Inverclyde council

AGENDA ITEM NO: 2

Report To:	**The Inverclyde Council**	**Date:**	**29 September 2016**
Report By:	**Chief Executive**	**Report No:**	**FIN/98/16/AP/LA**
Contact Officer:	**Alan Puckrin**	**Contact No:**	**01475 712223**
Subject:	**Annual Report to Elected Members and the Controller of Audit for the Financial Year Ended 31 March 2016**		

1.0 PURPOSE

1.1 The purpose of this report is to present the Annual Report for Elected Members and the Controller of Audit for the Financial Year 31 March 2016 to the Council for consideration. Mike Thomas from Grant Thornton will be in attendance to present the report and to answer questions.

2.0 SUMMARY

2.1 It is a statutory requirement for the Council to consider the Annual Report from its External Auditors for the financial year ended 31 March prior to the 30 September of the same year. The report contains a number of formal requirements and subject to the approval of the Council, the accounts require to be signed by the External Auditors, Council Leader, Chief Executive and the Chief Financial Officer.

2.2 The full Annual Report is contained in Appendix 1 and contains a number of distinct sections each of which are summarised in the following paragraphs.

2.3 International Standards on Auditing (ISA) 260 require the External Auditors to communicate matters arising from the audit of the Financial Statements to those charged with Governance. This section of the report relates to the Council's Audited Accounts which are attached at Appendix 2. The ISA 260 reports an unqualified opinion on the Financial Statements for the financial year ended 31 March 2016 and the certificate is attached as Appendix H.

2.4 The auditors have highlighted in Appendix A and Appendix B amendments to the accounts and associated notes all of which have been actioned by the Council's Finance Service. The one action raised by the Auditors relates to the need for the Council in future to provide an element of review of the robustness of the calculations/entries associated with the valuation of the Councils assets. This is a large and technical area which this year had the added complication that the individual who previously carried out the detailed work leaving the Council during the accounts closure process. It should be noted that whilst the figures involved are large, there is no overall impact on the Councils bottom line. A commitment to review the resilience of this exercise is given by the Chief Financial Officer in the Action Plan in Appendix C.

2.5 The Financial Management section provides comments on areas relating to the 2015/16 Revenue Budget, Capital Programme, Efficiency Performance and Reserves. No specific actions are highlighted.

2.6 The next section of the annual report relates to Financial Sustainability and comments on the Council's Financial Strategy, Workforce Planning arrangements and matters raised in the overview of Local Government in Scotland 2016 report by the Controller of Audit. The main message here is that the Council is in a relatively strong financial position in terms of the size of its reserves and its scenario planning for the undoubted financial challenges which lie ahead. Actions are identified by the Auditors in relation to the 2017/18 Capital programme and Workforce Planning implementation.

2.7 The Governance and Transparency section covers the External Audit view of the Annual Governance Statement, Internal Audit and some specific matters such as the Glasgow and Clyde Valley City Deal, 2016/17 National Fraud Initiative, Related Party Transactions and interaction between the Council and the Inverclyde Integrated Joint Board. Two specific actions are identified in the report and are included in Appendix C.

2.8 The final section of the report relates to Best Value and Value for Money and gives an overview of the Councils approach in respect of the Single Outcome Agreement, Community Engagement, Local Government benchmarking and Performance Management. In addition an overview of the Councils position in respect of the recently reported Shared Services initiative with East and West Dunbartonshire Councils and early progress in respect of Health & Social Care Integration Joint Board is reported.

2.9 Overall the messages within the Annual Report are supportive and positive and whilst there are a number of actions included in Appendix C they largely confirm matters which were already being considered and progressed by the Council.

3.0 RECOMMENDATIONS

3.1 It is recommended that the Council consider the contents of the Annual Report to Members and the Controller of Audit for the Financial Year ended 31 March 2016 and approve the Action Plan in Appendix C of this report.

3.2 It is recommended that the Council consider the Annual Accounts for Inverclyde Council for the Financial Year 2015/16 and after seeking further information as required give approval for the signing of the accounts by the Council Leader, Chief Executive and Chief Financial Officer.

3.3 It is recommended that the Council consider the Letter of Representation in Appendix I of the Annual Report and approve the signing of this by the Chief Financial Officer.

3.4 It is recommended that the Council note that regular updates on delivery of the Action Plan will be presented to the Audit Committee.

Aubrey Fawcett
Chief Executive

4.0 BACKGROUND

4.1 It is a statutory requirement for the Council to consider the Annual Report from its External Auditors for the financial year ended 31 March prior to the 30 September of the same year. The report contains a number of formal requirements and subject to the approval of the Council, the accounts require to be signed by the External Auditors, Council Leader, Chief Executive and the Chief Financial Officer.

4.2 The Council's External Auditors will be in attendance at the Council meeting to present the main findings to members and to answer any questions arising.

4.3 This is the last year of Grant Thornton's 5 year External Audit appointment with Audit Scotland becoming the Council's new External Auditors from 2016/17.

5.0 ANNUAL REPORT TO ELECTED MEMBERS

5.1 The Annual Report is attached as Appendix 1 to this covering report and is broken into 5 distinct sections. These sections represent a standard approach which meets the requirements of the Accounts Commission.

5.2 **Financial Statements Overview -** International Standards on Auditing (ISA) 260 require the External Auditors to communicate matters arising from the audit of the Financial Statements to those charged with Governance. This section of the report relates to the Council's Audited Accounts which are attached at Appendix 2.

5.3 Appendices A & B list all Identified misstatements and Disclosure Changes. Within Appendix A it can be seen that the impact on the Council's "bottom line" of the changes is that the available free reserves have reduced by £10,000. The bulk of the other adjustments relate to the quinquennial asset valuation exercise where certain entries were incorrect or mis-posted. It should be noted that whilst the figures involved are large, there is no overall impact on the Councils bottom line. A specific action in this regard is included in the Action Plan in Appendix C.

5.4 There are no unadjusted errors and the ISA 260 reports an unqualified opinion on the Financial Statements for the financial year ended 31 March 2016. The certificate is attached as Appendix H.

5.5 **Financial Management –** This section provides comments on areas relating to the 2015/16 Revenue Budget, Capital Programme, Efficiency Performance and Reserves. No specific actions are raised but comments are made regarding the level of reserves and the good performance in delivering the 2015/16 Capital programme.

5.6 **Financial Sustainability -** This section comments on the Council's Financial Strategy, Workforce Planning arrangements and matters raised in the overview of Local Government in Scotland 2016 report by the Controller of Audit. The main message here is that the Council is in a relatively strong financial position to face the undoubted financial challenges which lie ahead due to the size of its reserves and its scenario planning.

5.7 The importance of Workforce Planning is highlighted and a specific action in this regard is included in Appendix C

5.8 **Governance and Transparency** - This section covers the External Audit view of the Annual Governance Statement, Internal Audit and some specific matters such as the Glasgow and Clyde Valley City Deal, 2016/17 National Fraud Initiative, Related Party Transactions and interaction between the Council and the Inverclyde Integrated Joint Board. Two specific actions are identified in the report in relation to Related Party Transactions and the need to formalise SLAs with the IJB. These are included in Appendix C.

5.9 **Best Value and Value for Money -** The final section of the report relates gives an overview of the Councils approach in respect of the Single Outcome Agreement, Community Engagement, Local Government benchmarking and Performance Management.

In addition an overview of the Councils position in respect of the recently reported Shared Services initiative with East and West Dunbartonshire Councils and early progress in respect of Health & Social Care Integration Joint Board is given.

6.0 NEXT STEPS

6.1 Subject to the views of members and following any questions raised with both the External Auditors and relevant officers, the Council requires to approve the Letter of Representation (Appendix I of the Annual Report) and the Annual Accounts for 2015/16. Thereafter the Council Leader, Chief Executive, Chief Financial Officer in addition to the External Auditors are all required to sign the requisite copies of the Annual Accounts whilst the Chief Financial Officer signs the Letter of Representation.

6.2 In addition the Action Plan in Appendix C of the Annual Report to Elected members requires approval. Delivery of the Action Plan will be monitored via regular updates to the Audit Committee.

7.0 IMPLICATIONS

7.1 Finance

There are no financial implications arising from this report

Financial Implications:

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report £000	Virement From	Other Comments
N/A					

Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact £000	Virement From (If Applicable)	Other Comments
N/A					

7.2 Legal

The approval of the recommendations discharges the Council’s statutory responsibilities in respect of the 2015/16 annual audit and Annual Accounts.

7.3 Human Resources

There are no HR issues arising from this report.

7.4 **Equalities**

Has an Equality Impact Assessment been carried out?

[ ]	Yes	See attached appendix
[X]	No	This report does not introduce a new policy, function or strategy or recommend a change to an existing policy, function or strategy. Therefore, no Equality Impact Assessment is required.

7.5 **Repopulation**

There are no Repopulation issues arising from the report.

8.0 CONSULTATIONS

8.1 The Council's External Auditors have discussed the contents of Appendix 1 with the Corporate Management Team who have agreed the supporting Action Plan and delivery timescales**.**

9.0 LIST OF BACKGROUND PAPERS

9.1 None.

APPENDIX 1

Inverclyde Council

Annual Report to Elected Members and the Controller of Audit for the financial year ended 31 March 2016

September 2016

Key messages

Inverclyde Council (the Council) produced a good set of accounts although we did identify two adjustments, one material, to the primary statements and a number of disclosure changes. The Council has continued to underspend and in 2015/16 underspent it revenue budget by £5.81 million. Uncommitted reserves at 31 March 2016 were £8.773 million. The Council's overall usable reserves are the highest of all Scottish councils as a proportion of annual income. The Council has set a balanced budget for 2016/17 and it working on closing the 2017/18 budget funding gap. The Council's Financial Strategy 2016/2024 showed between 2017/20 the Council predicts a funding gap of £22.5 million, with best and worst case scenarios being £13.1 million and £37.4 million respectively. Identifying and delivering the savings will be a key challenge for the Council and Members are aware of the fact that further difficult decision will need to be made.

The Council is continuing its approach of considering how services are delivered and in June 2016 it approved a Shared Services Joint Committee to oversee the development of a programme of shared service opportunities with East Dunbartonshire and West Dunbartonshire Councils.

ISA 260 requirements

We intend to issue an unqualified opinion on the Council and Group's 2015/16 financial statements.

We did not have reason to change our audit plan during the year.

We have agreed one material and one non-material adjustment to the primary statements which reduced the Council's non-current asset value by £16.069 million. The Council has made some minor amendments which has resulted in a £63,000 reduction in usable reserves. Some changes were made to the group accounts. There were no unadjusted differences to report. A number of disclosure changes were made and these are reported in Appendix B.

We identified two areas where improvements in controls were required relating to dealing with leavers and introducing secondary checks on the fixed asset register.

Public Sector Audit impact dimensions

Our external audit work is undertaken in accordance with the Audit Scotland Code of Practice (May 2011). Our annual report is structured to reflect our wider responsibilities under the Code, and this year we have shaped this around the 4 Public Sector impact dimensions reflected in the Audit Scotland Corporate Strategy 2015/ 2018.

Financial management

The Council has continued its record of tight budgetary control and underspending against its revenue budget. The underspend in 2015/16 of £5.81 million was £1.42 million higher than the 2014/15 underspend. Some of the main variances were additional turnover savings achieved across the Council and release of contingencies not required in 2015/16 due to lower than expected rates of inflation.

Inverclyde Council has a history of slippage in its capital programme. However, in 2015/16 officers managed the programme proactively to accelerated other projects to offset slippage with the result that outturn capital expenditure was £31.127 million against a capital programme of £30.229 million.

The 2015/16 budget set the level of core reserves at £3.8 million. This level has been maintained as a target in the 2016/17 budget. Uncommitted reserves at 31 March 2016 were £8.773 million which is an increase of £3.785 million from the 31 March 2015 figure of £4.988 million.

Inverclyde has the highest level of usable reserves as a proportion of annual income of all Scottish councils. The Council has acknowledged that it will need to keep the level of reserves under review given the on-going financial pressures being faced by the Council. As the financial position tightens the Council will need to ensure it maximises the benefit it gets from every pound of usable reserves it uses.

Financial sustainability

The Council set a balanced revenue budget for 2016/17 of £190.25 million. The 2017/18 budget of £187.298 million was set with an initial funding gap of £3.41 million. The Council had already agreed to use £2 million of reserves on a temporary basis to balance the 2017/18 budget with options to address the rest being the consideration of further savings, potential increase in Council Tax from 2017/18 or further temporary use of reserves.

