)	0	(38,718)	(267,948)	(306,666)
Total Income	(98,878)	(2,122)	(1,836)	(25,251)	(128,087)	(337,608)	(465,695)
Employee expenses	168,243	14,748	9,367	18,956	211,314	12,677	223,991
Other service expenses	198,502	(11,299)	(15,297)	7,241	179,147	2,244	181,391
Support Service Recharges	12,870	0	0	0	12,870	0	12,870
Depreciation, amortisation and impairment	0	0	35,596	1,218	36,814	0	36,814
Interest payments	0	0	0	0	0	17,632	17,632
Gain on disposal of non-current assets	0	0	0	0	0	(1,133)	(1,133)
Total Operating Expenses	379,615	3,449	29,666	27,415	440,145	31,420	471,565
(Surplus) / Deficit on the provision of services (Group Comprehensive I&E)	280,737	1,327	27,830	2,164	312,058	(306,188)	5,870

16. 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.

	2015/16 Income	2015/16 Expenditure	2014/15 Income	2014/15 Expenditure
	£'000	£'000	£'000	£'000
<u>Education Services</u>				
Provision of Pupil Support				
Assistants to other local authorities	156	156	147	147
<u>Roads and Transport Services</u>				
Receipts from other local authorities for cross boundary bus services	30	30	29	29
<u>Central Services</u>				
Income from Scottish Water	444	444	444	444
Totals	630	630	620	620

17. External Audit Costs

In 2015/16 Perth and Kinross Council incurred the following fees relating to external audit services provided in accordance with the Code of Audit Practice:

	2015/16 £'000	2014/15 £'000
Fees payable to Audit Scotland	284	281

This includes £1,500 in respect of the audit of charitable trusts where the Council is the sole trustee (2014/15 £1,500).

18. Termination Benefits

The Council terminated the contracts of a number of employees in 2015/16, incurring liabilities of £3,449,000 (£168,000 in 2014/15). These were in relation to 150 officers (24 in 2014/15) from all Services across the Council throughout 2015/16 and will deliver recurring savings of approximately £3.3million in a full year.

19. 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 2015/16, the Council paid £8,502,817 to the Teachers' Pensions scheme in respect of teachers' retirement benefits, representing 17.2% of pensionable pay. The figures for 2014/15 were £7,763,452 and 14.9%. 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 £253,846 (2014/15 £253,846).

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 schedule 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 1/60th to 1/49th. 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

	2015/16 £'000	2014/15 £'000
Comprehensive Income and Expenditure Statement		
Cost of Services		
- Service Cost	27,105	26,378
Financing and Investment Income and Expenditure		
- Net Interest on the Defined Liability	5,611	11,613
Administration Expenses	66	196
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	<u>32,782</u>	<u>38,187</u>
Remeasurement of the net defined benefit liability comprising:		
Expected return on pension fund assets in excess of interest	25,157	(51,547)
Other Actuarial (Gains)/Losses on Assets	0	14,309
Changes in demographic assumptions	0	(29,962)
Changes in financial assumptions	(56,870)	76,199
Experience Gain on defined benefit obligation	(925)	(117,949)
Total Post Employment Benefit (Credited)/Charged to the Comprehensive Income & Expenditure Statement	<u>(32,638)</u>	<u>(108,950)</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>(32,782)</u>	<u>(38,187)</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>16,377</u>	<u>17,181</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 2016 £'000	31 March 2015 £'000
Present Value of the Defined Benefit Obligation	724,812	743,568
Present Value of Unfunded Obligation	25,687	28,242
Closing Defined Benefit Obligation	750,499	771,810
Fair Value of Pension Fund Assets (Bid Value)	(588,678)	(593,756)
Net Liability in Balance Sheet	161,821	178,054

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 2016 £'000	31 March 2015 £'000
Opening Defined Benefit Obligation	771,810	797,579
Current Service Cost	25,232	24,756
Interest Cost	25,214	35,561
Change in Financial Assumptions	(56,870)	76,199
Change in Demographic Assumptions	0	(29,962)
Experience Gain on Defined Benefit Obligation	(925)	(117,949)
Estimated Benefits Paid Net of Transfers In	(19,248)	(19,215)
Past Service Costs (including Curtailments)	1,873	1,622
Contributions by Scheme Participants	5,290	5,133
Unfunded Pension Payments	(1,877)	(1,914)
Closing Defined Benefit Obligation	750,499	771,810

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 2016 £'000	31 March 2015 £'000
Opening Fair Value of Scheme Assets	593,756	531,581
Interest on Assets	19,603	23,948
Return on Assets Less Interest	(25,157)	51,547
Other Actuarial Gains/Losses	0	(14,309)
Administration Expenses	(66)	(196)
Contributions by Employer Including Unfunded	16,377	17,181
Contributions by Scheme Participants	5,290	5,133
Estimated Benefits Paid Plus Unfunded Net of Transfers In	(21,125)	(21,129)
Closing Fair Value of Scheme Assets	588,678	593,756

Perth & Kinross Council's share of Tayside Pension Fund's assets at 31 March 2016 comprised:

	31 March 2016		31 March 2015	
	£'000	%	£'000	%
Equities	403,566	68%	420,464	70%
Gilts	30,813	5%	32,534	5%
Other Bonds	76,015	13%	75,036	13%
Property	71,824	13%	59,190	11%
Cash	6,460	1%	6,532	1%
Total	588,678	100%	593,756	100%

A further breakdown of the assets as at 31 March 2016 is as follows:

	31 March 2016	31 March 2015
Equities		
Consumer	10%	11%
Financials	11%	12%
Industrials	7%	7%
Energy and Utilities	3%	3%
Materials	2%	2%
Healthcare	4%	4%
Information Technology	5%	5%
Telecommunications	2%	1%
Pooled Investments	24%	25%
	<u>68%</u>	<u>70%</u>
Gilts		
Government Bonds	5%	5%
Other Bonds		
Corporate Bonds	12%	12%
Venture Capital / Partnerships	1%	1%
	<u>13%</u>	<u>13%</u>
Property		
Retail	2%	4%
Commercial	9%	5%
Alternatives and Cash	2%	2%
	<u>13%</u>	<u>11%</u>
Cash		
Forward Foreign Exchange Contracts	1%	1%
Total	<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 2016.

The principal assumptions used by the actuary have been:

	2015/16	2014/15
Mortality Assumptions:		
Longevity at 65 for Current Pensioners:		
- Men	21.3	21.2
- Women	23.3	23.2
Longevity at 65 for Future Pensioners:		
- Men	23.5	23.4
- Women	25.6	25.5
Rate of Inflation CPI	2.4%	2.4%
Rate of Inflation RPI	3.3%	3.2%
Rate of Increase in Salaries	4.2%	4.2%
Rate of Increase in Pensions	2.4%	2.4%
Rate for Discounting Scheme Liabilities	3.7%	3.3%
Take-up of Option to Convert Annual Pension into Retirement Lump Sum	10.0%	50.0%

The liabilities show the underlying commitments that the Council has in the long run to pay post-employment (retirement) benefits. The net liability of £161,821,000 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 healthy.

- 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 2017 is £14,976,000.

Sensitivity Analysis

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the tables above. The sensitivity analyses 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 as at 1 April 2016	£736,659,000	£750,499,000	£764,611,000
- Projected Service cost (2016/17)	£22,088,000	£22,600,000	£23,124,000
Adjustment to long term salary increase	+0.1%	0.0%	-0.1%
- Present value of total obligation as at 1 April 2016	£752,831,000	£750,499,000	£748,182,000
- Projected Service cost (2016/17)	£22,611,000	£22,600,000	£22,589,000
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	-0.1%
- Present value of total obligation as at 1 April 2016	£762,446,000	£750,499,000	£738,789,000
- Projected Service cost (2016/17)	£23,120,000	£22,600,000	£22,092,000
Adjustment to mortality age rating assumption	+ 1 year	None	-1 year
- Present value of total obligation as at 1 April 2016	£773,032,000	£750,499,000	£728,643,000
- Projected Service cost (2016/17)	£23,177,000	£22,600,000	£22,038,000

20 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 15 on amounts reported to decision makers.

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 £1,361,000.

Members

Members of the Council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2015/16 is shown in the Remuneration Report. During 2015/16, three councillors had an interest in businesses from which the Council commissioned works and services to the value of £22,753; £21,713 and £910 respectively. Contracts were entered into in full compliance with the Council's standing orders and the Councillors' Code of Conduct.

Live Active Leisure Ltd

This organisation provides leisure services within the area served by the Council. A grant was provided in 2015/16 amounting to £3,844,000 (2014/15 £3,997,000). 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 2015/16 amounting to £1,187,000 (2014/15 £1,187,000). 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 2015/16 amounted to £22,491,000 (2014/15 £21,288,000). The Joint Committee is administered and controlled by Dundee City, Angus and Perth and Kinross Councils.

21 Leases

Council as Lessee

The Council has 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 is written down over the shorter of the lease term or the useful life of the property.

The Council also 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 2016/17 to 2018/19.

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

	2015/16 £'000	2014/15 £'000
Not later than one year	613	797
Later than one year and not later than five years	916	1,235
Later than five years	604	733
	<u>2,133</u>	<u>2,765</u>

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

	2015/16 £'000	2014/15 £'000
Minimum lease payments	792	792
Sublease payments receivable	(11)	(15)
	<u>781</u>	<u>777</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:

	2015/16 £'000	2014/15 £'000
Not later than one year	1,155	1,302
Later than one year and not later than five years	3,700	3,968
Later than five years	47,869	50,144
	<u>52,724</u>	<u>55,414</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 2014/15 and 2015/16.

22 Property, Plant and Equipment

Movements on Fixed Assets 2015/16 in respect of Property, Plant & Equipment are shown below:

Movements in 2015/16	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 2015	278,565	451,831	37,542	211,308	15,473	994,719
Additions	14,672	10,936	6,065	15,533	1,201	48,407
Revaluation increases recognised in the Revaluation Reserve	0	10,951	0	0	0	10,951
Revaluation decreases recognised in the Revaluation Reserve	0	(316)	0	0	0	(316)
Revaluation increases recognised in the Surplus/Deficit on the Provision of Services	0	2,216	0	0	0	2,216
Revaluation decreases recognised in the Surplus/Deficit on the Provision of Services	0	(10,202)	0	0	0	(10,202)
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0
Derecognition - disposals	(3,824)	(3,599)	(3,320)	0	0	(10,743)
Asset reclassifications	6,499	14,837	0	0	0	21,336
As at 31 March 2016	295,912	476,654	40,287	226,841	16,674	1,056,368
<u>Depreciation</u>						
As at 1 April 2015	(15,002)	(42,862)	(22,800)	(82,480)	(6,111)	(169,255)
Depreciation charge for 2015/16	(13,002)	(13,162)	(5,253)	(8,276)	(991)	(40,684)
Depreciation written out to the Revaluation Reserve - revaluation gain	0	6,549	0	0	0	6,549
Depreciation written out to the Revaluation Reserve - revaluation loss	0	37	0	0	0	37
Depreciation written out to the Surplus/Deficit on the Provision of Services - revaluation gain	0	9,593	0	0	0	9,593
Depreciation written out to the Surplus/Deficit on the Provision of Services - revaluation loss	0	2,779	0	0	0	2,779
Derecognition - disposals	2,828	2,076	3,227	0	0	8,131
Asset reclassifications	0	1,850	0	0	0	1,850
As at 31 March 2016	(25,176)	(33,140)	(24,826)	(90,756)	(7,102)	(181,000)
Net Book Value at 31 March 2016	270,736	443,514	15,461	136,085	9,572	875,368

Movements in 2015/16

	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 2015	994,719	726	28,315	1,023,760	133,078
Additions	48,407	221	16,984	65,612	46
Revaluation increases recognised in the Revaluation Reserve	10,951	18	0	10,969	3,002
Revaluation decreases recognised in the Revaluation Reserve	(316)	0	(74)	(390)	0
Revaluation increases recognised in the Surplus/Deficit on the Provision of Services	2,216	0	0	2,216	757
Revaluation decreases recognised in the Surplus/Deficit on the Provision of Services	(10,202)	(2,791)	(428)	(13,421)	(2,131)
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0
Derecognition - disposals	(10,743)	(580)	0	(11,323)	0
Asset reclassifications	21,336	2,424	(24,602)	(842)	0
As at 31 March 2016	1,056,368	18	20,195	1,076,581	134,752
<u>Depreciation</u>					
As at 1 April 2015	(169,255)	(35)	0	(169,290)	(16,600)
Depreciation charge for 2015/16	(40,684)	0	0	(40,684)	(4,477)
Depreciation written out to the Revaluation Reserve - revaluation gain	6,549	0	0	6,549	5,690
Depreciation written out to the Revaluation Reserve - revaluation loss	37	0	1	38	0
Depreciation written out to the Surplus/Deficit on the Provision of Services - revaluation gain	9,593	0	0	9,593	8,976
Depreciation written out to the Surplus/Deficit on the Provision of Services - revaluation loss	2,779	1,875	10	4,664	1,538
Derecognition - disposals	8,131	0	0	8,131	0
Asset reclassifications	1,850	(1,840)	(11)	(1)	0
As at 31 March 2016	(181,000)	0	0	(181,000)	(4,873)
Net Book Value at 31 March 2016	875,368	18	20,195	895,581	129,879

