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<b>Report To:</b>	<b>Audit Committee</b>	<b>Date:</b>	<b>23 September 2009</b>
<b>Report By:</b>	<b>Chief Financial Officer</b>	<b>Report No:</b>	<b>FIN/56/09/AP/SC</b>
<b>Contact Officer:</b>	<b>Alan Puckrin</b>	<b>Contact No:</b>	<b>01475 712223</b>
<b>Subject:</b>	<b>Audit of Inverclyde's Annual Accounts 2008/9 – International Standard on Accounting 260</b>		

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## 1.0 PURPOSE

- 1.1 The purpose of this report is to present to Members key documents in relation to the Final Accounts 2008/9 and to consider the matters raised in the documents presented.

## 2.0 SUMMARY

- 2.1 It is a statutory requirement of the accounts closure process that Members of the Council receive a letter from the appointed External Auditors prior to the 23 September 2009 highlighting the main matters arising in respect of prior years accounts. This letter, (ISA260), does not replace the more substantial Member's letter which will be produced during October and which will be considered at a future meeting of the Audit Committee in late October/early November.

- 2.2 The papers attached to this report are as follows:

Letter of representation from the Chief Financial Officer (Appendix 1):

This letter provides External Auditors with assurance regarding some of the key accounting requirements and assumptions utilised when closing the 2008/9 Accounts. From this letter the Council's External Auditors can arrive at a view when expressing an opinion as to whether the financial statement presented a true and fair view of the financial position of Inverclyde Council at 31 March 2009.

The ISA 260 (Appendix 2):

This document is prepared by the Council's External Auditors. It covers the nature and scope of the audit, details any qualifications, details of any unadjusted misstatements, details of any material weaknesses in the accounting and internal control systems, gives a view on the qualitative aspects of the accounting practices and any other matters specifically required to be communicated to Members.

Summary of Audit Adjustments (Appendix 3):

This document highlights any significant adjustments made to the Accounts both in terms of financial information and disclosure notes.

Inverclyde Council 2008/9 - Review of Main Financial Systems (Appendix 4):

There are two letters attached to the report relating to the above. Each Financial year, the External Auditors are required to report on any findings following a review of the main financial systems and a response is required to be submitted by the Council. From the correspondence it can be seen that there were no significant matters raised by External Audit as part of their review.

- 2.3 In addition to the above, a copy of the final 2008/9 Annual Accounts will be available at the meeting of the Committee. The Committee will recall that it reviewed the draft accounts prior to their submission to Audit Scotland in June 2009 and based on all the above information it can be seen that there are limited changes arising from the audit.
- 2.4 The Chief Financial Officer, Chief Executive and other relevant Officers will be present at the meeting to answer any questions Members may have in regard to the documentation referred to in paragraph 2.2 or the Annual Accounts.
- 2.5 The information provided to Committee is the culmination of significant amount of work within Finance Services, other Services of the Council and the Council's External Auditors. Based on the reports presented today, the Committee are advised that the accounts closure process for 2008/9 has been the highest quality yet achieved by Inverclyde Council and is testament to the significant work by Officers in the Council and in particular the Finance Manager.

### **3.0 RECOMMENDATIONS**

- 3.1 It is recommended that Committee note the contents of this report, welcome the achievement of another qualification free set of accounts and consider the issues raised in the attached appendices relating to the 2008/9 audited Annual Accounts.

Alan Puckrin  
Chief Financial Officer

Mr Peter Tait  
Assistant Director  
Audit Scotland  
7<sup>th</sup> Floor  
Plaza Tower  
East Kilbride  
G74 1LW

17 September 2009

Dear Peter

### **2008-2009 FINANCIAL STATEMENTS**

This representation letter is provided in connection with your audit of the financial statements of Inverclyde Council for the year ended 31 March 2009 for the purpose of expressing an opinion as to whether the financial statements present a true and fair view of the financial position of Inverclyde Council as at 31 March 2009 and its income and expenditure for the year then ended.

I confirm to the best of my knowledge and belief, and having made appropriate enquiries of the Chief Executive and Corporate Management Team, the following representations:

#### **Legality of Financial Transactions**

1. The financial transactions of Inverclyde Council are in accordance with the relevant legislation and regulations governing its activities. All known or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed to you, together with the actual or contingent consequences which may arise.

#### **Accounting Policies**

2. All material accounting policies adopted are as shown in the Statement of Accounting Policies. The continuing appropriateness of the Council's accounting policies and estimation techniques has been reviewed since the introduction of FRS18 and on a regular basis thereafter, having regard to the concepts and qualitative characteristics set out in the *Code of Practice on Local Authority Accounting in the United Kingdom 2008* ("the SORP").
3. There are no changes in estimation techniques which should be disclosed due to their having a material impact on the accounting disclosures.
4. The Corporate Management Team has assessed the Council's ability to carry on as a going concern, and have disclosed, in the accounts, any material uncertainties that have arisen as a result.

#### **Assets**

##### *General*

5. The assets shown in the books and accounts at 31 March 2009 were owned by Inverclyde Council.

## **Fixed Assets**

6. During 2008/09 the Council have commenced a project to conduct an examination of the title to the Council's heritable property within Inverclyde. The project aims to identify common good property within Inverclyde and there will be further reasonable progress by March 2010.
7. As at 31 March 2009 this review has not identified any assets requiring reclassification as common good property . Therefore, based on the information available, for the year ended 31 March 2009, title deeds for properties owned or mortgaged to Inverclyde Council were held by the Council and all such deeds were in order.
8. All fixed assets are appropriately classified. The net book amount in the balance sheet was arrived at
  - (i) after taking into account all material capital expenditure on additions thereto but not expenditure properly chargeable to revenue;
  - (ii) after the amounts at which the land and buildings were stated in the balance sheet were properly calculated in accordance with the approved bases of valuation and fairly represented the values at 31 March 2009, and no properties were omitted from, or duplicated in the valuation;
  - (iii) after deducting the cost and accumulated depreciation relating to items sold or scrapped;
  - (iv) after providing for depreciation and obsolescence on bases and at rates calculated to reduce the net book value of each asset to its estimated residual value by the end of its probable useful life.
9. At 31 March 2009, Inverclyde Council had no obligations under finance leases.
10. Intangible assets have been recognised in accordance with the SORP and FRS 10, as disclosed at note 17 to the accounts.

### *Long Term Debtors & Prepayments*

11. All such debtors and prepayments have been fully provided for in the books of account.

### *Stocks*

12. The Council's stocks have been valued at a weighted average cost and all stocks are included in the financial statements.

### *Bank Accounts*

13. All bank accounts and designated client accounts relating to Inverclyde Council are included within the financial statements.

### *Other Current Assets*

14. On realisation in the ordinary course of Inverclyde Council business the other current assets in the balance sheet are expected, in my opinion, to produce at least the amounts at which they are stated. In particular adequate provision has, in my opinion, been made against all amounts owing which are known or may be expected to be irrecoverable.

## Liabilities

### *General*

15. All known liabilities have been provided for in the books of account, including the liability for all purchases to which title has passed prior to 31 March 2009.

### *Contingent Liabilities*

16. There are no significant contingent liabilities, other than those disclosed in Note 25 to the Consolidated Balance Sheet, arising either under formal agreements or through informal undertakings requiring disclosure in the accounts. All known contingent liabilities have been fully and properly disclosed, including any outstanding legal claims which have not been provided for under the SORP and FRS 12.

### *Provisions*

17. Provisions have been made in the accounts for all material liabilities which have resulted, or may be expected to result, by legal action or otherwise, from events which had occurred by the balance sheet date, and of which Inverclyde Council could reasonably be expected to be aware.
18. Actual and potential claims in relation to equal pay legislation have been reviewed and the probability that some transfer of economic benefits will be needed to settle this class of potential obligations as a whole has been assessed. Provision has been made where required for such liabilities that remained unpaid at 31 March 2009 in accordance with the SORP and FRS 12. The amount recognised as a provision is the best estimate of the expenditure likely to be required to settle the present obligation at the balance sheet date.

### *Commitments*

19. All commitments under capital contracts have been disclosed in Note 26 to the Consolidated Balance Sheet. Any other significant commitments or obligations which might adversely affect the Council have been disclosed.

### *Loans Fund*

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

### *Other Matters*

21. Expenditure on the purchase of furniture, office equipment and computer equipment and software below £6,000 has been charged to the income and expenditure account. Items costing more than this de minimis level have been treated as fixed assets. This de minimis does not apply where certain categories of these costs grouped together and form part of the approved Capital Programme.
22. Except as disclosed in the financial statements, the results for the period were not materially affected by
- (i) transactions of a sort not usually undertaken by Inverclyde Council;
  - (ii) circumstances of an exceptional or non-recurrent nature;
  - (iii) charges or credits relating to prior periods;

(iv) any change in the basis of accounting.

23. All significant related party transactions have been identified and disclosed at Note 16 to the Accounts in accordance with the SORP.
24. All material financial statement misstatements identified in the course of the audit have been corrected.

#### **Local Government in Scotland Act 2003**

25. Following the introduction of the statutory duty to demonstrate Best Value under the above Act, trading service accounts have been prepared for all significant trading operations in accordance with guidance issued by CIPFA / LASAAC.

#### **Corporate Governance**

26. I acknowledge, as the officer with responsibility for the proper administration of the Council's financial affairs under section 95 of the Local Government (Scotland) Act 1973, my responsibility for the systems for internal control and that the disclosures I have made are in accordance with guidance on statements on the system of internal control.
27. I acknowledge that it is the responsibility of the Council to prevent and detect fraud and other irregularity. I have considered the risk that the financial statements may be materially misstated as a result of fraud. I have disclosed to the auditor the results of this review, including any allegations of fraud or suspected fraud affecting the financial statements. There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the financial statements.

#### **General**

28. I acknowledge my responsibility, and that of the Council, for the financial statements. All the accounting records requested have been made available to you for the purposes of your audit. All material agreements and transactions undertaken by Inverclyde Council have been properly reflected in the financial statements. All other records and information have been made available to you, including minutes of all Council and other meetings.
29. Disclosure has been made in the financial statements of all matters necessary for them to present fairly the transactions and state of affairs of Inverclyde Council for the year ended 31 March 2009.
30. To the best of my knowledge and belief and having sought assurances from Officers within the Council, all common good assets and liabilities and revenue transactions have been properly separated from the Council's single entity accounts and are reflected within the common good accounts. Similarly, all assets and liabilities and revenue transactions relating to charitable trusts managed by the Council have been properly separated from the Council's single entity accounts and are reflected within the trust fund accounts. Ownership of the Council's property portfolio is currently subject to an ongoing review and the disclosed common good assets are those that the Council are aware of as at 31 March 2009.

## Events Subsequent to the Date of the Balance Sheet

31. The police and fire services nationally implemented a new pension scheme from 6 April 2006. The Local Government Pension Reserve Fund (Scotland) provides the statutory basis for local authorities and Police and Fire Boards to charge to a pension reserve the difference between retirement benefit costs as calculated under FRS 17 and the actual employer's pension contributions paid by the councils and boards. There is currently no legislation that permits this in respect of the new pension schemes established by the Police Pensions (Scotland) Regulations 2007 and the Fire-fighters Pension Scheme (Scotland) Order 2007
32. This is a national problem affecting all police and fire authorities across the UK and clearly was not intended when the new pension schemes were devised. The UK Government and devolved administrations have undertaken to make the necessary changes to regulations to ensure that this issue is resolved for next year's financial statements.

Strathclyde Fire and Rescue has amended their accounts to reflect this. The Board of Strathclyde Joint Police Board has elected to accept a qualification on its audit certificate. I have included a disclosure note within the Group Accounts concerning the qualification in the audit certificate of the Strathclyde Police Joint Board.

Yours sincerely

Alan Puckrin  
Chief Financial Officer

# Inverclyde Council

Report to those charged with governance on the 2008/09 audit

September 2009



 AUDIT SCOTLAND



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# Key Issues

## Introduction

1. International Standard on Auditing 260 (ISA 260) requires auditors to communicate matters relating to the audit of the financial statements to those charged with governance of a body in time to enable appropriate action.
2. ISA 260 requires us to highlight:
  - Relationships that may bear on our independence and the integrity and objectivity of the audit engagement lead and audit staff
  - the overall scope and approach to the audit, including any expected limitations, and the form of reports expected to be made
  - expected modifications to the audit report
  - management representations requested by us
  - unadjusted misstatements
  - material weaknesses in internal control identified during the audit
  - views about the qualitative aspects of accounting practices and financial reporting, including accounting policies
  - matters specifically required by other auditing standards to be communicated and any other matters that are relevant to the audit.
3. This report sets out for the Council's consideration the relevant matters arising from the audit of Inverclyde Council's financial statements for 2008/09 that require reporting under ISA 260. The contents should be brought to the attention of the Chief Financial Officer, Chief Executive and Leader so that they can consider them before they sign the relevant pages of the financial statements. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. The report has been prepared for the use of Inverclyde Council and no responsibility to any third party is accepted. In line with good practice, this report is also considered by the Audit Committee on 23 September 2009, before the audit is concluded.



## **Status of the audit**

4. Our work on the financial statements is now complete and the matters identified during the audit have been discussed with the Chief Financial Officer.

## **Matters to be reported to those charged with governance**

### **Conduct and scope of the audit**

5. Information on the integrity and objectivity of the audit engagement lead and audit staff, and the nature and scope of the audit, were outlined in the Annual Audit Plan submitted to management in January 2009 and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in March 2007.

### **Audit opinion & representations**

6. Our anticipated auditor's report (appendix A) is unqualified.
7. All errors identified during the audit have been corrected in the accounts and therefore there are no unadjusted misstatements to bring to your attention.
8. As part of the completion of our audit we seek written assurances from the Chief Financial Officer on aspects of the accounts and judgements and estimates made. A draft letter of representation under ISA 580 will be provided to the Chief Financial Officer on receipt of a final agreed set of accounts. This should be signed and returned by the Chief Financial Officer prior to the independent auditor's opinion being certified.

### **Accounting and internal control systems**

9. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the Accounts. Opportunities to improve internal control have been reported to the Council during the year in a letter to management. The more significant issues will be highlighted in the Report to Members and the Controller of Audit on the 2008/09 audit.
10. In 2007/08 we commented that whilst there had been significant improvement in the quality of supporting working papers there were still areas where improvement was required. We also raised some concern about the capacity of finance staff to respond to queries and clear matters arising due



to reliance on individual members of staff. Finance implemented actions to rectify these issues and we are pleased to report that the quality of the working papers provided to support the 2008/09 financial were of a high standard and, throughout the audit, responses to our queries and matters arising were provided swiftly and comprehensively.

## Matters arising

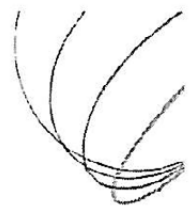
11. In our view, the following issues require to be brought to your attention regarding the appropriateness of the Council's accounting policies or accounting estimates and judgements, the timing of transactions, the existence of any material unusual transactions or the potential effect on the financial statements of any uncertainties:
12. **Objection:** On 17 August 2009 we received an objection to the accounts under section 101(2)(a) of the Local Government (Scotland) Act 1973. We have considered the objection and enquiries are ongoing on the issues raised in relation to common good assets.

**Resolution:** As we do not consider the issues to be material to our audit opinion we will report any significant matters arising from these enquiries in our 2008/9 final report.

13. **Common Good title deeds checks:** the ISA260 letter for 2007/08 identified that the Council was working toward compliance with CIPFA/LASAAC guidance to establish where all of its heritable properties are, who holds title to them and what their values are. During 2008/09 the Council have commenced a project to conduct an examination of the title to the Council's heritable property within Inverclyde. The project aims to identify common good property within Inverclyde and produce a register by March 2010.

**Resolution:** The project intends to have made substantial progress in identifying all common good properties by 31st March 2010. Thereafter a register will be produced

14. **Group financial statements:** Within the group financial statements Strathclyde Police Joint Board and Strathclyde Fire and Rescue are consolidated as associates. Proper accounting practice requires a charge to be made to the income and expenditure account for pension costs based on FRS17 Retirement Benefits. The Local Government Pension Reserve Fund (Scotland) Regulations 2003 provides the statutory basis for removing the FRS17 charge from the general fund so that only the actual pension payments are charged. However, this legislation does not cover the new pension schemes established with effect from 6 April 2006, by the Police Pensions (Scotland) Regulations 2007 and the Fire-fighters Pension Scheme (Scotland) Order 2007. Strathclyde Fire and Rescue has amended their accounts to reflect this however Strathclyde Police Joint Board has opted not to make any adjustment and their auditors will qualify their audit opinions in relation to this issue. The Council



have agreed to include a disclosure note within the group accounts concerning the qualification in the audit certificate of the Strathclyde Police Joint Board.

**Resolution:** The Scottish Government intend to amend the regulation to include the new schemes. The Council have agreed to include a disclosure note within the group accounts concerning the qualification in the audit certificate of these bodies.

15. **Removal of ring fenced funding:** The introduction of the Concordat with the Scottish Government resulted in the consolidation of some separate funding grants within the revenue support grant in 2008/09. When compared to the previous year, this has the effect of increasing the funding from revenue support grant and also increasing service net expenditure. This change in the basis/ nature of funding has a significant impact on the comparability of income and expenditure with the previous year.


**Resolution:** The Council have prepared the accounts in accordance with the 2008 SORP. No further action is required.

16. **Equal pay costs and single status costs:** actual and potential claims in relation to equal pay legislation have been reviewed and £1.028 million recognised as a provision. While there remain uncertainties over the actual costs that will be incurred to settle these cases, we are satisfied that this is a reasonable approach. The Council has sought to limit its exposure to the financial risk associated with equal pay claims by agreeing to offer equal pay compensation payments to specific groups of employees as part of a compensation package. Similarly, a specific earmarked balance of £0.809 million has been set aside to cover costs incurred for single status.

**Resolution:** Equal pay: Provision is being made in the accounts and the Chief Financial Officer has provided formal representation that this is the best estimate of the likely liability. Single status: The earmarked reserve will fund past costs and costs from 18 August 2008 onwards will be provided from general revenue funding.

## Acknowledgements

17. We would like to express our thanks to the staff of Inverclyde Council for their help and assistance during the audit of this year's financial statements which has enabled the appointed auditor to certify the statements by the Controller of Audit's target date.

 AUDIT SCOTLAND

September 2009



# Appendix A

## Proposed Independent Auditor's Report

### Independent auditor's report to the members of Inverclyde Council and the Accounts Commission for Scotland

I certify that I have audited the financial statements of Inverclyde Council for the year ended 31 March 2009 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Statement of Total Recognised Gains and Losses, Balance Sheet and Cash-Flow Statement, the Council Tax Income Account, the Non-Domestic Rate Income Accounts, the Common Good and Trust Funds and the related notes and the Statement of Accounting Policies together with the Group Accounts. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

#### Respective responsibilities of the Chief Financial Officer and auditor

The Chief Financial Officer's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 - A Statement of Recommended Practice (the 2008 SORP) are set out in the Statement of Responsibilities for the financial statements.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission.

I report my opinion as to whether the financial statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2008 SORP, of the financial position of the local authority and its income and expenditure for the year, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

I also report to you if, in my opinion, the local government body has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the Statement on the System of Internal Financial Control reflects compliance with the SORP, and I report if, in my opinion, it does not. I am not required to consider whether this statement covers all risk and controls, or form an opinion on the effectiveness of the local government body's corporate governance procedures or its risk and control procedures.

I read the other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.



### **Basis of audit opinion**

I conducted my audit in accordance with Part VII of the Local Government (Scotland) Act 1973 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Accounts Commission. My audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Chief Financial Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the local authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In my opinion the financial statements

- give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2008 SORP, of the financial position of Inverclyde Council as at 31 March 2009 and its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

*Peter Tait CPFA  
Assistant Director of Audit (Local Government)*

*Audit Scotland  
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G74 1LW*

*23 September 2009*

# Inverclyde Council 2008/09 Audit of Financial Statements

## Summary of Audit Adjustments

### Introduction

During the audit of Inverclyde Council's 2008/09 financial statements a number of required adjustments to the accounts were identified and agreed with the Finance team.

This memo provides a brief summary of these adjustments and focuses on the more material ones.

Please note that the identification of adjustments is always expected in an audit of financial statements and the adjustments noted below are not considered to be extraordinary.

This summary differentiates between the material adjustments to the figures in the financial statements and those to disclosure notes.

In addition to those adjustments noted here there are additional adjustments which have been processed but were not deemed to be sufficiently material to be detailed on this memo.

### Adjustments to Financial Figures

1. A number of assets were identified against which no depreciation had been charged in 2008/09 including roads assets which has been added to the asset register in year. The net impact of this was an additional charge of £0.164 million for depreciation in year.
2. £1.7 million of internal resource interest was shown on the face of the I&E as 'Non Distributable Costs' rather than being shown in the 'Interest received on Revenue Balances' line. This has been corrected however note there is no impact on the Council's surplus/deficit for the year as it is simply a presentation issue.
3. £4.9 million of Fairer Scotland Funding was shown on the face of the I&E in 'Central Services to the Public'. This needs to be reallocated across relevant services however note that there is no impact on the net cost of services.
4. An adjustment was required to reflect the appropriate treatment of the general capital grant received in 2008/09 and also the deferred government balance in the balance sheet. It was necessary to associate both these balances to specific assets and then adjust the



amortisation of them to reflect the useful lives of the assets that the balances had been allocated to. The net effect of these is to decrease the net cost of services by £0.356m. Note that this has no impact on the overall surplus as an equal and opposite entry is posted to the capital adjustment account.

5. There have been a number of changes to the group accounts figures to take account of audit changes to SPT and also to correct some errors identified in the consolidation process. These changes have no overall material effect on the group statements.

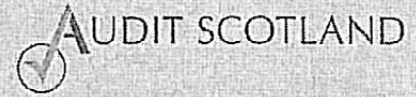
### **Adjustments to Disclosure Notes**

1. To comply with LAAP bulletin 81 a paragraph has been added to the Chief Financial officer's foreword to explain the impact of the economic downturn on the Council.
2. An explanatory paragraph to be incorporated to explain the change in funding arrangements which has resulted in a reduction in ring fenced funding and a corresponding increase in the Revenue Support Grant.
3. Amendment to the disclosure of the Council's policy for bad debt provision in relation to Council Tax. Note there is not a change to the policy, just a change to the disclosure note to aid clarity.
4. A note is required in the group statements to disclose the fact that the police accounts have been qualified, a brief description of the reason for this (New Pension Scheme) and a summary of the impact on the Council's Group Statements if the Police had adjusted their accounts to avoid the qualification.

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6 August 2009

Paul Wallace  
Corporate Director: Improvement and Performance  
Inverclyde Council  
Municipal Buildings  
Greenock  
PA15 1LY

Dear Paul

**Inverclyde Council 2008/09  
Review of Main Financial Systems**

1. As part of our 2008/2009 audit activity, we undertook a high level review of the main financial systems operated by Inverclyde Council ("the Council"), which were identified during our planning process. The purpose of this review was to evaluate whether the key internal controls operating within these systems were adequate. It should be highlighted that these reviews were restricted to a subset of the overall controls for each system. The controls reviewed were those we determined to be the key controls to meet our audit objectives and therefore these do not represent comprehensive control reviews.
2. The reviews incorporated follow up work to verify that management actions agreed in our '2007/08 Review of Main Financial Systems' report had been implemented.
3. The systems reviewed were main accounting, budgetary control, payroll, creditors, debtors, council tax (billing and collection) and non-domestic rates (billing and collection). Note that these are not all the systems we have identified as the main financial systems. There are additional systems where we determined that a control review was not appropriate and that a substantive audit approach would provide greater assurance. This substantive work will be performed as part of our audit of the 2008/09 financial statements.
4. This letter summarises the main control weaknesses we identified during the course of our review. We would appreciate a formal response providing a comment on the matters raised and indicating any proposed corrective action.
5. It should be noted that the weaknesses identified represent those that have come to our attention during the course of normal audit work and therefore are not necessarily all of the weaknesses that may exist.
6. It is the responsibility of management to decide on the extent of the internal control systems appropriate to the council.

Paul Wallace  
 Corporate Director: Improvement and Performance  
 Inverclyde Council

### **2007/08 Review of Main Financial System Report Issues Follow Up**

7. We are pleased to report that our testing confirmed that, with the exception of one non-domestic rates action (detailed below), all of the management actions agreed in our '2007/08 Review of Main Financial Systems' report have been implemented. As a consequence of this, and the maintenance of the controls already in place during 2007/08, we have only identified a small number of recommended improvements to the current control environment.

### **2008/09 Issues Identified**

8. Our review of creditors, debtors and main accounting did not identify any material issues. The following issues relating to council tax (billing and collection), non domestic rates (billing and collection), payroll and budgetary control were identified.

#### **Council Tax (Billing and Collection)**

9. In 2008/09 the Council carried out a review of all accounts that were in receipt of zero occupancy or second home discounts. Sample testing revealed that, whilst the review had taken place, accounts where the taxpayer did not complete and return the review form had not had their discount suspended.
10. A high level review of iWorld (council tax system) logical access highlighted:
- Four active user accounts for users who were no longer in the employment of the Council.
  - Two users with two accounts due to name changes resulting in the creation of a new account with their old account not being deactivated.