In June 2016 the Financial Strategy 2016/2024 update showed between 2017/20 the Council predicts a funding gap of £22.5 million. In response to our recommendation from last year the Council has also assessed best and worst case scenarios which were £13.1 million and £37.4 million respectively. Identifying and delivering the savings will be a key challenge for the Council and Members are aware of the fact that further difficult decisions will need to be made.

The Common Good Fund revenue reserve has reduced in recent years and has a balance of £14,000 at 31 March 2016. This is below the Council's recommended minimum level of £100,000. The position on the Common Good Fund will need to be closely monitored during 2016/17 and appropriate action take to ensure the reserve is not in a deficit position.

Governance and transparency

The Council's Annual Governance Statement (AGS) was in line with the CIPFA Code and our knowledge of the Council. The statement is sufficiently balanced, reflecting key aspects of the Council's governance structure as well as areas for further development.

The Council's current Chief Executive, John Mundell OBE, will retire from the Council's service on 19 September 2016. After the conclusion of its selection process, the Council, at its meeting on 25 August 2016 appointed Aubrey Fawcett, as the new Chief Executive.

No significant matters have been identified by the internal audit team in the year. A number of action plans were agreed in respect of Internal Audit reports in 2015/16. Of the 52 actions agreed, 29 (83%) out of the 35 due by the 30 June 2016 had been fully implemented.

Governance arrangements for the Glasgow and Clyde Valley City Deal have been established. Glasgow City Council's Internal Auditor's reported that key controls are in place and generally operating effectively for the governance structure of the City Deal. Some recommendations have been made to strengthen existing practices and controls.

We have no concerns regarding the Council's arrangements to mitigate against fraud and corruption. The Council has actively participated in the 2014/15 National Fraud Initiative (NFI) and will be involved in the 2016/17 process which will begin in October 2016.

Inverclyde Joint Integration Board (IJB) became fully operational on 1 April 2016. There is a need for the Council to ensure it agrees Service Level Agreements (SLAs) with Inverclyde IJB for 2016/17 for any services or support it is to provide and to agree as what cost. This will provide both sides with clarity over resource input and cost and allow expectations to be clearly managed.

As part of the 2015/16 audit the Council put in place a formal system for senior officer related party declarations. This involved the six most senior officers completing a return. These were then considered by management as to whether any declarations needed to be made in the final version of the 2015/16 accounts. Three further disclosures were made in the 2015/16 accounts. The introduction of this system for senior officer declarations is a further strengthening of the Council's governance arrangements. The system put in place for 2015/16 would be enhanced if was extended to cover all service heads and any senior staff involved in areas such as internal audit, procurement and contract awards.

Best value and value for money

Performance indicators for 2015/16 have yet to be published. In 2014/15 Inverclyde Council ranked in the top two quartiles for just under half (49%) of indicators, while 28.6 % were in the third quartile and less than a quarter (22.4%) were in the fourth quartile compared against other Scottish local authorities. By comparison in 2013/14 55.6% of indicators were in the top two quartiles and 44.4 % in the bottom two quartiles. Like other local authorities, Inverclyde's performance in 2014/15 varies across the spectrum of indicators this is to be expected and can be related to a variety of local factors including deprivation levels, investment and policy decisions and population density. Clear linkages can be seen between policy decisions and performance levels.

For many years the Council has had a strong Community Health and Care Partnership (CHCP) which has been recognised as a real strength area for the Council. These arrangements have provided a solid platform for the integration of health and social care. The Council benefitted from this during the early set up stages of the new arrangements. The Inverclyde Integration Joint Board (IJB) approved its Strategic Plan 2016-2019 on 15 March 2016 which sets outs its intentions and priorities. The previous arrangements were supportive of engagement and participation and the principles of co-production and this ethos has been maintained into the IJB.

The Council has previously discussed the possibility of exploring shared service opportunities with neighbouring authorities. In the increasingly challenging financial environment and with the protection of key service areas such as education and the integrated health and social care budgets the challenges are even more acute for a number of other service areas. In this context the Chief Executive prepared a report to the Council at the end of June 2016 proposing approval of a Shared Services Joint Committee to oversee the development of a programme of shared service opportunities with East Dunbartonshire and West Dunbartonshire Councils. Proposed areas for sharing services include roads and transportation, fleet management and maintenance, grounds, parks and open spaces and environmental services refuse, recycling and waste.

Audit Scotland as part of their housing benefit risk assessment programme reviewed progress the Council had made since March 2012. It found that the Council has made excellent progress. The two areas it identified as still outstanding have now been addressed.

Contents

1. Introduction

This report is presented to those charged with governance and the Controller of Audit and concludes our audit of Inverclyde Council for 2015/16.

We carry out our audit in accordance with Audit Scotland's Code of Audit Practice. This report also fulfils the requirements of International Standards on Auditing (ISA) 260: Communication with those charged with governance.

Introduction

Purpose of this report

Audit Scotland appointed Grant Thornton UK LLP as auditor of the Council for the period 2011/12 to 2015/16. The appointment is made under the Local Government (Scotland) Act 1973.

Our annual audit report is addressed to those charged with governance at the Council and the Controller of Audit under our Audit Scotland obligations.

In our report, we summarise our opinion and conclusions on significant issues arising from our external audit for the year ended 31 March 2016.

The Council's responsibilities

It is the Council's responsibility to prepare the financial statements in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the CIPFA Code)

The Council must:

- prepare financial statements which give a true and fair view of the financial position of the Council and its income and expenditure for the year to 31 March 2016
- maintain proper accounting records which are up to date
- take steps to prevent and detect fraud and other irregularities.

The Council is also responsible for establishing proper arrangements to ensure that:

- public business is conducted in accordance with the law and proper standards
- public money is safeguarded and properly accounted for
- economy, efficiency, effectiveness and best value are achieved in the use of resources. We note that delivery of best value is a statutory obligation for the Council.

Our responsibilities

We are required to meet the requirements of the Code of Audit Practice ('the Code') May 2011, including consideration of the wider scope of public sector audit.

We provide an opinion on the Financial Statements and Annual Governance Statement. Under the Code we also review and report on the governance arrangements as well as wider financial management, value for money and performance considerations.

International Standard of Auditing (UK and Ireland) ('ISA') 260: Communication with those charged with governance requires us to communicate audit matters arising from the audit of the financial statements to those charged with governance. This annual report, together with other reports to the Audit Committee throughout the year, discharge our ISA 260 commitments.

Acknowledgements

We would like to take this opportunity to record our thanks for the assistance provided by the Chief Financial Officer, the Finance Team and all other staff who supported us during the course of our work.

Our responsibilities under the Code of Audit Practice:

Financial statements

Provide an opinion on:

- whether the financial statements provide a true and fair view of the financial position of the Council
- whether the financial statements have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements

Review and report on:

- other information published within the financial statements, including the remuneration report

Corporate governance

Review and report on the Council's corporate governance arrangements as they relate to:

- the Council's overarching corporate governance arrangements and systems of internal control, including reporting arrangements
- the prevention and detection of fraud and irregularity
- standards of conduct and arrangements for the prevention and detection of corruption

Best value and performance

- The Local Government in Scotland Act 2003 places a statutory duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning
- We are required to review and report on other aspects of the Council's arrangements to manage their performance as they relate to economy, efficiency and effectiveness in the use of resources
- We review and report on the Council's arrangements for preparing and publishing statutory performance information
- In accordance with guidance issued by Audit Scotland, auditors may be requested to participate in a performance audit, an examination of the implications of a particular topic for the Council at a local level or a review of the Council's response to national recommendations. In 2015/16 we have completed a baseline assessment of workforce planning arrangements.

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Weaknesses or risks are only those that have come to our attention during our normal audit work in accordance with the Code and may not be all that exist.

Communication of the matters arising from our audit work does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

2. ISA 260 communication to those charged with governance

ISA 260 Requirements

Draft financial statements were received on 28th June 2016. These were of a good standard and supported by appropriate working papers.

The Management Commentary is in line with our knowledge of the Council and the guidance issued by the Scottish Government.

We identified one material misstatement and one non-material misstatement in the primary statements. A number of other disclosure changes were made. We intend to issue an unqualified true and fair audit opinion on the financial statements of the Council and the Group.

We identified two areas where improvements in controls were required. These included arrangements for dealing with leavers and introducing secondary checks on the fixed asset register

We have not had to alter or change our audit approach, which we set out in our Audit Plan.

Testing provided reasonable assurance on all identified areas of significant and reasonably possible audit risks as set out at planning.

Financial statements overview

Introduction

We have not had to alter or change our audit approach, which we set out in our Audit Plan, which was presented to the Audit Committee on 23 February 2016. However, on receipt of the draft financial statements we updated our materiality calculations (see page 10).

Our audit is substantially complete although we are finalising our procedures in the following areas:

- group reporting
- completion of WGA pack
- sign off of Criminal Justice Social Work, Housing Benefit and Non Domestic Rates grant claims
- completion of final review procedures
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review as part of our concluding procedures, to the date of signing the opinion.

Financial statements opinion

Our audit identified one material adjustment and one non-material adjustment to the primary financial statements. Both adjustments relate to accounting for revaluations of assets. The material misstatement was a result of a small number of assets, particularly schools, where there were some inconsistencies between the asset register and the valuation report which had not been resolved. This reduced the Council's non-current asset base by £16.069 million. The other non-material misstatement was the result of the incorrect accounting for some asset revaluations. This had no impact on the overall asset base. These adjustments have been reflected by management in the updated version of the Accounts. The Council has also identified some very minor changes which it has changed in the final version of the accounts with the overall impact being a reduction of £63,000 in usable reserves (see Appendix A). A number of other disclosure adjustments were identified and these have been reflected in the final financial statements. We have no unadjusted differences to report. Please see appendix B for a summary of the disclosure amendments.

The Group Accounts have been amended to show the opening balances consistent with the audited closing balances from the previous year. Further changes have been identified by the Council when they received audited accounts of organisations within the group, and the amounts are different to those included in the draft statements.

We propose to issue an unqualified opinion on the Council and Group financial statements for the financial year ended 31 March 2016 (Appendix H).

We reviewed the narrative elements of the financial statements (including the Management Commentary, Statement of Responsibilities, Annual Governance Statement and Remuneration Report). We review these statements for compliance with recommended CIPFA Code disclosures, for consistency with other areas of the financial statements and our knowledge of the Council. We have no issues to bring to your attention.

Grants certification

Due to a national systems issue, we issued a qualified audit opinion on the Education Maintenance Allowance grant. One minor error was identified from our certification of the Education Maintenance Allowance claim. The claim form was amended accordingly. However, due a national systems issue with the SEEMiS EMA system which was flagged by Audit Scotland, we confirmed that required back payments post 1 October 2015, for EMA applications received on a Thursday or Friday, were not being calculated by the system. As a result we were unable to provide an unqualified opinion on the claim, as we were unable to quantify the magnitude of error as a result of the systems issue. We note that the qualification was not any fault of the Council's and that appropriate action will be undertaken nationally to fix the system error.

The Criminal Justice Social Work and Non Domestic Rates grant work are advanced and we expect to sign in September 2016. The Housing Benefit grant claims will also be signed following completion of our audit work in October to ensure we meet the relevant deadline.

Whole of Government Accounts

The Council submits a WGA pack for the financial year ended 31 March 2016.

For 2015/16 the Council is below the testing threshold and therefore full audit assurance is not required.

In accordance with the WGA guidance we will complete the required assurance statement and submit that to the National Audit Office (NAO) once this work has been completed.

Our audit plan: a reminder

Scope of the Audit

We consider the inherent risks to the Council and how these may result in a material misstatement in the accounts. In addition to the two presumed risks we identified one further significant risk and three reasonably possible risks, which are outlined on pages 11 and 12.

We conduct a range of audit procedures across all balances above performance materiality, including analytical review, agreement to third party confirmations and sample substantive testing.

Reasonably possible risks in Plan relating to

- operating expenses and employee remuneration.

At the planning stage our draft materiality level for Council was set at £5.265 million, calculated as 2% of 2014/15 gross expenditure. We revised this figure to £5.181 million based on final 2015/16 figures.

Significant risk identified relating to management override of controls (fraud risk), presumed revenue recognition risk (rebutted) and valuation of property, plant and equipment.

Performance materiality was revised to £3.627 million at year end in line with the materiality change (testing limit set to reduce the probability that aggregate of uncorrected/ undetected misstatements exceed materiality)

Misstatements over our de minimus level of £250,000 are included within Appendix A. All misstatements identified under this limit have been reported to officers.

Change of materiality from Audit Plan

We revised our materiality downwards in the year in line with the reduction in gross expenditure in the 2015/16 unaudited accounts. This resulted in final materiality of £5.181 million and final performance materiality of £3.627 million.