Comparative Movements in 2014/15

	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 2014	88,303	435,014	36,581	194,882	14,286	769,066
Additions	13,544	11,534	6,881	16,426	1,187	49,572
Revaluation increases recognised in the Revaluation Reserve	166,657	457	0	0	0	167,114
Revaluation decreases recognised in the Revaluation Reserve	0	(146)	0	0	0	(146)
Revaluation increases recognised in the Surplus/Deficit on the Provision of Services	7,907	195	0	0	0	8,102
Revaluation decreases recognised in the Surplus/Deficit on the Provision of Services	0	(3,230)	0	0	0	(3,230)
Derecognition - disposals	(2,000)	(40)	(5,920)	0	0	(7,960)
Asset reclassifications	4,154	8,047	0	0	0	12,201
As at 31 March 2015	278,565	451,831	37,542	211,308	15,473	994,719
<u>Depreciation</u>						
As at 1 April 2014	(19,524)	(30,920)	(23,818)	(74,676)	(5,186)	(154,124)
Depreciation charge for 2014/15	(15,522)	(12,503)	(4,799)	(7,804)	(925)	(41,553)
Depreciation written out to the Revaluation Reserve - revaluation gain	18,645	127	0	0	0	18,772
Depreciation written out to the Revaluation Reserve - revaluation loss	0	8	0	0	0	8
Depreciation written out to the Surplus/Deficit on the Provision of Services - revaluation gain	879	216	0	0	0	1,095
Depreciation written out to the Surplus/Deficit on the Provision of Services - revaluation loss	0	81	0	0	0	81
Derecognition - disposals	520	2	5,817	0	0	6,339
Asset reclassifications	0	127	0	0	0	127
As at 31 March 2015	(15,002)	(42,862)	(22,800)	(82,480)	(6,111)	(169,255)
Net Book Value at 31 March 2015	263,563	408,969	14,742	128,828	9,362	825,464

Movements in 2014/15

	Sub total b/fwd £'000	Surplus Assets £'000	Assets Under Construction £'000	Total PPE £'000	PFI Assets Included in PPE £'000
Gross Book Value					
As at 1 April 2014	769,066	803	21,007	790,876	132,735
Additions	49,572	8	21,827	71,407	343
Revaluation increases recognised in the Revaluation Reserve	167,114	0	0	167,114	0
Revaluation decreases recognised in the Revaluation Reserve	(146)	0	(53)	(199)	0
Revaluation increases recognised in the Surplus/Deficit on the Provision of Services	8,102	0	0	8,102	0
Revaluation decreases recognised in the Surplus/Deficit on the Provision of Services	(3,230)	(60)	(119)	(3,409)	0
Derecognition - disposals	(7,960)	0	0	(7,960)	0
Asset reclassifications	12,201	(25)	(14,347)	(2,171)	0
As at 31 March 2015	994,719	726	28,315	1,023,760	133,078
Depreciation					
As at 1 April 2014	(154,124)	(32)	0	(154,156)	(13,375)
Depreciation charge for 2014/15	(41,553)	(15)	0	(41,568)	(3,225)
Depreciation written out to the Revaluation Reserve - revaluation gain	18,772	0	0	18,772	0
Depreciation written out to the Revaluation Reserve - revaluation loss	8	0	3	11	0
Depreciation written out to the Surplus/Deficit on the Provision of Services - revaluation gain	1,095	0	117	1,212	0
Depreciation written out to the Surplus/Deficit on the Provision of Services - revaluation loss	81	12	7	100	0
Derecognition - disposals	6,339	0	0	6,339	0
Asset reclassifications	127	0	(127)	0	0
As at 31 March 2015	(169,255)	(35)	0	(169,290)	(16,600)
Net Book Value at 31 March 2015	825,464	691	28,315	854,470	116,478

Capital Commitments

At 31 March 2016, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2016/17 and future years budgeted to cost £23.534m. Similar commitments at 31 March 2015 were £9.042m. The total commitment is made up of the following:

	2015/16 £'000	<i>Restated</i> 2014/15 £'000
Education Projects	7,729	7,285
Upgrade of Perth Theatre	8,420	0
Roads & Bridges Improvement Schemes	877	1,052
Flood Prevention	736	94
Environmental Improvements	1,392	134
Upgrade of Office Accommodation	3,536	0
Other Capital Projects	844	477
	<u>23,534</u>	<u>9,042</u>

Valuation of Assets

Revaluations

The Authority 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. Valuations of vehicles, plant and equipment are based on market prices at date of acquisition.

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	39,049	25,163	0	64,212
Values at fair value as at:				
31 March 2016	0	174,939	18	174,957
31 March 2015	256,863	15,420	0	272,283
31 March 2014	0	82,654	0	82,654
31 March 2013	0	43,510	0	43,510
31 March 2012	0	134,968	0	134,968
Total Cost or Valuation	295,912	476,654	18	772,584

Changes in Estimates

In line with the incorporation of the requirements of IFRS 13 (Fair Value Measurement) into the 2015/16 CIPFA Code and associated LASAAC guidance, Surplus Assets are now valued on a fair value (best use) basis. All valuations were 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. In terms of the fair value hierarchy, all Surplus Assets are valued at Level 2.

The revaluation of Surplus Assets at 1 April 2015 resulted in a revaluation decrease of £0.898m, consisting of a decrease of £0.916m which was recognised in the Surplus/Deficit on the Provision of Services, and an increase of £0.018m which was credited to the Revaluation Reserve.

The Council made no other material changes to accounting estimates for Property, Plant and Equipment in 2015/16.

23 Heritage Assets

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

	2015/16 Art Collection £'000	2015/16 War Memorials £'000	2015/16 Total £'000	2014/15 Art Collection £'000	2014/15 War Memorials £'000	2014/15 Total £'000
Cost or Valuation						
Balance at 1 April	24,013	46	24,059	24,013	46	24,059
Revaluations	2,230	0	2,230	0	0	0
Balance at 31 March	26,243	46	26,289	24,013	46	24,059

Art Collection

The collection of Fine Art maintained and preserved by the Council Heritage Service 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 the Heritage Service of Culture Perth & Kinross are undertaking a five year rolling programme of valuation for the Fine and Applied Art collections. Items and collections having significant value will be added to the Council balance sheet as the valuation programme progresses.

There are a number of significant works included within the Art Collection. The cumulative value of the J D Fergusson oil paintings valued during 2010/11 amounts to £10.2m; the oils form a small part of the J D Fergusson and Margaret Morris collection of works and archives. The cumulative value attached to the oil paintings valued by the curators during 2011/12 is £9.3m; of note are paintings by John Everett Millais, Samuel John Peploe, and Francis Campbell Boileu which have a collective value of £6m. An additional £1.1m was added to the value of Heritage Assets in 2012/13 following the curatorial valuation of watercolours and drawings, and J D Fergusson works on paper. The 2013/14 revaluation programme included the curatorial valuation of the Margaret Morris archives, which has resulted in £3.4m being added to the value of Heritage Assets.

A further £2.2m has been added to the value of Heritage Assets during 2015/16 following the curatorial valuation of sculptures; of note are sculptures by Eric Gill and JD Fergusson with a cumulative value of £1.3m.

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 four 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 four 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 Council Heritage Service Collecting Policy provides guidance on the collection, disposal or lending of heritage assets.

24 Investment Properties

	2015/16 £'000	2014/15 £'000
Rental income from investment property	(1,120)	(1,141)
Direct operating expenses arising from investment property	71	137
Net gain	<u>(1,049)</u>	<u>(1,004)</u>

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

	2015/16 £'000	2014/15 £'000
Balance at start of year	17,699	16,428
Additions	735	1,587
Disposals:	(190)	(176)
Net gains / (losses) from fair value adjustments	136	(2,138)
Reclassifications: (to) / from Property, Plant and Equipment	(822)	1,998
Balance at end of year	<u>17,558</u>	<u>17,699</u>

All of the Authority's investment properties are valued at Level 2 on the fair value hierarchy. Values as at 31 March 2015 and 31 March 2016 are as follows:

	Other Significant Observable Inputs (Level 2)	
	2015/16 £'000	2014/15 £'000
Recurring fair value measurements using:		
Industrial and Commercial Land	15,098	14,619
Shops and Offices	1,703	1,981
Other Investment Properties	757	1,099
Total Fair Value	<u>17,558</u>	<u>17,699</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.

25 Intangible Assets

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

	2015/16 Assets £'000	2014/15 Assets £'000
Balance at start of year		
Gross carrying amount	184	136
Accumulated amortisation	(141)	(108)
Net carrying amount at start of year	43	28
Additions: Purchases	29	48
Disposals: Gross Carrying Amount	(79)	0
Disposals: Accumulated Amortisation	79	0
Amortisation for the period	(11)	(33)
Net carrying amount at end of year	61	43
Comprising:		
Gross carrying amounts	134	184
Accumulated amortisation	(73)	(141)
	61	43

Intangible Assets include the historic cost for internal development of software for Resourcelink, the Council's integrated Human Resources Payroll system. The Council is custodian of Resourcelink software and data and continues to maintain control over the system; future economic benefits will therefore continue to flow to the council. Amortisation of Resourcelink expenditure commenced in 2008/09 and the historic cost has now been written down in full.

Software Licenses, capitalised in 2012/13, came to the end of their license term during the current year. These had been amortised over their three year license term and were written down in full as at 31 March 2015. These have therefore been written off as disposals during the current year.

Intangible Assets also includes the cost of the software license and 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 during the current year, and will provide future benefit to the Council; this is amortised over the seven year licence term, which commenced during 2014/15.

26 Assets Held for Sale

	Current		Non Current	
	2015/16 £'000	2014/15 £'000	2015/16 £'000	2014/15 £'000
Balance outstanding at start of year	274	0	2,116	2,525
Assets newly classified as held for sale:				
- Property, Plant and Equipment	896	174	769	0
Revaluation Losses	(100)	0	(80)	0
Revaluation Gains	0	0	293	0
Assets sold	(175)	0	(910)	(309)
Transfers from non-current to current	0	100	0	(100)
Balance outstanding at year end	895	274	2,188	2,116

27 Long Term Debtors

	2015/16 £'000	2014/15 £'000
Other Entities & Individuals	366	300
Total	<u>366</u>	<u>300</u>

28 Inventories

	2015/16 £'000	2014/15 £'000
Balance outstanding at start of year	466	516
Purchases	2,970	2,971
Recognised as an expense in the year	(3,047)	(3,012)
Written off balances	(5)	(9)
Balance outstanding at end of year	<u>384</u>	<u>466</u>

29 Debtors

	2015/16 £'000 Gross	2015/16 £'000 Net	2014/15 £'000 Gross	2014/15 £'000 Net
Scottish Government		5,979		5,443
Central Government		6,701		5,817
Other Local Authorities		16		80
NHS Bodies		667		310
Other Entities & Individuals	15,339		14,955	
less Impairment	<u>(9,930)</u>		<u>(9,270)</u>	
		5,409		5,685
Trade	8,629		6,527	
less Impairment	<u>(790)</u>		<u>(678)</u>	
		7,839		5,849
Council Tax & Community Charge	15,710		15,792	
less Impairment	<u>(11,642)</u>		<u>(12,247)</u>	
		4,068		3,545
Total		<u>30,679</u>		<u>26,729</u>

30 Creditors

	2015/16 £'000	2014/15 £'000
Scottish Government	(133)	(3)
Central Government	(4,303)	(4,683)
Other Local Authorities	(684)	(601)
NHS Bodies	(4)	(5)
Public Corporations and Trading Funds	(325)	0
Other Entities and Individuals	(21,328)	(20,623)
Trade Creditors	(28,888)	(24,926)
Total	<u>(55,665)</u>	<u>(50,841)</u>

31 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 2016.