#### **Non-Domestic Rates (Billing and Collection)**

11. In our 2007/08 'Review of Main Financial Systems' report we highlighted that, for council tax and non-domestic rates, there was no audit trail to evidence that, prior to issuing a refund, the tax/rate payers account was reviewed to ensure that there was no outstanding debt relating to prior years. The management response received in 2007/08 stated that staff would be instructed that a memo must be entered on the system to say that previous years had been checked before issuing a refund. Through discussion with key officers we identified that this control had been implemented for council tax refunds but not for non-domestic rates refunds.

#### **Payroll**

12. During the implementation of single status, personal information held on the payroll system for all employees except teachers was verified for accuracy. The Council planned to undertake an exercise in January 2009 to verify personal information held for both full and part time teachers. As of June 2009 this exercise had not been completed.

#### **Budgetary Control**

13. In 2008/09 the Council appointed consultants to perform a review of the Council's financial management and capacity. This review was performed between January and March 2009 and the consultant's report presented to the Policy & Resources Committee in June 2009. The Council are to prepare an action plan to address the areas for improvement identified in the report.

6 August 2009

Paul Wallace  
Corporate Director: Improvement and Performance  
Inverclyde Council

14. We also note that Internal Audit are scheduled to perform a review of budgetary control as part of their 2009/10 annual plan.
15. To avoid any repetition with the financial management and capacity action plan and Internal Audit's review we performed a limited review of budgetary control and have identified some general areas for improvement within the control environment.
16. A review of a sample of 2008/09 revenue budget monitoring reports submitted to Committees indicated that there are a considerable number of budget transfers taking place without comprehensive explanations. There were a number of instances where virement explanations indicated that budget transfers were taking place to avoid overspends in areas where current commitment exceeded budget.

I trust you find these comments helpful, but please do not hesitate to contact me if you would like to discuss any of these issues further.

The co-operation and assistance afforded by officers during the course of our reviews is gratefully acknowledged.

Yours sincerely

*Elaine Boyd*

**Elaine Boyd**  
**Senior Audit Manager**

cc Alan Puckrin, Chief Financial Officer  
Andi Priestman, Chief Internal Auditor

Finance Services  
Municipal Buildings  
Greenock PA15 1LX

Appendix 4

Tel: 01475 712201 Fax: 01475 712202

Chief Financial Officer : Alan Puckrin CPFA

Date: 17 August 2009

**Improvement & Performance**  
Corporate Director: Paul Wallace

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Elaine Boyd  
Senior Audit Manager  
Audit Scotland  
7<sup>th</sup> Floor  
Plaza Tower  
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G74 1LW

Dear Elaine

Inverclyde Council 2008/9  
Review of Main Financial Systems

Thank you for your letter dated 6 August 2009 concerning the above, and I am pleased that you have recognised the strong overall control environment within which the Council Financial systems operate.

Taking each of the matters raised in turn, I would comment as follows:

1. Council Tax (Billing and Collection) - I can confirm that discounts will be removed when forms have not been returned, and that a written instruction has been given to the Assistant Team Leaders within Masterfile to this effect.  
  
Action has been taken to remove access to the revenues systems in the cases highlighted in your letter.
2. Non Domestic Rates (Billing and Collection) - This control has not been formally implemented, but the Chief Financial Officer has instructed the Revenues and Benefits Manager to ensure that instruction is given to her team to implement this in line with council tax as soon as possible.
3. Payroll – Given the imminent implementation of the new HR Payroll System then the verification of teachers' information will be carried out as part of the transfer of standing data to the new system.
4. IPF Report – I can confirm that an action plan to implement the recommendations from IPF will be presented to the Policy & Resources Committee in September 2009.
5. Revenue Budget Monitoring Reports – The Chief Financial Officer has stressed to the Accountancy Team the need to ensure that virements are reported to Committee given previous concerns raised by External Audit regarding the fact that not sufficient virements were being processed. There is an ongoing exercise to improve the quality of explanations within reports in general, and these comments will be factored in



I hope the above reassures you of the action that the Council is taking to address the issue raised in your letter, but should you require to discuss this further please do not hesitate to contact either myself or Alan.

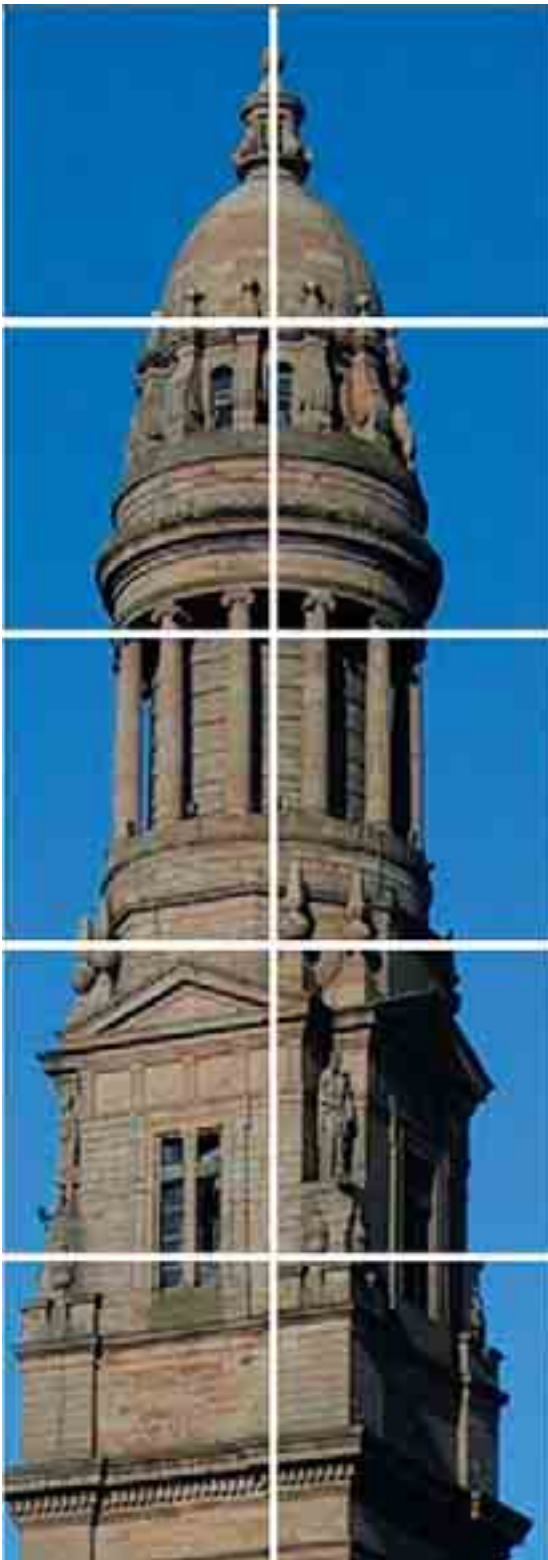
Yours sincerely

**Paul Wallace**  
**Corporate Director**  
**Improvement and Performance**

cc **Chief Financial Officer**  
**Finance Manager**  
**Revenues and Benefits Manager**  
**Accountancy Manager**  
**Chief Internal Auditor**







Inverclyde Council  
**Annual Accounts**  
2008 – 2009

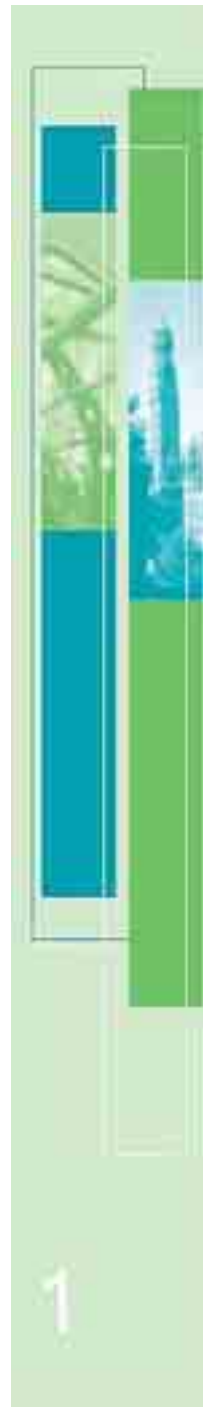


# Annual Accounts 2008 - 2009

Accounts of Inverclyde Council for the year ended 31 March 2009, prepared pursuant to Section 105 of The Local Government (Scotland) Act 1973 and in accordance with the terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

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## Foreword by the Chief Financial Officer

### 1. Introduction

The Annual Accounts demonstrate the Council's stewardship of the public funds with which it is entrusted. The Accounts are in respect of the year ended 31 March 2009 and have been compiled in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom ("the Accounting Code of Practice") and are set out on pages 17 to 73. Pages 11 to 16 set out the accounting policies adopted by the Council in the preparation of the Accounts to ensure that the Accounts "present fairly" the financial position of the Authority. An explanation of the main technical terms used in the Accounts is included on pages 76 to 77.



### 2. The Financial Statements

#### Core Financial Statements

The "rules and regulations" that set out the main requirements for local authorities' annual accounts are contained in the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice. "ACOP" is an acronym for Accounting Code of Practice while "SORP" is an acronym for Statement of Recommended Practice.

The 2008 SORP introduced a small number of presentational changes to the main or "core" financial statements for Local Authorities in the United Kingdom. The changes introduced this year are explained in more detail on page 11.

An explanation of the financial statements which follow and their purpose are:

- The Income and Expenditure Account reports the net cost for the year of all functions for which the Council is responsible and demonstrates how that cost has been financed from government grants and income from taxpayers.
- The Statement of Movement on the General Fund Balance shows how the Income and Expenditure Account surplus or deficit for the year reconciles to the movement on the General Fund for the year.
- The Statement of Total Recognised Gains and Losses (STRGL) shows all gains and losses experienced by the Local Authority, not just those that are reflected in the Income and Expenditure Account. It is necessary to consider all gains and losses that contribute to the change in the "net worth" of the Council over the course of the financial year when assessing the financial results for the period.
- 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 one particular point in time, 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 arising from transactions with third parties on both day-to-day revenue transactions and on 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.
- The Notes to the Core Financial Statements give further information on the Council's "core" financial statements.

#### Supplementary Financial Statements

An explanation of the supplementary financial statements and their purpose are:

- The Council Tax Income Account shows the gross and net income from the 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 the resulting net income for the financial year to the Council that is shown in the Income and Expenditure Account.

## Statement of Responsibilities for the Annual Accounts

This statement sets out the respective responsibilities of the Council and the Chief Financial Officer for the financial statements.

## Statement on the System of Internal Financial Control

This statement sets out the framework within which financial control is managed and reviewed over the main components of the system, including the arrangements for Internal Audit.

## 3. Overview

### Revenue

The Income & Expenditure Account on page 17 summarises the total costs of providing Council services and the income available to fund those services. The Statement of Movement on the General Fund Balance on page 18 shows a surplus of £2.6 million for the year. When this is combined with the General Fund Balance of £18.0 million brought forward from 2007-2008 it results in a cumulative balance of £20.6 million to be carried forward to 2009-2010. £16.0 million of this balance is earmarked for specific purposes as detailed on page 49. This leaves £4.6million as an unallocated balance which is approximately 2.4 % of the Council's net budget.

### Principal Sources of Finance

The principal sources of finance utilised by the Council in 2008-2009 were as follows:

Revenue Support Grant	£130.6 million	Provided by the Scottish Government*
Other government grants	£47.5 million	Provided by the Scottish Government
Non-Domestic Rates income	£31.3 million	Provided by the Scottish Government**
Council Tax / Community Charge	£32.9 million	Raised from local taxpayers
Other income	£47.7 million	Sales, fees, charges and other contributions for services

\* In 2008-2009 £14.8 million was moved from ring-fenced government grants and included in the Revenue Support Grant.

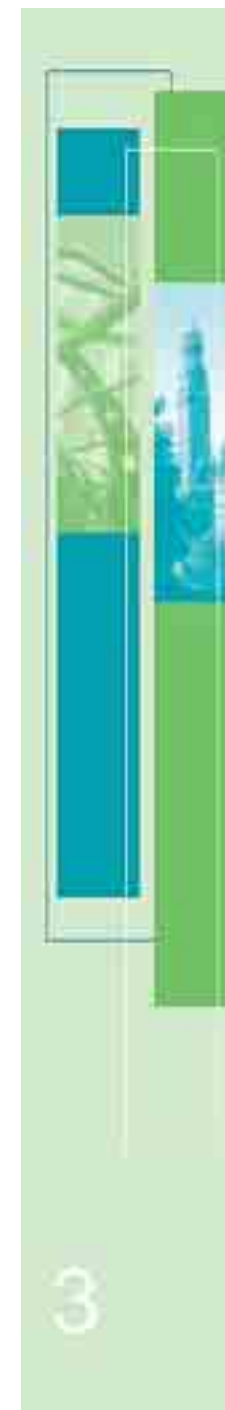
\*\* Although the Council received £31.3 million non-domestic rate income from the Scottish Government, £17.8 million was paid to the Government from non-domestic rates raised in Inverclyde which represents a net contribution to the Council by the Government of £13.5 million (2007-2008 £11.7 million).

### Balance Sheet

The Balance Sheet on page 20 summarises the Council's assets and liabilities as at 31 March 2009 and explanatory notes are provided. Total net assets have decreased by £53.3 million to £148.4 million, the reduction mostly caused by the increase in the Council's share of the net liability of Strathclyde Pension Fund. The major changes in the Council's Balance Sheet between March 2008 and March 2009 are explained in more detail in the following paragraphs.

### Fixed and Current Assets

Operational assets have increased in value by £15.5 million to £360.0 million as a result mainly of the combination of £29.4 million for three new schools less the downward revaluation of land and buildings by £11.1 million. Non-operational assets have reduced by £25.3 million to £6.3 million mostly related to the completion of the schools classified as "under construction" in the previous year. Short-term deposits and bank balances have increased by £6.7 million to a combined total of £42.4 million as a result of borrowing during the year for capital investment partially offset by the early repayment of debt as part of debt refinancing. Debtors reduced by £7.4 million due to the change by the Scottish Government for payment of grant from in arrears to in advance and the successful resolution of compensation for the Waterfront Leisure Complex. Creditors reduced by £5.8 million as a result of the transfer of services for council housing and an improved turn-round at the year-end for payment of suppliers.



## Pension Liability

The Pension Scheme liability has increased by £34.0 million as advised by the appointed actuaries, and this is mainly as a result of the difficult conditions for investment markets over the past year and the consequent reduction in investment returns. The Council's share of the Pension Fund deficit stands at £39.6 million at 31 March 2009.

The assessment by the actuaries to the Pension Fund provides only a snapshot assessment as at 31 March 2009 and necessarily changes on a day-to-day basis to reflect stock market movements in particular. The appointed actuaries remain of the view that the asset holdings of Strathclyde Pension Scheme and the contributions from employees and employers together with planned increases in employers' contributions provide sufficient security and income to meet future pension liabilities. The increased disclosure requirements for pension benefits under the revised accounting regulations are detailed on pages 27 to 31.

## Long-term and Short-term Borrowing

The Council made net borrowings of £13.2 million during the year to meet anticipated capital expenditure requirements and to refinance maturing loans after allowing for debt repayments. Short-term borrowing increased by £17.7 million whilst long-term borrowing decreased by £4.5 million. This change in strategy took place over the second half of the year following the upheaval in financial markets in order to reduce the Council's borrowing costs. Longer term borrowings were refinanced with shorter-term borrowings at lower rates. This, combined with the debt refinancing (explained in the next paragraph), has resulted in savings in budgeted loan charges and is referred to in section 4 below.

The Council also undertook debt refinancing of £40.0 million during the year that included the repayment and refinancing of long-term external borrowings with borrowing at lower rates. The borrowing strategy 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 with the remainder from the Public Works Loan Board.

## 4. Budget Performance – General Fund

The General Fund returned a net surplus of £2.6 million for the year compared to a budgeted break even position. The main reasons for this surplus are:

- £1.4 million reduction in budgeted loan charges
- £0.8 million transfer from the former Housing Revenue Account to general reserves, earmarked for Strategic Housing purposes
- £0.4 million for contingencies not utilised

The unallocated general fund balance reflects a transfer to earmarked reserves of £5.8 million per the 2009-2011 budget approved February 2009.

## 5. 2009-2010 General Fund Budget

During the course of the year, the Council faced a number of significant financial pressures resulting from the general inflationary increases and the overall downturn in the economy. The latest projections for public sector expenditure from the Treasury, as well as various academic institutions and think tanks, outline a scenario where resources continue to decline in real terms for the next 5-10 years at the same time as demand for services continues to increase annually driven by demographic change and policy pressures.

The Council has considered the potential risks for the Council at both a corporate and service level of the economic downturn. On 26 May 2009, the Policy and Resources Committee approved an Action Plan that focuses on maintaining investment programmes and services in the medium term; reviewing governance frameworks, policies and delivery arrangements where appropriate; and ensuring that the Council is able to effectively manage through the economic downturn and prepare for the recovery.

When developing the 2009-2010 budget the Council has agreed to move to a two year rolling budget and approved the 2009-2011 budget in February 2009. This budget included an increase in recurring funding for two key corporate initiatives over the next two financial years as follows:

- Single Status £1.6 million
- School Estate Strategy £2.0 million

When the projected impact on government grant and income levels are considered then it further highlights the need for the Council to maintain stringent financial control and to drive out efficiencies wherever possible.

## 6. Housing Revenue Account (Discontinued Operation)

The Council transferred ownership of its entire housing stock of 7,388 houses, 7,135 to River Clyde Homes and 253 to the Cloch Housing Association on 3 December 2007 following the “yes” vote in the ballot of tenants. The Housing Revenue Account has been closed and the balance of £0.5 million brought forward at 1 April 2008 transferred to the General Fund and is held as an earmarked reserve for Strategic Housing purposes.

## 7. Significant Trading Operations

The Council operates three Significant Trading Operations. Each of the three trading operations (Building Services, Roads and Vehicle Management) achieved a surplus for the year and in total contributed £0.2 million to the General Fund. All three significant trading operations met their statutory requirement to at least break-even over the three-year period of their operations. Further information about the Significant Trading Operations’ services and their turnover, expenditure and surplus or deficit is shown on page 23.

## 8. Capital Expenditure and Income

The Council is able to regulate its own capital spending limits within a prudential framework recommended by the Chartered Institute of Public Finance and Accountancy and endorsed by the Scottish Government. The Council’s performance confirms our overall capital spending of £24.5 million was managed within the “Prudential Framework” limits approved by our Council. There was slippage of £5.5 million against the approved capital programme.

The major part of the capital expenditure for the year was the £14.3 million spent on refurbishing educational properties as part of the Council’s School Estates Strategy. Funding of capital expenditure included £0.8 million from revenue and £4.8 million from government grants, with the balance of £18.8 million being met through borrowing. Further information about the spending on capital projects is shown on page 45.

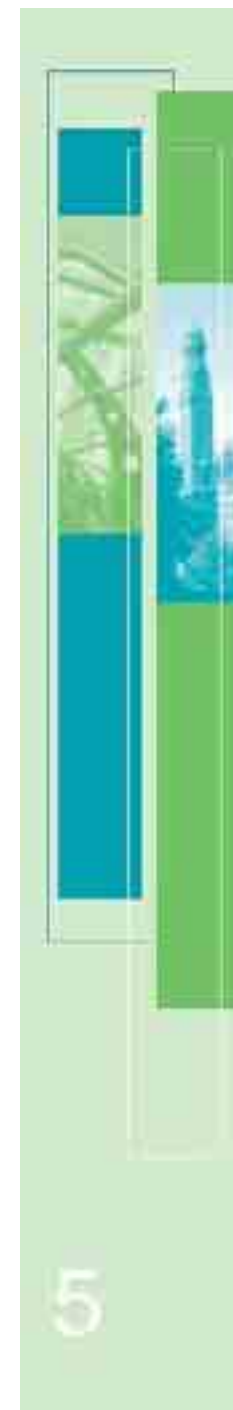
Major projects progressed during the year included:

- £8.6 million on the construction costs of the new Inverclyde Academy
- £1.6 million on the alterations to the Rainbow Nursery
- £1.3 million on the alterations and an extension to Wemyss Bay Primary School
- £1.2 million on the construction costs of the new Newark Primary School.

## 9. Common Good & Trust Funds

The Inverclyde Common Good Fund achieved a surplus of £0.073 million. When this is added to the balance of £0.518 million brought forward from 2007-2008, this gives a total reserve of £0.591 million which is available for use in future years and to meet the £0.414 million committed for the restoration of the Comet in Port Glasgow, the 2009 European Pipe Band Championship, and the 2011 Tall Ships Event. The total net asset value marginally increased by £0.017 million due to an increase in amounts due to the Common Good at the year end.

The charitable and other trust funds increased by £0.032 million during the year, after expenses of £0.146 million, mostly spent on Birkmyre Park and educational scholarships and endowments. This was funded by incoming resources of £0.178 million. The total net asset value of the trusts increased marginally by £0.024 million to £0.516 million. A new trust fund, the Educational Trust Fund, was set up during the year.



## 10. Group Accounts

This is the fourth year of the accounting requirement for local authorities to prepare Group Accounts in addition to their own Council's accounts where they have a material interest in other organisations. The Group Accounts on pages 59 to 73 consolidate the results of the Council with its share of seven other entities – Strathclyde Joint Police Board, Strathclyde Fire and Rescue Joint Board, Strathclyde Partnership for Transport, Strathclyde Concessionary Travel Scheme Joint Board, Renfrewshire Valuation Joint Board, Inverclyde Leisure Limited and Riverside Inverclyde Limited. The effect of the inclusion of the above associate bodies in the Group Balance Sheet is to reduce both the "total assets less liabilities" and "total balances and reserves" by £133.2 million representing the Council's share of the net liabilities in these entities.

This reflects the combined pension liability of these associates, particularly those recorded for the Police and Firefighter's scheme. The following statements make up the "Group Accounts" for the Local Authority:

- i. The Group Income and Expenditure Account combines the Income and Expenditure figures for the Council with the Council's share of each "associates" operating results.
- ii. The Reconciliation of the Single Entity Balance for the year to the Group Balance for the year explains the contribution of the "associates" operating results to the overall group surplus or deficit.
- iii. The Group Statement of Total Recognised Gains and Losses presents the overall change in the "net worth" of the group and an analysis of the gains and losses during the year.
- iv. The Group Balance Sheet brings together all the assets and liabilities of the group, and combines the Council's assets and liabilities with its share of each associate's net assets or liabilities.
- v. The Notes to the Group Accounts give further information on the Local Authority's group accounts.

## 11. Other Significant Matters

The Council has entered into a Public Private Partnership agreement for the provision of educational buildings, maintenance and other facilities. The agreement provides the Council with replacement buildings for two primary and two secondary schools. The provider started construction work during the year under the post-contract signing arrangements. The first of the schools is scheduled to be occupied in April 2010.

The Council has now fully implemented Single Status and concluded the pay and grading exercise plus the review of terms and conditions.

## 12. Conclusion

The continuation of prudent financial management and sound budgetary control procedures has allowed the Council to successfully manage its financial affairs within budget and the financial objectives prescribed, whilst at the same time progressing major strategic initiatives such as the School Estate Strategy, Single Status and Riverside Inverclyde. I am pleased to record that the Council has successfully managed its financial affairs which reflects well on both the efforts and professionalism of the employees and the effectiveness of our financial management procedures.

I would like to take this opportunity to acknowledge the significant effort in producing the Annual Accounts and to record my thanks to both my own team and colleagues in other services for their continued hard work and support. I greatly appreciate the significant efforts of all who were involved.

Further information on the Accounts can be obtained from Finance Services, Municipal Buildings, Clyde Square, Greenock PA15 1LY.



Alan Puckrin C.P.F.A.  
Chief Financial Officer  
25 June 2009



# Statement of Responsibilities for the Annual Accounts

## a) The Authority's Responsibilities

The Authority is required to:

- (i) make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In Inverclyde Council, that officer is the Chief Financial Officer.
- (ii) manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

In addition, the Council is committed to ensuring Best Value in service delivery.

## b) The Chief Financial Officer's Responsibilities

The Chief Financial Officer of Inverclyde Council is responsible for the preparation of the Authority's Annual Accounts, in accordance with proper practice set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ("The Code of Practice").

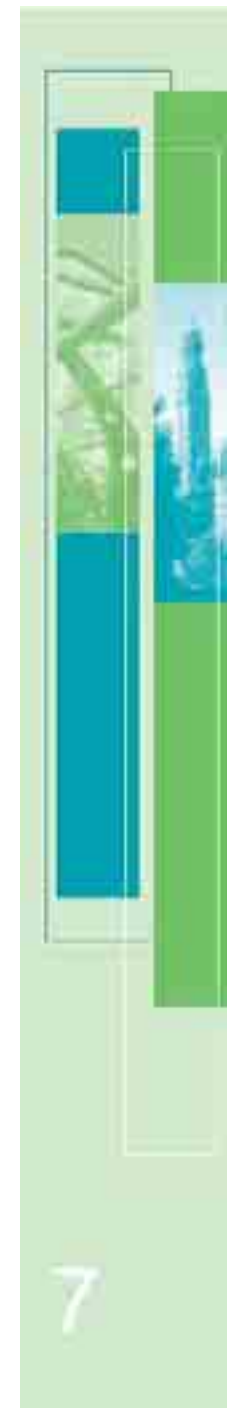
In preparing this Statement of Accounts, the Chief Financial Officer has:

- (i) selected suitable accounting policies and then applied them consistently.
- (ii) made judgements and estimates that were reasonable and prudent.
- (iii) complied with the Code of Practice.

The Chief Financial Officer has also:

- (i) kept proper accounting records which are up to date.
- (ii) taken reasonable steps for the prevention and detection of fraud and other irregularities
- (iii) signed and dated the Statement of Accounts.

