AGENDA ITEM No.9

EAST RENFREWSHIRE COUNCIL

CABINET

21 August 2014

Report by Chief Executive

FINANCIAL PERFORMANCE FOR YEAR ENDED 31 MARCH 2014

PURPOSE OF REPORT

1. To advise the Cabinet of the financial results for 2013/14; to compare the outturn with the final budgetary control statement for that year which was submitted to the Cabinet on 27 March 2014 and to seek approval for the Accounting Policies which underpin the Annual Accounts.

RECOMMENDATIONS

2. It is recommended that members: -

(a) note the outturn position compared to the previous Budgetary Control Report;

(b) approve the transfers made from the General Fund to the Capital Reserve, Modernisation Fund and Insurance Fund;

(c) note that once the audit has been completed the Final Accounts will be submitted to a future meeting of the Council along with the External Auditor's report;

(d) approve the accounting policies as stated in the Annual Accounts for 2013/14, an extract of which is attached to this report; and

(e) note the explanatory foreword and annual governance statement attached to this report.

OUTTURN

3. Subject to audit, the financial results contained in the Accounts for the 2013/14 financial year are satisfactory.

- The Council's financial affairs have again been managed within its operational budget. In particular, all General Fund departments' outturn spend is within budget, with the exception of CHCP, and Directors have taken early action in applying savings measures during 2013/14, this assisting the Council in addressing the financial difficulties it faced for 2014/15.

- An overall surplus for the financial year of £1,435k is recorded in the Accounts. After transfers to earmarked reserves a sum of £39k has been added to the Council's non-earmarked General Fund reserve. This results in a balance of £8.558 million as at 31 March 2014 representing 4% of the annual budgeted net revenue expenditure which equates to the Council's policy.

- Transfers totalling £5.300 million were made from the General Fund balance to the following reserves:-

    - Capital Reserve £4m
    - Modernisation Fund £1m
    - Insurance Fund £0.3m

- Capital Expenditure of £21.54 million was invested.

- An operational deficit of £415,000 has been made on the Housing Revenue Account, this reducing accumulated surpluses brought forward on that Account.

COMPARISON TO BUDGETARY CONTROL

4. The Budget Monitoring Report for Period 11 submitted to the Cabinet on 27 March 2014 forecast an underspend of £2.726 million in 2013/14, including the budgeted contribution to reserves for the year. At the year-end the surplus position improved to £5.320 million. The main areas making up this improved position include year-end accounting adjustments and increased income from Council Tax.

5. The Period 11 report to Cabinet advised that all services would take steps to contain expenditure within the budget by the year-end. With the exception of the undernoted services, the outturn results for departments' spend was within budget.

	Probable Outturn Over/(Under) Spend £,000	Outturn Over/(Under) Spend £,000
CHCP	433	316
Environment	15	(527)
Housing Revenue Account	208	415

6. The year-end deficit position for CHCP was mainly due to a significant increase in nursing home placements, also reflecting a shift between self-funders and those supported by the Council. In addition there was a significant increase in the cost of residential placements for children.

7. The reason for the year-end deficit position for the Housing Revenue Account is twofold; firstly it reflects the Council's decision at its meeting on 24 October 2012 to fund an upgrade of the central heating system at Hawthorn Court Sheltered Housing Complex in Busby from HRA reserves and secondly it is due to the redundancy cost of two employees within the housing maintenance team, the costs of which will be met from savings assumed over the next four years.

EXPLANATORY FOREWORD

8. In accordance with the Code of Practice on Local Authority Accounting (ACOP) an explanatory foreword by the Director of Finance is included in the Council's Annual Accounts. The purpose of this foreword is to offer interested parties an easily understandable guide to the most significant matters reported in the accounts and an explanation in overall terms of the Council's financial position. This statement is attached for information in Appendix 1 to this report.

ACCOUNTING POLICIES

9. The Council's Annual Accounts have always incorporated a statement detailing the accounting policies which have been adopted. It is considered good practice to have the accounting policies approved by Members and accordingly they are attached at Appendix 2 to this report.

10. The policies are based on those which are recommended by the Code of Practice on Local Authority Accounting (ACOP) and there are no significant departures from those recommendations.

ANNUAL GOVERNANCE STATEMENT

11. In line with recommended practice the Council has included an annual governance statement within its Annual Accounts. The code centres on 6 key dimensions of the Council's business.

- Focusing on the purpose of the authority and outcomes for the community
- Members and officers working together to achieve a common purpose
- Promoting values for the authority and demonstrating the values of good governance
- Taking informed and transparent decisions
- Developing the capacity and capability of members and officers to be effective
- Engaging with local people and other stakeholders

12. The statement is attached at Appendix 3 to this report.

RECOMMENDATIONS

13. It is recommended that members: -

(a) note the outturn position compared to the previous Budgetary Control Report;

(b) approve the transfers made from the General Fund to the Capital Reserve, Modernisation Fund and Insurance Fund;

(c) note that once the audit has been completed the Final Accounts will be submitted to a future meeting of the Council along with the External Auditor's report;

(d) approve the accounting policies as stated in the Annual Accounts for 2013/14, an extract of which is attached to this report; and

(e) note the explanatory foreword and annual governance statement attached to this report.