Audit findings against significant and reasonably possible risks

Set out below is our response to the other significant risks of material misstatement identified in the Audit Plan. There are two presumed significant risks which are applicable to all audits under auditing standards but, as set out in our plan and below, we rebutted the presumed risk around revenue recognition.

	Significant Risks identified in our audit plan	Work completed	Assurance gained
1	Management override of controls Under ISA 240 there is a presumed risk that the risk of management override of controls is present in all entities.	• Review of accounting estimates, judgements and decisions made by management including pension assumptions and property valuation • Testing of journal entries • Review of unusual and/or significant transactions	Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.
2	The revenue cycle includes fraudulent transactions Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition	• Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Council, we determined the risk of fraud arising from revenue recognition can be rebutted, because: – there is little incentive to manipulate revenue recognition – opportunities to manipulate revenue recognition are very limited – the culture and ethical frameworks of local authorities, including the Council, mean that all forms of fraud are seen as unacceptable • The most significant area of revenues was general grant funding from the Scottish Government totalling £146.4 million. We have substantively agreed grant funding to confirmation from the Scottish Government. • The remainder is made up of £24.4 million of NDR redistributions (agreed to funding correspondence and cash receipts), £27.7 million of council tax income (tested analytically and reconciled to Council Tax system) and £59.6 million of other grant income (sample tested to grant agreements and receipt). • In addition we have conducted judgemental sampling of fees, charges and other income to trace to cash receipts.	Our work confirmed that revenue had been recognised appropriately in the financial statements.

Significant risks often relate to significant non-routine transactions and judgemental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgemental matters may include the development of accounting estimates for which there is significant measurement uncertainty

(ISA (UK&I) 315).

Audit findings against significant and reasonably possible risks

Set out below is our response to the significant risks of material misstatement identified in the Audit Plan.
There are two presumed significant risks which are applicable to all audits under auditing standards but, as set out in our plan and below, we rebutted the presumed risk around revenue recognition.

	Significant Risks identified in our audit plan	Work completed	Assurance gained
1	Valuation of Property, Plant and Equipment Valuation measurements are not correct. The Council revalues its assets on a rolling basis over a five year period. A full asset revaluation took place in 2015/16. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current value. This represents a significant estimate by management in the financial statements.	• Review of management's processes and assumptions for the calculation of the estimate • Review of the competence, experience and objectivity of management experts used • Review of the instructions issued to the valuation experts and the scope of their work • Discussions with the valuer about the basis on which the valuation is carried out and challenge of key assumptions • Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding • Testing of revaluations in year to ensure they were input into the Council's asset register and correctly accounted for in the financial statements.	Our work on Property, Plant and Equipment (PPE) balance and associated revaluation transactions has identified one material error which has reduced the Council's non-current asset value at 31 March 2016 by £16.069 million. This was the result of a small number of assets, particularly schools, where there were some inconsistencies between the asset register and the valuation report which had not been resolved. We also identified a writeback of prior year impairments against revaluation gains totalling £2.352 million although this had no impact on asset values. See Appendix A We also identified some disclosure and misclassification errors which are detailed in Appendix B. These included some material adjustment to the PPE Note 8 with no impact on the balance sheet net book value of assets. After these amendments we have gained sufficient assurance over the Property, Plant and Equipment balance and associated revaluation transactions.

Significant risks often relate to significant non-routine transactions and judgemental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgemental matters may include the development of accounting estimates for which there is significant measurement uncertainty

(ISA (UK&I) 315).

Set out below is our response to the other 'reasonably possible' risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of Reasonably Possible Risks	Work completed	Assurance gained
Operating expenses	Operating expenses are understated or not recorded in the correct period • Inverclyde is responsible for the delivery of a range of services to the local area. In 2015/16 the cost of delivering these services was £256.7 million • Purchasing is decentralised across service lines with the budgetary responsibility with the senior managers to ensure monies are recorded correctly	We gained assurance over the risk through: • Review and walkthrough of the controls and processes in place over purchase ordering, procurement and general payment and recording of expenditure • Review of accounting estimates, judgements and the accruals accounting process • Reconciliation of the creditors system to the general ledger and financial statements • Testing of payments made after the year-end to identify potential unrecorded liabilities and gain assurance over the completeness of the payables balance in the accounts.	We gained sufficient assurance over the operating expenditure control environment and balances to conclude that there is not a material understatement of operating expenses.
Employee remuneration	Employee remuneration and benefit obligations and expenses are understated: • Employee costs accounted for 39% of gross expenditure in 2015/16. There are a large number of transactions processed throughout the year and the Council relies on numerous controls including monthly reconciliations and segregated duties when compiling employee remuneration batches to ensure that the employee costs are recorded correctly in the financial statements	We gained assurance over the risk through: • Review and walkthrough of the processes and controls in operation for payment of staff • Analytical review of employee remuneration in comparison to expectations • Testing the reconciliation of payroll expenditure recorded in the general ledger to the subsidiary systems and interfaces • Testing to confirm the completeness of payroll transactions and appropriate cut-off • Review the relevant disclosures relating to staff costs within the financial statements	We gained sufficient assurance over employee remuneration processes to conclude that there is no material understatement of employee remuneration and benefit obligations and expenses

"Reasonably possible risks are, in the auditor's judgement, other risk areas which they have identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work"

Accounting estimates and significant judgements

Accounting area	Summary of policy	Commentary	Our assessment
Revenue recognition	• **Grants receivable:** Government grants, third party contributions and donations are recognised as due to the Council when there is reasonable assurance that the Council will comply with the conditions attached to the payments and that the grants or contributions will be received • **Sale of goods:** Recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits will flow to the Council • **Revenue from provision of Services:** Recognised when the Council can measure reliably the percentage of the completion of the transaction • **Council Tax:** Council Tax accrued income less reliefs and remissions is recognised in the CIES. • **Non-domestic Rates:** Non-domestic rates accrued income less reliefs and remissions, plus the contribution to the Authority from the national Non-domestic Rate pool is recognised in the CIES.	• The revenue recognition policies are appropriate under the CIPFA Code of Practice on Local Authority Accounting.	●
Property, plant and equipment (PPE)	• The Council discloses its policy in respect of PPE recognition, measurement (including revaluation), impairment, disposal and depreciation • Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year end • The Council re-values its land and buildings in a single exercise at five yearly intervals • A large scale revaluation was undertaken in 2015/16.	• The Code requires that the Council revalues items within a class of property, plant and equipment simultaneously. The Council has revalued all relevant non-current assets at 31 March 2016 and has therefore met this Code requirement.	●

Assessment

- ● Material accounting policy which could potentially attract attention from stakeholders
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

Accounting area	Summary of policy	Commentary	Our assessment
Provisions	• The Council recognises provisions where an event has taken place that gives the Council a legal or constructive obligation that will probably require a settlement by transfer of economic benefits or service potential and a reliable estimate can be made of the obligation • Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year the Council becomes aware of the obligation	• We are satisfied the policy is appropriate under the CIPFA Code of Practice on Local Authority Accounting.	●
Pension fund valuations and liabilities	• The Local Government Pension Scheme (LGPS) is accounted for as a defined benefit scheme in accordance with IAS 19 • This involves recognition in the Balance Sheet of the Council's share of the net pension asset or liability together with a pension reserve • Estimation of the net liability to pay pensions depends on a number of complex judgements. A firm of consulting actuaries (Hymans Robertson) is engaged to provide the Council with expert advice about the assumptions to be applied	• We have reviewed the accounting policies and confirmed they are in line with the guidance in the CIPFA Code and IAS 19 • We have reviewed the competence, capability and objectivity of Hymans Robertson, who have been used as management's expert in year • We have relied on an auditors expert, PriceWaterhouseCoopers (PwC) UK LLP, to provide assurance over the reasonableness of assumptions and judgements applied by the actuary • We are satisfied pensions have been disclosed appropriately	●
Other accounting policies	• We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards	• Disclosures were in line with the CIPFA Code and considered reasonable	●

Group audit summary

As Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework (set out in ISA 600).

Accounting area	Summary of risks	Commentary	Our assessment
Inverclyde Leisure	ISA presumed significant risk: management over-ride of control. ISA presumed significant risk: the revenue cycle includes fraudulent transactions.	A full scope audit was performed by Welsh Walker accountants. We issued group instructions outlining our key risks and planned materiality levels. We have agreed the figures in the unaudited financial statements for Inverclyde Leisure to the group working papers provided by the Council and agreed the treatment to the Code.	We have received notification of updated figures from the auditor's. Minor adjustments made from the draft financial statements. No impact on the Group Accounts.
Riverside Inverclyde	As above	As above with the audit performed by Scott-Moncrieff.	We have received the audited accounts. Significant adjustments made from the draft financial statements. These have been reflected in the updated Group Accounts.
Renfrewshire Valuation Joint Board	As above	As above with the audit performed by Audit Scotland.	We have received the audited accounts and component auditor's opinion on the financial statements. Minor adjustments made from the draft financial statements. No impact on the Group Accounts.
Strathclyde Partnership for Transport	As above	As above with the audit performed by KPMG UK LLP.	We have received the audited accounts and component auditor's opinion on the financial statements. No adjustments made from the draft financial statements. No impact on the Group Accounts.
Strathclyde Concessionary Travel Scheme Joint Board	As above	As above with the audit performed by KPMG UK LLP.	We have received the audited accounts and component auditor's opinion on the financial statements. No adjustments made from the draft financial statements. No impact on the Group Accounts.

Other areas of audit focus

Internal controls

We update our understanding of the Council's key financial controls and overall control environment on an annual basis.

We considered internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate to our financial statements audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. We undertook walkthrough testing related to:

- employee remuneration
- operating expenditure
- property, plant and equipment
- housing benefit
- journal entries

We identified two areas where weaknesses in controls meant improvements were required. These related to:

- **Leavers still being paid** – during our testing of payroll transactions we identified one case where the Council continued to pay an employee who had left the Council leading to an overpayment of £2,106.28. The explanation given was that this overpayment had arisen because Human Resources (HR) were not notified by the employing department that the employee had left the Council. In this case the overpayment was only identified when the ex-employee rang the Council to raise the matter. In response to this we tested all leavers in 2015/16 who had received payments more than 30 days after their date of leaving. We found that there were legitimate reasons in most cases but that four further employees had been overpaid due to late notification from the employing department. Overpaid monies have been recovered in all cases. The Council should review its arrangements for promptly notifying HR about leavers so that the payroll department can action the changes. One overpayment was only identified when the employee called the Council. The Council should consider a periodic validation process where budget managers confirm that employees are still employed by the Council.
- **Management of the fixed asset register** – we are aware that the accountant responsible for capital accounting and maintaining the fixed asset register left the Council during the accounts production process. This will always make the closedown process more difficult. Our work on Property, Plant and equipment identified some inconsistencies between the asset register and the valuation report which had not been resolved. We identified a further number of issues including the fact that the wrong enhancement amount had been applied to three assets and that the Council had identified one asset that was not included on the asset register. It would enhance arrangements if the Council introduced secondary checks on the fixed asset register so that any errors on areas such as enhancements applied, revaluations and impairments are identified prior to the production of the draft accounts.

Refer to Action Plan points 1 and 2

Going concern

We considered going concern and obtained assurance through:

- review of financial factors including levels of debt, liabilities, arrears and operating cash flows
- review of financial forecasts and the assumptions which underpin the forecasted figures. The Council has set a budget for 2016/18 and has a Financial Strategy 2016/2024 that sets out financial forecasts through to 2019/20.

Overall we conclude that it is appropriate for the Council to prepare the financial statements on a going concern basis.

Future accounting considerations: Highways Network Asset (HNA)

The key accounting change for 2016/17 which will impact on the Council's financial statements is around bringing highway network asset (HNA) on balance sheet.

As part of our liaison with Audit Scotland in February 2016 we had discussions with the Council on its progress on preparing for HNA. The Council was making solid progress with:

- SCOTS Valuation Model populated by the Council's Highways Engineer. More information, for example street lighting, was being added
- a pro-forma of what SCOTS Valuation Report will include
- draft project plan in place.

We feel that the steps taken in advance of the introduction of HNA have been reasonable and this will be an area for attention in the 2016/17 financial statements.

3. Financial management

Financial management

The Council's 2015/16 revenue budget was £5.814 million underspent. This was £1.42 million higher than the 2014/15 underspend

The Council has the highest level of usable reserves as a proportion of annual income of all Scottish councils in 2015/16.