The statement of accounts represents a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2009.



# Statement on the System of Internal Financial Control

1) This statement is given in respect of the Annual Accounts for Inverclyde Council. For financial year ended 31 March 2009, the statement also covers the other bodies whose activities have now been incorporated into our Group Accounts including:-

- Inverclyde Leisure Limited
- Strathclyde Police Joint Board
- Strathclyde Fire and Rescue Joint Board
- Strathclyde Partnership for Transport
- Strathclyde Concessionary Travel Scheme Joint Board
- Renfrewshire Valuation Joint Board and
- Riverside Inverclyde Limited

In respect to Inverclyde Council, we acknowledge our responsibility for ensuring that an effective system of internal financial control is maintained and operated in connection with the resources concerned. For the other bodies in the Group, we have placed reliance on the individual bodies' management and Chief Internal Auditors' assurances in relation to the soundness of their systems of internal financial control.

2) The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded and that material errors or irregularities are either prevented or would be detected within a timely period.

3) The system of internal financial control is based on a framework of Financial Regulations, regular management information, administrative procedures (including segregation of duties), management supervision and a scheme of delegation and accountability. Development and maintenance of the system is undertaken by managers within the Council. In particular the system includes:-

- Financial regulations
- A comprehensive budgeting system;
- Regular reviews of periodic and annual financial reports which indicate performance against forecasts
- Setting targets to measure financial and other performance
- Clearly defined capital expenditure guidelines
- Formal project management disciplines for capital and major ICT initiatives

4) Internal Audit within Inverclyde Council operates as part of the Improvement and Performance Directorate. The Service operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the UK (2006) and ISA610, and undertakes an annual programme of work, approved by the Audit Committee, to derive sufficient and appropriate audit evidence to confirm the adequacy and effectiveness of the Council's system of internal control.

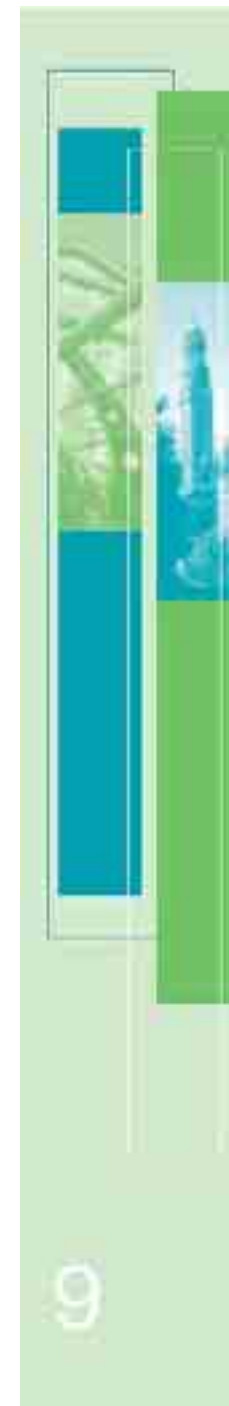
5) In relation to reporting arrangements, the Council's Chief Internal Auditor:-

- Reports on an administrative line management basis to the Corporate Director Improvement and Performance who is a member of the Corporate Management Team
- Has open access to Members and the Chief Executive, and reports on a functional basis to the Audit Committee
- Retains final edit rights over all internal audit reports
- Provides an annual assurance statement

- 6) Improvement plans are agreed with the appropriate Council officers at the conclusion of all internal and external audits throughout the year. An ongoing follow-up process is in place to monitor progress on implementation of agreed actions.
- 7) Our review of the effectiveness of the internal financial control is informed by:-
  - The work of managers within the Council
  - The work of internal audit as described above
  - The external auditors in their annual audit letter and other reports
- 8) From the above, we are satisfied that the Council has in place a sound system of internal financial control, but would draw attention to the specific matters detailed in paragraphs 9 to 11 below.
- 9) Specific exercises are underway to:-
  - Embed the corporate project management framework within the Council
  - Develop a Procurement Strategy in order to improve procurement and tendering procedures to support achievement of Best Value in the procurement of goods and services
  - Embed the corporate approach to partnership working and the associated risk assessment processes

Once completed, these initiatives will enhance the current system of internal financial control.

- 10) Work is continuing in line with Audit Action Plans to improve the arrangements for:-
  - The ongoing monitoring of the use of Corporate Purchase Cards. The need for a comprehensive review of the policy and procedures over corporate purchase cards in order to address a wide range of weaknesses was identified and in respect of ongoing monitoring and review of appropriate management information available in order to fully assess the effectiveness of the Council's corporate purchase card scheme.
  - The ongoing development of Business Continuity Management. The need for a defined framework for Business Continuity in order to address a wide range of weaknesses was identified to ensure that management are able to effectively assess and control the impact of potential business continuity risks for the Council.
  - Raising awareness around Information Governance and Management. The need for a corporate approach to information governance and management was identified in order to ensure staff are able to effectively assess and control risks in relation to handling of confidential or sensitive information.
  - Asset Management. The need for a comprehensive Asset Management strategy supported by a Corporate Property Asset Management System.



11) During 2008-2009 the Council has recognised the importance of maintaining the momentum on risk management and significant progress has been made in the following:-

- Developing a Risk Assessment and Prioritisation Framework to allow management to better appreciate their role in managing the strategic and operational risks in their particular area of responsibility.
- Developing a risk register in conjunction with partners in relation to the Single Outcome Agreement.
- Developing a risk register for the Financial Strategy which allows management to consider the risks to the overall financial position arising from matters contained within the Financial Strategy.
- Developing a corporate framework for Project Management. This will allow management to ensure that a consistent, proportionate approach is in place to ensure the successful delivery of projects.
- Forming the Crisis and Resilience Management Team to facilitate the advancement of emergency planning, crisis management and business continuity within the Council and fulfill the Council's legislative requirements under the Civil Contingencies Act 2004.
- Developing a Strategic Business Continuity Plan for the Council through facilitated workshops.

It is considered important to actively manage the risk management process to achieve further improvement, and key actions to be taken include:-

- Progressing the implementation of risk management processes in key partnerships
- Embedding Risk Management in the overall Strategic Planning and Performance Management Framework

The momentum on risk management will be maintained and its achievement monitored and reported to Audit Committee.

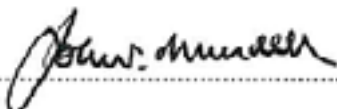
12) We are satisfied that appropriate mechanisms are in place to identify and address areas of material weakness timeously.

Alan Puckrin  
Section 95 Officer



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John Mundell  
Chief Executive



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25 June 2009

# Statement of Accounting Policies

## 1 General

The Accounts relate to the financial year ended 31 March 2009 with relevant figures for the 2007-2008 financial year shown, as appropriate, for the purpose of comparison. The general policies adopted in compiling and presenting the Accounts are those recommended by the Code of Practice on Local Authority Accounting in the United Kingdom issued jointly by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC), and are designed to give "a true and fair view" of the financial performance and position of the Council.

There are no significant departures from these recommendations and, specifically, the accounting concepts of "materiality", "accruals", "going concern", and "primacy of legislative requirements" have been considered in the application of accounting policies. In this regard the materiality concept means that information is included where the information is of such significance as to justify its inclusion. The accruals concept requires the non-cash effects of transactions to be included in the financial statement for the year in which they occur, not in the period in which payment is made or income received. The going concern concept assumes that the Council will not significantly curtail the scale of its operations. Lastly, legislative requirements have priority over accounting principles in the event of conflict between legislation and the Accounting Code.

The accounts have been prepared under the historic cost convention, other than changes resulting from the revaluation of certain categories of fixed and financial assets and liabilities. The following accounting policies used in its preparation have been reviewed in line with changes made to the ACOP following the introduction of Financial Reporting Standard, FRS18 "Accounting Policies".

## 2 Major Changes in Accounting Practice

Under the 2008 SORP the Council has adopted the amendment to FRS17, *Retirement Benefits*. As a result, quoted securities held as assets in the defined benefit pension scheme (Strathclyde Pension Fund) are now valued at bid price rather than mid-market value. The actuaries to the Pension Fund advise that they have not been provided with details of the difference between mid-market and bid price of the Fund as a whole by the administering authority. They have estimated the bid price by applying a reduction of 0.4% to the employer's mid-market share price as at 31 March 2009. In view of the lack of materiality of this adjustment, the asset values of previous years have not been restated to bid value and therefore the historic figures are at mid-market values.

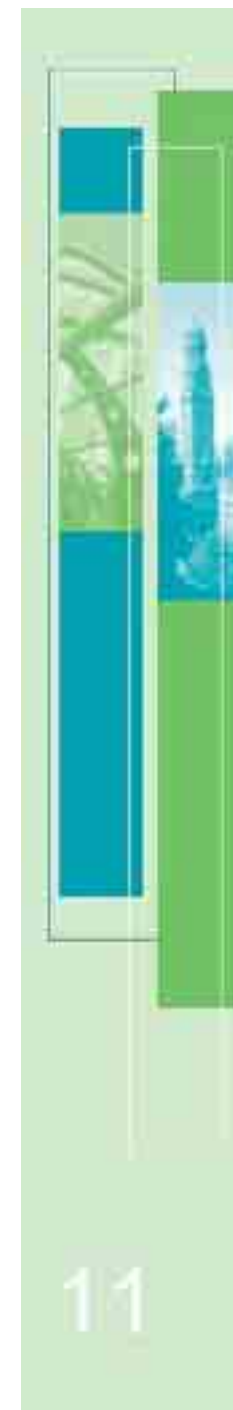
## 3 Income and Expenditure Account

### Best Value Reporting

One of the requirements of the Best Value Accounting Code of Practice (BVACOP) is for Councils to show expenditure and income in the Income and Expenditure Account in generic service groups as prescribed by the Code of Practice. The "standard expenditure analysis" is designed to make inter-authority comparisons more meaningful. The service groups shown in the Income and Expenditure Account therefore reflect the standard generic groups and not the management of service delivery and budgetary responsibilities as determined by the Council.

### Employee Costs and Supplies & Services

- i. All salaries and wages earned up to 31 March 2009 are included in the Accounts irrespective of when payment was made. The Council has made a provision for the costs of settling claims for equal pay arising before the Council implemented its equal pay strategy.
- ii. Suppliers invoices paid in the two weeks following the year-end have been included together with specific accruals in respect of further material items provided the goods and services were received in 2008-2009.
- iii. The Council participates in two formal schemes, the Local Government Superannuation Scheme which is administered by Strathclyde Pension Fund and the Teacher's Scheme. The Council is not required to record information related to the Teachers' Scheme as the liability for payment of pensions rests ultimately with the Scottish Government.



In accordance with FRS17 the Council has disclosed certain information concerning assets, liabilities, income and expenditure relating to the pension scheme for its employees. The accounting standard FRS17 requires that an organisation must account for retirement benefits when it is committed to giving them, even if the giving will be many years into the future.

This involves the recognition in the Balance Sheet of Inverclyde Council's share of the net pension asset or liability in Strathclyde Pension Fund and a pension reserve. The revenue account also recognises changes during the year in the pension asset or liability. Service expenditure includes pension costs based on employer's pension contributions payable and payments to pensioners in the year rather than the traditional accounting for pension benefits earned by employees.

The liabilities of the pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the "projected unit method" and discounted to their value at current prices using a discount rate of 6.9%, based on the indicative rate of return on a high quality corporate bond. The assets of the pension scheme attributable to the Council are included in the Balance Sheet at their fair value at current bid price for securities and market price for property.

FRS17 sets out that the discount rate used to place a value of the liabilities should be the return on a "high quality corporate bond of equivalent term and currency to the liability". Rather than using a single bond to set the discount rate, the actuaries have used what they consider to be a more objective approach. This is the yield on a "basket" of sterling highly rated corporate bonds, and with a term greater than 15 years consistent with the Scheme's liabilities.

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 members of staff including teachers are accrued in the year of retiral.

The Notes to the Core Financial Statements provide further information.

- iv. Rent payable under operating leases is charged to the Income and Expenditure Account over the term of the lease.
- v. In general, Income and Expenditure excludes any amounts relating to Value Added Tax (VAT), as all VAT is payable to H.M. Revenue and Customs and all VAT is recoverable from them. The Council is not entitled to fully recover VAT paid on a very limited number of items of expenditure e.g. leases and for these items the cost of VAT paid is included within the service expenditure to the extent that it is irrecoverable from H.M. Revenue and Customs.

### Charges for the Use of Assets

- i. Services are charged for the use of assets no matter how they are financed and this charge includes a provision for depreciation where appropriate.
- ii. In the case of the Council's Significant Trading Operations, the calculation of the three-year trading results includes a provision for depreciation plus an interest charge for the actual cost of borrowing for capital expenditure under the specific reporting requirements of the Local Government in Scotland Act 2003.

### Financing Costs

- i. The Council operates a Loans Fund and all loans raised are paid into the Fund. Advances are made to services to finance capital expenditure during the year. Repayments to the Loans Fund are calculated using the annuity method.

- ii. Interest has been calculated and allocated to the Income and Expenditure Account in accordance with guidance from the Local Authority (Scotland) Accounts Advisory Committee (LASAAC). LASAAC are the accounting standard setting body for Local Authorities in Scotland under the powers of Finance Circular 5/85. Note 2 issued by LASAAC sets out the accounting treatment for financing costs.
- iii. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the loan. For most of the borrowings that the Council has, the interest is the amount payable in the loan agreement.
- iv. Costs associated with debt restructuring (premiums and discounts) are charged to Net Operating Expenditure in the Income & Expenditure Account in the year of extinguishment of the original debt in accordance with accounting regulations. Scottish Government regulations permit the costs of restructuring to be released to revenue over the period of the replacement loan. The reconciliation of amounts charged to the Income and Expenditure Account 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 Statement of Movement on the General Fund Balance.
- v. The amount of capital expenditure financed through the General Fund is disclosed separately in the Statements as is the statutory provision for the repayment of debt.

#### Interest Receivable and Investment Income

- i. The amount for interest receivable in the Income and Expenditure Account is based on the carrying amount of the asset, multiplied by the effective rate of interest for the loan. For the Council's short-term deposits and most of its other lending, the interest disclosed is the amount receivable for the year in the loan agreement.
- ii. The Council has made various loans at below market rates to a variety of borrowers including voluntary organisations and clubs, industries and small businesses. The Council has also made interest-free pay advances to a small number of employees as part of negotiated changes to pay cycles. The accounting regulations requires that the "subsidy" element of the lending (the difference between what the loan would have cost at market rates and the interest actually charged) is formally recorded in the accounts. Accordingly, the interest notionally foregone is recognised in the Income and Expenditure Account. Scottish Government regulations permit the exclusion of this notional income from the General Fund balance for loans entered into prior to April 2007. This is achieved by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance. The Council applies de-minimus principles to low value advances (debts under £6,000) or where there has not been a significant discounting of interest rate (a variation of 1%) in the calculation of notional income.
- iii. For the Council's external investments, the income from dividends, interest etc. is included in the Income and Expenditure Account when it becomes receivable by the Council.

#### Public Private Partnership

The Council has entered into a Public Private Partnership for the provision of educational buildings, maintenance and other facilities. The agreement provides the Council with replacement buildings for two secondary and two primary schools. The provider is required to ensure the availability of these buildings to a pre-agreed standard. The provider started construction work during the year under the post-contract signing arrangements.

There are no entries in the accounting statements in relation to the project, as payment under the terms of the agreement will not start until 2010-2011. This accounting treatment is in accordance with FRS5 "Reporting the Substance of Transactions" and Treasury guidance. Further information about the revenue resources committed for future years for this project is provided in Note 1 of the Notes to the Core Financial Statements.



### Significant Trading Operations

Details of Significant Trading Operations' services, and their turnover, expenditure and surplus are set out in note 3 of the Notes to the Core Financial Statements. In accordance with Council policy, the surplus or deficit on all trading operations has been taken to the Income and Expenditure Account.

### Allocation of Central Support Costs (Overheads and Support Services)

The net cost of all central support services is fully allocated to user Services. The method of allocation is determined by the individual support services and in many instances is time based. All overheads not defined as Non-Distributable Costs or Corporate and Democratic Core are fully charged to service expenditure headings. Various methods of allocation based on the seven principles laid down in the Best Value Accounting Code of Practice are used.

### Income and Debtors

- i. All known specific and material sums payable to the Council have been brought into account. For a limited number of cases where social work clients have mortgaged their homes to the Council for the cost of care, payable after they die or when the property is sold, it is the policy of the Council under the terms of the agreement to recognise the income when the net free proceeds from the property sale becomes available.
- ii. The Council has made provision, based on past experience, for the loss of local taxation income arising from bad and doubtful debts and for successful valuation appeals. All Non-Domestic Rates debt is fully provided for; Council Tax debt over five years overdue is fully provided for with 50% of uncollected debt provided for in years 1 to 5; and 90% of Housing Benefit overpayments are provided for.
- iii. Grants and subsidies have been credited to the appropriate Service in the Income and Expenditure Account and accruals have been made for the balances known to be receivable for the period to 31 March 2009. Government grants are fully recognised in the year of receipt unless there are specific conditions for its repayment.

## 4 Balance Sheet

### Capital Expenditure and Receipts

Capital transactions have been recorded on an income and expenditure basis with specific creditors and debtors taken into account. Government grants and contributions in respect of capital expenditure have been accounted for on an accruals basis through the Government Grant Deferred Account.

### Fixed Assets Valuation

Fixed assets are included in the Balance Sheet at valuation.

- i. Intangible fixed assets (expenditure on assets such as software licences that do not have physical substance but are identifiable and controlled by the Council) are capitalised at cost for major purchases when it will bring benefits to the Council for more than twelve months.
- ii. An independent valuation of all Council owned land and buildings, with the exception of council housing, was undertaken during 2007-2008 by DM Hall, a professional firm of chartered surveyors and completed on 1 October 2007. The Council revalues all its land and buildings assets in a single exercise at five-yearly intervals. In general, there is no rolling programme with the exception of some community assets and land and buildings brought into account in 2006-2007 and 2008-2009.
- iii. Operational assets excluding infrastructure, community and vehicles and plant have been included in the Balance Sheet at the lower of net current replacement cost or net realisable value in existing use. Infrastructure, community and vehicles and plant are held at depreciated historic cost. Non-operational assets have been included in the Balance Sheet at the lower of net current replacement cost or net realisable value. Where these valuations are not available insurance replacement value has been used as a suitable proxy.



- iv. Plant, furniture and computer equipment costing less than £6,000 are not treated as fixed assets but are charged to the Income and Expenditure account. This de-minimus level does not apply where certain categories of these assets are grouped together and form part of the approved capital programme.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. 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.

### Depreciation

- i. General Fund services are charged with depreciation where appropriate for the use of assets no matter how they are financed.
- ii. Depreciation on a straight-line basis is provided for all assets other than land, investment properties and assets under construction. No depreciation is charged in the year of acquisition but a full year's depreciation is charged in the year of disposal. The periods of depreciation and categories of assets are:

Software Licenses	1 to 6 years
Property	10 to 49 years
Infrastructure	40 years
Vehicles & Plant	3 to 10 years
Equipment	3 to 10 years

- iii. Depreciation on the Council's non-operational assets is not charged to service revenue accounts. It is however reflected in the Income and Expenditure Account through non-distributable costs.

### Impairment

Officers of the Council, as part of their normal duties, report at the end of the financial year on any material events that affect the value of an asset. Where impairment is identified as part of this review, the loss is charged to the relevant service revenue account. Note 18 provides further information.

### Proceeds from Disposals

Proceeds from the sale of assets are reinvested either to fund capital expenditure or to reduce the Council's borrowing requirement.

### Lending

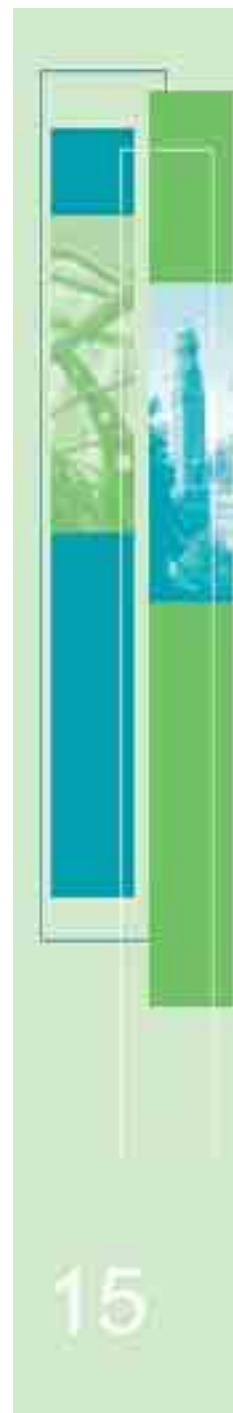
The Council has made various loans at below market rates to a variety of borrowers. Such lending is known as "soft" loans. These loans receivable are included within the figures for "long-term debtors" in the Balance Sheet. They are initially measured at fair value and are carried at their amortised cost in the Balance Sheet. The Council applies de-minimus principles to low value advances (debts under £6,000) or where there has not been a significant discounting of interest rates (a variation of 1%) in the application of fair value and amortised cost.

### Investments

Investments held by the Council comprise solely of short-term lending of surplus funds to a limited number of high-quality UK banks. All deposits are held in sterling. The carrying amount is the outstanding principal receivable. The investments of the Common Good and Trust Funds are shown in the Balance Sheet at "fair value", based on quoted market prices at 31 March 2009 or the nearest available date. Impairments in fair value are taken to the relevant Income and Expenditure Account.

### Valuation of Other Assets

- i. The valuation of work-in-progress has been made at cost plus an appropriate proportion of overheads, together with attributable profits and allowances for foreseeable losses.
- ii. In general, consumable stock brought into account has been valued at weighted average cost.



- iii. The Council has “material interests” in 2 charitable companies and 5 Joint Boards that have the nature of “associates” under accounting conventions, and requires it to prepare group accounts. In the Council’s own single-entity accounts, such interests are not recorded as the Council has no share in or ownership of any of these organisations.

### Leases

Assets leased to the Council are all on an operating lease basis, whereby the assets remain the property of the leasing company. Rentals payable under leases are charged to the Income and Expenditure Account over the term of the lease.

### Borrowing

Loans payable are initially measured at “fair value” and are carried at their amortised cost in the Balance Sheet.

### Provisions

The value of provisions is based upon the Council’s obligations arising from past events, the probability that a transfer of economic benefit will take place and a reasonable estimate of the obligation.

### Contingent Liabilities

Contingent liabilities are included as a note to the accounts and reflect possible liabilities facing the Authority.

### Guarantees

In accordance with accounting regulations, financial guarantees are recognised at fair value assessed as the probability of the guarantee being called and the likely amount payable under the guarantee. Guarantees entered into prior to 1 April 2006 are reflected in the Statement of Accounts to the extent that a provision may be required.

### Bank Balances

Bank balances are included in the Balance Sheet at the closing balance in the Council’s ledger.

### Capital and Other Reserve Funds

The Council has various reserve funds. The Insurance Fund covers the main classes of insurance and is earmarked for insurance purposes. The Education Equipment Fund is earmarked funding for schools to be used for planned purchases of a capital nature such as computers and information technology equipment. The Repair and Renewal Fund provides for the upkeep of the Greenock Cut and other assets of the Council. The Capital Fund is used to meet the costs of capital investment in assets and for the repayment of the principal element of borrowings.

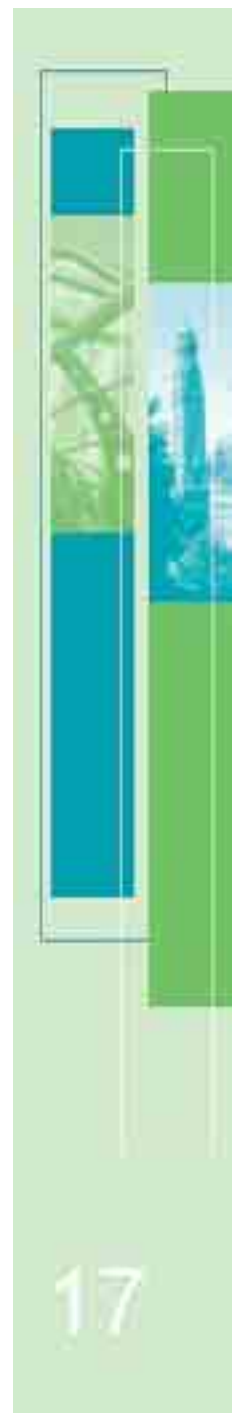
The two capital reserves arising from the system of capital accounting are the Revaluation Reserve and the Capital Adjustment Account. The former of these represents the store of gains on revaluation of fixed assets not yet realised through sales and the latter relates to amounts set aside from capital resources to meet past expenditure. The accounting reserve arising from the restatement of “financial instruments” to “fair value” is the Financial Instruments Adjustment Account. This is a balancing account to allow for differences in statutory requirements and proper accounting practices for lending & borrowing by the Council. The Pension Reserve arises from the FRS17 accounting disclosures for retirement benefits and recognises the Council’s share of actuarial gains and losses in the Strathclyde Pension Fund and the change in the Council’s share of the Pension Fund net liability chargeable to the Income and Expenditure Account.