BACKGROUND PAPERS

A full copy of the Council's unaudited accounts has been placed in the Members' Lounge or can be obtained from the Chief Accountant.

KEYWORDS

Financial performance, reserves, annual accounts, accounting policies, corporate governance

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Further information is available from Barbara Clark, Chief Accountant
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Cabinet Contact: Councillor Ian McAlpine, Convener for Corporate Services
Tel. 0141 638 3860 (Home) 07890 592671 (Mobile)

27 June 2014

Appendix 1

Explanatory Foreword

ANNUAL ACCOUNTS

The Accounts for East Renfrewshire Council are set out on the following pages in the form of statements which are intended to present a true and fair view of the financial transactions of the Council operating as a going concern during the year to 31st March 2014.

The Accounts are subject to statutory audit and incorporate the information required by the Code of Practice on Local Authority Accounting in the United Kingdom.

The financial statements which follow show the Council's main sources of funding and provide an account of expenditure on service activities.

The accounts identify two major categories of expenditure. Revenue spending covers the day to day operational expenditure for each service while capital spending covers expenditure on the acquisition, construction and improvement of assets which are required to provide services where the benefits will be derived over a number of years.

The purpose of this statement is to draw together all the figures shown in the accounts and to provide an explanation of the financial performance of the Council during the year 2013/14.

Statement of Remuneration
This statement provides information on the remuneration and pension benefits for the senior officers and members of East Renfrewshire Council.

Movement in Reserves Statement
This statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (ie those that can be applied to fund expenditure or reduce local taxation) and 'unusable reserves'. The (Surplus) or Deficit on the Provision of Services line shows the true economic cost of providing the authority'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 setting and dwellings rent setting purpose. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

Comprehensive Income and Expenditure Statement
This statement shows the accounting cost in the year of providing services in accordance with International Financial Reporting Standards, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Balance Sheet
The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves is usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

Explanatory Foreword (cont'd)

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (ie borrowing) to the authority.

Accounting Policies

Note 1 lists the Accounting Policies that set out the basis on which the Accounts have been prepared.

Housing Revenue Account Income & Expenditure Account

The Housing Revenue Account's 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 rent and government grants. Authorities charge rents to cover expenditure in accordance with the legislative framework; this may be different from the accounting cost. The increase or decrease in year, on the basis on which rents are raised is shown in the movement on the Housing Revenue Account Statement.

REVENUE BUDGET PERFORMANCE

General Fund

Net expenditure on General Fund Services is met from Government Grants and Council Tax. Government Grants include an amount in respect of income from business rates. In 2013/14 Government Grants accounted for 79% of the Council's external funding while the remaining 21% came from Council Tax. The in year collection rate for Council Tax was 97.85% (2012/13 97.62%)

For a summary of the General Fund please see the Movement in Reserves Statement.

General Fund Revenue Balance

The General Fund Balance at the end of the year is £14.968m The opening balance of £13.533m has been increased by an overall surplus of £1.435m.

Within the General Fund balance an amount of £1.685m has been earmarked for the purpose of equalising future PFI/PPP payments. Similarly an amount of £2.821m has been earmarked as a Modernisation Fund. Further amounts of £0.643m and £0.933m have also been earmarked for the Whitelees Wind Farm and commuted sums, please see note 8 for further information.

In closing the accounts £0.328m has been attributed to the Unspent Grants reserve. This is to earmark amounts paid in grant to the Council, where the paying agency permits the amount in excess of expenditure incurred to be carried forward for use on particular projects.

BUDGET MONITORING

The Council closely monitors expenditure and income against revenue and capital budget plans throughout the year. Standard reports showing revenue expenditure and income to date against budgets are provided to managers every four weeks with individually tailored reports and online information also available as required. Elected members consider revenue monitoring reports and detailed variance information at Cabinet six times per year with the latter four reports providing year end forecasts. Financial and physical progress on each capital project is also reported to Cabinet five times per year. Copies of these reports are available on the Council's website, www.eastrenfrewshire.gov.uk.

Budget Performance

The overall surplus of £1.435m can be analysed as follows:

		Actual £'000	Approved Budget £'000	Over/ (Under) Spend £'000
Net cost of services	224,858			
Capital charges	(30,496)	194,362	199,488	(5,126)
Investment Income		(247)	(200)	(47)
Capital financing costs		11,661	12,434	(773)
Other		2,408	-	2,408
Contributions to reserves		5,300	500	4,800
To be met by govt. grants and local taxation		213,484	212,222	1,262
Aggregate External Finance		(170,146)	(168,083)	(2,063)
Council Tax		(44,773)	(44,139)	(634)
Total Funding		(214,919)	(212,222)	(2,697)
SURPLUS FOR THE YEAR		**(1,435)**	**0**	**(1,435)**

Housing Revenue

The Housing Revenue Account Comprehensive Income and Expenditure Statement and the Statement of the Movement on the Housing Revenue Account balance are shown on pages 96 and 97. These accounts deal with transactions in respect of managing the Council's housing stock. The opening balance of £922k has been decreased by an operational deficit of £415k to give a year-end balance of £507k.

