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Council Building
The Atrium
137 Glover Street
Perth
PH2 0LQ

Wednesday, 22 June 2016

A Meeting of the **Audit Committee** will be held in the **Gannochy Suite, Dewars Centre, Glover Street, Perth, PH2 0TH** on **Wednesday, 29 June 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 Barbara Vaughan (Convener)
Councillor Alexander Stewart (Vice-Convener)
Councillor Henry Anderson
Councillor Dave Cuthbert
Councillor Joe Giacobazzi
Councillor Willie Wilson
Councillor Anne Younger

Audit Committee

Wednesday, 29 June 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 30 MARCH 2016 7 - 18**
- 4 INTERNAL AUDIT FOLLOW-UP 19 - 28**
Report by Chief Internal Auditor (copy herewith 16/305)
- 5 INTERNAL AUDIT UPDATE 29 - 46**
Report by Chief Internal Auditor (copy herewith 16/306)
- (i) CORPORATE AND DEMOCRATIC SERVICES**
 - (a) 15-02 - ESTABLISHMENT APPROVAL PROCESS 47 - 50**
(copy herewith 16/307)
 - (b) 15-32 - CORPORATE GOVERNANCE - GOVERNANCE ARRANGEMENTS FOR ALEOS AND STATUTORY BODIES 51 - 66**
(copy herewith 16/308)
 - (c) 15-34 - CORPORATE RISK MANAGEMENT 67 - 76**
(copy herewith 16/309)
- (ii) THE ENVIRONMENT SERVICE**

(a)	15-06 - LEADER (copy herewith 16/310)	77 - 82
(b)	16-15 - FUEL MANAGEMENT (copy herewith 16/311)	83 - 96
(iii)	HOUSING AND COMMUNITY CARE	
(a)	15-12 - BUY BACKS ASSIGNMENT (copy herewith 16/312)	97 - 100
(b)	15-26 - UNIVERSAL CREDIT (copy herewith 16/313)	101 - 104
(c)	HEALTH AND SOCIAL CARE INTEGRATION – FINANCIAL ASSURANCE (copy herewith 16/314)	105 - 114
(iv)	EDUCATION AND CHILDREN’S SERVICES	
(a)	15-28 - CULTURE, SPORT AND LEISURE PROVISION (copy herewith 16/315)	115 - 118
6	EXTERNAL AUDIT REPORT	
(i)	2015-16 REVIEW OF MAIN FINANCIAL SYSTEMS (copy herewith 16/316)	119 - 124
7	INTERNAL AUDIT ANNUAL REPORT 2015/16 Report by the Chief Internal Auditor (copy herewith 16/317)	125 - 138

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

P1 INTERNAL AUDIT REPORT

(i) CORPORATE AND DEMOCRATIC SERVICES

(a) 15-17 - IT DISASTER RECOVERY PLANNING

P2 EXTERNAL AUDIT REPORT

(i) 2015/16 AUDIT - CYBER ATTACK PREPAREDNESS

8 UNAUDITED ANNUAL ACCOUNTS 2015-16
Report by Head of Finance (copy herewith 16/320)

139 - 244

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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 30 March 2016 at 2.00pm.

Present: Councillors B Vaughan, A Stewart, D Cuthbert, J Giacomazzi, L Simpson (substituting for W Wilson) and A Younger.

In Attendance: J Clark, C Irons, M Morrison, L Simpson, G Taylor and S Walker (all Corporate and Democratic Services); D Adams and J Cockburn, (Education and Children's Services); S D'All, S Mackenzie, B Renton and A Warrington (The Environment Service) and N Copland and J Wylie (Housing and Community Care).

Also in Attendance: S Boyle and P Tate, Audit Scotland

Apologies: Councillors H Anderson and W Wilson

Councillor Vaughan, Convener, Presiding.

274. WELCOME AND APOLOGIES/SUBSTITUTIONS

The Convener welcomed everyone to the meeting. Apologies and a substitution were noted as above.

275. DECLARATIONS OF INTEREST

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

276. MINUTE

The minute of meeting of the Audit Committee of 3 February 2016 (Arts. 75–79) was submitted and approved as a correct record and authorised for signature.

In relation to Corporate and Democratic Services (Item 78(f) refers), the Convener advised that the Depute Chief Executive, HCC (Corporate and Community Development Services) and Chief Operating Officer confirmed that the Heads of Service had given assurance that there were adequate resources to complete all actions required by Internal Audit and that he would continue to monitor the position.

In relation to the Crieff Primary Assurance Review (item 79(c) refers) the Convener referred to the update provided by Education and Children's Services to Committee members.

277. INTERNAL AUDIT FOLLOW-UP

There was submitted a report by the Chief Internal Auditor (16/143), presenting the Committee with a current summary of Internal Audit's follow up work.

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 9 – Action Point 2

It was noted the Following the Public Pound guidance had been drafted and would be considered by the Executive Officer Team before being submitted to the Strategic Policy and Resources Committee in June 2016.

Housing and Community Care

(a) 15-11b – Beechgrove House Care Home – Action Point 1

It was noted there had now been five volunteers and a meeting would be held within the next few days to establish a new Comfort Fund Committee.

(b) 15-41 – Assessment and Charging Community Meals – Action Point 2

It was noted that progression of automated invoicing was not considered a priority by the Senior Management Team at present due to the costs involved and the small number of clients which would benefit.

N Copland confirmed that a review had been undertaken which had confirmed the SWIFT system was capable of automated invoicing, but to implement that change to the system would cost a substantial amount of money and only a very small number of people would benefit; therefore, continuing with a manual system would be more cost effective.

(c) 15-41 – Assessment and Charging Community Meals – Action Points 5 & 6

It was noted there was ongoing discussion with the service provider to ensure there were adequate audit processes in place.

In response to a question from Councillor A Younger, N Copland agreed to provide information to her on the two trials of different processes for receipting cash and cheque income which had already taken place; and also on processes in place in other Council areas.

The Environment Service

(a) 13-05 – Roads Management Inspection and Maintenance – Action Point 9

It was noted the Roads Inspection Manual was being reviewed and the review had included discussion with other Councils. The recent change to the defect intervention level had also had an impact.

PERTH AND KINROSS COUNCIL
AUDIT COMMITTEE
30 MARCH 2016

S D'All confirmed that November 2016 was a realistic deadline with the manual scheduled to be submitted to the Enterprise and Infrastructure Committee on 9 November 2016.

S D'All agreed to forward a copy of the existing manual to Councillors D Cuthbert and L Simpson.

B Renton assured members that there was a commitment to deliver the Roads Inspection Manual and although it had been hoped to submit it to Committee at an earlier date, this had been delayed due to additional work arising from the severe weather and the need to work with other Councils to achieve a consistent approach.

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.

278. INTERNAL AUDIT UPDATE

There was submitted a report by the Chief Internal Auditor (16/144) presenting a summary of Internal Audit's work against the 2015/16 Annual Plan.

Resolved:

The progress made on Internal Audit's work against the Plan for 2015/16 be noted.

The Committee considered the following final reports:-

(i) Corporate and Democratic Services

(a) 15-27 - Transformation

There was submitted a report by the Chief Internal Auditor (16/145), on a consultancy assignment to provide management and elected members with an overview of Internal Audit's involvement with, and the current position of the transformation agenda across the Council.

Resolved:

Internal Audit's findings, as detailed in Report 16/145, be noted.

(b) 15-33 – Job Evaluation and Design

There was submitted a report by the Chief Internal Auditor (16/146) on the audit to ensure (1) the Council had a robust policy in place for job evaluation; (2) all Services and individuals understand their role in the process and the responsibilities of

PERTH AND KINROSS COUNCIL
AUDIT COMMITTEE
30 MARCH 2016

Human Resources; (3) that the job evaluation criteria were applied consistently with independent checks in place and (4) Council roles were benchmarked on a regular basis both internally and externally.

Councillor A Stewart queried how an expansion of existing benchmarking arrangements could be managed and J Clark advised she would request an update from Human Resources and pass this to members. In response to a question from Councillor D Cuthbert, J Clark also agreed to arrange for information on how the benchmarking was undertaken to be circulated to members.

Resolved:

Internal Audit's findings, as detailed in Report 16/146, be noted.

(c) 15-35 – IT Application Review – Optimum

There was submitted a report by the Chief Internal Auditor (16/147) on the audit to ensure (1) there were adequate system administration and user procedures; (2) there were robust logical access controls; (3) there was effective user account management which ensured only authorised users have access; (4) user access levels were appropriate and ensured adequate segregation of duties in relation to the administration and operation of the system; (5) access to amend system parameters were restricted to authorised users; (6) all data interfaces ensured complete and accurate transfer of data; (7) there were effective data input and validation controls; (8) adequate backup, recovery and continuity procedures were in place and (9) there were appropriate audit facilities within the system to allow effective and regular monitoring of the application.

Councillor D Cuthbert queried the deadline of June 2016 for the completion of Action Point 2, and J Clark advised that this was determined by the amount of development work required. J Clark confirmed that when an audit was co-sourced, the agreement of a completion date would be a three-way process involving the co-sourcee, Internal Audit and the Service.

Resolved:

Internal Audit's findings, as detailed in Report 16/147, be noted.

(d) 15-36 – SEEMIS

There was submitted a report by the Chief Internal Auditor (16/148) on the audit to ensure (1) there were adequate system administration and user procedures; (2) there were robust logical access controls; (3) there were effective user account

PERTH AND KINROSS COUNCIL
AUDIT COMMITTEE
30 MARCH 2016

management which ensured only authorised users had access; (4) user access levels were appropriate and ensured adequate segregation of duties in relation to the administration and operation of the system; (5) access to amend system parameters were restricted to authorised users; (6) all data interfaces ensured complete and accurate transfer of data; (7) there were effective data input and validation controls; (8) adequate backup, recovery and continuity procedures were in place and (9) there were appropriate audit facilities within the system to allow effective and regular monitoring of the application.

D Adams advised that Control Objective 9 had been considered weak, as SEEMIS was now an old system and it was not possible to incorporate all changes required. However, a request had been submitted for audit facilities to be included in the new version of the product which was expected to be in place within the next three to four years.

Councillor D Cuthbert referred to data backups covered by Action Point 2 and D Adams advised that backup was the responsibility of SEEMIS LLP and that the Council was seeking assurance that backups were being checked and for regular reporting of backup and disaster recovery activities.

Resolved:

Internal Audit's findings, as detailed in Report 16/148, be noted.

(ii) Education and Children's Services

(a) 15-10 – Modernising the School Office

There was submitted a report by the Chief Internal Auditor (16/149) on the audit to (1) follow up on Internal Audit Consultancy Report 14-17 Online Payments In Schools to ensure appropriate controls exist within the procured system and to ensure the integrity of the control environment; (2) to review the internal controls planned or in place for the efficient and effective management of modernising the finance functions, the business management functions, catering and MRM (the management system for Live Active Leisure) and (3) to ensure that Devolved School Management (DSM) was in accordance with current guidelines, and that the guidelines provided appropriate guidance to officers dealing with services provided under these arrangements.

It was noted that details of ParentPay were available on ERIC.

Resolved:

Internal Audit's findings, as detailed in Report 16/149, be noted.

(b) 15-15 – Named Person Service

A revised version of the report by the Chief Internal Auditor (16/150) was tabled on the audit to ensure that adequate arrangements were in place for the implementation of the Named Person Service in accordance with the Children and Young People (Scotland) Act 2014.

Councillor A Stewart stated the report gave confidence that the Council had done what was required in terms of the Children and Young People (Scotland) Act 2014 and therefore a situation should not arise where the procedure had not been followed or where anyone was in difficulty.

Councillor B Vaughan confirmed training would be undertaken for relevant officers who would undertake the role of Named Persons.

Resolved:

Internal Audit's findings, as detailed in Report 16/150, be noted.

(c) 15-23 – Place Based Scrutiny

There was submitted a report by the Chief Internal Auditor (16/151), on the consultancy assignment to provide advice and support on place-based scrutiny, and also on reviewing associated documentation.

Resolved:

Internal Audit's findings, as detailed in Report 16/151, be noted.

(iii) Environment Service

(a) 15-13 – School Transport Contracts

There was submitted a report by the Chief Internal Auditor (16/152), on the audit to ensure that the management arrangements for education transport contracts were adequate.

Councillor B Vaughan referred to the large number of pupils transported to school on a daily basis and stated this audit was on the contract management arrangements in place within The Environment Service's Public Transport Unit. J Clark advised there would be future reviews on (1) the arrangements within Education and Children's Services for the assessment of the entitlement for school transport and (2) the tendering process for the education transport contracts.

PERTH AND KINROSS COUNCIL
AUDIT COMMITTEE
30 MARCH 2016

Councillor A Stewart sought assurance that the action points would be progressed and A Warrington acknowledged there was a wide range of actions to progress and although written procedures required to be put in place, staff were experienced in their role.

Resolved:

Internal Audit's findings, as detailed in Report 16/152, be noted.

(b) 15-18 – Planning Applications

There was submitted a report by the Chief Internal Auditor (16/153) on the audit to ensure the adequacy of the arrangements in place for managing the planning applications process in respect of local planning applications.

Councillor D Cuthbert queried why only local development applications had been covered by the audit and J Clark advised that focussing on one area allowed more in-depth testing.

Councillor D Cuthbert expressed concern at the finding that not all staff in Development Planning were aware of the Council's Bribery and Corruption Policy and that this could be the position across the Council. B Renton advised this was being addressed and a review would be undertaken to ensure all Services were aware of the policy.

Resolved:

Internal Audit's findings, as detailed in Report 16/153, be noted.

(c) 15-50 – Roads Maintenance Partnership

There was submitted a report by the Chief Internal Auditor (16/154) on the audit to provide an update on progress made on the elements of the Roads Maintenance Partnership Improvement Plan as submitted by The Environment Service to the Audit Committee on 16 September 2015.

B Renton advised that significant improvements had been made since the audit and the importance of the checklist, which had been introduced last April, had been stressed to staff. J Clark added that the checklist made the process more effective.

Councillor B Vaughan highlighted that an audit relating to the activities of the Roads Maintenance Partnership had been recommended for inclusion in next year's audit plan.

PERTH AND KINROSS COUNCIL
AUDIT COMMITTEE
30 MARCH 2016

B Renton added that in addition to quality assurance and monitoring, the Service was visiting other Councils who were leading on the use of electronic filing and work was being done on benchmarking with other Councils.

Resolved:

Internal Audit's findings, as detailed in Report 16/154, be noted.

(iv) Housing and Community Care

(a) 15-22 – Self-Directed Support

There was submitted a report by the Chief Internal Auditor (16/155) on the audit to ensure (1) the appropriateness of the framework and the management of self-directed support and the implementation thereof; (2) the adequacy of performance reporting and the process that reviews existing self-directed support outcomes and (3) the adequacy of financial reporting of self-directed support.

It was noted that in response to Action Point 2 a report had been submitted to the Housing and Health Committee on 9 March 2016 on discharging strategic responsibilities in relation to Self-Directed Support. However, Action Point 4 had been combined with Action Point 7, changing the completion date from March to June 2016. Due to a change of Service Manager a later completion date for Action Point 8(1) had been agreed.

Resolved:

Internal Audit's findings, as detailed in Report 16/155, be noted.

279. INTERNAL AUDIT PLAN 2016/17

There was submitted a report by the Chief Internal Auditor (16/156) presenting the strategy for the delivery of Internal Audit and the proposed Internal Audit Plan for 2016/17.

J Clark outlined the process of compiling the risk-based Plan. The Plan included consultancy work and traditional audit work together with scope for any unplanned work, such as whistleblowing.

Councillor B Vaughan also advised that the Plan took account of any planned external audit or scrutiny.

Councillor D Cuthbert advised it would be useful to have a comparison with the previous year and J Clark agreed to provide that to members.

PERTH AND KINROSS COUNCIL
AUDIT COMMITTEE
30 MARCH 2016

Councillor B Vaughan stressed that the Plan could be amended throughout the year if required and highlighted the inclusion of a reserve list. J Clark confirmed the reserve list was a new element to the Plan and listed assignments which could be considered if resources allowed.

Councillor A Stewart stated it was useful to have a reserve list with audits which would be achieved if possible within the 2016/17 Plan but if not, these would be progressed in the following year.

It was noted the wording would be amended for two assignments within Appendix B to Report 16/156 to clarify that the adequacy of arrangements for the management of rent arrears would be reviewed separately to the arrangements in place for the identification and collection of housing rents.

Resolved:

The Internal Audit Plan for 2016/17, as detailed in appendices A to E to report 16/156, be approved.

280. AUDIT SCOTLAND FINANCIAL REPORTING AND SCRUTINY: WHY THE ACCOUNTS MATTER

There was submitted a report by the Head of Finance (16/157) advising of a recent Audit Scotland publication entitled *Financial Reporting and Scrutiny: Why the Accounts Matter* that was published in February 2016.

P Tate, Audit Scotland, referred to the annual accounts as a vital part of the accountability framework which provided elected members with the information they required to scrutinise the use of funds in the year and to make budgetary decisions for the future. While the Audit Scotland report was not specific to Perth and Kinross Council, it provided a useful list of questions for elected members to consider as part of the accounts scrutiny and approval process. The report also noted some areas for improvement in the compilation and consideration of the annual accounts.

Councillor A Stewart stated the list of questions provided a very useful checklist and clarified what should be achieved through elected members questioning.

Councillor B Vaughan referred to the areas for improvement and welcomed changes to the accounts which would make them more easily understood.

Although the revenue budget monitoring was considered at the Strategic Policy and Resources Committee where members were alerted to issues, it would be helpful for members to have more information on what was contained in the accounts and it would be appreciated if they were simplified.

Resolved:

The Audit Scotland report *Financial Reporting and Scrutiny: Why the Accounts Matter* be noted and the checklist attached as Appendix 1 to Report 16/157 be used by members in scrutinising the unaudited and audited Annual Accounts.

PERTH AND KINROSS COUNCIL
AUDIT COMMITTEE
30 MARCH 2016

281. AUDIT SCOTLAND - 2015/16 ANNUAL AUDIT PLAN FOR PERTH AND KINROSS COUNCIL

There was submitted the Annual Audit Plan 2015/16 for Perth and Kinross Council prepared by Audit Scotland (16/158).

S Boyle, Audit Scotland, advised that the five-year appointment of Audit Scotland came to an end this year and following discussion with the Chief Executive the auditors beyond 2015/16 would be known by the end of June 2016.

S Boyle referred to the Annual Audit Plan which was framed by the Code of Audit Practice, outlining the audit approach and the reporting arrangements with the annual accounts submitted to the Audit Committee on 28 September 2016.

S Boyle also referred to issues and risks noted in the Plan and supplemented by Appendix 2 to Report 16/158; also to cyber security; and the audit fee.

Councillor A Stewart noted that the Plan stated that the Council continued to show a good understanding of the financial challenges it faced, and had been proactive in preparing financial plans to manage budget reductions, but there was an underspend of 2.5% of gross expenditure, and he asked if that was considered to be positive or negative. In terms of the thirty-nine transformation reviews, Councillor A Stewart asked if that was considered excessive or adequate.

S Boyle responded that an underspend could be positive or negative depending on whether it was a planned underspend giving budget flexibility or just unable to progress planned expenditure. In relation to the success of the programme, transformation, would be determined by achievability.

S Walker advised that it was not that the Council was not spending the agreed revenue budget but that there had been delays in projects. In addition there had been additional Council Tax income available and accelerated savings.

Councillor D Cuthbert queried the setting of the planning materiality at £4.1million and the performance materiality at £2m. S Boyle advised the overall materiality was £4.1m but based on performance there was a trigger set of £2m and when that trigger was reached different audit work would be undertaken to review the position.

S Boyle added that consolidation of groups was required, such as Culture Perth and Kinross, which needed to be consolidated into the group accounts.

S Walker advised some groups were already consolidated and Culture Perth and Kinross would be added.

Councillor A Younger referred to the continuing mention of duplication of effort and inefficient use of time and queried how this could be monitored and reported to the Council. S Boyle advised this would be reported back through the Annual Audit Report to this Committee in September.

PERTH AND KINROSS COUNCIL
AUDIT COMMITTEE
30 MARCH 2016

Councillor B Vaughan said she was delighted to see the audit fee had not increased and added that she felt the Council had been very prudent in financial planning, however, there was an issue of underspend as services could be lost unnecessarily and the Council should review matters and report to relevant committees. With regard to public sector reform, Councillor B Vaughan stressed it was important how this was taken forward and that it was important to keep in mind the significant audit risks identified. In conclusion, Councillor B Vaughan added that she would be delighted to have the same audit team for another year.

Resolved:

The Audit Scotland Annual Audit plan 2015/16 be approved.

282. NATIONAL FRAUD INITIATIVE PROGRESS REPORT

There was submitted a report by the Chief Internal Auditor (16/159) (1) outlining the action that had been taken by the Council in response to the requirements of the National Fraud Initiative for 2014/15 and (2) updating members on the outcome of the exercise to verify the accuracy of Single Person Discount for Council Tax.

J Clark advised the 2014/15 initiative had been concluded and outcomes highlighted. Overpayments had been identified and progress was being made on recovery of those.

Councillor D Cuthbert asked how Perth and Kinross compared to other Council's in the savings achieved and J Clark advised that information was not yet available but a national report would be published in due course.

Councillor B Vaughan advised that although it was a large exercise for the recovery of a small amount of money, the initiative also had a deterrent effect.

J Clark added that the work provided assurance on the Council's systems.

Resolved:

- (i) The National Fraud Initiative Progress report which outlines the action taken by the Council in response to the requirements of the National Fraud Initiative and the outcomes for the 2014/15 exercise, be noted.
- (ii) The actions taken by the Revenues and Benefits Service as a result of the non-provision of electoral register information and the outcomes of this exercise, be noted.

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## PERTH AND KINROSS COUNCIL

## Audit Committee

29 June 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 68. Table 2 shows the number of agreed actions that have been reported as incomplete as at their original agreed completion date; these total 19, of which 9 had a completion date of January to March 2016 and are therefore detailed in the following Appendices B to E. A further 10 actions not completed by their original date have been allocated revised dates for completion after 31 March 2016 and progress will be reported on these at a future Committee. Therefore, the number of agreed actions which have yet to be followed up as the date for completion is after 31 March 2016 is 49. In both tables, the actions are grouped by Service and reported by 'importance' of the agreed actions.
- 1.3 Appendices B to E present detailed follow-up information in respect of actions agreed for completion in the period of January to March 2016. The appendices also record service management's explanations of the status of each action point and internal audit comments where relevant. There are no actions with a completion date of January to March 2016 that have not been completed for Housing & Community Care.

## 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                |
|--------------|------------------------|--------------------------------|
| Jackie Clark | Chief Internal Auditor | Ext 75524<br>JClark@pkc.gov.uk |

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Council Text Phone Number 01738 442573

## 1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

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

## Appendix A: Summary of Agreed Actions

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

| Service                         | Importance   |               |                |                |              |                |
|---------------------------------|--------------|---------------|----------------|----------------|--------------|----------------|
|                                 | Critical     | High          | Medium         | Low            | Not Rated    | Total          |
| Corporate & Democratic Services | 0 (0)        | 1 (3)         | 13 (10)        | 9 (14)         | 3 (5)        | 26 (32)        |
| Education & Children's Services | 0 (0)        | 0 (1)         | 8 (8)          | 5 (8)          | 0 (0)        | 13 (17)        |
| Housing & Community Care        | 0 (1)        | 4 (8)         | 5 (9)          | 3 (10)         | 0 (0)        | 12 (28)        |
| The Environment Service         | 0 (0)        | 0 (1)         | 10 (10)        | 3 (9)          | 0 (0)        | 13 (20)        |
| <b>All Services</b>             | <b>0 (1)</b> | <b>5 (13)</b> | <b>36 (37)</b> | <b>20 (41)</b> | <b>3 (5)</b> | <b>63 (97)</b> |

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)        | 2 (6)         | 2 (5)         | 3 (5)        | 7 (16)         |
| Education & Children's Services                                                                                                   | 0 (0)        | 0 (0)        | 1 (1)         | 3 (0)         | 0 (0)        | 4 (1)          |
| Housing & Community Care                                                                                                          | 0 (0)        | 0 (3)        | 1 (1)         | 0 (1)         | 0 (0)        | 1 (5)          |
| The Environment Service                                                                                                           | 0 (0)        | 0 (0)        | 4 (2)         | 1 (4)         | 0 (0)        | 5 (6)          |
| <b>All Services</b>                                                                                                               | <b>0 (0)</b> | <b>0 (3)</b> | <b>8 (10)</b> | <b>6 (10)</b> | <b>3 (5)</b> | <b>17 (28)</b> |
| Actions with a completion date of January to March 2016 which have not been completed and therefore included on Appendices B to E |              |              |               |               |              | 10             |
| Those actions where the agreed date is not January to March 2016 which have been previously reported to Audit Committee           |              |              |               |               |              | 8              |

**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 7 - Audit Scotland's Review of Data Management<br/>Action Point: 4 - Data Sharing Agreements</p> <p>Audit Committee Date: September 2013</p> <p>A register of data sharing agreements is already planned to be published including the responsible officer and the review date. Responsible officers will be given reminders of the need to review agreements.</p> <p>(D Henderson, Information Compliance Manager)</p> | <p>Mar 2015<br/>Mar 2016<br/>Sep 2016</p> | <p>The Service states that major work on Data Protection has been delayed due to unavoidable staff absence. Completion is now anticipated by September 2016.</p> <p>Internal Audit Opinion: Accepted</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>15-16(b) - City of Perth Early Childhood Centre<br/> Action Point : 1 - Inventory<br/> Importance: Low</p> <p>Audit Committee Date: February 2016</p> <p>A complete Inventory List will be compiled in accordance with the Financial Policies and Procedures.</p> <p>(S Rivers, Centre Leader)</p>                                                      | <p>Mar 2016<br/> Aug 2016</p> | <p>Since the audit, there has been a change in Centre Leader for the City of Perth Early Childhood Centre. The Finance Officer has met with the new Centre Leader and he is now aware of the requirements and will work on them for 31 August.</p> <p>Internal Audit Opinion:<br/> Satisfactory</p> |
| <p>15-16(b) - City of Perth Early Childhood Centre<br/> Action Point : 2 - Internal Procedures<br/> Importance: Low</p> <p>Audit Committee Date: February 2016</p> <p>Daily routines will be documented so that it is clear what actions are to be taken in the event of the absence of the clerical member of staff.</p> <p>(S Rivers, Centre Leader)</p> | <p>Mar 2016<br/> Aug 2016</p> | <p>Since the audit, there has been a change in Centre Leader for the City of Perth Early Childhood Centre. The Finance Officer has met with the new Centre Leader and he is now aware of the requirements and will work on them for 31 August.</p> <p>Internal Audit Opinion:<br/> Satisfactory</p> |
| <p>15-16(b) - City of Perth Early Childhood Centre<br/> Action Point : 3 - School Funds Committee<br/> Importance: Low</p> <p>Audit Committee Date: February 2016</p> <p>The Centre Leader was aware of this oversight and will ensure that the procedures in respect of the school fund committee are</p>                                                 | <p>Mar 2016<br/> Aug 2016</p> | <p>Since the audit, there has been a change in Centre Leader for the City of Perth Early Childhood Centre. The Finance Officer has met with the new Centre Leader and he is now aware of the requirements and will work on them for 31 August.</p> <p>Internal Audit Opinion:<br/> Satisfactory</p> |

| Action Plan                              | Dates | Status/Explanation |
|------------------------------------------|-------|--------------------|
| adhered to.<br>(S Rivers, Centre Leader) |       |                    |

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

| Action Plan                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Dates                                                                   | Status/Explanation                                                                                                                                                                                                                                                                                                                                                                       |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>13-18 - Fleet Management<br/> Action Point: 9 - Service Level Agreement<br/> Importance: Low</p> <p>Audit Committee Date: June 2014</p> <p>Service level agreements will be finalised between Fleet and other Council services which detail the requirement to comply with the Corporate Fleet Transport Policy and Procedure Arrangements.</p> <p>(B Morton, Fleet Manager)</p>                                                                                                                                                                                                   | <p>Sep 2014<br/> Mar 2015<br/> Jul 2015<br/> Mar 2016<br/> Jul 2016</p> | <p>Meetings have been held or are scheduled imminently with each Service. Any suggested amends are to be considered and where appropriate added to the SLA before sign off from each Service, this is likely to be done by 31 July 2016 to allow time for the SLA to be presented by the Service Contact to each Service SMT if appropriate.</p> <p>Internal Audit Opinion: Accepted</p> |
| <p>14-11 - Management of Contracts<br/> Action Point : 5 - The Council's corporate rules on contract management<br/> Importance: Medium</p> <p>Audit Committee Date: February 2015</p> <p>The Corporate Procurement Team are working on a "roles and responsibilities" framework to help services identify appropriate measures; e.g., requirements for Contract Officers and their supervisors, to ensure that contract management is effective and proportionate, and Council decision-makers are regularly assured of same.</p> <p>(M Mitchell, Corporate Procurement Manager)</p> | <p>Sep 2015<br/> Feb 2016<br/> Jul 2016</p>                             | <p>The Service states that this is being progressed following the approval of the Procurement Strategy.</p> <p>Internal Audit Opinion: Accepted</p>                                                                                                                                                                                                                                      |
| <p>15-13 - School Transport</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | <p>Mar 2016</p>                                                         | <p>The Service has advised that</p>                                                                                                                                                                                                                                                                                                                                                      |

| Action Plan                                                                                                                                                                                                                                                                                                                                                                                                                                    | Dates                        | Status/Explanation                                                                                                                                                                                                               |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Contracts<br/>Action Point: 2 - Authority to Contract<br/>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>Jun 2016</p>              | <p>authorisation limits have been reviewed and updated within the team. The required changes to PECOS will be actioned with all changes for The Environment Service in June.</p> <p>Internal Audit Opinion:<br/>Satisfactory</p> |
| <p>15-13 - School Transport Contracts<br/>Action Point: 7 - Contract Oversight &amp; Performance Monitoring<br/>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<br/>Jun 2016</p> | <p>Work on completing this action is ongoing. It has involved significantly more resource than originally anticipated and is due to be completed by the end of June.</p> <p>Internal Audit Opinion:<br/>Satisfactory</p>         |

**PERTH AND KINROSS COUNCIL****Audit Committee****29 June 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 2015/16 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 2015/16. In addition, work has commenced on assignments approved as part of the 2016/17 Internal Audit Plan.
- 1.3 Since April 2016, Internal Audit has also been involved with two areas of unplanned activity. Of these assignments, one remains outstanding and one, has been concluded without any further action required.
- 1.4 The Chief Internal Auditor continued to work with our co-sourcer to deliver the relevant aspects of the Internal Audit Plan for 2015/16. Reports for the final 3 assignments are on the agenda for this Committee.
- 1.5 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.
- 1.6 Appendix B shows a summary of each audit previously approved as part of the 2015/16 plan. All assignments have been completed and reported.
- 1.7 Appendix C 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.
- 1.8 Appendix D 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. CONSULTANCY AUDIT REPORTING**

- 2.1 Consultancy assignments are included within the Internal Audit Plan for 2016/17, in line with the PSIAS. In addition to these planned assignments, Services may request advice from Internal Audit during the year (e.g. for changes to the control environment; to systems and processes etc.). Internal Audit's advice may also be sought where Services acknowledge scope for improvement and value the systematic, independent and objective Internal Audit opinion on improvements to ensure that their objectives are met.
- 2.2 The nature of these assignments is such that they are pro-active and enabling. As such, they are supporting Services in managing their business. The likelihood of such requests for advice and assurance leading to adverse public reporting may dissuade Services from seeking advice at an appropriate time.
- 2.3 The outcome from any Internal Audit work feeds into the risk assessment of the Audit Universe which leads to the development of future Internal Audit Plans. The outcomes from consultancy work, whether planned or unplanned, feeds into this process.
- 2.4 The Chief Internal Auditor proposes that the outcomes from this work are provided in summary form as part of the Internal Audit Update rather than being subject to a separate Internal Audit Consultancy Report.