### Common Good and Trusts

The accounts of the Common Good and Trusts are shown separately. The accounts of the Common Good have been prepared in accordance with the December 2007 guidance from the Local Authority (Scotland) Accounts Advisory Committee “Accounting for the Common Good fund : a guidance note for practitioners”. The accounts of the trusts, including those that are registered Scottish charities, have been prepared under the accounting policies of the Local Authority as disclosed above. This is in accordance with the transitional arrangements for financial reporting for Scottish charities administered by Scottish local authorities and is as agreed with the Scottish Charity Regulator (OSCR).

## Income & Expenditure Account for the Year ended 31 March 2009

2007-2008 Net Expenditure £000		Notes	2008-2009 Expenditure £000	2008-2009 Income £000	2008-2009 Net Expenditure £000
1,636	Central Services to the Public		10,805	(9,823)	982
9,461	Cultural & Related Services		13,525	(3,136)	10,389
93,340	Education Services		103,281	(6,049)	97,232
9,514	Environmental Services		12,006	(1,679)	10,327
7,101	Fire and Rescue Services		7,605	0	7,605
7,292	Housing Revenue Account – Discontinued Operation	2	0	0	0
1,663	Housing Services		38,648	(37,813)	835
8,473	Planning and Development Services		10,855	(4,236)	6,619
9,524	Police Services		9,637	(383)	9,254
6,470	Roads & Transportation		7,489	(2,228)	5,261
42,699	Social Work		64,586	(13,154)	51,432
2,486	Corporate and Democratic Core		2,593	0	2,593
2,370	Non-Distributable Costs		3,275	(304)	2,971
<b>202,029</b>	<b>Net Cost of Services</b>		<b>284,305</b>	<b>(78,805)</b>	<b>205,500</b>
89,447	(Gain) or Loss on Disposal of Fixed Assets				1,247
292	(Surplus) or Deficit on Trading Operations				160
16,218	Interest Payable and Similar Charges				11,686
(3,829)	Interest Received & Interest on Revenue Balances				(4,431)
(2,919)	Pension Interest Cost and Expected Return on Pension Assets	12			(86)
<b>301,238</b>	<b>Net Operating Expenditure</b>				<b>214,076</b>
(33,002)	Council Tax				(32,886)
(110,755)	Revenue Support Grant				(130,554)
(29,979)	Non-Domestic Rates				(31,278)
<b>127,502</b>	<b>Deficit for the year</b>				<b>19,358</b>



## Statement of Movement on the General Fund Balance for the Year ended 31 March 2009

The Income and Expenditure Account shows the Council's financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the Authority is required to raise council tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- Interest on borrowing and lending is accounted for when it is payable or receivable rather than the effective interest rate over the period of the loan.
- Premiums and discounts arising from debt restructuring are amortised over the period of the replacement loan in accordance with Scottish Government regulations, rather than at the time the original loan is extinguished.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

The General Fund Balance compares the Council's spending against the Council Tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to funds and reserves. This reconciliation statement summarises the difference between the out-turn on the Income and Expenditure Account and the General Fund. Greater detail on the figure of £21.981 million is shown in note 4 on page 24.

2007-2008 Net Expenditure £000		2008-2009 Net Expenditure £000
127,502	Deficit for the year on the Income and Expenditure Account	19,358
(128,059)	Net additional amount required by statute and non-statutory proper practice to be credited to the General Fund Balance for the year	(21,981)
<u>(557)</u>	<b>(Increase) in General Fund balance for the year</b>	<u>(2,623)</u>
(17,476)	Balance on General Fund brought forward	(18,033)
4,478	Adjustments to opening carrying value of borrowing per accounting regulations	0
(4,478)	Transfers to new Balance Sheet reserve (Financial Instruments Adjustment Account) per statutory guidance	0
<u>(17,476)</u>	<b>Restated General Fund Balance at 1 April</b>	<u>(18,033)</u>
<u>(18,033)</u>	<b>Balance on General Fund carried forward</b>	<u>(20,656)</u>

## Statement of Total Recognised Gains and Losses for the Year ended 31 March 2009

This statement brings together all the gains and losses of the Council for the year and shows the aggregate decrease in its net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed and financial assets and re-measurement of the net liability to cover the cost of retirement benefits.

The gain on revaluation of fixed assets (mostly land and buildings) of £2.515 million and the actuarial loss on pension assets and liabilities of £36.458 million represent gains and losses from re-measuring (broadly revaluing) certain assets and liabilities to current or "fair" value at the balance sheet date and do not contribute to the resources that can be used to fund the Council's services.

More information about the recognised gains and losses in the table below is shown in note 27 on page 46.

2007-2008  
£000

127,502  
(147,467)  
(33,317)  
4,478  
(1,134)

(49,938)

Deficit on the Income and Expenditure Account for the year  
(Surplus) arising on revaluation of fixed assets  
Actuarial (gains) /losses on pension assets and liabilities  
Adjustment arising from transitional arrangements for financial instruments  
Other capital (gains)

**Total recognised (gains) and losses for the year**

2008-2009  
£000

19,358  
(2,515)  
36,458  
0  
0

53,301



## Balance Sheet as at 31 March 2009

Inverclyde Council Annual Accounts 2008-2009

2008 £000	Notes	2009 £000	2009 £000
525	17	Intangible Fixed Assets	456
		<b>Tangible Fixed Assets</b>	
		<b>Operational Assets</b>	
306,362	18	Other Land & Buildings	318,934
6,180	18	Vehicles, Plant & Equipment	5,983
23,044	18	Infrastructure Assets	25,518
8,826	18	Community Assets	9,526
<b>344,412</b>			<b>359,961</b>
		<b>Non-operational Assets</b>	
187	18	Investment Properties	180
29,423	18	Assets Under Construction	190
1,973	18	Surplus Assets held for Disposal	5,936
<b>31,583</b>			<b>6,306</b>
<b>345</b>		<b>Long-term Debtors</b>	<b>352</b>
345			352
<b>376,865</b>		<b>Total Long-term Assets</b>	<b>367,075</b>
		<b>Current Assets</b>	
321		Stocks and Work In Progress	699
19,495	21	Debtors (net of bad debt provision)	12,064
5,038		Investments	41,116
30,642		Cash & Bank Balances	1,253
<b>55,496</b>			<b>55,132</b>
		<b>Current Liabilities</b>	
(2,817)		Short-term Borrowing	(20,455)
(30,114)	22	Creditors	(24,301)
(1,335)	23	Provisions	(1,082)
<b>(34,266)</b>			<b>(45,838)</b>
<b>398,095</b>		<b>Total Assets less Current Liabilities</b>	<b>376,369</b>

2008 £000	Notes	2009 £000	2009 £000
(174,200)		Long Term Liabilities	
(16,630)		Long-term Borrowing	(169,704)
(5,576)	12	Government Grants Deferred	(18,705)
		Defined Pension Scheme Liability	(39,572)
<b>(196,406)</b>			<b>(227,981)</b>
<b>201,689</b>		<b>Total Assets Less Liabilities</b>	<b>148,388</b>
		<b>Represented by:</b>	
129,982	27	Revaluation Reserve	120,857
57,341	27	Capital Adjustment Account	43,026
(3,565)	27	Financial Instruments Adjustment Account	(3,972)
0	27	Capital Receipts Reserve	0
(5,576)	27	Pension Reserve	(39,572)
18,033	27	General Fund Balance	20,656
517	27	Housing Revenue Account Balance	0
4,957	27	Other Statutory Funds	7,393
<b>201,689</b>		<b>Total Net Worth</b>	<b>148,388</b>



Alan Puckrin C.P.F.A.  
Chief Financial Officer  
Issued on  
25 June 2009

The unaudited accounts were issued on 25 June 2009 and the audited accounts were authorised for issue on 23 September 2009.

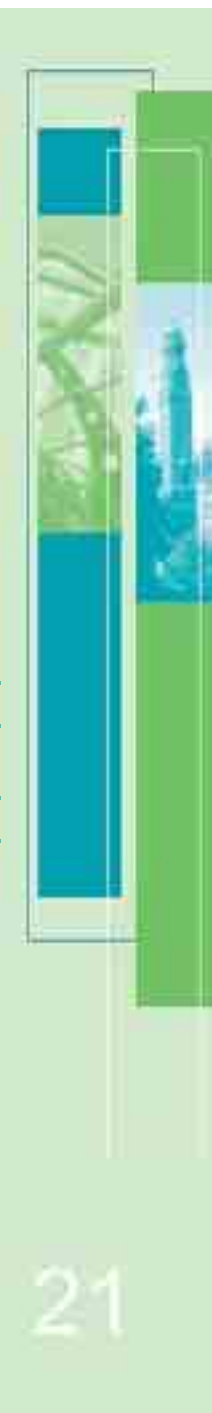
## Cash Flow Statement for the Year ended 31 March 2009

2007-2008	2008-2009	2008-2009
£000	£000	£000

2007-2008	2008-2009	2008-2009
£000	£000	£000
<b>REVENUE ACTIVITIES</b>		
<b>Cash Outflows</b>		
116,473	112,479	
112,496	102,309	
26,450	31,374	
<b>255,419</b>	<b>246,162</b>	
<b>Cash Inflows</b>		
(6,543)	0	
(32,957)	(32,104)	
(15,182)	(16,817)	
(12,235)	(11,865)	
(110,755)	(130,554)	
(34,506)	(39,055)	
(32,465)	(20,589)	
(25,651)	(18,369)	
<b>(270,294)</b>	<b>(269,353)</b>	
<b>(14,875)</b>	<b>(23,191)</b>	
<b>28</b>	<b>Net Cash Inflow from Revenue Activities</b>	
<b>RETURNS ON INVESTMENT AND SERVICING OF FINANCE</b>		
<b>Cash Outflows</b>		
16,706	12,038	
<b>Cash Inflows</b>		
(5,366)	(3,433)	
<b>11,340</b>	<b>8,605</b>	
	<b>Net Cash Outflow from Investments &amp; Servicing of Finance</b>	

2007-2008	2008-2009	2008-2009
£000	£000	£000

2007-2008	2008-2009	2008-2009
£000	£000	£000
<b>CAPITAL ACTIVITIES</b>		
<b>Cash Outflows</b>		
35,236	25,451	
1,561	0	
<b>36,797</b>	<b>25,451</b>	
<b>Cash Inflows</b>		
(6,111)	(49)	
(7,569)	(4,810)	
(79)	(37)	
0	(14)	
<b>(13,759)</b>	<b>(4,910)</b>	
<b>23,038</b>	<b>20,541</b>	
	<b>Net Cash Outflow from Capital Activities</b>	
<b>19,503</b>	<b>5,955</b>	
	<b>Net Cash Outflow / (Inflow) Before Financing</b>	
<b>MANAGEMENT OF LIQUID RESOURCES</b>		
(34,962)		36,078
	<b>Net increase / (decrease) in short-term deposits</b>	
<b>(34,962)</b>	<b>36,078</b>	
<b>29</b>	<b>Net Cash (Inflow)/Outflow from the Management of Liquid Resources</b>	
<b>FINANCING</b>		
<b>Cash Outflows</b>		
194,256	40,058	
<b>Cash Inflows</b>		
(105,000)	(45,000)	
(95,698)	(7,702)	
<b>(6,442)</b>	<b>(12,644)</b>	
<b>29</b>	<b>Net Cash (Inflow)/Outflow from Financing</b>	
<b>29</b>	<b>(Increase)/Decrease in Cash</b>	<b>29,389</b>



## Notes to the Core Financial Statements

### Note 1 Schools Public Private Partnership

The Council has entered into a Public Private Partnership for the provision of educational buildings, their maintenance and related facilities. The agreement provides the Council with replacement buildings for two secondary and two primary schools. The provider is required to ensure the availability of these buildings to a pre-agreed standard. When the agreement ends in 2040, the buildings will be handed back to the Council with a guarantee of no major maintenance requirements for a five-year period. Under the agreement the Council is committed to paying the following sums (assuming an adjusted inflation rate of 1.67% per annum).

	2010-2015 £000	2016-2020 £000	2021-2025 £000	2026-2030 £000	2031-2035 £000	2036-2040 £000	Total £000
Payments	38,574	48,032	52,171	56,665	61,548	64,586	321,576

### Note 2 Discontinued Operations

The comparator figures include the results of the former Housing Revenue Account. The Council's housing stock was transferred during 2007-2008. The Housing Revenue Account was closed on 1 April 2008 and all retained balances transferred to the General Fund as an earmarked reserve for Strategic Housing purposes.

Further information about residual amounts due to and from the discontinued operation is shown in notes 21 to 23.



### Note 3 Significant Trading Operations: Summary Revenue & Appropriation Account 2008-2009

This statement shows the (surplus) or deficit arising from the operation of the Council's "Significant" Trading Operations, as required by the Local Government in Scotland Act 2003. Under the Act, each Significant Trading Operation must account for its activities under proper accounting practices and break-even over a rolling three-year period.

Details of Significant Trading Operations' (STO) services, and their turnover, expenditure and surplus or deficits are set out below. In accordance with Council policy, the surplus or deficit on each STO has been taken to the Council's Income and Expenditure Account.

The accounting regulations permit surpluses or deficits of trading undertakings and other operations to be disclosed in the second section of the Income and Expenditure Account in a separate line. The (STO)'s that are included in the second section are Vehicle Management and Building Services plus the Council's other operations of Catering and Cleaning. The results of the Roads trading operation are consolidated within the Roads and Transportation heading.

Trading Operation	2007-2008 (Surplus)/ Deficit £000	2008-2009 Turnover £000	2008-2009 Expenditure £000	2008-2009 (Surplus) / Deficit £000
Building Services	(34)	(2,993)	2,971	(22)
Roads	(290)	(2,343)	2,200	(143)
Vehicle Management	(30)	(2,209)	2,200	(9)

### Statutory Performance, Three-year Period 2006-2007 to 2008-2009

Trading Operation	Annual (Surplus)/Deficit 2006-2007 £000	Annual (Surplus)/Deficit 2007-2008 £000	Annual (Surplus)/Deficit 2008-2009 £000	(Surplus)/Deficit over 3 Years £000
Building Services	(111)	(34)	(22)	(167)
Roads	(230)	(290)	(143)	(663)
Vehicle Management	9	(30)	(9)	(30)
	<b>(332)</b>	<b>(354)</b>	<b>(174)</b>	<b>(860)</b>

## Activities and Objectives

The activities, customers, and policy objectives of the Significant Trading Operations are:

### Building Services

The main activity is to provide a comprehensive building maintenance service for the Council's properties, and capital and maintenance work for former housing stock now owned by River Clyde Homes. Work is issued on a schedule of rates through the building maintenance contract with the Council and through tender with River Clyde Homes. The STO has a turnover of approximately £3 million per annum. Its main customers are River Clyde Homes and the Property Services division of the Council.

### Roads

The main activity is the repair and upkeep of the Council's roads and footways infrastructure, and its main customer is the Roads division of Environmental Services. The majority of works are commissioned on a benchmarked and agreed schedule of rates basis. The policy objective is to have an operation that can be reactive to emergencies and provide winter maintenance and a good quality service throughout the year.

### Vehicle Management

The main activity is the provision of a fleet management service including the routine servicing and inspection of all Council vehicles and the supply of drivers. Its customers cover a number of Council services. Work is commissioned on the basis of predetermined standard trade guidance for servicing and inspection services. The policy objectives are to provide a prompt, efficient and cost effective service to user services.

## Note 4 Net Additional Amount to be credited to the General Fund Balance for the Year

The balance for the year on the General Fund was £21.981 million more than the Income and Expenditure Account result. The table below gives a detailed breakdown of the differences between deficit of £19.358 million reported in the Council's Income and Expenditure Account in accordance with the SORP, and the surplus for the year of £2.623 million in the General Fund balance.

	2008-2009 £000	2008-2009 £000	2007-2008 £000	2007-2008 £000
<b>Amounts included in the Income &amp; Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund</b>				
Amortisation of intangible fixed assets	(770)		(493)	
Depreciation & impairment of fixed assets	(32,831)		(52,737)	
Government grants deferred released to revenue	2,572		1,240	
Net surplus or (deficit) on disposal of fixed assets	(1,247)		(89,447)	
Net charges made for retirement benefits in accordance with FRS17	2,462		2,158	
Net charges for Financial Instruments in accordance with Scottish Government regulations	(407)	(30,221)	(1,050)	(140,329)
<b>Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year</b>				
Loans Fund principal repayment	7,306		11,050	
Capital expenditure charged in-year to the General Fund Balance	756	8,062	1,090	12,140
<b>Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year</b>				
Transfer to / (from) Housing Revenue Account balance	(517)		(325)	
Transfer to / (from) other statutory funds	695	178	455	130
<b>Net additional amount required to be debited or (credited) to the General Fund balance for the year</b>		<b>(21,981)</b>		<b>(128,059)</b>

### Note 5 Expenditure & Income Analysis

	2008-2009 £000	2007-2008 £000
<b>Where the Money Went</b>		
Employee costs	114,931	117,321
Property costs	17,231	22,121
Supplies & Services	13,144	12,779
Transport	5,540	5,102
Administration	4,390	4,468
Payments to other bodies (incl. Joint Boards)	44,931	46,264
Financing costs	17,381	24,408
Other costs	67,878	71,054
<b>Gross Expenditure</b>	<b>285,426</b>	<b>303,517</b>
<b>Where the Money Came From</b>		
Housing rents	0	(14,310)
Other income	(93,331)	(116,028)
<b>Income from Council Services</b>	<b>(93,331)</b>	<b>(130,338)</b>
Council Tax	(32,886)	(33,002)
Non-Domestic rates	(31,278)	(29,979)
Revenue Support Grant	(130,554)	(110,755)
<b>Gross Income</b>	<b>(288,049)</b>	<b>(304,074)</b>
<b>General Fund (Surplus)</b>	<b>(2,623)</b>	<b>(557)</b>

### Note 6 Details of Government Grants

An analysis of government grants included in the "other income" figure is as follows:

	2008-2009 £000	2007-2008 £000
Housing Benefit	(31,274)	(26,168)
Housing Benefit / Council Tax Administration	(1,117)	(1,171)
Community Regeneration Fund	0	(5,151)
Fairer Scotland Fund	(6,470)	0
Private Sector Housing Grant	(1,586)	(1,076)
Early Action Fund	(1,943)	0
Community Ownership Programme Funding	0	(789)
Police	(383)	0
Community Social Work	(149)	(1,128)
Education	(2,703)	(12,778)
Other	(154)	(1,543)
<b>Total</b>	<b>(47,482)</b>	<b>(58,261)</b>

**Note 7 Local Government Act 1986 – Separate Publicity Account**

	2008-2009 £000	2007-2008 £000
Recruitment	56	121
Marketing	44	87
Other advertising (planning applications, Councillors Surgeries' etc.)	127	147
	<b>227</b>	<b>355</b>

**Note 8 Local Authorities (Goods and Services) Act 1970**

Councils must keep separate account of agreements entered into under this legislation. Income during 2008-2009 amounted to £2.952 million (£2.389 million in 2007-2008).

**Note 9 Audit Costs**

The fees paid to Audit Scotland in respect of external audit services undertaken in accordance with the Accounting Code of Practice in 2008-2009 were £0.281 million (2007-2008 £0.288 million). There were additional fees paid in relation to the Housing Stock transfer and Schools PPP of £0.020 million and £0.008 million respectively.

**Note 10 Councillors' Remuneration**

In 2008-2009, Inverclyde Councillors received a total of £362,558 (salaries £347,129 plus expenses of £15,429). In the previous year 2007-2008, Councillors received £474,598 (allowances of £461,397 plus expenses of £13,201). The annual return of Councillors' salaries and expenses for 2008-2009 is available for any member of the public to view at all Council libraries and public offices during normal working hours and is also available on the Council's website at [www.inverclyde.gov.uk](http://www.inverclyde.gov.uk). Please follow the links on the Council's website as follows:  
Home>Council and Government>Councillors>Elected Members Expenses, Training and Conferences 2008/2009.

## Note 11 Employees' Remuneration

In accordance with the disclosure requirements of the Accounting Code of Practice, the following table gives a statement of the number of employees whose remuneration, excluding pension contributions, was in excess of £50,000 during 2008-2009, in bands of £10,000.

	2008-2009	2007-2008
£50,000 - £59,999	45	19
£60,000 - £69,999	10	19
£70,000 - £79,999	14	5
£80,000 - £89,999	1	0
£90,000 - £99,999	4	4
£100,000 - £109,999	0	1
£110,000 - £119,999	1	0
<b>Total</b>	<b>75</b>	<b>48</b>

## Note 12 Pension Costs

### Participation in Pensions Schemes

As part of the terms and conditions of employment of its employees, Inverclyde Council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The authority participates in two pension schemes, one exclusive to teachers and the other open to all of its other employees. The pension scheme for teachers is explained in note 13, together with the mandatory disclosures.

The pension scheme for employees other than teachers is The Strathclyde Pension Fund, and is administered by Glasgow City Council. The Strathclyde Pension Fund is a multi-employer, defined benefit scheme in which it is possible for an employer to identify its share of the assets and liabilities on a consistent and reasonable basis. This is a "funded" defined benefit final salary scheme, meaning that Inverclyde Council and its employees pay contributions into a fund, calculated at a level intended to balance the pensions liability with investment assets.

The Council has additional liabilities for unfunded discretionary pension payments outside the main schemes.

### Transactions Relating to Retirement Benefits

The cost of retirement benefits is recognised in the Net Cost of Service when they are earned by the Council's employees, rather than when the benefits are eventually paid as pensions. However, the charge that is statutorily required to be made against the Council Tax is based upon the pension contributions payable by the Council in the year, and an adjustment is made in the Statement of Movement in the General Fund Balance to replace the cost of retirement benefits with employers' contributions.

The following transactions have been made in the accounting statements in 2008-2009 and in the prior year 2007-2008.

	2008-2009 £000	2007-2008 £000
<b>Included within "Net Cost of Services":</b>		
Current service cost	6,589	9,843
Past service costs	173	754
Curtailments and unfunded benefits	260	(92)
	<b>7,022</b>	<b>10,505</b>
<b>Included within "Net Operating Expenditure":</b>		
Interest cost	19,661	18,442
Expected return on scheme assets	(19,747)	(21,361)
	<b>(86)</b>	<b>(2,919)</b>
<b>Net Charge to the Income &amp; Expenditure Account</b>	<b>6,936</b>	<b>7,586</b>
<b>Included within Statement of Movement on the General Fund Balance:</b>		
Reversal of net charges made for retirement benefits in accordance with FRS17	(6,936)	(7,586)
Employers contributions paid to Strathclyde Pension Fund	9,398	9,744
<b>Movement on Pension Reserve</b>	<b>2,462</b>	<b>2,158</b>

In addition to the recognised gains and losses included in the Income and Expenditure Account, an actuarial loss of £36.458million (2007-2008 gain of £33.317m) is included in the Statement of Total Recognised Gains and Losses. The cumulative amount of actuarial losses recognised in the Statement of Total Recognised Gains and Losses is £15.079 million.

### Assets and liabilities in relation to retirement benefits

A reconciliation of Inverclyde Council's share of the present value of Strathclyde Pension Fund's liabilities is as follows:

	2008-2009 £000	2007-2008 £000
1 April	283,573	339,350
Current service cost	6,589	9,843
Interest cost	19,661	18,442
Contributions by pension fund participants	2,813	2,839
Actuarial (gains) and losses	(37,059)	(62,867)
Benefits paid	(11,552)	(8,923)
Past service costs	173	754
Settlements and curtailments	260	(15,865)
<b>31 March</b>	<b>264,458</b>	<b>283,573</b>

A reconciliation of Inverclyde Council's share of the fair value of Strathclyde Pension Fund's assets is as follows:

	2008-2009 £000	2007-2008 £000
1 April	277,997	298,299
Expected rate of return	19,747	21,361
Actuarial gains and (losses)	(73,517)	(29,550)
Employers contributions	9,398	9,744
Contributions by pension fund participants	2,813	2,839
Benefits paid	(11,552)	(8,923)
Settlements	0	(15,773)
<b>31 March</b>	<b>224,886</b>	<b>277,997</b>

The expected return on the Fund's assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was a deficit of £39.572m (2007-2008 deficit of £5.576m).

### Fund history

	31 March 2005* £000	31 March 2006* £000	31 March 2007* £000	31 March 2008* £000	31 March 2009** £000
Present value of liabilities	(296,209)	(345,622)	(339,350)	(283,573)	(264,458)
Fair value of assets	217,797	276,227	298,299	277,997	224,886
<b>Surplus/(deficit) in the scheme</b>	<b>(78,412)</b>	<b>(69,395)</b>	<b>(41,051)</b>	<b>(5,576)</b>	<b>(39,572)</b>

\* The Council has elected not to restate fair value of scheme assets for 2005, 2006 and 2007 as permitted by FRS17 (as revised). The figures for 2008 have not been restated as the difference is not material (see accounting policies).

\*\* Included within the 31 March 2009 figure of £264.458 million for the present value of liabilities is £20.991 million of unfunded liabilities (31 March 2008 £21.867 million). This liability comprises of approximately £10.068 million in respect of unfunded liabilities for the Council's pension scheme, £3.392 millions in respect of teachers' unfunded pensions and £7.531 million in respect of unfunded liabilities that existed prior to the Local Government Reorganisation of 1996.

The liabilities show the underlying commitments that the Authority has in the long run to pay retirement benefits. The net liability of £39.572 million has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet, resulting in a net asset of £148.136 million. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains assured. The deficit on Strathclyde Pension Fund will be made good by increased contributions over the remaining working life of employees, as assessed by the Scheme Actuary.

The total contributions expected to be made by the Council to Strathclyde Pension Fund in the year to 31 March 2010 is £8.299 million.