FUND BALANCES

Fund balances are shown on the Balance Sheet and further information is provided in the notes attached thereto.

The level of funds is adjusted annually to take account of the following factors: -

(i) To ensure that the General Reserve is adequate to provide against unforeseen expenditure which may arise. The Council's aim is for the unallocated general fund balance to be equivalent to 4% of annual budgeted net revenue expenditure. In 2013/14 this was 4% (2012/13 3.5%)

(ii) To earmark funding to equalise future PFI/PPP payments.

(iii) To earmark funding to enable the upfront investment required to drive forward the Public Service Excellence Programme.

(iv) To provide insurance voluntary excess costs.

(v) To enable a continuing programme of repairs and renewals to roads, properties and other infrastructure.

(vi) To make provision for anticipated future capital liabilities.

PRIVATE FINANCE INITIATIVE/PUBLIC PRIVATE PARTNERSHIP

The Council has two Private Finance Initiative contracts. The first contract, signed on 20 April 2000, is for the provision of school facilities for a period of 25 years ending July 2026 and the second contract, signed on 30 April 2003, is for the construction and maintenance of the Glasgow Southern Orbital Road and the M77 extension for a period of 30 years ending April 2035. On 10 December 2004 the Council also signed a 25-year Public Private Partnership contract for the provision of further new and extended school facilities for a period of 25 years ending July 2031. Details of all 3 projects are provided in note 35 to the core financial statements.

Explanatory Foreword (cont'd)

PENSION LIABILITY

The common position for employers participating in the Strathclyde Pension Fund is that the IAS19 calculation, based on a snapshot valuation as at 31 March 2014, discloses a deficit, as a result of prevailing investment market conditions at that date. In the case of East Renfrewshire Council this deficit is £123.989m, details of which can be found in note 39 to the core financial statements. The pension liability represents the best estimate of the current value of pension benefits that will have to be funded by East Renfrewshire Council. The liability relates to benefits earned by existing or previous employees up to 31 March 2014. These benefits are expressed in current value terms rather than the cash amount that will actually be paid out. This is to allow for the 'time value of money', whereby the value of cash received now is regarded as higher than cash received in, for example, ten years time, since the money received now could be invested and would earn interest or returns during the ten years. In order to adjust the pension liability cash flows for the time value of money a discount factor based on corporate bond rates is used. The discount factor as at 31 March 2014 was 4.3%. This year has seen an increase in pension liabilities to £477.17m (2012/13 £432.16m) which is principally because the financial assumptions at 31 March 2014 are less favourable than they were at 31 March 2013.

This increase in liabilities, reduced by an increase in asset values (£353.181m, 2012/13 £327.803m), has resulted in a net increase in the overall pension liability of £19.632m.

Employer contributions are based on the longer-term funding valuation as at 31st March 2011. The accounting policies adopted in the accounts reflect the full implementation of IAS19.

CAPITAL BUDGET PERFORMANCE

The Council invested £21.54m in its General Services and Housing Capital Programmes details of which are provided in note 33 to the core financial statements. This net expenditure was less than the capital budget for the year. Capital expenditure was funded by receipts from sale of assets of £7.364m, contributions from revenue and reserves of £1.007m, PPP lifecycle costs £0.695m, miscellaneous income of £0.104m and grants of £6.853m leaving a balance of £5.517m to be funded by borrowing. The Council has various available sources of borrowing to fund capital expenditure, the most significant of which is the Public Works Loans Board. The financing charges impacting on the Council Tax were £11.661m (2012/13 £11.614m) and on rents were £3.411m (2012/13 £3.095m)

SIGNIFICANT TRADING OPERATIONS

The Local Government Scotland Act 2003 sets out the requirements for statutory trading accounts to be maintained for "significant" trading operations only. The Council after adopting the CIPFA/LASAAC criteria concluded that there are no services that can be classified as a significant trading operation. Further guidance is provided in note 28 to the core financial statements.

REVIEW

With the exception of the Community Health and Care Partnership the Council's General Fund services have again been managed within their operational budget. In total General Fund departments' outturn spend was within budget with Directors taking early action in applying savings measures during 2013/14. The favourable outturn results from prudent management of staffing levels and non-filling of vacancies during the year, progression and early implementation of service reviews, staffing restructures and other efficiency measures and maximisation of income receivable. The Council had budgeted to increase reserves by £0.5 million in 2013/14. However, as a result of effective financial management, transfers totalling £5.3million have been made to key earmarked reserves. This will assist the Council in taking forward appropriate measures to address the significant financial difficulties and uncertainties in coming years. In particular, this will assist the Council in taking forward necessary one-off transformation investment designed to generate ongoing revenue financial savings.