## **3. CONCLUSION AND RECOMMENDATIONS**

- 3.1 This report presents a summary of Internal Audit's work against the 2015/16 and the 2016/17 annual plans. The 2015/16 plan is fully completed and reported. It is currently anticipated that the 2016/17 Internal Audit Plan will be completed within the year.
- 3.2 It is recommended that the Committee notes the completion of the Internal Audit Plan for 2015/16 and the progress of work against the plan for 2016/17.
- 3.3 It is recommended that the Committee approves that the Chief Internal Auditor will provide a summary of consultancy / advisory work undertaken, either planned or requested during the year, as part of the regular Internal Audit Update report.

### **Author(s)**

| <b>Name</b>  | <b>Designation</b>     | <b>Contact Details</b>                                                   |
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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

| <b>Strategic Implications</b>                       | <b>Yes / None</b> |
|-----------------------------------------------------|-------------------|
| Community Plan / Single Outcome Agreement           | None              |
| Strategic Plan                                      | Yes               |
| <b>Resource Implications</b>                        |                   |
| Financial                                           | None              |
| Workforce                                           | None              |
| Asset Management (land, property, IST)              | None              |
| <b>Assessments</b>                                  |                   |
| Equality Impact Assessment                          | Yes               |
| Strategic Environmental Assessment                  | None              |
| Sustainability (community, economic, environmental) | None              |
| Legal and Governance                                | None              |
| Risk                                                | Yes               |
| <b>Consultation</b>                                 |                   |
| Internal                                            | Yes               |
| External                                            | None              |
| <b>Communication</b>                                |                   |
| 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 2015/16

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

Appendix D – 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**

| <b>Audit No.</b> | <b>Audit Title</b>                      | <b>Service</b>                     |
|------------------|-----------------------------------------|------------------------------------|
| 15-02            | Establishment Approval Process          | Corporate and Democratic Services  |
| 15-06            | LEADER                                  | The Environment Service            |
| 15-12            | Housing Service Consultancy – Buy Backs | Housing & Community Care           |
| 15-17            | IT Disaster Recovery                    | Corporate & Democratic Services    |
| 15-24            | Health & Social Care Integration        | Health and Social Care Partnership |
| 15-26            | Universal Credit                        | Housing & Community Care           |
| 15-28            | Sports & Leisure Provision              | Education & Children's Services    |
| 15-32            | Corporate Governance                    | Corporate                          |
| 15-34            | Corporate Risk Management               | Corporate                          |
| 16-15            | Fuel Management                         | The Environment Service            |



## Appendix B

### Progress With Assignments Approved In The Internal Audit Plan for 2015/16 as at May 2016

| <b>Audit No.</b> | <b>Audit Title</b>             | <b>Original Anticipated Audit Committee</b> | <b>Assignment brief approved</b> | <b>Factual accuracy confirmed</b> | <b>Draft Report issued</b> | <b>Final Report issued</b> | <b>Audit Committee Date ^</b> |
|------------------|--------------------------------|---------------------------------------------|----------------------------------|-----------------------------------|----------------------------|----------------------------|-------------------------------|
| 15-01            | Following the Public Pound     | Sep 2015                                    | 1 June 2015                      | 18 August 2015                    | 18 August 2015             | 21 August 2015             | September 2015                |
| 15-02            | Establishment Approval Process | Sep 2015                                    | 17 March 2016                    | 21 March 2016                     | 24 March 2016              | 29 March 2016              | June 2016                     |
| 15-03            | Complaints                     | Sep 2015                                    | 8 April 2015                     | 7 July 2015                       | 28 July 2015               | 21 August 2015             | September 2015                |
| 15-04            | Fostering – Kinship Care       | Jun 2015                                    | 15 April 2015                    | 28 May 2015                       | 28 May 2015                | 5 June 2015                | June 2015                     |
| 15-05            | Corporate Health & Safety      | Sep 2015                                    | 12 May 2015                      | 4 August 2015                     | 13 August 2015             | 21 August 2015             | September 2015                |
| 15-06            | LEADER                         | Feb 2016                                    | 2 February 2015                  | 16 March 2016                     | 17 March 2016              | 30 June 2016               | June 2016                     |
| 15-07            | Reablement                     | Jun 2015                                    | 23 April 2015                    | 1 June 2015                       | 1 June 2015                | 4 June 2015                | June 2015                     |
| 15-08            | Reserves Strategy              | Sep 2015                                    | 28 July 2015                     | 20 August 2015                    | 20 August 2015             | 21 August 2015             | September 2015                |
| 15-09            | New School Governance          | Nov 2015                                    | 1 July 2015                      | 13 August 2015                    | 20 August 2015             | 21 August 2015             | September 2015                |
| 15-10            | Modernising the School Office  | Sep 2015                                    | 17 September 2015                | 22 February 2016                  | 22 February 2016           | 29 February 2015           | March 2016                    |

| <b>Audit No.</b> | <b>Audit Title</b>                                                                                                                 | <b>Original Anticipated Audit Committee</b> | <b>Assignment brief approved</b> | <b>Factual accuracy confirmed</b> | <b>Draft Report issued</b> | <b>Final Report issued</b> | <b>Audit Committee Date ^</b> |
|------------------|------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------|----------------------------------|-----------------------------------|----------------------------|----------------------------|-------------------------------|
| 15-11            | Financial Management of a Community Care Establishment:<br>a. Beechgrove<br>b. Dalweem                                             | Sep 2015                                    | 20 August 2015                   | 29 October 2015                   | 30 October 2015            | 2 November 2015            | November 2015                 |
| 15-12            | Housing Service Consultancy                                                                                                        | Sep 2015                                    | 22 February 2015                 | 17 March 2016                     | 17 March 2016              | 23 March 2016              | June 2016                     |
| 15-13            | School Transport Contracts                                                                                                         | Apr 2016                                    | 8 January 2016                   | 23 February 2016                  | 23 February 2016           | 9 March 2016               | March 2016                    |
| 15-14            | Payroll                                                                                                                            | Feb 2016                                    | 12 November 2015                 | 18 December 2015                  | 24 December 2015           | 8 January 2016             | February 2016                 |
| 15-15            | Integrated Assessment – Named Person Service                                                                                       | Apr 2016                                    | 1 February 2016                  | 16 February 2015                  | 17 February 2016           | 29 February 2016           | March 2016                    |
| 15-16            | Financial Management of Schools – Early Years and Primary:<br>a. City of Perth Early Childcare Centre<br>b. Kinross Primary School | Nov 2015                                    | 10 September 2015                | 16 December 2015                  | 18 December 2015           | 24 December 2015           | February 2016                 |
| 15-17            | IT Disaster Recovery                                                                                                               | Feb 2016                                    | 1 October 2015                   | 21 December 2015                  | 15 January 2015            | 29 March 2016              | June 2016                     |
| 15-18            | Planning Applications                                                                                                              | Apr 2016                                    | 20 January 2016                  | 18 February 2016                  | 18 February 2016           | 23 February 2016           | March 2016                    |
| 15-19            | Homelessness Services                                                                                                              | Feb 2016                                    | 18 August 2015                   | 7 October 2015                    | 14 October 2015            | 21 October 2015            | November 2015                 |

| <b>Audit No.</b> | <b>Audit Title</b>                     | <b>Original Anticipated Audit Committee</b> | <b>Assignment brief approved</b> | <b>Factual accuracy confirmed</b> | <b>Draft Report issued</b> | <b>Final Report issued</b> | <b>Audit Committee Date ^</b> |
|------------------|----------------------------------------|---------------------------------------------|----------------------------------|-----------------------------------|----------------------------|----------------------------|-------------------------------|
| 15-20            | Housing Investment Programme           | Apr 2016                                    | 1 July 2015                      | 17 August 2015                    | 17 August 2015             | 24 August 2015             | September 2015                |
| 15-21            | Perth City Campus                      | Feb 2016                                    | 15 September 2015                | 29 October 2015                   | 30 October 2015            | 2 November 2015            | November 2015                 |
| 15-22            | Self-Directed Support                  | Apr 2016                                    | 30 October 2015                  | 18 February 2016                  | 19 February 2016           | 4 March 2016               | March 2016                    |
| 15-23            | Place Based Scrutiny                   | Apr 2016                                    | 1 July 2015                      | 23 February 2016                  | 24 February 2016           | 25 February 2016           | March 2016                    |
| 15-24            | Health & Social Care Integration       | To be determined                            | 1 February 2016                  | 21 March 2016                     | 21 March 2016              | 23 March 2016              | June 2016                     |
| 15-25            | Property System                        | Apr 2016                                    | 1 April 2015                     | 17 November 2015                  | 30 November 2015           | 22 December 2015           | February 2016                 |
| 15-26            | Universal Credit                       | Apr 2016                                    | 2 March 2016                     | 17 March 2016                     | 17 March 2016              | 23 March 2016              | June 2016                     |
| 15-27            | Transformation                         | Apr 2016                                    | 2 February 2016                  | 2 March 2016                      | 7 March 2016               | 11 March 2016              | March 2016                    |
| 15-28            | Sports & Leisure Provision             | Apr 2016                                    | 3 March 2016                     | 24 March 2016                     | 29 March 2016              | 30 March 2016              | June 2016                     |
| 15-29            | Cycling, Walking & Safer Streets Grant | Not applicable                              | 19 May 2015                      | 29 June 2015                      | Not applicable             | Not applicable             | Not applicable                |
| 15-30            | Bus Service Operators Grant (1)        | Not applicable                              | 5 May 2015                       | 21 May 2015                       | Not applicable             | Not applicable             | Not applicable                |
| 15-31            | Bus Service Operators Grant (2)        | Not applicable                              | 7 October 2015                   | 18 November 2015                  | Not applicable             | Not applicable             | Not applicable                |

| <b>Audit No.</b> | <b>Audit Title</b>                      | <b>Original Anticipated Audit Committee</b> | <b>Assignment brief approved</b> | <b>Factual accuracy confirmed</b> | <b>Draft Report issued</b> | <b>Final Report issued</b> | <b>Audit Committee Date <sup>^</sup></b> |
|------------------|-----------------------------------------|---------------------------------------------|----------------------------------|-----------------------------------|----------------------------|----------------------------|------------------------------------------|
| 15-32            | Corporate Governance                    | Nov 2015                                    | 19 February 2016                 | 31 March 2016                     | 31 March 2016              | 31 March 2016              | <b>June 2016</b>                         |
| 15-33            | Job Evaluation & Design                 | Nov 2015                                    | 28 January 2016                  | 29 February 2016                  | 29 February 2016           | 8 March 2016               | <b>March 2016</b>                        |
| 15-34            | Corporate Risk Management               | Feb 2016                                    | 28 January 2016                  | 23 March 2016                     | 28 March 2016              | 31 March 2016              | <b>June 2016</b>                         |
| 15-35            | Optimum                                 | Feb 2016                                    | 4 November 2015                  | December 2015                     | 14 January 2016            | 4 March 2016               | <b>March 2016</b>                        |
| 15-36            | SEEMIS                                  | Feb 2016                                    | 1 October 2015                   | December 2015                     | 11 January 2016            | 25 February 2016           | <b>March 2016</b>                        |
| 15-50            | Roads Maintenance Partnership Follow Up | Mar 2016                                    | 3 February 2016                  | 10 March 2016                     | 10 March 2016              | 14 March 2016              | <b>March 2016</b>                        |

<sup>^</sup> 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 Approved In The Internal Audit Plan for 2016/17 as at May 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                             |                           |                            |                     |                     |                        |
| 16-02     | Credit Cards                                                                          | Sep 2016                             | 6 Apr 2016                | 19 May 2016                | 25 May 2016         |                     |                        |
| 16-03     | Sales Ledger                                                                          | Sep 2016                             |                           |                            |                     |                     |                        |
| 16-04     | SWIFT                                                                                 | Feb 2017                             |                           |                            |                     |                     |                        |
| 16-05     | Information Sharing                                                                   | Sep 2016                             | 20 Apr 2016               | 25 May 2016                | 7 June 2016         |                     |                        |
| 16-06     | Financial Management of All-Through Schools:<br>Fairview School<br>St. John's Academy | Sep 2016                             | 26 May 2016               |                            |                     |                     |                        |
| 16-07     | Financial Assessment and Charging                                                     | Sep 2016                             |                           |                            |                     |                     |                        |
| 16-08     | Adult Protection                                                                      | Sep 2016                             | 12 Apr 2016               | 7 June 2016                | 9 June 2016         |                     |                        |
| 16-09     | Housing Options                                                                       | Nov 2016                             | 10 May 2016               |                            |                     |                     |                        |
| 16-10     | Charging for Services                                                                 | Feb 2016                             |                           |                            |                     |                     |                        |
| 16-11     | Management of Relationship with Horsecross                                            | Nov 2016                             |                           |                            |                     |                     |                        |
| 16-12     | Procurement                                                                           | Nov 2016                             |                           |                            |                     |                     |                        |
| 16-13     | Performance & Capacity Management                                                     | Sep 2016                             |                           |                            |                     |                     |                        |

|       |                                                           |                |             |             |             |             |           |  |  |
|-------|-----------------------------------------------------------|----------------|-------------|-------------|-------------|-------------|-----------|--|--|
| 16-14 | Named Person Follow Up                                    | Feb 2017       |             |             |             |             |           |  |  |
| 16-15 | Fuel Management                                           | Jun 2016       | 22 Apr 2016 | 19 May 2016 | 19 May 2016 | 31 May 2017 | June 2016 |  |  |
| 16-16 | Transformation                                            | Feb 2017       |             |             |             |             |           |  |  |
| 16-17 | Pupil Support                                             | Nov 2016       |             |             |             |             |           |  |  |
| 16-18 | Housing Rents                                             | Feb 2017       |             |             |             |             |           |  |  |
| 16-19 | Rent Arrears                                              | Feb 2017       |             |             |             |             |           |  |  |
| 16-20 | LEADER                                                    | Feb 2017       |             |             |             |             |           |  |  |
| 16-21 | Property Maintenance                                      | Nov 2016       |             |             |             |             |           |  |  |
| 16-22 | Roads Maintenance Partnership                             | Feb 2017       |             |             |             |             |           |  |  |
| 16-23 | Personalisation                                           | Feb 2017       |             |             |             |             |           |  |  |
| 16-24 | Commissioned Services: Care At Home                       | Mar 2017       |             |             |             |             |           |  |  |
| 16-25 | Parking Services                                          | Mar 2017       |             |             |             |             |           |  |  |
| 16-26 | Health & Social Care Partnership – Integrated Joint Board | Mar 2017       |             |             |             |             |           |  |  |
| 16-27 | Events and Festivals                                      | Mar 2017       |             |             |             |             |           |  |  |
| 16-28 | BSOG April - September 2016 Grant Claim                   | Not Applicable | 25 May 2016 |             |             |             |           |  |  |
| 16-29 | BSOG October – March 2016 Grant Claim                     | Not applicable | 25 May 2016 |             |             |             |           |  |  |
| 16-30 | Cycling Walking Safer Streets Grant Claim                 | Not applicable |             |             |             |             |           |  |  |
| 16-31 | Superconnected Cities Grant Claim                         | Not applicable |             |             |             |             |           |  |  |
| 16-32 | Childs Plan                                               | Feb 2017       |             |             |             |             |           |  |  |

|       |                                        |          |  |  |  |  |  |  |
|-------|----------------------------------------|----------|--|--|--|--|--|--|
| 16-33 | European Social Fund                   | Nov 2016 |  |  |  |  |  |  |
| 16-34 | Tayside Contracts                      | Mar 2017 |  |  |  |  |  |  |
| 16-35 | Transformation                         | Mar 2017 |  |  |  |  |  |  |
| 16-36 | Corporate Governance                   | Mar 2017 |  |  |  |  |  |  |
| 16-37 | Universal Credit                       | Sep 2016 |  |  |  |  |  |  |
| 16-38 | Housing Technology Implementation Plan | Mar 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.



## Appendix D

### 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           |                     |                     |                      |

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 and Democratic Services  
Establishment Approval Process  
Consultancy Assignment No. 15-02  
March 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.

Consultancy work aims to support management in building in controls at the outset for the implementation of systems, processes and procedures and also provides specific assurance for particular projects or issues at the request of management. This approach is consistent with the PSIAS.

### Background and Introduction

This consultancy assignment was carried out as part of the audit plan for 2015/16, which was approved by the Audit Committee on 1 April 2015.

This report aims to provide assurance over the controls in place within the approval process for recruitment and changes in circumstances.

### Scope and Limitations

The indicative scope of the consultation assignment, agreed by the Committee, was to provide advice and assurance over the controls in place within the approval process for recruitment and changes in circumstances.

### Work Undertaken

The Establishment Approval Process (EAP) is part of the procedure for the identification of changes to the workforce. This can be utilised to authorise changes of circumstances for individual employees, to approve temporary higher duty payments, approve back-fill of posts where the substantive post holder is undertaking other duties and for the recruitment of new staff. The EAP provides a consistent approach across all Services to reviewing and challenging requests from Service Managers regarding recruitment activity.

Procedures are available on the Council’s intranet, Eric, which detail steps to be taken along with a Recruitment Process Map which guides managers through the process. Some information on Eric is in need of refreshing to take account of approval levels which have been in place since October 2015. A timetable for submitting requests through the EAP is also published on Eric.

Prior to Services’ Senior Management Teams approval being sought, the Finance teams within the relevant Service provide assurance that there are adequate budgetary resources to be able to afford the recruitment activity requested. Simultaneously, there are processes in place within Human Resources (HR) to check whether each vacancy can be filled by an employee who is in an 'at risk' post or recruited from a pool of employees whose area of activity is subject to review where the staff are not yet formally identified as 'at risk'.

A revised framework is being developed for approval by the Executive Officer Team regarding the presumption to recruit internally rather than externally with a view to protecting the current workforce. This is in line with the Workforce Governance



## Internal Audit Report

Principles which were approved by the Finance and Resources Group in February 2016. Services are involved in developing this framework by identifying protected posts, where external advertising may routinely continue (such as teachers) and HR will be verifying requests to recruit externally against these criteria. In addition, HR have prepared a spreadsheet which contains a summary of the decisions made for each Service in relation to Voluntary Severance. Whilst Services have a responsibility to manage these decisions, HR will use this information when carrying out their checks in relation to the EAP. These arrangements are in the process of formalisation but are currently being implemented.

### Opinion

The implementation of the Establishment Approval Process demonstrates that there are consistent scrutiny arrangements in place over recruitment to vacant posts and to changes in circumstances throughout the Council. Whilst this process is complicated, and is perceived by some Services as adding time to the recruitment process, in reality the process adds a maximum of 12 days to the time taken to recruit which can be in excess of 100 days due to the time required for selection and employment checks, including references.

The further work being undertaken by HR and Services for the identification of protected posts may streamline the process of recruitment for those posts. As such, with the remainder of vacant posts being subject to the EAP, the SMTs will be able to provide an appropriate scrutiny over recruitment activity and will be able to demonstrate that jobs are being protected, which is consistent with the Council's transformation programme approved by Council in July 2015 (Report 15/292 refers).

### Acknowledgements

Internal Audit acknowledges with thanks the co-operation of staff in Corporate and Democratic Service's Finance and Human Resources divisions 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) and Chief Operating Officer

J Symon, Head of Finance

K Donaldson, Corporate Human Resources Manager

E Sturgeon, Chief Exchequer Officer

P Steel, HR Manager – Operations

K McNamara, Head of Strategic Commissioning & Organisational Development

G Taylor, Head of Democratic Services

P Dickson, Complaints & Governance Officer

External Audit

## Authorisation

The auditor for this assignment J Clark

This report is authorised for issue:

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Jacqueline Clark  
Chief Internal Auditor  
Date: 24 March 2016



Internal Audit Report  
Corporate and Democratic Services  
Corporate Governance – Governance Arrangements for ALEOs and Statutory Bodies  
Assignment No. 15-32  
March 2016

## Final Report

Chief Executive's Service  
Finance Division  
Perth & Kinross Council  
Blackfriars Development Centre  
North Port  
Perth  
PH1 5LU

### Internal Audit

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

### Background and Introduction

This assignment forms part of the Internal Audit plan for 2015/16 and was approved by the Audit Committee on 1 April 2015. The indicative scope was to provide assurance over the adequacy of the systems of Corporate Governance.

The Council’s corporate governance framework is currently being reviewed with the aim of ensuring more efficient and effective processes in support of decision making. The Council’s governance framework must also be able to respond to recent changes/new requirements including:

- oversight of Arms-Length External Organisations (ALEOs) - Live Active Leisure, Horsecross Arts and the new Culture Trust ALEO, Culture Perth and Kinross; and
- governance requirements of the Perth & Kinross Health & Social Care Integrated Joint Board (IJB) which will have formal responsibilities from 1 April 2016.

As such, the scope of the assignment has been refined to provide specific assurance over the arrangements being developed for the management of the Council’s relationship with arms-length external organisations, boards and statutory partnerships.

### Scope and Limitations

In order to arrive at an opinion on the achievement of the control objectives, the audit included interviews with relevant staff in Corporate and Democratic Services as well as a range of stakeholders across the Council who have an active role in decision making 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.

## Internal Audit Report

Control Objective 1: There are clearly defined schemes of delegation and financial regulations which define responsibilities and levels of Council.

### Auditor's Comments:

The Council has a Scheme of Administration which outlines the roles and responsibilities for the Council, Committees and Sub-Committees. The Scheme of Administration is updated to reflect the Council's governance arrangements when required. Whilst amendments have been made to the Scheme during 2015/16, there is no formal requirement for it to be regularly reviewed.

The Council plans to review its political decision making structure in preparation for the local elections in May 2017. This review will seek not only to build on strong points of the existing political decision-making structure but also to be flexible enough to respond to the emerging challenges of the public sector reform agenda. We understand that the proposed timetable will allow management to complete the review, then to present options to the Modernising Governance Member Officer Working Group, with further consideration before a final report is presented to the current Council in April 2017.

The Financial Regulations are subject to biennial review and reported to Council for approval. The current version was approved in October 2014. A review of the Financial Regulations has commenced and the document to be presented for approval in December 2016 will take account of the required governance arrangements for the Council's ALEOs and the IJB.

Strength of Internal Controls:

Moderately Strong

Control Objective 2: Governance groups' terms of reference are subject to regular review to confirm their continuing relevance.

### Auditor's Comments:

The Scheme of Administration is currently being reviewed to ensure that it properly reflects the roles and responsibilities of Council, Committees and where relevant Sub-Committees in respect of its relationships with IJB and its ALEOs.

The IJB has specific responsibilities which are linked to the National Outcomes and are articulated within the Integration Scheme. Similarly, arrangements for the responsibilities for the management of ALEOs are detailed within the SLAs.

The Council's management of the relationship with the ALEOs is defined within the SLAs. There is scope to formalise frameworks for ensuring that the ALEOs deliver the required outcomes on our behalf, in line with their SLAs, and to ensure that these are appropriately reported to the relevant governance group.

Strength of Internal Controls:

Moderately Strong

Control Objective 3: The governance framework being developed takes account of future requirements and supports effective governance.

Auditor's Comments:

The Council has a corporate risk strategy to identify, manage and monitor corporate risks. This is one of the key means through which the Council will consider future changes and ensure appropriate action is being taken now in response to these. The Council's corporate risk management arrangements have been subject to a recent internal audit review (Internal Audit Report 15-34) and accordingly, the findings raised in that report are not duplicated within this report. However we can confirm that the findings of both reviews are consistent and support the need for stronger controls in relation to the oversight of corporate risk.

The IJB has been established and from April 2016 will provide integrated health and social care services, which the IJB has overall responsibility for delivering. The relationship between the IJB, the Council and NHS Tayside is governed by the Integration Scheme. The IJB has developed a Risk Management Strategy which includes a risk monitoring framework.

The Council has a complex working relationship with the IJB, which is governed by statute. This includes potentially competing priorities for the role of the IJB's Chief Officer with regard to his responsibility for his role in commissioning these services from the Council on behalf of the IJB and for overseeing their operational delivery. It is therefore important that there is clarity as to roles, responsibilities and lines of accountability to ensure that risks are managed effectively by the relevant parties. A lack of clarity may result in risks not being appropriately identified and mitigated or a duplication of effort (by the Council, IJB and NHS Tayside). As such, there is scope to improve the strategy and framework for the management of risk between the Council and the IJB.

There is further scope to ensure that risk is appropriately managed in relation to the Council's relationship with the ALEOs.

The appointment process of elected members to the external bodies was approved by Elected Members. Appointments will be subject to democratic process and require a Council decision. It is important that a strong balance of individuals with the relevant skills and experience is achieved within the Council's representatives in order that they can exercise effective governance within the respective organisations. Whilst the current appointments process does not require explicit consideration of the skills and experience required or whether an appropriate balance of these has been achieved, there is scope to enhance training and development for newly appointed elected members to ensure that they have the necessary skills to undertake their roles effectively.

The Council has recently developed new assurance frameworks for monitoring arrangements with the IJB and the ALEOs. These frameworks outline future governance and reporting arrangements. There is a consistent approach to monitoring these bodies, helping to make these processes clearer and easier to manage. Each has a flowchart documenting accountabilities and reporting lines.

## Internal Audit Report

The performance of LAL and Horsecross has, and Culture Perth and Kinross will have with effect from April 2016, performance against their outcomes reported to the Lifelong Learning Committee. Horsecross and Live Active Leisure have presented to Scrutiny Committee annually since their status as sole member Trusts came into effect. There is scope to further clarify the reporting lines to Committee for all stakeholders to ensure that there is a clear understanding over the accountability and responsibility for the specific reporting arrangements.

A 'Commissioning Blueprint' has been developed to commission and monitor delivery of services from ALEOs. The framework is based upon outcomes derived from Community and Corporate Plans, which allows the Council to set clear and measurable expectations of external bodies against which their performance can be monitored, reported on and assessed.

Strength of Internal Controls:

Moderate

Control Objective 4: The governance framework in place supports good governance as well as efficient decision making process.

### Auditor's Comments:

The Scheme of Administration and Standing Orders provide a governance framework for the Council. This framework also contains guidance on conduct at meetings and reporting of committees to the Council.

With regard to the IJB, the Chief Officer has a role to report on the delivery and budgetary matters to the Housing and Health and Strategic Policy and Resources Committees respectively. In addition, the Chief Officer will also have a role to report directly to the Scrutiny Committee on behalf of the IJB.

The financial and non-financial performance of Live Active Leisure and Horsecross Arts is monitored by Council officers on a quarterly and monthly basis respectively. Non-financial performance of both Trusts' is reported to the Lifelong Learning Committee within the wider performance arrangements for Education and Children's Services as outlined above. This will also be the case for Culture Perth and Kinross with effect from April 2016. The ALEOs' financial position and performance is not clearly reported to the committee on a regular basis. These reporting arrangements could result in a lack of transparency of the Trusts overall performance. This could result in the Council not being aware of issues concerning the solvency of their operations and impact upon provision of culture and leisure services due to insufficient oversight. There is therefore a need to ensure that a designated officer at a senior level continues to be accountable for the delivery of the management of the SLAs and for their budgetary control, with escalation and reporting lines through the Lifelong Learning and Strategic Policy and Resources Committees respectively. Scrutiny Committee should also receive reports from the ALEO on a frequent basis (six monthly) so as to be able to undertake their role in ensuring best value is achieved in the delivery of these services.

In order to ensure the quality of reporting on performance and risk, there is scope to formalise the arrangements to ensure that they clearly articulate the Council

## Internal Audit Report

officers on whom the responsibilities lie for reporting and escalation where necessary.

The Council is in the process of introducing a new Code of Guidance for Following the Public Pound. 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.

Strength of Internal Controls:

Moderate

### 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 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 Cultural and Community Services, Democratic Services, and Legal and Governance Services 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 for Corporate and Community Development Services

L Simpson, Head of Legal Services

G Taylor, Head of Democratic Services

R Packham, Chief Officer, (Health & Social Care)

F Robertson, Head of Public Service Reform, Culture and Community Development

P Dickson, Complaints & Governance Officer

External Audit

## Authorisation

The auditor for this assignment was G Philp (Scott-Moncrieff). The supervising auditor was E Young (Scott-Moncrieff).

This report is authorised for issue:

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Jacqueline Clark  
Chief Internal Auditor  
Date: 31 March 2016

## Appendix 1: Summary of Action Points

| No. | Action Point                                                  | Risk/Importance |
|-----|---------------------------------------------------------------|-----------------|
| 1   | Formal requirement for the review of Scheme of Administration | Low             |
| 2   | Reporting of corporate and shared risks for the IJB           | Medium          |
| 3   | Reporting of corporate and shared risks for ALEOs             | Medium          |
| 4   | Appointment to ALEO boards and IJB                            | Medium          |
| 5   | Reporting arrangements                                        | Medium          |
| 6   | Commissioning blueprint                                       | Medium          |
| 7   | Scrutiny and oversight of ALEOs' performance                  | Medium          |

## Appendix 2: Action Plan

### Action Point 1 - Formal requirement for the review of Scheme of Administration

The Scheme of Administration is regularly updated to reflect the Council's governance arrangements as required. These changes are appropriately approved by the Council.

We noted however that there are no formal requirements in place to ensure that the Scheme of Administration is reviewed and updated on a planned basis. There is a risk that the Scheme of Administration will not be updated to reflect current governance arrangements. The Council would benefit from a formal requirement for the annual review of the Scheme of Administration to be introduced.

### Management Action Plan

It is intended that there will be an updated Scheme submitted to the Council meeting in June 2016. Thereafter, an annual review will take place which will support the production of the annual governance statement.

|                                     |                                                        |
|-------------------------------------|--------------------------------------------------------|
| Importance:                         | Low                                                    |
| Responsible Officer:                | G Taylor, Head of Democratic Services                  |
| Lead Service:                       | Corporate and Democratic Services                      |
| Date for Completion (Month / Year): | June 2016                                              |
| Required Evidence of Completion:    | Updated Scheme of Administration and report to Council |

### Auditor's Comments

Satisfactory

## Action Point 2 - Reporting of corporate and shared risks for the IJB

The Council has a complex working relationship with the IJB. Both the IJB and the Council maintain their own separate risk registers. In order to ensure that risks are managed, reported and escalated appropriately, there is a requirement to ensure that there is clarity over where the responsibility lies. This is particularly important where the Chief Officer holds the dual roles of having the role of commissioning services and for operational oversight for the commissioned service.