### Basis for Estimating Assets and Liabilities

Inverclyde Council's share of the liabilities of Strathclyde Pension Fund have been assessed on an actuarial basis using the projected unit method, that estimates the pensions that will be payable in future years dependent upon assumptions about mortality rates, salary levels and so on. The Scheme's liabilities have been assessed by Hymans Robertson, an independent firm of Actuaries, and the estimates are based on the latest full valuation of the Fund at 31 March 2008.

The principal assumptions used by the actuary have been:

	2009	2008
<b>Long-term expected rate of return on assets in the scheme:</b>		
Equity investments	7.0%	7.7%
Bonds	5.4%	5.7%
Property	4.9%	5.7%
Cash	4.0%	4.8%
<b>Mortality assumptions</b>		
<b>Longevity at 65 for current pensioners</b>		
Men	20.3 yrs	Not available
Women	23.2 yrs	Not available
<b>Longevity at 65 for future pensioners</b>		
Men	21.7 yrs	Not available
Women	24.6 yrs	Not available
Rate of inflation	3.1%	3.6%
Rate of increase in salaries	4.6%	5.1%
Rate of increase in pensions	3.1%	3.6%
Expected return on assets	6.5%	7.1%
Rate for discounting scheme liabilities	6.9%	6.9%
Take-up of option to convert annual pension into retirement lump sum	50.0%	25.0%

The pension scheme's assets consist of the following categories, by proportion of the total assets held:

	31 March 2009 %	31 March 2008 %
Equity investments	73	73
Bonds	16	14
Property	8	10
Cash	3	3
	<b>100</b>	<b>100</b>



## History of experience gains and losses

The actuarial gains and losses identified as movements on the Pension Reserve in 2008-2009 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2009. Figures for the four previous years are provided for comparison in accordance with the requirements of the accounting regulations.

	31 March 2005 %	31 March 2006 %	31 March 2007 %	31 March 2008 %	31 March 2009 %
Experience gains and (losses) on assets	3.4	15.8	0.10	(10.5)	(32.7)
Experience gains and (losses) on liabilities	(0.3)	2.1	0.20	0.10	6.6

### Note 13 Retirement Benefits: Scottish Teachers' Pension Scheme

Teachers employed by Inverclyde Council are members of the Scottish Teachers' Pension Scheme, administered directly by the Scottish Government. It provides teachers with defined benefits upon their retirement, and the Authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

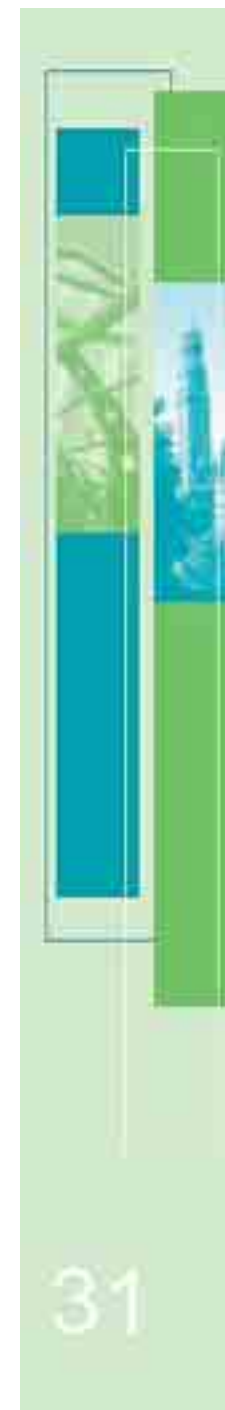
In 2008-2009, Inverclyde Council paid £4.361 million in respect of teachers' retirement benefits, representing 14.0% of pensionable pay. The figures for 2007-2008 were £4.389 million and 14.0%. There were no contributions remaining payable at the year-end.

Under accounting regulations the Council is required to disclose certain information concerning the assets, liabilities, income and expenditure relating to pension schemes for its employees. The Council is not required to record such information for the teachers pension scheme as the liability for the payment of teachers' pensions rests ultimately with the Scottish Government and it is not possible for councils to identify a share of the underlying liabilities in the scheme attributable to their own employees. For the purpose of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

Inverclyde Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These benefits are fully accrued in the pension liability. The amounts paid for added years awarded by the Council were £0.079 million (2007-2008 £0.073 million).

### Note 14 Retirement Benefits: Police and Firefighters Pension Schemes

Local Government legislation provides that local authorities have an obligation to meet the expenditure of the Joint Boards of which they are constituent members. As a consequence, Inverclyde Council has additional liabilities arising from the pension deficits of Strathclyde Police Joint Board and Strathclyde Fire & Rescue Joint Board. In accordance with the accounting regulations, the Group Accounts as set out on pages 59-73 include the pension costs and liabilities of the above boards. Further information regarding these deficits can be found in the Annual Reports and Accounts of the relevant bodies whose contact details are shown in the Notes to the Group Accounts.



**Note 15 Agency Expenditure & Income**

The Council bills and collects domestic water and sewerage charges on behalf of Scottish Water with its own Council Tax. During 2008-2009 the Council collected and paid over £10.039 million (2007-2008 £10.129 million) and received £0.227 million (2007-2008 £0.226 million) for providing this service.

The Council provides Care in the Community services to Greater Glasgow and Clyde Health Board under an agency agreement and received £8.715 million in 2008-2009 (2007-2008 £6.655 million).

**Note 16 Related Party Transactions**

- 1) **Related Companies of the Council** - The Council has a close relationship with three companies – Inverclyde Leisure Limited, Riverside Inverclyde Limited and the Sail Inverclyde Limited but has no shares in or ownership of these charitable companies. The results of the associate companies are disclosed on pages 67 and 68.

During the year ended 31 March 2009, the Council paid a management charge to Inverclyde Leisure Limited totaling £1.820 million (2007-2008 £1.698 million) to provide leisure services. The charity in turn pays the Council for IT, payroll and human resource services. The amount received in respect of these services for the year ended 31 March 2009 was £0.092 million (2007-2008 £0.080 million). The Council has provided a loan facility of £0.209 million to Inverclyde Leisure Limited for leasehold improvements on which interest is charged at 6.6%. The loan advanced less repayments is £0.134 million and is included within "long-term debtors".

During 2008-2009, the Council made contributions of £1.638 million to Riverside Inverclyde (2007-2008 £1.635 million) in support of regeneration projects and transferred an industrial estate and a business centre in Greenock at an assessed value of approximately £1.1 million. The Council sold an industrial estate in Greenock at market value to the organisation at the end of the financial year.

There were no related party transactions during the financial year 2008-2009 with Sail Inverclyde Limited.

- 2) **Joint Boards** - The Council is a member of the Joint Boards for Police, Fire and Valuation, and is one of the twelve constituent Councils of Strathclyde Partnership for Transport. The Council's contributions are disclosed in the Group Accounts pages 66 to 68.
- 3) **Pension Scheme** - The Council is also an admitted body to the Strathclyde Pension Fund and has made payments as shown in note 12.
- 4) **Scottish Government** – The Council received £47.482 million (2007-2008 £58.261 million) of revenue government grants as shown in note 6, £32.390 million from the Department of Work and Pensions (2007-2008 £27.339 million) and other grants of £15.092 million (2007-2008 £30.922 million). The Council also received £3.954 million of capital government grants.
- 5) **Voluntary Sector** - The following are voluntary organisations which received over £50,000 in grant funding from Inverclyde Council during 2008-2009. The Council has no shareholding or investments in any of these organisations.

	2008-2009 £000	2007-2008 £000
Inverclyde Voluntary Council of Social Service	50	50
Greenock Arts Guild	50	87

- 6) **Amounts due to and from Related Bodies** – Details about these bodies are shown on pages 66 to 73, including the balance at 31 March 2009 due to or by them. Members represent the Council on these public sector organisations. Further information about Member's interests may be obtained from the Monitoring Officer of the Council.

#### Note 17 Intangible Fixed Assets

	Purchased Software Licenses £000
<b>Cost</b>	
At 1 April 2008	1,803
Additions in year	701
Disposals in year	0
<b>At 31 March 2009</b>	<b>2,504</b>
<hr/>	
<b>Amortisation</b>	
At 1 April 2008	1,278
On disposals	0
Charge for the year	770
<b>Amortisation at 31 March 2009</b>	<b>2,048</b>
<b>Balance Sheet amount at 31 March 2009</b>	<b>456</b>
<b>Balance Sheet amount at 31 March 2008</b>	<b>525</b>

Software licenses are held for various systems used throughout the Council. The purchase cost of these licenses is being written-off on a straight-line basis based on the expected life of the licenses which is 12 months for all systems except the financial management system (66 months), Microsoft licenses (maximum of 60 months), and anti-virus software (36 months).

There have been no changes to the estimated useful life of any intangible fixed assets during the year, no revaluations of the assets, no disposals or transfers of intangible assets, and no impairment charges have been made.



## Note 18 Tangible Fixed Assets

Operational land and buildings have been included in the Balance Sheet at the lower of net current replacement cost or net realisable value in existing use. Infrastructure, community assets, vehicles, plant and equipment have been included at depreciated historic cost. Non-operational assets have been included in the Balance Sheet at the lower of net current replacement cost or net realisable value.

No finance leases were acquired in the year to 31 March 2009.

Depreciation has been charged on all assets; other than land and some community assets, investment properties and assets under construction; in order to write them off over their useful economic lives. No depreciation is charged in the year of acquisition, but a full year's depreciation is charged in the year of disposal. Further information on the depreciation rates and useful lives is provided in the Statement of Accounting Policies.

Although the Council has no formal system to perform impairment reviews, the officers of the Council, as part of their normal duties, report on any material events that affect the value of an asset. As part of the year-end closure, all Services were asked to advise of any material change to any asset under their remit.

Operational Assets – Movement during the Year	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	Total £000
<b>Cost or Valuation</b>					
At 1 April 2008	381,953	24,684	27,401	9,197	443,235
Assets reclassified	27,077	0	0	0	27,077
Additions in year	17,230	2,348	3,277	743	23,598
Disposals in year	(4,247)	(197)	0	0	(4,444)
Impairment Losses in Year	(14,297)	0	0	0	(14,297)
Adjustments/revaluations	(1,816)	0	0	0	(1,816)
<b>At 31 March 2009</b>	<b>405,900</b>	<b>26,835</b>	<b>30,678</b>	<b>9,940</b>	<b>473,353</b>
<b>Depreciation</b>					
At 1 April 2008	75,591	18,504	4,357	371	98,823
On disposals	(1,302)	(141)	0	0	(1,443)
On adjustments/revaluations	(2,066)	0	0	0	(2,066)
Charge for the year	14,743	2,489	803	43	18,078
<b>Depreciation at 31 March 2009</b>	<b>86,966</b>	<b>20,852</b>	<b>5,160</b>	<b>414</b>	<b>113,392</b>
<b>Balance Sheet amount at 31 March 2009</b>	<b>318,934</b>	<b>5,983</b>	<b>25,518</b>	<b>9,526</b>	<b>359,961</b>
<b>Balance Sheet amount at 31 March 2008</b>	<b>306,362</b>	<b>6,180</b>	<b>23,044</b>	<b>8,826</b>	<b>344,412</b>
<b>Nature of asset holding:</b>					
Owned	318,934	5,983	25,518	9,526	359,961
Finance Lease	0	0	0	0	0
PPP	0	0	0	0	0

## Non-Operational Assets – Movement during the Year

	Investment Properties £000	Assets under Construction £000	Surplus Assets £000	Total £000	Total Tangible Fixed Assets £000
<b>Cost or Valuation</b>					
At 1 April 2008	187	29,423	2,126	31,736	474,971
Assets reclassified	0	(29,416)	2,339	(27,077)	0
Additions in year	0	190	1	191	23,789
Disposals in year	(7)	0	(193)	(200)	(4,644)
Impairment Losses in Year	0	(7)	(306)	(313)	(14,610)
Adjustments / revaluations	0	0	2,100	2,100	284
<b>At 31 March 2009</b>	<b>180</b>	<b>190</b>	<b>6,067</b>	<b>6,437</b>	<b>479,790</b>
<b>Depreciation</b>					
At 1 April 2008	0	0	153	153	98,976
On disposals	0	0	0	0	(1,443)
On adjustments / revaluations	0	0	(165)	(165)	(2,231)
Charge for the year	0	0	143	143	18,221
<b>Depreciation at 31 March 2009</b>	<b>0</b>	<b>0</b>	<b>131</b>	<b>131</b>	<b>113,523</b>
<b>Balance Sheet amount at 31 March 2009</b>	<b>180</b>	<b>190</b>	<b>5,936</b>	<b>6,306</b>	<b>366,267</b>
<b>Balance Sheet amount at 31 March 2008</b>	<b>187</b>	<b>29,423</b>	<b>1,973</b>	<b>31,583</b>	<b>375,995</b>
<b>Nature of asset holding:</b>					
Owned	180	190	5,936	6,306	366,267
Finance Lease	0	0	0	0	0
PPP	0	0	0	0	0

The surplus assets on the Balance Sheet comprise £4.127 million of land and property awaiting development and £1.809 million of assets that are surplus and currently available for sale.

## Fixed Asset Valuation Analysis

The following statement shows the progress of the Council's programme for the revaluation of tangible fixed assets. The figures below are at the balance sheet amount at 31 March 2009.

	Land and Buildings	Vehicles, Plant etc	Infrastructure	Community Assets	Non- Operational	Total
	£000	£000	£000	£000	£000	£000
Valued at historical cost	292	5,983	24,939	3,711	314	35,239
New certified valuation included in Balance Sheet:						
2008-2009	37,771	0	0	0	4,919	42,690
2007-2008	275,408	0	579	0	767	276,754
2006-2007	5,463	0	0	5,815	134	11,412
2005-2006	0	0	0	0	172	172
<b>Total</b>	<b>318,934</b>	<b>5,983</b>	<b>25,518</b>	<b>9,526</b>	<b>6,306</b>	<b>366,267</b>

## Summary of Assets Held

	Numbers at 31 March 2009	Numbers at 31 March 2008		Numbers at 31 March 2009	Numbers at 31 March 2008
<b>Operational Buildings</b>			<b>Vehicles &amp; Plant</b>		
Education establishments	44	48	Vehicles	143	153
Social Work establishments	11	13			
Depots and yards	6	6	<b>Infrastructure Assets</b>		
Public conveniences	6	6	Principal roads (km)	23.8	23.8
Council offices	13	14	Non principal roads (km)	75.5	75.5
Libraries	7	7	Unclassified roads (km)	265.3	265.3
Leisure centres	6	6	Highways' bridges	42	42
Industrial and commercial sites	120	144	Street lighting units	12,110	12,163
Miscellaneous	80	72	Car parks	21	23
Other non-operational sites	4	3			
<b>Total operational buildings &amp; sites</b>	<b>297</b>	<b>319</b>	<b>Community Assets</b>		
			Parks (hectares)	93.2	92.6
			Cemeteries (hectares)	51.7	51.7
			Playing fields & open spaces (hectares)	179.0	133.8

## Note 19 Analysis of Net Assets Employed

	2009 £000	2008 £000
General Fund	148,081	197,776
Housing Revenue Account	0	3,631
Trading Operations	307	282
	<b>148,388</b>	<b>201,689</b>

The comparator figures include the net assets of the Housing Revenue Account. Following the stock transfer in December 2007, the Housing Revenue Account was closed on 1<sup>st</sup> April 2008 and all retained balances transferred to the General Fund as an earmarked reserve.



### Types of Financial Instrument

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

	31 March 2009		31 March 2008	
	Long Term £000	Current £000	Long Term £000	Current £000
<b>Investments &amp; Lending</b>				
Loans and receivables	352	58,691	345	60,363
<b>Borrowing</b>				
Financial liabilities at amortised cost	169,704	43,685	174,200	32,407

### Fair Value of Assets & Liabilities carried at Amortised Cost

Financial assets (represented by lending and long-term debtors) and financial liabilities (represented by borrowings) are carried in the balance sheet at amortised cost in accordance with the accounting regulations. In such cases, the regulations also require the additional disclosure of the "fair value" of these assets and liabilities. Fair value is broadly the amount for which an asset could be exchanged or a liability settled.

The fair values have been assessed with expert professional assistance from the Council's treasury advisers by calculating the net present value (NPV) of cash flows that will take place over the remaining term of the instrument using the following methodology and assumptions:

- The valuation date is 31 March 2009.
- The discount factor used in the NPV calculations is the comparable new borrowing or deposit rate of the same financial instrument from a comparable lender with a published market rate at the valuation date, using bid prices where applicable. A consistent approach has been applied to assets and liabilities.
- For all Public Works Loan Board (PWLB) debt, the new borrowing rate at 31 March 2009 has been used as the discount rate.
- The fair values include accrued interest up to and including the valuation date.

	31 March 2009		31 March 2008	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
<b>Lending</b>				
Loans and receivables	59,043	59,557	60,707	60,707

The Council holds collateral as security against certain lending and debt due. This takes the form of mortgages on dwelling houses for loans as "lender of last resort" to assist owners to buy or improve their homes and "rolled-up" debt for care home charges due by social work clients, payable on their death or when the house is sold. The fair value of the collateral is considered to be sufficient to meet the current obligations due.

	31 March 2009		31 March 2008	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
<b>Borrowing</b>				
Financial liabilities	213,389	226,728	206,607	223,431



The fair value is higher than the carrying amount because the Council's borrowing figure includes a number of loans where the interest rate payable is higher than the rates available for similar loans at the balance sheet date. The commitment to pay interest above current market rates increases the amount that the Council would have to pay if the lender requested or agreed to early repayment of the loans.

### Gains & Losses on Financial Instruments

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

	31 March 2009		31 March 2008	
	Financial Assets (Loans & Receivables)  £000	Financial Liabilities (Liabilities measured at amortised cost) £000	Financial Assets (Loans & Receivables)  £000	Financial Liabilities (Liabilities measured at amortised cost) £000
Interest income	(850)	0	(1,321)	0
<b>Interest and investment income</b>	<b>(850)</b>	<b>0</b>	<b>(1,321)</b>	<b>0</b>
Interest expense	0	8,598	0	13,852
<b>Interest payable and similar charges</b>	<b>0</b>	<b>8,598</b>	<b>0</b>	<b>13,852</b>
Surplus arising on revaluation of financial assets	0	0	0	0
<b>Net (gain) or loss for the year</b>	<b>(850)</b>	<b>8,598</b>	<b>(1,321)</b>	<b>13,852</b>

The notional gains and losses on "soft" loans (please refer to page 13) are not considered material and accordingly are not recognised in the Income and Expenditure Account and STRGL and are not included in the above table.

### Nature and Extent of Risks arising from Financial Instruments

The Council's management of treasury risks actively works to minimise the Council's exposure to the unpredictability of financial markets and to protect the financial resources available to fund services. The Council has fully adopted CIPFA's Code of Practice in Treasury Management for Local Authorities 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.

The Council manages its risk in the following ways

- by formally adopting the requirements of the Code of Practice;
- by approving annually in advance Prudential Indicators for the following three years, limiting the Council's overall borrowing (Authorised Limit & Operational Boundary) and its maximum and minimum exposures to both fixed and variable rates and with regard to the maturity structure of its debt

These items are reported within the Council's Annual Treasury Management Strategy submitted to the Policy & Resources Committee. This report outlines the approach to managing risk in relation to the Council's financial instrument exposure for the year ahead. Actual performance is then monitored on a quarterly basis with any significant variation from the strategy reported to Members. In line with the recommendations of the Code of Practice, an Annual Treasury report on the year's activity is submitted to Members once the final accounts are complete and the outturn Prudential Indicators for 2008-2009 have been calculated. These policies are implemented by the Council's Treasury Management team.



**Credit Risk** – Credit risk arises from the short-term lending of surplus funds to banks, building societies 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 UK banks and building societies whose credit rating is independently assessed as sufficiently secure by the Council's treasury advisers and to restrict lending to a prudent maximum amount for each institution. All investments and deposits at 31 March 2009 were placed with UK banks and held in sterling.

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

	Amount at 31 March 2009	Historical experience of non-payment adjusted for market conditions at 31 March 2009	Estimated maximum exposure to default and uncollectibility	Amount at 31 March 2008	Historical experience of non-payment adjusted for market conditions at 31 March 2008	Estimated maximum exposure to default and uncollectibility
	£000	%	£000	£000	%	£000
Deposits with banks, buildings societies and local authorities	41,964	0.00	0	37,545	0.00	0
Customers (trade debtors excluding council tax and non-domestic rates)	15,947	38.53	<u>6,144</u>	23,119	25.67	<u>5,935</u>
			<u>6,144</u>			<u>5,935</u>

The Council does not generally allow credit for customers, such that £15.595 million of the £15.947 million balance is past its due date for payment. The past due amount can be analysed by age as shown in the following table. The Council has made a provision for the loss of income based on previous experience.

	31 March 2009	31 March 2008
	£000	£000
Less than three months	13,065	20,297
Three to six months	113	262
Six months to one year	269	224
More than one year	<u>2,148</u>	<u>1,897</u>
	<u>15,595</u>	<u>22,680</u>

**Liquidity Risk** – The Council's sources of borrowing are market loans and the Treasury's Public Works Loan Board. There is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments. The Council has safeguards in place to ensure that a significant proportion of its borrowing does not mature for repayment at any one time in the future to reduce the financial impact of re-borrowing at a time of unfavourable interest rates. The Council's policy is to ensure that not more than 30% of loans are due to mature within any financial year through a combination of prudent planning of new loans and, where it is economic to do so, making early repayments. Any amendments to this policy, whether short-term or long-term, are approved by the Policy & Resources Committee.

The maturity analysis of financial liabilities is as follows:

	31 March 2009 £000	31 March 2008 £000
Less than one year	41,971	30,565
Between one and two years	3	23
Between two and five years	8,608	311
More than five years	<u>160,068</u>	<u>173,368</u>
	<u>210,650</u>	<u>204,267</u>

All other amounts payable by the Council for trade creditors are due to be paid in less than one year.

**Market Risk** – Changes in market interest rates influence the interest payable on borrowings and on interest receivable on surplus funds invested. For example, a rise in interest rates would mean an increase in the interest charged on borrowing at variable rates and an increased cost to the taxpayer. An increase in interest rates would also mean an increase in the income received on lending at variable rates and a reduction in cost for the taxpayer.

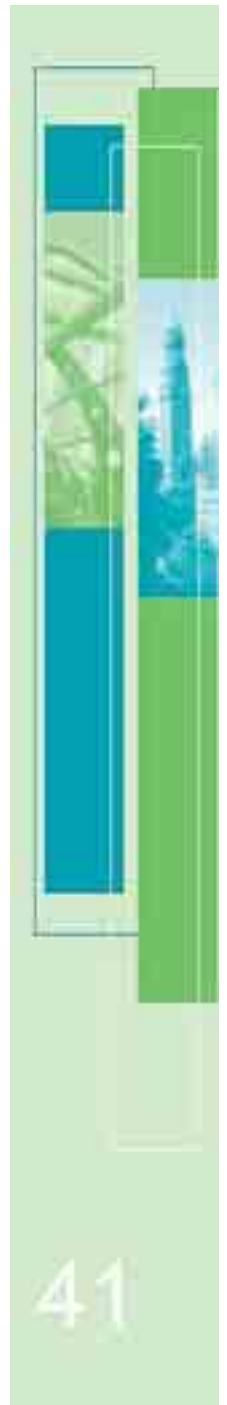
Changes in market rates also affect the notional “fair value” of lending and borrowing. For example, a rise in interest rates would reduce the fair value of both lending and borrowing at fixed rates. Changes in the fair value of lending and borrowing do not impact upon the taxpayer and are confined to prescribed presentational aspects in the Accounts.

The Council has a variety of strategies for managing the uncertainty of future interest rates and the financial impact on the Council.

- It is the policy of the Council to limit its exposure to variable rate borrowing to a maximum of 35% of what it borrows.
- During periods of falling rates and where it is economically advantageous to do so, the Council will consider the repayment and restructuring of fixed interest rate debt.
- The Council takes daily advice from its specialist treasury advisers and actively monitors changes in interest rates to inform decisions on the lending of surplus funds, new borrowings and restructurings of existing borrowings.

To illustrate the impact of changes in interest rates upon the Council, the following table shows the financial effect if rates had been 1% higher at 31 March 2009, with all other variables held constant.

	31 March 2009 £000	31 March 2008 £000
<b>Impact on tax-payer</b>		
Increase on interest payable on variable rate borrowings	420	6
Increase in interest receivable on variable rate lending	(420)	(375)
<b>Net effect on Income &amp; Expenditure Account</b>	<u>0</u>	<u>(369)</u>
The impact of a 1% fall in interest rates would be as above but with the changes being reversed.		
<b>Other accounting presentational changes</b>		
A decrease in the “fair value” of fixed rate borrowing (disclosure confined to notes to the core financial statements)	(21,612)	(33,067)



**Price Risk** – The Council has no “available-for-sale” assets and is not exposed to gains or losses arising from movements in the general prices of shares.

**Foreign Exchange Risk** – The Council does not lend or borrow in foreign currencies and has no exposure to gains or losses arising from movements in exchange rates.