In the course of the year, investment in Education has continued with the new build replacement Eastwood High School opening in August 2013. A new extension was provided for St. Mark's Primary School and work has begun on the design and preparation for the new Barrhead High School.

Explanatory Foreword (cont'd)

The Council's Community Health and Care partnership has continued to devote additional resources to ensure that frontline social care services for vulnerable people in East Renfrewshire have kept pace with growing demand, with particular impact on improving rehabilitation and preventative services. Also, work continues on the development of the new Eastwood Health and Care Centre and planning is underway for the integration of health and social care services in April 2015.

New all weather pitches have progressed for St. Luke's and St. Ninian's High Schools.

A list of sports projects has also been financed allowing for improvements at both Neilston Leisure Centre and Barrhead Sports Centre.

Investment in roads has also increased to speed up the progress of prioritised repairs. To help stimulate the local economy and address youth unemployment in the area, there has been investment in environmental improvements on mixed tenure housing estates.

In addition, recognising the problems created by adverse weather, further investment was made in Parks.

GROUP ACCOUNTS

The Council recognised the establishment of a Common Good Fund, relating to Cowan Park, Barrhead, during the current financial year.

The assets are recognised as part of the Group Account Balance Sheet only as they are held by the Council on behalf of the residents of the prior burghs and cannot be disposed of without court approval. However, as part of a management arrangement, the Council remains responsible for all costs and income relating to the assets for a nominal annual fee of £1 (if asked) to the Common Good Fund. Consequently the Fixed Assets on the Single Entity Balance Sheet for 2012/13 have been reduced by £1.030m.

In addition, the Council is represented on the Boards of the following companies that are limited by guarantee and have no share capital. It participates in these companies by means of Board membership and the provision of funding. The Council has not paid any consideration for its interests and thus there is no goodwill involved.

The inclusion of these entities in the Council's Group Accounts is in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom. Due to the inclusion of the Common Good, trust fund balances and the liabilities and assets carried by the entities, listed below, the Group Balance Sheet increases the Council's net worth by £7.609m. Full details of these interests are listed within the notes to the Group Accounts.

Strathclyde Partnership for Transport
Strathclyde Concessionary Travel Scheme
Renfrewshire Valuation Joint Board

FINANCIAL OUTLOOK

In common with all other organisations, the Council has been affected by the deterioration in economic conditions. The Council has continued to apply its economic downturn action plan to minimise the impact on the local community. The slow down in capital receipts continued, however maintaining a prudent level of Capital Reserve has enabled the Council to continue significant investment. The Council's General Fund Capital Plan for the next 8 years delivers significant investment in schools, a new health and care centre, roads investment etc. This has been enabled through the Council's prudent use of its resources. Similarly, the Housing Capital Plan for the next 5-years progresses significant investment to ensure delivery of the Scottish Housing Quality Standard.

Council resources are expected to remain constrained in the medium term, with forecasts of grant for the coming years showing further cash reductions. Further, a condition of receiving the government grant is that the level of Council Tax is frozen. Forecasts are that these funding restrictions are not one-off but will continue for a number of years ahead. To ensure delivery of balanced budgets, this requires the Council to identify and implement savings measures to meet the spending and demand pressures it faces.

The Council has approached these difficulties as a part of a longer term financial strategy. Underpinning this strategy is a Financial Policy approved by the Council and reviewed as part of the annual budget. This strategy is characterised through a number of factors including making spending decisions based on an assessment of medium to long-term needs and consequences and seeking to avoid taking a short-term outlook in its policy making, service planning and budget setting decisions; the agreement of multi-year budgets; applying savings early and as soon as measures are identified; and ensuring that the Council priorities and the budget process remain aligned. The Council has also actively reviewed its reserve levels and put in place actions designed to ensure that these are at a level to assist the Council in addressing future financial difficulties.

Following the success of the Council's previous multi-year budget approach, the Council undertook extensive community engagement, during the autumn of 2012, in setting its budget for future financial years. Reflecting on the outcome of that engagement, a budget for 2013/14 and an indicative budget for 2014/15 were approved by Council in February 2013. The Council continues to actively seek out efficiencies in service delivery with around 70% of the approved savings measures for the financial years 2013/14 and 2014/15 being categorised as efficiencies. The Council is currently continuing with its multi-year approach in considering the financial outlook for 2015/16 to 2017/18.

In recognising the competing pressures of future restraints in funding levels and increasing demand, the Council has proactively identified resources from within its grant settlement to progress preventative spend with the aim of tackling future demand pressures. Total resources identified for the 3 financial years 2012/13 to 2014/15 amount to £2.635 million.

As a consequence of the Council's programme of efficiency reviews 56 employees took the option of voluntary redundancy or other packages offered to them in 2013/14. This resulted in non recurring expenditure of £1.0m.