The Council has continued its good track record of delivering efficiency savings. It achieved efficiency savings of £1.741 million in 2015/16 with a further £2.5 million planned for 2016/17.

The Council has a policy of uncommitted General Fund Reserve being £3.8 million. It was £8.773 million at 31 March 2016, an increase of £3.785 million on the previous year

There was slippage of £5.692 million on the capital programme in 2015/16 but officers were able to accelerate other projects to offset this slippage.

The Council has an approved reserves strategy. A number of earmarked reserves are maintained by the Council and there is recognition that it will need to keep reserve levels under review due to on-going financial pressures

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Financial management

2015/16 out-turn

In February 2015, and common with its approach in previous years, the Council set a two year revenue budget 2015/17 and three year capital budget 2015/18. The Council approved a revenue budget for 2015/16 with planned expenditure of £193.059 million and generating a £2.587 million surplus. To balance the 2016/17 the Council approved the interim use of £3.298 million of revenue reserves.

The agreed budget of £193.059 million was revised downwards to £170.623 million by the Council to take account of loan charges and transfers to and from earmarked reserves. The Council has a track record of underspending against its revenue budget. The underspend in 2015/16 of £5.81 million was £1.42 million higher than the 2014/15 underspend. The 2015/16 outturn against budget is shown below.

	Revised Budget 2015-16 £000s	Outturn 2015-16 £000s	Over/ (Under) Spend 2015-16 £000
Policy & Resources	16,825	13,366	(3,459)
Education & Committees	83,874	82,329	(1,545)
Environment & Regeneration	20,150	19,791	(359)
Health & Social Care	49,774	49,323	(451)
Committee Net Expenditure	**170,623**	**164,809**	**(5,814)**

As at 31 March 2016 there was a £5.814 million underspend against service committee budgets. The main variances include:

- additional turnover savings achieved across the Council of £1.34 million.
- release of contingencies not required throughout 2015/16 £2.458 million. This was due to lower than anticipated requirement for inflationary pressures around utilities, fuel, Social Care, PPP and waste contracts
- underspend on Education Early Years' Service of £0.63 million due to a number of nurseries operating at below Care Commission registration capacity.
- Reduction in care package costs across Health and Social Care budgets leading to a £0.40 million underspend.

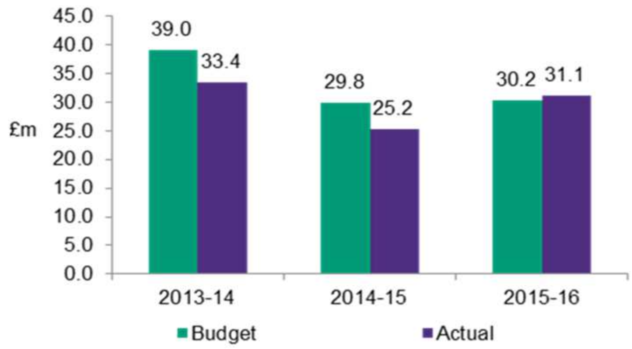
Efficiency Performance

The Council is required to make an annual return in respect of recurring efficiency savings. For 2015/16 the Council achieved recurring efficiency savings of £1.741 million. This continues the Council's history of making efficiency savings with £15.536 million having been made between 2008/09 and 2015/16. It should be noted that this excludes £4.6 million of efficiencies generated by the School Estate Management Plan since 2006 which have helped fund replacement schools.

The 2016/17 budget contains approximately £2.5 million of efficiency savings and the delivery of these saving will be monitored, throughout the year, by the Corporate Management Team (CMT).

Capital programme

Inverclyde Council has a history of slippage in its capital programme. However, in 2015/16 projects were accelerated to offset slippage with the result that outturn capital expenditure was £31.127 million against a capital programme of £30.229 million as shown below:



Source: Inverclyde Council 2015/16 Capital Programme Outturn

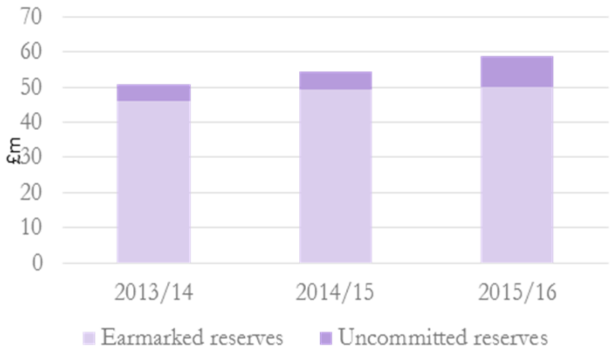
Officers have taken actions to address slippage in projects and also to accelerate capital expenditure in other areas to offset slippage. In 2015/16 there was slippage of £5.692 million (18.8%) mainly due to project cost reductions, internal slippage and slippage involving third parties, but this was more than offset by actions taken by Officers to actively offset slippage or as a result of acceleration of other projects. The net effect is that capital outturn exceeded the original capital programme by £0.898 million.

This represents good progress against historically high levels of capital slippage and officers should ensure that capital expenditure and slippage is kept under close review.

Reserves position

The Council's Reserves Strategy states that the "core" uncommitted General Fund Reserve should be approximately 2.0% of turnover. The 2015/16 budget set the level of core reserves at £3.8 million. This level has been maintained in the 2016/17 budget.

Uncommitted reserves at 31 March 2016 were £8.773 million which is an increase of £3.785 million from the 31 March 2015 figure of £4.988 million.



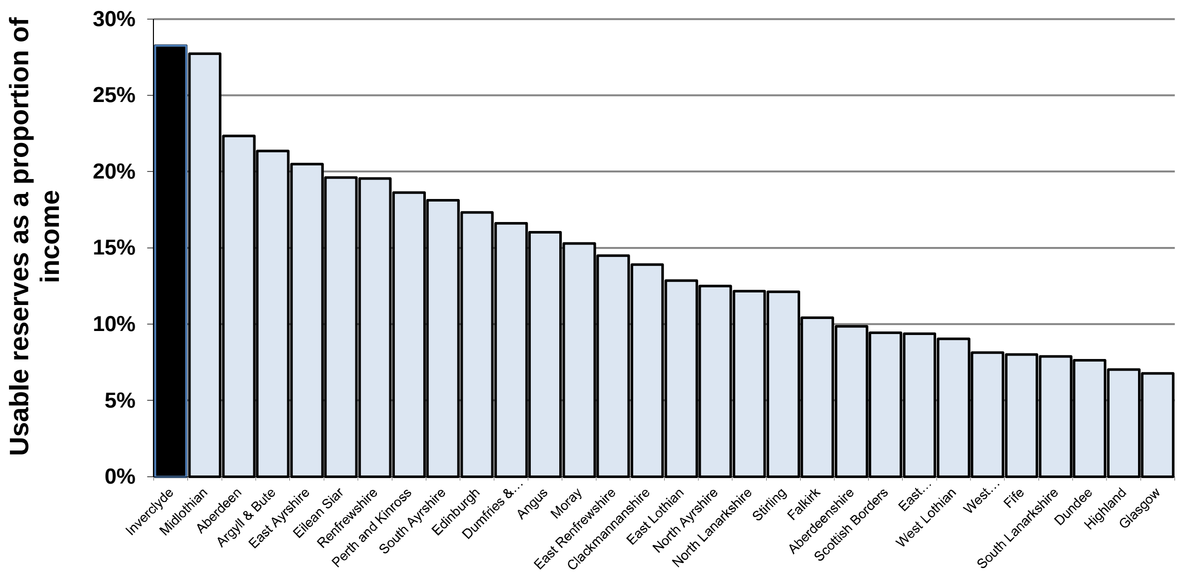
Source: Inverclyde Council Financial Statements 2013/14 to 2015/16

The earmarked element of the General Fund has increased slightly in year to £40.297 million (2014/15: £40.003 million). The reserves have been earmarked for specific purposes including:

- Equal pay (£4.56 million)
- Capital funded from current revenue (£5.93 million)
- Early retirement/voluntary severance reserve (£2.57 million)
- School Estates Management Plan (£5.70 million)
- Temporary use of reserves Revenue Budget (£2.00 million)
- Contribution to Riverside Inverclyde (£1.69 million)
- Asset Management Plan (£1.34 million)
- Loans charge reserve (£2.15 million)
- Miscellaneous Environment & Regeneration Committee Reserves (£3.12 million)
- Miscellaneous Education & Communities Reserves (£1.30 million.

The chart below shows that Inverclyde has the highest level of usable reserves as a proportion of annual income of all Scottish councils. This puts the Council in a stronger position than other councils but much of Inverclyde's usable revenue reserves are already earmarked. The Council has an approved reserves strategy and has acknowledged that it will need to keep the level of reserves under review given the on-going financial pressures being faced by the Council. As the financial position tightens the Council will need to ensure it maximises the benefit it gets from every pound of usable reserves it uses.

Usable reserves as a proportion of annual income 2015/16



Source: Audit Scotland Technical Database July 2016 – Unaudited Financial Statements 2015/16

4. Financial Sustainability

Financial sustainability

The Council set a balanced budget for 2016/17 after agreeing £6.45 million of savings

The Council managed to accelerate other capital projects in 2015/16 to offset slippage. This will be more challenging going forward with the significantly bigger capital programme

The Council is well placed to comply with the recommendations in Audit Scotland's report 'An Overview of Local Government in Scotland 2016'

The Common Good Fund revenue reserve has significantly reduced in the last two years. It will need close monitoring in 2016/17 to ensure it does not go into deficit

The Council recognises the financial challenges ahead and has undertaken sensitivity analysis and continues to focus on long term financial planning

The Council approach to workforce planning complies with a number of good practice arrangements. Strengthening is taking place in other areas.

Financial Sustainability

2016/17 and 2017/18 Budget

The Council set its budget for 2016/17 and 2017/18 in March 2016. The Members had received regular report since the summer of 2015 regarding the 2016/18 budget and a Members Budget Working Group met throughout the budget process and helped shaped the budget. However, following the Government Grant Settlement on 16 December 2015 the Council had to fundamentally revise its budget strategy and this was reported to the Policy and Resources Committee on 2 February 2016.

In March 2016 the Council set a balanced revenue budget for 2016/17 of £190.25 million, after the identification of £6.45 million of savings. The Council set a 2017/18 budget of £187.298 million but with an initial funding gap of £3.41 million. The Council had already agreed to use £2 million of reserves on a temporary basis to balance the 2017/18 budget. This left a budget gap of £1.41 million with the options to address this being the consideration of further savings, potential increase in Council Tax from 2017/18 or further temporary use of reserves.

The report to the Council on 10 March 2016 outlined the funding gap for 2017/20 as £22.54 million. In addition to the savings required in 2017/18 of £3.41 million significant savings of £10.1 million and £9.03 million required in 2018/19 and 2019/20. The key reasons for the funding gap in 2017/20 were:

- estimated reductions on Block Grant (£8.43 million)
- continuing impact of depopulation (£3 million)
- pay inflation (£5.95 million)
- non-pay inflation (£3.6 million)
- other known pressures account for £4.8 million with £3.24 million savings already identified in 2017/18.

The Council's capital programme has been set for 2016/18 with £28.636 million budgeted for 2016/17 and £48.555 million budgeted for 2017/18. The Council has been doing a lot of work around the timing of its capital programme and it is planning to develop a three year capital programme for 2017/20 for approval in February 2017.

There has been clear progress made in 2015/16 in delivering the 2015/16 capital programme in terms of actively offsetting slippage by acceleration of other projects. However, the 2017/18 capital programme of £48.555 million is some 60% bigger than the 2015/16 budget and includes £21.983 million of expenditure on schools new build, extensions and refurbishment. The Council will need to ensure that sufficient resources are in place to deliver the 2017/18 capital programme and to actively respond to minimise the impact of any slippage.

Refer to Action Plan point 3

Current financial performance in 2016/17

The Council's 2015/16 financial statements show that it is in a good position, with a high level of balances. However, looking forward into 2018/19 and 2019/20 it is clear that the need for savings to reduce the funding gap will increase significantly.

The latest revenue budget monitoring report showed that at 31 July 2016 there was a projected year end underspend of £0.427 million (0.22% of the net revenue budget). The main reasons being underspending on council tax reduction payments due to the Council Tax freeze, additional staff turnover savings across directorates and lower than planned expenditure on externally provided additional support needs (ASN) transport. The outcome of this is that the General Fund reserve is projected at £4.335 million at 31 March 2017 which is £0.535 million higher than the Chief Financial Officer's minimum recommended balance of £3.8 million.

The latest capital budget monitoring report showed expenditure to 31 July 2016 as£6.30 million (21.34% of the 2016/17 budget). It is anticipated that slippage will occur and budget holders have reviewed the phasing and project spend and officers are actively seeking to advance projects where possible to offset slippage.