As a result of the complexity of their relationship, there is a possibility that risks are insufficiently managed or escalated, as the responsibility for the risks may be unclear. In addition, issues within the IJB may create risks that will impact on the Council and vice versa.

The Council would benefit from monitoring risks on the IJB's register to ensure it is working efficiently and cohesively with the IJB. The Council should ensure that there is a process in place to include risks on the IJB's risk register that the Council has joint or partial responsibility for managing. The Council would benefit from having a key officer who is responsible for reporting and escalating any such risks.

### Management Action Plan

The Chief Officer will have responsibility for escalating and reporting risks from the IJB which impact on the Council.

|                                     |                                                 |
|-------------------------------------|-------------------------------------------------|
| Importance:                         | Medium                                          |
| Responsible Officer:                | R Packham, Chief Officer (Health & Social Care) |
| Lead Service:                       | Health & Social Care                            |
| Date for Completion (Month / Year): | July 2016                                       |
| Required Evidence of Completion:    | Formalised arrangements for risk reporting      |

### Auditor's Comments

Satisfactory

### Action Point 3 - Reporting of corporate and shared risks for the ALEOs

LAL, Horsecross and the new Culture Perth & Kinross Trust are responsible for maintaining their own risk management arrangements for the delivery of their services. The Council needs to ensure that its risk management arrangements take into consideration the risks associated with managing the relationship with and the delivery of services through these vehicles as part of its contract monitoring process. This includes monitoring and reporting on performance and other (such as financial) risks and for their escalation where necessary.

### Management Action Plan

The Head of Public Service Reform, Culture and Community Development is responsible for escalating and reporting risks from the ALEOs which impact on the Council.

|                                     |                                                                               |
|-------------------------------------|-------------------------------------------------------------------------------|
| Importance:                         | Medium                                                                        |
| Responsible Officer:                | F Robertson, Head of Public Service Reform, Culture and Community Development |
| Lead Service:                       | Public Service Reform, Culture and Community Development                      |
| Date for Completion (Month / Year): | September 2016                                                                |
| Required Evidence of Completion:    | Formalised arrangements for risk reporting                                    |

### Auditor's Comments

Satisfactory

## Action Point 4 - Appointments to ALEO boards and IJB

Audit Scotland's 'Arm's-length external organisations – are you getting it right?:A follow-up report' and Annual Audit Report 2014/15 identified that there is no evidence that criteria are set for the level of skills and experience required as Council representatives to ensure that the appointment to ALEO boards is transparent.

Management's response was as follows: 'It is the responsibility of the ALEO to complete a skills matrix to ensure their Board contains the appropriate skills. Thereafter it is the responsibility of both the ALEO and the Council to ensure that Members appointed by the Council have the correct skills and training.'

We understand that training is offered to Council members in relation to external appointments and we believe this should be mandatory. This means that where there is a change in appointments, any elected member taking on a new role on an external body, should be given training over their roles and responsibilities for both bodies, particularly concerning conflicts of interest.

### Management Action Plan

Induction training is provided to elected members who are newly appointed to a board to ensure they understand their role and responsibilities to act as a Council representative. This will be included in the induction training for councillors in May 2017 – subject to there being no changes to membership in the meantime.

|                                     |                                       |
|-------------------------------------|---------------------------------------|
| Importance:                         | Medium                                |
| Responsible Officer:                | G Taylor, Head of Democratic Services |
| Lead Service:                       | Corporate and Democratic Services     |
| Date for Completion (Month / Year): | May 2017                              |
| Required Evidence of Completion:    | Elected Member Induction Programme    |

### Auditor's Comments

Satisfactory

## Action Point 5 - Reporting arrangements

The performance of ALEOs is monitored by council officers on a quarterly and monthly basis for LAL and Horsecross respectively. From April 2016 onwards, such arrangements will also be in place for Culture Perth and Kinross. Reporting on outcomes is reported through the Lifelong Learning Committee. The ALEOs report to Scrutiny Committee on an annual basis. However there is scope to improve the role of the Scrutiny Committee in terms of its oversight with regard to the achievement of Best Value.

The Council should ensure that there is clarity over the nature of issues which will be reported to the overseeing committees (e.g. Scrutiny or Lifelong Learning) and assign responsibility to a single individual to ensure there is minimal duplication, conflicting responses to issues are identified timeously and there are no gaps. This will provide a structure of accountability to ensure that responsibility in respect of issues arising in those bodies is clearly defined.

## Management Action Plan

The Head of Public Service Reform, Culture and Community Development is responsible for receiving performance reporting from the Council's ALEOs. This officer will be responsible for ensuring Committees receive relevant reports and for escalating issues.

|                                     |                                                                                    |
|-------------------------------------|------------------------------------------------------------------------------------|
| Importance:                         | Medium                                                                             |
| Responsible Officer:                | F Robertson, Head of Public Service Reform, Culture and Community Development; and |
| Lead Service:                       | Public Service Reform, Culture and Community Development                           |
| Date for Completion (Month / Year): | September 2016                                                                     |
| Required Evidence of Completion:    | Report to relevant Committees                                                      |

## Auditor's Comments

Satisfactory

## Action Point 6 - Scrutiny and oversight of ALEOs' performance

The financial position and performance of Live Active Leisure is currently monitored by the Council's officers quarterly and Horsecross is monitored on a monthly basis. Performance of both Trusts is reported to Lifelong Learning Committee within the wider performance arrangements for Education and Children's Services. The Trusts' performances are reported separately from the performance of Education and Children's Services to the Scrutiny Committee as an annual update.

There is scope to improve clarity and appropriateness of reporting to Scrutiny Committee by highlighting Scrutiny Committee's role with regard to ensuring Best Value from the arrangements and for increasing the frequency of such scrutiny, due to the value of services being commissioned in this manner.

### Management Action Plan

The Head of Public Service Reform, Culture and Community Development will ensure that the ALEOs' performance will be reported to Scrutiny Committee at least every six months.

|                                     |                                                                                |
|-------------------------------------|--------------------------------------------------------------------------------|
| Importance:                         | Medium                                                                         |
| Responsible Officer:                | F. Robertson, Head of Public Service Reform, Culture and Community Development |
| Lead Service:                       | Public Service Reform, Culture and Community Development                       |
| Date for Completion (Month / Year): | September 2016                                                                 |
| Required Evidence of Completion:    | Report to Scrutiny Committee                                                   |

### Auditor's Comments

Satisfactory



## Action Point 7 - Commissioning Blueprint

A 'Commissioning Blueprint' has been developed to commission and deliver services from Trusts. The framework is based upon outcomes derived from Community and Corporate Plans. The framework should be used as the basis for commissioning services through SLAs in the future.

To continue to improve the Council would benefit from being clear as to how these services align with its own strategic objectives and using this to define clear expectations of the ALEOs.

## Management Action Plan

The Head of Public Service Reform, Culture and Community Development will ensure that there is a clear link between the strategic objectives and the Council's expectations of the ALEOs.

|                                     |                                                                               |
|-------------------------------------|-------------------------------------------------------------------------------|
| Importance:                         | Medium                                                                        |
| Responsible Officer:                | F Robertson, Head of Public Service Reform, Culture and Community Development |
| Lead Service:                       | Public Service Reform, Culture and Community Development                      |
| Date for Completion (Month / Year): | September 2016                                                                |
| Required Evidence of Completion:    | Document                                                                      |

## Auditor's Comments

Satisfactory





Internal Audit Report  
Corporate Risk Management  
Assignment 15-34  
March 2016

## Final Report

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

## Internal Audit

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

Consultancy work aims to support management in building in controls at the outset for the implementation of systems, processes and procedures and also provides specific assurance for particular projects or issues at the request of management. This approach is consistent with the PSIAS.

## Background and Introduction

This audit was carried out as part of the audit plan for 2015/16, which was approved by the Audit Committee on 1 April 2015. The indicative scope was to ensure the adequacy of corporate risk management within the Council.

In order to be effective, risk management should be embedded throughout the Council in such a way as to facilitate the timely identification and mitigation of risks to achieve business objectives. This means that risk registers should be based on the Council’s strategic and operational plans, and in particular those risks that would prevent the achievement of strategic and operational objectives.

It is also essential that there is appropriate management and Elected Member oversight of the corporate risk management framework and risk registers.

It is planned to revise corporate risk management arrangements within the Council in the near future. As such, the audit was re-focussed to providing advice to management. It is anticipated that this audit will provide input to support decisions on the future design of corporate risk management arrangements. This audit provided advice to bring the Council in line with current best practice for risk management, whilst acknowledging that there are arrangements in place which manage risks on a day to day basis.

## Scope and Limitations

In order to arrive at an opinion on the achievement of the control objectives, the audit included interviews with relevant staff across the Council who have a role in the corporate risk management process.

## Opportunities

We have identified a number of opportunities for the Council to develop its risk management arrangements further, in line with best practice. These should provide greater levels of assurance to executive management and Elected Members that key risks are being managed effectively.

Opportunities for further improving the approach include:

- The Executive Officer Team should be tasked with defining the Council’s risk appetite. This should define and drive the Council’s approach to risk management and provide officers with clear guidance around how risks should

be managed. The risk appetite should also be used to promote a more positive approach to risk which makes it clear that the Council is not risk averse and should be used for identifying and exploiting opportunities.

- The Council should publish and implement a revised stand-alone Corporate Risk Management Strategy along with the overarching Risk Management Framework. These should be approved by the appropriate Council committee and communicated to all officers to emphasise the importance of developing and embedding a positive risk management culture.
- The Council should consider restructuring the format of the current risk profiles (risk registers). This should reflect the needs of all strategic and operational decision making groups (e.g. Committee, EOT and SMTs), link to operational risk profiles and have a focus on overall risk assessment. This should include appropriate analysis of internal and external factors/conditions rather than changes to identified controls associated with risks as is currently the case.
- To ensure appropriate awareness of and engagement in risk management, Elected Members should have sight of Corporate and Service Risk Profiles on a regular basis (at least 6-monthly) through reporting to relevant Council Committees.
- Executive and Service management should ensure that there is assessment of risk profiles on a more frequent basis. This will allow for continuous identification and assessment of emerging risks and this should encourage a more pro-active approach to risk management.
- Evidence from the review indicates that there is scope to enhance risk management reporting to ensure a more targeted and focused approach within strategic and operational Council governance groups. At present, risk is being reported alongside performance information but there was limited evidence of risk management being subject to regular detailed assessment.
- There should be an assessment of the effectiveness of those groups (e.g. Scrutiny Committee, EOT and SMTs) identified in the Corporate Risk Management Strategy as having risk management responsibilities to confirm the extent to which they are contributing to effective risk management throughout the Council.
- Formal risk management training should be provided for all risk-responsible staff within the Council. Training should also be provided to staff at all levels of the Council to ensure all staff are empowered to highlight new and emerging risks.
- Staff with responsibility for risk management at Corporate and Service levels should be encouraged to obtain a formal risk management qualification.

Further details of the points noted above are included in the Control Objectives and Opinions section.

Perth and Kinross Council's Internal Auditors will provide advice, support and guidance to assist the Service in developing an action plan which will take account of the findings of this report and will build on the opportunities identified above.

### 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

## Internal Audit Report

actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

Control Objective 1: There is a robust risk management framework, including a risk management strategy and policies, for managing strategic and operational risks in place.

### Auditor's Comments:

The Council's Corporate Risk Management Strategy for 2015/16 was approved by both the Strategic Policy and Resources Committee and Scrutiny Committee in December 2014. The paper presented to both committees also included the 2013/14 annual risk report.

The full paper sets out strategic planning, risk management objectives, roles and responsibilities, progress update 2013/14 and key areas for improvement. It also included detail around the corporate and service risk profiles (risk registers) and the Council's 'Impact Scale' (this supports the assessment/scoring of individual risks).

By presenting the Corporate Risk Management Strategy together with an annual report from a previous year, there is a risk that the strategy was not given the required level of prominence. To ensure that the strategy is communicated effectively the Council should consider creating a stand-alone document. The revised strategy should be authorised by the relevant committee, in line with current practice, and communicated to staff to emphasise the importance of developing a positive risk management culture.

In addition, management should consider the development and communication of the Council's risk appetite. This should define and drive the Council's approach to risk management and provide officers with clear guidance around how risks should be managed. The risk appetite should also be used to promote a more positive approach to risk which makes it clear that the Council is not risk averse and should be used for identifying and exploiting opportunities.

We noted that guidance for maintaining Service Risk Profiles has been issued recently with a view to have standard document completed from 1 April 2016. This document sets out the risk management process, 'impact scale', risk management and performance reporting and an example risk profile. There was no evidence of similar guidance in relation to the corporate risk profile. It is recommended that the Council develops, authorises and issues an overarching risk management framework which covers both corporate and operational risk management.

We noted that the Corporate and Service Risk Profiles are in place and are considered periodically by relevant groups and individuals. The format of the risk profiles include a headline risk theme and include details of strategic objectives, risk manager, risk impact with controls, risk probability with controls, risk control effectiveness, current internal controls, control owner, strength, improvement action and timescale and progress against improvement actions. The current format is very detailed with a long list of controls associated with each risk and details of subsequent actions for each control. The vast majority of these controls are embedded and will not change. This has led to a large amount of stagnant information being maintained and considered periodically. There is a risk that the

current level of detail around risk profiles does not foster a positive approach to risk management.

The Council should consider restructuring the format of the current risk profiles (risk registers). This should reflect the needs of all strategic and operational decision making groups (e.g. Committee, EOT and SMTs), link to operational risk profiles and have a focus on overall risk assessment. This should include appropriate analysis of internal and external factors/conditions rather than changes to identified controls associated with risks as is currently the case.

Control Objective 2: Governance arrangements surrounding risk management are appropriate (i.e. there are clear reporting lines in relation to risk registers, via formal Council committees).

**Auditor's Comments:**

The Corporate Risk Management Strategy approved in December 2014 states that it is the role of the Strategic Policy and Resources Committee to approve the Corporate Risk Management Strategy and Annual Risk Report annually. We could not find evidence of an Annual Risk Report for 2014/15 having been produced and presented to Committee. The Service has advised that a Corporate Risk Management Strategy for 2016/17 and an Annual Risk Report for 2015/16 is being compiled for presentation to Elected Members.

The Scrutiny Committee's role in risk management is to scrutinise and comment on the performance of Services in managing the Corporate and Service Risks. We did not find any evidence to confirm that the Scrutiny Committee has had sight of Risk Profiles or considered risk management arrangements since December 2014. To ensure appropriate awareness and engagement in risk management, Elected Members should have sight of Risk Profiles on a regular basis (at least 6-monthly) through relevant Council Committees.

The Executive Officer Team (EOT) has overall responsibility for the Council's risk management framework and corporate risks. The current process aims to ensure that all corporate risks are reviewed on a 6-monthly cycle. The Council has five strategic objectives. On a cyclical basis, an individual strategic objective will be reviewed at EOT each month. Risks have been mapped out to individual objectives to ensure these are considered by EOT on a 6-monthly basis.

The Depute Chief Executive, Environment (Sustainability, Strategic and Entrepreneurial Development) is the Executive Sponsor for Risk Management and the Head of Strategic Commissioning and Organisational Development is the Senior Responsible Officer.

The Senior Management Team in each service has responsibility for ensuring risk management is embedded as part of day-to-day processes within their Service. This includes active development and monitoring of their Service Risk Profile along with any Corporate Risks that they have responsibility for and reporting on the progress of mitigating the risk by implementing controls.

Risk management is also considered as part of performance management reporting. Our review identified that, within the Performance, Planning and Risk

Group, there is limited review of risk management, with the primary focus being on performance.

The above evidence indicates that risk could be used more constructively to direct and influence decision making process. The Council should consider giving greater prominence to risk management reporting at corporate and Service level e.g. details of all changes made to risk profiles such as new risks, removed risks including the reasons for the change.

Control Objective 3: Processes are in place to support a consistent approach for the accurate and timely identification and evaluation of strategic and operational risks.

**Auditor's Comments:**

As indicated previously, there is scope to improve the risk management framework to clearly outline key roles and responsibilities as well as supporting procedures for day to day risk management processes. This would be of particular value for the management of corporate risks.

The Corporate Risk Management Strategy and 2013/14 Annual Risk Report are accessible via the Council intranet as is Service Risk Profile guidance.

At the time of our review, there were four risk champions, one for each of the Council's Services. They are responsible for coordinating the Service information and providing this to the Strategic Planning, Improvement and Risk team who in turn collate the information for the EOT. This is undertaken on a monthly basis.

It was confirmed that there has been no recent specific training or awareness campaigns to create a positive risk management culture across the Council. The introduction of formal risk management training for risk-responsible staff is likely to benefit the organisation in the short-medium and long term. Training should be provided to staff at all levels of the Council to ensure all staff are empowered to highlight risks.

Feedback confirmed that there was no risk qualified staff (e.g. those provided by the Institute of Risk Management) currently involved in the corporate team dealing with the risk management process at the Council. In addition, there has been significant turnover within the team over the last few months. Staff who are responsible for risk management at corporate and Service levels should be encouraged to obtain a formal risk management qualification, where appropriate.

Control Objective 4: Risk management and risk registers are maintained throughout the organisation and are used to record, track and report risks that are clearly linked to business objectives.

**Auditor's Comments:**

The Council currently uses Risk Profiles to record, track and report risks. The current structure is based upon a Corporate Risk Profile and a Service Risk Profile



for each of the four Services.

As mentioned in Control Objective 2, the processes in place seek to ensure that all corporate risks are reviewed on a 6-monthly basis as part of the review of risks associated with each of the five Council strategic objectives.

The Corporate and Service Risk Profiles are re-assessed annually, as part of the annual risk report, to identify if any risks should be added or removed. Risk Profiles should be subject to ongoing review to include any new/emerging risks as well as confirming whether existing risks remain relevant and that mitigating controls are being implemented effectively.

The Council should ensure that there is a more active risk management process in place which ensures that all relevant risks are being managed proactively. This should ensure that any new risks identified at Corporate or Service level are included in Risk Profiles promptly and are then subject to formal assessment with appropriate mitigation put in place. Similarly, where risks have been identified as being fully controlled or no longer relevant, these should be removed from Risk Profiles.

Control Objective 5: Mitigating actions are identified to manage residual risks down to an acceptable level and these actions are allocated a responsible officer and deadline completion.

**Auditor's Comments:**

As mentioned in Control Objective 2, the processes in place seek to ensure that all corporate risks are reviewed on a 6-monthly basis as part of the review of risks associated with each of the five Council strategic objectives.

The Service Risk Profiles are provided to the appropriate SMTs on a regular basis where the Service Risks are reviewed and changes are highlighted for consideration.

Additionally, each Service has a representative on the Council's Performance, Planning and Risk Group whose responsibility it is to implement/embed risk management through their Service. The Group meets monthly to discuss performance and any other risk management items. From review of minutes of this Group, we identified that there is limited evidence of risks being actively considered.

Control Objective 6: There is an effective process for escalating risks to the corporate risk register and for reporting risks to senior management and Elected Members.

**Auditor's Comments:**

Current escalation process outlined in the Service Risk Profiles guidance and format document states that:

- Corporate risks will be monitored monthly by the Executive Officer Team by

strategic objective.

- It is expected that Service risks will also be discussed/reviewed each month either at a Service level by their respective SMT or at a team level.
- A service may choose to put in place a system of exception reporting so that individual teams can report to SMT on risks that are of concern for that month.
- A full review of the Service Risk must be conducted annually.

Each Service has a representative on the Councils Performance, Planning and Risk Group whose responsibility it is to drive risk management through their Service. The Group meets monthly to discuss performance and any other risk management items. As mentioned in Control Objective 5, from review of minutes of this Group, we identified that there is limited evidence of risks being actively considered.

We noted that, if an identified risk is likely to have an impact at a strategic level or will be likely to affect other services it may need to be monitored as a corporate risk and the service should contact the Strategic Planning and Improvement team to discuss further. However, we found no evidence of risks being escalated over the past 12 months.

## Management Action and Follow-Up

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

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 and management in Strategic Commissioning and Organisational Development 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

K McNamara, Head of Strategic Commissioning and Organisational Development

G Dawson, Team Leader, Strategic Planning and Improvement

J Symon, Head of Finance

## Internal Audit Report

G Taylor, Head of Democratic Services  
P Dickson, Complaints & Governance Officer  
External Audit

### Authorisation

The auditor for this assignment was D Stark (Scott Moncrieff). The supervising auditor was P Kelly (Scott Moncrieff).

This report is authorised for issue:

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Jacqueline Clark  
Chief Internal Auditor  
Date: 31 March 2016





Internal Audit Report  
The Environment Service  
LEADER  
Assignment No.15-06  
March 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.

Consultancy work aims to support management in building in controls at the outset for the implementation of systems, processes and procedures and also provides specific assurance for particular projects or issues at the request of management. This approach is consistent with the PSIAS.

### Background and Introduction

This assignment forms part of the Internal Audit plan for 2015/16, as approved by Audit Committee on 1st April 2015.

LEADER is a community-led funding programme aimed at increasing support to local, rural community and business networks to build knowledge and skills, and encourage innovation and cooperation in order to tackle local development objectives. It is funded by the Scottish Government (SG) and the European Union, as part of the Scottish Rural Development Programme, with other contributions from local partners and organisations. Grants are awarded by Local Action Groups (LAG) to projects that support delivery of a Local Development Strategy (LDS).

A shadow Perth & Kinross Rural LEADER LAG was set up in 2014 to prepare the LDS and Business Plan. The final versions of these were delivered to the SG in September 2014, setting out the objectives of the programme, and the mechanisms and procedures through which the LAG will deliver these, including formation of LAG sub-groups.

The Council has agreed to act as the ‘Lead Partner’ or ‘accountable body’ on the LEADER project, whereby it has entered into a Service Level Agreement with SG on behalf of the LAG for legal, administrative and financial matters. As the Programme’s banker, the Council will use its existing financial systems to receive funds from SG and match funding from individual partners for the administration of the projects and to pay out grants and management costs as agreed by the LAG. The programme runs from January 2016 to December 2020 and the Rural Perth and Kinross LAG has been awarded £3.8 million of funding.

To support the LEADER programme operations; the implementation of the LDS and to comply with SG requirements, the Council will employ 3 full-time staff who will work for and report to the LAG, with line management through The Environment Service’s Planning and Development Division.

### Scope and Limitations

The audit included interviews with staff from the LEADER project section of the Investment Team, within the Environment Service, and a review of documentation relating to the LEADER programme.

### Control Objectives and Opinions

## Internal Audit Report

This section describes the purpose of the review 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. Responsibility for the maintenance of adequate and effective internal controls rests with management.

Control Objective: To ensure that adequate arrangements are in place in line with LEADER requirements.

### Auditor's Comments:

The Perth & Kinross Rural LEADER LAG was formally established in December 2014 and has been evolving ever since to ensure appropriate representation from public, private and civil society and socio-economic sectors in line with requirements. Local Action Sub-Groups have been established to progress outcomes specified in the LDS and in readiness for assessing applications. The Council signed a Service Level Agreement (SLA) with the SG in July 2015. There is still work to be undertaken to fully formalise the arrangements of the LAG, its membership and the SLA between the Council and the LAG. These matters will be addressed at the next LAG meeting in April 2016.

Recruitment for the PKC Lead Partner team is now complete. The Programme Co-ordinator took up post in October 2015, the Project Officer in November 2015, with the remaining Project Administrator joining the team at the end of March 2016. All costs for these posts are re-claimed from the SG.

The LAG and the PKC Lead Partner team have documented procedures, however these require to be updated to reflect revisions to process and timescales with formal approval by the LAG.

LEADER has been actively publicised locally through a series of events and social media channels which are defined, and reviewed, in a documented marketing plan agreed by the LAG. A launch event was held in January 2016 and 55 expressions of interest, the first step in the application process, have been received to date. In addition to the marketing activities, the PKC Lead Partner team have been meeting with project applicants to develop ideas and facilitate understanding of application requirements.

The LEADER project was anticipated to run from 2014-2020 with applications being assessed and grants awarded from January 2015. Delays in the SG implementing an online software application, designed to manage LEADER programmes and process applications, has led to postponement of decision making on project awards. A SG LEADER conference was held in March 2016 where the SG advised that the online software application, Local Actions in Rural Communities system (LARC), is now due to be delivered in July 2016 at the earliest.

The Perth & Kinross Rural LAG has taken the decision, in agreement with the SG, to start approving projects submitted via paper-based applications in April 2016. The PKC Lead Partner team are continuing to liaise with first step applicants and assist in the completion of paper application forms to attain this objective. The SG are yet to confirm whether they will accept paper-based claims upon projects reaching key milestones, where funding increments are to be released, if this is in

## Internal Audit Report

advance of LARCs implementation. The Project Co-ordinator will liaise with the SG to ensure that this point is clarified and appropriate guidance is given to projects, upon approval, regarding timescales for funding being released.

Further guidance was provided by the SG at the LEADER conference in regards to Monitoring and Evaluation of funded projects. The Programme Co-ordinator, in consultation with the LAG, should work to develop this into processes/guidance documents so that clarity is provided from the outset as to how outcomes are being measured and evidenced.

Internal Audit have provided consultation over governance and verification requirements and will further liaise with the Lead Partner team within PKC throughout 2016.

|                                |                   |
|--------------------------------|-------------------|
| Strength of Internal Controls: | Moderately Strong |
|--------------------------------|-------------------|

### Acknowledgements

Internal Audit acknowledges with thanks the co-operation of the LEADER staff and the Investment Team within the Environment Service.

### Feedback

Internal Audit welcomes feedback from management, in connection with this review 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 & Entrepreneurial Development)

B Renton, Director (The Environment Service)

D Littlejohn, Head of Planning and Development

J Symon, Head of Finance

S Merone, Investment Manager

F McGowan, Investment Team Leader

S MacDonald, Rural Perth & Kinross Programme Co-ordinator

K McNamara, Head of Strategic Commissioning & Development

G. Taylor, Head of Democratic Services

P Dickson, Complaints & Governance Officer

External Audit



## Internal Audit Report

### Authorisation

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

This report is authorised for issue:

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Jacqueline Clark  
Chief Internal Auditor  
Date of Issue: 23 March 2016





Internal Audit Report  
The Environment Service  
Fuel Management Assignment No. 16-15  
June 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 Fleet Management Service (FMS), part of Direct Services (Operations) within The Environment Service, is responsible for the provision of fuel supplies for vehicles, plant and equipment that is owned or used by the Council.

Their remit includes all matters concerning the fuel supply tanks at Council Depots and arrangements for the dispensing of fuel from these; fuel card provision for vehicles not using Council Depots; and provision of fuel usage reports to Service Management.

Approximately £1.24 million was spent on the fuelling of Council vehicles in 2014-2015.

Audit testing was carried out in April 2016.

## Scope and Limitations

The audit concentrated on the adequacy of arrangements in place for the management of fuel held and used by the council.

In order to arrive at an opinion on the achievement of the control objectives, the audit included interviews with staff from the FMS and associated Finance, Administration and Stores personnel, along with a review of documentation relating to Fuel Management.

## 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 the Council is obtaining best value when purchasing fuel                                                                                                                                                                                                                              |
| Audit Comments: Liquid fuel is classified as a Category A commodity by the Scottish Government, meaning that it falls within the scope of goods and services commonly used across the whole of the public sector. Procurement Scotland is responsible for developing and implementing procurement strategies for National |

## Internal Audit Report

Category A commodities on behalf of all Scottish Public Sector Bodies. Under these collaborative agreements Councils can access and award Call-off Contracts to the most appropriate short-listed supplier based on their specific requirements.

Testing confirmed that the fuel supply contract was reviewed and awarded under a Category A National Contract agreement in November 2015, with analysis and recommendation of supplier being completed by the Tayside Procurement Consortium. The Council has, therefore, achieved best value by procuring fuel in this way.

The fuel card contract is also awarded under a Category A National Contract agreement. The Council's current fuel card supplier is on this short-list. However, there is a lack of documented evidence to verify that the chosen supplier represents best value to the Council. The contract for this award period has not been signed and, due to the contract register not being updated, there is a risk that future contract expiration dates would be missed.

Strength of Internal Controls:

Moderate

Control Objective 2: To ensure that there is effective control over the management of fuel held and dispensed at depots

Audit Comments: The FMS use a computerised system, known as Fueltran, to assist in fuel management. The Fueltran system stores fleet vehicle details, records fuel stock levels and usage and calculates appropriate consumption charges.

Fuel pumps will not dispense unless an active, pre-programmed fob is swiped across the Fueltran terminal situated at the pump. There are additional internal controls to the Fueltran system which mitigate manipulation and risk. System access to Fueltran is restricted, although periodic review of this would be beneficial to ensure access has been disabled where appropriate.

There are current documented procedures regarding fuel management, including health & safety aspects, which require minimal update to ensure that all key process elements and recording are included.

All staff interviewed demonstrated a good knowledge of processes and awareness of controls in relation to fuel.

Strength of Internal Controls:

Moderately Strong

Control Objective 3: To ensure that there is effective control over fuel purchased which has not been dispensed at any of the depots

Audit Comments: Fuel cards are provided by the FMS for fuel to be purchased at local garages where fuelling at a depot is not considered practical.

The majority of fuel cards are assigned to specific vehicles and garages will only accept payment on cards for fuelling of the allocated vehicle and pre-defined

## Internal Audit Report

purchase criteria (i.e. fuel and screen wash only). There are 13 fuel cards which are not assigned to specific vehicles. These are used for the drawing of fuel for hire cars and grounds maintenance plant and machinery as appropriate. Controls are in place to ensure that these non-assigned cards are held securely and managed appropriately, although improved documentation of the process would be beneficial to provide further assurance over transactions.

Authorisation requirements and exportation of fuel consumption information to the Fueltran system further enhances the control environment.

The service advised that a review of the Corporate Fleet and Transport Policy and Procedure Arrangements has commenced. Section guidance for drivers and users is to be updated to include reference to fuelling of vehicles.

Strength of Internal Controls:

Moderately Strong

Control Objective 4: To ensure that fuel usage figures are reliable and reconciled appropriately to provide assurance that fuel is being issued for the purposes of council business only

Audit Comments: There are effective processes in place for the charging of fuel dispensed at council depots and charges accrued on fuel cards.

There are appropriate controls in place for identifying fuel used by Tayside Contracts drawn from Council sites and vice versa, however, this arrangement should be formalised and documented with particular reference to fuel price calculations.

In line with Control Objective 2, there are controls applied to give assurance over security of fuel stocks, such as those provided by Fueltran and the fob operating system, CCTV and/or locked cabinets in which fuel pumps and tanks are stored.