VAT

Within the 2014/15 Annual Accounts the Council had a provision of £106,000 for a potential underpayment of Value Added Tax (VAT) in relation to housing repairs. Where repairs are required to properties within the Council's portfolio and there are privately owned properties within the confines of the structure any charges to the owners for the repairs were treated as exclusive of VAT. Her Majesty's Revenue and Customs (HMRC) initially stated that in the above circumstance VAT should be charged to owners. However, the Council's VAT advisors appealed this decision and HMRC agreed that if the properties were being brought up to Scottish Housing Quality Standard then VAT would not be required to be charged to owners of properties. Based on this information the provision has been reversed.

	Self Insured/ Uninsured Losses £'000	VAT £'000	Total £'000
Balance as at 1 April 2015	1,228	106	1,334
Additional provisions made in 2015/16	934	0	934
Amounts used in 2015/16	(228)	0	(228)
Unused amounts reversed in 2015/16	0	(106)	(106)
Balance as at 31 March 2016	<u>1,934</u>	<u>0</u>	<u>1,934</u>
Balance Sheet Disclosure:			
Less than 12 months	178	0	178
Over 12 months	1,756	0	1,756
	<u>1,934</u>	<u>0</u>	<u>1,934</u>

32 Usable Reserves

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

33 Unusable Reserves

	2015/16 £'000	2014/15 £'000
Revaluation Reserve	(258,256)	(246,847)
Capital Adjustments Account	(272,201)	(242,550)
Financial Instruments Adjustment Account	11,636	12,198
Pensions Reserve	161,821	178,054
Employee Statutory Adjustment Account	4,648	5,680
Total Unusable Reserves	<u>(352,352)</u>	<u>(293,465)</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.

	2015/16 £'000	2014/15 £'000
Balance at 1 April	(246,847)	(71,470)
Upward revaluation of assets	(19,748)	(185,886)
Downward revaluation of assets and impairment losses not charged to the (Surplus)/Deficit on the Provision of Services	352	186
	<u>(266,243)</u>	<u>(257,170)</u>
Difference between fair value depreciation and historical cost depreciation	7,141	9,191
Accumulated gains on assets sold or scrapped	846	1,132
Amount written off to the Capital Adjustment Account	<u>7,987</u>	<u>10,323</u>
Balance at 31 March	<u>(258,256)</u>	<u>(246,847)</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.

	2015/16 £'000	2014/15 £'000
Balance at 1 April	(242,550)	(224,072)
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	40,684	41,568
Revaluation losses on Property, Plant and Equipment	(3,164)	(6,005)
Amortisation of intangible assets	11	33
Amounts of non current assets written off on disposal as part of the gain/loss	4,465	2,106
	<u>(200,554)</u>	<u>(186,370)</u>
Adjusting amounts written out of the Revaluation Reserve	<u>(7,987)</u>	<u>(10,323)</u>
	<u>(208,541)</u>	<u>(196,693)</u>
Capital financing applied in the year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	(3,237)	(3,047)
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	(34,782)	(18,753)
Application of grants to capital financing from Capital Grants Unapplied Account	(15)	0
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(16,956)	(15,762)
Capital expenditure charged against the general fund and HRA balances	<u>(8,534)</u>	<u>(10,434)</u>
	<u>(272,065)</u>	<u>(244,689)</u>
Movements in the fair value of the Investment Properties	(136)	2,139
Balance at 31 March	<u><u>(272,201)</u></u>	<u><u>(242,550)</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. Whilst these statutory provisions allow for the spreading of discounts and premiums which arose after 1 April 2007 in certain circumstances, there have been no such premiums or discounts in this period.

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 2016 in respect of the above provisions will be charged to the General Fund and HRA over the next 38 years. The movements on the FIAA during the year are shown below:

	2015/16 £'000	2014/15 £'000
Balance at 1 April	12,198	12,787
Proportion of discounts incurred in previous financial years credited against the General Fund & HRA Balance in accordance with statutory requirements in the year	4	10
Proportion of premiums incurred in previous financial years charged against the General Fund & HRA Balance in accordance with statutory requirements in the year	(551)	(584)
Difference on restatement of Stepped Interest Rate Loans	(15)	(15)
Balance at 31 March	<u><u>11,636</u></u>	<u><u>12,198</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.

	2015/16 £'000	2014/15 £'000
Balance at 1 April	178,054	265,998
Actuarial Gains or Losses on Pensions Assets and Liabilities	(32,638)	(108,950)
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	32,782	38,187
Employer's Pensions Contributions and Direct Payments to Pensioners Payable in the Year	(16,377)	(17,181)
Balance at 31 March	<u>161,821</u>	<u>178,054</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.

	2015/16 £'000	2014/15 £'000
Balance at 1 April	5,680	5,380
Settlement or cancellation of accrual made at the end of the preceding year	(5,680)	(5,380)
Amounts accrued at the end of the current year	4,648	5,680
Balance at 31 March	<u>4,648</u>	<u>5,680</u>

34 Impairment Losses

There was a £3.164m net loss following the revaluation of properties during the year, all of which has been assessed as a revaluation loss rather than a loss attributed to deterioration in the anticipated level of the performance of the properties.

35 Grants

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2015/16.

	2015/16 £'000	2014/15 £'000
Credited to Taxation and Non Specific Grant Income		
Scottish Government	33,770	17,578
Scottish Government Directorates (incl Historic Scotland; NHS)	18	0
Other Scottish Government Bodies	70	708
Developer Contributions	146	0
Other Third Party Contributions	778	467
	<u>34,782</u>	<u>18,753</u>
Credited to Services		
Scottish Government	5,886	4,098
Scottish Government Directorates (incl Historic Scotland; NHS)	492	375
Sport Scotland	376	523
Local Authority	33	40
Other Scottish Government Bodies	326	459
Other Third Party Contributions	906	867
	<u>8,019</u>	<u>6,362</u>

36 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.

	2015/16 £'000	2014/15 £'000
Capital Financing Requirements b/fw d	408,201	383,170
<u>Capital Expenditure</u>		
Property, Plant and Equipment	66,376	73,042
Revenue Expenditure funded from Capital	<u>1,655</u>	<u>1,845</u>
	<u>68,031</u>	<u>74,887</u>
	<u>476,232</u>	<u>458,057</u>
<u>Sources of Finance</u>		
Capital Receipts	(3,214)	(3,062)
Government Grants and Contributions	(36,437)	(20,598)
Revenue Contributions	(8,534)	(10,434)
Loans Fund Principal Repayments	<u>(16,956)</u>	<u>(15,762)</u>
	<u>(65,141)</u>	<u>(49,856)</u>
Closing Capital Financing Requirement c/fw d	<u>411,091</u>	<u>408,201</u>
Movement	2,890	25,031
<u>Analysed as:</u>		
Increase in need to borrow	6,613	28,775
Net assets acquired under PPP contract	<u>(3,723)</u>	<u>(3,744)</u>
	<u>2,890</u>	<u>25,031</u>

37 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 2015/16 for the office accommodation was £2,485,000 (2014/15 £2,649,000). In 2015/16 the facilities management element of the service charge was renegotiated resulting in a reduced unitary charge payment.

The unitary charge for 2015/16 for the car park was £408,000 (2014/15 £405,000).

Future agreed payments will increase in line with inflation. The unitary charge payments for 2016/17 for the office accommodation will be £2,399,000 and for the car park £411,000.

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 Blairgowrie, Glenearn at Perth South, Loch Leven at Kinross, Strathearn at Crieff and the North Inch Secondary 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 2015/16 for the campuses operating in the year was £15,414,000 (2014/15 £15,167,000).

Future agreed payments will increase in line with inflation. The unitary charge payments for 2016/17 for all school campuses are estimated to be £15,561,000.

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

	2015/16 £'000	2014/15 £'000
Net Book Value at 1 April 2015	116,478	119,360
Additions	46	343
Revaluations	17,832	0
Depreciation	(4,477)	(3,225)
Net Book Value at 31 March 2016	<u>129,879</u>	<u>116,478</u>

Movements in Public Private Partnership Liabilities during the year were:

	2015/16 £'000	2014/15 £'000
Liabilities at 1 April 2015	125,414	129,158
Amounts repaid in year	(3,723)	(3,744)
Liabilities at 31 March 2016	<u>121,691</u>	<u>125,414</u>
Disclosed in the Balance Sheet as:		
Long Term Liabilities	117,875	121,690
Creditors	3,816	3,724
Liabilities at 31 March 2016	<u>121,691</u>	<u>125,414</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	3,816	6,363	5,687	1,214	1,400	18,480
Due in 2 to 5 years	17,133	22,840	24,481	5,999	7,837	78,290
Due in 6 to 10 years	23,535	21,743	34,264	12,671	14,292	106,505
Due in 11 to 15 years	16,872	15,509	36,391	17,894	18,777	105,443
Due in 16 to 20 years	24,589	11,035	41,524	14,112	28,041	119,301
Due in 21 to 25 years	31,313	4,796	47,390	14,769	36,710	134,978
Due in 26 to 30 years	4,433	102	5,388	0	5,325	15,248
Total	<u>121,691</u>	<u>82,388</u>	<u>195,125</u>	<u>66,659</u>	<u>112,382</u>	<u>578,245</u>

These figures are based on the actual cash amount estimated to be payable and not on prices at 31 March 2016.

38 Authorisation of Annual Accounts

The Unaudited Annual Accounts were authorised for issue by the Head of Finance on 29 June 2016 and the Audited Annual Accounts were authorised for issue on 28 September 2016. 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 2016, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

39 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, 15% 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. It is not currently clear whether the remaining assets of the TRC Insurance Fund will be sufficient to meet any liability.

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.

40 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 2016 £'000	31 March 2015 £'000	31 March 2016 £'000	31 March 2015 £'000	31 March 2016 £'000	31 March 2015 £'000
Borrowings						
Financial liabilities at amortised cost	238,183	224,598	13,492	25,065	251,675	249,663
Total borrowings	238,183	224,598	13,492	25,065	251,675	249,663
Investments						
Loans and receivables	370	254	53,334	49,093	53,704	49,347
Total investments	370	254	53,334	49,093	53,704	49,347

Lender Option Borrower Option (LOBO) borrowings of £44.85m have been included in long term borrowing as at 31 March 2016 but have a call date in the next 12 months.

The above long term figures are based on the 2015 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:

2015/16	Financial Liabilities	Financial Assets		
	Liabilities measured at amortised cost	Loans and receivables	Total 2015/16	Total 2014/15
	£'000	£'000	£'000	£'000
Interest expense	10,289	0	10,289	9,719
Losses on derecognition	0	0	0	25
Interest payable and similar charges	10,289	0	10,289	9,744
Interest income	0	(489)	(489)	(382)
Interest and investment income	0	(489)	(489)	(382)
Gains on revaluation	(46)	0	(46)	0
Losses on revaluation	7	0	7	12
Losses arising on revaluation of financial assets	(39)	0	(39)	12
Net loss/(gain) for the year	10,250	(489)	9,761	9,374

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 2016 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 2016, 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 124/16.
- 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 2016		31 March 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
Public Works Loans Board (PWLB)	196,645	239,475	196,430	235,881
Lender Option Borrower Option (LOBO)	44,850	58,240	44,863	57,220
Local Authority Bonds	5,001	5,011	5,001	5,020
Short term borrowing	2,808	3,433	1,346	2,183
Other (Special Loans)	1,828	1,829	1,734	1,737
Other Market Loans	543	541	289	280
Financial Liabilities	251,675	308,529	249,663	302,321

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 £281.6M 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 2016		31 March 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
Cash (including petty cash)	8,036	8,036	2,683	2,684
Deposits with Banks and Building Societies	45,120	45,153	46,156	46,182
Mortgages	114	115	0	0
Loans to Others	434	434	508	508
Financial Assets	53,704	53,738	49,347	49,374

The fair value is higher than the carrying amount because the Council's portfolio of investments includes a number of fixed rate deposits where the interest rate receivable is higher than the rates available for similar loans at the balance sheet date.

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 2016	Historical experience of default	Historical experience adjusted for market conditions as at 31 March 2016	Estimated maximum exposure to default and uncollectability
	£'000	%	%	£'000
Deposits with banks and other financial institutions	57,186	0	0	0
Loans to Others	548	0	0	0
Debtors	14,969	6.8	6.8	1,016
Total	72,703	-	-	1,016

The Council's overall exposure to credit risk in relation to its deposits in banks and other financial institutions of £57.186m 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 2016. The repayment profile of these deposits, including loans to others, is shown below:

	31 March 2016 £'000	31 March 2015 £'000
Less than three months	37,165	38,110
Three to six months	20,021	18,541
Six months to one year	-	-
More than one year	-	-
Total	57,186	56,651

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 2016 in this category is £434,000 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 2016 is £114,000 with no experience of default.