Longer term financial position

The Council has in place a longer term financial strategy for 2016/2024. This is updated every six months with the latest update being in early June 2016 to reflect the approved 2016/18 budget and the latest information from UK and Scottish Government.

The latest Financial Strategy 2016/2024 update showed a funding gap of £2.8 million for 2017/18 which the Council has agreed will be met by a combination of a Council Tax increase and use of reserves. The medium term financial position is that between 2017/20 the Council predicts a funding gap of £22.5 million.

As part of our Annual Audit Report to Members 2014/15 we recommended to the Council that it should introduce best and worst case scenarios for funding gaps into its longer term financial planning. We are pleased to report that the Council has respond positively to our recommendation and has introduced scenario planning as part of its Financial Strategy 2016/2024 update. This showed the most likely position for 2017/20 being a £22.5 million funding gap but with best and worst case scenarios being between £13.1 million and £37.4 million. Scenario planning is useful for Members in helping them understand the wide spread of possible outcome and the future financial uncertainties that the Council is facing. At the meeting on 2 June 2016 this also began a debate amongst members about the possible options for dealing with the required savings issues. Identifying and delivering the savings will be a key challenge for the Council and Members are aware of the fact that further difficult decision will need to be made.

Common Good Fund

Our review of the 'Common Good Fund' identified that the usable revenue reserve at 31 March 2016 was now only £14,000. The Common Good Fund revenue reserve was £226,000 at 31 March 2014, this reduced to £99,000 at 31 March 2015 and is now £14,000. It is noted that in the setting the 2016/18 budget it was recognised that the Common Good was running at a deficit for a number of years and that available reserves had fallen to below the recommended minimum level of £100,000. The Council has agreed that the Christmas decorations will no longer be funded by the Common Good. The low balance on the Common Good Fund revenue reserve and annual costs mean that the position will need to be closely monitored during 2016/17 and appropriate action taken to ensure the reserve is not in a deficit position.

Refer to Action Plan point 4

An Overview of Local Government in Scotland 2016

Audit Scotland published 'An Overview of Local Government in Scotland 2016' in March 2016. This highlighted that councils face reductions in funding whilst also facing greater demands on services. The report recognises that councillors are now leading complex organisations facing increasingly challenging circumstances. To support councillors in undertaking their role the report makes a number of recommendations as summarised below.

In accordance with good practice Inverclyde Council has an established practice that national audit reports are presented to the relevant committee alongside an action plan. A summary of the Council's response is shown below.

Recommendation	Council's response
Council has a longer term financial strategy (5 or more years) supported by an effective medium term (3-5 years) financial plan.	The Council has a Financial Strategy covering 2016 - 2024. This was updated in June 2016 and enhanced by the inclusion of medium term scenario planning. The Financial Plan forms part of the overall strategy with a two year budget setting process.
Consider all practical options for the delivery of services including delivering services differently.	The Council has a track record of looking at alternative delivery models and in June 2016 has extended this to progress shared services with East and West Dunbartonshire Councils.
Continue to develop workforce strategies to ensure the Council has the staff with the right knowledge, skills and time to meet the challenges ahead.	The Council has an Organisational Development Strategy 2013-16 in place and the 2017-20 strategy is due to go the Policy and Resources Committee in September 2016. A corporate Workforce and Development Group has been established. All planned actions to be implemented fully by March 2020.
Appropriate scrutiny arrangements taking into account different ways of delivering services.	Reports are produced for performance of services delivered by ALEOs or externally with an annual update in November each year.
Councillors to review their own personal and development needs	Over the last two year's Member training has included annual accounts, capital expenditure and ALEOs. Member training programme being developed for 2016/17 and will be reviewed annually.

We are satisfied that there are no matters raised within this report that are not being appropriately considered by the Council.

Performance against other local authorities

Audit Scotland complete an annual analysis of all 32 local authorities based on the unaudited financial statements against a series of measures. Our review noted that performance against other local authorities was generally in the middle of the range but there were some areas the Council were considered as an outlier.

These included:

- Inverclyde Council has the highest level of usable revenue reserves (earmarked and free) as a percentage of net revenue in Scotland at 31 March 2016.
- Top quartile for capital expenditure funded directly from the general fund.
- The average cost of exit packages in 2015/16 was in the top quartile but this is dependent on the staff mix of those made redundant.
- Fourth lowest general government grant on the Comprehensive Income and Expenditure Accounts (CIES) compared with the 2016 order.

The most notable point is the Council's level of reserves. The Council has an approved reserves strategy and has acknowledged that it will need to keep the level of reserves under review given the on-going financial pressures being faced by the Council.

Workforce Planning

As part of our wider Code work during the year we were required to complete a return on Workforce Planning for the Council. This took the form of a follow-up to the November 2013 report published by Audit Scotland. A number of good practice areas were identified in the report. Many of these, and more, have already been incorporated into the Council's arrangements such as:

- a three year Organisational Development Strategy 2013-2016 in place with the 2017-20 Strategy being presented to the Policy and Resources Committee in September 2016
- a Joint Budget Group (JBG) made up of the Council's Corporate Management Team (CMT) and the four main trade unions. The JBG discusses the employee impacts arising from budget decisions and ensures that skill requirements are fully considered
- formal liaison arrangements with the trade union on workforce objectives
- occupational health service available to all and staff surveys undertaken.

From our work we identified minor areas the Council may wish to consider including:

- ensuring that all services have workforce plans
- improving succession planning for the short, medium and longer term – succession planning is currently a work in progress as part of the production of the 2017-2020 workforce plan.

Refer to Action Plan point 5

5. Governance and transparency

Governance and transparency

Annual Governance Statement

The Council conducted a review of effectiveness of the governance framework and the system of internal control to inform the Annual Governance Statement (AGS). The review of effectiveness did not highlight any issues that would impact on the level of assurance over the governance framework. However, there were a number of areas for improvement identified and included within the statement including:

- on-going work and action plan being progressed to ensure that all services comply with the corporate complaints procedure
- updating of key governance documentation and fraud policy to take account of organisational changes
- the AGS also summarises other areas for improvement including updating the Organisational Development Strategy, corporate document management, Member training and development and formalising role and relationship with the Integration Joint Board

We reviewed the Council's AGS as part of our audit procedures and concluded that the disclosures were in line with the CIPFA Code and our knowledge of the Council. The statement is sufficiently balanced, reflecting key aspects of the Council's governance structure as well as areas for further development.

Appointment of new Chief Executive

The Council's current Chief Executive, John Mundell OBE, will retire from the Council's service on 19 September 2016.

The approved Council policy is that the Chief Executive is appointed by all Members of the Council. After the conclusion of its selection process, the Council, at its meeting on 25 August 2016 appointed Aubrey Fawcett, as the new Chief Executive. He has been the Council's Corporate Director for Environment, Regeneration and Resources since 2006 and the Chief Executive of urban regeneration company Riverside Inverclyde since 2013.

Internal Audit

The Council has an in-house Internal Audit function and they confirmed compliance with Public Sector Internal Audit Standards as part of their Annual Report.

Internal Audit is led by the Chief Internal Auditor who reports to the Head of Legal and Property Services and consists of a team of four.

Internal Audit is required to provide an annual opinion to the Audit Committee on the assurance framework. In 2015-16, they issued the following opinion:

"On the basis of Internal Audit work carried out in 2015/16, the majority of Inverclyde Council's established internal control procedures appeared to operate as intended to meet Management's requirements for the individual systems reviewed by Internal Audit. On the basis of selective testing of key controls, it can be concluded that, in the main, controls were generally operating as expected during the period under review, although it does need to be recognised that a number of recommendations were made by Internal Audit to improve controls."

No limited assurance reports were issued in the year.

As set out in our audit plan we reviewed the work of Internal Audit to inform our audit approach. However, we did not place reliance on any specific Internal Audit work undertaken in 2015/16.

Overall Internal Audit have completed their plan for 2015/16 as agreed with the Audit Committee and have provided detailed regular updates to Committee.

A number of action plans were agreed in respect of Internal Audit reports in 2015/16. Of the 52 actions agreed, 29 (83%) out of the 35 due by the 30 June 2016 had been fully implemented. All actions are subject to on-going follow up by Internal Audit and progress is regularly reported to the Corporate Management Team and the Audit Committee.

Glasgow and Clyde Valley City Deal

In August 2014, Inverclyde Council, along with seven other Councils in the Clyde Valley region, entered into the Glasgow and Clyde Valley City Deal. The deal will see investment of £27.4m across three major infrastructure projects in Inverclyde, Inchgreen, Greenock Ocean Terminal and Inverkip Power Station development. The Council will participate in two other major portfolio projects namely a Skills and Employment project jointly funded by the DWP over the period to March 2018 and an Enterprise project.

The Council is currently planning on submitting the Outline Business Case for both Inverkip and Greenock Ocean Terminal in the spring of 2017.

Governance arrangements have been established with a Joint Committee, Cabinet and Chief Executive's group now in place with agreed roles and remits with these arrangements supported by a range of officer groups covering Economics, Finance, Legal and Procurement and Transport. As part of the Assurance Framework a 'Programme Management Office' has been established to support the Cabinet and the delivery of the City Deal. Glasgow City Council's Internal Auditor's reported that key controls are in place and generally operating effectively for the governance structure of the City Deal. Most of the corporate governance arrangements are in place such as documented roles and responsibilities, meetings are taking place as scheduled, all member authorities are represented, and papers are made available in advance. Some recommendations have been made to strengthen existing practices and controls.

Prevention and detection of fraud and irregularity

The Council has a Fraud and Corruption Strategy which is designed to promote an anti-fraud and anti-corruption culture. This is supplemented by the Council's Public Interest Disclosure (Whistleblowing) Policy.

Audit Scotland published a National Fraud Initiative (NFI) report in June 2016. Key findings were:

- since last reported in the June 2014 fraud and error outcomes valued at £16.8 million have been recorded and the cumulative outcome is now £110.6 million for Scotland and £1.39 billion for the UK.
- the 2014/15 review included 104 Scottish bodies across three sectors, with 585 datasets submitted generating 347,715 data matches for further investigation.
- There are 2,522 investigations in progress and action being taken to recover £4.2 million of overpayments.

Our enquiries of management and the Council's internal audit confirmed that as part of the 2014/15 exercise two frauds and a further 13 errors had been identified with £15,720 being recovered by the Council. In addition 88 council tax single person discounts have been cancelled and the Council is currently recovering repayments of £25,744.

The Council has recently established a Corporate Fraud Team and in 2016/17 they will update fraud policies and procedures and implement fraud awareness training.

2016/17 National Fraud Initiative (NFI)

The 2016/17 process will shortly be commencing, with data submission between October and December 2016 and matches being made available to the Council for investigation from late January 2017. Key changes for the 2016/17 return include:

- Council tax reduction scheme data is an additional dataset required for the NFI 2016/17 exercise
- Housing waiting list data is an additional dataset required for the 2016/17 exercise
- Council tax and electoral register data is now required the same year as the main exercise, but on a slightly different timescale.

Within the Council responsibility for NFI has now moved to the Chief Internal Auditor from Revenues and Customer Services.

Arrangements for maintaining standards of conduct

In line with the Ethical Standards in Public Life etc (Scotland) Act 2000, the Council has established a Code of Ethical Standards and the specific Code of Conduct for Councillors as approved by the Scottish Government. A register of interests is available for each Councillor on the Council's website, and declarations of interest are made at each Council meeting. We have no concerns about the arrangements currently in place.

How those charged with governance get their assurances from management

To comply with International Auditing Standards, each year we need to refresh our understanding of how the Council and Audit Committee gains assurance over management processes and arrangements. There are various ways of doing this but we agreed with the Chief Financial Officer that for 2015/16 this would be done as a formal response to questions raised by us around:

- the risk of material misstatements in the accounts
- potential for mis-reporting
- fraud risks and any known frauds
- compliance with laws and regulations
- appropriateness of adopting a going concern basis in preparing the 2015/16 accounts.

The Audit Committee formally considered and approved a response at its meeting on 19 April 2016. The benefit of this approach is that it clearly documents how Members gain assurances from management and further strengthens the Council's governance arrangements. This process is useful in reminding Members where they get their assurances from but will also be beneficial for any new Members and provides the Council with a good starting point to respond to these type of questions from its new auditors for 2016/17.