Note 21 Debtors

	2009 £000	2009 £000	2008 £000	2008 £000
Arrears of local taxation:				
- Council Tax	14,011		13,229	
less provision for bad debts	<u>(11,694)</u>	2,317	<u>(11,370)</u>	1,859
- Community Charge	6,852		6,893	
less provision for bad debts	<u>(6,852)</u>	0	<u>(6,893)</u>	0
- Non-domestic Rates	3,649		3,390	
less provision for bad debts	<u>(3,649)</u>	0	<u>(3,390)</u>	0
Discontinued Operation – Housing Rents	1,712		1,712	
less provision for bad debt	<u>(1,712)</u>	0	<u>(1,712)</u>	0
VAT recoverable from HM Revenue & Customs	<u>271</u>	271	<u>897</u>	897
Other debtors	13,909		20,961	
less provision for bad debts	<u>(4,433)</u>	9,476	<u>(4,222)</u>	16,739
		<b>12,064</b>		<b>19,495</b>

## Note 22 Creditors

	2009 £000	2008 £000
Accrued payrolls, PAYE and National Insurance	4,219	4,117
Superannuation contributions to Strathclyde Pension Fund	1,182	864
Discontinued Operation – Heat with Rent	680	813
Other creditors	18,220	24,320
	<b>24,301</b>	<b>30,114</b>

Other creditors of £18.220 million includes a balance of £0.080 million in respect of amounts carried forward under delegated management of resources for schools.

## Note 23 Provisions

	Balance 01/04/08 £000	Contributions to Provisions £000	Provisions not required written back £000	Provisions Used £000	Balance 31/03/09 £000
Compensation payment (note 1)	964	84	0	(20)	1,028
Insurance claims (note 2)	93	0	0	(59)	34
Legal fees	9	0	(4)	(5)	0
Landfill allowance penalties (note 3)	249	0	(249)	0	0
Discontinued Operation - Former tenants' rent credits	20	0	0	0	20
	<b>1,335</b>	<b>84</b>	<b>(253)</b>	<b>(84)</b>	<b>1,082</b>

- 1) A provision has been made to reflect the potential outcome of outstanding equal pay claims.
- 2) The insurance provision represents an assessment of identified liabilities in respect of insurance claims outstanding against Strathclyde Regional Council. The Council has reduced its net assessment on the basis of information notified by Glasgow City Council, the co-ordinating authority for the former Authority.
- 3) The provision for landfill allowance penalty charges has been written back to the General Fund pending the outcome of the review of the Landfill Allowance Trading Scheme by the Scottish Government. All penalties have been suspended. The Council has set aside £0.676 million within earmarked reserves for potential landfill penalties pending the outcome of the review.

**Note 24 Statement of Accounts Issue Date and Post Balance Sheet Events**

The Chief Financial Officer issued the Statement of Accounts on 25 June 2009. There have been no material events since the date of the balance sheet which necessitate revision of the figures in the financial statements or notes thereto including contingent assets and liabilities.

Since 31 March 2009 the valuation of investments in the Pension Fund has been affected by fluctuations in the world financial markets. These fluctuations do not allow a reasonably static valuation to be determined due to the dynamic nature of the current markets. The long term impact of these fluctuations will be monitored on an ongoing basis throughout the current financial year.

**Note 25 Contingent Assets & Liabilities**

There is a legal case outstanding in respect of part-time employees who may rejoin the Teachers' Pension Scheme. Should this be successful there may be a liability on the employer to backdate the costs associated with this case.

As a result of the recent equal pay compensation payments, there may potentially be other groups of employees who may raise a claim for compensation against the Council although there is no specific liability to date.

The Council transferred its housing stock and some areas of land for the development of social housing to River Clyde Homes on 3 December 2007. The Council retains the risk of any contamination present when the land transferred. The extent of any potential remedial work has not yet been assessed and no provision has been included for costs in the Accounts.

The Landfill Allowance Trading Scheme is currently under review. The Scottish Government has suspended all penalties and trading under the scheme pending the review's outcome. The Council has accordingly written back the provision made in the 2007-2008 accounts of £0.249 million for landfill tax penalty charges to the General Fund. The Council has set aside £0.676 million within earmarked reserves for potential landfill penalties pending the outcome of the review.

There has been a claim that the Council is liable for some costs in connection with the proposed redevelopment of central Gourock. This claim is being disputed.

New pension provisions introduced an increased amount of commutations paid to retired Police and Fire officers and these payments were backdated to 1 October 2007. Commutation is the arrangement which allows an individual to set a pension lump sum payable on retirement in exchange for (commuting) a lower amount of annual pension. The Scottish Government agreed to provide additional funding to meet these costs centrally. In a separate development the Police Federation instigated a judicial review in relation to the date from which these payments were to be backdated. The judicial review has now been completed and has found in favour of the Police Federation. The effect of this decision is that the backdating of these payments will now start from 1 December 2006, some 10 months earlier than announced. This results in more officers being eligible to receive the enhanced payments in relation to Police Commutations. Further consideration is being given to how the judicial review decision impacts upon Fire officers. In respect of both Police and Fire pensions, there is a potential cost to the Council as a result of the extended period of backdating. However, the Scottish Government are expected to meet these additional costs centrally and consequently no provision has been made in closing the 2008-2009 accounts.

The Council is unaware of any other material contingent asset or liability at 31 March 2009 and has made no further provisions.

## Note 26 Spending on Capital Projects

Capital expenditure involves the creation of assets, the benefit of which will be available to future non-domestic rates and council tax payers. These capital assets are financed by a combination of borrowing, income from sale of assets, external grants and contributions from revenue. In 2008-2009 gross capital expenditure totalled £24.490 million offset by capital income of £5.666 million as follows:

	2008-2009 £000	2007-2008 £000		2008-2009 £000	2007-2008 £000
Housing Services	0	7,576	<b>Financed by</b>		
Health & Social Care	684	371	Sales of council houses	0	1,898
Environment & Regeneration	3,543	5,304	Sale of other assets	49	4,213
Education Services	16,066	30,975	Grants	4,810	7,569
Safe and Sustainable Communities	1,261	1,042	Loan repayments	50	78
Policy & Resources	2,936	2,302	Other capital receipts	1	1
	<b>24,490</b>	<b>47,570</b>	Capital from current revenue	756	1,090
				<b>5,666</b>	<b>14,849</b>
			Borrowing	18,824	32,721
				<b>24,490</b>	<b>47,570</b>

### Commitments under Capital Contracts

At 31 March 2009 the Council had commitments on capital contracts for capital projects of £6.156 million. This expenditure will be funded from a combination of borrowing, grants and income from selling assets.

The main capital commitments include:

	£000
Newark Primary School & Inverclyde Academy	940
Various Primary School Refurbishments	2,015

Note 27 Statement of Total Movements in Reserves

	Balance at 1 April 2008	Gains or (Losses) for the Year	Transfers between Reserves	Balance at 31 March 2009	Purpose of Reserve
	£000	£000	£000	£000	
Revaluation Reserve	129,982	2,515	(11,640)	120,857	Store of gains on revaluation of fixed assets not yet realised through sales.
Capital Adjustment Account	57,341	(1,790)	(12,525)	43,026	Store of capital resources set aside to meet past expenditure.
Financial Instruments Adjustment Account	(3,565)	0	(407)	(3,972)	Balancing account to allow for differences in statutory requirements and proper accounting practices for borrowing and investments.
Capital Receipts Reserve	0	1,790	(1,790)	0	Proceeds of fixed asset sales available to meet future capital investment.
Pensions Reserve	(5,576)	(36,458)	2,462	(39,572)	Balancing account to allow the inclusion of pension liability in the Balance Sheet.
General Fund Account	18,033	(19,358)	21,981	20,656	Resources available to meet future running costs for general services.
Housing Revenue Account balance	517	0	(517)	0	Resources available to meet future running costs of council housing.
Other Statutory Funds	4,957	0	2,436	7,393	Resources earmarked for specific purposes.
	<b>201,689</b>	<b>(53,301)</b>	<b>0</b>	<b>148,388</b>	



## 27.1 Revaluation Reserve

	2008-2009 £000	2007-2008 £000
Balance at 1 April	129,982	0
Revaluations of fixed assets	2,515	147,467
Depreciation adjustment	(7,331)	(17,485)
Transfers to Capital Adjustment Account	(4,309)	0
<b>Balance at 31 March</b>	<b>120,857</b>	<b>129,982</b>

## 27.2 Capital Adjustment Account

	2008-2009 £000	2007-2008 £000
Balance at 1 April	57,341	169,982
Repayment of external loans	7,306	11,050
Capital from current revenue	756	1,090
Depreciation and impairment of fixed assets for the year	(26,270)	(34,636)
Disposal of fixed assets	(3,037)	(97,497)
Deferred grants released	2,572	1,240
Capital receipts applied	49	6,112
Transfer from Revaluation Reserve	4,309	0
<b>Balance at 31 March</b>	<b>43,026</b>	<b>57,341</b>



### 27.3 Financial Instruments Adjustment Account

	2008-2009 £000	2007-2008 £000
Balance at 1 April	(3,565)	0
Write-off of HRA premiums at housing stock transfer	0	1,963
Transition adjustments	0	(4,478)
Net charge for financial instruments	(407)	(1,050)
<b>Balance at 31 March</b>	<b>(3,972)</b>	<b>(3,565)</b>

### 27.4 Capital Receipts Reserve

	2008-2009 £000	2007-2008 £000
Balance at 1 April	0	0
Sale proceeds	1,790	6,112
Transfer to Capital Adjustment Account	(49)	(6,112)
Transfer to Capital Fund	(1,741)	0
<b>Balance at 31 March</b>	<b>0</b>	<b>0</b>

### 27.5 General Fund & HRA Balance

	2008-2009 £000	2007-2008 £000
General Fund balance	20,656	18,033
HRA balance (Transferred into the General Fund as an earmarked reserve in 2008-2009)	0	517
	<b>20,656</b>	<b>18,550</b>

27.5 General Fund & HRA Balance (continued)

	2008-2009 £000	2007-2008 £000
Included in the General Fund balance are the following earmarked reserves:-		
Modernising Government Fund	514	683
Strategic Housing Reserve	782	0
School Estate Strategy	1,786	1,863
Single Status and Single Status Appeals Back Pay	809	1,652
Rainbow Nursery	0	150
Riverside Inverclyde	1,052	715
Miscellaneous Social Work Reserves	133	506
Miscellaneous Policy and Resources Committee Reserves	276	849
Miscellaneous Safe, Sustainable Communities Committee Reserves	212	281
Miscellaneous Regeneration Committee Reserves	162	90
Community Investment Fund	328	768
Modernisation and Efficiency Fund	205	516
Council Tax Second Home Discount	81	265
Telecare / Demonstrators Grant	220	233
Homelessness Task Force Grant	224	257
Financial Inclusion	224	327
Elections	300	0
Private Sector Housing Grant	447	0
Food Waste Trial	104	0
Support For Owners	437	0
Fairer Scotland Fund	1,150	0
Landfill Penalty Scheme	676	0
Champions Fund	196	0
Early Retiral / Voluntary Severance Reserve	1,799	529
Economic Downturn	1,500	0
Future Operating Model Delivery	1,000	0
2009-2011 Budget Implementation	150	0
Arts Guild	500	0
Area Renewal Fund	500	0
Play Areas	250	0
	<b>16,017</b>	<b>9,684</b>



27.6 Other Statutory Funds

	Balance 01/04/08	Funds (added)/ used	Transfer between reserves	Balance 31/03/09
	£000	£000	£000	£000
Insurance Fund	4,747	396	0	5,143
Education Equipment Fund	210	(34)	0	176
Repair & Renewal Fund	0	333	0	333
Capital Fund	0	0	1,741	1,741
<b>Total Other Statutory Funds</b>	<b>4,957</b>	<b>695</b>	<b>1,741</b>	<b>7,393</b>

27.7 Pension Reserve

	2008-2009 £000	2007-2008 £000
Balance at 1 April	(5,576)	(41,051)
Actuarial gains/(losses)	(36,458)	33,317
Transfer from Income & Expenditure Account	2,462	2,158
<b>Balance at 31 March</b>	<b>(39,572)</b>	<b>(5,576)</b>

Note 28 Reconciliation of Income & Expenditure Account Balance to Revenue Activities Cash Flow

	2008-2009 £000	2008-2009 £000
(Surplus) on the Income & Expenditure Account	(2,623)	
Net additional amounts required by statute and non-statutory practices to be taken into account when determining the surplus or deficit on the General Fund balance for the year	21,981	19,358
Adjust for Financing Costs		(17,381)
		1,977
Adjustments to Current Assets	(8,736)	
Adjustments to Current Liabilities	2,924	
Adjustments for Amount Required by Statute	(21,981)	
Adjustments for Items not Involving Cash	4,544	
Adjustments to Reserves	(1,919)	(25,168)
<b>Net Cash Inflow from Revenue Activities</b>		<b>(23,191)</b>

Note 29 Reconciliation of the Movement in Cash to Movement on Net Debt

Cash is defined as cash-in-hand and deposits repayable on demand less overdrafts repayable on demand.

	Balance at 01/04/08 £000	Cash Flow £000	Non Cash Transactions £000	Balance at 31/03/09 £000
Cash	27	2	0	29
Bank	30,615	(29,391)	0	1,224
<b>Increase in Cash</b>	<b>30,642</b>	<b>(29,389)</b>	<b>0</b>	<b>1,253</b>
Debt due after 1 year	(174,200)	4,994	(498)	(169,704)
Debt due within 1 year	(2,817)	(17,638)	0	(20,455)
Adjusted for Common Good and Trust Funds	890	0	99	989
<b>Total Debt</b>	<b>(176,127)</b>	<b>(12,644)</b>	<b>(399)</b>	<b>(189,170)</b>
Management of Liquid Resources (see note 31)	5,038	36,078	0	41,116
<b>Total (see note 30)</b>	<b>(140,447)</b>	<b>(5,955)</b>	<b>(399)</b>	<b>(146,801)</b>

**Note 30 Analysis of Changes in Net Debt**

	2008-2009 £000	2007-2008 £000
Increase / (Decrease) in Cash in Period	(29,389)	21,901
Increase / (Decrease) in Debt Financing	(13,043)	63,997
Increase / (Decrease) in Liquid Resources	36,078	(34,962)
<b>Change during the year</b>	<b>(6,354)</b>	<b>50,936</b>
Net Debt at 1 April	(140,447)	(191,383)
<b>Net Debt as at 31 March</b>	<b>(146,801)</b>	<b>(140,447)</b>

**Note 31 Management of Liquid Resources**

	Balance at 01/04/08 £000	Cash Flow £000	Balance at 31/03/09 £000
Short-term Investments	5,038	36,078	41,116

Short term investments held by the Council as at 31 March 2009 consisted of temporary investment with financial institutions that were recognised in the Council's Treasury Management Policy.

**Note 32 Analysis of Other Government Grants shown in the Cash Flow Statement**

	£000
Fairer Scotland Fund	(6,470)
Early Action Fund	(2,379)
Private Sector Housing Grant	(1,922)
Community Ownership Programme Funding	(140)
Police	(383)
Community	(469)
Social Work	(3,335)
Education	(2,265)
Other	(3,226)
<b>Total</b>	<b>(20,589)</b>

## Council Tax Income Account

Local Councils raise taxes from residents by way of a property tax, the Council Tax, which is based on property values. Each dwelling house in a local authority area is placed into one of eight bands A to H with band A being the lowest. The Council declares a tax for Band D properties and all other properties are charged a proportion of this. Lower valued properties pay less; higher valued properties pay more.

	2008-2009 £000	2007-2008 £000
Gross Council Tax levied	39,788	39,681
Council Tax benefits (net of Government Grant)	0	0
Other discounts and reductions	(5,992)	(5,850)
Write offs	(20)	(19)
Provision for bad and doubtful debts	(935)	(842)
<b>Net Council Tax income</b>	<b>32,841</b>	<b>32,970</b>
Prior years' Council Tax adjustments:		
Billing amendments	160	83
Write offs	(212)	(219)
<b>Net Council Tax income for the year</b>	<b>32,789</b>	<b>32,834</b>
Council Tax benefits adjustments	57	93
Arrears of Community Charge recovered during the year	40	75
<b>Net Council Tax income transferred to General Fund</b>	<b>32,886</b>	<b>33,002</b>

Calculation of the Council Tax Base

	No. of Dwellings	No. of Exemptions	* Disabled Transfer to Lower Band	* Disabled Transfer from Higher Band	Discounts 25%	Discounts 50%	Total Effective No. of Dwellings	Proportion of Band D	Band D Equivalents
Band A*				52	21		47	5/9	26
Band A	21,410	1,534	52	27	10,193	696	16,955	6/9	11,303
Band B	5,196	166	27	23	2,334	87	4,399	7/9	3,421
Band C	2,973	74	23	24	1,114	36	2,604	8/9	2,315
Band D	3,107	53	24	29	942	50	2,799	9/9	2,799
Band E	3,302	42	29	15	751	58	3,029	11/9	3,702
Band F	1,738	29	15	13	294	38	1,615	13/9	2,333
Band G	1,361	14	13	1	176	24	1,279	15/9	2,132
Band H	198	6	1	0	18	5	184	18/9	368

\* Disabled Relief: Disabled relief takes the form of a drop in valuation band e.g. Band D to Band C and is applied where a house has been modified to meet the needs of a disabled person who lives there.

Contributions in Lieu – Band D equivalents	2
<b>Total</b>	<b>28,401</b>
Provision for Bad Debt at 3.6%	(1,022)
<b>Council Tax Base</b>	<b>27,379</b>

Calculation of the Council Tax

Dwellings fall within a valuation band between A to H which is determined by the Assessor. The Council Tax charge is calculated using the Council Tax base i.e. band D equivalents. This value is then decreased or increased dependent on the band. The band D charge for 2008-2009 was £1,198.

	£ Per Year
Band A	799
Band B	932
Band C	1,065
Band D	1,198
Band E	1,464
Band F	1,730
Band G	1,997
Band H	2,396

The Council Tax bill is reduced by 25% where a dwelling has only one occupant, by 50% where the property is empty and 10% for second homes. Total exemptions are available if all the occupants are students, all the occupants are under 18 years of age or if all of the occupants are severely mentally impaired.

Charges for water and sewerage are the responsibility of Scottish Water. Inverclyde Council collects total monies and makes a precept payment to the Water Authority on the basis of collection levels based on a pre-determined formula. The above figures exclude the water and sewerage charges.



## Non-Domestic Rates Income Account

Non-Domestic rates is a tax levied by local authorities on the occupiers of commercial property within their area, as distinct from a charge for their use of services. The rates collected from non-domestic ratepayers during the year is shown below. Any difference between the rates collected and the amount the Council is guaranteed to receive under the national pooling arrangement is adjusted via the Government's revenue support grant to the Council. The non-domestic rate income is redistributed from the national pool in proportion to the resident population of each local authority and therefore bears no relationship with the amount charged or collected by those authorities.

	2008-2009 £000	2007-2008 £000
Gross rates levied	24,470	23,586
Relief and other remissions	(5,506)	(4,577)
Payment of interest	0	0
Provision for bad and doubtful debts	(1,219)	(721)
<b>Net non-domestic rate income</b>	<b>17,745</b>	<b>18,288</b>
Adjustments for years prior to introduction of national non-domestic rate pool	0	0
Contribution from national non-domestic rate pool	13,533	11,691
<b>Net non-domestic rate income transferred to General Fund</b>	<b>31,278</b>	<b>29,979</b>

	2008 £000	2007 £000
<b>Rateable values at 1 April</b>		
Commercial	28,438	27,582
Industrial / freight transport	10,475	10,498
Others	15,119	14,384
	<b>54,032</b>	<b>52,464</b>

### The nature and amount of each rate fixed

The rates for each subject is determined by the rateable value placed upon it by the Assessor multiplied by the rate per £sterling announced each year by the Scottish Government. For 2008-2009 the charge was 45.8p in the £sterling.



## Common Good Fund

The Council administers the Inverclyde Common Good Fund. The Inverclyde Common Good Fund must be applied for the benefit of the people of Inverclyde. The figures below summarise the aggregate income and expenditure for the year as well as providing a snapshot picture of the assets and liabilities at 31 March 2009. Each year, applications for funding support are considered by the Council's Policy & Resources Committee. It should be noted that although the Common Good currently has reserves of £591,000, it has committed funding for the 2011 Tall Ships Event, the 2009 European Pipe Band Championship and the restoration of the Comet, totalling £414,000.

### Summary of Common Good

Inverclyde Council Annual Accounts 2008-2009

2007-2008 £000	Summary Income & Expenditure Account	2008-2009 £000
(485)	Opening Balance 1 April	(518)
(180)	Income	(203)
147	Expenditure	130
<b>(518)</b>	<b>Closing Balance 31 March</b>	<b>(591)</b>
2008 £000	<b>Balance Sheet as at 31 March</b>	2009 £000
	<b>Tangible Fixed Assets:</b>	
	<b>Non Operational Assets</b>	
1,615	Investment Properties	1,559
2	<b>Investments</b>	2
	<b>Current Assets:</b>	
18	Debtors	35
498	Short-term Deposits with Inverclyde Council	554
	<b>Current Liabilities:</b>	
0	Creditors	0
<b>2,133</b>	<b>Total Assets less Liabilities</b>	<b>2,150</b>
	<b>Represented by:</b>	
1,615	Revaluation Reserve	1,559
518	Capital & Revenue Reserves	591
<b>2,133</b>	<b>Net Worth</b>	<b>2,150</b>

## Trust Funds

This section of the Annual Accounts shows the summary of transactions relating to the 18 charitable trusts and 18 other funds administered by Inverclyde Council. The funds may be used for various purposes depending upon the terms of the trust. A summary of the balances held at 31 March 2009 and how these balances were invested is also shown.

### Summary of Trust Funds

Charities 2007-2008 £000	Other Funds 2007-2008 £000	Summary Income & Expenditure Account	Charities 2008-2009 £000	Other Funds 2008-2009 £000
(109)	(675)	Opening Balance 1 April	(113)	(337)
(6)	(37)	Income	(5)	(173)
2	375	Expenditure	2	144
<b>(113)</b>	<b>(337)</b>	Closing Balance 31 March	<b>(116)</b>	<b>(366)</b>
Charities 2008 £000	Other Funds 2008 £000	Balance Sheet as at 31 March	Charities 2009 £000	Other Funds 2009 £000
0	42	<b>Tangible Fixed Assets:</b>		
		<b>Non Operational Assets</b>		
		Investment Properties	0	34
3	57	Investments	3	46
		<b>Current Assets</b>		
0	0	Debtors	0	0
112	280	Short-term Deposits with Inverclyde Council	115	320
(2)	0	<b>Current Liabilities</b>		
		Creditors	(2)	0
<b>113</b>	<b>379</b>	Total Assets less Liabilities	<b>116</b>	<b>400</b>
		<b>Represented by</b>		
0	42	Revaluation Reserve	0	34
113	337	Capital & Revenue Reserves	116	366
<b>113</b>	<b>379</b>	Net Worth	<b>116</b>	<b>400</b>

## Notes to Trust Funds

### Trust Funds Balances

The Trust Funds Accounts contained within the section are a summary of all trust funds administered by Inverclyde Council. The majority of these have relatively small fund balances. Those considered to be material (£20,000 and over) have been separately identified below.

	£000
<p><b><u>Watt Complex Cy-Pres Scheme</u></b> (not a registered charity)                      The assets and liabilities of three trusts, Greenock Library, Watt Hall and Museum and Greenock Art Gallery and James McLean's Trust, were transferred to the Council under a Cy-Pres Scheme.</p>	178
<p><b><u>Education Trust Fund</u></b> (not a registered charity)                      Established by Inverclyde Council to provide endowments for talented children and young people mostly in the areas of arts, creativity, music and sports.</p>	78
<p><b><u>Port Glasgow High Trust Fund</u></b> (not a registered charity)                      Established by a private donor to provide scholarships for pupils of Port Glasgow High School from disadvantaged backgrounds or from families with no history of higher education.</p>	49
<p><b><u>Birkmyre Trust</u></b> (not a registered charity)                      Founded by the late Adam Birkmyre and consisting of the Birkmyre Park to ensure the availability of recreational facilities within Kilmacolm.</p>	48
<p><b><u>Lady Alice Shaw-Stewart Memorial Fund</u></b> (Scottish charity no. SC019228)                      Funded by the Trustees of the Female Branch of the Greenock Discharged Prisoners Aid Society. Interest on the capital to be utilised for the assistance of female cases recommended to them by the Probation Officer for the time being in the Burgh of Greenock.</p>	48
<p><b><u>Peter Stanton Memorial Trust</u></b> (Scottish charity no. SC021862)                      Established by Inverclyde District Council in 1993 to relieve the needs of disabled persons in Inverclyde District and encourage in the interests of social welfare their participation in recreational or other leisure-time activities with the object of improving the conditions of life.</p>	20

# Statement of Group Accounting Policies

## 1 General

The Code of Practice on Local Authority Accounting in the United Kingdom 2008: A Statement of Recommended Practice (the 2008 SORP) requires local authorities to consider their interests in all types of entity. This includes other local authorities or similar bodies defined in section 106 of the Local Government (Scotland) Act 1973 e.g. statutory bodies such as Police, Fire and Rescue and Valuation Boards. Authorities are required to prepare a full set of group accounts in addition to their own Council's accounts where they have a material interest in such entities.

## 2 Combining Entities

The Group Accounts consolidate the results of the Council with seven other entities:

- Strathclyde Joint Police Board
- Strathclyde Fire & Rescue Joint Board
- Strathclyde Partnership for Transport (SPT)
- Strathclyde Concessionary Travel Scheme Joint Board
- Renfrewshire Valuation Joint Board
- Inverclyde Leisure Limited
- Riverside Inverclyde Limited

Under accounting standards, the Council requires to include the results of the above organisations as "associates" because it has a "significant influence" over their financial and operating policies. The Council has no shares in or ownership of any of these organisations which are entirely independent of the Council under law and for taxation.