Debtors

The Council does not generally allow credit for customers, such that £11.638m of the £14.405m balance is past its due date for payment.

The past due amount can be analysed by age as follows:

	31 March 2016 £'000	31 March 2015 £'000
Less than three months	8,598	13,002
Three to six months	259	195
Six months to one year	1,234	545
More than one year	1,547	2,673
Total	11,638	16,415

(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 2016 £'000	On 31 March 2015 £'000
Public Works Loans Board	194,871	194,532
Market debt	43,806	43,489
Local Authority Bonds	5,000	5,000
Temporary borrowing	2,807	1,346
Local bonds	1,821	1,734
Bank Overdraft	4,064	7,851
Total	252,369	253,952
Less than 1 year	15,410	30,643
Between 1 and 2 years	8,218	6,711
Between 2 and 5 years	30,336	30,644
Between 5 and 10 years	31,122	33,511
Between 10 and 15 years	6,105	10,172
More than 15 years	161,178	142,271
Total	252,369	253,952

In the more than 15 years category there are £44.85m 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 2016.
- 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 2016, 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	524
Increase in interest receivable on variable rate investments	(716)
Impact on Comprehensive Income and Expenditure Statement	(192)
Share of overall impact credited to the HRA	(42)

The impact of a 1% fall in interest rates would have been an estimated cost of £485,000 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 £46,000 payable on other small loan balances. Therefore the net cost of a 1% fall in interest rates would be £439,000.

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 or other tradable instruments, therefore it is not exposed to gains or losses on movements in their price.

41. Devolved School Management (DSM) Schools & School Boards

The accumulated balance on the General Fund at 31 March 2016 includes net surplus funds of £1,258,000 (31 March 2015 £1,284,000) in respect of schools participating in the Devolved School Management scheme. There are a number of schools with surpluses totalling £1,266,000 and a number of schools carrying forward deficits amounting to £8,000. These surpluses and deficits are earmarked in 2015/16 for the individual schools concerned.

42. Operating Activities

The cash flows for operating activities include the following items:

	2015/16 £'000	2014/15 £'000
Interest received	(526)	(306)
Interest paid	17,827	16,991
	<u>17,301</u>	<u>16,685</u>

43. Investing Activities

	2015/16 £'000	2014/15 £'000
Purchase of property, plant and equipment, investment property and intangible assets	(66,233)	(71,424)
Purchase of short-term and long-term investments	(119,120)	(73,656)
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	3,193	3,046
Proceeds of short-term and long-term investments	120,156	42,588
Other receipts for investing activities	34,782	18,753
	<u>(27,222)</u>	<u>(80,693)</u>

44. Financing Activities

	2015/16 £'000	2014/15 £'000
Cash receipts of short and long-term borrowing	61,732	76,020
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI contracts	(3,723)	(3,744)
Repayments of short and long-term borrowing	(59,844)	(27,850)
Net cash flows from financing activities	<u>(1,835)</u>	<u>44,426</u>

45. Cash and Cash Equivalents

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

	2015/16 £'000	2014/15 £'000
Cash held by officers	34	34
Bank current accounts	(4,064)	(7,846)
Short-term deposits with banks	12,066	10,495
Total cash and cash equivalents	<u>8,036</u>	<u>2,683</u>

46. 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 71.

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 2016 £'000	31 March 2015 £'000
Educational Trust - Financial Assistance		
Net assets	847	899
Net Incoming Resources before other recognised gains and losses	2	(3)
Educational Trust - Endowments		
Net assets	52	57
Net Incoming Resources before other recognised gains and losses	(2)	(3)
Other Charitable Trusts		
Net assets	2,181	2,229
Net Incoming Resources before other recognised gains and losses	17	137
TOTAL Net Assets	3,080	3,185
TOTAL Net Incoming Resources before other recognised gains and losses	17	131

Detailed Accounts for the Charities are available from the Head of Finance, Blackfriars, North Port, Perth, PH1 5LU.

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>2014/15</u>		<u>2015/16</u>	
£'000		£'000	£'000
	Income		
(24,068)	Dwelling Rents	(24,908)	
191	less Voids	248	
			(24,660)
(719)	Non-Dwelling Rents	(673)	
232	less Voids	231	
			(442)
(1,214)	Other Income		(1,826)
(25,578)	Total Income		(26,928)
	Expenditure		
7,651	Repairs & Maintenance	8,576	
7,645	Supervision & Management	8,021	
7,909	Depreciation, impairment and revaluation losses on non current assets	13,129	
321	Movement in the Impairment of Debtors	375	
1,247	Other expenditure	1,437	
24,773	Total Expenditure		31,538
(805)	Net Expenditure/(Income) for HRA Services as included in the Comprehensive Income and Expenditure Statement		4,610
295	HRA services' share of Corporate and Democratic Core		298
(510)	Net Expenditure/(Income) for HRA Services		4,908
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:		
(105)	Gain on sale of HRA Non-Current Assets		(55)
1,991	Interest payable and similar charges		2,161
(9)	Interest and investment income		(10)
744	Net Interest on the net defined benefit liability		356
(2,066)	Capital Grants and Contributions Receivable		(5,007)
45	Deficit for the year on HRA services		2,353

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>2014/15</u> £'000		<u>2015/16</u> £'000	<u>2015/16</u> £'000
(907)	Balance on the HRA at the end of the Previous Year		(800)
45	Deficit for the year on the HRA Income and Expenditure Account	2,353	
<u>802</u>	Adjustments between Accounting Basis and Funding Basis Under Statute	<u>(1,675)</u>	
<u>847</u>	Net Decrease before Transfers to or from Reserves	678	
(740)	Transfer from Reserves	<u>(660)</u>	
107	Decrease in Year on the HRA		18
<u>(800)</u>	Balance on the HRA at the end of the Current Year		<u>(782)</u>

Note to the Statement of Movement on the HRA Balance

<u>2014/15</u> £'000		<u>2015/16</u> £'000	<u>2015/16</u> £'000
	Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year		
105	Gain on sale of HRA Non-current assets	55	
(15,626)	Depreciation and impairment of non current assets	(13,128)	
(1,068)	Revaluation Losses on Property, Plant and Equipment	(294)	
8,785	Reversal revaluation gains	293	
	Capital Grants and Contributions credited to the Comprehensive Income and Expenditure Statement	5,007	
22	Adjustments involving Short Term Accumulated Absences Account	39	
(2,407)	Reversal of items relating to retirement benefits credited to the Comprehensive Income and Expenditure Statement	<u>(2,052)</u>	
(8,123)			(10,080)
	Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year		
1,080	Employer's pension contributions and direct payments to pensioners payable in the year	1,045	
125	Adjustments involving the Financial Instruments Adjustment Account	124	
2,788	Statutory provision for the repayment of debt	3,042	
4,932	Capital expenditure charged to the HRA balances	<u>4,194</u>	
8,925			8,405
<u>802</u>	Net additional amount required by statute to be debited to the HRA Balance for the year		<u>(1,675)</u>

NOTES TO THE HOUSING REVENUE ACCOUNT

1. Housing Stock at 31 March 2016	No. of Dwellings 31 March 2016	<i>No. of Dwellings</i> <i>31 March 2015</i>
Sheltered accommodation	290	291
Detached/Semi-Detached/Terraced	3,602	3,590
High Rise Flats	135	134
Tenement Flats/Other Flats/Maisonettes	3,440	3,400
Total	<u>7,467</u>	<u>7,415</u>

2. Rent Arrears at 31 March 2016	Gross Arrears 31 March 2016		<i>Gross Arrears</i> <i>31 March 2015</i>	
	£'000	% of Income	£'000	% of Income
Houses	2,634	10.6	2,252	9.4
Other Subjects	81	12.0	96	13.4
Totals	<u>2,715</u>	<u>10.6</u>	<u>2,348</u>	<u>9.5</u>

3. **Impairment of Debtors**

In 2015/16 an impairment of £2,031,162 has been provided in the Balance Sheet an increase of £374,887 from the impairment in 2014/15.

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>2014/15</u>			<u>2015/16</u>
£'000			£'000 £'000
84,603	Gross Charge		85,394
(2,750)	Deduct -	Exemptions	(2,903)
(110)		Disabled Relief	(111)
(6,871)		Discounts and Reductions	(6,738)
(6,535)		Council Tax Reduction Scheme	(6,287)
68,337	Net Council Tax		69,355
	Deduct -		
(6)		Ministry Of Defence Properties	(6)
6		Contribution Received	6
			0
(1,191)	Impairment of	Bad and Doubtful Debts	(980)
67,146	Total Council Tax Income		68,375
432	Adjustments for prior years for Council Tax and Community Charge		1,119
67,578	Total Council Tax / Community Charge Income to Comprehensive I&E Statement		69,494

NOTES TO THE COUNCIL TAX INCOME ACCOUNT

1. CALCULATION OF THE COUNCIL TAX BASE

	A	B	C	D	E	F	G	H	2015/16 TOTAL	2014/15 TOTAL
No. of Properties	8,921	14,661	11,628	10,338	11,365	7,243	5,844	671	70,671	70,215
Exemptions	(762)	(728)	(495)	(326)	(249)	(145)	(93)	(28)	(2,826)	(2,526)
Disabled Relief	65	22	(3)	45	(55)	11	(76)	(9)	0	0
Discounts	(1,397)	(1,849)	(1,254)	(1,027)	(872)	(429)	(296)	(60)	(7,184)	(7,485)
Effective No. of Properties	6,827	12,106	9,876	9,030	10,189	6,680	5,379	574	60,661	60,204
Ratio	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9		
Band D Equivalents	4,547	9,416	8,779	9,030	12,453	9,649	8,965	1,148	63,987	63,322
Contributions in lieu									6	6
TOTAL									63,993	63,328
Provision for non-payment at 2.5% (2014/15 - 2.5%)									(1,600)	(1,583)
COUNCIL TAX BASE									62,393	61,745

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. A discount of 25% is given where the dwelling is occupied by only one adult. Discounts of 10% are awarded for second homes, but some second homes such as tied accommodation and purpose built holiday homes may be entitled to a discount of 50%. During 2015/16 long term empty dwellings, i.e. those empty for more than 12 months, received no discount under discretionary powers available to the Council. For future financial years a premium is to be introduced for such dwellings. A discount of 10% is retained for a maximum of 24 months where dwellings are actively being marketed for sale or let. Persons in detention, full-time students, those who are severely mentally impaired, some carers and certain others are disregarded when counting the number of adult residents for Council Tax purposes. Reductions in Council Tax may also be granted where the dwelling contains special facilities required to meet the needs of a disabled resident.

The valuation bands, the fractions used in calculating the Council Tax payable for each valuation band and the actual charges determined for 2015/16 are set out below:

Valuation Band	Property Valuation Range	Fraction of band D	2015/16 Actual Charge	2014/15 Actual Charge
A	£0 - £27,000	6/9	£772.00	£772.00
B	£27,001 - £35,000	7/9	£900.67	£900.67
C	£35,001 - £45,000	8/9	£1,029.33	£1,029.33
D	£45,001 - £58,000	9/9	£1,158.00	£1,158.00
E	£58,001 - £80,000	11/9	£1,415.33	£1,415.33
F	£80,001 - £106,000	13/9	£1,672.67	£1,672.67
G	£106,001 - £212,000	15/9	£1,930.00	£1,930.00
H	Over £212,000	18/9	£2,316.00	£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>2014/15</u>		<u>2015/16</u>	
£'000		£'000	£'000
71,420	Gross Rate Levied		71,883
	Deduct:		
(2,462)	Rate Rebates	(2,448)	
(34)	Interest on Overpaid Rates	(9)	
(15,141)	Reliefs, Charities etc.	(15,706)	
(342)	Impairment for Bad and Doubtful Debts	(285)	
			(18,448)
	Adjustments to Previous Years:		
(1,898)	Gross Rate Levied	(340)	
780	Transitional Surcharge/Relief	0	
37	Rate Rebates	48	
(59)	Reliefs, Charities etc.	(276)	
(589)	Impairment for Bad and Doubtful Debts and Abatements	(222)	
			(790)
<u>51,712</u>	Net Non Domestic Rate Income		<u>52,645</u>
(51,880)	Contribution to National Non Domestic Rate Pool	(52,824)	
<u>55,415</u>	Contribution from National Non Domestic Rate Pool	<u>59,337</u>	
3,535	Net contribution from National Non Domestic Rate Pool		6,513
<u>55,247</u>	Total Non Domestic Rate Income (before Council retentions)		<u>59,158</u>
148	Non-Domestic Rate Income Retained by Council (Business Rates Incentivisation Scheme)		0
<u>55,395</u>	Total Non Domestic Rate Income to Comprehensive Income and Expenditure Statement		<u>59,158</u>
<u>168</u>	Discretionary Relief funded by the Council		<u>179</u>

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 2015/16 was 48.0p (2014/15 47.1p).