Service Level Agreement (SLA) with Inverclyde Joint Integration Board

Inverclyde Joint Integration Board (IJB) became fully operational on 1 April 2016 when it took on formal delegated responsibility for the delivery and planning of local health and social care services. The Annual Governance Statements has an action for the Council to agree its role and relationship with the Inverclyde Joint Integration Board (IJB). As part of this there is a need for the Council to ensure it agrees Service Level Agreements (SLAs) with Inverclyde IJB for 2016/17 for any services or support it is to provide and to agree as what cost. This will provide both sides with clarity over resource input and cost and allow expectations to be clearly managed.

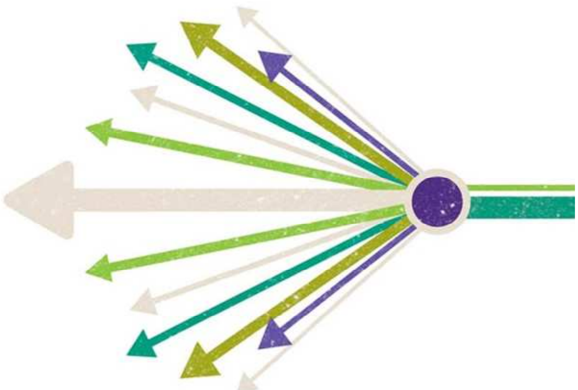
Refer to Action Plan point 6

Related Party Transactions

The Council has a clear system in place for Members to declare interests but there was no formal system for senior officer declarations. As part of the 2015/16 accounts audit we agreed that a system would be put in place for senior officers (Chief Executive, the three Corporate Directors and the two statutory officers). This involved the six officers completing a return, which included various questions, and declaring any relevant interests. These were then considered by management as to whether any declarations needed to be made in the final version of the 2015/16 accounts. Three further disclosures were made in the 2015/16 accounts in respect of Greenock Arts Guild Ltd (the Beacon Arts Centre), John Watt Dock LLP and Inverclyde Renovations Limited.

Our view is that the introduction of this system for senior officer declarations is a further strengthening of the Council's governance arrangements. It allows the Council to easily demonstrate what has been declared by senior officers and the Council's judgement as to whether there is a related party to be disclosed or not. Documenting judgements of when not to disclose is as equally important as any that are disclosed. The system put in place for 2015/16 would be enhanced if was extended to cover all service heads and any senior staff involved in areas such as internal audit, procurement and contract awards.

Refer to Action Plan point 7



6. Best value and value for money

Value for Money

Single Outcome Agreement (SOA)

The Council has a clear vision which is 'Getting it right for every Child, Citizen and Community' to ensure that they are: Safe, Healthy, Achieving, Nurtured, Active, Respected and responsible and Included'. The Council has agreed that the Single Outcome Agreement will act as the Community Plan for the Inverclyde area. The SOA is the high level strategic partnership document setting out the vision and direction for the Inverclyde area, as agreed by all the Inverclyde Alliance partner organisations. The Alliance Board monitors progress against the SOA outcomes for the seven outcome delivery groups and receives regular reports as to progress. There are seven outcome areas:

- Repopulation
- Successful Communities
- Economic Regeneration / Employability
- Inequalities
- Alcohol Misuse
- Best Start in Life
- Environment

The monitoring report as at the end of March 2016 identified 54 of 56 actions as green rated and on track to deliver and 2 actions as amber rated and requiring attention.

In addition to the monitoring and delivery of the main SOA agreement , the Alliance Board also has an improvement plan in place. This was originally put in place in 2012 and has been subject to self assessment and review on a regular basis. The action plan shows a high level of self-awareness and transparency amongst the Alliance partners and a determination to deliver continual improvement. The improvement plan is focused around five areas; Community engagement , empowerment and asset based approaches; Tackling Inequalities; Joint resourcing and planning; Leadership and Development of the SOA. Good progress is being made in delivering the actions stated in the plan.

The outcome targets in the SOA are based on evidence of the key issues and challenges for the Inverclyde area and have been developed through extensive community engagement. The SOA goals are clearly linked to the Council's vision and provide a strong link in terms of both clear goals to deliver the Council's vision whilst recognising the contribution of other partner organisations to meeting the shared outcomes.

The Council and partners have a strategic planning framework in place that reflects the requirements of the Scottish Government's national outcomes. The Council's day to day activities are linked to the strategy and vision through the Corporate Directorate Improvement Plans (CDIP's). These are reviewed annually. Feedback from the Citizens Panel is also reflected back to service departments in order to identify any service improvement opportunities.

At the Council meeting on 2 June 2016 the Chief Financial Officer (CFO) presented a report from the Accounts Commission – 'An Overview of Local Government in Scotland'. The report included a self-assessment of the Council's position against the content of the report. The Council compared well as regards the arrangements it has in place to respond to the forthcoming challenges. Most notably are its financial plans and strategy, its workforce planning and organisational development strategy; and its track record in delivering alternative delivery models. The report reflects the challenges to Scottish Local Authorities from service demand and demographic factors many of which impact on Inverclyde. The self assessment includes an action plan for delivery of change in a small number of areas.

The Council has set a clear vision and priorities and shared these with partners but, as with most local authorities, delivery will be challenging in the current economic and financial environment with increasing demand for services and a declining population being real risks.

Shared Services

The Council has previously discussed the possibility of exploring shared service opportunities with neighbouring authorities. In the increasingly challenging financial environment and with the protection of key service areas such as education and the integrated health and social care budgets the challenges are even more acute for a number of other service areas. In this context the Chief Executive prepared a report to the Council at the end of June 2016 proposing approval of a Shared Services Joint Committee to oversee the development of a programme of shared service opportunities with East Dunbartonshire and West Dunbartonshire Councils.

The report sets out the governance arrangements and a range of opportunities for exploring greater efficiencies through the use of more effective service delivery models and through greater collaboration. It is clear from the report that whilst more efficient use of resources are a driving factor there is also a need to transform services to provide better outcomes for residents and better access to more specialist services on a wider footprint whilst enabling access to a greater pool of expertise. The report sets out the potential for sharing services in the following areas:

- Roads and Transportation
- Fleet Management and Maintenance
- Grounds Maintenance, Parks, Open Spaces, Cemeteries and Crematoriums,(and Street Cleansing and Litter); and
- Environmental Services – Refuse Collection, Recycling and Waste Collection.

A desk top study as to the potential opportunities in these areas has been undertaken which is mindful of the on-going national and regional level discussions about a shared service proposal for Roads and Transportation. Any preparatory work between the three councils can only advantageous in broader discussions. The combined capital and revenue budgets for these services across the three authorities are £101.7m and it therefore offers the potential for significant re-configuration to support the aims of better, more sustainable services within the financial constraints. The Council has put in place a Memorandum of Understanding with East and West Dunbartonshire to progress this agenda. There is a detailed governance structure outlined in the report to underpin the agreement and a timeline up to April 2017 agreed for possible implementation.

In addition to the above developments the Council has a history of looking at alternative delivery models and is an area where it has continued to develop its arrangements over the last five years. The Council has a Governance Framework in place to monitor third party organisations in which the Council have a financial interest. The framework, agreed in 2011, has developed over a number of years taking cognisance of guidance, for example the Audit Scotland report ALEO's: Are you getting it right? We reported in 2013/14 that the Council was meeting either the basic or better practices. As part of the Governance of External Organisations Annual Report in November 2014, an action plan was agreed to develop advanced practice to help strengthen the governance framework in place. In 2014/15 the Council started the process of facilitating risk registers for arms-length organisations.

Our view is that the Council has recognised the need to enhance its governance arrangements so that they include partners / outside bodies and has shown that it needs to keep these arrangements under review to ensure governance arrangements remain appropriate. These principles will stand it in good stead as it looks to further develop shared services and other options.

Community Engagement

This is an area of effectiveness for the Council and recognises its strong place in the community and the relationships with its partners organisations. The local community engagement strategy is enshrined in the Inverclyde Alliance Community Engagement Strategy. This sets out the approach for engaging with stakeholders There is a wide range of mechanisms in place for engaging with stakeholders from the broad consultation on the Vision and Corporate priorities to service specific consultations which are co-ordinated through the Councils partners and existing community planning networks. The programme is co-ordinated through a commissioned facilitator, Your Voice. A range of options are used to obtain feedback via established community groups and various service based engagements.

Consultation with the public takes place at various levels. A Citizens Panel is used to obtain feedback on Council performance and on specific issues. This will be used to obtain views on the Local Outcome improvement Plan in 2017. The panel has been running since 2007 and comprises 1000 local residents with the membership being rotated by a third each year. The survey in 2015 received a 66% feedback response. Last year's survey asked specific questions about the Council's overall reputation and enquired about service specific areas such as recycling and sustainability, dementia services and drugs problems in the area. In addition the Council does specific service consultations and wide consultation on the budget and financial strategy.

The Council and partners have continually responded to customer feedback and designed services and opening times/locations to reflect customer need. For example, the Council with Riverside Clyde Homes have used this to assist residents and have implemented visits to tenants homes to give them financial advice and assistance in the light of welfare reforms and other changes.

The Council also runs a staff survey every three years. The most recent was reported upon in November 2015 and showed 80 per cent of staff expressing satisfaction with their job. Overall it is a positive picture with any issues being contained in the revised Organisational Development strategy 2017-20.

Health and Social Care Integration Joint Board

For many years this has been recognised as a real strength area for the Council. It has been reported in previous Local Scrutiny Plans (LSPs) that the Council had a strong Community Health and Care Partnership (CHCP) and this provided a solid platform for the integration of health and social care. The Council benefitted from this during the early set up stages of the new arrangements. The Inverclyde Integration Joint Board (IJB) approved its Strategic Plan 2016-2019 on 15 March 2016 which sets outs its intentions and priorities. The previous arrangements were supportive of engagement and participation and the principles of co-production and this ethos has been maintained into the IJB. For 2015-16 Inverclyde HSCP had a combined revenue budget from the Council and the Health Board of £120m.

The plan is based around five core themes:

- Employability and meaningful activity
- Recovery and support to live independently
- Early intervention, prevention and reablement
- Support for families
- Inclusion and empowerment

These themes are to be used to guide commissioning decisions in order to assist delivery with the nine national outcomes central to the Act. The IJB is using a wealth of data to enable and support its approach to evidence based commissioning. This is reflected in its Strategic Needs Assessment. The strategy reflects the importance of partnership working across the range of statutory, independent, voluntary and third sector organisations which all contribute to making Inverclyde a safe, secure and healthier place to live.

The IJB is involved in a number of major projects including the New Ways of Working pilot put in place to respond to the increasing workload and workforce shortages in General Practice, and, crucially the strategic review by the Health Board of Acute services.

The IJB received its interim budget from the Greater Glasgow and Clyde NHS Board on 20 June 2016 with an allocation for 2016-17 set at £76.313m (including £4.449m for Social Care). The IJB has in place an established system of performance management and reporting on outcomes. Further developments are expected in this area with development of a national performance reporting format and a greater emphasis on delivering outcomes.

Performance Management Framework

The Council has put in place a Strategic Planning and Performance Management Framework (SPPMF) to ensure the effective delivery of corporate and service outcomes. This process is underpinned by the principles of robust self-evaluation and the Public Services Improvement Framework (PSIF). There is clearly a lot of work going on in trying to improve service review and self-evaluation including:

- enhancing self-assessment guidelines and processes regarding competiveness and challenge ;
- Providing self-evaluation training and guidance;
- conducting Public Service Improvement Framework (PSIF) assessments across a wide range of corporate and service areas;
- Review of these assessments by CMT;
- Introduction of a post project evaluation procedure from March 2016.

A report on the SOLACE performance indicators is presented to CMT and to members and where appropriate improvement plans are put in place and included in the relevant Corporate Directorate Improvement Plans (CDIP). For example, the report for Corporate Services to Policy and Resources Committee on 17 November 2015, showed that for the CDIPs there were 64 actions of which 27 were complete, 32 on track for completion and only 5 showed slight slippage. An example of recognising the need to improve relates to road maintenance. The Council acknowledged that improvement in roads maintenance was required and developed a fully funded, long term Road Asset Management Plan. The Council have invested £10.1 million through the Road Asset Management Plan since 2012. A further investment of £18.210 million is planned for the three year period 2015-2018. The broader discussions about shared services also reflect the continuing challenge and desire for continual improvement and better outcomes.

There is regular review of performance data by the Corporate Management Team with reporting to members being on a BRAG rated basis. The Council does challenge its own performance and there is a clear link between underperforming areas or amber rated areas and inclusion in the relevant Corporate Directorate Improvement Plans (CDIP). Actions identified show a clear link to plans of how to address underperformance. This approach has delivered improved performance for the Council over the last five years and there is evidence of change happening as a result of performance management interventions.