The FMS is aware, however, that the level of fuel held within the tanks does not correspond with anticipated fuel levels, as identified by the Fueltran system. In response to this, the Service has been monitoring and investigating stock levels monthly. The FMS is able to gain assurance on the accuracy of consumption figures through comparison of a time-specified Fueltran system report to documented metered-use figures from the physical pumps. Audit testing has confirmed that the figures of fuel dispensed through the pumps and that recorded on Fueltran are consistent. Given the level of control observed, there is evidence to support that the fuel usage figures are reliable and charged appropriately. The Service is aware that ongoing stock level variance issues and resultant impacts on stock ordering and storage assurance need to be resolved.

The FMS is not currently providing Services with vehicle mileage reports for fuel consumption in line with its policies to enable monitoring of vehicle usage. The FMS has advised that a transformation project due to be undertaken in 2016 will address this.

Strength of Internal Controls:

Moderate

## 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 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 FMS 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  
B Renton, Director (The Environment Service)  
W Young, Head of Environmental and Consumer Services  
S MacKenzie, Head of Performance and Resources  
N Taylor, Direct Service (Operations) Manager  
B Morton, Fleet Manager  
J Symon, Head of Finance  
K McNamara, Head of Strategic Commissioning and Organisational Development  
G Taylor, Head of Democratic Services  
P Dickson, Complaints & Governance Officer  
External Audit

## Internal Audit Report

### Authorisation

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

This report is authorised for issue:

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Jacqueline Clark  
Chief Internal Auditor  
Date: 1 June 2016



## Appendix 1: Summary of Action Points

| No. | Action Point                                               | Risk/Importance |
|-----|------------------------------------------------------------|-----------------|
| 1   | <a href="#">Fuel Card Contract</a>                         | High            |
| 2   | <a href="#">Recording of Key Controls and Processes</a>    | Low             |
| 3   | <a href="#">System Access Controls</a>                     | Medium          |
| 4   | <a href="#">Fuel Site Sharing &amp; Charging Agreement</a> | Medium          |
| 5   | <a href="#">Fuel Stock Levels</a>                          | Medium          |
| 6   | <a href="#">Vehicle Use Performance Monitoring</a>         | Medium          |

## Appendix 2: Action Plan

### Action Point 1. Fuel Card Contract

There is currently no signed contracted agreement with the fuel card supplier. Whilst there is some evidence to confirm that there was a review of the contract in 2015, the documentation to verify that the chosen supplier represents best value to the Council is incomplete.

In addition, fuel supplies contracts are not documented on the Contracts Register, which could lead to expiration dates being overlooked in the future.

### Management Action Plan

- a) The FMS will investigate fuel usage and spend patterns on fuel cards across the Council. Using this information, the Service will review the potential suppliers from the National Category A shortlist and document the decision making process for the award of the direct call-off contract. This decision will ensure that all aspects of the contract will be taken into consideration and ensure that the Council achieves best value. The Service will then sign a contract with the chosen supplier.
- b) The FMS will liaise with the Procurement Manager to ensure that the Contracts Register is updated for all contracts held.

|                                     |                                                                                 |
|-------------------------------------|---------------------------------------------------------------------------------|
| Importance:                         | High                                                                            |
| Responsible Officer:                | B Morton, Fleet Manager                                                         |
| Lead Service:                       | The Environment Service                                                         |
| Date for Completion (Month / Year): | a) August 2016<br>b) August 2016                                                |
| Required Evidence of Completion:    | a) Documented analysis and contract award<br>b) Extract from Contracts Register |

### Auditor's Comments

Satisfactory

## Action Point 2. Recording of Key Controls and Processes

It was noted during the audit that three of the key controls being applied by the FMS, in relation to odometer recording, authorisation and missing fobs and cards, were not documented within the procedure. In the event of staff absence, this could lead to these controls not being applied.

Depot Supervisors record and govern the security, use and spend on non-vehicle assigned fleet fuel cards used for fuelling grounds maintenance/plant machinery. Whilst it was observed that all Supervisors follow a similar process in regards to the security of their fleet card and recording transactions for use, the Service would benefit from standardising and further documenting this procedure.

Section guidance for drivers and users contained within the Corporate Fleet and Transport Policy and Procedure Arrangements do not include reference to fuelling of vehicles.

### Management Action Plan

- a) The Fleet Manager will review the Fuel Procedures and ensure all key controls (odometer recording, authorisations, lost/stolen fobs and cards) are included within these.
- b) Written procedures will be enhanced to further document the recording of transactions for fleet fuel cards and Supervisors' responsibilities in relation to these.
- c) Information will be included on fuelling systems, their acceptable usage, and the security of fuel cards and fobs within the Responsibility of all Drivers and Users section of the Corporate Fleet and Transport Policy and Procedure Arrangements.

|                                     |                                                                                                                                                                                                                            |
|-------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Importance:                         | Low                                                                                                                                                                                                                        |
| Responsible Officer:                | B Morton, Fleet Manager                                                                                                                                                                                                    |
| Lead Service:                       | The Environment Service                                                                                                                                                                                                    |
| Date for Completion (Month / Year): | July 2016                                                                                                                                                                                                                  |
| Required Evidence of Completion:    | <ul style="list-style-type: none"> <li>a) Revised Fuel Procedure</li> <li>b) Procedure for Supervisors for Fleet Fuel Cards</li> <li>c) Updated Corporate Fleet and Transport Policy and Procedure Arrangements</li> </ul> |

### Auditor's Comments

Satisfactory

### Action Point 3. System Access Controls

It was identified during the audit that some staff no longer requiring access to the Fueltran system had not had their access disabled. One staff member who required access did not have their own log-in for either the fuel card or fuel fob systems.

### Management Action Plan

- a) The Service will document the appropriate roles requiring access to the Fueltran system and the level of access required.
- b) The Service will complete periodic reviews to ensure access has been granted and disabled as appropriate.

|                                     |                                                                                           |
|-------------------------------------|-------------------------------------------------------------------------------------------|
| Importance:                         | Medium                                                                                    |
| Responsible Officer:                | B Morton, Fleet Manager                                                                   |
| Lead Service:                       | The Environment Service                                                                   |
| Date for Completion (Month / Year): | a) July 2016<br>b) May 2017                                                               |
| Required Evidence of Completion:    | a) Documented list detailing appropriate roles and system access<br>b) Evidence of review |

### Auditor's Comments

Satisfactory

#### Action Point 4. Fuel Site Sharing & Charging Agreement

There is no documented agreement between the Council and Tayside Contracts regarding the fuelling of vehicles from pumps sited within Depots and the associated charging arrangements.

It was observed during testing that there are appropriate controls in place for identifying fuel used by Tayside Contracts drawn from Council sites and vice versa. However, there is a lack of clarity regarding the methodology employed by Tayside Contracts when calculating the fuel price to be recharged to the Council.

#### Management Action Plan

The Fleet Manager will discuss the reciprocal fuel site sharing agreement with Tayside Contracts and with Legal and Governance Services to ensure an appropriate arrangement is entered into by both parties. This should include charging structures and invoice calculations.

|                                     |                                         |
|-------------------------------------|-----------------------------------------|
| Importance:                         | Medium                                  |
| Responsible Officer:                | B Morton, Fleet Manager                 |
| Lead Service:                       | The Environment Service                 |
| Date for Completion (Month / Year): | October 2016                            |
| Required Evidence of Completion:    | Signed agreement with Tayside Contracts |

#### Auditor's Comments

Satisfactory

## Action Point 5. Fuel Stock Levels

The level of fuel held within the tanks is monitored by either a pressure gauge, a float or an electrical measure. The Fueltran system records how much stock should be held in the tank based on delivery amounts and output via the pumps. Presently, the level of fuel held within the tanks does not correspond with the Fueltran computer system. The FMS is aware of these stock reconciliation issues and has been carrying out monthly stock checks at all of the sites, recording and investigating variances. The variances can be large, but there is no identifiable trend and fuel stock levels can fluctuate between the tank and computer readings in terms of both positive and negative values.

Inconsistent stock level readings have an impact on stock ordering and delivery. Additionally, any problems with physical tanks, such as leaks, would not be readily identifiable and complete assurance cannot be given over the security and appropriate use of fuel stock.

## Management Action Plan

- a) The Fleet Manager will source and install Fueltran-compatible internal tank measures within all fuel tanks.
- b) The Service will establish a compatible procedure for stock ordering once the measures have been fitted.
- c) The Service will record a schedule of tank gauge and dispensing pump calibrations and document the findings of these.

|                                     |                                                                                                                                                                                          |
|-------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Importance:                         | Medium                                                                                                                                                                                   |
| Responsible Officer:                | B Morton, Fleet Manager                                                                                                                                                                  |
| Lead Service:                       | The Environment Service                                                                                                                                                                  |
| Date for Completion (Month / Year): | a) December 2016<br>b) January 2017<br>c) July 2016                                                                                                                                      |
| Required Evidence of Completion:    | a) Confirmation from Fleet Manager that all internal tank measures have been fitted<br>b) Revised stock ordering procedure<br>c) Schedule of tank gauge and dispensing pump calibrations |

## Auditor's Comments

Satisfactory

## Action Point 6. Vehicle Use Performance Monitoring

The FMS policies state that Services should be monitoring fuel usage per vehicle and user to ensure efficient and effective use of council assets. The FMS role is to produce reports, develop a monitoring system and a set of mileage related standards to facilitate this.

The FMS is not currently providing this information to Services. The Fleet Manager has advised that a transformation project has been approved for 2016 which will look at Council Vehicle Fleet Utilisation and Optimisation. Performance monitoring of vehicles will be included within the scope of this project.

### Management Action Plan

The FMS will liaise with the Transformation team to develop a procedure and set of standards to enable clarity of expectations of service monitoring.

|                                     |                                  |
|-------------------------------------|----------------------------------|
| Importance:                         | Medium                           |
| Responsible Officer:                | B Morton, Fleet Manager          |
| Lead Service:                       | The Environment Service          |
| Date for Completion (Month / Year): | June 2017                        |
| Required Evidence of Completion:    | Performance Monitoring Procedure |

### Auditor's Comments

Satisfactory







Internal Audit Report  
Housing and Community Care  
Buy Backs Assignment No.15-12

March 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.

Consultancy work aims to support management in building in controls at the outset for the implementation of systems, processes and procedures and also provides specific assurance for particular projects or issues at the request of management. This approach is consistent with the PSIAS.

### Background and Introduction

This consultancy assignment was carried out as part of the audit plan for 2015/16, which was approved by the Audit Committee on 1 April 2015.

In order to increase housing stock, and to establish vacancy chains (satisfying the demand of multiple tenant households), the Council has established a capital budget and programme for the re-purchase of housing stock, that was sold under Right to Buy legislation.

The review considered the process from first enquiry by an owner of a former local authority property through to completion of the purchase. It examined management arrangements, monitoring and reporting along with the scope to increase the number of houses purchased through the scheme.

### Scope and Limitations

The consultancy sought to provide advice regarding the processes employed by the Council for purchasing former Council housing sold under Right to Buy. As such, there is no Internal Audit Opinion on the strength of internal control.

The assignment reviewed Buy Back documentation and current processes. Officers responsible for leading and implementing the scheme were interviewed during March 2016. This report details the outcomes of Internal Audit’s review.

### Work Done

#### Process

The process from initial contact from a vendor to purchase was described to the auditor. Housing officers from Perth City and Specialist Services identify potential purchases presented to them through a dedicated email address. The suitability of prospective purchases is assessed by the Private Sector Co-ordinator with regard to location, size and style of property. Details of properties which meet required specifications are passed to Project Managers in Housing, for survey. The survey includes an assessment of the costs which would be necessary to bring the properties up to Scottish Housing Quality Standard (SHQS).

Where the costs are not considered prohibitive (currently, £6,000) details of the prospective purchase are passed to Surveyors in Estates. Having considered the existing market conditions, the Home Report valuation and any costs which Housing

## Internal Audit Report

would have to incur to bring the property up to standard, the Surveyor will advise Housing Management of a reasonable price whilst still providing best value to the Council. Under instruction from Housing Management, the Surveyor then enters into negotiations with the owner or their agent; when a price is agreed the purchase is progressed through to completion by Legal Services.

Management of the scheme by the project team and through monitoring reports ensures that regular updates are provided and feedback can ensure the removal of blockages in the process.

### Advice

A clear message should be agreed to provide a consistent approach through the dedicated email address, [pkc.gov.uk](mailto:pkc.gov.uk) and the Customer Service Centre. Review of publicly available information identified that there were inconsistencies. The auditor was assured that work is currently under way to improve the presentation of the scheme on the Council's website [pkc.gov.uk](http://pkc.gov.uk) to provide current accurate information.

There is scope to improve the process of identifying properties suitable for purchase for example, consideration of when, in the process, a Home Report is required.

The creation of vacancy chains through the Buy Back process is a major driver in the rationale for increasing housing stock. However, there is potential to improve the monitoring of this outcome.

Consideration should be given to the impact on other Council Services of any significant increase in the number of ex-local authority houses purchased, and the potential to formalise arrangements through Service Level Agreements.

### Acknowledgements

Internal Audit acknowledges with thanks the co-operation of officers in Housing, Estates in Planning and Development and Legal Services during this work.

### Feedback

Internal Audit welcomes feedback from management, in connection with this work 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 Renton, Director (Environment)

L Cameron, Head of Housing and Care Commissioning Strategy

D Littlejohn, Head of Planning and Development

L Simpson Head of Governance and Legal Services

J Symon, Head of Finance

C Mailer, Senior Manager, Housing

K McNamara, Head of Strategic Commissioning and Organisational Development

## Internal Audit Report

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:

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Jacqueline Clark  
Chief Internal Auditor  
Date: 23 March 2016



Internal Audit Consultancy Report  
Assignment Number – 15-26  
Universal Credit  
March 2016

## Final Report

## Internal Audit

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## Background and Scope

This review was carried out as part of the audit plan approved for 2015/16 by the Audit Committee on 1st April 2015. The scope of the assignment was to provide assurance of the arrangements in place in preparation for the implementation of Universal Credit in Perth and Kinross.

Universal Credit (UC) is a new benefit being introduced to the Perth and Kinross area on 25 April 2016 to people who are looking for work, or who are on a low income. It brings together several different benefits and combines them into one monthly payment which will go straight into the claimant’s bank account.

UC replaces Income-based Jobseeker's Allowance, Income-related Employment and Support Allowance, Income Support, Child Tax Credit, Working Tax Credit and Housing Benefit.

There is limited information in relation to the detailed roll out of Universal Credit locally. However, it has been confirmed that the current intention is to commence roll out of UC in this area for only the most straightforward cases with initial volumes being low. The Service however is mindful of the fact that this approach could change at any time with very little notice to the Council.

At this time it is not possible to fully estimate the timing and potential total financial impact on Council Services and budgets of Welfare Reform with any accuracy.

## Findings

Housing & Community Care’s Revenues and Benefits Service has taken the lead on Universal Credit implementation within the Council and has established good working relationships with partner organisations in support of its implementation.

The Joint Welfare Reform Steering Group which is chaired by Housing & Community Care’s Head of Corporate IT and Revenues has been meeting on a regular basis. This group includes representatives from key partner organisations with an interest in

## Internal Audit Report (Consultancy)

the implementation of UC measures, including registered social landlords and Perth Citizen's Advice Bureau, and aims to ensure a consistent and coordinated approach.

Working groups have been set up to prepare for implementation and beyond; this will include identifying all risks and issues, learning from other Councils and ensuring effective communication.

Information is available on the Council's website regarding the roll out of UC in Perth and Kinross. Information is also signposted using social media.

To ensuring that the Council is prepared for the challenges resulting from the introduction of UC, the Service provides information and training to partner organisations. Furthermore, formal training from the Job Centre Plus is to be delivered to the service in March 2016. A number of site visits to other Local Authorities have taken place to assist with planning for UC implementation. This has enabled the Council to identify good practice, opportunities, risks and issues which have been faced elsewhere. The Service has advised that one of the outcomes from these visits is the assurance that the Council is as prepared as it can be at this stage. The Service will continue its on-going dialogue with Job Centre Plus and the Department of Work and Pensions to ensure that it has all the relevant information as soon as it becomes available.

Elected members received a Welfare Reform update presentation in June 2015 which included information regarding preparing for UC implementation. An updated presentation to elected members is planned for May 2016.

In March 2016 a Delivery Partnership Agreement was signed between the DWP and the Council which covers the period from 25 April 2016 to 31 March 2017. This Delivery Partnership will support national expansion of UC as an interim arrangement, until it is rolled out in full.

A Local Partnership Agreement is viewed as essential to the flow of communication. It is recognised as good practice and is in the process of being developed and agreed with potential partners including Perth Citizen's Advice Bureau and housing associations.

A Welfare Reform Project Action Plan has been prepared and includes a profiling exercise to identify tenants likely to be impacted by UC. This will be of use to the Service during the initial period after roll out.

### Opinion

It is the opinion of the Auditor that the arrangements in place within the Council provide an appropriate platform for the roll out of UC. Future development in this area will be subject of a further report to the Audit Committee.

### Acknowledgements

Internal Audit acknowledges with thanks the co-operation and assistance of the officers working in Housing and Community Care.

## Feedback

Internal Audit welcomes feedback from management, in connection with this review 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,

K McNamara, Head of Strategic Commissioning & Organisational Development

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

J Symon, Head of Finance

L Brady, Service Manager, Revenues & Benefits

G Taylor, Head of Democratic Services

P Dickson, Complaints & Governance Officer

External Audit

## Authorisation

The Auditor for this assignment was M Morrison. The supervising Auditor was J Clark.

---

Jackie Clark  
Chief Internal Auditor  
Date: 21 March 2016



NHS TAYSIDE/ PERTH & KINROSS COUNCIL  
INTERNAL AUDIT SERVICE



**HEALTH AND SOCIAL CARE INTEGRATION- FINANCIAL ASSURANCE**

REPORT NO. T18B/16 (PKC15-24)

Issued To: L McLay, Chief Executive, NHS Tayside  
B Malone, Chief Executive, Perth & Kinross Council  
L Bedford, Interim Director of Finance, NHS Tayside  
S Berry, Chief Finance Officer, Angus HSCP  
B Nicoll, Director of Community & Primary Care Services, NHS Tayside  
R Packham, Chief Officer, Perth & Kinross HSCP  
J Smith, Chief Finance Officer, Perth & Kinross HSCP  
J Walker, Depute Chief Executive, HCC (Corporate and Community Development Services) and Chief Operating Officer, Perth & Kinross Council  
J Symon, Head of Finance, Perth & Kinross Council  
G Taylor, Head of Democratic Services, Perth & Kinross Council  
L Simpson, Head of Legal & Governance Services, Perth & Kinross Council  
R MacKinnon, Associate Director of Finance, Financial Services & Governance, NHS Tayside  
M Dunning, Board Secretary, NHS Tayside  
D Colley, Financial Governance Accountant, NHS Tayside  
A Napier, Head of Clinical Governance & Risk, NHS Tayside  
K Hunt, Audit Committee Members' Library Copy, NHS Tayside  
NHS Tayside Audit Follow-Up

Audit Committee  
External Audit

Date: 22 April 2016

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## INTRODUCTION AND SCOPE

1. The Public Bodies (Joint Working) (Scotland) Act 2014 was passed by the Scottish Parliament on 25 February 2014 and received Royal assent in April. It establishes the framework for the integration of health and social care in Scotland. Detailed supplementary Statutory Guidance on financial assurance was published in May 2015.
2. The Integration Joint Board will have access to a combined budget for services for which it has direct operational responsibility or for which it is hosting services on behalf of the partners. It will also have Large Hospital Set Aside budgets for services delegated for strategic planning purposes, so that it can work in collaboration with the Acute Sector to redesign the care or the pathways of care or implement new models that will shift service and resources. The alignment of the budgets has been the subject of a due diligence process agreed between the partners and the partnerships.
3. One of the most important items of business for a newly established Integration Joint Board (IJB) will be to obtain assurance that its resources are adequate to allow it to carry out its functions and to identify, quantify and assess the risks associated with this. In order to facilitate this, the guidance states that it is recommended that: *'the Audit Committees are provided with a report, produced jointly by the Health Board and Local Authority Chief Internal Auditors (and copied to the shadow IJB), on the assurance work that has been carried out by the Health Board and Local Authority.'*
4. The audit work reported was undertaken jointly by the Internal Audit teams of NHS Tayside and Perth & Kinross Council.

## OBJECTIVES

5. Our audit work was designed to evaluate whether appropriate systems were in place and operating effectively to mitigate risks to the achievement of the objectives identified below.
6. The integration of health and social care instigates the radical reform required to improve care, particularly for adults with multiple complex support needs, many of whom are frail older people, and to make better use of the substantial resources that are committed to adult health and social care.
7. This review supports NHS Tayside Strategic Risk 239: *'Failure to put in place effective arrangements for health and social care integration will result in the new partnerships not being established and operational by 1 April 2016, breaching regulation and resulting in damage to organisational reputation and failure to deliver on national legislation'* and Perth & Kinross Council Corporate Risk 10: *'The Scottish Government has embarked upon a programme of public service reform to ensure the public, third sector and private organisations work more effectively in partnership with communities and with each other. The Council responds to changes in policy and legislation to design and deliver excellent public services which meet the needs of local people'.*

## RISKS

8. The following risks could prevent the achievement of the above objectives and were identified as within scope for this audit.
  - ◇ Risks and assumptions may not be comprehensive, accurate and clear
  - ◇ The financial assurance process may not have followed national guidance

## AUDIT OPINION AND FINDINGS

9. We can provide assurance that in our opinion the due diligence processes undertaken on the initial sums for the integrated budget (i.e. exempting the Large Hospital Set Aside) comprehensively covered the requirements of the national financial assurance guidance. The information provided to the Perth & Kinross Integration Joint Board (IJB) at its November 2015 meeting and concluding in the January and February 2016 Development events provided a full and detailed picture of the financial position of the budgets in scope. In addition, in our opinion, the due diligence and summary of risks reports met all the requirements of the national financial assurance guidance in relation to risk assessment. We would commend the approach taken in providing IJB members with an overall view of financial risks.

### Financial assurance process

10. A final version of the Integration Financial Assurance Guidance was issued by the Scottish Government in June 2015 which was designed to provide guidance on a process of financial assurance to allow the IJB to assess the resources to be delegated and associated risks.
11. The guidance states that the Health Board and Local Authority internal auditors should provide a report to the Health Board and Local Authority audit committees as well as the IJB on the assurance process that has been carried out. In order to ensure that the due diligence process undertaken for Perth & Kinross IJB complied with the Financial Assurance Guidance, we examined the due diligence report to the Perth & Kinross IJB as well as the presentations to the January and February 2016 development events, examined a sample of underlying working papers used to produce these reports, discussed the process undertaken with the Chief Finance Officer and other Senior Finance staff through the HSCI Senior Finance Group and compared the risks and assumptions reported to our own knowledge of our respective client organisations and other documentation available.
12. The due diligence process to be followed for Perth & Kinross Integration Joint Board was originally described to the Pathfinder Board in May 2015. At its meeting in November 2015, the Perth & Kinross IJB was provided with a high level financial assurance report which also included a link to the detailed due diligence annexes. These annexes addressed the requirements of the financial assurance guidance showing information such as:
  - i. For Council budgets; the final outturn position for in scope services for 2013/14 and 2014/15 including a summary of the main variances, a description of budget adjustments and budget savings as well as a list of investment bids approved. Information was also

provided on allowable cost pressures, non recurring funding and resource transfer. A description of the medium term financial forecast including an estimated funding gap and future financial risks was also presented.

- ii. Budgets for NHS services in scope to be delegated were assessed against actual expenditure for 2013/14 and 2014/15. Opening and closing budgets positions including material non-recurrent funding and the future status of such funding were reported for NHS budgets. Information was also provided on reporting adjustments where budgets had been moved between cost centres. The report also indicated the medium term financial forecast for the delegated services as well as tables showing unmet savings targets, annual savings targets, development/cost pressure funding and other funded cost pressures. In addition, a description of the projected overall financial position for 2015/16 and a summary of risk and cost pressures at 31 October 2015 were reported.
13. The IJB also held two development events in January and February 2016. In January, IJB members received presentations providing an overview of each of the (hosted) services in scope as well as the challenges and risks facing the service and impacting on their financial position. The February 2016 development event provided information on the key questions for IJB members to inform their assessment of the budgets to be delegated.
14. At the time of our fieldwork, the IJB had not yet received financial assurance information against the Large Hospital Set Aside budget. We acknowledge that this is due to the complexities and timescales affecting the NHS Tayside financial planning process and the impact this had on the work to be done for the IJB. We reviewed a draft of the financial assurance paper to be presented to the IJB in March 2016 and note that this paper acknowledges the outstanding work in this area.
15. We compared the services to be delegated to the IJB as set out in the Perth & Kinross Integration Scheme to the budgets covered by the due diligence work. We found that budgets for all services to be delegated were subject to the Due Diligence work with the exception of the Public Dental Service currently budgeted for within the Access Directorate, a budget of c £2M. However, we would note that the January development event of the Perth & Kinross IJB received a presentation on the Public Dental Service including the funding position and challenges faced.
16. Whilst the remit of this audit review was designed to review whether the process of due diligence work undertaken complied with the financial assurance guidance, we would note that the value of the due diligence work only lies in providing a framework to IJB members in which to reach their assessment on the adequacy or otherwise of the resources that will be delegated to them. We note that the February 2016 development event presentation sought to answer the following key questions in relation to both the Council and NHS resources to be delegated:
  - ◇ What level of budget will transfer?
  - ◇ Is it clear and transparent?
  - ◇ Does it take account of historic pressures/risks?
  - ◇ Is it fair & proportionate?

- ◇ Is it sufficient?
  - ◇ Does it allow us to proceed on a sound financial basis?
17. Our view is that information provided to IJB members should clearly demonstrate the link from the work undertaken on due diligence to the final budget being delegated. We have received assurance from the Chief Finance Officer that a further paper on financial assurance is due to be taken to the March 2016 IJB meeting. We have reviewed a draft version of this paper and note that this acknowledges important outstanding issues and risks in relation to these questions.
18. Guidance states that the due diligence process should be based on mutual trust and confidence involving an open-book approach and an honest sharing and discussion of the assumptions and risks. Through our discussion with senior finance staff from both parties involved in this work, we would commend the collaborative approach and the detailed information provided to IJB members on an ongoing basis leading up to the budget setting process. The background provided in due diligence papers presented to the IJB is based on the financial assurance guidance. Our discussions with management have shown that regular liaison took place between Perth & Kinross Council and NHS Tayside finance staff including through the HSCI Senior Finance Group. This included staff agreeing the level of detail to which the work was performed consistently and sharing information on the work undertaken. We carried out sample testing of the figures provided to the underlying working papers provided to us and found no exceptions.
19. The guidance recommends that *'the predetermined financial metrics that officers will use in future to assess whether integration has met its objectives have been identified and that a process for obtaining baseline data is in place.'* We discussed with the Chief Finance Officer that whilst the IJB has not as yet addressed this recommendation, efforts at this stage are focused on achieving a balanced financial position. Plans are in place for work to address this recommendation to allow the partnership to achieve long term financial sustainability.

## **Risks and Assumptions**

20. The financial assurance guidance stresses at various points the importance of understanding the key risks and assumptions inherent in the budgets and financial positions for the delegated services. It also states that all risks should be quantified where possible and measures to mitigate risk identified.
21. Risks have featured prominently in the papers and presentations provided to the Perth & Kinross IJB. The formal report to the November 2015 IJB meeting showed a summary of key financial risks attributable to Perth & Kinross Partnership as at 31 October 2015 including a description of the issue, value, relevant lead officer and a comment on management. At the January development event, service managers presented the challenges including financial pressures faced by their services. The February 2016 development event main presentation included a summary of risks and cost pressures and a discussion on risks and challenges led by the Chief Officer. We have also reviewed a draft of the financial assurance paper to be presented to the March IJB meeting and note that this will include information on remaining and new risks. We would commend the approach taken in providing IJB members with an overall view of risks to inform their assessment.

22. In our opinion, these risks appear to be reasonable at the point they were reported and covered the areas we expected to see, including the financial position of the partners and the resultant required efficiency savings. In our opinion, the due diligence report fulfils the requirements of the national financial assurance guidance in relation to risk assessment. We are not aware of any material risks not disclosed through these reports and those risks reported do not contradict any other information we are aware of.
23. We would note that our positive opinion on the process followed and the information provided to IJB members to help inform their assessment on the adequacy or otherwise of the resources to be delegated is not intended as assurance on the risks themselves. We would highlight the importance of a future report to the IJB on a detailed savings plan to mitigate the risks identified to date.
24. The guidance recommended that partners may find it useful to consider treating the first year as a transitional year and agree to a risk sharing arrangement. The Perth & Kinross Integration Scheme states that in the 1st and 2nd financial year, overspends will be met by the Party to which the spending Direction for service delivery is given.

## **Conclusion**

25. Overall, in our opinion, the process undertaken has been very robust and we commend the fact that this work has been done in partnership. In addition, risks were clearly identified and reported.
26. The report on outstanding risks to be reported to the March 2016 IJB meeting will be critical to allow IJB members to conclude on the adequacy or otherwise of the resources. As noted in previous Due Diligence reports to the IJB, significant risks remain in relation to the IJB's budget and associated levels of savings required to meet cost and demand pressures and achieve financial balance.

## **ACTION**

27. An action plan has been agreed with management to address the identified weaknesses. A follow-up of implementation of the agreed actions will be undertaken in accordance with the audit reporting protocols of each partner.

## **ACKNOWLEDGEMENT**

28. We would like to thank all members of staff for the help and co-operation received during the course of the audit.

A Gaskin, BSc. ACA  
Chief Internal Auditor, NHST

J Clark  
Chief Internal Auditor, PKC

## Action Plan

| Ref. | Finding                                                                                                                                                                                                                                      | Audit Recommendation                                                                                                                                                                                                                                                                                          | Priority | Management Response / Action                                                                                                                         | Action by/Date                |
|------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|
| 1.   | Our view is that information provided to IJB members should clearly demonstrate the link from the work undertaken on due diligence to the final budget being delegated.                                                                      | We have received assurance from the Chief Finance Officer that a further paper on financial assurance is due to be taken to the March 2016 IJB meeting. We have reviewed a draft version of this paper and note that this acknowledges important outstanding issues and risks in relation to these questions. | 2        | Agreed. A Financial Assurance Paper has been completed and will be considered by the IJB at its meeting on 23 March 2016.                            | Chief Officer<br>Completed.   |
| 2.   | Our positive opinion on the process followed and the information provided to IJB members to help inform their assessment on the adequacy or otherwise of the resources to be delegated is not intended as assurance on the risks themselves. | We would highlight the importance of a future report to the IJB on a detailed savings plan to mitigate the risks identified to date.                                                                                                                                                                          | 2        | Agreed. The Chief Finance Officer will provide a full report on progress in developing a financial recovery plan to the IJB at the end of June 2016. | Chief Officer<br>30 June 2016 |

| Ref. | Finding                                                                                                                                                                                                                                                                                 | Audit Recommendation                                                                                                                                                                                          | Priority | Management Response / Action                                                                                                                                                                                                                                                                                                                                                                                                                             | Action by/Date                  |
|------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|
| 3.   | The guidance recommends that <i>'the predetermined financial metrics that officers will use in future to assess whether integration has met its objectives have been identified and that a process for obtaining baseline data is in place.'</i> The IJB has not as yet addressed this. | Arrangements should be made to review actual performance against the assumptions made and adjust future years. Guidance on Financial Planning for Large Hospital Set Aside should also be taken into account. | 3        | Agreed. In setting out a 3 year Financial Plan to support delivery of the Strategic Plan, a robust investment/disinvestment strategy will be developed that will seek to support the key aims of integration whilst securing overall financial balance. Establishing a clear and robust transformation programme that will deliver the core ambitions of the Strategic Plan is essential and this will be presented to the IJB at its meeting in August. | Chief Officer<br>31 August 2016 |



The priorities relating to Internal Audit recommendations are defined as follows:

**Priority 1 recommendations** relate to critical issues, which will feature in our evaluation of the Governance Statement. These are significant matters relating to factors critical to the success of the organisation. The weakness may also give rise to material loss or error or seriously impact on the reputation of the organisation and require urgent attention by a Director.