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%.

A supplement of 1.3p (2014/15 1.1p) was charged on properties with a rateable value of over £35,000 (£35,000 for 2014/15) to contribute towards the additional cost of the scheme.

2. RATEABLE SUBJECTS AND VALUES

<i>No. of Subjects at 1 April 2014</i>	<i>Rateable Value £'000 at 1 April 2014</i>		<i>No. of Subjects at 1 April 2015</i>	<i>Rateable Value £'000 at 1 April 2015</i>
1,673	38,741	Shops	1,671	39,100
96	1,701	Public Houses	92	1,670
950	15,578	Offices (including banks)	970	15,568
225	10,057	Hotels etc.	223	9,992
1,532	21,098	Industrial Subjects etc.	1,531	21,153
1,465	9,111	Leisure, Entertainment, Caravans etc.	1,531	9,398
161	3,337	Garages and Petrol Stations	158	3,404
59	1,100	Cultural	60	1,132
428	1,332	Sporting Subjects	426	1,327
124	13,525	Education and Training	121	13,574
393	6,851	Public Service Subjects	387	6,907
2	0	Communications	1	0
28	709	Quarries, Mines etc.	28	709
3	4,119	Petrochemical	2	4,065
246	1,742	Religious	246	1,750
117	6,555	Health, Medical	117	6,477
722	1,528	Other	717	1,534
71	2,999	Care Facilities	70	3,024
19	81	Advertising	20	83
40	7,327	Undertaking	59	7,826
<u>8,354</u>	<u>147,491</u>	Total	<u>8,430</u>	<u>148,693</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 2016.

INCOME AND EXPENDITURE ACCOUNT FOR YEAR TO 31 MARCH 2016

	2015/16 £'000	2015/16 £'000	2014/15 £'000
INCOMING RESOURCES			
Incoming resources from generated funds:			
Investment Income	116		121
Other incoming resources	5		141
Total Incoming Resources		121	262
RESOURCES EXPENDED			
Costs of generating funds:			
Costs of generating voluntary income	0		3
Investment management costs	16		12
Charitable activities	64		61
Governance costs	8		7
Other Resources Expended	16		48
Total Resources Expended		104	131
Net Incoming Resources Before Other Recognised Gains & Losses		17	131
OTHER RECOGNISED GAINS			
(Losses)/Gain on Investment assets		(122)	206
Net Movement in Funds for the Year		(105)	337
RECONCILIATION OF FUNDS			
Total Funds Brought Forward at 1 April 2015		3,185	2,848
TOTAL FUNDS CARRIED FORWARD AT 31 MARCH 2016		3,080	3,185

BALANCE SHEET AS AT 31 MARCH 2016

	31 March 2016 £'000	31 March 2016 £'000	31 March 2015 £'000
FIXED ASSETS			
Tangible Assets		65	50
Investments		2,915	2,609
CURRENT ASSETS			
Debtors	7		24
Investments - Amounts due by Perth & Kinross Council Loans Fund	106		509
LIABILITIES			
Creditors: amounts falling due within one year	(13)		(7)
NET CURRENT ASSETS		100	526
NET ASSETS		3,080	3,185
TOTAL FUNDS		3,080	3,185

Notes to Charitable Trusts

- The market value of Investments at 31 March 2016 was £2,915,000 (31 March 2015 £2,609,000).
- The unaudited accounts were issued on 29 June 2016 and the audited accounts were authorised for issue on 28 September 2016.

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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 2016.

INCOME AND EXPENDITURE ACCOUNT FOR YEAR TO 31 MARCH 2016

	2015/16 £'000	2015/16 £'000	2014/15 £'000
EXPENDITURE			
Grants to Voluntary Organisations	179		163
Christmas Lighting	83		86
Property Costs	79		54
Supplies & Services	7		7
	<u>348</u>		<u>310</u>
INCOME			
Rents, Fees, Charges etc.	257		277
Interest on Loans	16		11
Gain on Disposal of Assets	0		70
Other	2		3
	<u>275</u>		<u>361</u>
(DEFICIT) / SURPLUS FOR THE YEAR		(73)	51
Balance Brought Forward		2,067	2,016
Balance Carried Forward		<u>1,994</u>	<u>2,067</u>

BALANCE SHEET AS AT 31 MARCH 2016

	31 March 2016 £'000	31 March 2016 £'000	31 March 2015 £'000
FIXED ASSETS		4,657	4,598
CURRENT ASSETS			
Debtors	86		6
Investments	1,828		1,735
Revenue Advances to Perth & Kinross Council Loans Fund	528		679
	<u>2,442</u>		<u>2,420</u>
CURRENT LIABILITIES			
Creditors and Accruals	(196)		(109)
NET CURRENT ASSETS		2,246	2,311
TOTAL NET ASSETS		<u>6,903</u>	<u>6,909</u>
RESERVES			
Revenue		1,994	2,067
Capital		386	386
Capital Adjustment Account		80	73
Revaluation Reserve		4,443	4,383
		<u>6,903</u>	<u>6,909</u>

The unaudited accounts were issued on 29 June 2016 and the audited accounts were authorised for issue on 28 September 2016.

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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.
- Common Good Reserve Funds**

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

FUND	Balance at 1 April 15	Income 2015/16	Expenditure 2015/16	Balance at 31 March 16
	£'000	£'000	£'000	£'000
Perth City	1,368	247	342	1,273
Aberfeldy	147	2	4	145
Alyth	21	0	0	21
Auchterarder	337	23	1	359
Blairgowrie	21	0	0	21
Coupar Angus	2	0	0	2
Crieff	7	2	1	8
Kinross	157	1	0	158
Pitlochry	7	0	0	7
TOTAL	2,067	275	348	1,994

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
Balance at 1 April 2014	(48,041)	(907)	(15,832)	(412)	(3,410)	(1,833)	(102)	(70,537)	(11,377)	(81,914)	(11,518)	10,229	(83,203)
<u>Movement in reserves during 2014/15</u>													
(Surplus) or deficit on the provision of services	3,104	45	0	0	0	0	0	3,149	0	3,149	1,208	1,513	5,870
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	0	(294,648)	(294,648)	(3,175)	(9,724)	(307,547)
Total Comprehensive Income and Expenditure	3,104	45	0	0	0	0	0	3,149	(294,648)	(291,499)	(1,967)	(8,211)	(301,677)
Adjustments between accounting basis & funding basis under regulations	(13,363)	802	0	0	0	1	0	(12,560)	12,560	0	0	0	0
Net (increase)/decrease before transfers to earmarked reserves	(10,259)	847	0	0	0	1	0	(9,411)	(282,088)	(291,499)	(1,967)	(8,211)	(301,677)
Transfers to/(from) Other Statutory Reserves	5,630	(740)	(3,484)	(1,014)	(392)	0	0	0	0	0	0	0	0
(Increase)/decrease in 2014/15	(4,629)	107	(3,484)	(1,014)	(392)	1	0	(9,411)	(282,088)	(291,499)	(1,967)	(8,211)	(301,677)
Balance at 31 March 2015	(52,670)	(800)	(19,316)	(1,426)	(3,802)	(1,832)	(102)	(79,948)	(293,465)	(373,413)	(13,485)	2,018	(384,880)
<u>Movement in reserves during 2015/16</u>													
(Surplus) / Deficit on the provision of services	(15,093)	2,353	0	0	0	0	0	(12,740)	0	(12,740)	972	2,581	(9,187)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	0	(52,034)	(52,034)	(2,371)	(2,749)	(57,154)
Total Comprehensive Income and Expenditure	(15,093)	2,353	0	0	0	0	0	(12,740)	(52,034)	(64,774)	(1,399)	(168)	(66,341)
Adjustments between accounting basis & funding basis under regulations	8,469	(1,675)	0	0	0	44	15	6,853	(6,853)	0	0	0	0
Net (increase)/decrease before transfers to earmarked reserves	(6,624)	678	0	0	0	44	15	(5,887)	(58,887)	(64,774)	(1,399)	(168)	(66,341)
Transfers to/(from) Other Statutory Reserves	4,386	(660)	(4,609)	192	691	0	0	0	0	0	0	0	0
(Increase)/decrease in 2015/16	(2,238)	18	(4,609)	192	691	44	15	(5,887)	(58,887)	(64,774)	(1,399)	(168)	(66,341)
Balance at 31 March 2016 carried forward	(54,908)	(782)	(23,925)	(1,234)	(3,111)	(1,788)	(87)	(85,835)	(352,352)	(438,187)	(14,884)	1,850	(451,221)

GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2014/15 Actual Net Expenditure £'000		Note	2015/16		
			Actual Gross Expenditure £'000	Actual Income £'000	Actual Net Expenditure £'000
	SERVICES				
146,328	Education Services		153,401	(5,952)	147,449
79,012	Social Work Services		100,938	(18,827)	82,111
19,859	Roads and Transport Services		25,471	(5,667)	19,804
4,913	Planning and Development Services		9,214	(7,207)	2,007
8,427	Housing Services (General Fund)		46,375	(37,667)	8,708
20,245	Cultural & Related Services		30,108	(9,118)	20,990
24,121	Environmental Services		30,645	(3,924)	26,721
2,074	Central Services		3,988	(1,771)	2,217
2,694	Other Expenditure		4,900	(453)	4,447
4,285	Corporate and Democratic Core		4,343	0	4,343
(805)	Housing Revenue Account		31,538	(26,928)	4,610
(10)	Charitable Trusts		104	(5)	99
(40)	Common Good		348	(259)	89
955	Associates accounted for on an equity basis		19,189	(17,321)	1,868
312,058	COST OF SERVICES		460,562	(135,099)	325,463
(1,292)	Other Operating Expenditure / Income				608
30,630	Financing and Investment Income and Expenditure	4			22,395
(335,526)	Taxation and Non-Specific Grant Income				(357,653)
5,870	(Surplus) / Deficit on Provision of Services				(9,187)
(185,781)	Surplus on revaluation of non current assets				(19,463)
0	Impairment losses on non current assets				0
(120,669)	Remeasurement of the net defined benefit liability				(37,680)
(1,097)	Other gains				(11)
(307,547)	Other Comprehensive Income and Expenditure				(57,154)
(301,677)	Total Comprehensive Income and Expenditure				(66,341)

GROUP BALANCE SHEET

<i>1 April 2014</i>		Notes	<i>31 March 2015</i>
<u>£'000</u>			<u>£'000</u>
871,710	Property, Plant & Equipment		912,383
24,059	Heritage Assets		26,289
17,699	Investment Property		17,558
43	Intangible Assets		61
2,116	Assets Held for Sale		2,188
300	Long Term Debtors		366
<u>915,927</u>	Long Term Assets		<u>958,845</u>
50,500	Short Term Investments	5	49,863
274	Assets Held for Sale		895
521	Inventories		434
27,794	Short Term Debtors	6	31,415
11,835	Cash and Cash Equivalents		18,038
<u>90,924</u>	Current Assets		<u>100,645</u>
(25,065)	Short Term Borrowing		(13,492)
(52,157)	Short Term Creditors	7	(57,732)
(204)	Provisions		(178)
<u>(77,426)</u>	Current Liabilities		<u>(71,402)</u>
(1,130)	Provisions		(1,756)
(224,598)	Long Term Borrowing		(238,183)
(12,112)	Liabilities in associates and joint ventures		(11,834)
(306,705)	Other Long Term Liabilities		(285,094)
<u>(544,545)</u>	Long Term Liabilities		<u>(536,867)</u>
<u>384,880</u>	NET ASSETS		<u>451,221</u>
79,948	Usable Reserves		85,835
293,465	Unusable Reserves		352,352
1,373	Group Reserves		3,051
<u>10,094</u>	Charitable and Common Good Reserves		<u>9,983</u>
<u>384,880</u>	TOTAL RESERVES		<u>451,221</u>

Note

The unaudited Accounts were issued on 29 June 2016 and the audited accounts were authorised for issue on 28 September 2016.