Statutory Performance Indicators / Local Government Benchmarking Framework

As required by the Statutory Performance Indicators (SPIs) Direction 2014 the Council has collected and reported information on Corporate Management (SPI 1), Service Performance (SPI 2) and the Local Government Benchmark Framework (LGBF - SPI 3).

The figures for the 2015-16 Local Government Benchmarking Framework (LGBF) are still being finalised and are not yet available. As a result the commentary below is based on the highlights from the 2014-15 performance data which was released in early 2016. It is worth reiterating the background to the data. The Society of Local Authority Chief Executives (SOLACE) 'Improving Local Government' initiative was developed to:

- support SOLACE to drive improvement in local government benchmarking
- develop a comparative performance support framework for Scottish local authorities
- support councils to target transformational change in area of greatest impact – efficiency, costs, productivity and outcomes
- focus on the 'big ticket' areas of spend, plus corporate services.

The key to benchmarking is the collection of comparable data across the 32 Scottish council which focuses on the cost information related to service delivery for major service areas and corporate services. As with any benchmarking data it is vital to remember that there will always be legitimate variations in performance due to local policy decisions, demographic profile, social and economic conditions and other local factors. In addition a council's policies and priorities, its structure and business processes, together with service user expectations will have an impact. As a result the performance achievements of local authorities will vary for valid reasons. The data does however allow an opportunity for challenge and comparison and in this sense is useful in the context of the wider performance management and monitoring framework outlined above. The Council reported the detail of its performance to the Policy and Resources Committee on 22 March 2016. This report gives a detailed analysis for each indicator.

The LGBF indicators are grouped across seven areas Children's Services; Corporate Services; Adult Social Care; Culture and Leisure services; Environmental Services; Corporate assets and Economic Development.

In 2014/15 Inverclyde Council ranked in the top two quartiles for just under half (49%) of indicators, while 28.6 % were in the third quartile and less than a quarter (22.4%) were in the fourth quartile compared against other Scottish local authorities. By comparison in 2013/14 55.6% of indicators were in the top two quartiles and 44.4 % in the bottom two quartiles. Like other local authorities, Inverclyde's performance in 2014/15 varies across the spectrum of indicators this can be related to a variety of local factors including deprivation levels, investment and policy decisions and population density.

The highlights of the various indicators show that overall the cost per pre-school place has increased in 2014-15 to the most expensive in Scotland, cost per primary school pupil stayed steady and then rose in 2014/15, the number of pupils achieving 5+Awards at level 6 increased by 7.9% in 2014-15, satisfaction with local schools improved moving performance into the top quartile.

Corporate services includes nine indicators the highlights of which show reductions in the corporate costs of collecting council tax by £2.32 per dwelling; improved council tax collection rates; improvement to reductions in the gender pay gap; the number of days lost through sickness for teachers reduced in year and the number of days lost due to sickness for all other employees also fell in 2014/15.

Adult Social Care comprises five indicators and has shown an increase in the percentage of people with intensive needs who are being cared for at home whilst the home care costs for over 65s has fallen nationally by 7.2% in the past five years and in Inverclyde are currently the lowest in Scotland. Self directed support and personalised payments have increased nationally .In Inverclyde however this is an area that needs to be developed. On a national basis satisfaction with social care/ social work has decreased year on year since 2010/11. In Inverclyde whilst there has been a reduction in satisfaction it still remains above the national average.

Culture and Leisure services contain eight indicators which across Scotland show a picture of substantial increases in visitor numbers for sports, libraries and museums against a backdrop of even more significant reducing expenditure on these services. Cost per attendance at leisure facilities in Inverclyde is around half of the national average and in the top quartile. Whilst satisfaction with cultural and leisure services is generally reducing nationally there are some positive indicators within Inverclyde that show the opposite to this trend. in leisure facilities and parks and open spaces.

Environmental services comprises 17 indicators and shows an overall 14 per cent reduction in expenditure against a positive performance across the country in maintaining or improving performance levels relating to recycling, street cleanliness, roads condition and satisfaction. Inverclyde rates as number one in recycling and 14 per cent above the national average.

Corporate assets has two indicators related to buildings both of which are comfortably above the Scottish average.

Economic Development contains one indicator for which Inverclyde is the top performer for assisting unemployed people into work.

Whilst overall performance varies across the range of indicators there is a clear relationship between policy and investment decisions and performance in a number of areas. The Council needs to continue to use the data to enhance its performance monitoring and scrutiny arrangements.

Audit Scotland – Audit of housing benefits: Risk assessment report

This risk assessment was completed by Audit Scotland as part of their housing benefit risk assessment programme but was not a full audit. The risk assessment considered the effectiveness of the Council's benefit service in meeting national and local priorities, business planning and reporting and delivering outcomes.

Information for the risk assessment was gathered from a range of sources including:

- a self-assessment, supporting evidence, and updated action plan provided by the Council
- Department for Work and Pensions (DWP) indicators and other performance measures
- scrutiny of internal and external audit reports and discussions with us as the external auditor
- discussions with senior officers within the Council during the on-site visit in March 2016

A risk assessment was previously carried out in early 2012 and in March 2012 Audit Scotland reported 12 risks to the continuous improvement to the Council's benefits service.

In February 2016, the Council submitted a self assessment, supporting evidence and an updated action.

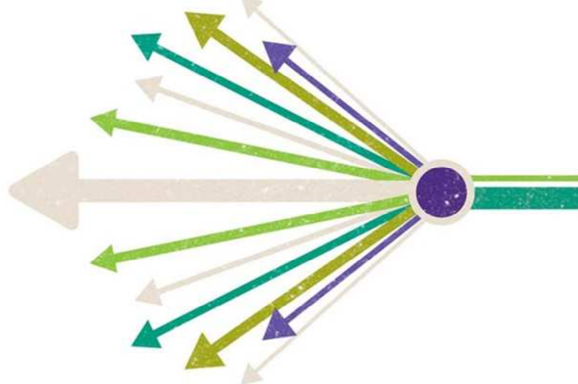
In May 2016 Audit Scotland reported "Of the 12 risks identified, the Council has made excellent progress by completing 10 of the risks by October 2013". In doing so the Council was seen as making a very positive contribution to the delivery of the benefits service including:

- developing and implementing a service level agreement between the benefits service and customer services defining roles and responsibilities, performance targets, monitoring and reporting arrangements
- undertaking a customer survey and using the results to change customer service delivery with plans for another survey in 2016/17
- increasing the cash collection target for the recovery of benefit overpayments from £5,000 to £10,000 per month, and on average, exceeding this by £2,000 a month between April 2015 and February 2016.

The Council has demonstrated its awareness of what constitutes an effective, efficient and secure benefits service. However, there are still two risks outstanding that the Council needs to address. This include:

- performance not being reported against all aspects of the service, particularly the amount of in-year debt recovered and against all debt outstanding
- recording and analysing the outcome of interventions in terms of value of overpayments and underpayments and using this to evaluate each intervention campaign and using this in setting a forward strategy.

The Council put together an action plan to address the two outstanding issues in June 2016. This was reviewed by Audit Scotland and the Assistant Auditor General confirmed on 21 June 2016 that proposed actions would make a positive contribution to the continuous improvement of the benefits service and that no further scrutiny required at this stage.



Appendices

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Appendix A: Identified misstatements

We are required to report to those charged with Governance any identified adjustments, over and above our de minimus materiality level of £0.25 million. These have been shown in the table below and we have identified those which have been reflected in the final version of the Financial Statements and those which have not.

Adjustment	CIES £'000	Balance sheet £'000	Usable Reserves £'000	Unusable Reserves £'000	Reason for not adjusting
Adjusted					
Our high level review of the fixed asset register (FAR) and valuation report identified a small number of inconsistencies, particularly in relation to schools, between individual asset values in the FAR and the valuation report. On further investigation it was confirmed that new asset valuations had not always been correctly allocated over all of an assets components meaning that the asset value was overstated and there was some double counted of assets in the FAR. This meant that the total value of assets in the FAR was overstated and therefore the Property, Plant and Equipment balance in the accounts was overstated. The statements were amended as follows:					N/A
CIES					
Net Cost of Services Expenditure	8,490				
(Surplus)/Deficit on Revaluation of non-current assets	7,579				
Balance Sheet / Reserves					
Property, Plant and Equipment		(16,069)			
Revaluation Reserve				(7,759)	
CAA				(8,490)	
Testing identified mispostings of revaluations between the Revaluation Reserve and the Capital Adjustment Account. This was mainly due to crediting upward revaluations to the Revaluation Reserve when they should have been posted to the CIES as the asset had been previously impaired through the CIES. The statements were amended as follows:					N/A
CIES					
Net Cost of Services Expenditure	(2,352)				
(Surplus)/Deficit on Revaluation of non-current assets	2,352				
Balance Sheet / Reserves					
Revaluation Reserve				(2,352)	
CAA				2,352	
Overall Impact (carried forward)	**16,069**	**(16,069)**	**0**	**(16,069)**	

Adjustment	CIES £'000	Balance sheet £'000	Usable Reserves £'000	Unusable Reserve £'000	Reason for not adjusting
Adjusted					
Overall Impact (brought forward)	**16,069**	**(16,069)**	**0**	**(16,069)**	
Management made a number of adjustments following the production of the draft statements which, although below our triviality level, are reported here for completeness.					N/A
CIES					
Net Cost of Services Expenditure	60				
Financing and Investment Income and Expenditure	3				
Balance Sheet					
Long Term Debtors		119			
Short Term Debtors		(100)			
Short Term Creditors		(82)			
Reserves					
Earmarked Reserves			(16)		
Unallocated Reserves			(10)		
Insurance Fund			(37)		
Overall Impact	**16,132** **(NOTE 1)**	**(16,132)**	**(63)** **(NOTE 1)**	**(16,069)**	
NOTE 1 - Although the additional charge in the Comprehensive Income and Expenditure Statement (CIES) is shown in the table above as £16,132,000 the amount in respect of the revaluation issue of £16,069,000 is reversed out through the Movement in Reserves Statement (MIRS) so that the net impact on usable reserves is only £63,000. This reversal is required by the Local Authority Code of Accounting Practice and ensures that revaluation changes do not impact on usable reserves and therefore council tax. The Movement in Reserves Statement and the Cash Flow Statement were also amended to reflect the adjustments to the Comprehensive Income and Expenditure Account and Balance Sheet shown above.					
Unadjusted					
There are no unadjusted errors.					

Appendix B: Misclassification and disclosure changes

The table below provides details of the misclassification and disclosure changes identified during the audit which have been updated by management in the final set of financial statements.

	Adjustment Type	Account balance	Impact upon the financial statement
1	Disclosure	Remuneration Report Note 7 – Councillors' Remuneration	Minor adjustments were made to the disclosure of members' expenses which increased the total salaries and expenses by £92 to £392,716.
2	Disclosure	Remuneration Report Note 9 – Exit Packages of Employees	The exit package note did not include the exit package in respect of the Corporate Director Education, Communities & Organisational Development. The note was amended to increase the number of other departures agreed in the £20,001 - £40,000 banding from 3 to 4 and the total cost in this banding from £60,277 to £99,269.
3	Disclosure	Remuneration Report Note 9 – Exit Packages of Employees	An exit package agreed in year was incorrectly discounted. This was corrected and had the effect of increasing exit packages in the £100,000 - £150,000 band by £6,233 to £468,420. As a result of this, and the error noted above, the total cost of exit packages increased from £1,353,205 to £1,398,430.
4	Disclosure	Note 6 – External Audit Fees	The note was amended to reflect the audit fee for 2015/16 of £262,095 as reported in our audit plan.
5	Misclassification	Note 7 - Amounts Reported for Resource Allocation Decisions	Fees charges and other services income for the Policy and Resources Committee included £8.8 million which related to recharges to other Committees. The note was adjusted to reduce P&R income and expenditure by £8.8 million. The note was also adjusted to reflect amendments made to the CIES. The overall effect was that Committee net expenditure reduced by £60,000.
6	Disclosure	Note 8 – Property Plant and Equipment	Amendments were made to the Property, Plant and Equipment note to reflect the material adjustment of £16.069 million as shown in Appendix A.
7	Misclassification	Note 8 – Property Plant and Equipment	Writeback of depreciation for 2015/16 was incorrectly shown in the cost section of the Movement on Balances in Note 8. An adjustment was made to transfer depreciation writeback of £26,529,000 (split as £25,519,000 Revaluation Reserve; £1,009,000 CIES) from the cost section to the depreciation section of the Note. This adjustment had no impact on the net book value of property plant and equipment.
8	Misclassification	Note 8 – Property Plant and Equipment	The draft statements included an adjustment in Note 8 to correct the treatment of depreciation writeback in prior years. Writeback of depreciation in prior years was incorrectly shown in the cost section on the brought forward balances in Note 8. An adjustment was made by the Authority in the 2015/16 Movement on Balances note to transfer depreciation writeback of £183.2 million from the cost section to the depreciation section of the Note. An audit adjustment was made to separately disclose this adjustment within the "Other reclassifications" line rather than including it within revaluations. This adjustment had no impact on the net book value of property plant and equipment.