The Council has put arrangements in place in response to the Welfare Reform Act 2012 to try to mitigate adverse impacts on residents, Council income and the wider economy within East Renfrewshire from the effects of welfare reforms. A group of senior officers and Community Planning partners have undertaken a number of areas of work and have reported to both CMT and Cabinet on a regular basis regarding estimated financial and other impacts, and the Cabinet has agreed plans to manage the reforms.

ICELANDIC BANKS

The Council had £1m invested in the Heritable Bank, a UK based subsidiary of the Icelandic bank, Landsbanki. The company was placed in administration on 7 October 2008. The latest creditor progress report issued by the administrators Ernst and Young outlined that the return to the creditors was projected to be 94p in the £ by the autumn of 2013. As at 31 March 2014 the Council has received 14 payments totalling £988,238, no further dividends are expected.

ACKNOWLEDGEMENT

I wish to record my thanks to staff in all departments for their co-operation in producing the Annual Accounts in accordance with the prescribed timescale. In particular the efforts of my own Accountancy Services staff are gratefully acknowledged.

Margaret McCrossan CPFA
Head of Accountancy
(Chief Financial Officer)
Date 25 June 2014

Notes to the Accounts

1. ACCOUNTING POLICIES

General Principles

The Statement of Accounts summarises the Authority's transactions for the 2013/14 financial year and its position at the year-end of 31 March 2014. The Authority is required to prepare an annual Statement of Accounts by the Local Authority Accounts (Scotland) Regulations 1985 and the Local Government in Scotland Act 2003, section 12 of which requires the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and the Service Reporting Code of Practice 2013/14 supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act. These policies have been prepared in accordance with IAS8 and IPSAS3.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. The accounts have been prepared on the basis that the Council is a going concern.

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 Authority 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 Authority.
- Revenue from the provision of services is recognised when the Authority 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 Authority.
- 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 services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- When 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 debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

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 within three months 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 Authority's cash management.

Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

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 and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Charges to Revenue for Non-Current Assets

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

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

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

Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and flexi leave, and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. flexi leave) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy. In this respect East Renfrewshire have treated Strain on the Pension Fund payments as termination benefits.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority 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 pension enhancement termination 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.

Post Employment Benefits

Employees of the Authority are members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by the Scottish Government.
- The Local Government Pension Scheme, administered by Glasgow City Council.

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Authority.

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The

Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The current year has seen changes as to how the various components of cost for defined benefits schemes are to be classified as a result of the Code adopting amendments to IAS 19. The overall impact is cost neutral; however there has been a redistribution of costs within the comprehensive income and expenditure statement.
- The liabilities of the Strathclyde Pension Fund attributable to the Authority 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 4.3% (based on the indicative rate of return on high quality corporate bonds).
- The assets of Strathclyde Pension Fund attributable to the Authority are included in the Balance Sheet at their fair value:
  - quoted securities - current bid price
  - unquoted securities - professional estimate
  - unitised securities - current bid price
  - property - market value.

The change in the net pensions liability is analysed into the following components:

- Service cost comprising:
  - current service cost - the increase in liabilities as a 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 or 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 benefit liability, i.e. net interest expenses for the authority – the change during the period in the net defined benefit liability 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 liability at the beginning of the period – taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

Notes to the Accounts (cont'd)

- Remeasurements comprising:
  - The return on plan assets – excluding amounts included in net interest on the net defined benefit liability – charged to the Pension Reserve as Other Comprehensive Income and Expenditure
  - Actuarial gains and losses – 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 Strathclyde Pension Fund – cash paid as employer's contributions to the pension fund 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 Authority 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 transfers 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 to 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 Authority 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.

Common Good & Trusts

The Council administers a Common Good Fund relating to Cowan Park. As part of the management agreements where land and buildings are confirmed as belonging to the Common Good, and where the Council is incurring costs or receiving income relating to those assets as the managing agent, then the Common Good pays a nominal annual £1 fee to the Council (if asked) in return for the management of the asset. The Council remains responsible for all costs and any income relating to the asset and is entitled to the use of the asset. The fund's assets do not represent assets available to the Council and as such are not included on the Council's balance sheet. In addition, the Council also administers a number of trusts which it is the sole trustee for.

Notes to the Accounts (cont'd)

Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are 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 Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable 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 and 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 is respectively 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.

Financial Assets

Financial assets are classified as follows:

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

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently 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 most of the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Notes to the Accounts (cont'd)

Available-for-Sale Assets

Available-for-sale assets are defined as those non-derivative financial assets that are not classified under any other financial asset category. The Council do not have such transactions and have therefore not grouped the items in the Comprehensive Income and Expenditure statement into amounts that may be reclassifiable and amounts that are not.

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 Authority when there is reasonable assurance that:

- the Authority 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 attached 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 and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced 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 Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Business Improvement Districts

The Council is the billing authority for both the Clarkston Business Improvement District and Giffnock Business Improvement District. These are managed by an umbrella group led by the East Renfrewshire Chamber of Commerce and local businesses, which secured an environmental improvements appraisal, marketing, publicity and events service for the areas of Clarkston and Giffnock. The Authority accounts for income received and expenditure incurred within the Planning and Development Services within the Comprehensive Income and Expenditure Statement.