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GROUP CASH FLOW STATEMENT

<u>2014/15</u>		<u>Notes</u>	<u>2015/16</u>
£'000			£'000
(5,870)	Surplus / (deficit) on the provision of services		9,187
62,859	Adjustments to net surplus / (deficit) on the provision of services for non cash movements		63,866
(22,104)	Adjustments for items included in the net surplus / (deficit) on the provision of services that are investing and financing activities		(37,852)
<u>34,885</u>	Net cash flows from Operating Activities		<u>35,201</u>
(80,695)	Investing Activities	10	(27,118)
44,476	Financing Activities	11	(1,880)
<u>(1,334)</u>	Net increase or (decrease) in cash and cash equivalents		<u>6,203</u>
13,169	Cash and cash equivalents at the beginning of the reporting period		11,835
<u>11,835</u>	Cash and cash equivalents at the end of the reporting period		<u>18,038</u>

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

<u>2014/15</u> £'000		<u>2015/16</u> £'000
3,149	(Surplus) / deficit on the single entity Comprehensive Income & Expenditure Statement for the year	(12,740)
	Add:	
(388)	• Managed Funds - Charitable Trusts & Common Good	178
1,901	• Associates	2,403
1,208	• Subsidiaries	972
<u>5,870</u>	(Surplus) / deficit for the year on the Group Comprehensive I & E Statement	<u>(9,187)</u>

NOTES TO THE GROUP ACCOUNTS

1. Combining Entities

The results of Tayside Valuation Board which is jointly administered with Dundee and Angus City 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 2015/16 was 40.71% (2014/15 40.29%). The accounting period for the Board is the year to 31 March 2016 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. and Horsecross Arts 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. Both 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 leisure provision required from the organisations by the Council. Live Active Leisure Ltd. and Horsecross Arts 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 both organisations is 100% due to the nature of Council control and direction over their operations.

Both Live Active Leisure Ltd. and Horsecross Arts 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.
Horsecross Arts Ltd.

Caledonia House, Hay Street, Perth, PH1 5HS.
Perth Concert Hall, Mill Street, Perth, PH1 5HZ.

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 70 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 71 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 for 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 2015/16 is 33.0% (2014/15 33.1%). 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.

In addition the CIPFA Code requires the realignment of accounting policies for entities included within the Group Accounts. All entity policies are aligned with the exception of Horsecross Arts Ltd pensions disclosures. The pension liability at 31 March 2016 for Horsecross Arts Ltd of £1,035,000 has been included within the Group Reserves balance at 31 March 2016.

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.

Perth and Kinross Integrated Joint Board came into effect in October 2015. The results for 2015/16 have been excluded from the Council's Group accounts on the grounds of materiality. The Council will review the inclusion of this organisation in preparing its 2016/17 Group Accounts.

Culture Perth & Kinross took responsibility for Libraries and Museum Services from 1 April 2016 and will deliver Libraries and Museum Services. The Council will review the inclusion of this organisation in preparing its 2016/17 Group Accounts.

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 £13,034,000 (2014/15 £11,467,000).

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 CI&E Statement – Financing and Investment Income & Expenditure

	2015/16 £'000	2014/15 £'000
Council Financing and Investment Income & Expenditure	21,878	30,036
Subsidiaries	(44)	(50)
Charitable Trusts	6	(327)
Common Good	(16)	(11)
Tayside Contracts Joint Committee	492	832
Associates	79	150
	<u>22,395</u>	<u>30,630</u>

5. Group Balance Sheet - Investments

	2015/16 £'000	2014/15 £'000
Council Investments	45,120	46,156
Charitable Trusts Investments	2,915	2,609
Common Good Investments	1,828	1,735
Total Group Investments	<u>49,863</u>	<u>50,500</u>

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

	2015/16 £'000	(Restated) 2014/15 £'000
Net Debtors Balance - Note 29 to the Financial Statements	30,679	26,729
Subsidiary Debtors	643	1,035
Charitable Trust		
Debtors	113	533
Inter-company elimination	(106)	(509)
Common Good		
Debtors	614	685
Inter-company elimination	(528)	(679)
Total Group Debtors	<u>31,415</u>	<u>27,794</u>

7. Group Balance Sheet – Short term Creditors

	2015/16 £'000	2014/15 £'000
Net Creditors Balance - Note 30 to the Financial Statements	(55,665)	(50,841)
Charitable Trust		
Creditors	(13)	(7)
Inter-company elimination	106	509
Common Good		
Creditors	(196)	(109)
Inter-company elimination	528	679
	<u>(55,240)</u>	<u>(49,769)</u>
Subsidiary Creditors	(2,492)	(2,388)
Total Group Creditors	<u>(57,732)</u>	<u>(52,157)</u>

8. Pension Liability

	2015/16 £'000	2014/15 £'000
Net Pensions Liability at 31 March - Note 19 to the Financial Statements	(161,821)	(178,054)
Subsidiaries	<u>(5,399)</u>	<u>(6,961)</u>
Group Pension Liability at 31 March	<u>(167,220)</u>	<u>(185,015)</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 or Tayside Contracts Joint Committee. Cash transactions between the Joint Board 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. and Horsecross Arts Ltd. within the Group Cash Flow Statement is to increase the movement in the net cash position by £10,002,000 (2014/15, increase of £9,152,000). A cash increase of £8,737,000 represents the Council's 100% share of Live Active Leisure Ltd. and a cash increase of £1,265,000 represents the Council's 100% share of Horsecross Arts Ltd.

10. Group Cash Flow – Investing Activities

	2015/16 £'000	2014/15 £'000
Council Investing Activities	(27,222)	(80,693)
Subsidiaries	<u>104</u>	<u>(2)</u>
	<u>(27,118)</u>	<u>(80,695)</u>

11. Group Cash Flow – Financing Activities

	2015/16 £'000	2014/15 £'000
Council Financing Activities	(1,835)	44,426
Subsidiaries	<u>(45)</u>	<u>50</u>
	<u>(1,880)</u>	<u>44,476</u>

12. Related Party Transactions

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

	From 31.3.16 £'000	To 31.3.16 £'000	From 31.3.15 £'000	To 31.3.15 £'000
Tayside Valuation Joint Board	73	0	15	7

ANNUAL GOVERNANCE STATEMENT 2015/16

1 Introduction

- 1.1 Good governance is key to the success of Perth & Kinross Council in delivering its corporate objectives and being recognised as an ambitious, high performing Council. It supports better informed decision making, the efficient use and management of our resources, high quality performance, greater scrutiny and accountability and ultimately results in better outcomes for the people living in our communities.
- 1.2 The purpose of this Governance Statement is to give assurance to the people of Perth & Kinross, our Elected Members, staff, partner agencies and other stakeholders that we have effective arrangements in place to ensure that, as a Council, we are doing the right things for the right people at the right time in an open, honest and accountable way.

2 Scope of Responsibility

- 2.1 As a local authority, Perth & Kinross Council carry out its business in accordance with the law and proper standards, to ensure that public money is used economically, efficiently, and effectively with due regard to the achievement of sustainability.
- 2.2 The Local Government in Scotland Act 2003 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 the people of Perth & Kinross.
- 2.3 A comprehensive and robust governance framework is integral to the Council's ability to discharge these responsibilities. We must have proper arrangements in place to enable us to discharge our functions and responsibilities effectively and ensure that as an organisation we achieve our defined outcomes and manage risk effectively.
- 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 four organisations that are included in the Council's Group Accounts.
- Live Active Leisure Limited (included in our accounts as subsidiary)
 - Horsecross Arts Limited (included in our accounts as subsidiary)
 - Tayside Valuation Joint Board (included in our accounts as associate):
 - Tayside Contracts (included in our accounts as associate)

3 The purpose of the Governance Framework

- 3.1 The governance framework enables the Council to monitor and evaluate the achievement of its corporate aims and objectives and to determine whether these have delivered appropriate, efficient and cost effective services and good outcomes for our communities.
- 3.2 A crucial part of the governance framework is the system of internal control which is designed to manage the risk of a failure to achieve our aims and objectives.
- 3.3 Our internal control system manages risk through the continuing process of identification, prioritisation, evaluation and mitigation.
- 3.4 Risk is evaluated on the basis of likelihood and impact in both financial and non-financial terms. The Council has to mitigate and manage these risks proportionately and effectively recognising that risk can never be eliminated completely and therefore only reasonable assurance can ever be given.

4 Our Governance Framework

- 4.1 Our governance framework comprises the rules, resources, systems, processes, cultures and values that enable us achieve our strategic objectives and provide services in an appropriate and cost effective way.
- 4.2 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
- 4.3 These criteria are based on the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) Framework: Delivering Good Governance in Local Government and the International Framework: Delivering Good Governance in the Public Sector developed by CIPFA and the International Federation of Accountants:-

4.4 Our governance arrangements are underpinned by the fundamental principles of good governance, the requirements of legislation and best practice and can be summarised as:

- Our vision and purpose is the achievement of the shared priorities and intended outcomes for the citizens of Perth & Kinross documented in our [Community Plan / Single Outcome Agreement 2013-23](#) and our [Corporate Plan](#) for 2013-18. [Building Ambition: Our Transformation Strategy](#) together with [Revenue budget 2016-2019](#), our Capital Budget and other strategic documents provides the direction to realising our vision.
- Our culture and values are reflected in our [Local Code of Corporate Governance, Codes of Conduct](#) and our various policies and procedures ensure that as a Council we respect the rule of law, actively promote a culture of good governance and demonstrate a commitment to ethical values.
- Perth & Kinross Council recognise that as an organisation we must adapt and evolve to continue to deliver cost efficient, high quality services in an increasing complex public sector landscape. Our people are our most valuable asset and we recognised that we will secure the best outcomes for our communities through investment in our workforce to ensure that they have the right skills to deliver. Our approach is outlined in our strategic document [Securing the Future Through Our People](#) and our “Learn, Innovate Grow” philosophy is being embedded across the organisation to create a skilled and flexible workforce.
- We actively engage our communities to help us design and deliver services which 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 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.
- 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
- The Council's governance arrangements include clearly defined roles and responsibilities for all Chief Officers and statutory officers, including the Chief Executive, the Chief Social Worker, the Monitoring Officer and the Section 95 Officer (Chief Financial Officer).
- The Council has designated the Depute Chief Executive (Environment) Sustainability, Strategic and Entrepreneurial Development as the Senior Information Risk Owner with the Head of Legal & Governance Services as Depute.
- The Council believes in openness and transparency; our management and democratic systems and structures are designed to support the effective scrutiny of its decision making and operational business and ensure that as an organisation we are properly held to account.
- Annual budgets are set by the Council, and 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 Corporate Resources Group, the Executive Officer Team and the Finance & Resources Group.
- The Strategic Policy & Resources Committee receives regular financial monitoring information as part of the budgetary control framework.

- Capital spend is monitored by Senior Management through the Strategic Investment Group and reported regularly to the Executive Officer Team and to the Strategic Policy & Resources Committee as part of the budgetary control framework.
- 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 to the Council's Strategic Policy & Resources Committee.
- The Council publishes an Annual Report on its performance against the objectives set out within the Corporate Plan and Community Plan/Single Outcome Agreement. ([PKC Information, performance & Statistics](#))
- The Council's Transformation Programme is scrutinised by Service Management Teams, the Executive Officer Team, the Transformation, Change & OD Group 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 complaints from members of the public.
- The Council has a published process for individuals to access information under the Freedom of Information legislation.

5 Effectiveness of our framework

- 5.1 Assurance evidence has been gathered from Service Management Teams (SMT) by way of a self-assessment questionnaires designed around the principles of the *International Framework of Good Governance in the Public Sector* (developed by CIPFA and the International Federation of Accountants and *Delivering Good Governance in Local Government* (CIPFA/SOLACE).
- 5.2 The evidence submitted by services has undergone a process of quality assurance through the Policy & Governance Group, which is chaired by the Head of Legal & Governance Services and comprises Senior Officers from the following services and representatives of each Directorate;
- Legal
 - Finance
 - Human Resources
 - Internal Audit
 - Information Compliance & Security
 - IT and Information Systems
 - Procurement
 - Democratic Services
- 5.3 Each SMT has certified that, having reviewed 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 Director and their respective Depute Chief Executive.
- 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
- 5.6 The Council's Chief Financial Officer is a key member of the Senior Management of the Council helping it to develop and implement strategy and to maintain strong financial management underpinned by effective financial controls. The Chief Finance Officer has provided assurance that the authority's financial management arrangements conform to the governance requirements of the 'CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).
- 5.7 The Council has effective arrangements in place to enable the Chief Executive to discharge her functions as the Head of Paid Service.
- 5.8 The Council has effective arrangements in place to enable the Head of Legal & Governance Service to discharge her functions as the Monitoring Officer.