**Priority 2 recommendations** relate to important issues that require the attention of senior management and may also give rise to material financial loss or error.

***Priority 1 and 2 recommendations are highlighted to the Audit Committee and included in the main body of the report within the Audit Opinion and Findings***

**Priority 3 recommendations** are usually matters that can be corrected through line management action or improvements to the efficiency and effectiveness of controls.

**Priority 4 recommendations** are recommendations that improve the efficiency and effectiveness of controls operated mainly at supervisory level. The weaknesses highlighted do not affect the ability of the controls to meet their objectives in any significant way.





Internal Audit Report  
Education and Children's Services (Equality, Community Planning and Public Service  
Reform)  
Culture, Sport and Leisure Provision  
Consultancy Assignment No. 15-28  
March 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.

Consultancy work aims to support management in building in controls at the outset for the implementation of systems, processes and procedures and also provides specific assurance for particular projects or issues at the request of management. This approach is consistent with the PSIAS.

### Background and Introduction

This consultancy assignment was carried out as part of the audit plan for 2015/16, which was approved by the Audit Committee on 1 April 2015.

This report aims to provide management and Elected Members with an overview of Internal Audit’s involvement with, and the current position of, arrangements for culture, sport and leisure provision within Perth & Kinross.

### Scope and Limitations

The indicative scope of the consultation assignment, agreed by the Committee, was for the allocation of Internal Audit resource to provide advice and assurance for the review of sport and leisure provision. This has been done through reviewing documentation and through discussion with key personnel.

### Work Undertaken

Internal Audit has reviewed documentation and supporting information for the future provision of culture, sport and leisure within Perth and Kinross and has interviewed key officers. The models for the delivery of these services have been explored and the preferred model which was approved by Council in July 2015 (Report 15/295 refers) was for all aspects of sport provision to be delivered through Live Active Leisure.

Subsequent to this, there has been a period of planning and preparation for the scope of those services within the cohort to be identified. Arrangements have been put in place for the transfer of relevant staff to Live Active Leisure to support the delivery of in-scope services. A new contract has been drafted which has been subject to consultation with relevant parties within Perth & Kinross Council, along with the management of Live Active Leisure, to ensure that the required level of service is clearly defined. Arrangements have been put in place to monitor the contract once the services have transferred to LAL. Additional non-recurring resources within Education & Children’s Services were identified to support this process and set the framework for future monitoring. The transfer is effective from 1 April 2016.

With regard to the provision of cultural services, this has been subject to the creation of a third arms-length Trust, known as Culture Perth and Kinross. The organisation has been formed as a limited company and registered charity and is registered with

## Internal Audit Report

the Office of the Scottish Charity Regulator. Like Live Active Leisure and Horsecross Arts, it is a sole member company of which the Council is sole member.

Culture Perth and Kinross will assist in the delivery of the savings which the Council has approved as part of the budget setting process and as detailed within the report to Council in July (Report 15/295 refers), in particular the realisation of savings from non domestic rates on buildings for which management responsibility will transfer to the Trust. The Council has been informed of the requirements for the transfer of assets to Culture Perth and Kinross and there is clarity over the legal position regarding assets which are held for the Common Good. Reports to the Strategic Policy and Resources Committee in December 2015 and February 2016 covered these aspects. A contract has been drafted which has been subject to consultation with relevant parties within Perth & Kinross Council, along with the newly created Board of Culture PK. Arrangements have been put in place to monitor the contract from 1 April 2016, when the organisation comes into effect. Additional non-recurring resources within Education and Children's Services were identified to support the process.

In line with the recommendations approved by Council on 1 July 2015, the arrangements for the delivery of cultural services will be subject to review with a view to exploring the potential for the amalgamation of Culture Perth and Kinross with Horsecross Arts Ltd. This review will be conducted during 2017/18 and elected members will be advised on recommendations arising from the review in due course.

There is a requirement for the new arrangements to deliver savings to the Council. There is clarity over how the Non-Domestic rates savings will be delivered, and there are opportunities identified to explore further savings in this area. However, it is not yet clear how and when the three trusts (Live Active Leisure, Horsecross and Culture PK) will deliver the savings relating to the options of shared services.

### Opinion

Elected Members have been involved in the decision making process regarding the direction for the provision of services within Perth and Kinross for culture, sport and leisure.

Engagement has been undertaken with key stakeholders in the process of developing the models for Service delivery and for their implementation.

The delivery models will be subject to continued scrutiny over the coming months in terms of their achievement of outcomes, which will include the achievement of the financial savings.

### Acknowledgements

Internal Audit acknowledges with thanks the co-operation of staff and management in Environment (Sustainability, Strategic and Entrepreneurial Development) 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:

## Internal Audit Report

B Malone, Chief Executive

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

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

F Robertson, Head of Community Development and Public Sector Reform

G Taylor, Head of Democratic Services

P Dickson, Complaints & Governance Officer

External Audit

### Authorisation

The auditor for this assignment J Clark

This report is authorised for issue:

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Jacqueline Clark  
Chief Internal Auditor  
Date: 29 March 2016

9 June 2016

Mr John Symon  
Head of Finance  
Perth & Kinross Council  
Blackfriars Development Centre  
North Port  
Perth  
PH1 5LU

Dear John

**Perth & Kinross Council: 2015/16 Review of main financial systems**

Audit Scotland's Code of Audit Practice requires us to assess the systems of internal control put in place by management. In carrying out this work we seek to gain assurance that the council:

- has systems for recording and processing transactions which provide a sound basis for the preparation of financial statements and the effective management of its assets and interests
- has systems of internal control which provides an adequate means of preventing and detecting material misstatements, error, fraud or corruption
- complies with established policies, procedures, laws and regulations.

Auditing standards require internal and external auditors to work closely together to make optimal use of available audit resources. We seek to rely on the work of internal audit wherever possible. 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.

In accordance with ISA 330, *The Auditor's responses to assessed risks*, paragraphs 14 and 15, our audit judgements are based on current year testing of controls and, where appropriate, prior year results. As part of our audit planning process we identified the main financial systems key to the production of the council's financial statements. The following table summarises the systems that were tested during 2015/16 including those where we planned to place formal reliance on internal audit's work:

| Key System                | External audit coverage | Proposed reliance on aspects of Internal Audit work |
|---------------------------|-------------------------|-----------------------------------------------------|
| General ledger            | ✓                       |                                                     |
| Payroll                   | ✓                       | ✓                                                   |
| Trade payables            | ✓                       |                                                     |
| Trade receivables         | ✓                       |                                                     |
| Cash and cash equivalents | ✓                       |                                                     |
| Non domestic rates        | ✓                       |                                                     |
| Council tax               | ✓                       |                                                     |
| Housing rents             | ✓                       |                                                     |
| Benefits                  | ✓                       |                                                     |
| Treasury management       | ✓                       |                                                     |
| Capital accounting        | ✓                       |                                                     |
| SWIFT                     | ✓                       |                                                     |

Internal audit's findings from the review of the payroll were reported to the Audit Committee in February 2016. Several areas were highlighted by internal audit with action being agreed with management to address most issues by May 2016. Officers have also agreed to undertake the annual reconciliation of establishment lists for the two services yet to complete this exercise by December 2016.

### Overall audit findings

Our overall assessment is that the key controls within the council's main financial systems are operating satisfactorily. Where controls have not been tested or where the evidence of a control's effective operation does not exist, we adjust our planned coverage of the financial statements to obtain sufficient evidence that they are free of material misstatement. A summary of those areas where identified risk exposure requires management consideration is included in Appendix A to this management letter. Areas where management have accepted the risk in previous years or mitigating controls are operating effectively are highlighted below for your information.

### Trade receivables

As in previous years there is no standard evidence of checking/authorisation to confirm the validity of the invoices being raised or confirmation that the appropriate rates are being applied. Management's response in previous years accepted the risk highlighting that there are different methods of checking the validity of invoices based on the individual service's business needs and that the use of product codes and associated pre-determined rates within the system was a mitigating control. Management also considers its revenue monitoring process which identifies and reports on variances against income targets an overarching control in this area. However auditing standards (ISA 240 *The auditor's responsibility to consider fraud in an audit of financial statements*) requires auditors to presume a risk of fraud where income streams are significant therefore we have also undertaken focused testing of trade receivable invoices to confirm the validity of the invoices raised and that the appropriate rates were being applied.



## SWIFT

Independent Sector Providers (ISP) are presently required, on an exception basis, to confirm where services provided have changed. Without positive confirmation there remains a risk that care home payments are made for services that have not been received. Management's response in previous years accepted the risk highlighting that:

- it was agreed that administration would be reduced if the care homes only reported on an exception basis
- participation in the National Fraud Initiative (NFI) has not identified any material overpayments to care homes in the data matching exercise regarding deceased clients.

In the 2014/15 NFI exercise 58 cases were identified where a resident had died, but the local authority may not have been notified so potentially continued to make payments. These cases have all been cleared with no overpayments found.

In 2015 it was highlighted that the council was considering making weekly returns from care homes mandatory. The council's Care Home Liaison Group agreed in May 2016 that the weekly return form should be mandatory and a local minute of variation to the National Care Home Contract stipulates this requirement which is currently being agreed with care homes for 2016/17.

## Acknowledgements

The issues identified in preparing this management letter are only those which have come to our attention during the course of our normal audit work and are not necessarily all of the weaknesses which may exist. Although we have reported a number of areas for improvement, we should highlight that it is the members and officers of the council who are responsible for the management and governance of the organisation. We would stress, however, that an effective system of internal control is an essential part of the efficient management of any organisation.

The contents of this report have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit is gratefully acknowledged.

Please do not hesitate to contact me if you have any queries.

Yours sincerely



Pearl Tate  
Senior Audit Manager

| No.                        | Audit Finding                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Proposed Management Response & Action                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Responsible Officer               | Date      |
|----------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|-----------|
| <b>Treasury management</b> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                   |           |
| 1.                         | <p>Only authorised amendments to standing data (e.g. bank account details) should be processed. Within the treasury management section these changes have been rare however there are no system controls to ensure that only authorised changes to standing data are processed and therefore fraudulent changes could be made.</p> <p><b>Risk:</b> Payments are made to the wrong individuals.</p> <p><b>Recommendation:</b> A review of changes to standing data should be evidenced to confirm only authorised amendments are made.</p> | <p>There are procedures in place to ensure that requests from third parties to change their bank details for future payments are genuine.</p> <p>In the case of new counterparties being used for the first time, external confirmation of the bank account details are supplied to the Incomes Team with the payment request, so providing evidence that the payment request and bank details are genuine and correct. Such evidence could be in the form of the counterparties own deal confirmation, and/or the brokers confirmation (where applicable).</p> <p>There are no available controls within the Treasury Management system (PSTM) to prevent changes to counterparty bank details. PSTM only gives 2 levels of access, read-only or full access rights, and all staff involved in Treasury need full access rights. However PSTM does maintain an audit log so transactions on the system can be reviewed.</p> <p>The Senior Accountant will liaise with the systems suppliers to determine whether improved access controls can be implemented.</p> | J Jennings<br>(Senior Accountant) | June 2016 |

| No.                       | Audit Finding                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Proposed Management Response & Action                                                                                                                                                                                                                                                                                                                                                                                              | Responsible Officer                                            | Date                                                                                                                            |
|---------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|
| <b>Trade Receivables</b>  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                |                                                                                                                                 |
| 2.                        | <p>Authorised signatories are maintained to ensure only appropriate credit notes are processed. During our review we noted two officers had been authorising credit notes although their authorisation limits excluded credit notes. Neither the officers authorising nor the officers processing the credit notes were aware of this omission. The authorised signatory forms have subsequently been amended.</p> <p><b>Risk:</b> Errors/manipulation is undetected.</p> <p><b>Recommendation:</b> Officers should confirm that credit notes are appropriately authorised prior to processing.</p> | <p>As noted the remedial action required to rectify this instance has been undertaken to resolve the operational issue. In terms of strengthening our internal controls, the possibility of creating a standard Integra e-form is being investigated that, it is hoped, will allow a user to raise a credit note and automatically workflow the authorisation to a nominated officer with a credit note authorisation profile.</p> | <p>E Sturgeon<br/>(Chief<br/>Exchequer<br/>Officer)</p>        | <p>31 August<br/>2016</p>                                                                                                       |
| <b>Non domestic rates</b> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                |                                                                                                                                 |
| 3.                        | <p>Accuracy checks on the processing of changes to the NDR system are run daily and officers undertake checks on a number of the claims. As at April 2016, however, the accuracy checks from December 2015 had yet to be undertaken.</p> <p><b>Risk:</b> Errors in or manipulation of the NDR system is not detected timeously.</p> <p><b>Recommendation:</b> Accuracy checks should be undertaken timeously.</p>                                                                                                                                                                                   | <p>The audit finding is accepted and understood.<br/>Renewed effort will be made to rectify this matter by ensuring the outstanding checks are completed and ongoing checks are carried out timeously.</p>                                                                                                                                                                                                                         | <p>K Fraser.<br/>(Principal<br/>Officer -<br/>Local Taxes)</p> | <p>End of<br/>June 2016<br/>to complete<br/>outstanding<br/>work and<br/>ongoing<br/>monthly<br/>completion<br/>thereafter.</p> |

| No.          | Audit Finding                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Proposed Management Response & Action                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Responsible Officer                                         | Date       |
|--------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------|------------|
| 4.           | <p>State Aid is any advantage granted by public authorities through state resources on a selective basis to any organisations that could potentially distort competition and trade in the European Union. There is a de-minimis of 200,000 euros (or Sterling equivalent) for State Aid purposes that can be granted over a rolling 3 year period. Our testing highlighted one case in relation to renewable energy generation relief where an award was granted on the basis of a three year fixed period rather than a three year rolling period. This resulted in a payment in excess of the State Aid de minimus of approximately £0.022 million.</p> <p><b>Risk:</b> The council fails to comply with State Aid requirements and may be unable to recover the costs from the recipient.</p> <p><b>Recommendation:</b> State Aid for renewable energy requires to be considered on a three year rolling basis to ensure breaches are avoided.</p> | <p>Officers will:</p> <ul style="list-style-type: none"> <li>seek advice from the State Aid team in order to properly deal with these instances.</li> <li>ensure these cases are reviewed annually.</li> <li>enter a diary event date on the Northgate System.</li> </ul>                                                                                                                                                                                                                                                                                                            | K Fraser/ A Macdonald<br>(Principal Officers - Local Taxes) | Ongoing    |
| <b>SWIFT</b> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                             |            |
| 5.           | <p>To ensure the validity of information in the SWIFT system various exception reports are considered by officers. For instance short break and crisis admissions with no end date; client died-service not ended etc. Our sample covered five weeks and included forty six exception reports within this period, however, thirty of these exception reports were either unavailable or there was no evidence of review.</p> <p><b>Risk:</b> Errors in or manipulation of the SWIFT system is undetected.</p> <p><b>Recommendation:</b> Exception reports should evidence the checks undertaken and should be retained for the appropriate period.</p>                                                                                                                                                                                                                                                                                                | <p>Although there were some reports which showed no evidence of review, our validation reports work on an exceptions basis so blank reports will not show any evidence of having been reviewed. If any cases highlighted on a validation report are not corrected when the report is reviewed, they would continue to show on future reports until they have been.</p> <p>Going forward however, all validation reports will be printed, signed, dated and stored for a period of 18 months. This will ensure that evidenced reports are available for any future audit reviews.</p> | L Tulloch,<br>Finance Officer<br>(Assessment & Charging)    | 9 May 2016 |

**PERTH AND KINROSS COUNCIL****Audit Committee****29 June 2016****INTERNAL AUDIT ANNUAL REPORT 2015/16****Report by the Chief Internal Auditor****PURPOSE OF REPORT**

This report presents the year-end report and audit opinion of the Chief Internal Auditor for 2015/16, as set out in Section 7.

**1. BACKGROUND / MAIN ISSUES**

- 1.1 The Public Sector Internal Audit standards (PSIAS) require the Chief Internal Auditor to provide an annual opinion which must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The report must incorporate the opinion, a summary of the work that supports this opinion, a statement on conformance with the PSIAS and the results of the quality assurance and improvement programme. This report fulfils this requirement.
- 1.2 Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. In accordance with the PSIAS, it helps the council accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.
- 1.3 Perth & Kinross Council's internal controls include the full range of policies, procedures and practices intended to ensure the proper conduct of its operations and the achievement of its objectives. They include processes and procedures, organisational structures, job descriptions, authorisation limits, management supervision, risk management processes, reports and decisions.
- 1.4 It is the responsibility of management to devise, implement and maintain appropriate controls over the activities for which they are responsible. The role of Internal Audit is to provide an opinion to the Council as to the effectiveness of the controls that have been put in place by management in order to ensure that the organisation achieves its objectives. Internal Audit is thus a key part of the process by which the Council ensures the management of the risks that threaten the achievement of its objectives.

- 1.5 Internal Audit's work is planned in such a way as to take account of these risks. Prioritising work towards the areas of highest assessed risk enables the Council to identify and remedy the most material weaknesses in its framework of internal controls.
- 1.6 In line with the PSIAS, Internal Audit undertakes a process of planning resulting in an annual plan. For 2015/16, the Internal Audit Plan covered the period from April 2015 to March 2016. It was approved by the Audit Committee on 1 April 2015 [report 15/144 refers]. All Perth & Kinross Council's activities are reviewed as part of the planning process. The plan for 2015/16, taken as a whole, aimed to cover the most significant areas of risk within the resources available whilst ensuring that there was a balance of coverage for all Services. The Internal Audit Plan also included a protocol with Services for the delivery of the plan.
- 1.7 The Internal Audit Plan for 2015/16 incorporated some assignments which were delivered through a co-sourced agreement with Scott Moncrieff. This augmented Internal Audit capacity for the year and ensured that there was coverage of IT risks for which the Internal Audit team does not have the capability.
- 1.8 This report summarises the audit work carried out in 2015/16 and presents the Chief Internal Auditor's opinion on the effectiveness of the Council's internal control environment for that year.

## **2. INTERNAL AUDIT'S WORK IN 2015/16**

- 2.1 This section presents an overview of Internal Audit's work during 2015/16 in its role as independent reviewer of the Council's systems of internal control.
- 2.2 The Internal Audit Plan approved in April 2015 included 33 planned internal audits. Of these, 23 were assurance audits and 10 were consultancy / enabling assignments. Resources were included within the Plan to certify three grant claims within the year.
- 2.3 During the year there was one change to planned work which was approved by Audit Committee. This additional assignment was a follow up of the Roads Maintenance Partnership Action Plan (Report 15/374 refers), considered by the Audit Committee in response to Audit Scotland's Roads Maintenance Partnership Investigation at the meeting of 16 September 2015. In addition, there was a requirement to certify an additional grant, Superconnected Cities, which had not been included within the approved Audit Plan resources.
- 2.4 All planned assignments, covering the period from April 2015 to March 2016, have been completed and reports issued. 36 Internal Audit reports have been issued for 34 planned assignments and 4 grants have been certified, representing 100% of the anticipated reports arising from Internal Audit work connected with the approved plan.

- 2.5 Unplanned assignments, as a result of investigations or additional requests from Services, have been undertaken during the year. Where appropriate, control issues highlighted as a result of this work have been reported to the Audit Committee. Six such reports have been issued during the year and considered by Audit Committee. This work was contained within the existing resources of the team.
- 2.6 The focus of the audit of Corporate Risk Management changed during the year from being an assurance audit to a consultancy / advisory audit. The Service identified scope for improvement and the audit therefore focussed on supporting the Service in identifying improvement actions and best practice. The outcomes have therefore impacted on the opinion detailed in section 7 of this report.
- 2.7 The results detailed in this report relate to all audit reports issued relating to Internal Audit's work during the period from April 2015 to March 2016, both planned and unplanned.
- 2.8 All findings detailed within the reports issued during the year were accepted by management. These reports contain a total of 147 agreed actions, compared with 111 actions in 2014/15. The table below details the rating of the importance of these actions. The figures in brackets relate to the rating of individual actions for the financial year 2014/15:

|               |                        |
|---------------|------------------------|
| Critical Risk | 3 (0) agreed actions   |
| High Risk     | 27 (7) agreed actions  |
| Medium Risk   | 61 (58) agreed actions |
| Low Risk      | 56 (46) agreed actions |

- 2.9 This represents an increase in the proportion of critical- and high-risk actions from 0% and 6% respectively in 2014/15 to 2% and 18% in 2015/16. There was a corresponding decrease in the proportion of medium- and low-risk actions from 52% and 41% in 2014/15 to 42% and 38% respectively for 2015/16.
- 2.10 Appendix A shows a summary of Internal Audit's work for Perth & Kinross Council during 2015/16 compared with the original plan as approved by the Audit Committee in April 2015 along with the current status of each assignment. The Appendix details additional work, such as internal investigations or non-audit tasks undertaken during the year, where this has resulted in a report to Audit Committee. Internal Audit was actually involved with 52 assignments consisting of 34 planned audits, 4 grant certifications, 9 investigations and 5 requests for advice.

### **Areas for Significant Improvement in Controls**

- 2.11 During 2015/16, each audit report was assigned an overall rating, summarising the strength of internal controls in the area under review. These

ratings were intended to provide a guide to management in setting priorities for action and to inform the Audit Committee in their scrutiny role. The number of areas where controls have been described as 'moderately weak' or 'weak' have increased on those reported last year from 2 to 5. There are no areas where controls have been described as 'unacceptably weak'.

- 2.12 Issued reports during this period contain an assessment of the control environment for a total of 69 control objectives. This compares with 40 control objectives assessed during 2014/15. These assessments of control at the time audits took place are broken down as follows, with the relevant figures for 2014/15 being recorded in brackets:

|                   |                            |
|-------------------|----------------------------|
| Strong            | 25 (14) Control Objectives |
| Moderately Strong | 22 (12) Control Objectives |
| Moderate          | 17 (12) Control Objectives |
| Moderately Weak   | 3 (2) Control Objectives   |
| Weak              | 2 (0) Control Objectives   |
| Unacceptably Weak | 0 (0) Control Objectives   |

- 2.13 Overall, this represents a similar picture to the proportion of strong- and moderately strong-rated control objectives over the two years, these being 68% for 2015/16 compared with 65% for 2014/15, and also for proportion of moderately weak- and weak-rated control objectives, these being 7% for 2015/16 compared with 5% for 2014/15. However in 2015/16, two control objectives (3%) were rated as weak whereas there were no control objectives rated as weak in 2014/15.
- 2.14 As highlighted in 2.6 above, a review of the Council's approach to risk management is underway. Internal Audit has assisted the Service in identifying improvements and best practice, which should result in improved arrangements being in place during 2016/17.

### **Follow Up of Action Plans**

- 2.15 The responsibility for considering (and accepting or rejecting) Internal Audit's findings rests with management. Final audit reports record the agreed plan of action, including the individual(s) responsible; the planned timescales for completion; and the evidence required by Internal Audit to verify completion of the action. The audit process is of little value unless action is taken to remedy deficiencies in internal control where these are identified. Hence, a significant part of Internal Audit's role is the following-up of progress with these action plans in line with the requirements of the Public Sector Internal Audit Standards.
- 2.16 A database for recording agreed actions is maintained for this purpose. Services are routinely requested to provide the agreed evidence of completion for actions which are due to have been completed. Where actions have not



been completed, an update on progress is requested along with the reason for non-completion and a revised date for completion. The Audit Committee is informed of all actions which have not been completed, along with an Internal Audit opinion on the acceptability or otherwise of the response received from management.

- 2.17 The support of the Chief Executive, Depute Chief Executives, Directors and Senior Management Teams in ensuring that agreed actions are completed has continued during the year.
- 2.18 Of the 147 actions agreed with management (see 2.8 above) 93 had a completion date within 2015/16. Of these 93, 83 have been verified by Internal Audit as having been completed. This represents 89% of actions having been implemented within the year.
- 2.19 In the Chief Internal Auditor's opinion, the procedures in place provide a sound basis for ensuring that progress against the agreed plans is exposed to the proper level of scrutiny.

### **3 THE AUDIT COMMITTEE**

- 3.1 The Audit Committee operates within an approved 'Role and Remit' and, as a formally constituted Committee of the Council. The Committee conducts its meetings in public, thus ensuring a high degree of accountability for its activities.
- 3.2 The Audit Committee reviews its effectiveness on an annual basis and highlights any development requirements. The specific area identified for development by the Committee related to the appropriate level of scrutiny of the final accounts and associated reports. This will be taken forward through elected members' personal development programmes within the year.

### **4 RESOURCES**

- 4.1 Expenditure for 2015/16 on Internal Audit was £230,914 against a budget of £248,406.
- 4.2 Recent trends in internal audit staffing are as shown below:

|                   | April 2014 |      | April 2015 |      | April 2016 |      |
|-------------------|------------|------|------------|------|------------|------|
|                   | No. (FTE)  |      | No. (FTE)  |      | No. (FTE)  |      |
| Qualified Staff   | 2.8        | 67%  | 2.8        | 60%  | 1.9        | 60%  |
| Unqualified Staff | 1.9        | 33%  | 1.9        | 40%  | 3.0        | 40%  |
| Total             | 4.7        | 100% | 4.7        | 100% | 4.9        | 100% |

## **5 ANTI-FRAUD ACTIVITY**

- 5.1 The responsibility for preventing and detecting fraud and corruption rests with management; it is the responsibility of management to take into account the risks arising from fraud and corruption and to devise and maintain the appropriate internal controls to provide a reasonable level of assurance that the Council's resources are being protected from loss and misappropriation.
- 5.2 Nevertheless, Internal Audit has a number of responsibilities regarding the Council's anti-fraud and anti-corruption arrangements. The year 2015/16 saw a moderate level of audit activity in this area as described below.

### **The National Fraud Initiative**

- 5.3 The National Fraud Initiative (NFI) is a large-scale 'data-matching' exercise that takes place every two years and takes place over two financial years. Perth & Kinross Council is participating in the 2014/15 exercise. The NFI involves the comparison of personal data held by public authorities in order to identify anomalies that may indicate fraud or error. This output then forms the basis for a process of investigation within each authority, in order to ensure that errors are recognised and corrected and that, where cases of possible fraud are identified, they are pursued appropriately.
- 5.4 This investigative process, which is driven by Audit Scotland, is co-ordinated by Internal Audit and includes overseeing Services' arrangements for uploading the data securely and the checking of a sample of identified anomalies within the period of the exercise, on the basis of an assessment of risk. Internal Audit facilitates the reporting of progress to Audit Scotland. There has been, and continues to be, an allocation of audit resources towards the completion of this task.
- 5.5 The 2014/15 exercise has concluded during the year and the Audit Committee have been informed of the outcomes (Reports 15/272 and 16/159 refer).

### **Anti-Fraud and Anti-Corruption Policies**

- 5.6 The Council's Counter-Fraud and Corruption Strategy, along with associated policies, were presented to and approved by the Strategic Policy and Resources Committee in February 2015. Senior Management Teams have been supported in completing risk assessments for their functions and have identified relevant areas of their business where risks require to be managed. The roll-out of relevant training to all staff and elected members will continue into 2016/17.
- 5.7 The Chief Internal Auditor is the Council's nominated Money Laundering Reporting Officer. There has been no relevant activity during the year.

## **‘Whistleblowing’ Arrangements**

- 5.8 In order to ensure that the Council meets the standards set out in its counter-fraud and corruption arrangements, some aspects of the Council’s ‘whistle-blowing’ arrangements are managed by Internal Audit. This includes the maintenance of a dedicated e-mail address and telephone line for employees with concerns at work, which is routed to Internal Audit. The Council also supports the national charity ‘Public Concern at Work’ that upholds the rights of those who raise concerns about wrongdoing at their place of work and which operates a free legal advice ‘hotline’.
- 5.9 Five contacts were made with Internal Audit of a ‘whistleblowing’ nature within the year. These cases were fully resolved and, where necessary, the outcomes have been reported to Audit Committee. The outcomes have also fed into the updating of the Audit Universe and in the planning exercise for the 2016/17 Internal Audit Plan.
- 5.10 Whistleblowing arrangements have been in place throughout 2015/16 and are supported by a Whistle-blowing Policy, which is included within the Counter-Fraud and Corruption Strategy.
- 5.11 Further training will be rolled out to all staff and elected members within 2016/17, along with other aspects of the Counter-Fraud and Corruption Strategy, as detailed in 5.6 above.

## **Investigations**

- 5.12 Internal Audit’s role includes the assessment of any concerns that are raised through the above arrangements and the conduct of internal investigations where appropriate. A small time allowance is made for work of this sort within the audit plan. As highlighted in 2.5 above, the time spent on investigations was contained within the existing resources in the Internal Audit team.
- 5.13 The year 2015/16 saw a number of investigations requiring input from Internal Audit. Investigative work undertaken within the year has resulted in agreed improvements which will enhance the Council’s internal control environment. Where there is scope for improvement to the control environment identified by investigations, this is reported to the Audit Committee.

## **6 COMPLIANCE WITH AUDITING STANDARDS**

- 6.1 The Public Sector Internal Audit Standards have been adopted by Perth & Kinross Council as the relevant professional standards. The outcome of a review of the Standards was reported to Audit Committee and this report remains current [Report 13/147 refers].
- 6.2 The Chief Internal Auditor has undertaken a self-assessment of compliance with the PSIAS and has concluded that the function is generally compliant with the PSIAS. This view is supported by Audit Scotland, the appointed external auditors, who concluded that Internal Audit operates generally in

accordance with the PSIAS and has sound documentation standards and reporting procedures in place. [Reports 15/395 and 16/158 refer].

### **Code of Ethics**

- 6.3 Internal Auditors must conform to the Code of Ethics included within the Standards. This Code incorporates the principles and rules of conduct for Internal Auditors' integrity, objectivity, confidentiality and competency.

### **Public Sector Internal Audit Standards**

- 6.4 The Standards are separated into Attributable Standards (including requirements for the establishment of the internal audit function) and performance standards (including the management and execution of internal audit activity)

### **Performance Measures**

- 6.5 Internal Audit's prime performance measure is the completion of the approved audit plan. Performance against the approved audit plan has been highlighted in Section 2 of this report. As at 31 March 2016, all assignments from the 2015/16 plan had been completed. This is the second year where there has been 100% completion within the year.