Four of the five Joint Boards (Police, Fire and Rescue, SPT and Concessionary Travel) are included within the Group Accounts under the wider definition of an "associate" although the Council holds less than 20% of voting rights that is normally presumed to confer significant influence. Renfrewshire Valuation Joint Board, Inverclyde Leisure Limited and Riverside Inverclyde Limited are also included within the Group Accounts as "associates" as the Council does not have a "controlling interest" in these bodies in terms of the voting rights.

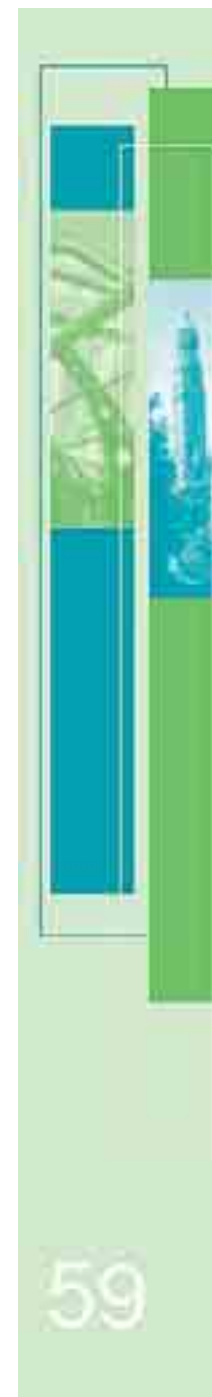
The Group's share of Inverclyde Leisure Limited and Riverside Inverclyde Limited is calculated using the Member representation on the company's Board. For all other associates, the Council's share has been calculated on the Council's contribution to revenue costs.

Further details for each entity are provided in the notes to the Group Accounts on pages 66 to 73.

## 3 Basis of Combination & Going Concern

The combination has been accounted for under the accounting conventions of the "acquisition basis" using the equity method – the Council's share of the net assets or liabilities of each entity is incorporated and adjusted each year by the Council's share of the entities' results (recognised in the Group Income & Expenditure Account), and its share of other gains and losses.

For three of the seven entities, the Council has a share in a net liability. The significant negative balances on Police and Fire & Rescue arise from the inclusion of liabilities related to the defined benefit pension schemes as required by FRS17 (i.e. their pension liability to pay retirement benefits in the long term).



The effect of inclusion of the above associate bodies on the group Balance Sheet is to reduce both the "total assets less liabilities" and "total balances and reserves" by £132.9 million representing the Council's share of the net liabilities in these entities. As above, this reflects the combined pension liability recorded for the Police and Firefighter's Pension Schemes.

All associates consider it appropriate that their Statement of Accounts should follow the "going concern" basis of accounting. Statutory arrangements with the Scottish Government for the funding of the Joint Police Board deficit and with the constituent local authorities for the deficit of the Fire and Rescue Board means that the financial position of these Boards remains assured. Arrangements with the Council and its partner organisations for the longer-term funding of Inverclyde Leisure Limited are considered sufficient to meet the deficit incurred in 2008-2009.

In common with these public bodies, the Council's Group Accounts have been prepared on a 'going concern' basis as it is expected that funding, aligned with robust budget processes, will continue to provide sufficient resources.

#### 4 Disclosure of Differences with Main Statement of Accounting Policies

The financial statements in the Group Accounts of Inverclyde Council are prepared in accordance with the accounting policies set out for the single entity on pages 11 to 16 with the additions and exceptions shown in the following section.

#### 5 Group Income & Expenditure Account

##### 5a Retirement Benefits

In common with Inverclyde Council, all combining entities participate in the Strathclyde Pension Scheme. This is explained on pages 27 to 31. The associates have accounting policies for pensions accounting that are consistent with those of the Council.

Police and fire fighters have separate pension arrangements. The Police Pension Scheme and the Firefighter's Pension Scheme are unfunded and therefore net pension payments are charged to the Income & Expenditure account in the year in which payment is made. The Police and Fire and Rescue Joint Boards have used the same assumptions as those used by Inverclyde Council in their separate calculations to arrive at their net pension liability i.e. price increases, salary increases, pensions increases and discount rates.

##### 5b Value Added Tax

VAT paid by Inverclyde Leisure Limited is accounted for within the deficit for the year to the extent that it is irrecoverable from H.M. Revenue and Customs.

##### 5c Proceeds from Disposals of Fixed Assets

Profits and losses on the disposal of fixed assets are credited or debited to the Group Income & Expenditure Account in a separate line. In the case of proceeds for the Council's assets, these are taken to the Capital Receipts Reserve. Amounts in respect of Council assets are appropriated to the Capital Adjustment Account. For the share of proceeds for associates and the joint venture, these are taken instead to the Group Income & Expenditure Reserve.

#### 6 Group Balance Sheet

##### 6a Valuation of Fixed Assets

The basis of valuation across the combining entities is in accordance with UK GAAP. Operational assets are shown at the lower of net replacement cost or net realisable value in existing use with the following exception:

- i. The Valuation Joint Board & Concessionary Fares Joint Board have no fixed assets.

- ii. The SPT holds exceptional types of fixed assets in its balance sheet. Within intangible assets, there are subsidised bus contracts that are recorded at amortised cost. There are also “third-party” assets that are rolling stock and other public assets used by other transport operators but which the SPT has the power to direct to the benefit of the travelling public within the SPT area. These are held at historic cost.
- iii. Inverclyde Leisure Limited uses the historic cost convention for its recent leasehold improvements, but this is considered a suitable proxy for market value in existing use on a replacement cost basis.

## 6b Depreciation

The periods and categories of assets for the Group are:

<b>Intangible assets</b>	
Software licences etc	1 – 6 years
Subsidised bus contracts (SPT only)	5 years
<b>Tangible fixed assets</b>	
Buildings	5 – 60 years
Infrastructure	10 – 40 years
Plant & machinery	1 – 25 years
Vehicles, computers and furniture and fittings	1 – 40 years
Rolling stock (SPT only)	1 – 25 years
3 <sup>rd</sup> party rolling stock (SPT only)	20 years
3 <sup>rd</sup> party assets (SPT only)	Fully depreciated in year of acquisition
<b>Non-operational assets</b>	
Assets under construction	No depreciation
Surplus properties	5 – 60 years
Investment properties	No depreciation
Investment assets (SPT only)	1 – 40 years

## 6c Stock

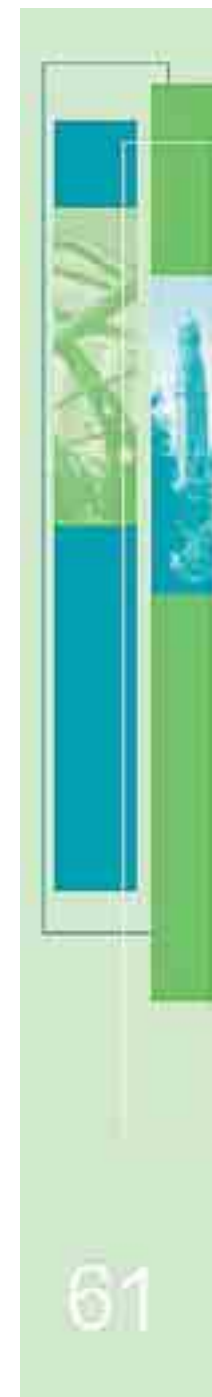
Stock is valued at weighted average cost and the lower of cost or net realisable value as follows. The difference in valuation methods does not have a material effect on the results of the Group given the levels of stockholdings in these organisations.

Weighted average cost: Council's stock and Strathclyde Police's stock of uniforms.

Net cost or realisable value: Strathclyde Fire and Rescue's, SPT's and Inverclyde Leisure's stock and Strathclyde Police's stock of vehicle parts, communications equipment and other materials.

## 6d Goodwill

No goodwill has been included in the balance sheet in view of the length of time since acquisition, that no consideration was involved and that a fair value at the date of acquisition cannot now be properly assessed.



## Group Income & Expenditure Account for the Year ended 31 March 2009

2007-2008 Net Expenditure £000		2008-2009 Gross Expenditure £000	2008-2009 Gross Income £000	2008-2009 Net Expenditure £000
1,636	Central Services to the Public	10,805	(9,823)	982
9,461	Cultural and Related Services	13,525	(3,136)	10,389
93,340	Education Services	103,281	(6,049)	97,232
9,514	Environmental Services	12,006	(1,679)	10,327
7,101	Fire & Rescue Services	7,605	0	7,605
1,663	General Fund Housing Services	38,648	(37,813)	835
7,292	Housing Revenue Account – Discontinued Operation	0	0	0
8,473	Planning and Development Services	10,855	(4,236)	6,619
9,524	Police Services	9,637	(383)	9,254
6,470	Roads & Transportation	7,489	(2,228)	5,261
42,699	Social Work	64,586	(13,154)	51,432
2,486	Corporate & Democratic Core	2,593	0	2,593
2,370	Non-distributable Costs	3,275	(304)	2,971
(33)	Operating Results of Common Good	113	(186)	(73)
715	Share of Operating Results of Associates	0	(2,066)	(2,066)
<b>202,711</b>	<b>Net Cost Of Services</b>			<b>203,361</b>
89,486	(Gains) or Losses on Disposal of Fixed Assets			1,260
292	Net (Surplus) or Deficit on Trading Operations			160
16,218	Group Interest Payable and similar charges			11,686
554	Share of Interest Payable by Associates			523
(3,829)	Group Interest & Investment Income Received			(4,431)
(445)	Share of Interest & Investment Income Received from Associates			(337)
(2,919)	Pensions Interest Cost and Expected Return on Pension Assets			(86)
9,410	Pensions Interest Cost and Expected Return on Pension Assets of Associates			10,179
<b>311,478</b>	<b>Net Expenditure</b>			<b>222,315</b>
	<b>Income from taxation and general government grants</b>			
(33,002)	Council Tax			(32,886)
(110,755)	Revenue Support Grant			(130,554)
(29,979)	Non-Domestic Rates			(31,278)
<b>137,742</b>	<b>Group deficit for the year</b>			<b>27,597</b>



## Reconciliation of Single Entity Deficit to Group Deficit

for the Year ended 31 March 2009

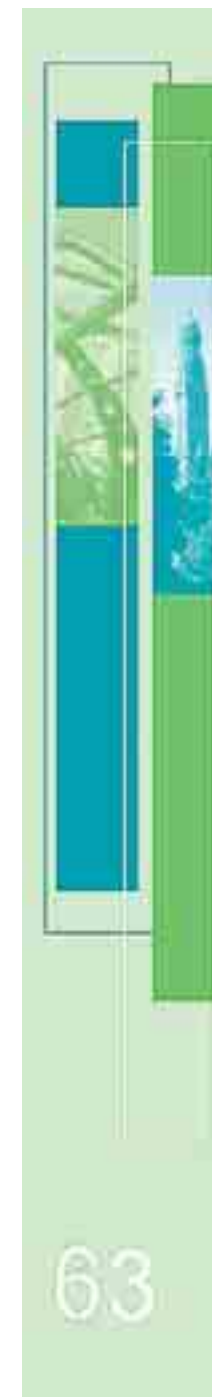
This statement shows how the deficit on the Council's single entity Income and Expenditure Account for the year reconciles to the deficit for the year on the Group Accounts.

2007-2008 £000		2008-2009 £000
127,502	Deficit for the year on the Council's Income & Expenditure Account (page 17)	19,358
	(Surplus) or deficit in the Group Income & Expenditure Account attributable to group entities	
(33)	<ul style="list-style-type: none"> <li>• Common Good</li> </ul>	(73)
10,273	<ul style="list-style-type: none"> <li>• Associates</li> </ul>	8,312
<b>137,742</b>	<b>Deficit for the year on the Group Income &amp; Expenditure Account</b>	<b>27,597</b>

## Group Statement of Total Recognised Gains & Losses for the Year ended 31 March 2009

This statement brings together all the gains and losses of the Group for the year. In addition to the deficit generated on the Group Income & Expenditure Account, it includes gains and losses relating to the revaluation of fixed and financial assets and re-measurement of the net liability to cover the cost of retirement benefits. More information about the recognised gains and losses in the table below is shown in note 12 to the Notes to the Group Accounts.

2007-2008 £000		2008-2009 £000
137,742	Net deficit on the Group Income and Expenditure Account for the year	27,597
(151,860)	(Surplus) on the revaluation of fixed assets	(7,170)
(69,498)	Actuarial (gains) or losses on pension fund assets and liabilities	32,615
4,478	Adjustment arising from transitional arrangements for financial instruments	0
(1,086)	Other capital (gains) and losses	25
<b>(80,224)</b>	<b>Total Recognised (Gains) and Losses for the Year</b>	<b>53,067</b>



## Group Balance Sheet as at 31 March 2009

Inverclyde Council Annual Accounts 2008-2009

2008 £000		2009 £000
525	<b>Intangible Fixed Assets</b>	456
	<b>Tangible Fixed Assets</b>	
	<b>Operational Assets</b>	
306,362	Other Land & Buildings	318,935
6,180	Vehicles, Plant & Equipment	5,983
23,044	Infrastructure Assets	25,517
8,826	Community Assets	9,526
<b>344,412</b>		<b>359,961</b>
	<b>Non-Operational Assets</b>	
1,801	Investment Properties	1,738
29,423	Assets Under Construction	190
1,973	Surplus Assets held for Disposal	5,936
<b>33,197</b>		<b>7,864</b>
4,013	<b>Investments in Associates</b>	6,157
345	<b>Long-term Debtors</b>	352
	<b>Current Assets</b>	
321	Stocks and Work in Progress Debtors	699
19,516	(net of prov for bad and doubtful debts)	12,099
5,038	Investments	41,118
30,642	Cash & Bank Balances	1,253
<b>55,517</b>		<b>55,169</b>
	<b>Current Liabilities</b>	
(2,319)	Short-term Borrowing	(19,901)
(30,114)	Creditors	(24,301)
(1,335)	Provisions	(1,082)
<b>(33,768)</b>		<b>(45,284)</b>

2008 £000		2009 £000
<b>404,241</b>	<b>Total Assets less Current Liabilities</b>	<b>384,675</b>
(174,200)	Long-term Borrowing	(169,704)
(139,564)	Share of Net Liabilities of Associates	(141,490)
(16,630)	Government Grants Deferred	(18,705)
(5,576)	Liability related to Defined Pension Scheme	(39,572)
<b>(335,970)</b>		<b>(369,471)</b>
<b>68,271</b>	<b>Total Assets Less Liabilities</b>	<b>15,204</b>
	<b>Represented By:</b>	
131,597	Revaluation Reserve	122,415
57,341	Capital Adjustment Account	43,026
(3,565)	Financial Instruments Adjustment Account	(3,972)
(5,576)	Pension Reserve	(39,572)
(135,551)	Group Income & Expenditure Reserve	(135,333)
18,033	General Fund Balance	20,656
517	HRA Balance	0
5,475	Other Statutory Funds	7,984
<b>68,271</b>	<b>Total Balances &amp; Reserves</b>	<b>15,204</b>



Alan Puckrin C.P.F.A.  
Chief Financial Officer

The unaudited accounts were issued on 25 June 2009 and the audited accounts were authorised for issue on 23 September 2009.

Note: The 2008 figures have been restated as a result of Associates' changes in accounting policies and late audit adjustments for 2007-2008. Note 13 provides an explanation of the adjustments to the prior year's figures.

## Group Cash Flow Statement as at 31 March 2009

2007-2008 £000		2008-2009 £000
(14,875)	Net cash inflow from revenue activities	(23,191)
	Returns on Investment & Servicing of Finance	
	Cash Outflows	
16,706	Interest paid	12,038
	Cash Inflows	
(5,366)	Interest received	(3,433)
<b>11,340</b>	Net cash outflow from investments and servicing of finance	<b>8,605</b>
	Capital Expenditure & Financial Investment	
	Cash Outflows	
35,236	Purchase of fixed assets	25,451
1,561	Other capital cash payments	0
<b>36,797</b>		<b>25,451</b>
	Cash Inflows	
(6,111)	Sale of fixed assets	(49)
(7,569)	Capital grants received	(4,810)
(79)	Other capital cash receipts	(51)
<b>(13,759)</b>		<b>(4,910)</b>
<b>23,038</b>	Net Cash Outflow from Capital Activities	<b>20,541</b>
<b>19,503</b>	Net Cash Outflow / (Inflow) before Financing	<b>5,955</b>
	Management of Liquid Resources	
(34,962)	Net increase/decrease in short-term deposits	36,078
<b>(34,962)</b>	Net Cash (Inflow)/Outflow from the Management of Liquid Resources	<b>36,078</b>

2007-2008 £000		2008-2009 £000
	Financing	
	Cash Outflows	
194,256	Repayment of amounts borrowed	40,058
	Cash Inflows	
(95,698)	New short term loans raised	(7,702)
(105,000)	New long term loans raised	(45,000)
<b>(6,442)</b>	Net (Increase)/Decrease in Loans	<b>(12,644)</b>
<b>(21,901)</b>	Net (Increase)/Decrease in Cash	<b>29,389</b>



# Notes to the Group Accounts

## 1 Introduction

The notes required for the accounts of Inverclyde Council are disclosed separately in the preceding pages. The following notes provide material additional amounts and details in relation to the other combining entries.

## 2 Combining Entities

Inverclyde Council is represented on the Board of a number of organisations. The extent of the Council's controlling interest has been reviewed in determining those entities that should be consolidated and incorporated within the Group Accounts. Those organisations, which have a significant impact on the Council's operations, are listed below. The accounting period for all of these bodies is the year to 31 March 2009. In addition to the information included in the Group Accounts on the preceding pages the accounting regulations require specific disclosures about the combining entities and the nature of their business.

### **Strathclyde Joint Police Board**

Inverclyde Council is a member of the Police Joint Board, a statutory corporate body established under the Strathclyde Combined Police Area Amalgamation Order 1995 that provides a comprehensive range of policing services on behalf of the 12 constituent local authorities in the West of Scotland. In 2008-2009 the Council contributed £ 9.254 million or 3.6% (2007-2008 £9.524 million) of the Board's estimated running costs and its share of the year-end net liability of £106.943 million (2007-2008 £109.179 million) is included in the Group Balance Sheet. The accounts of the Board are audited and have been qualified. They can be obtained from the Treasurer to Strathclyde Police Joint Board, Glasgow City Chambers, Glasgow G2 1DU. Note 11 on page 72 provides further information on the qualification.

### **Strathclyde Fire and Rescue Joint Board**

Inverclyde Council is a member of the Strathclyde Fire and Rescue Joint Board which provides fire and emergency cover for the 12 constituent local authorities in the West of Scotland. In 2008-2009 Inverclyde Council contributed £7.605 million or 5.07% (2007-2008 £7.101 million) to the Board's estimated running costs and its share of the year-end net liability of £34.403 million (2007-2008 £35.542 million) is included in the Group Balance Sheet. The accounts of the Board have been audited and are free from qualification. They can be obtained from the Treasurer to Strathclyde Joint Fire and Rescue Board, Bothwell Road, Hamilton ML3 0EA.

### **Strathclyde Partnership for Transport**

This is the statutory body responsible for formulating the public transport policy for the 12 local authorities in the West of Scotland plus Dumfries and Galloway Council. In 2008-2009, Inverclyde Council contributed £1.481 million or 3.97% (2007-2008 £1.365 million) of the Partnership's estimated running costs and its share of the year-end net asset of £3.040 million (2007-08 £2.83 million) is included in the Group Balance Sheet. The accounts of the Board have been audited and are free from qualification. They can be obtained from the Treasurer to Strathclyde Partnership for Transport, Strathclyde Passenger Transport, Consort House, 12 West George Street, Glasgow G2 1HN.

### **Strathclyde Concessionary Travel Scheme Joint Board**

This Travel Scheme comprises the 12 Councils within the West of Scotland and oversees the operation of the concessionary fares scheme for public transport within its area. The costs of the Scheme are met by a combination of funding from the 12 Councils and direct grant funding by the Scottish Government. The Strathclyde Passenger Transport Executive administers the Scheme on behalf of the Board. In 2008-2009, Inverclyde Council contributed £0.102 million or 4.02% (2007-2008 £0.123 million) of the Board's estimated running costs and its share of the year-end net asset of £0.265 million (2007-2008 £0.372 million) is included in the Group Balance Sheet. The accounts of the Board have been audited and are free from qualification. They can be obtained from the Treasurer to Strathclyde Concessionary Travel Scheme, Strathclyde Passenger Transport, Consort House, 12 West George Street, Glasgow G2 1HN.

### Renfrewshire Valuation Joint Board

This Board was formed in 1996 at local government re-organisation by Act of Parliament and is responsible for the maintenance of the electoral, council tax and non-domestic rates registers for the three Councils of East Renfrewshire, Renfrewshire and Inverclyde. Its principal place of business is The Robertson Centre, 16 Glasgow Road, Paisley PA1 3QF. The Board's running costs are met by the three member Councils. Surpluses or deficits on the Board's operations are shared between the Councils. In 2008-2009, Inverclyde Council contributed £0.574 million or 24.7% (2007-2008 £0.563 million) of the Board's estimated running costs and its share of the year-end net asset of £0.144 million (2007-2008 £0.186 million) is included in the Group Balance Sheet. The accounts of the Board have been audited and are free from qualification. They can be obtained from the Treasurer to the Renfrewshire Valuation Joint Board, Renfrewshire House, Paisley PA1 1JB.

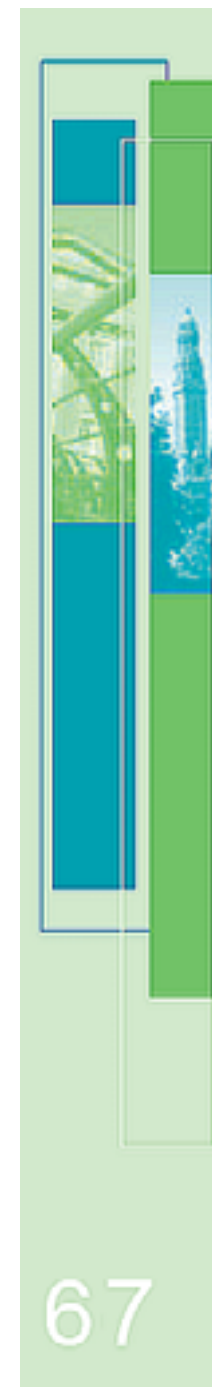
### Inverclyde Leisure Limited

This is a charitable company registered in Scotland that provides leisure facilities within Inverclyde Council's area to the general public and operates sports centres, leisure centres and swimming pools owned by the Council. Inverclyde Leisure Limited is paid a management fee by the Council for the provision of these services. The charity's net assets at 31 March 2009 were £0.162 million (2007-2008 0.492 million) and its net surplus for the year was £0.022 million (2007-2008 £0.781 million deficit). The Council has no commitment to meet any losses of the company. The accounts of the charitable company are published separately and can be obtained from the Chief Executive, Waterfront Leisure Complex, Customhouse Way, Greenock, PA15 1EW which is also the company's principal place of business.

The Council has no shares in or ownership of this company which is entirely independent of the Council under law and for taxation. The Council has five of the eleven representatives on the company's board, and for the purposes of accounting this equates to an interest of 45.45% Under accounting standards the Council is required to include the results of Inverclyde Leisure Limited as an associate because it has a "significant influence" over the financial and operating policies of the charity. In 2008-2009, Inverclyde Council contributed £1.820 million or 40.7% of the charity's turnover and its share of the year-end net asset of £0.073 million (2007-2008 £0.223 million) is included in the Group Balance Sheet.

The following additional disclosures are required under accounting regulations for Inverclyde Leisure Limited because they are a Related Party to the Council.

	Inverclyde Leisure 2008-2009 £000	Inverclyde Council's 45.45% share of Inverclyde Leisure 2008-2009 £000
Turnover	(4,467)	(2,030)
Surplus or (deficit) for the year	(22)	(10)
Fixed assets	414	188
Current assets	604	275
Liabilities due within 1 year	(559)	(254)
Liabilities due after 1 year excluding pension liability	(46)	(21)
Pension liability	(252)	(115)
Net Assets or (Liabilities)	161	74



### Riverside Inverclyde Limited

This is an Urban Regeneration Company (URC) limited by guarantee with charitable status and two member organisations, Inverclyde Council and Scottish Enterprise Renfrewshire. The charitable company has been established to improve and regenerate the riverside area stretching from Port Glasgow through to Greenock. The company's operations are funded by grants from the Scottish Government, Inverclyde Council and Scottish Enterprise Renfrewshire. The charities net assets at 31 March 2009 were £14.396 million (2007-2008 £3.517 million) and its net deficit for the year was £0.056 million (2007-2008 £0.214 million surplus). The Council has no commitment to meet any losses of the company. The accounts of the company are published separately and may be obtained from the Chief Executive, 2-6 Custom House Way, Greenock PA15 1EN, which is also the company's principal place of business.

The company does not have shareholders and any surpluses are made available for reinvestment in other projects within the area. The company is entirely independent of the Council under law and for taxation. The Council has three of the fifteen representatives on the company's board, and for the purposes of accounting this equates to an interest of 21.43%. Under accounting standards the Council is required to include the results of Riverside Inverclyde as an associate because it has a 'significant influence' over the financial and operating policies of the charity. In 2008-2009, Inverclyde Council contributed £1.638 million (2007-2008 £3.358 million) or 18.6% of the charity's turnover, and also £1.100 million in land, and its share of the year-end asset of £3.085 million (2007-2008 £0.703 million) is included in the Group Balance Sheet.