- 5.9 The Head of Legal & Governance Services / Monitoring Officer has provided assurance that there are adequate arrangements in place to:
- ensure that the Council complies with relevant laws, regulations, internal policies and procedures
 - respond to whistleblowing and deal with complaints from the public
 - identify and manage the risks from fraud and corruption
 - define, develop and embed appropriate standards of behaviour of Elected Members and Staff
- 5.10 The Head of Democratic Services has provided assurance that there are adequate arrangements in place to:
- define the roles and responsibilities of the executive, non-executive, scrutiny and officer functions within the organisation and in respect of partnership arrangement
 - to identify development needs of Elected members and Officers in relation to their roles and to support this with appropriate training
 - to support effective decision making within the organisation, including appropriate delegation arrangements
- 5.11 The Chief Internal Auditor has provided assurance that the Council's arrangements conform with the governance requirements of the CIPFA Statement on the Role of Head of Internal Audit and CIPFA's Audit Committees: Practical Guidance for Local Authorities.
- 5.12 A risk-based internal audit plan is prepared annually in a process which reviews all the significant activities and systems that contribute to the achievement of the Council's objectives. The Audit Committee approves the annual audit plan and receives the annual audit report. Internal Audit has completed its 2015/16 Audit plan and issued 27 planned audits plus 1 additional audit during the period covered by this statement. In addition it has delivered 7 consultancy audits.
- 5.13 The Annual Internal Audit report for 2015/16 states:
- In the Chief Internal Auditor's opinion, reasonable reliance can be placed on the Council's governance arrangements and systems of internal control for 2015/16, subject to management implementation of the agreed actions detailed in Internal Audit reports..... Whilst limited reliance can be placed on the corporate risk management arrangements for 2015/16, the implementation of the identified improvements should enable reasonable reliance for 2016/17.*
- 5.14 The Corporate IT Manager and the Information Compliance Manager have provided assurance that the Council has an assured secure, government-accredited network and has arrangements in place for the management of information risk including an information security policy and standards.
- 5.15 The Governance Framework has been in place for the financial year ended 31 March 2016 and up to the date of approval of the Annual Report and statement of accounts.
- 5.16 For Live Active Leisure Ltd and Horsecross Arts Ltd, reliance has been placed upon:
- unaudited financial statements of the companies (audited accounts will be scrutinised when available);
 - internal control information taken from the Council's contract with Live Active Leisure Ltd and the Service Agreement with Horsecross Arts Ltd.;
 - quarterly contract monitoring meetings with Service;
 - performance information and financial monitoring reports to Service; and
 - presentations to Scrutiny Committee
- 5.17 For Tayside Contracts Joint Committee and Tayside Valuation Joint Board, reliance has been placed upon each organisation's own Annual Governance Statement.
- 5.18 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 a number of areas (identified below) which have been or are already identified for some improvement action by virtue of:
- this process;
 - internal audit actions;
 - external audit actions; or
 - transformation reviews
- 5.19 The areas referred to in 5.18 above which are the subject of current or planned improvement actions are:-
- corporate risk management
 - contract management
 - procurement / commissioning
 - information management
 - workforce planning
 - funding external bodies
- 5.20 In addition to the above, the establishment of the Integrated Joint Board which took responsibility for the delivery of integrated health and adult social care services within Perth & Kinross as of 1 April 2016 will likely present a number of new challenges as we implement our new joint governance arrangements.

- 5.21 Similarly the implementation of the Community Empowerment Act and the establishment of locality based community planning boards may require some changes to be made to our existing governance arrangements, to ensure adequacy and transparency.
- 5.22 Any delay in implementing our ambitious transformation agenda also poses a risk in terms of our ability to deliver the anticipated savings. It will be important that our decision making processes are agile enough to ensure that key decisions can be made and actions implemented timeously to align with agreed project plans.
- 5.23 As stated above many of the control areas identified for review or development are already the subject of ongoing or planned work and is important that resources are not wasted in duplicating action plans and processes under different guises. It is proposed therefore that the Policy & Governance Group maintain an oversight of the progress of these plans to ensure that the governance improvement actions are delivered. A summary of the various actions and related plans are annexed at Appendix 1.

6 Statement

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:-

- internal audit;
- external audit;
- Council's Executive Officer Team
- Council's Corporate Management Team as part of this assurance process;
- Policy & Governance Group
- Head of Finance (as Chief Finance Officer)
- Head of Legal & Governance Services (as Monitoring Officer)
- external review agencies and inspectorates.

Internal Audit have provided me with assurance for the year 2015/16 and an Internal Audit plan is in place for 2016/17 that will focus on areas which have been identified as corporate or service specific risks.

Each Head of Service, Director and Depute Chief Executive who has responsibility within the Scheme of Delegation for the development and maintenance of the system of internal control has provided me with 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.

The Monitoring Officer has provided assurance that the Council is complying with relevant laws, regulations, national guidance, internal policies and procedures.

The Chief Internal Auditor has provided assurance that the Council's arrangements conform with the governance requirements of the CIPFA Statement on the Role of Head of Internal Audit and CIPFA's Audit Committees: Practical Guidance for Local Authorities.

I have been advised of the outcome of the review of the effectiveness of the governance arrangements and am satisfied that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

The governance improvement actions as outlined in Appendix 1 will address the areas identified for review or development. This will ensure that adequate and appropriate systems and processes are in place to improve the effectiveness of our governance arrangements. Oversight of implementation of the action plan will be maintained corporately through the Policy & Governance Group. Progress will be reported to the Council's Executive Officer Team and the Council's Scrutiny Committee.

The key areas for improvement identified during the annual review include:

- reviewing our corporate approach to risk to support the organisation to be more, innovative and entrepreneurial through a better understanding and tolerance of risk
- reviewing our contract management practices to ensure that we are achieving best value from our arrangements
- reviewing our procurement activities to ensure that these align with our Procurement Strategy and deliver value for money
- improving our information management to ensure that we make more effective use of business information to improve services and provide greater transparency for our stakeholders. The expansion of open data will also be explored to provide community and business opportunities,
- further developing our workforce planning to ensure that we have an adequately skilled and agile workforce equipped and motivated to meet the challenges of delivering high quality cost efficient public services to our communities.

- reviewing our arrangements for the funding of external bodies who provide services, to ensure transparency and compliance with current procurement legislation
- implementing robust governance arrangements to provide assurance in respect of our relationship with the Integrated Joint Board for the delivery of integrated health and social care services.

I am also reassured by the fact that the areas identified for further development outlined above are already the subject of ongoing or planned reviews by virtue of audit recommendations or transformation projects. This demonstrates to me that, as an organisation we have a good understanding of our changing risk landscape and are committed to continuously improving the effectiveness of our governance framework to ensure that it is robust and fit for purpose in these challenging times.

Signed:

Bernadette Malone
Chief Executive

Perth & Kinross Council

Date: 28 September 2016

Councillor Ian Miller
Leader of the Council

Perth & Kinross Council

Date: 28 September 2016

APPENDIX 1

ANNUAL GOVERNANCE STATEMENT 2015/16

IMPROVEMENT ACTION PLAN 2016-17

ACTION	LEAD OFFICER	TIMESCALE/comment
Review Corporate Risk Policy Review Risk Management Strategy Develop new Risk Management Framework	Head of Strategic Commissioning & OD / Head of Legal & Governance Services	31/12/16
Review current procurement and commissioning arrangements to ensure alignment with new Procurement Strategy	Head of Strategic Commissioning & OD /Corporate Procurement Manager	Procurement Action Plan
Review Contract management practices within each service area	Corporate Procurement Manager/ Head of Legal & Governance Services / SMTs	Procurement Action Plan
Update Information Management Strategy Develop IM Toolkit	Information Compliance Officer	Governance Review Action Plan
Further develop workforce planning arrangements across the Council	Corporate HR Manager/ SMTs	HR Management Plan
Review current arrangements for the funding of external bodies to ensure compliance with procurement legislation	Head of Legal & Governance Services / Corporate Procurement Manager / SMTs	Governance Review Action Plan
Develop governance assurance process in respect of the Integrated Joint Board	Head of Legal & Governance Services/Head of Democratic Services / Chief Officer IJB	Governance Review Action Plan
Develop governance assurance process in respect of ALEOs	Head of Legal & Governance Services/Head of Democratic Services / Head of PSR & Community Development	Governance Review Action Plan

REMUNERATION REPORT FOR FINANCIAL YEAR 2015/16

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 statutory 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 Audit Scotland. The other sections of the Remuneration Report will be reviewed by Audit Scotland 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 2015/16 the maximum salary for the Leader of Perth & Kinross Council is £33,454 and the Council has agreed that the Civic Head be paid 75% of the salary of the Leader, which for 2015/16 is a maximum of £25,090. 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 £25,090 and a maximum yearly amount payable for all Senior Councillors of £292,715 in 2015/16 (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 2015/16 was to pay Senior Councillors up to 90% of the maximum of £25,090 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 2015/16, Councillors from Perth & Kinross Council served as Convener of the Tayside Valuation Joint Board and Vice-Convener of the Tayside Community Justice Authority. The remuneration paid by the Council to these Councillors in their roles as Convener and Vice-Conveners was not recharged by the Council to the Tayside Valuation Joint Board or the Tayside Community Justice Authority.
- 3.6 During 2015/16 Perth & Kinross Council had 12 Senior Councillors and 2 Councillors serving as Conveners and Vice-Conveners of Joint Boards and the Community Justice Authority who are treated as Senior Councillors for the purposes of the Remuneration Report. Together with the Leader of the Council and the Provost, the total remuneration including taxable expenses paid to these Councillors was £370,269. The individual amounts payable to the Leader of the Council, the Provost, Senior Councillors of Perth & Kinross Council and Conveners and Vice-Conveners of Joint Boards and the Tayside Community Justice Authority in 2015/16 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 Existing Senior Councillors, Conveners and Vice-Conveners of Joint Boards and Vice Convener of the Tayside Community Justice Authority for Financial Year 2015/16

Name and Post Title	Salary, Fees & Allowances 2015/16	Taxable Expenses 2015/16 (Note:1)	Total Remuneration 2015/16	Total Remuneration 2014/15
	£	£	£	£
Ian Miller Council Leader & Convener Strategic Policy and Resources Committee	33,454	116	33,570	<i>33,254</i>
Elizabeth Grant Provost (Civic Head)	25,090	76	25,166	<i>24,863</i>
Henry Anderson Convener Licensing Board	22,518	100	22,618	<i>22,404</i>
Robert Band Convener Lifelong Learning Committee	22,518	147	22,665	<i>22,458</i>
Jack Coburn Convener Licensing Committee (resigned 24/3/15)	0	0	0	<i>21,932</i>
Bob Ellis Convener Licencing Committee (from 13/05/15)	21,881	44	21,925	<i>n/a</i>
Dave Doogan Convener Housing & Health Committee	22,518	53	22,571	<i>22,406</i>
Alan Grant Convener Environment Committee	22,518	0	22,518	<i>22,295</i>
Tom Gray Convener Development Management Committee	22,518	91	22,609	<i>22,404</i>
John Kellas Convener Enterprise & Infrastructure Committee	22,518	94	22,612	<i>22,432</i>
Murray Lyle Convener Local Review Body	22,518	51	22,569	<i>22,362</i>
Elsbeth MacLachlan Convener Tayside Valuation Board	20,909	111	21,020	<i>20,845</i>
Archibald MacLellan Vice Convener Tayside Community Justice Authority	19,864	49	19,913	<i>19,699</i>
Douglas Pover Convener Community Safety Committee	22,518	87	22,605	<i>22,412</i>
Mac Roberts Leader Largest Opposition Party	22,518	138	22,656	<i>22,396</i>
Alexander Stewart Convener Scrutiny Committee	22,518	125	22,643	<i>22,350</i>
Barbara Vaughan Convener Audit Committee	22,518	91	22,609	<i>22,386</i>
TOTAL (Note: 2)	368,896	1,373	370,269	<i>366,898</i>

Notes:

- (1) Taxable Expenses relate to meals taken on Council premises.
- (2) After adjusting for the salaries of the Leader of the Council, Civic Head (Provost) and Convenors and Vice Convenors of Joint Boards and the Community Justice Authority, the total salary paid to Senior Councillors in 2015/16 was £269,579 which compares with the maximum under Regulations of £292,715.

3.7 The arrangements for political decision making structures within Perth & Kinross Council as at 31 March 2016, which encompassed the salaries of all Elected Members including the Council Leader, Civic Head and Senior Councillors were agreed at the meeting of the full Council on 23 May 2012 (Report No.12/193 refers) and are available on the Council's website at [Political Decision Making Structures](#) .