The Carbon Reduction Commitment Scheme

The authority is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31 March 2014. The authority is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured as the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the authority is recognised and reported in the costs of the authority's services and is apportioned to services on the basis of energy consumption.

Heritage Assets

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Authority's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below.

Heritage Assets – Tangible

Statues

Six statues created by 19th century Eaglesham sculptor William Gemmel are housed in the former weaver's workshop. The workshop and contents were bequested to the Council and are open to the public on the annual Doors Open Day in September. The statues are reported in the Balance Sheet at market value provided by the international auctioneers and valuers Bonhams.

Civic Regalia

The chains of office used by the Provost and his partner are collectively known as Civic Regalia and are symbols of the authority of the Civic Office which the Provost holds.

There are 5 chains held in total at the Council's Headquarters. They are reported in the Balance Sheet at insurance valuation which is based on market value. These insurance valuations are reviewed on an annual basis.

Heritage Assets – Tangible

Number Plate

The Council owns a private registration plate (HS 0) which is on the car which the Council uses for civic duties. The number plate is reported on the Balance Sheet at market value, provided by Registration Transfers, the largest dealer in number plates in Britain.

There are no depreciation charges on the heritage assets as it is considered that they will have indeterminant lives and high residual value.

Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority 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 Authority.

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 Authority 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 is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Authority'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 Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of any intangible asset is amortised over its useful life to the relevant service lines 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 lines 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.

Interests in Companies and Other Entities

The Authority has material interests in companies and other entities that have the nature of associates and require it to prepare group accounts. In the Authority'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 and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using either the FIFO or weighted average costing formulas.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

Investment Property

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, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. 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 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.

Jointly Controlled Operations and Jointly Controlled Assets

Jointly controlled operations are activities undertaken by the Authority in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Authority recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Authority and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Authority accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

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.

The Authority as Lessee

Finance Leases

East Renfrewshire Council does not account for any finance leases as a lessee

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting 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 Authority as Lessor

Finance Leases

East Renfrewshire Council does not account for any finance leases as a lessor.

Operating Leases

Where the Authority 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 (eg 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 2013/14* (SERCOP). The total absorption costing principle is used - the full cost of overheads and support services is shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core - costs relating to the Authority's status as a multi-functional, democratic organisation.
- Non Distributed Costs - the cost of discretionary benefits awarded to employees retiring early.

The 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.

Notes to the Accounts (cont'd)

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 Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to the asset's potential to deliver future economic benefits or service potential (ie 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 Authority does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of an asset acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

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

- Infrastructure, community assets and assets under construction - depreciated historical cost
- dwellings - fair value, determined using the basis of existing use value for social housing (EUV-SH)
- all other assets - fair value, determined as the amount that would be paid for the asset in its existing use (existing use value - EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Assets included in the Balance Sheet at fair value are revalued annually. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. (Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.)

Where decreases in value are identified, they are accounted for by:

- 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 an 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 by:

- 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 an 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.

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).

Depreciation is calculated on the following bases:

- dwellings and other buildings - straight-line allocation over the useful life of the property as estimated by the valuer

- vehicles, plant, furniture and equipment - a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer
- infrastructure - straight-line allocation over 29 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.

Disposals and Non-Current 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 previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

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 (ie 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.

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.

Private Finance Initiative (PFI) and Similar Contracts

East Renfrewshire Council operates 3 PFI/PPP projects. Please see note 35 for details.

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 Authority is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Authority at the end of the contracts for no additional charge, the Authority carries the assets used under the contracts on its Balance Sheet as part of the 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 Authority.

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 of 7.24% 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 - proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Authority 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. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation, and are measured as 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.

Equal Pay

The Single Status Agreement was implemented on a national basis on 1 July 1999. Included within the agreement was a commitment on all Scottish local authorities to undertake Job Evaluation and implement a new local pay and grading system free of gender bias. East Renfrewshire Council has progressed Job Evaluation and implemented a new pay and grading system effective from 1 July 2006.

To avoid potential equal pay litigation claims the Council entered into a compromise agreement with individual employees whereby the employee has agreed not to seek legal redress in return for a compensation payment which buys out their right to seek an employment tribunal award. The vast majority of qualifying employees accepted the compromise agreement offered and payments made have been reflected within the Annual Accounts to date. A minority of qualifying employees have however not accepted the compensation offer and have indicated that they wish to progress their claim through an employment tribunal. In addition a number of other employee groups have submitted claims. Provision has been incorporated within the Accounts to reflect the potential outcome of such claims.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the authority 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 authority. 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 liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

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 or 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, retirement and employee benefits and do not represent usable resources for the Authority - these reserves are explained in the relevant policies.

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.