### **Quality Assurance of Internal Audit**

- 6.6 There is a requirement for the annual report to contain a statement on conformance with the PSIAS and the results of the quality assurance and improvement plan.
- 6.7 An External Quality Assessment of the Internal Audit function is due to be completed at the end of 2016/17. In the interim, the Chief Internal Auditor has undertaken a self-assessment of compliance with the PSIAS.
- 6.8 A quality assurance system was in place in Internal Audit throughout 2015/16 which ensured the quality of Internal Audit work was of a consistent and professional standard.
- 6.9 Improvements highlighted as required by the Chief Internal Auditor as part of the Quality Assurance and Improvement Plan for 2015/16 have been addressed as follows:
- The Internal Audit Charter was considered and approved by Audit Committee on 25 November 2015 (Report 15/545 refers);
  - The audit manual has been updated;
  - Conflicts of interest declarations, where required, are now retained, which demonstrates the integrity and objectivity of the internal audit team; and
  - The lack of technical expertise has been addressed by the implementation of a Service Level Agreement for 2016/17 and beyond with Highland Council to provide this expertise.

- 6.10 Further improvements will continue into 2016/17 regarding the formalising of professional development records. In addition, the processes and procedures for undertaking consultancy work will be developed and documented.

## **7 AUDIT OPINION**

- 7.1 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 and summarised at Section 2 above. 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.

## **8. CONCLUSION AND RECOMMENDATION**

- 8.1 It is recommended that the Committee notes the content of this report and specifically the Audit Opinion at Section 7.

### **Author(s)**

| <b>Name</b>  | <b>Designation</b>     | <b>Contact Details</b>                                                   |
|--------------|------------------------|--------------------------------------------------------------------------|
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Council Text Phone Number 01738 442573

## 1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

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

### **3. Consultation**

#### **3.1 Internal**

- 3.1.1 The Chief Executive and the 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 – The 2015/16 Internal Audit Summary





## APPENDIX A – THE 2015/16 INTERNAL AUDIT SUMMARY

| <b>Audit Subject</b>                                     | <b>2015/16 Audit Plan</b> | <b>2015/16 Status</b> |
|----------------------------------------------------------|---------------------------|-----------------------|
| Following the Public Pound                               | Planned                   | Completed             |
| Establishment Approval Process                           | Planned                   | Completed             |
| Complaints                                               | Planned                   | Completed             |
| Fostering - Kinship Care                                 | Planned                   | Completed             |
| Corporate Health and Safety                              | Planned                   | Completed             |
| LEADER                                                   | Planned                   | Completed             |
| Reablement                                               | Planned                   | Completed             |
| Reserves Strategy                                        | Planned                   | Completed             |
| New School Governance                                    | Planned                   | Completed             |
| Modernising the School Office                            | Planned                   | Completed             |
| Financial Management of Community Care Establishments    | Planned                   | Completed             |
| Housing Service Consultancy – Buy Backs                  | Planned                   | Completed             |
| School Transport Contracts                               | Planned                   | Completed             |
| Payroll                                                  | Planned                   | Completed             |
| Integrated Assessment – Named Person Service             | Planned                   | Completed             |
| Financial Management of Schools: Early Years and Primary | Planned                   | Completed             |
| IT Disaster Recovery                                     | Planned                   | Completed             |
| Planning Applications                                    | Planned                   | Completed             |
| Homelessness Service                                     | Planned                   | Completed             |
| Housing Investment Programme                             | Planned                   | Completed             |
| Perth City Campus                                        | Planned                   | Completed             |
| Self-Directed Support                                    | Planned                   | Completed             |
| Place Based Scrutiny                                     | Planned                   | Completed             |
| Health & Social Care integration                         | Planned                   | Completed             |
| Property System                                          | Planned                   | Completed             |
| Universal Credit                                         | Planned                   | Completed             |
| Transformation                                           | Planned                   | Completed             |
| Sport & Leisure Provision                                | Planned                   | Completed             |

|                                                     |                  |           |
|-----------------------------------------------------|------------------|-----------|
| Corporate Governance                                | Planned          | Completed |
| Job Evaluation & Design                             | Planned          | Completed |
| Corporate Risk Management                           | Planned          | Completed |
| Optimum                                             | Planned          | Completed |
| SEEMIS                                              | Planned          | Completed |
| Roads Maintenance Partnership Action Plan Follow Up | Addition to Plan | Completed |
| Cycling Walking Safer Streets Grant                 | Planned          | Completed |
| Bus Service Operators Grant (6 monthly)             | Planned          | Completed |
| Bus Service Operators Grant (6 monthly)             | Planned          | Completed |
| Superconnected Cities Grant                         | Addition to Plan | Completed |
| Assessment and Charging: Community Meals            | Unplanned        | Completed |
| Blue Badge Misuse Procedures                        | Unplanned        | Completed |
| Supported Living Team                               | Unplanned        | Completed |
| Crieff Primary School                               | Unplanned        | Completed |

**PERTH AND KINROSS COUNCIL****29 June 2016****UNAUDITED ANNUAL ACCOUNTS 2015/16****Report by the Head of Finance****PURPOSE OF REPORT**

This report presents the Council's Unaudited Annual Accounts for the financial year 2015/16 in accordance with the Local Authority Accounts (Scotland) Regulations 2014.

**1. BACKGROUND**

- 1.1. The Unaudited Annual Accounts for 2015/16 are due to be submitted to the Controller of Audit by 30 June 2016.
- 1.2. The Annual Accounts are prepared in accordance with the 2015 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 came into force in October 2014.

**2. ANNUAL ACCOUNTS**

- 2.1 The regulations require an annual review of the effectiveness of a local authority's system of internal control by Elected Members. This requirement was met with the approval of the Annual Governance Statement by the Scrutiny Committee on 15 June 2016 (Report No. 16/274 refers). The Statement is set out from page 82 of the attached accounts.
- 2.2 The Annual Accounts include a Management Commentary. The purpose of which is to provide users of the financial statements with integrated information on management's view of performance, position and progress (including forward looking information). This is set out from page 1 of the Accounts.
- 2.3 The regulations require elected members to consider the unaudited accounts at a meeting to be held no later than 31 August. Best practice is for elected members, either as the Council or a Committee charged with audit or governance, to have formally considered the Unaudited Annual Accounts prior to submitting them to the appointed auditor and making them available for public inspection. For Perth and Kinross Council the Committee charged with audit or governance is the Audit Committee.

2.4 The Strategic Policy and Resources Committee of 20 April 2016 (Report No. 16/179 refers) agreed that the 2015/16 Unaudited Annual Accounts would be considered by the Audit Committee on 29 June 2016.

2.5 **ACTION:** Following consideration of the Unaudited Annual Accounts the Committee is asked to authorise the Head of Finance to sign the Accounts.

### **3. NEXT STEPS**

3.1 The audit of the Annual Accounts will take place during July and August 2016. Audit Scotland (working with Council officers) will consider whether the Annual Accounts:

- Give 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 PKC as at 31 March 2016 and of the income and expenditure of the group and PKC 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 and the Local Government in Scotland Act 2003.

3.2 It is anticipated that the results of the audit will be summarised in the Draft Annual Report which incorporates the ISA260: Report to those Charged with Governance. It is anticipated that this Audit Scotland report will be considered by the Audit Committee on 28 September 2016 with the Final Annual Report on the 2015/16 Audit being considered by the Council on 5 October 2016.

3.3 The Unaudited Annual Accounts are also available for public inspection between 30 June and 20 July (inclusive) with any objections being sent to the auditor.

### **4. CONCLUSION AND RECOMMENDATIONS**

4.1 The Unaudited Annual Accounts will be submitted to the Controller of Audit by 30 June 2016 subject to approval by this Committee and authorisation by the Head of Finance.

4.2 It is recommended that the Committee authorises the Head of Finance to sign the Unaudited Annual Accounts – see paragraph 2.5.

**Author(s)**

| <b>Name</b>    | <b>Designation</b>           | <b>Contact Details</b>                                                       |
|----------------|------------------------------|------------------------------------------------------------------------------|
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| Alison O'Brien | Corporate Accounting Manager | <a href="mailto:AOBrien@pkc.gov.uk">AOBrien@pkc.gov.uk</a><br>01738 475516   |

**Approved**

| <b>Name</b> | <b>Designation</b> | <b>Date</b>  |
|-------------|--------------------|--------------|
| John Symon  | Head of Finance    | 20 June 2016 |

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Council Text Phone Number 01738 442573

## 1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

| <b>Strategic Implications</b>                       | <b>Yes / None</b> |
|-----------------------------------------------------|-------------------|
| Community Plan / Single Outcome Agreement           | None              |
| Corporate Plan                                      | Yes               |
| <b>Resource Implications</b>                        |                   |
| Financial                                           | Yes               |
| Workforce                                           | Yes               |
| Asset Management (land, property, IST)              | Yes               |
| <b>Assessments</b>                                  |                   |
| Equality Impact Assessment                          | Yes               |
| Strategic Environmental Assessment                  | Yes               |
| Sustainability (community, economic, environmental) | Yes               |
| Legal and Governance                                | None              |
| Risk                                                | None              |
| <b>Consultation</b>                                 |                   |
| Internal                                            | Yes               |
| External                                            | None              |
| <b>Communication</b>                                |                   |
| 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 Executive 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 – 2015/16 Unaudited Annual Accounts





# **PERTH & KINROSS COUNCIL**

## **ANNUAL ACCOUNTS**

**2015/16**

**UNAUDITED**

## CONTENTS

|                                                                                            | Page |
|--------------------------------------------------------------------------------------------|------|
| MANAGEMENT COMMENTARY                                                                      | 1    |
| THE FINANCIAL STATEMENTS:                                                                  |      |
| MOVEMENT IN RESERVES STATEMENT                                                             | 12   |
| COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT                                             | 13   |
| BALANCE SHEET                                                                              | 14   |
| CASH FLOW STATEMENT                                                                        | 15   |
| STATEMENT OF RESPONSIBILITIES FOR THE ANNUAL ACCOUNTS                                      | 16   |
| NOTES TO THE FINANCIAL STATEMENTS                                                          |      |
| Note 1 Accounting Policies                                                                 | 17   |
| Note 2 Accounting Standards that have been issued but have not yet been adopted            | 25   |
| Note 3 Critical Judgements in Applying Accounting Policies                                 | 26   |
| Note 4 Assumptions made about the future and other major sources of estimation uncertainty | 26   |
| Note 5 Adjustments between Accounting Basis and Funding Basis under Regulations            | 27   |
| Note 6 Transfer to/from General Fund Reserves                                              | 28   |
| Note 7 Central Services                                                                    | 30   |
| Note 8 Other Expenditure                                                                   | 30   |
| Note 9 Other Operating Expenditure / Income                                                | 30   |
| Note 10 Financing and Investment Income and Expenditure                                    | 31   |
| Note 11 Taxation and Non Specific Grant Incomes                                            | 31   |
| Note 12 Material Items of Income and Expense                                               | 31   |
| Note 13 Premiums and Discounts on Debt Rescheduling Written Down                           | 31   |
| Note 14 General Grants, Bequests and Donations                                             | 32   |
| Note 15 Amounts Reported for Resource Allocation Decisions                                 | 33   |
| Note 16 Agency Services                                                                    | 35   |
| Note 17 External Audit Costs                                                               | 35   |
| Note 18 Termination Benefits                                                               | 35   |
| Note 19 Post-Employment Benefits                                                           | 36   |
| Note 20 Related Parties                                                                    | 40   |
| Note 21 Leases                                                                             | 41   |
| Note 22 Property, Plant and Equipment                                                      | 42   |
| Note 23 Heritage Assets                                                                    | 46   |
| Note 24 Investment Properties                                                              | 47   |
| Note 25 Intangible Assets                                                                  | 49   |
| Note 26 Assets Held for Sale                                                               | 49   |
| Note 27 Long Term Debtors                                                                  | 50   |
| Note 28 Inventories                                                                        | 50   |
| Note 29 Debtors                                                                            | 50   |
| Note 30 Creditors                                                                          | 51   |
| Note 31 Provisions Other than Bad and Doubtful Debts                                       | 51   |
| Note 32 Usable Reserves                                                                    | 51   |
| Note 33 Unusable Reserves                                                                  | 52   |
| Note 34 Impairment Losses                                                                  | 54   |
| Note 35 Grants                                                                             | 55   |
| Note 36 Capital Expenditure and Capital Financing                                          | 55   |
| Note 37 Public Finance Initiatives and Similar Contracts                                   | 56   |
| Note 38 Authorisation of Annual Accounts                                                   | 57   |
| Note 39 Contingent Liabilities                                                             | 57   |
| Note 40 Financial Instruments                                                              | 58   |
| Note 41 Devolved School Management (DSM) Schools & School Boards                           | 62   |
| Note 42 Operating Activities                                                               | 62   |
| Note 43 Investing Activities                                                               | 62   |
| Note 44 Financing Activities                                                               | 63   |
| Note 45 Cash and Cash Equivalents                                                          | 63   |
| Note 46 Trust Funds                                                                        | 63   |

|                                                                                                              |    |
|--------------------------------------------------------------------------------------------------------------|----|
| HOUSING REVENUE ACCOUNT                                                                                      | 64 |
| Statement of Movements on the Housing Revenue Account Balance                                                | 65 |
| Notes to the Housing Revenue Account                                                                         | 66 |
| COUNCIL TAX INCOME ACCOUNT                                                                                   | 67 |
| Notes to the Council Tax Income Account                                                                      | 68 |
| NON DOMESTIC RATE INCOME ACCOUNT                                                                             | 69 |
| Notes to the Non Domestic Rate Income Account                                                                | 70 |
| CHARITABLE TRUSTS                                                                                            | 71 |
| COMMON GOOD                                                                                                  | 72 |
| Notes to the Common Good Accounts                                                                            | 73 |
| GROUP ACCOUNTS                                                                                               |    |
| Group Movement in Reserves Statement                                                                         | 74 |
| Group Comprehensive Income and Expenditure Statement                                                         | 75 |
| Group Balance Sheet                                                                                          | 76 |
| Group Cash Flow Statement                                                                                    | 77 |
| Reconciliation of the Single Entity (Surplus)/Deficit for the Year to the Group (Surplus)/Deficit            | 78 |
| NOTES TO THE GROUP ACCOUNTS                                                                                  |    |
| Note 1 Combining Entities                                                                                    | 79 |
| Note 2 Nature of Combination                                                                                 | 80 |
| Note 3 Financial Impact of Consolidation and Going Concern                                                   | 80 |
| Note 4 Group Comprehensive Income & Expenditure Statement – Financing and Investment Income<br>& Expenditure | 80 |
| Note 5 Group Balance Sheet – Investments                                                                     | 80 |
| Note 6 Group Balance Sheet – Short Term Debtors                                                              | 80 |
| Note 7 Group Balance Sheet – Short Term Creditors                                                            | 81 |
| Note 8 Pension Liability                                                                                     | 81 |
| Note 9 Group Cash Flow Statement                                                                             | 81 |
| Note 10 Group Cash Flow – Investing Activities                                                               | 81 |
| Note 11 Group Cash Flow – Financing Activities                                                               | 81 |
| Note 12 Related Party Transactions                                                                           | 81 |
| ANNUAL GOVERNANCE STATEMENT 2015/16                                                                          | 82 |
| REMUNERATION REPORT FOR FINANCIAL YEAR 2015/16                                                               | 87 |
| GLOSSARY                                                                                                     | 95 |

## 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 95.

### 2. Our Vision and Strategic Objectives

Perth and Kinross is situated in a central location in Scotland. It covers a geographical area of around 5,286 km<sup>2</sup>, and has an estimated population of 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                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|---------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Giving every child the best start in life</b>              | <ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>Reduced the impact of homelessness on children and families by moving families straight into permanent instead of temporary accommodation.</li> <li>Reduced the number of overcrowded households from 141 in the previous year to 127 bettering our target of 135 for 2015/16.</li> <li>Supported vulnerable children and families, including kinship carers, through advice and assistance from Welfare Rights and the Welfare Fund Team.</li> </ul>                                                                                                                                                                                                                                                                         |
| <b>Developing educated, responsible and informed citizens</b> | <ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>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.</li> <li>Our Employment Support Team successfully supported 148 people with complex needs in paid jobs, voluntary and work experience placements.</li> <li>Outstanding results at NAT5 and Higher level</li> </ul> |

| Objective                                                              | Highlight                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Promoting a prosperous, sustainable and inclusive economy</b>       | <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> <li>• Collected 98.5% of income due from Council Tax in 2015/16 (Scottish Average in 2014/15 was 95.5%).</li> <li>• Launched new rent arrears arrangements focusing on early intervention and earlier escalation of rent arrears. The "Rent 1<sup>st</sup>" Campaign was introduced to support a change in culture towards the payment of rent.</li> <li>• Supported the development and expansion of the Perth &amp; Kinross Credit Union with additional offices opening in Blairgowrie, Crieff and Letham.</li> </ul> |
| <b>Supporting people to lead independent, healthy and active lives</b> | <ul style="list-style-type: none"> <li>• 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.</li> <li>• Sport and Active Recreation staff have worked to remove barriers to participation in sport amongst under-represented and marginalised groups.</li> <li>• 2015 saw the launch of the Carers Strategy which introduced participatory budgeting for Carers in Perth &amp; Kinross.</li> <li>• Supported people with complex needs through working with our partners to deliver a range of projects as part of the Integrated Care Fund.</li> <li>• 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.</li> <li>• 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.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |

| Objective                                                           | Highlight                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|---------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Creating a safe and sustainable place for future generations</b> | <ul style="list-style-type: none"> <li>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.</li> <li>Due to multi agency working Perth &amp; Kinross has the 5<sup>th</sup> lowest frequency of reconvictions within Scotland.</li> <li>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.</li> <li>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.</li> <li>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.</li> <li>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.</li> </ul> |

## 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 £344.507m (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 £7.230m.

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)         | <b>TOTAL UNUSABLE RESERVES</b>           | <b>(352,352)</b> |
| Capital Grants Unapplied     | (87)            |                                          |                  |
| <b>TOTAL USABLE RESERVES</b> | <b>(85,835)</b> | <b>TOTAL RESERVES</b>                    | <b>(438,187)</b> |



**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 £9.04m, current liabilities reduced by £6.541m 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 £4.184m 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 £4.493m 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. 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.

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 Integrated Joint Board (IJB) assumed responsibility for adult social care and a range of health services from 1 April 2016. The IJB is responsible for strategic and financial oversight of these services. The Council has received written directions from the IJB 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 £4.6m 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 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.

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Bernadette Malone  
Chief Executive  
Perth & Kinross Council

Date:

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Councillor Ian Miller  
Leader of the Council  
Perth & Kinross Council

Date:

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John Symon  
Head of Finance  
Perth & Kinross Council

Date:

## MOVEMENT IN RESERVES STATEMENT

|                                                                                 | General<br>Fund<br>Balance<br>£'000 | Housing<br>Revenue<br>Account<br>£'000 | Capital<br>Fund<br>£'000 | Renewal<br>& Repair<br>Fund<br>£'000 | Insurance<br>Fund<br>£'000 | Capital<br>Receipts<br>Reserve<br>£'000 | Capital<br>Grants<br>Unapplied<br>£'000 | Total<br>Usable<br>Reserves<br>£'000 | Unusable<br>Reserves<br>(Note 33)<br>£'000 | Total<br>Authority<br>Reserves<br>£'000 |
|---------------------------------------------------------------------------------|-------------------------------------|----------------------------------------|--------------------------|--------------------------------------|----------------------------|-----------------------------------------|-----------------------------------------|--------------------------------------|--------------------------------------------|-----------------------------------------|
| <b>Balance at 1 April 2014</b>                                                  | (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)                               |
| <b>Total Comprehensive Income and Expenditure</b>                               | 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                                       |
| <b>Net (increase)/decrease before transfers to earmarked reserves</b>           | (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)                               |
| <b>Balance at 31 March 2015</b>                                                 | (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)                                |
| <b>Total Comprehensive Income and Expenditure</b>                               | (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                                       |
| <b>Net (increase)/decrease before transfers to earmarked reserves</b>           | (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)                                |
| <b>Balance at 31 March 2016 carried forward</b>                                 | (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<br>Net<br>Expenditure<br>£'000 | Notes                                              | Actual<br>Gross<br>Expenditure<br>£'000 | Actual<br>Income<br>£'000 | Actual<br>Net<br>Expenditure<br>£'000 | Budgeted<br>Net<br>Expenditure<br>£'000 |
| <b>COUNCIL SERVICES</b>               |                                                    |                                         |                           |                                       |                                         |
| 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)                    | 46,044                                  | (37,742)                  | 8,302                                 | 11,746                                  |
| 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                                 | 2,488                                   |
| 2,694                                 | Other Expenditure                                  | 8 4,900                                 | (453)                     | 4,447                                 | 4,997                                   |
| 4,285                                 | Corporate and Democratic Core                      | 4,343                                   | 0                         | 4,343                                 | 4,210                                   |
| (805)                                 | Housing Revenue Account                            | 30,973                                  | (26,363)                  | 4,610                                 | 4,996                                   |
| <b>309,894</b>                        | <b>COST OF SERVICES</b>                            | <b>430,562</b>                          | <b>(108,577)</b>          | <b>321,985</b>                        | <b>335,889</b>                          |
| (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                                      |                           | (357,247)                             | (355,284)                               |
| <b>3,149</b>                          | <b>(Surplus)/Deficit on Provision of Services</b>  |                                         |                           | <b>(12,740)</b>                       | <b>3,672</b>                            |
| (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)                                |
| <b>(291,499)</b>                      | <b>Total Comprehensive Income and Expenditure</b>  |                                         |                           | <b>(64,774)</b>                       | <b>(48,362)</b>                         |



## 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                  |
| <b>898,687</b>       | <b>Long Term Assets</b>      |       | <b>942,043</b>       |
| 46,156               | Short Term Investments       |       | 45,120               |
| 274                  | Assets Held for Sale         | 26    | 895                  |
| 466                  | Inventories                  | 28    | 384                  |
| 26,729               | Short Term Debtors           | 29    | 30,913               |
| 2,683                | Cash and Cash Equivalents    | 45    | 8,036                |
| <b>76,308</b>        | <b>Current Assets</b>        |       | <b>85,348</b>        |
| (25,065)             | Short Term Borrowing         | 40    | (13,492)             |
| (50,841)             | Short Term Creditors         | 30    | (55,334)             |
| (204)                | Provisions                   | 31    | (743)                |
| <b>(76,110)</b>      | <b>Current Liabilities</b>   |       | <b>(69,569)</b>      |
| (1,130)              | Provisions                   | 31    | (1,756)              |
| (224,598)            | Long Term Borrowing          | 40    | (238,183)            |
| (299,744)            | Other Long Term Liabilities  | 19,37 | (279,696)            |
| <b>(525,472)</b>     | <b>Long Term Liabilities</b> |       | <b>(519,635)</b>     |
| <b>373,413</b>       | <b>NET ASSETS</b>            |       | <b>438,187</b>       |
| 79,948               | Usable Reserves              |       | 85,835               |
| 293,465              | Unusable Reserves            | 33    | 352,352              |
| <b>373,413</b>       | <b>TOTAL RESERVES</b>        |       | <b>438,187</b>       |

The unaudited accounts were issued on 29 June 2016.

J A Symon ACA  
Head of Finance  
29 June 2016

## CASH FLOW STATEMENT

| <u>2014/15</u>      |                                                                                                                                       | Notes | <u>2015/16</u>      |
|---------------------|---------------------------------------------------------------------------------------------------------------------------------------|-------|---------------------|
| <u>£'000</u>        |                                                                                                                                       |       | <u>£'000</u>        |
| (3,149)             | <b>Surplus/(deficit) on the provision of services</b>                                                                                 |       | 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>       | <b>Net cash flows from Operating Activities</b>                                                                                       |       | <u>34,410</u>       |
| (80,693)            | Investing Activities                                                                                                                  | 43    | (27,222)            |
| 44,426              | Financing Activities                                                                                                                  | 44    | (1,835)             |
| <u>(2,057)</u>      | <b>Net increase / (decrease) in cash and cash equivalents</b>                                                                         |       | <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> | <b>Cash and cash equivalents at the end of the reporting period</b>                                                                   | 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.

Councillor Ian Miller  
Leader of the Council

Date:

### The Responsibilities of the Head of Finance

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

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

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

The Head of Finance has also:

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

I certify that the Annual Accounts give a true and fair view of the financial position of the Council and its group at the reporting date and the transactions of the Council and its group for the year ended 31 March 2016.

J A Symon ACA  
Head of Finance  
Date: 29 June 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 1/60<sup>th</sup> to 1/49<sup>th</sup>. Employees who were previously paying into the Final Salary scheme were automatically transferred into the new CARE scheme on 1 April 2015.

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

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

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

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

#### **Fair Value Measurement**

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

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

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

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

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

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

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

### **Financial Liabilities**

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

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

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

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

### **Financial Assets**

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

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

However, the Council has made 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 |                |           |           |              |                 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|----------------|-----------|-----------|--------------|-----------------|
|                                                                                                                                                                                                                         | General         | Housing        | Capital   | Capital   | Total        | 2014/15         |
|                                                                                                                                                                                                                         | Fund            | Revenue        | Receipts  | Grants    |              |                 |
|                                                                                                                                                                                                                         | Balance         | Account        | Reserve   | 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 &amp; 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)           |
| <b>Total Adjustments</b>                                                                                                                                                                                                | <b>8,469</b>    | <b>(1,675)</b> | <b>44</b> | <b>15</b> | <b>6,853</b> | <b>(12,560)</b> |

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

|                                                                           | Balance as at<br>1 April 2015<br>£'000 | Transfers<br>(In)/Out<br>£'000 | Balance as at<br>31 March 2016<br>£'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 will be 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<br>£'000 | 2014/15<br>£'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<br>£'000 | 2014/15<br>£'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<br>£'000 | 2014/15<br>£'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<br>£'000 | 2014/15<br>£'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<br>£'000 | 2014/15<br>£'000 |
|----------------------------------|------------------|------------------|
| Council Tax Income               | (69,494)         | (67,578)         |
| Non Domestic Rates               | (59,158)         | (55,395)         |
| Non Ringfenced Government Grants | (193,813)        | (193,800)        |
| Capital Grants and Contributions | (34,782)         | (18,753)         |
| Total                            | <u>(357,247)</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<br>£'000 | 2015/16<br>£'000 | 2014/15<br>£'000 | 2014/15<br>£'000 |
|---------------------------------------------------------|------------------|------------------|------------------|------------------|
| <b>Education Services</b>                               |                  |                  |                  |                  |
| - Service Level Agreements with Voluntary Organisations |                  | 468              |                  | 486              |
| <b>Social Work Services</b>                             |                  |                  |                  |                  |
| - 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            |
| <b>Housing Services (General Fund)</b>                  |                  |                  |                  |                  |
| - Churches Action for the Homeless                      | 236              |                  | 231              |                  |
| - Perth and Kinross Community Mediation                 | 55               |                  | 55               |                  |
| <i>Sub Total Housing (General Fund)</i>                 |                  | 291              |                  | 286              |
| <b>Planning &amp; Development Services</b>              |                  |                  |                  |                  |
| - 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 &amp; Development</i>             |                  | 202              |                  | 181              |
| <b>Cultural &amp; Related Services</b>                  |                  |                  |                  |                  |
| - 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 &amp; Related</i>                 |                  | 5,420            |                  | 5,419            |
| <b>Central Services</b>                                 |                  |                  |                  |                  |
| - 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:

| <b>Segmental Analysis 2015/16</b>      | Education & Children's Services<br>£'000 | Housing & Community Care<br>£'000 | The Environment Service<br>£'000 | Total<br>£'000   |
|----------------------------------------|------------------------------------------|-----------------------------------|----------------------------------|------------------|
| Fees, charges and other service income | (5,165)                                  | (47,523)                          | (12,671)                         | (65,359)         |
| Government Grants and contributions    | (1,462)                                  | (34,590)                          | (1,429)                          | (37,481)         |
| <b>Total Income</b>                    | <b>(6,627)</b>                           | <b>(82,113)</b>                   | <b>(14,100)</b>                  | <b>(102,840)</b> |
| Employee expenses                      | 108,807                                  | 40,754                            | 24,001                           | 173,562          |
| Other service expenses                 | 62,709                                   | 111,005                           | 31,040                           | 204,754          |
| Support Service Recharges              | 6,781                                    | 4,121                             | 2,987                            | 13,889           |
| <b>Total Operating Expenses</b>        | <b>178,297</b>                           | <b>155,880</b>                    | <b>58,028</b>                    | <b>392,205</b>   |
| <b>Net Cost of Services</b>            | <b>171,670</b>                           | <b>73,767</b>                     | <b>43,928</b>                    | <b>289,365</b>   |

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                                       | 31,568  |
| Net cost of services in Comprehensive Income and Expenditure Statement       | 321,985 |
| Group operating results                                                      | 3,073   |
| Net cost of services in Group Comprehensive Income and Expenditure Statement | 325,058 |

| <b>Reconciliation to Subjective Analysis<br/>2015/16</b>                                  | Service<br>Analysis | Services<br>not in<br>Analysis | Not reported<br>to<br>management | Group<br>Results<br>in Cost of<br>Services | Net Cost of<br>Services | Corporate<br>Amounts | Total            |
|-------------------------------------------------------------------------------------------|---------------------|--------------------------------|----------------------------------|--------------------------------------------|-------------------------|----------------------|------------------|
|                                                                                           | £'000               | £'000                          | £'000                            | £'000                                      | £'000                   | £'000                | £'000            |
| Fees, charges and other service income                                                    | (65,359)            | (2,368)                        | 10                               | (27,505)                                   | (95,222)                | (1,120)              | (96,342)         |
| 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                                                       | (37,481)            | (291)                          | (3,088)                          | 0                                          | (40,860)                | (287,754)            | (328,614)        |
| <b>Total Income</b>                                                                       | <b>(102,840)</b>    | <b>(2,659)</b>                 | <b>(3,078)</b>                   | <b>(25,637)</b>                            | <b>(134,214)</b>        | <b>(359,631)</b>     | <b>(493,845)</b> |
| Employee expenses                                                                         | 173,562             | 15,123                         | 9,696                            | 19,321                                     | 217,702                 | 6,137                | 223,839          |
| Other service expenses                                                                    | 204,754             | (11,412)                       | (12,581)                         | 8,148                                      | 188,909                 | (32)                 | 188,877          |
| 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            |
| <b>Total Operating Expenses</b>                                                           | <b>392,205</b>      | <b>3,711</b>                   | <b>34,646</b>                    | <b>28,710</b>                              | <b>459,272</b>          | <b>25,386</b>        | <b>484,658</b>   |
| <b>(Surplus) / Deficit on the provision of<br/>services (Group Comprehensive I&amp;E)</b> | <b>289,365</b>      | <b>1,052</b>                   | <b>31,568</b>                    | <b>3,073</b>                               | <b>325,058</b>          | <b>(334,245)</b>     | <b>(9,187)</b>   |

| <b>Segmental Analysis 2014/15</b>      | <i>Education &amp;<br/>Children's<br/>Services</i> | <i>Housing &amp;<br/>Community<br/>Care</i> | <i>The<br/>Environment<br/>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)        |
| <b>Total Income</b>                    | <b>(7,205)</b>                                     | <b>(78,584)</b>                             | <b>(13,089)</b>                        | <b>(98,878)</b> |
| 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          |
| <b>Total Operating Expenses</b>        | <b>172,114</b>                                     | <b>148,870</b>                              | <b>58,631</b>                          | <b>379,615</b>  |
| <b>Total Net Cost of Services</b>      | <b>164,909</b>                                     | <b>70,286</b>                               | <b>45,542</b>                          | <b>280,737</b>  |

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 |

| <b>Reconciliation to Subjective Analysis<br/>2014/15<br/>Restated</b>                 | <i>Service<br/>Analysis</i> | <i>Services<br/>not in<br/>Analysis</i> | <i>Not reported<br/>to<br/>management</i> | <i>Group<br/>Results<br/>in Cost of<br/>Services</i> | <i>Net Cost of<br/>Services</i> | <i>Corporate<br/>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)        |
| <b>Total Income</b>                                                                   | <b>(98,878)</b>             | <b>(2,122)</b>                          | <b>(1,836)</b>                            | <b>(25,251)</b>                                      | <b>(128,087)</b>                | <b>(337,608)</b>             | <b>(465,695)</b> |
| 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)          |
| <b>Total Operating Expenses</b>                                                       | <b>379,615</b>              | <b>3,449</b>                            | <b>29,666</b>                             | <b>27,415</b>                                        | <b>440,145</b>                  | <b>31,420</b>                | <b>471,565</b>   |
| <b>(Surplus) / Deficit on the provision of services (Group Comprehensive I&amp;E)</b> | <b>280,737</b>              | <b>1,327</b>                            | <b>27,830</b>                             | <b>2,164</b>                                         | <b>312,058</b>                  | <b>(306,188)</b>             | <b>5,870</b>     |

## 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<br>Income | 2015/16<br>Expenditure | 2014/15<br>Income | 2014/15<br>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                    |
| <b>Totals</b>                                                         | <b>630</b>        | <b>630</b>             | <b>620</b>        | <b>620</b>             |

## 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<br>£'000 | 2014/15<br>£'000 |
|--------------------------------|------------------|------------------|
| Fees payable to Audit Scotland | 281              | 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 defined benefit final salary 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 1/60th of final pensionable salary 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.
- 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 1/60<sup>th</sup> to 1/49<sup>th</sup>. Employees who were previously paying into the Final Salary scheme were automatically transferred into the new CARE scheme on 1 April 2015.