The following additional disclosures are required under accounting regulations for Riverside Inverclyde Limited because they are a Related Party to the Council.

	Riverside Inverclyde 2008-2009 £000	Inverclyde Council's 21% share of Riverside Inverclyde 2008-2009 £000
Total incoming resources	14,693	3,149
Total resources expended	(14,718)	(3,154)
Net movement in funds after pension scheme	(40)	(9)
Funds brought forward	3,528	756
Funds carried forward	3,488	747
Fixed assets	14,246	3,053
Current assets	3,666	786
Liabilities due within 1 year	(3,512)	(753)
Liabilities due after 1 year excluding pension liability	0	0
Pension Liability	(4)	(1)
Net assets or (liabilities)	14,396	3,085

### 3 Non-material Interest in Other Entities

The Council has a “significant interest” in several Joint Committees and a number of trust funds. Details of these are shown in the following paragraphs. The Council’s share of their net assets or liabilities is not material to the fair understanding of the financial position and transactions of the Council. Accordingly, the Group Accounts do not include these organisations. Under the accounting regulations, the Council is required to disclose the business nature of each organisation.

**Glasgow and Clyde Valley Structure Plan Joint Committee** covers the 8 councils within its area. Under the Town and Country Planning (Scotland) Act 1997, each member council not only has responsibilities for local planning matters in its area but also the strategic issues that cover the wider area of the Glasgow and Clyde Valley. Accordingly, the Committee prepares, monitors and reviews the Structure Plan on behalf of member councils and liaises with central government, Scottish Enterprise and other bodies. Inverclyde Council contributed £0.074 million (12.5%) to the committee’s estimated running costs in 2008-2009 (£0.078 million in 2007-2008).

**Clyde Muirshiel Park Authority** is a Joint Committee of three councils – Inverclyde, Renfrewshire and North Ayrshire. The Authority is responsible for the management and maintenance of the Clyde Muirshiel Park that extends from Greenock in the north down the Clyde coast to Inverkip, Largs and West Kilbride and inland to Lochwinnoch. Inverclyde Council contributed £0.202 million (24.70%) to the Committee’s estimated running costs in 2008-2009 (£0.197 million in 2007-2008).

**Scotland Excel** is a not for profit procurement organisation that was established on 1 April 2008 to replace the Authorities Buying Consortium and similar bodies across Scotland. The organisation aims to improve the effectiveness and efficiencies of public sector procurement in the 28 Local Authorities and related organisations across Scotland. During the year, the Council made a contribution of £0.062 million representing 2.08% of the organisation’s estimated running costs for the year to 31 March 2009.

**Trust funds** are disclosed in the separate financial statements on pages 57 and 58. There are 18 charitable trusts and 18 other funds, the majority of which have relatively small balances and few transactions during the year. The assets of the funds comprise of investment properties, quoted investments and short-term deposits with the Council. The assets of the charities are not the property of the Council and are subject to charitable trust regulations. The larger funds are used for such diverse purposes as recreational facilities at Birkmyre Park; the upkeep of the library, museum and art gallery in Greenock; scholarships at Port Glasgow High School; rehabilitation of offenders; and the social welfare of disabled persons. The charitable and other trust funds applied £0.146 million during the year (2007-2008 £0.377 million). This was funded by incoming resources of £0.178 million (2007-2008 £0.043 million). The total net asset value of the trusts increased by £0.024 million to £0.516 million (£0.343 million increase in 2007-2008). The Sail Inverclyde Limited Company is included within the other funds. The company was formerly called the Greenock Tall Ships 1999 Limited Company and was originally formed to organise and publicise the Tall Ships event hosted by Greenock in 1999. The company has been renamed to organise the Tall Ships event in 2011 in Greenock. The company has two members Inverclyde Council and Clydeport plc. The company is dormant and did not trade during the year.

The Council also has an interest in several small-scale Joint Committees with neighbouring Councils in the West of Scotland – the West of Scotland European Forum £0.005 million (nil contribution in 2007-2008), the West of Scotland Archaeological Service £0.010 million (2007-2008 £0.010million) and the Continuing Education Gateway £0.016 million (2007-2008 £0.016 million).

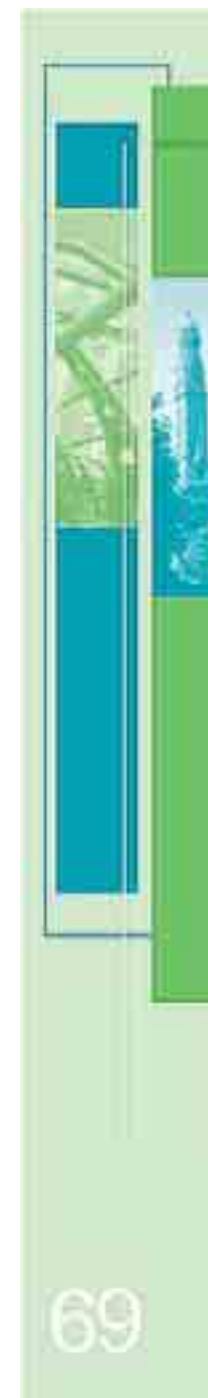
### 4 Adjustments to Council’s Results to align with UK GAAP (Generally Accepted Accounting Practice)

Several accounting adjustments to the financial information in Inverclyde Council’s accounts are necessary to align it with the UK accounting standards (GAAP) requirements for group accounting.

These are:

- The inclusion of a surplus for the year of £0.073 million (2007-2008 £0.033 million surplus) for the Inverclyde Common Good fund.
- The consolidation of net assets of £2.150 million (2007-2008 £2.133 million) for the Common Good.

In accordance with UK accounting standards, no adjustments have been made for transactions carried out and balances held between the Council and its associates in the Group Accounts.



## 5 Financial Impact of Consolidation

The effect of inclusion of the above associate bodies on the Group Balance Sheet is to reduce both the "total assets less liabilities" and "net worth" by £132.901 million representing the Council's share of the net liabilities in these entities (2007-2008 £138.273 million). This reflects the combined pension liability of these associates, particularly those recorded for the Police and Firefighter's schemes.

## 6 Council's Consideration for Acquisition of Associates' Net Assets or Liabilities

The assets, liabilities and reserves of the Council have been combined with its share of the net assets or liabilities of its associates under the accounting conventions of the "acquisition basis" using the equity method. The accounting regulations require certain disclosures about the net assets or liabilities so acquired.

- The Council has not paid any consideration for its interests. There is no deferred or contingent purchase consideration.
- A "fair value" for its share of the net assets or liability of the five Joint Boards at the point of acquisition and the post-acquisition results are unable to be accurately determined in view of length of time since the transfer of these responsibilities at local government re-organisation in 1996 and the change in accounting for pensions under FRS17 in 2003-2004.

## 7 Analysis of Material Amounts in Income & Expenditure Account

In order to assist the reader in a better understanding of the impact of the inclusion of the results of associates, the following tables provide an analysis of the Council's share of the material amounts. The change in the year in the "net worth" of the Group is provided in the Group Statement of Total Recognised Gains and Losses on page 63.

	2008-2009 £000	2007-2008 £000
<b>Share of operating results of associates</b>		
Inverclyde Leisure Limited	2	(344)
Strathclyde Joint Police Board	(901)	1,327
Strathclyde Fire and Rescue Joint Board	(38)	316
Strathclyde Partnership for Transport	(1,261)	(607)
Strathclyde Concessionary Travel Scheme Joint Board	124	42
Renfrewshire Valuation Joint Board	(1)	18
Riverside Inverclyde	9	(37)
<b>Total</b>	<b>(2,066)</b>	<b>715</b>
<b>Pensions interest costs and expected return on pensions assets of associates</b>		
Inverclyde Leisure Limited	(5)	(8)
Strathclyde Joint Police Board	7,391	7,072
Strathclyde Partnership for Transport	(29)	2,464
Strathclyde Fire & Rescue Joint Board	2,839	(89)
Renfrewshire Valuation Joint Board	(17)	(29)
<b>Total</b>	<b>10,179</b>	<b>9,410</b>



## 8 Analysis of Investments & Net Liabilities of Associates in Balance Sheet

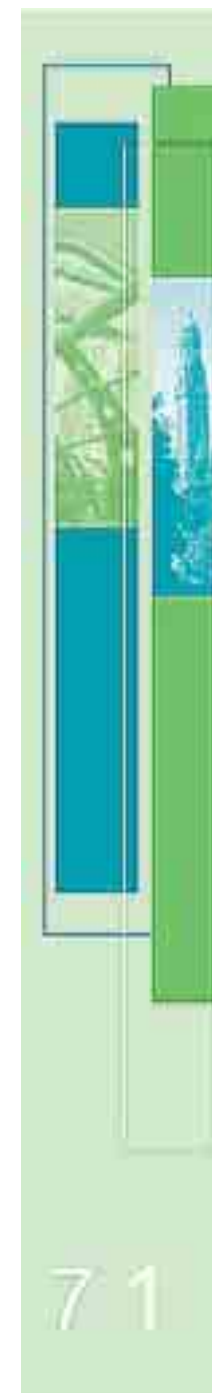
An analysis of certain elements within the net figure in the Group Balance Sheet for "investments in associates" and "net liability of associates" (£6,157 - £141,490 = (£135,333)) is shown in the table below plus the gross income (turnover) for the year for all associates and the joint venture. These disclosures are required under accounting regulations because the aggregate net liability of associates exceeds a threshold of 15% of the net assets of the Group.

	2008-2009 £000	2007-2008 £000
Fixed assets	25,411	21,597
Current assets	10,040	10,216
Liabilities due within one year	(7,065)	(5,948)
Liabilities due after one year or more	(163,719)	(161,416)
<b>Net Liability of Associates</b>	<b>(135,333)</b>	<b>(135,551)</b>
<b>Gross Income</b>	<b>29,667</b>	<b>38,102</b>

## 9 Amounts Owing and Owed between the Council and its Associates

An analysis of the amounts owing and owed between the Council and its associates analysed into amounts relating to loans & amounts relating to other balances is shown in the table below.

	2008-2009 £000	2007-2008 £000
<b>Amounts owing to the Council at 31 March</b>		
Loans	134	155
Other Balances	0	0
<b>Total</b>	<b>134</b>	<b>155</b>
<b>Amounts owed by the Council at 31 March</b>		
Loans	0	0
Other Balances	31	643
<b>Total</b>	<b>31</b>	<b>643</b>



## 10 Movement on Group Reserves

This statement shows the movements on the Group's reserves. It distinguishes between movements resulting from the gains and losses for the year and movements resulting from transfers between reserves, most of which the Group is required to make in accordance with statute and non-statutory proper practice.

	Balance at 1 April 2008 £000	Gains or (Losses) for the Year £000	Transfers between Funds £000	Balance at 31 March 2009 £000
Revaluation Reserve	131,597	2,458	(11,640)	122,415
Capital Adjustment Account	57,341	(1,790)	(12,525)	43,026
Financial Instruments Adjustment Account	(3,565)	0	(407)	(3,972)
Capital Receipts Reserve	0	1,790	(1,790)	0
Pensions Reserve	(5,576)	(36,458)	2,462	(39,572)
Group Income & Expenditure	(135,551)	218	0	(135,333)
General Fund Balance	18,033	(19,358)	21,981	20,656
Housing Revenue Account Balance	517	0	(517)	0
Other Statutory Funds	5,475	73	2,436	7,984
	<b>68,271</b>	<b>(53,067)</b>	<b>0</b>	<b>15,204</b>

## 11 Strathclyde Joint Police Board

The Board of Strathclyde Police Joint Board has elected to accept a qualification on its audit certificate. The financial statements do not reflect the retrospective charges of all FRS17 pension costs for police officers that accrued from April 2006. The effect of these charges is £11.2 million and is considered by its external auditor to be a material amount.

The police service nationally implemented a new pension scheme from April 2006. The Local Government Pension Reserve (Scotland) provides the statutory basis for local authorities and Police Boards to charge to a pension reserve the difference between retirement benefit costs as calculated under FRS17 and the actual employers' pension contributions paid by the councils and boards. There is currently no legislation that permits this in respect of the New Police Pension Scheme which commenced from 6 April 2006.

This is a national problem affecting all Police and Fire authorities across the UK and clearly was not intended when the new pension schemes were devised. The UK Government and devolved administrations have undertaken to make the necessary changes to regulations to ensure that this issue is resolved for next year's financial statements.

Accordingly, the information for Strathclyde Joint Police Board (that is included as an associate within the group accounts of Inverclyde Council) does not include the costs of the FRS17 pension costs under the New Police Pension Scheme.

## 12 Group Cash Flow Statement

The impact of the incorporation of the associates has no effect upon the overall Group Cash Flow Statement.

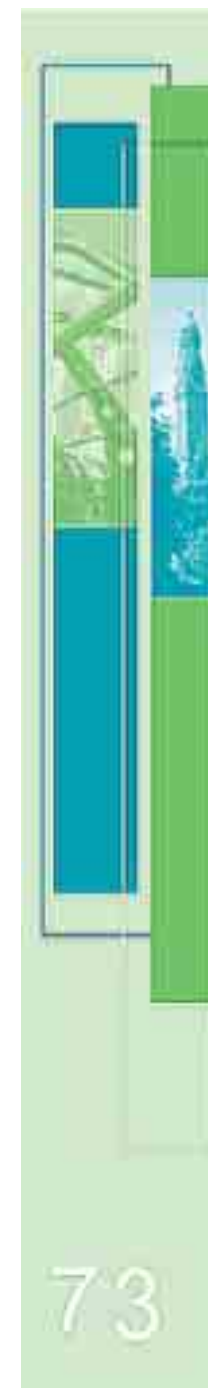
The net deficit for the year of £27,597 can be reconciled to the revenue activities net cash inflow of £23,191 as follows:

	£000	£000
Deficit for the year on the Group Income & Expenditure Account	27,597	
Adjust for Financing Costs	(17,381)	
	10,216	
Adjustments to Current Assets	(8,736)	
Adjustments to Current Liabilities	2,924	
Adjustments for Items not involving Cash	(3,695)	
Adjustments to Reserves	(23,900)	
	(33,407)	
<b>Net Cash Inflow from Revenue Activities</b>		<b>(23,191)</b>

## 13 Explanation of Prior Year Adjustments

The comparator figures have been restated as a result of the late audit changes in September 2008 to the 2007-2008 Accounts of Strathclyde Partnership for Transport (SPT) and restatements of the comparator figures of the 2008-2009 accounts of Strathclyde Joint Police Board, Strathclyde Fire and Rescue Joint Board, Inverclyde Leisure Limited and Riverside Inverclyde Limited. These changes have had the following impact upon the comparator figures for 2008 compared with those published in the 2007-2008 Accounts (only those figures that have changed are included in the table).

	2008 £000
"Net Assets" reported per 2007-2008 Accounts	63,416
Strathclyde Joint Police Board	5,209
Strathclyde Fire and Rescue Joint Board	(52)
Strathclyde Partnership for Transport	(371)
Inverclyde Leisure Limited	16
Riverside Inverclyde Limited	53
<b>Restated "total assets less liabilities" for 2008</b>	<b>68,271</b>



# Independent auditor's report to the members of Inverclyde Council and the Accounts Commission for Scotland

I certify that I have audited the financial statements of Inverclyde Council for the year ended 31 March 2009 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Statement of Total Recognised Gains and Losses, Balance Sheet and Cash-Flow Statement, the Council Tax Income Account, the Non-Domestic Rate Income Accounts, the Common Good and Trust Funds and the related notes and the Statement of Accounting Policies together with the Group Accounts. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

## **Respective responsibilities of the Chief Financial Officer and auditor**

The Chief Financial Officer's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 - A Statement of Recommended Practice (the 2008 SORP) are set out in the Statement of Responsibilities for the financial statements.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission.

I report my opinion as to whether the financial statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2008 SORP, of the financial position of the local authority and its income and expenditure for the year, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

I also report to you if, in my opinion, the local government body has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the Statement on the System of Internal Financial Control reflects compliance with the SORP, and I report if, in my opinion, it does not. I am not required to consider whether this statement covers all risk and controls, or form an opinion on the effectiveness of the local government body's corporate governance procedures or its risk and control procedures.

I read the other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

## Basis of audit opinion

I conducted my audit in accordance with Part VII of the Local Government (Scotland) Act 1973 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Accounts Commission. My audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Chief Financial Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the local authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In my opinion the financial statements

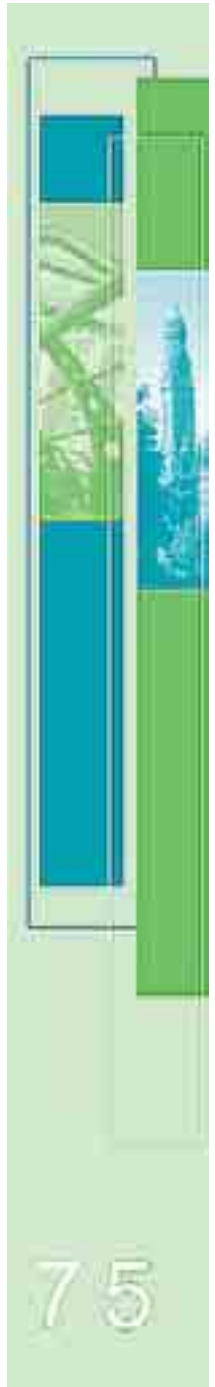
- give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2008 SORP, of the financial position of Inverclyde Council as at 31 March 2009 and its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Local Government (Scotland) Act 1973.



*Peter Tait CPFA  
Assistant Director of Audit (Local Government)*

*Audit Scotland  
7<sup>th</sup> Floor  
Plaza Tower  
East Kilbride  
G74 1LW*

*23 September 2009*



## Glossary of Terms

While much of the terminology used in this report is intended to be self-explanatory, it may be useful to provide an additional definition and interpretation of the terms used.

### 1. Accruals

The concept that income and expenditure are recognised as they are earned or incurred, not as money received or paid.

### 2. Actuarial Gains and Losses (Pensions)

The changes in actuarial deficits or surpluses that arise because events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses) or the actuarial assumptions have changed.

### 3. Amortised Cost

To amortise an amount involves the gradual reduction of that amount over time. An amortised cost is a value that has been amortised i.e. it is not the same as its original cost or value.

### 4. Associates

These are entities other than a subsidiary or joint venture in which the reporting authority has a participating interest and over whose operating and financial policies the reporting authority is able to exercise significant influence.

### 5. Capital Expenditure

Expenditure on the acquisition of a fixed asset or expenditure which adds to, and not merely maintains, the value of an existing fixed asset.

### 6. Capital Financed from Current Revenue (CFCR)

The use of revenue funding to contribute to the cost of capital expenditure.

### 7. Capital Financing Cost

This represents the annual cost of financing the sums borrowed by the Council to fund capital programmes, being the repayment of debt, interest on monies borrowed and expenses incurred in managing the debt portfolio.

### 8. Community Assets

Assets that the local authority intends to hold in perpetuity which have no determinable useful life and which may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

### 9. Corporate and Democratic Core

The Corporate and Democratic Core comprises all activities which 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.

### 10. Current Service (Pensions) Cost

The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

### 11. Curtailments (Pensions)

An event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service.

### 12. Depreciation

The measure of the wearing out, consumption or other reduction in the useful economic life of a fixed asset whether arising from use, passage of time or obsolescence through technological or other changes.

### 13. Entity

A body corporate, partnership, trust, unincorporated association, or statutory body, that is delivering a service, or carrying on a trade or business, with or without a view to profit. It should have a separate legal personality and is legally required to prepare its own single-entity accounts.

### 14. Extinguishment

Extinguishment relates to financial liabilities and occurs when the Council's legal obligations end, either through the cancellation or expiry of the obligations or through payment being made to settle the amount owed by the Council.

### 15. Expected Return on Pension Assets

The average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

### 16. Financial Reporting Standard (FRS)

Financial Reporting Standards are issued by the Accounting Standards Board and define proper accounting practice for a given transaction or event.

### 17. Fixed Assets

Tangible assets that yield benefits to the local authority and the services it provides for a period of more than one year.

### 18. Government Grants

Assistance by Government and inter-government agencies and similar bodies whether local, national or international, in the form of cash or transfers of assets to an authority in return for past, or future, compliance with certain conditions relating to the activities of the authority.

### 19. Infrastructure Assets

Fixed assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

### 20. Interest Cost (Pensions)

The expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

### 21. National Non Domestic Rates Pool

All non-domestic rates collected by local authorities are remitted to the national pool and, thereafter, distributed to councils by the Scottish Government.

### 22. Net Book Value

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

### 23. Non Distributable Costs

These are other central costs, which are not included within the total cost of individual Services. These include the FRS17 charges for Pension Costs.

### 24. Non-Operational Assets

Fixed assets held by a local authority but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

### 25. Operating Leases

A lease other than a finance lease, i.e. a lease which does not transfer the risks and rewards of ownership to the lessee.

### 26. Operational Assets

Fixed assets held and occupied, used or consumed by the Council in the direct delivery of those services for which it has a statutory or discretionary responsibility.

### 27. Past Service Costs (Pensions)

The increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

### 28. Prior Year Adjustments

Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

### 29. Significant Interest

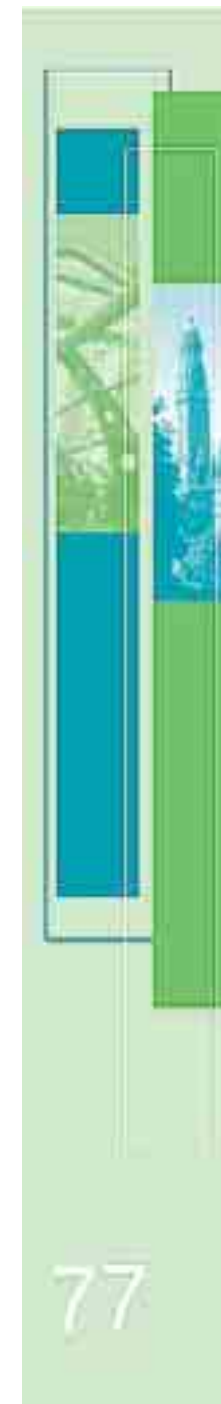
The reporting authority is actively involved and is influential in the direction of an entity through its participation in policy decisions.

### 30. Specific Government Grants

These are grants received from Central Government in respect of a specific purpose or service.

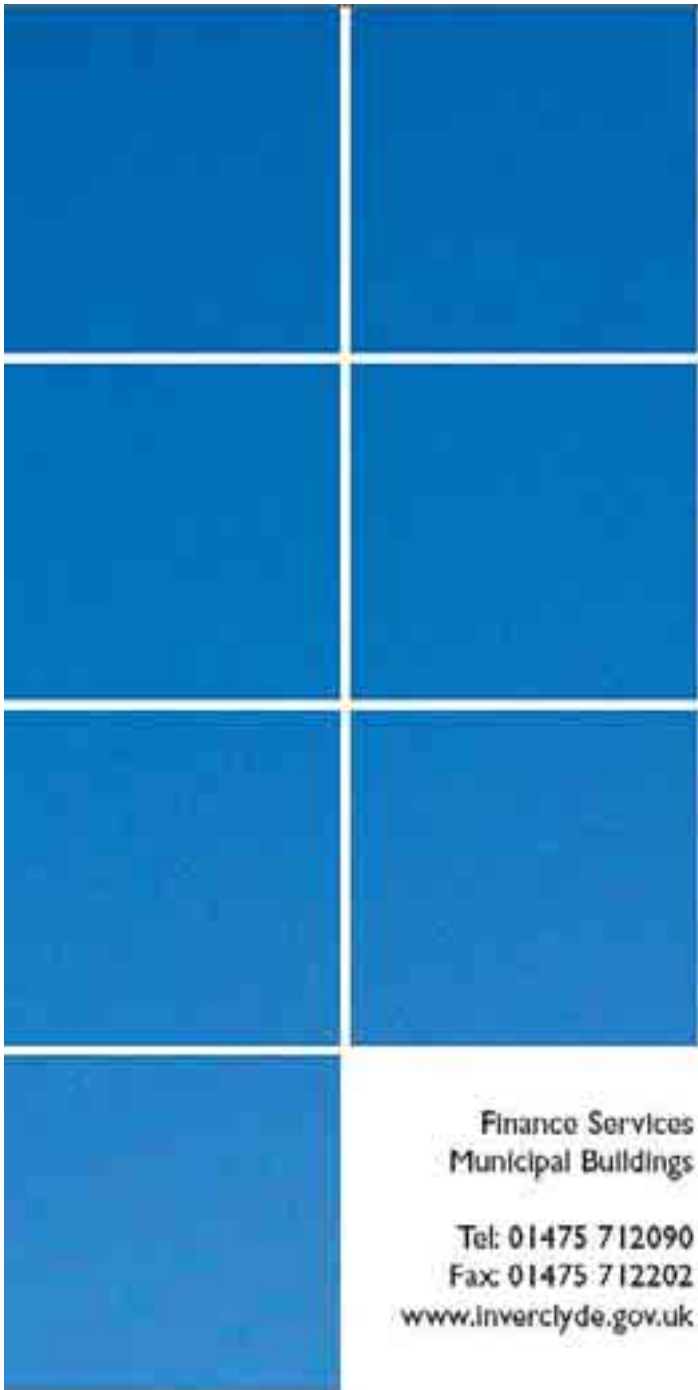
### 31. Useful Life

The period over which the local authority will derive benefits from the use of a fixed asset.









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