Appendix 3

East Renfrewshire Council

Annual Governance Statement 2013/14

East Renfrewshire Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.

In discharging this accountability, members and senior officers are responsible for putting in place proper arrangements for the governance of East Renfrewshire Council's affairs and the stewardship of the resources at its disposal. To this end, the Council adopted a Code of Corporate Governance which was updated in June 2014 and is consistent with the principles and requirements of the CIPFA/ SOLACE guidance for Scottish local authorities *"Delivering Good Governance in Local Government".*

The Code is built around six governance principles:
• Focusing on the purpose of the authority and outcomes for the community
• Members and officers working together to achieve a common purpose
• Promoting values for the authority and demonstrating the values of good governance
• Taking informed and transparent decisions
• Developing the capacity and capability of members and officers to be effective
• Engaging with local people and other stakeholders

The Code of Corporate Governance was reviewed in 2014 by the Council's Corporate Management Team. This produced a number of improvement actions which have been taken forward over the course of the year. A revised Code of Corporate Governance for 2014/15 and update on the 2013/14 action plan was considered by the Audit and Scrutiny Committee on 12 June 2014.

A copy of the Code is on our website at http://www.eastrenfrewshire.gov.uk/corporategovernance or can be obtained from the Policy and Improvement Unit, Eastwood Headquarters, Rouken Glen Road, Giffnock, Glasgow G46 6UG (Telephone 0141 577 3660).

This statement explains how East Renfrewshire Council has complied with the code and also meets the Code of Practice on Local Authority Accounting in the UK 2013/14 based on International Financial Reporting Standards which details the requirements for a Statement of Internal Financial Control.

During 2013/14, East Renfrewshire Council has put in place appropriate management and reporting arrangements to enable it to satisfy itself that its approach to corporate governance is adequate and effective in practice.

The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of East Renfrewshire Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. Regular reviews of information and systems within this framework are undertaken by council managers.

The system includes:

- The Council's new vision and corporate statement East Renfrewshire: Your Council, Your Future was launched in 2014. This also included a range of products including a short film to reflect the content of the statement which has been promoted widely to residents and staff.

- Sound financial management arrangements which comply with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).
- Clear roles and responsibilities of the Corporate Management Team and Elected Members with delegation arrangements well defined.
- Providing an Audit Committee which provides an effective and detailed level of scrutiny across the Council,
- High standards of budgeting, monitoring and reporting,
- Regular reviews of periodic and annual financial reports which indicate both financial performance and actual expenditure against the forecasts,
- Objectives and targets: realistic and achievable, matched to financial and other resources, explicitly translated into clear responsibilities for implementation,
- Clearly defined capital expenditure guidelines,
- Matching of asset base to Council objectives in terms of suitability and sustainability, and supporting this with appropriate asset management,
- Systematic approach to risk management,
- Highly developed corporate performance management system with regular reports to the CMT and Cabinet. These reports are also published on the website.
- Procedures in place to help members and employees comply with relevant codes of conduct and policies – policies on fraud prevention, investigation and “whistleblowing”.
- Providing training and development opportunities for all Elected Members and Senior Officers.

A governance framework has been in place at East Renfrewshire Council for the year ended 31 March 2014 and up to the date of approval of the Statement of Accounts.

Review of effectiveness

East Renfrewshire Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of the effectiveness of the framework is informed by the work of the Corporate Management Team who have responsibility for the development and maintenance of the governance environment, the Chief Auditor’s annual report, and also by comments made by external auditors and other review agencies and inspectorates.

Internal Audit is an independent appraisal function established by the Council for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of the Council’s resources.

The Internal Audit service operates in accordance with the Chartered Institute of Public Finance and Accountancy’s Code of Practice for Internal Audit in Local Government in the United Kingdom. The service undertakes an annual programme of work approved by the Audit and Scrutiny Committee based on a five year strategic plan. The strategic plan is based on a formal risk based audit needs assessment which is revised on an ongoing basis to reflect evolving risks and changes within the Council. The Chief Auditor provides an independent opinion on the adequacy and effectiveness of the system of internal control.

Members and Officers of the Council are committed to the concept of sound governance and the effective delivery of Council services. The Audit Committee performs a scrutiny role in relation to the application of the Code of Corporate Governance and regularly monitors the performance of the Council’s Internal Audit Section.

The implications of the result of reviewing the effectiveness of the governance framework are reported to the Audit Committee and a plan to address weaknesses and ensure continuous improvement of systems is in place. The Chief Internal Auditor’s annual statement for 2013/14 (presented on 12 June 2014 at the Audit and Scrutiny Committee) presents an opinion that reasonable assurance can be placed on the adequacy and effectiveness of the Council's internal control system in the year to 31 March 2014.