### Transactions Relating to Post-Employment Benefits

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

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

#### Local Government Pension Scheme

|                                                                                                                                                | 2015/16<br>£'000 | 2014/15<br>£'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<br>2016<br>£'000 | 31 March<br>2015<br>£'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)                 |
| <b>Net Liability in Balance Sheet</b>           | <b>161,821</b>            | <b>178,054</b>            |

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

|                                               | 31 March<br>2016<br>£'000 | 31 March<br>2015<br>£'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<br>2016<br>£'000 | 31 March<br>2015<br>£'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      |
|------------------------------------|--------------------|--------------------|
| <b>Equities</b>                    |                    |                    |
| 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                 | <u>24%</u>         | <u>25%</u>         |
|                                    | 68%                | 70%                |
| <b>Gilts</b>                       |                    |                    |
| Government Bonds                   | 5%                 | 5%                 |
| <b>Other Bonds</b>                 |                    |                    |
| Corporate Bonds                    | 12%                | 12%                |
| Venture Capital / Partnerships     | <u>1%</u>          | <u>1%</u>          |
|                                    | 13%                | 13%                |
| <b>Property</b>                    |                    |                    |
| Retail                             | 2%                 | 4%                 |
| Commercial                         | 9%                 | 5%                 |
| Alternatives and Cash              | <u>2%</u>          | <u>2%</u>          |
|                                    | 13%                | 11%                |
| <b>Cash</b>                        |                    |                    |
| Forward Foreign Exchange Contracts | 1%                 | 1%                 |
| <b>Total</b>                       | <u><u>100%</u></u> | <u><u>100%</u></u> |

### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Barnett Waddingham Public Sector Consulting, an independent firm of actuaries. Estimates for the Tayside Pension Fund are based on the latest full valuation of the scheme as at 31 March 2016.

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

|                                                                      | 2015/16 | 2014/15 |
|----------------------------------------------------------------------|---------|---------|
| <b>Mortality Assumptions:</b>                                        |         |         |
| 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 £14,539,000.

## 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 | £728,643,000 |
| - Projected Service cost (2016/17)                       | £23,177,000  | £22,600,000  | £22,038,000  |
| 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  | £23,542,000  |

## 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 £136,000.

### 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 and 2017/18.

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

|                                                   | 2015/16<br>£'000 | 2014/15<br>£'000 |
|---------------------------------------------------|------------------|------------------|
| Not later than one year                           | 490              | 797              |
| Later than one year and not later than five years | 916              | 1,235            |
| Later than five years                             | 604              | 733              |
|                                                   | <u>2,010</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<br>£'000 | 2014/15<br>£'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<br>£'000 | 2014/15<br>£'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:

| <b>Movements in 2015/16</b>                                                                        | <b>Council<br/>Dwellings<br/>£'000</b> | <b>Other<br/>Land &amp;<br/>Buildings<br/>£'000</b> | <b>Vehicles<br/>Plant &amp;<br/>Equipment<br/>£'000</b> | <b>Infrastructure<br/>Assets<br/>£'000</b> | <b>Community<br/>Assets<br/>£'000</b> | <b>Sub<br/>Total<br/>c/fwd<br/>£'000</b> |
|----------------------------------------------------------------------------------------------------|----------------------------------------|-----------------------------------------------------|---------------------------------------------------------|--------------------------------------------|---------------------------------------|------------------------------------------|
| <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<br>Revaluation Reserve                                     | 0                                      | 10,951                                              | 0                                                       | 0                                          | 0                                     | 10,951                                   |
| Revaluation decreases recognised in the<br>Revaluation Reserve                                     | 0                                      | (316)                                               | 0                                                       | 0                                          | 0                                     | (316)                                    |
| Revaluation increases recognised in the<br>Surplus/Deficit on the Provision of Services            | 0                                      | 2,216                                               | 0                                                       | 0                                          | 0                                     | 2,216                                    |
| Revaluation decreases recognised in the<br>Surplus/Deficit on the Provision of Services            | 0                                      | (10,202)                                            | 0                                                       | 0                                          | 0                                     | (10,202)                                 |
| Impairment losses/(reversals) recognised in the<br>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<br>Reserve - revaluation gain                          | 0                                      | 6,549                                               | 0                                                       | 0                                          | 0                                     | 6,549                                    |
| Depreciation written out to the Revaluation<br>Reserve - revaluation loss                          | 0                                      | 37                                                  | 0                                                       | 0                                          | 0                                     | 37                                       |
| Depreciation written out to the Surplus/Deficit<br>on the Provision of Services - revaluation gain | 0                                      | 9,593                                               | 0                                                       | 0                                          | 0                                     | 9,593                                    |
| Depreciation written out to the Surplus/Deficit<br>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<br>total<br>b/fwd<br>£'000 | Surplus<br>Assets<br>£'000 | Assets<br>Under<br>Construction<br>£'000 | Total<br>PPE<br>£'000 | PFI Assets<br>Included<br>in PPE<br>£'000 |
|----------------------------------------------------------------------------------------------------|--------------------------------|----------------------------|------------------------------------------|-----------------------|-------------------------------------------|
| <b>Gross Book Value</b>                                                                            |                                |                            |                                          |                       |                                           |
| 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<br>Revaluation Reserve                                     | 10,951                         | 18                         | 0                                        | 10,969                | 3,002                                     |
| Revaluation decreases recognised in the<br>Revaluation Reserve                                     | (316)                          | 0                          | (74)                                     | (390)                 | 0                                         |
| Revaluation increases recognised in the<br>Surplus/Deficit on the Provision of Services            | 2,216                          | 0                          | 0                                        | 2,216                 | 757                                       |
| Revaluation decreases recognised in the<br>Surplus/Deficit on the Provision of Services            | (10,202)                       | (2,791)                    | (428)                                    | (13,421)              | (2,131)                                   |
| Impairment losses/(reversals) recognised in the<br>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                                   |
| <b>Depreciation</b>                                                                                |                                |                            |                                          |                       |                                           |
| 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<br>Reserve - revaluation gain                          | 6,549                          | 0                          | 0                                        | 6,549                 | 5,690                                     |
| Depreciation written out to the Revaluation<br>Reserve - revaluation loss                          | 37                             | 0                          | 1                                        | 38                    | 0                                         |
| Depreciation written out to the Surplus/Deficit<br>on the Provision of Services - revaluation gain | 9,593                          | 0                          | 0                                        | 9,593                 | 8,976                                     |
| Depreciation written out to the Surplus/Deficit<br>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<br>Dwellings<br>£'000 | Other<br>Land &<br>Buildings<br>£'000 | Vehicles<br>Plant &<br>Equipment<br>£'000 | Infrastructure<br>Assets<br>£'000 | Community<br>Assets<br>£'000 | Sub<br>Total<br>c/fwd<br>£'000 |
|----------------------------------------------------------------------------------------------------|-------------------------------|---------------------------------------|-------------------------------------------|-----------------------------------|------------------------------|--------------------------------|
| <b>Gross Book Value</b>                                                                            |                               |                                       |                                           |                                   |                              |                                |
| 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<br>Revaluation Reserve                                     | 166,657                       | 457                                   | 0                                         | 0                                 | 0                            | 167,114                        |
| Revaluation decreases recognised in the<br>Revaluation Reserve                                     | 0                             | (146)                                 | 0                                         | 0                                 | 0                            | (146)                          |
| Revaluation increases recognised in the<br>Surplus/Deficit on the Provision of Services            | 7,907                         | 195                                   | 0                                         | 0                                 | 0                            | 8,102                          |
| Revaluation decreases recognised in the<br>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                        |
| <b>Depreciation</b>                                                                                |                               |                                       |                                           |                                   |                              |                                |
| 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<br>Reserve - revaluation gain                          | 18,645                        | 127                                   | 0                                         | 0                                 | 0                            | 18,772                         |
| Depreciation written out to the Revaluation<br>Reserve - revaluation loss                          | 0                             | 8                                     | 0                                         | 0                                 | 0                            | 8                              |
| Depreciation written out to the Surplus/Deficit<br>on the Provision of Services - revaluation gain | 879                           | 216                                   | 0                                         | 0                                 | 0                            | 1,095                          |
| Depreciation written out to the Surplus/Deficit<br>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<br>total<br>b/fwd<br>£'000 | Surplus<br>Assets<br>£'000 | Assets<br>Under<br>Construction<br>£'000 | Total<br>PPE<br>£'000 | PFI Assets<br>Included<br>in PPE<br>£'000 |
|-------------------------------------------------------------------------------------------------|--------------------------------|----------------------------|------------------------------------------|-----------------------|-------------------------------------------|
| <b>Gross Book Value</b>                                                                         |                                |                            |                                          |                       |                                           |
| 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                                   |
| <b>Depreciation</b>                                                                             |                                |                            |                                          |                       |                                           |
| 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<br>£'000 | 2014/15<br>£'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<br>Dwellings<br>£'000 | Other<br>Land and<br>Buildings<br>£'000 | Surplus<br>Assets<br>£'000 | Total<br>£'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<br>Art<br>Collection<br>£'000 | 2015/16<br>War<br>Memorials<br>£'000 | 2015/16<br>Total<br>£'000 | 2014/15<br>Art<br>Collection<br>£'000 | 2014/15<br>War<br>Memorials<br>£'000 | 2014/15<br>Total<br>£'000 |
|--------------------------|---------------------------------------|--------------------------------------|---------------------------|---------------------------------------|--------------------------------------|---------------------------|
| <b>Cost or Valuation</b> |                                       |                                      |                           |                                       |                                      |                           |
| 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 Boileau 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        | 2014/15        |
|------------------------------------------------------------|----------------|----------------|
|                                                            | £'000          | £'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<br>£'000 | 2014/15<br>£'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:<br>(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<br>Inputs (Level 2) |                  |
|------------------------------------------|--------------------------------------------------|------------------|
|                                          | 2015/16<br>£'000                                 | 2014/15<br>£'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<br>Assets<br>£'000 | 2014/15<br>Assets<br>£'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<br>£'000 | 2014/15<br>£'000 | 2015/16<br>£'000 | 2014/15<br>£'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<br>£'000 | 2014/15<br>£'000 |
|------------------------------|------------------|------------------|
| Other Entities & Individuals | 366              | 300              |
| Total                        | <u>366</u>       | <u>300</u>       |

## 28 Inventories

|                                      | 2015/16<br>£'000 | 2014/15<br>£'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<br>£'000<br>Gross | 2015/16<br>£'000<br>Net | 2014/15<br>£'000<br>Gross | 2014/15<br>£'000<br>Net |
|--------------------------------|---------------------------|-------------------------|---------------------------|-------------------------|
| Scottish Government            |                           | 5,648                   |                           | 5,443                   |
| Central Government             |                           | 6,701                   |                           | 5,817                   |
| Other Local Authorities        |                           | 16                      |                           | 80                      |
| NHS Bodies                     |                           | 667                     |                           | 310                     |
| Other Entities & Individuals   | 15,904                    |                         | 14,955                    |                         |
| less Impairment                | <u>(9,930)</u>            |                         | <u>(9,270)</u>            |                         |
|                                |                           | 5,974                   |                           | 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>30,913</u>           |                           | <u>26,729</u>           |

### 30 Creditors

|                                       | 2015/16<br>£'000 | 2014/15<br>£'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                       | (28,557)         | (24,926)         |
| Total                                 | <u>(55,334)</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/<br>Uninsured<br>Losses<br>£'000 | VAT<br>£'000 | Total<br>£'000 |
|---------------------------------------|-----------------------------------------------|--------------|----------------|
| Balance as at 1 April 2015            | 1,228                                         | 106          | 1,334          |
| Additional provisions made in 2015/16 | 1,499                                         | 0            | 1,499          |
| Amounts used in 2015/16               | (228)                                         | 0            | (228)          |
| Unused amounts reversed in 2015/16    | 0                                             | (106)        | (106)          |
| Balance as at 31 March 2016           | <u>2,499</u>                                  | <u>0</u>     | <u>2,499</u>   |
| Balance Sheet Disclosure:             |                                               |              |                |
| Less than 12 months                   | 743                                           | 0            | 743            |
| Over 12 months                        | 1,756                                         | 0            | 1,756          |
|                                       | <u>2,499</u>                                  | <u>0</u>     | <u>2,499</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<br>£'000 | 2014/15<br>£'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<br>£'000 | 2014/15<br>£'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<br>£'000        | 2014/15<br>£'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<br>£'000     | 2014/15<br>£'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<br>£'000 | 2014/15<br>£'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<br>£'000 | 2014/15<br>£'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<br>£'000 | 2014/15<br>£'000 |
|----------------------------------------------------------------|------------------|------------------|
| <b>Credited to Taxation and Non Specific Grant Income</b>      |                  |                  |
| 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>    |
| <b>Credited to Services</b>                                    |                  |                  |
| Scottish Government                                            | 5,200            | 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>7,333</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<br>£'000 | 2014/15<br>£'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>     |
|                                              | 68,031           | 74,887           |
|                                              | <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>  |
|                                              | (65,141)         | (49,856)         |
| 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<br>£'000 | 2014/15<br>£'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<br>£'000 | 2014/15<br>£'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<br>of liability<br>£'000 | Interest<br>£'000 | Service<br>Charges<br>£'000 | Lifecycle<br>Maintenance<br>£'000 | Contingent<br>Rentals<br>£'000 | TOTAL<br>£'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. 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 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<br>2016<br>£'000 | 31 March<br>2015<br>£'000 | 31 March<br>2016<br>£'000 | 31 March<br>2015<br>£'000 | 31 March<br>2016<br>£'000 | 31 March<br>2015<br>£'000 |
| <b>Borrowings</b>                       |                           |                           |                           |                           |                           |                           |
| 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                   |
| <b>Investments</b>                      |                           |                           |                           |                           |                           |                           |
| Loans and receivables                   | 370                       | 254                       | 52,839                    | 49,093                    | 53,209                    | 49,347                    |
| Total investments                       | 370                       | 254                       | 52,839                    | 49,093                    | 53,209                    | 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<br>Liabilities                        | Financial<br>Assets      |                  |                  |
|---------------------------------------------------|-------------------------------------------------|--------------------------|------------------|------------------|
|                                                   | Liabilities<br>measured at<br>amortised<br>cost | Loans and<br>receivables | Total<br>2015/16 | Total<br>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<br>March 2016 | Historical<br>experience of<br>default | Historical<br>experience<br>adjusted for<br>market conditions<br>as at 31 March<br>2016 | Estimated maximum<br>exposure to default and<br>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                                                            |
| <b>Total</b>                                         | <b>72,703</b>               | <b>-</b>                               | <b>-</b>                                                                                | <b>1,016</b>                                                     |

The Council's overall exposure to credit risk in relation to its deposits in banks and other financial institutions of £57,186k 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<br>£'000 | 31 March 2015<br>£'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     | -                      | -                      |
| <b>Total</b>           | <b>57,186</b>          | <b>56,651</b>          |

### Loans to Others

The Council initiates a legal charge on property where, for example, clients require assistance with payment of care fees, but cannot pay immediately until such time as their property is sold. The total amount outstanding as at 31 March 2016 in this category is £548,000 and experience of default is minimal.

### Debtors

The Council does not generally allow credit for customers, such that £12.203m of the £14.969m balance is past its due date for payment.

The past due amount can be analysed by age as follows:

|                        | 31 March 2016<br>£'000 | 31 March 2015<br>£'000 |
|------------------------|------------------------|------------------------|
| Less than three months | 9,163                  | 13,002                 |
| Three to six months    | 259                    | 195                    |
| Six months to one year | 1,234                  | 545                    |
| More than one year     | 1,547                  | 2,673                  |
| <b>Total</b>           | <b>12,203</b>          | <b>16,415</b>          |

## (ii) Liquidity Risk

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

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

| Loans outstanding        | On 31 March 2016 | On 31 March 2015 |
|--------------------------|------------------|------------------|
|                          | £'000            | £'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           | 4,563            | 7,851            |
| <b>Total</b>             | <b>252,868</b>   | <b>253,952</b>   |
| Less than 1 year         | 15,909           | 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          |
| <b>Total</b>             | <b>252,868</b>   | <b>253,952</b>   |

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<br>£'000 | 2014/15<br>£'000 |
|-------------------|------------------|------------------|
| Interest received | (526)            | (306)            |
| Interest paid     | 17,827           | 16,991           |
|                   | <u>17,301</u>    | <u>16,685</u>    |

### **43. Investing Activities**

|                                                                                                    | 2015/16<br>£'000 | 2014/15<br>£'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<br>£'000 | 2014/15<br>£'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<br>£'000 | 2014/15<br>£'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<br>£'000 | 31 March 2015<br>£'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                    |
| <b>TOTAL Net Assets</b>                                                      | <b>3,080</b>           | <b>3,185</b>           |
| <b>TOTAL Net Incoming Resources before other recognised gains and losses</b> | <b>17</b>              | <b>131</b>             |

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    |
|                | <b>Income</b>                                                                                                     |          |                |          |
| (24,068)       | Dwelling Rents                                                                                                    | (25,581) |                |          |
| 191            | less Voids                                                                                                        | 248      |                |          |
|                |                                                                                                                   |          | (25,333)       |          |
| (719)          | Non-Dwelling Rents                                                                                                | (673)    |                |          |
| 232            | less Voids                                                                                                        | 231      |                |          |
|                |                                                                                                                   |          | (442)          |          |
| (1,214)        | Other Income                                                                                                      |          | (588)          |          |
| (25,578)       | <b>Total Income</b>                                                                                               |          |                | (26,363) |
|                | <b>Expenditure</b>                                                                                                |          |                |          |
| 7,651          | Repairs & Maintenance                                                                                             |          | 8,011          |          |
| 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         | <b>Total Expenditure</b>                                                                                          |          |                | 30,973   |
| (805)          | <b>Net Income for HRA Services as included in the Comprehensive Income and Expenditure Statement</b>              |          |                | 4,610    |
| 295            | HRA services' share of Corporate and Democratic Core                                                              |          |                | 298      |
| (510)          | <b>Net Expenditure/(Income) for HRA Services</b>                                                                  |          |                | 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             | <b>Deficit for the year on HRA services</b>                                                                       |          |                | 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><br>£'000 |                                                                      | <u>2015/16</u><br>£'000 | <u>2015/16</u><br>£'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><br>£'000 |                                                                                                                              | <u>2015/16</u><br>£'000 | <u>2015/16</u><br>£'000 |
|-------------------------|------------------------------------------------------------------------------------------------------------------------------|-------------------------|-------------------------|
|                         | <b>Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year</b>   |                         |                         |
| 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                                        |                         |                         |
| 2,066                   | Statement                                                                                                                    | 5,007                   |                         |
| 22                      | Adjustments involving Short Term Accumulated Absences Account                                                                | 39                      |                         |
|                         | Reversal of items relating to retirement benefits credited to the Comprehensive Income                                       |                         |                         |
| (2,407)                 | and Expenditure Statement                                                                                                    | <u>(2,052)</u>          |                         |
| (8,123)                 |                                                                                                                              |                         | (10,080)                |
|                         | <b>Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year</b> |                         |                         |
| 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>              | <b>Net additional amount required by statute to be debited to the HRA Balance for the year</b>                               |                         | <u>(1,675)</u>          |

## NOTES TO THE HOUSING REVENUE ACCOUNT

### 1. **Housing Stock** at 31 March 2016

|                                        | No. of Dwellings<br>31 March 2016 | <i>No. of Dwellings<br/>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<br>31 March 2016 |                | <i>Gross Arrears<br/>31 March 2015</i> |                |
|----------------|--------------------------------|----------------|----------------------------------------|----------------|
|                | £'000                          | % of<br>Income | £'000                                  | % of<br>Income |
| Houses         | 2,634                          | 10.6           | 2,252                                  | 9.4            |
| Other Subjects | <u>81</u>                      | <u>12.0</u>    | <u>96</u>                              | <u>13.4</u>    |
| 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         | <b>Gross Charge</b>                                                                   |                | 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         | <b>Net Council Tax</b>                                                                |                | 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         | <b>Total Council Tax Income</b>                                                       |                | 68,375  |
| 432            | Adjustments for prior years for Council Tax and Community Charge                      |                | 1,119   |
| 67,578         | <b>Total Council Tax / Community Charge Income to Comprehensive I&amp;E Statement</b> |                | 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<br>TOTAL | 2014/15<br>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<br>Band | Property<br>Valuation<br>Range | Fraction<br>of<br>band D | 2015/16<br>Actual<br>Charge | 2014/15<br>Actual<br>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                   |
| <b>D</b>          | <b>£45,001 - £58,000</b>       | <b>9/9</b>               | <b>£1,158.00</b>            | <b>£1,158.00</b>            |
| 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.

| 2014/15  |                                                                                         | 2015/16  |          |
|----------|-----------------------------------------------------------------------------------------|----------|----------|
| £'000    |                                                                                         | £'000    | £'000    |
| 71,420   | <b>Gross Rate Levied</b>                                                                |          | 68,852   |
|          | Deduct:                                                                                 |          |          |
| (2,462)  | Rate Rebates                                                                            | (2,448)  |          |
| (34)     | Interest on Overpaid Rates                                                              | (9)      |          |
| (15,141) | Reliefs, Charities etc.                                                                 | (12,675) |          |
| (342)    | Impairment for Bad and Doubtful Debts                                                   | (285)    |          |
|          |                                                                                         |          | (15,417) |
|          | Adjustments to Previous Years:                                                          |          |          |
| (1,898)  | Gross Rate Levied                                                                       | (471)    |          |
| 780      | Transitional Surcharge/Relief                                                           | 0        |          |
| 37       | Rate Rebates                                                                            | 48       |          |
| (59)     | Reliefs, Charities etc.                                                                 | (145)    |          |
| (589)    | Impairment for Bad and Doubtful Debts and Abatements                                    | (657)    |          |
|          |                                                                                         |          | (1,225)  |
| 51,712   | <b>Net Non Domestic Rate Income</b>                                                     |          | 52,210   |
| (51,880) | Contribution to National Non Domestic Rate Pool                                         | (52,389) |          |
| 55,415   | Contribution from National Non Domestic Rate Pool                                       | 59,337   |          |
| 3,535    | Net contribution from National Non Domestic Rate Pool                                   |          | 6,948    |
| 55,247   | <b>Total Non Domestic Rate Income (before Council retentions)</b>                       |          | 59,158   |
| 148      | Non-Domestic Rate Income Retained by Council (Business Rates Incentivisation Scheme)    |          | 0        |
| 55,395   | <b>Total Non Domestic Rate Income to Comprehensive Income and Expenditure Statement</b> |          | 59,158   |
| 168      | Discretionary Relief funded by the Council                                              |          | 179      |



## 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<br/>Subjects<br/>at 1 April 2014</i> | <i>Rateable<br/>Value<br/>£'000<br/>at 1 April 2014</i> |                                       | <i>No. of<br/>Subjects<br/>at 1 April 2015</i> | <i>Rateable<br/>Value<br/>£'000<br/>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<br>£'000 | 2015/16<br>£'000 | 2014/15<br>£'000 |
|--------------------------------------------------------------------------|------------------|------------------|------------------|
| <b>INCOMING RESOURCES</b>                                                |                  |                  |                  |
| Incoming resources from generated funds:                                 |                  |                  |                  |
| Investment Income                                                        | 116              |                  | 121              |
| Other incoming resources                                                 | 5                |                  | 141              |
| <b>Total Incoming Resources</b>                                          |                  | 121              | 262              |
| <b>RESOURCES EXPENDED</b>                                                |                  |                  |                  |
| 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               |
| <b>Total Resources Expended</b>                                          |                  | 104              | 131              |
| <b>Net Incoming Resources Before Other Recognised Gains &amp; Losses</b> |                  | 17               | 131              |
| <b>OTHER RECOGNISED GAINS</b>                                            |                  |                  |                  |
| (Losses)/Gain on Investment assets                                       |                  | (122)            | 206              |
| <b>Net Movement in Funds for the Year</b>                                |                  | (105)            | 337              |
| <b>RECONCILIATION OF FUNDS</b>                                           |                  |                  |                  |
| Total Funds Brought Forward at 1 April 2015                              |                  | 3,185            | 2,848            |
| <b>TOTAL FUNDS CARRIED FORWARD AT 31 MARCH 2016</b>                      |                  | <u>3,080</u>     | <u>3,185</u>     |

### BALANCE SHEET AS AT 31 MARCH 2016

|                                                                 | 31 March 2016<br>£'000 | 31 March 2016<br>£'000 | 31 March 2015<br>£'000 |
|-----------------------------------------------------------------|------------------------|------------------------|------------------------|
| <b>FIXED ASSETS</b>                                             |                        |                        |                        |
| Tangible Assets                                                 |                        | 65                     | 50                     |
| Investments                                                     |                        | 2,915                  | 2,609                  |
| <b>CURRENT ASSETS</b>                                           |                        |                        |                        |
| Debtors                                                         | 7                      |                        | 24                     |
| Investments - Amounts due by Perth & Kinross Council Loans Fund | 106                    |                        | 509                    |
| <b>LIABILITIES</b>                                              |                        |                        |                        |
| Creditors: amounts falling due within one year                  | (13)                   |                        | (7)                    |
| <b>NET CURRENT ASSETS</b>                                       |                        | 100                    | 526                    |
| <b>NET ASSETS</b>                                               |                        | <u>3,080</u>           | <u>3,185</u>           |
| <b>TOTAL FUNDS</b>                                              |                        | <u>3,080</u>           | <u>3,185</u>           |

#### 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.

J A Symon ACA  
Head of Finance  
29 June 2016

## 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<br>£'000 | 2015/16<br>£'000 | 2014/15<br>£'000 |
|-----------------------------------------|------------------|------------------|------------------|
| <b>EXPENDITURE</b>                      |                  |                  |                  |
| Grants to Voluntary Organisations       | 179              |                  | 163              |
| Christmas Lighting                      | 83               |                  | 86               |
| Property Costs                          | 79               |                  | 54               |
| Supplies & Services                     | 7                |                  | 7                |
|                                         | <u>7</u>         |                  | <u>7</u>         |
|                                         |                  | 348              | 310              |
| <b>INCOME</b>                           |                  |                  |                  |
| Rents, Fees, Charges etc.               | 257              |                  | 277              |
| Interest on Loans                       | 16               |                  | 11               |
| Gain on Disposal of Assets              | 0                |                  | 70               |
| Other                                   | 2                |                  | 3                |
|                                         | <u>2</u>         |                  | <u>3</u>         |
|                                         |                  | 275              | 361              |
| <b>(DEFICIT) / SURPLUS FOR THE YEAR</b> |                  | (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<br>£'000 | 31 March 2016<br>£'000 | 31 March 2015<br>£'000 |
|--------------------------------------------------------|------------------------|------------------------|------------------------|
| <b>FIXED ASSETS</b>                                    |                        | 4,657                  | 4,598                  |
| <b>CURRENT ASSETS</b>                                  |                        |                        |                        |
| 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>           |
| <b>CURRENT LIABILITIES</b>                             |                        |                        |                        |
| Creditors and Accruals                                 | (196)                  |                        | (109)                  |
| <b>NET CURRENT ASSETS</b>                              |                        | 2,246                  | 2,311                  |
| <b>TOTAL NET ASSETS</b>                                |                        | <u>6,903</u>           | <u>6,909</u>           |
| <b>RESERVES</b>                                        |                        |                        |                        |
| 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.