- 3.8 The Council paid the following salaries and expenses to all Councillors (including those listed in Table 1 above) in financial year 2015/16:

Table 2: Remuneration Paid to Councillors 1 April 2015 to 31 March 2016

Type of Remuneration	2015/16 £	2014/15 £
Salaries	782,615	787,125
Taxable Expenses	2,595	2,746
Total	<u>785,210</u>	<u>789,871</u>

- 3.9 The annual return of Councillors' salaries and expenses for 2015/16 is available for any member of the public to view at Perth & Kinross Council, Blackfriars, North Port, Perth; Council libraries and Council local area offices during normal working hours and is also available on the Council's website at [Councillors' Allowances](#)
- 3.10 The information in the annual return of Councillors' salaries and expenses for 2015/16 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 2015/16.
- 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 2015/16:
- The Chief Executive as the Statutory Head of Paid Service.
 - The Senior Chief Executive and Depute Chief Executives 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 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 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 2015/16 is detailed in table 3 below:

**Table 3: Remuneration of Senior Employees of the Council and its Subsidiaries for Financial Year 2015/16
(Job titles as at 31 March 2016)**

Name and Post Title	Salary, Fees & Allowances 2015/16 £	Total Remuneration 2015/16 £	Total Remuneration 2014/15 £
Bernadette Malone Chief Executive (Note 1)	129,941	129,941	<i>132,075</i>
David Burke (Left 04/04/2014) Depute Chief Executive & Executive Director (Housing & Community Care)	0	0	<i>1,723</i>
John Fyffe Senior Depute Chief Executive	115,472	115,472	<i>113,766</i>
John Walker Depute Chief Executive & Chief Operating Officer	110,147	110,417	<i>108,519</i>
James Valentine Depute Chief Executive	110,147	110,147	<i>108,519</i>
William Atkinson Director of Social Work	88,798	88,798	<i>87,486</i>
Ian Innes (Left 30/06/15) Head of Legal Services	21,755	21,755	<i>85,734</i>
Lisa Simpson (Started 08/06/15) Head of Legal Services	70,869	70,869	<i>n/a</i>
John Symon Head of Finance	87,020	87,020	<i>85,734</i>
Gillian Taylor Head of Democratic Services (now reports to Depute Chief Executive and Chief Operating Officer) (Note 2)	79,898	79,898	<i>78,717</i>
Colin McMahon (to 16/01/15) Horsecross Arts Limited – Chief Executive	0	0	<i>53,493</i>
Gwilym Gibbons (from 19/01/15) Horsecross Arts Limited – Chief Executive	66,950	66,950	<i>13,324</i>
James Moyes Live Active Leisure – Chief Executive	74,964	74,964	<i>72,546</i>
TOTAL	955,961	955,961	<i>941,636</i>

Note 1:

The substantive salary for the Chief Executive is laid down in COSLA Circular CO/146. The Chief Executive's remuneration in 2015/16 included a balance of fee of £1,296 for acting as Returning Officer for the European Parliamentary Election 2014 and £2,655 for acting as Returning Officer for the Perth & North Perthshire Constituency Election.

Note 2:

The Head of Democratic Services reported to the Chief Executive until 30 September 2015.

4.5 No other taxable benefits or bonuses were received by the above named Senior Employees of Perth & Kinross Council in 2015/16.

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 2015/16 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 2015/16

Remuneration Bands	Number of Employees	
	2015/16	2014/15
£50,000-£54,999	64	59
£55,000-£59,999	47	40
£60,000-£64,999	2	5
£65,000-£69,999	2	4
£70,000-£74,999	5	5
£75,000-£79,999	14	12
£80,000-£84,999	0	0
£85,000-£89,999	6	5
£90,000-£94,999	0	0
£95,000-£99,999	0	0
£100,000-£104,999	0	0
£105,000-£109,999	0	2
£110,000-£114,999	2	1
£115,000-£119,999	1	0
£120,000-£124,999	0	0
£125,000-£129,999	1	0
£130,000-£134,999	0	1
Total	144	134

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	
	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16 £'000	2014/15 £'000
£0 - £20,000	0	0	94	19	94	19	617	42
£20,001 - £40,000	0	0	26	5	26	5	714	126
£40,001 - £60,000	0	0	12	0	12	0	603	0
£60,001 - £80,000	0	0	9	0	9	0	604	0
£80,001 - £100,000	0	0	6	0	6	0	516	0
Over £100,000	0	0	3	0	3	0	395	0
Total	0	0	150	24	150	24	3,449	168

- 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 allowed the Council to deliver on a 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 2015/16, the Head of Legal 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 2015/16.
- 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 2015/16

Actual Pensionable pay	Contribution Rate 2015/16
On earnings up to and including £20,500	5.5%
On earnings above £20,500 and up to £25,000	7.25%
On earnings above £25,000 and up to £34,400	8.5%
On earnings above £34,400 and up to £45,800	9.5%
On earnings above £45,800	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 1/49th added to the pension account. (Prior to 2015 the accrual rate was 1/60th of final pensionable salary and years of pensionable service. Prior to 2009 the accrual rate guaranteed a pension based on 1/80th and a lump sum based on 3/80th 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 2016 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, Conveners and Vice-Conveners of Joint Boards and Vice-Conveners of the Tayside Community Justice Authority for Financial Year 2015/16

Name and Post Title	In-year pension contributions			Accrued Pension Benefits		
	For Year to 31/03/2016 £	For Year to 31/03/2015 £		For Year to 31/03/2016 £	For Year to 31/03/2015 £	Difference from 31/03/2015 £
Ian Miller Council Leader & Convener Strategic Policy and Resources Committee	5,688	5,962	Pension Lump Sum	6,158 2,968	4,520 2,563	1,638 405
Elizabeth Grant Provost (Civic Head) (Note 1)	0	0	Pension Lump Sum	0 0	0 0	0 0
Henry Anderson Convener Licensing Board	3,828	4,013	Pension Lump Sum	1,555 0	1,080 0	475 0
Robert Band Convener Lifelong Learning Committee	3,828	4,013	Pension Lump Sum	4,466 2,043	3,274 1,765	1,192 278
Jack Coburn (Note 1) Convener Licensing Committee (resigned 24/03/15)	0	0	Pension Lump Sum	0 0	0 0	0 0
Dave Doogan Convener Housing & Health Committee	3,828	4,013	Pension Lump Sum	1,212 0	743 0	469 0
Bob Ellis Convener Licencing Committee (from 13/05/15)	3,720	0	Pension Lump Sum	2,925 204	0 0	n/a n/a
Alan Grant (Note 1) Convener Environment Committee	0	0	Pension Lump Sum	0 0	0 0	0 0
Tom Gray Convener Development Management Committee	3,828	4,013	Pension Lump Sum	3,066 0	1,910 0	1,156 0
John Kellas Convener Enterprise & Infrastructure Committee	3,828	4,013	Pension Lump Sum	4,143 2,033	3,068 1,760	1,075 273
Murray Lyle Convener Local Review Body	3,828	4,013	Pension Lump Sum	2,986 1,462	2,456 1,420	530 42

Name and Post Title	In-year pension contributions			Accrued Pension Benefits		
	For Year to 31/03/2016 £	For Year to 31/03/2015 £		For Year to 31/03/2016 £	For Year to 31/03/2015 £	Difference from 31/03/2015 £
Elspeth MacLachlan Convener Tayside Valuation Board	3,555	3,726	Pension Lump Sum	2,845 1,353	2,363 1,322	482 31
Archibald MacLellan Vice Convener Tayside Community Justice Authority	3,377	3,540	Pension Lump Sum	6,140 2,076	4,497 1,802	1,643 274
Douglas Pover Convener Community Safety Committee	3,828	4,013	Pension Lump Sum	1,555 0	1,080	475
Mac Roberts Leader Largest Opposition Party	3,828	4,013	Pension Lump Sum	7,231 11,482	6,569 10,884	662 598
Alexander Stewart Convener Scrutiny Committee	3,828	4,013	Pension Lump Sum	7,535 13,857	6,999 13,663	536 194
Barbara Vaughan (Note 1) Convener Audit Committee	0	0	Pension Lump Sum	0 0	0 0	0 0
TOTAL	50,792	49,345				

Notes:

- (1) 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 Jack Coburn, Alan Grant and Barbara Vaughan have elected not to become members of the Local Government Pension Scheme.

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 2016 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 2015/16 (Post titles as at 31 March 2016)

Name and Post Title	In-year pension contributions			Accrued Pension Benefits		
	For Year to 31/03/2016 £	For Year to 31/03/2015 £		For Year to 31/03/2016 £	For Year to 31/03/2015 £	Difference from 31/03/2015 £
Bernadette Malone Chief Executive	22,103	23,043	Pension Lump Sum	48,935 100,276	45,597 98,790	3,338 1,486
David Burke (Left 04/04/14) Depute Chief Executive & Executive Director (Housing & Community Care) (To 30/09/2013)	0	310	Pension Lump Sum	0 0	n/a n/a	n/a n/a
John Fyffe Senior Depute Chief Executive	19,631	20,478	Pension Lump Sum	61,628 143,179	58,399 141,066	3,229 2,113
John Walker Depute Chief Executive & Chief Operating Officer	18,725	19,533	Pension Lump Sum	45,931 98,012	43,040 96,563	2,891 1,449
James Valentine Depute Chief Executive	18,725	19,533	Pension Lump Sum	45,988 98,182	43,095 96,731	2,893 1,451
William Atkinson Director of Social Work	15,096	15,748	Pension Lump Sum	49,126 115,307	46,616 113,603	2,510 1,704
Ian Innes (Left 30/06/15) Head of Legal Services	3,698	15,432	Pension Lump Sum	45,421 109,232	44,984 109,232	437 0
Lisa Simpson (Started 08/06/15) Head of Legal & Governance (Note 2)	12,048	0	Pension Lump Sum	1,446 0	0 0	1,446 0
John Symon Head of Finance	14,794	15,432	Pension Lump Sum	28,733 59,123	26,560 58,249	2,173 874
Gillian Taylor Head of Democratic Services (now reports to Depute Chief Executive and Chief Operating Officer) (Note 3)	13,622	14,169	Pension Lump Sum	37,878 84,674	35,407 83,179	2,471 1,495

Name and Post Title	In-year pension contributions			Accrued Pension Benefits		
	For Year to 31/03/2016	For Year to 31/03/2015		For Year to 31/03/2016	For Year to 31/03/2015	Difference from 31/03/2015
	£	£		£	£	£
Colin McMahon (left 16/1/15) Horsecross Arts Limited – Chief Executive	0	4,432	Pension Lump Sum	0	473	n/a
Gwilym Gibbons (start 19/1/15) (Note 2) Horsecross Arts Limited – Chief Executive	11,382	1,159	Pension Lump Sum	1,588	214	1,374
James Moyes Live Active Leisure - Chief Executive	12,744	13,058	Pension Lump Sum	38,656	35,930	2,726
				88,894	86,027	2,867
TOTAL	162,568	162,327				

Notes:

- (1) The pension benefits shown relate to the benefits that the individual has accrued as a consequence of their local government service, including any service with a Council subsidiary body, and not just their current employment.
- (2) These figures do not include transfer values
- (3) The Head of Democratic Services reported to the Chief Executive until 30 September 2015.

Signed:

Bernadette Malone
Chief Executive

Perth & Kinross Council

Date: 28 September 2016

Councillor Ian Miller
Leader of the Council

Perth & Kinross Council

Date: 28 September 2016

Independent auditor's report to the members of Perth & Kinross Council and the Accounts Commission for Scotland

I certify that I have audited the financial statements of Perth & Kinross Council and its group for the year ended 31 March 2016 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and authority-only Movement in Reserves Statements, Comprehensive Income and Expenditure Statements, Balance Sheets, and Cash Flow Statements, the authority-only Housing Revenue Account, the Statement of Movements on the Housing Revenue Account Balance, the Council Tax Income Account, the Non Domestic Rate Income Account, Charitable Trusts, Common Good and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the 2015/16 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Head of Finance and auditor

As explained more fully in the Statement of Responsibilities, the Head of Finance is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the council and its group and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Annual Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2015/16 Code of the state of the affairs of the council and its group as at 31 March 2016 and of the income and expenditure of the council and its group for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2015/16 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Opinion on other prescribed matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014; and
- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Annual Governance Statement has not been prepared in accordance with Delivering Good Governance in Local Government; or
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

Stephen Boyle CPFA
Assistant Director (Audit Services)
Audit Scotland
4th Floor, South Suite
The Athenaeum Building
8 Nelson Mandela Place
Glasgow
G2 1BT

28 September 2016

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.