Key actions achieved within 2013/14 included:

- Continued focus on Welfare Reform with the Council's Planning Group meeting every 6 weeks to plan activities to mitigate the impact of welfare reform changes.
- Introduction of a Modernisation Fund which has two parts – Spend to Save and Transformation Fund.
- Further development of the complaints handling procedure including performance reporting.
- Improvements to the council website which resulted in a SOCITM rating of 4 stars (from 2 stars).
- Third council-wide employee engagement survey.
- Publication of Planning for the Future (key demographics) report.
- Roll out of the on-line PRD system to certain departments.
- Development of a new four year Corporate Statement for the Council setting out vision and key priorities.
- Approval of a new methodology for risk based How Good Is Our Service (HGIOS).
- The Procurement Capability Assessment which reviews procurement across the Council has a section dedicated to contract management. This section score improved to 43% from 29%.

An action which was delayed in 2013/14 but which will be finalised in 2014/15 includes:

- Establishment for Community Councils is underway to ensure that the Scheme is fit for purpose, encourages a diverse range of people to become involved and ensure that Community Councils are representative of their communities.

Key Actions planned to be delivered in 2014/15:

- Council restructure with the sections of the former Finance Department moved to either the newly formed Corporate and Community Services Department or the Chief Executive's Office.
- The role of the Chief Financial Officer will transfer from the Director of Finance to the Head of Accountancy with arrangements in place to ensure that all duties of the Chief Financial Officer will be transferred without any disruption to service delivery. The Chief Financial Officer will continue to be a key member of the Corporate Management Team.
- Community engagement on budget proposals.
- Review of the Council's contract Standing Orders to reflect structural changes.
- Revision of Financial Regulations to reflect structural changes.
- New risk management strategy to reflect structural changes.
- The Welfare Reform Planning Group will continue to meet regularly and report to the CMT and Cabinet on progress to mitigate the impact of the next phase of welfare reform changes which will include the changes to the fraud structure and preparation for the implementation of Universal Credit.

The self assessment of the code of corporate governance against the nationally prescribed criteria identifies the code to be fully compliant across the 6 governing principles (approved by the Audit and Scrutiny Committee on 12 June 2014).

Significant governance issues

The Council's Assurance and Improvement Plan Update 2014-17 concluded that no risk based scrutiny work is currently required on the council's services or outcome areas.

The Scottish Housing Regulator (SHR) has identified that rent arrears and void rent loss performance is below the national figures and further information is required on progress against the planned improvement action. The use of B&B accommodation is also high and the council's 2012 improvement plan advised that a review of its available temporary accommodation was being undertaken which aimed to reduce the use of B&B accommodation. Progress updates will be provided to Audit Scotland to confirm the action taken by the council to reduce B&B use.

The financial constraints that the Council will face in future years are significant and it is clear that funding restrictions will continue for a number of years. The Council is therefore actively challenging current service models and existing methods of service delivery to ensure best value from available resources. It will be important that the challenges are addressed on a managed basis underpinned by a long-term strategy. To enable this, the Council has put in place an overriding Financial Policy drafted to form a framework to the actions that the Council requires to take to manage its financial difficulties.

In 2013/14, a number of key welfare reform changes were implemented. The Council has set up a Welfare Reform Planning Group with involvement from key staff. This group meets every six weeks to update the welfare reform action plan and discuss training and communication plans to mitigate the impact of welfare reform on residents.

Since the Public Service Excellence Programme (PSE) was launched in East Renfrewshire in 2009, the programme has realised £3.43m recurring financial savings and a workforce reduction of 231 full time employees. The programme has led to modernised ways of working and built more self-sufficient staff. The council has refreshed the PSE principles and these are now:

- Better customer experience
- Delivering through digital services
- Improving assets and agile working
- Processes simplified and standardised

The biggest areas of work within the PSE programme are around agile working and the CHCP.

In 2014/15 a review of the Public Service Excellence Programme will be undertaken and implementation of the outcome of the review will be critical in building our success in delivering services of highest quality within even tighter budget constraints.

Statement on the Role of the Chief Financial Officer in Local Government

CIPFA published this statement in 2010 and under the Code is required to state whether it complies with the statement and, if not, to explain how their governance arrangements deliver the same impact. The full statement is:-

The Chief Financial Officer in a public service organisation:

- Is a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the authority's strategic objectives sustainably and in the public interest;
- Must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the authority's financial strategy; and
- Must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

To deliver these responsibilities the Chief Financial Officer:

- Must lead and direct a finance function that is resourced to be fit for purpose; and
- Must be professionally qualified and suitably experienced.

The Council considers that it complies with the above statement.

Assurance

We consider the governance and internal control environment operating during 2013/14 to provide reasonable and objective assurance that significant risks impacting on the achievement of our principal objectives will be identified and actions taken to avoid or mitigate their impact.

Systems are in place to review and improve the governance and internal control environment. The Council will continue to review its corporate governance arrangements and take any additional steps as are required to further enhance these arrangements and will review their implementation and operation as part of the next annual review.

Signed:
Cllr J Fletcher
Leader of the Council

Date 25 June 2014

Signed:
L McMillan
Chief Executive
On behalf of East Renfrewshire Council

Date 25 June 2014