J A Symon ACA  
Head of Finance  
29 June 2016

## 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<br>1 April 15 | Income<br>2015/16 | Expenditure<br>2015/16 | Balance at<br>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                         |
| <b>TOTAL</b> | <b>2,067</b>             | <b>275</b>        | <b>348</b>             | <b>1,994</b>              |

### 3. Common Good Fixed Assets

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

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

# GROUP MOVEMENT IN RESERVES STATEMENT

|                                                                        | General<br>Fund<br>Balance | Housing<br>Revenue<br>Account | Capital<br>Fund | Renewal<br>& Repair<br>Fund | Insurance<br>Fund | Capital<br>Receipts<br>Reserve | Capital<br>Grants<br>Unapplied | Total<br>Usable<br>Reserves | Unusable<br>Reserves | TOTAL<br>Authority<br>Reserves | Authority's<br>share of<br>subsidiaries | Authority's<br>share of<br>associates<br>& joint<br>ventures | TOTAL<br>Reserves |
|------------------------------------------------------------------------|----------------------------|-------------------------------|-----------------|-----------------------------|-------------------|--------------------------------|--------------------------------|-----------------------------|----------------------|--------------------------------|-----------------------------------------|--------------------------------------------------------------|-------------------|
|                                                                        | £'000                      | £'000                         | £'000           | £'000                       | £'000             | £'000                          | £'000                          | £'000                       | £'000                | £'000                          | £'000                                   | £'000                                                        | £'000             |
| <b>Balance at 1 April 2014</b>                                         | <b>(48,041)</b>            | <b>(907)</b>                  | <b>(15,832)</b> | <b>(412)</b>                | <b>(3,410)</b>    | <b>(1,833)</b>                 | <b>(102)</b>                   | <b>(70,537)</b>             | <b>(11,377)</b>      | <b>(81,914)</b>                | <b>(11,518)</b>                         | <b>10,229</b>                                                | <b>(83,203)</b>   |
| <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)         |
| <b>Total Comprehensive Income and Expenditure</b>                      | <b>3,104</b>               | <b>45</b>                     | <b>0</b>        | <b>0</b>                    | <b>0</b>          | <b>0</b>                       | <b>0</b>                       | <b>3,149</b>                | <b>(294,648)</b>     | <b>(291,499)</b>               | <b>(1,967)</b>                          | <b>(8,211)</b>                                               | <b>(301,677)</b>  |
| Adjustments between accounting basis & funding basis under regulations | (13,363)                   | 802                           | 0               | 0                           | 0                 | 1                              | 0                              | (12,560)                    | 12,560               | 0                              | 0                                       | 0                                                            | 0                 |
| <b>Net (increase)/decrease before transfers to earmarked reserves</b>  | <b>(10,259)</b>            | <b>847</b>                    | <b>0</b>        | <b>0</b>                    | <b>0</b>          | <b>1</b>                       | <b>0</b>                       | <b>(9,411)</b>              | <b>(282,088)</b>     | <b>(291,499)</b>               | <b>(1,967)</b>                          | <b>(8,211)</b>                                               | <b>(301,677)</b>  |
| 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)         |
| <b>Balance at 31 March 2015</b>                                        | <b>(52,670)</b>            | <b>(800)</b>                  | <b>(19,316)</b> | <b>(1,426)</b>              | <b>(3,802)</b>    | <b>(1,832)</b>                 | <b>(102)</b>                   | <b>(79,948)</b>             | <b>(293,465)</b>     | <b>(373,413)</b>               | <b>(13,485)</b>                         | <b>2,018</b>                                                 | <b>(384,880)</b>  |
| <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)          |
| <b>Total Comprehensive Income and Expenditure</b>                      | <b>(15,093)</b>            | <b>2,353</b>                  | <b>0</b>        | <b>0</b>                    | <b>0</b>          | <b>0</b>                       | <b>0</b>                       | <b>(12,740)</b>             | <b>(52,034)</b>      | <b>(64,774)</b>                | <b>(1,399)</b>                          | <b>(168)</b>                                                 | <b>(66,341)</b>   |
| 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                 |
| <b>Net (increase)/decrease before transfers to earmarked reserves</b>  | <b>(6,624)</b>             | <b>678</b>                    | <b>0</b>        | <b>0</b>                    | <b>0</b>          | <b>44</b>                      | <b>15</b>                      | <b>(5,887)</b>              | <b>(58,887)</b>      | <b>(64,774)</b>                | <b>(1,399)</b>                          | <b>(168)</b>                                                 | <b>(66,341)</b>   |
| 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)          |
| <b>Balance at 31 March 2016 carried forward</b>                        | <b>(54,908)</b>            | <b>(782)</b>                  | <b>(23,925)</b> | <b>(1,234)</b>              | <b>(3,111)</b>    | <b>(1,788)</b>                 | <b>(87)</b>                    | <b>(85,835)</b>             | <b>(352,352)</b>     | <b>(438,187)</b>               | <b>(14,884)</b>                         | <b>1,850</b>                                                 | <b>(451,221)</b>  |

# GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

| <u>2014/15</u><br><i>Actual<br/>Net<br/>Expenditure<br/>£'000</i> |                                                     | Note | <u>2015/16</u><br><div>Actual<br/>Gross<br/>Expenditure<br/>£'000</div> | <div>Actual<br/>Income<br/>£'000</div> | <div>Actual<br/>Net<br/>Expenditure<br/>£'000</div> |
|-------------------------------------------------------------------|-----------------------------------------------------|------|-------------------------------------------------------------------------|----------------------------------------|-----------------------------------------------------|
|                                                                   | <b>SERVICES</b>                                     |      |                                                                         |                                        |                                                     |
| 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)                     |      | 46,044                                                                  | (37,742)                               | 8,302                                               |
| 20,245                                                            | Cultural & Related Services                         |      | 29,713                                                                  | (8,723)                                | 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                             |      | 30,973                                                                  | (26,363)                               | 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                                               |
| <hr/> 312,058                                                     | <b>COST OF SERVICES</b>                             |      | <hr/> 459,271                                                           | <hr/> (134,214)                        | <hr/> 325,057                                       |
| (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              |      |                                                                         |                                        | (357,247)                                           |
| <hr/> 5,870                                                       | <b>(Surplus) / Deficit on Provision of Services</b> |      |                                                                         |                                        | <hr/> (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)                                                |
| <hr/> (307,547)                                                   | <b>Other Comprehensive Income and Expenditure</b>   |      |                                                                         |                                        | <hr/> (57,154)                                      |
| <hr/> (301,677)                                                   | <b>Total Comprehensive Income and Expenditure</b>   |      |                                                                         |                                        | <hr/> (66,341)                                      |

## GROUP BALANCE SHEET

| <i>1 April 2014</i> |                                              | Notes | 31 March 2015    |
|---------------------|----------------------------------------------|-------|------------------|
| <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>      | <b>Long Term Assets</b>                      |       | <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     | 31,649           |
| <u>11,835</u>       | Cash and Cash Equivalents                    |       | <u>18,038</u>    |
| 90,924              | <b>Current Assets</b>                        |       | <u>100,879</u>   |
| (25,065)            | Short Term Borrowing                         |       | (13,492)         |
| (52,157)            | Short Term Creditors                         | 7     | (57,401)         |
| (204)               | Provisions                                   |       | (743)            |
| <u>(77,426)</u>     | <b>Current Liabilities</b>                   |       | <u>(71,636)</u>  |
| (1,130)             | Provisions                                   |       | (1,756)          |
| (224,598)           | Long Term Borrowing                          |       | (238,183)        |
| (12,112)            | Liabilities in associates and joint ventures |       | (11,834)         |
| <u>(306,705)</u>    | Other Long Term Liabilities                  |       | <u>(285,094)</u> |
| (544,545)           | <b>Long Term Liabilities</b>                 |       | <u>(536,867)</u> |
| <u>384,880</u>      | <b>NET ASSETS</b>                            |       | <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>      | <b>TOTAL RESERVES</b>                        |       | <u>451,221</u>   |

Note

The unaudited Accounts were issued on 29 June 2016.

J A Symon ACA  
Head of Finance  
29 June 2016

## GROUP CASH FLOW STATEMENT

| <u>2014/15</u> |                                                                                                                                        | <u>Notes</u> | <u>2015/16</u> |
|----------------|----------------------------------------------------------------------------------------------------------------------------------------|--------------|----------------|
| <i>£'000</i>   |                                                                                                                                        |              | <i>£'000</i>   |
| (5,870)        | <b>Surplus / (deficit) on the provision of services</b>                                                                                |              | 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><br>£'000 |                                                                                                    | <u>2015/16</u><br>£'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. 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<br>£'000 | 2014/15<br>£'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<br>£'000 | 2014/15<br>£'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<br>£'000 | (Restated)<br>2014/15<br>£'000 |
|-----------------------------------------------------------|------------------|--------------------------------|
| Net Debtors Balance - Note 29 to the Financial Statements | 30,913           | 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>31,649</u>    | <u>27,794</u>                  |

## 7. Group Balance Sheet – Short term Creditors

|                                                             | 2015/16<br>£'000       | 2014/15<br>£'000       |
|-------------------------------------------------------------|------------------------|------------------------|
| Net Creditors Balance - Note 30 to the Financial Statements | (55,334)               | (50,841)               |
| Charitable Trust                                            |                        |                        |
| Creditors                                                   | (13)                   | (7)                    |
| Inter-company elimination                                   | 106                    | 509                    |
| Common Good                                                 |                        |                        |
| Creditors                                                   | (196)                  | (109)                  |
| Inter-company elimination                                   | 528                    | 679                    |
|                                                             | <u>(54,909)</u>        | <u>(49,769)</u>        |
| Subsidiary Creditors                                        | <u>(2,492)</u>         | <u>(2,388)</u>         |
| Total Group Creditors                                       | <u><u>(57,401)</u></u> | <u><u>(52,157)</u></u> |

## 8. Pension Liability

|                                                                          | 2015/16<br>£'000        | 2014/15<br>£'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><u>(167,220)</u></u> | <u><u>(185,015)</u></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<br>£'000       | 2014/15<br>£'000       |
|------------------------------|------------------------|------------------------|
| Council Investing Activities | (27,222)               | (80,693)               |
| Subsidiaries                 | <u>104</u>             | <u>(2)</u>             |
|                              | <u><u>(27,118)</u></u> | <u><u>(80,695)</u></u> |

## 11. Group Cash Flow – Financing Activities

|                              | 2015/16<br>£'000      | 2014/15<br>£'000     |
|------------------------------|-----------------------|----------------------|
| Council Financing Activities | (1,835)               | 44,426               |
| Subsidiaries                 | <u>(45)</u>           | <u>50</u>            |
|                              | <u><u>(1,880)</u></u> | <u><u>44,476</u></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<br>31.3.16<br>£'000 | To<br>31.3.16<br>£'000 | From<br>31.3.15<br>£'000 | To<br>31.3.15<br>£'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 must conduct its business in accordance with the law and proper standards and 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 also places a specific duty on the Council to make arrangements to secure best value and ensure continuous improvement in terms of the services it delivers to 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, 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. Risk is evaluated on the basis of likelihood and impact in both financial and non-financial terms.
- 3.4 As an organisation we have 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, culture 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 everything we do as an organisation as set out in our Corporate Plan and 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 continue to adapt and evolve to deliver cost efficient, high quality services in an increasingly complex and financially challenging public sector landscape. Our people are our most valuable asset and we recognise that we will secure the best outcomes for our communities through investing in our workforce to ensure that they have the right skills to deliver. Our approach is outlined in our strategic document [Building Ambition - A Workforce for the 21st Century](#) and our “Learn, Innovate Grow” philosophy is being embedded across the organisation to create a highly motivated, skilled and flexible workforce.
  - We continue to actively engage with 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, democratic systems and structures are designed to ensure effective decision making and to support effective scrutiny of its decision making and operational business and ensure that as an organisation we are properly held to account.
  - Three year 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 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 the Corporate Resources Group, and reported regularly to the Executive Officer Team and the Strategic Policy & Resources Committee as part of the budgetary control framework.
- The annual service planning process ensures that Services meet the needs of customers, and that targets for quality improvements are set and monitored. Individual Business Management & Improvement Plans set out detailed actions and outcomes for each Service and include performance indicators. Service performance is reported regularly to the Executive Officer Team and publicly through the Council's 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 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 considered the evidence of the financial and non-financial controls within each of their areas, they are satisfied that these are adequate and effective subject to certain improvement actions which have been identified as part of that self-assessment process being implemented.
- 5.4 A Certificate of Assurance to this effect has been signed by each 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
  - Senior Information Risk Owner
- 5.6 The Council's Chief Financial Officer is a key member of the Executive Officer Team of the Council helping it to develop and implement a sound financial strategy based on strong financial management underpinned by robust and effective financial controls. 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 arrangements in place for the management of information risk including an information security policy and standards. Government policy as regards the identification and assessment of threats to local authorities has changed recently and the security measures have been reviewed in 2015/16 to ensure continuing compliance with the Public Service Network (PSN) requirements.
- 5.8 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.

5.9 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.*

5.10 The Local Area Network comprising key scrutiny bodies which engage with the Council (including Audit Scotland) have assessed Perth & Kinross within their Assurance and Improvement Plan 2014-17, as a "low risk council which shows good self-awareness and demonstrates a positive response to external scrutiny". In addition the risk assessment notes that "currently for 2014 to 2017 no additional specific scrutiny activity has been identified".

5.11 The Governance Framework has been in place for the financial year ending 31 March 2016 and up to the date of approval of the Annual Report and statement of accounts.

5.12 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

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

5.14 Based on the assurance process outlined above, in terms of effectiveness, the Council 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

5.15 The areas referred to in 5.14 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

5.16 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.

5.17 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.

5.18 It is important that our decision making processes continue to be agile enough to ensure that key decisions can be made and actions implemented timeously to align with agreed project plans.

## 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 Depute Chief Executive, Director and Head of Service, 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.

I have been advised of the outcome of the review of the effectiveness of the governance arrangements by the Head of Legal & Governance Services and am satisfied that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

A Governance Improvement Action Plan will be produced to 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
- continue to review our procurement activities to ensure that these align with our Procurement Strategy and deliver value for money
- continue to improve our information management to ensure that we make more effective use of Open Data and business information to improve services and provide greater transparency for our stakeholders
- continue to develop 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:

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Bernadette Malone  
Chief Executive

Perth & Kinross Council

Date:

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Councillor Ian Miller  
Leader of the Council

Perth & Kinross Council

Date:

## **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 2014/15 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**

| <b>Name and Post Title</b>                                                       | <b>Salary, Fees &amp; Allowances 2015/16</b><br>£ | <b>Taxable Expenses 2015/16</b><br>(Note:1)<br>£ | <b>Total Remuneration 2015/16</b><br>£ | <b>Total Remuneration 2014/15</b><br>£ |
|----------------------------------------------------------------------------------|---------------------------------------------------|--------------------------------------------------|----------------------------------------|----------------------------------------|
| Ian Miller<br>Council Leader & Convener Strategic Policy and Resources Committee | 33,454                                            | 116                                              | <b>33,570</b>                          | <i>33,254</i>                          |
| Elizabeth Grant<br>Provost (Civic Head)                                          | 25,090                                            | 76                                               | <b>25,166</b>                          | <i>24,863</i>                          |
| Henry Anderson<br>Convener Licensing Board                                       | 22,518                                            | 100                                              | <b>22,618</b>                          | <i>22,404</i>                          |
| Robert Band<br>Convener Lifelong Learning Committee                              | 22,518                                            | 147                                              | <b>22,665</b>                          | <i>22,458</i>                          |
| Jack Coburn<br>Convener Licensing Committee<br>(resigned 24/3/15)                | 0                                                 | 0                                                | <b>0</b>                               | <i>21,932</i>                          |
| Bob Ellis<br>Convener Licencing Committee<br>(from 13/05/15)                     | 21,881                                            | 44                                               | <b>21,925</b>                          | <i>n/a</i>                             |
| Dave Doogan<br>Convener Housing & Health Committee                               | 22,518                                            | 53                                               | <b>22,571</b>                          | <i>22,406</i>                          |
| Alan Grant<br>Convener Environment Committee                                     | 22,518                                            | 0                                                | <b>22,518</b>                          | <i>22,295</i>                          |
| Tom Gray<br>Convener Development Management Committee                            | 22,518                                            | 91                                               | <b>22,609</b>                          | <i>22,404</i>                          |
| John Kellas<br>Convener Enterprise & Infrastructure Committee                    | 22,518                                            | 94                                               | <b>22,612</b>                          | <i>22,432</i>                          |
| Murray Lyle<br>Convener Local Review Body                                        | 22,518                                            | 51                                               | <b>22,569</b>                          | <i>22,362</i>                          |
| Elsbeth MacLachlan<br>Convener Tayside Valuation Board                           | 20,909                                            | 111                                              | <b>21,020</b>                          | <i>20,845</i>                          |
| Archibald MacLellan<br>Vice Convener Tayside Community Justice Authority         | 19,864                                            | 49                                               | <b>19,913</b>                          | <i>19,699</i>                          |
| Douglas Pover<br>Convener Community Safety Committee                             | 22,518                                            | 87                                               | <b>22,605</b>                          | <i>22,412</i>                          |
| Mac Roberts<br>Leader Largest Opposition Party                                   | 22,518                                            | 138                                              | <b>22,656</b>                          | <i>22,396</i>                          |
| Alexander Stewart<br>Convener Scrutiny Committee                                 | 22,518                                            | 125                                              | <b>22,643</b>                          | <i>22,350</i>                          |
| Barbara Vaughan<br>Convener Audit Committee                                      | 22,518                                            | 91                                               | <b>22,609</b>                          | <i>22,386</i>                          |
| <b>TOTAL (Note: 2)</b>                                                           | <b>368,896</b>                                    | <b>1,373</b>                                     | <b>370,269</b>                         | <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 2014/15:

**Table 2: Remuneration Paid to Councillors 1 April 2015 to 31 March 2016**

| Type of Remuneration | 2015/16<br>£   | 2014/15<br>£   |
|----------------------|----------------|----------------|
| 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)

| <b>Name and Post Title</b>                                                                                                    | <b>Salary, Fees<br/>&amp; Allowances<br/>2015/16<br/>£</b> | <b>Total<br/>Remuneration<br/>2015/16<br/>£</b> | <b>Total<br/>Remuneration<br/>2014/15<br/>£</b> |
|-------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------|-------------------------------------------------|-------------------------------------------------|
| Bernadette Malone<br>Chief Executive (Note 1)                                                                                 | 129,941                                                    | <b>129,941</b>                                  | <i>132,075</i>                                  |
| David Burke (Left 04/04/2014)<br>Depute Chief Executive &<br>Executive Director (Housing & Community Care)                    | 0                                                          | <b>0</b>                                        | <i>1,723</i>                                    |
| John Fyffe<br>Senior Depute Chief Executive                                                                                   | 115,472                                                    | <b>115,472</b>                                  | <i>113,766</i>                                  |
| John Walker<br>Depute Chief Executive & Chief Operating Officer                                                               | 110,147                                                    | <b>110,417</b>                                  | <i>108,519</i>                                  |
| James Valentine<br>Depute Chief Executive                                                                                     | 110,147                                                    | <b>110,147</b>                                  | <i>108,519</i>                                  |
| William Atkinson<br>Director of Social Work                                                                                   | 88,798                                                     | <b>88,798</b>                                   | <i>87,486</i>                                   |
| Ian Innes (Left 30/06/15)<br>Head of Legal Services                                                                           | 21,755                                                     | <b>21,755</b>                                   | <i>85,734</i>                                   |
| Lisa Simpson (Started 08/06/15)<br>Head of Legal Services                                                                     | 70,869                                                     | <b>70,869</b>                                   | <i>n/a</i>                                      |
| John Symon<br>Head of Finance                                                                                                 | 87,020                                                     | <b>87,020</b>                                   | <i>85,734</i>                                   |
| Gillian Taylor<br>Head of Democratic Services (now reports to Depute Chief<br>Executive and Chief Operating Officer) (Note 2) | 79,898                                                     | <b>79,898</b>                                   | <i>78,717</i>                                   |
| Colin McMahon (to 16/01/15)<br>Horsecross Arts Limited – Chief Executive                                                      | 0                                                          | <b>0</b>                                        | <i>53,493</i>                                   |
| Gwilym Gibbons (from 19/01/15)<br>Horsecross Arts Limited – Chief Executive                                                   | 66,950                                                     | <b>66,950</b>                                   | <i>13,324</i>                                   |
| James Moyes<br>Live Active Leisure – Chief Executive                                                                          | 74,964                                                     | <b>74,964</b>                                   | <i>72,546</i>                                   |
| <b>TOTAL</b>                                                                                                                  | <b>955,961</b>                                             | <b>955,961</b>                                  | <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)<br>Exit package cost<br>band (including<br>special payments) | (b)<br>Number of<br>compulsory<br>redundancies |          | (c)<br>Number of other<br>departures agreed |           | (d)<br>Total number of exit<br>packages by cost<br>band (b) + (c) |           | (e)<br>Total cost of exit<br>packages in each<br>band |                  |
|------------------------------------------------------------------|------------------------------------------------|----------|---------------------------------------------|-----------|-------------------------------------------------------------------|-----------|-------------------------------------------------------|------------------|
|                                                                  | 2015/16                                        | 2014/15  | 2015/16                                     | 2014/15   | 2015/16                                                           | 2014/15   | 2015/16<br>£'000                                      | 2014/15<br>£'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                |
| <b>Total</b>                                                     | <b>0</b>                                       | <b>0</b> | <b>150</b>                                  | <b>24</b> | <b>150</b>                                                        | <b>24</b> | <b>3,449</b>                                          | <b>168</b>       |

- 5.2 The costs included within table 5 above are all non-recurring and include payments to individual officers and to the relevant Superannuation Fund.
- 5.3 All of the individual exit packages included within table 5 above have been subject to a full business case outlining the implications for the Council. In terms of the financial assessment for each business case, the maximum payback period is up to five years. The departure of the individuals included in the above table has delivered significant recurring savings to the Council and also 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<br>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 1/49<sup>th</sup> added to the pension account. (Prior to 2015 the accrual rate was 1/60<sup>th</sup> of final pensionable salary and years of pensionable service. Prior to 2009 the accrual rate guaranteed a pension based on 1/80<sup>th</sup> and a lump sum based on 3/80<sup>th</sup> of final pensionable salary and years of pensionable service).
- 7.7 The value of accrued benefits have been calculated on the basis of the age at which the person will first become entitled to receive a pension on their retirement without reduction on account of its payment at that age; without exercising any option to commute pension entitlement into a lump sum; and without any adjustment for the effects of future inflation. The pension figures shown relate to the benefits that the person has accrued as a consequence of their local government service, and not just their current appointment.

**7.8 Pension Entitlements of Senior Councillors**

The pension entitlements of Senior Councillors of Perth & Kinross Council for the year to 31 March 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<br>to<br>31/03/2016<br>£ | For Year<br>to<br>31/03/2015<br>£ |                     | For Year<br>to<br>31/03/2016<br>£ | For Year<br>to<br>31/03/2015<br>£ | Difference<br>from<br>31/03/2015<br>£ |
| Ian Miller<br>Council Leader & Convener Strategic<br>Policy and Resources Committee | 5,688                             | 5,962                             | Pension<br>Lump Sum | 6,158<br>2,968                    | 4,520<br>2,563                    | 1,638<br>405                          |
| Elizabeth Grant<br>Provost (Civic Head) (Note 1)                                    | 0                                 | 0                                 | Pension<br>Lump Sum | 0<br>0                            | 0<br>0                            | 0<br>0                                |
| Henry Anderson<br>Convener Licensing Board                                          | 3,828                             | 4,013                             | Pension<br>Lump Sum | 1,555<br>0                        | 1,080<br>0                        | 475<br>0                              |
| Robert Band<br>Convener Lifelong Learning Committee                                 | 3,828                             | 4,013                             | Pension<br>Lump Sum | 4,466<br>2,043                    | 3,274<br>1,765                    | 1,192<br>278                          |
| Jack Coburn (Note 1)<br>Convener Licensing Committee (resigned<br>24/03/15)         | 0                                 | 0                                 | Pension<br>Lump Sum | 0<br>0                            | 0<br>0                            | 0<br>0                                |
| Dave Doogan<br>Convener Housing & Health Committee                                  | 3,828                             | 4,013                             | Pension<br>Lump Sum | 1,212<br>0                        | 743<br>0                          | 469<br>0                              |
| Bob Ellis<br>Convener Licencing Committee (from<br>13/05/15)                        | 3,720                             | 0                                 | Pension<br>Lump Sum | 2,925<br>204                      | 0<br>0                            | n/a<br>n/a                            |
| Alan Grant (Note 1)<br>Convener Environment Committee                               | 0                                 | 0                                 | Pension<br>Lump Sum | 0<br>0                            | 0<br>0                            | 0<br>0                                |
| Tom Gray<br>Convener Development Management<br>Committee                            | 3,828                             | 4,013                             | Pension<br>Lump Sum | 3,066<br>0                        | 1,910<br>0                        | 1,156<br>0                            |
| John Kellas<br>Convener Enterprise & Infrastructure<br>Committee                    | 3,828                             | 4,013                             | Pension<br>Lump Sum | 4,143<br>2,033                    | 3,068<br>1,760                    | 1,075<br>273                          |
| Murray Lyle<br>Convener Local Review Body                                           | 3,828                             | 4,013                             | Pension<br>Lump Sum | 2,986<br>1,462                    | 2,456<br>1,420                    | 530<br>42                             |

| Name and Post Title                                                      | In-year pension contributions |                             |                     | Accrued Pension Benefits    |                             |                                 |
|--------------------------------------------------------------------------|-------------------------------|-----------------------------|---------------------|-----------------------------|-----------------------------|---------------------------------|
|                                                                          | For Year to 31/03/2016<br>£   | For Year to 31/03/2015<br>£ |                     | For Year to 31/03/2016<br>£ | For Year to 31/03/2015<br>£ | Difference from 31/03/2015<br>£ |
| Elspeth MacLachlan<br>Convener Tayside Valuation Board                   | 3,555                         | 3,726                       | Pension<br>Lump Sum | 2,845<br>1,353              | 2,363<br>1,322              | 482<br>31                       |
| Archibald MacLellan<br>Vice Convener Tayside Community Justice Authority | 3,377                         | 3,540                       | Pension<br>Lump Sum | 6,140<br>2,076              | 4,497<br>1,802              | 1,643<br>274                    |
| Douglas Pover<br>Convener Community Safety Committee                     | 3,828                         | 4,013                       | Pension<br>Lump Sum | 1,555<br>0                  | 1,080                       | 475                             |
| Mac Roberts<br>Leader Largest Opposition Party                           | 3,828                         | 4,013                       | Pension<br>Lump Sum | 7,231<br>11,482             | 6,569<br>10,884             | 661<br>598                      |
| Alexander Stewart<br>Convener Scrutiny Committee                         | 3,828                         | 4,013                       | Pension<br>Lump Sum | 7,535<br>13,857             | 6,999<br>13,663             | 536<br>194                      |
| Barbara Vaughan (Note 1)<br>Convener Audit Committee                     | 0                             | 0                           | Pension<br>Lump Sum | 0<br>0                      | 0<br>0                      | 0<br>0                          |
| <b>TOTAL</b>                                                             | <b>50,792</b>                 | <b>49,345</b>               |                     |                             |                             |                                 |

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<br>£   | For Year to 31/03/2015<br>£ |                     | For Year to 31/03/2016<br>£ | For Year to 31/03/2015<br>£ | Difference from 31/03/2015<br>£ |
| Bernadette Malone<br>Chief Executive                                                                                       | 22,103                        | 23,043                      | Pension<br>Lump Sum | 48,935<br>100,276           | 45,597<br>98,790            | 3,338<br>1,486                  |
| David Burke (Left 04/04/14)<br>Depute Chief Executive &<br>Executive Director (Housing & Community Care) (To 30/09/2013)   | 0                             | 310                         | Pension<br>Lump Sum | 0<br>0                      | n/a<br>n/a                  | n/a<br>n/a                      |
| John Fyffe<br>Senior Depute Chief Executive                                                                                | 19,631                        | 20,478                      | Pension<br>Lump Sum | 61,628<br>143,179           | 58,399<br>141,066           | 3,229<br>2,113                  |
| John Walker<br>Depute Chief Executive & Chief Operating Officer                                                            | 18,725                        | 19,533                      | Pension<br>Lump Sum | 45,931<br>98,012            | 43,040<br>96,563            | 2,891<br>1,449                  |
| James Valentine<br>Depute Chief Executive                                                                                  | 18,725                        | 19,533                      | Pension<br>Lump Sum | 45,988<br>98,182            | 43,095<br>96,731            | 2,893<br>1,451                  |
| William Atkinson<br>Director of Social Work                                                                                | 15,096                        | 15,748                      | Pension<br>Lump Sum | 49,126<br>115,307           | 46,616<br>113,603           | 2,510<br>1,704                  |
| Ian Innes (Left 30/06/15)<br>Head of Legal Services                                                                        | 3,698                         | 15,432                      | Pension<br>Lump Sum | 45,421<br>109,232           | 44,984<br>109,232           | 437<br>0                        |
| Lisa Simpson (Started 08/06/15)<br>Head of Legal (Note 2)                                                                  | 12,048                        | 0                           | Pension<br>Lump Sum | 1,446<br>0                  | 0<br>0                      | 0<br>0                          |
| John Symon<br>Head of Finance                                                                                              | 14,794                        | 15,432                      | Pension<br>Lump Sum | 28,733<br>59,123            | 26,560<br>58,249            | 2,173<br>874                    |
| Gillian Taylor<br>Head of Democratic Services (now reports to Depute Chief Executive and Chief Operating Officer) (Note 3) | 13,622                        | 14,169                      | Pension<br>Lump Sum | 37,878<br>84,674            | 35,407<br>83,179            | 2,471<br>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)<br>Horsecross Arts Limited – Chief Executive            | 0                             | 4,432                  | Pension Lump Sum | 0<br>0                   | 473<br>0               | n/a<br>n/a                 |
| Gwilym Gibbons (start 19/1/15) (Note 2)<br>Horsecross Arts Limited – Chief Executive | 11,382                        | 1,159                  | Pension Lump Sum | 1,588<br>0               | 214<br>0               | 1,374<br>0                 |
| James Moyes<br>Live Active Leisure - Chief Executive                                 | 12,744                        | 13,058                 | Pension Lump Sum | 38,656<br>88,894         | 35,930<br>86,027       | 2,725<br>2,867             |
| <b>TOTAL</b>                                                                         | <b>162,568</b>                | <b>162,327</b>         |                  |                          |                        |                            |

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:

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Bernadette Malone  
Chief Executive

Perth & Kinross Council

Date:

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Councillor Ian Miller  
Leader of the Council

Perth & Kinross Council

Date:

## **GLOSSARY**

### **ACCOUNTING PERIOD**

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

### **ACCRUALS**

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

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

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

### **CAA**

Capital Adjustment Account

### **CAPITAL EXPENDITURE**

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

### **CAPITAL FINANCING**

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

### **CAPITAL RECEIPT**

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

### **CONTINGENT LIABILITY**

A contingent liability is either:

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

### **CORPORATE & DEMOCRATIC CORE**

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

### **CREDITOR**

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

### **CRR**

Capital Receipts Reserve

### **CURRENT VALUE**

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

### **DISCOUNTED CASH FLOW METHOD**

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

### **DEBTOR**

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

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

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

### **FAIR VALUE**

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

**FIAA**

Financial Instruments Adjustment Account

**IMPAIRMENT**

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

**MATERIALITY**

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

**NET BOOK VALUE**

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

**NON-DISTRIBUTED COSTS**

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

**PPE**

Property, Plant & Equipment

**PRIOR YEAR ADJUSTMENT**

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

**PROVISION**

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

**PUBLIC WORKS LOAN BOARD (PWLB)**

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

**REVENUE EXPENDITURE**

The day-to-day expenses of providing services.