	Adjustment Type	Account balance	Impact upon the financial statement
9	Disclosure	Note 8 – Property Plant and Equipment	The note on the revaluation programme was inconsistent with asset cost disclosed in the Movement of Balances table and with the history of valuations. This was revised to properly reflect the valuation history of the assets.
10	Disclosure	Note 20 - Leases	Finance leases were understated by £1,716,000 and the note was amended.
11	Disclosure	Note 21 - Financial Instruments	Cash balances of £38,489,000 were not included in the financial instruments note. As cash is a financial instrument, the note was amended to include cash balances.
12	Disclosure	Note 23 - Related Parties	The note was expanded to provide further narrative details on related parties and the Council's mechanisms for identifying related party transactions. The revised note identified further related party transactions including Greenock Arts Guild, John Watt Dock LLP, Inverclyde Integration Joint Board, Inverclyde Community Development Trust and River Clyde Homes.
13	Misclassification	Common Good Fund – Note 1 Property, Plant and Equipment	The note was amended to transfer writeback of depreciation in respect of prior years of £461,000 from the cost section to the depreciation section of the note.
14	Disclosure	Group Financial Statements	A number of changes were made to the Group Accounts including: • amending the 2015/16 opening balances to ensure that they were the same as the audited closing balances for 2014/15 • amendments reflecting changes between the draft and audited accounts of the associates • amendments due to the changes made to the Council's accounts (single entity) • impact of amendments was that the Council 'Share of Associates Usable Reserves' increased from £2,523,000 to £3,820,000 and the Council's 'Share of Associates Unusable Reserves' decrease from £7,577,000 to £6,260,000.
15	Disclosure	Note 30 – Combining Entities	An additional section entitled "Non-Material Interest in Other Entities" was added to the Note. This provided details of the Council's interests in other organisations which were not considered material and therefore not included in the group financial statements.
16	Disclosure	Various	Various changes were made to supporting notes to improve presentation and ensure consistency.

Appendix C: Action plan

	Issue and risk	Priority	Agreed action
1	**Leavers still being paid** During our testing of payroll transactions we identified one case where the Council continued to pay an employee who had left the Council leading to an overpayment of £2,106.28. The explanation given was that this overpayment had arisen because Human Resources (HR) were not notified by the employing department that the employee had left the Council. Testing of all leavers in 2015/16 who had received payments more than 30 days after their date of leaving identified four further employees had been overpaid due to late notification from the employing department. Overpaid monies have been recovered in all cases. **Risk** The Council fails to identify that employees have left and continues to pay them leading to overpayments that have to be reclaimed.	High	The Council should review its arrangements for promptly notifying HR about leavers so that the payroll department can action the changes. Given that one overpayment was only identified when the employee called the Council the Council should consider a periodic validation process where budget managers confirm that employees are still employed by the Council. **Management response:** The Council will review arrangements for notifying HR/Payroll about leavers and will examine the extent to which a periodic validation exercise could be undertaken by budget managers to ensure employees are still employed HR Manager (Operations) by March 2017
2	**Management of the Fixed Asset Register** Our work on the fixed asset register (FAR) identified some inconsistencies between the asset register and the valuation report which had not been resolved. We identified a further number of issues including the fact that the wrong enhancement amount had been applied to three assets and that the Council had identified one asset that was not included on the FAR. **Risk** That errors occur when the fixed asset register is being updated and that these are not identified.	Medium	The Council should introduced secondary checks on the fixed asset register so that any errors on areas such as enhancements applied, revaluations and impairments are identified prior to the production of the draft accounts. **Management response:** The Finance Manager (Environment & Technical) will examine the extent to which secondary checks can be implemented in this and other areas associated with the accounts in the context of the limited resources within the team. Finance Manager (Environment & Technical) by March 2017
3	**Managing the capital programme** There has been clear progress made in 2015/16 in delivering the 2015/16 capital programme in terms of actively offsetting slippage by acceleration of other projects. However, the 2017/18 capital programme of £48.555 million is some 60% bigger than the 2015/16 budget and includes £21.983 million of expenditure on schools new build, extensions and refurbishment. **Risk** The risk that the Council will continue to experience internal slippage on the capital programme, and with increased levels of future capital expenditure, be unable to accelerate other projects to fill the gap.	Medium	The Council should review their available resource and project management capability in light of extensive capital expenditure plans established for 2016/17 and more notably 2017/18. The Council will need to ensure that sufficient resources are in place to deliver the 2017/18 capital programme and to actively respond to minimise the impact of any slippage. **Management response:** The Council has an established process for reviewing the next 12-24 month Capital Programme each January and will continue this in January 2017. This review takes into account resources required for delivery . Corporate Director (Environment , Regeneration & Resources) by February 2017

Appendix C: Action plan

	Issue and risk	Priority	Agreed action
4	**Common Good Fund** The Common Good Fund usable revenue reserve has decreased significantly in the last two years. At 31 March 2016 it was only £14,000 and below the Council's recommended minimum level of £100,000. **Risk** That the Common Good Fund revenue reserves goes into deficit in 2016/17.	Medium	The Common Good Fund will need to be closely monitored during 2016/17 and appropriate action take to ensure the reserve is not in a deficit position. **Management response:** The Common Good Budget is reviewed each Committee cycle whilst the Budget for the next 2 Years is approved each February. The sustainability of the Fund is a key requirement when developing budget proposals. Chief Financial Officer by March 2017
5	**Workforce Planning** Our review of workforce planning following the Audit Scotland return identified some areas for further consideration by Council officers: • ensuring that all services have workforce plans • improving succession planning for the short, medium and longer term – succession planning is currently a work in progress as part of the production of the 2017-2020 workforce plan. **Risk** Workforce planning at the Council may not be fully reflective of recommended practices.	Low	We recommend that management review the main points raised and make amendments as required. **Management response:** Each Directorate will receive a quarterly Workforce Activity and Information report which identifies key workforce planning actions. The Council's Corporate Workforce Planning and Development group play a key role in ensuring that workforce planning is an integral part of their service planning and improvement process. A Succession Planning Programme has been developed and piloted with a view to rolling this out wider across the Council as part of the People and Organisational Development Strategy 2017/20. Management will review the points raised and implement any necessary changes. Head of OD, HR & Communications by March 2017
6	**Service Level Agreement (SLA) with Inverclyde Joint Integration Board** Inverclyde Joint Integration Board (IJB) became fully operational on 1 April 2016 when it took on formal delegated responsibility for the delivery and planning of local health and social care services. Given the increase role of the IJB from 1 April 2016 it would be sensible for the Council and the IJB to have formal SLAs to agree resource input and costs. **Risk** Without an SLA the risk is that there will be a lack of clarity over agreed support and this could have resourcing and financial implications.	Medium	The Council should agree Service Level Agreements (SLAs) with Inverclyde IJB for 2016/17 for any services or support it is to provide and to agree as what cost. This will provide both sides with clarity over resource input and cost and allow expectations to be clearly managed. **Management response:** Officers are progressing the development of SLAs to cover a number of functions which support the IJB. The intention is to complete this work by December 2016 Head of Legal & Property Services/Chief Officer (Inverclyde IJB) by December 2016

	Issue and risk	Priority	Agreed action
7	**Related Party Transactions** The Council has a clear system in place for Members to declare interests but there was no formal system for senior officer declarations. As part of the 2015/16 we agreed that a system would be put in place for senior officers (Chief Executive, and the three Corporate Directors and the two statutory officers) and that this would be extended to cover all service heads and any senior staff involved in areas such as internal audit, procurement and contract awards. **Risk** That senior officer may have needed to make declarations that should have been disclosed as related party transactions in the Council's account.	Medium	Extend the system for senior officer declarations, introduced as part of the 2015/16 accounts, to cover all service heads and any other senior staff involved in areas such as internal audit, procurement and contract awards. **Management response:** The process adopted for the 2015/16 Accounts will be reviewed and amended with proposals to be approved by the Corporate Management Team. Head of Legal and Property Services by March 2017

Appendix D: Follow-up of prior year actions

Set out below is our follow up of the 2014/15 Annual Report to members recommendations.

	Recommendation	Priority	Follow up
1	**Financial Strategy scenario planning** The Council has an opportunity to complement the Finance Strategy with a scenario planning exercise showing the range of outcomes which could impact upon the future financial sustainability of the Local Authority. A worst case and best case scenario could be reviewed and contingency plans identified to mitigate any risks identified.	Medium	**Implemented**: When the 2016/2024 Financial Strategy was updated in early June 2016 this included the most likely position for 2017/20 being a £22.5 million funding gap but with best and worst case scenarios being between £13.1 million and £37.4 million. Scenario planning is useful for Members in helping them understand the wide spread of possible outcome and the future financial uncertainties that the Council is facing.
2	**Management Commentary in Accounts** In subsequent years the Council should aim to include a brief summary of key activities of the Council which have progressed during the year. These can be supported with performance reporting of non-financial key performance indicators where appropriate. Examples of areas where the Council could focus may be attainment in schools, recycling, social & health integration etc.	Medium	**Implemented:** The 'Management Commentary' in the 2014/15 accounts simply commented upon the Council publishing performance indicators and provided a link to where this could be found. This improved in 2015/16 with the inclusion of bullet points to provide commentary on
3	**Non-Current assets note in accounts** The Council have carried out a review and have identified that substantial work is required to adjust the cost and depreciation figures. The Council should carry out further work to correct the disclosure of cost and depreciation as soon as possible.	Medium	**Implemented**: This adjustment to Note 8 on Property, Plant and Equipment has been made in the 2015/16 accounts. The accounts have been amended to show this adjustment in the line 'Other reclassifications' line and a narrative commentary explaining the change has been added as a footnote.
4	**Managing the capital programme** The Council should consider their available resource and project management capability in light of extensive capital expenditure plans established for 2015/16 and more notably 2016/17 when expenditure is planned to significantly increase. Following due consideration, the Council could re-assess the capital plan to ensure work can be completed.	Medium	**In progress:** This will be an on-going issue for the Council. In 2015/16 thee was slippage of £5.692 million (18.8%). This was more than offset by actions taken by Officers to actively offset slippage or as a result of acceleration of other projects. The net effect is that capital outturn exceeded the original capital programme by £0.898 million. This represents progress against historically high levels of capital slippage but will continue to be a challenge with a budgeted capital programme for 2017/18 of £48.555 million.
5	**Scrutiny of Integration Joint Board (IJB)** The Council should consider the appropriateness of IJB members being members of the Health and Care Committee, or what mitigations will be made for reducing the risks of conflict of interest and self review.	Medium	**In progress:** The Council has undertaken a review of the potential for conflicts of interest as regards the relationships with IJB. This report is due for completion by the end of September and is scheduled to be presented to the Council on the 29 September 2016.

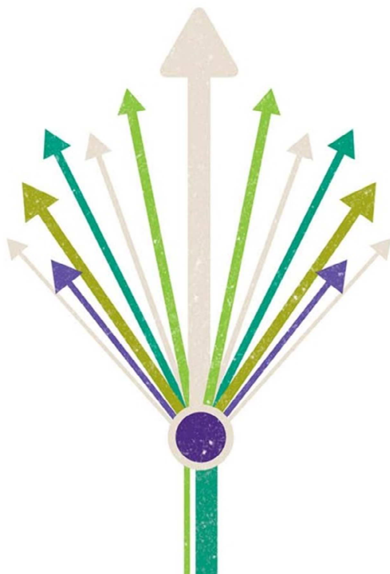
Appendix E: Compliance with statutory duties

We have reviewed the Council's compliance with the Local Authority Accounts (Scotland) Regulations 2014 and have monitored compliance against the key aspects below.

Aspect of the regulations	Compliance	Status
The Chief Financial Officer must ensure that the annual accounts give a true and fair view of the authority (and its group's) financial position and transactions.	Complied - signed off within unaudited accounts	✓
	On track - will sign off in final audited accounts.	●
The Chief Financial Officer must certify and submit the annual accounts to the appointed external auditor no later than 30 June 2016.	Complied – submitted 29 June 2016.	✓
The Council must publish the unaudited annual accounts on the website of the authority until the date on which the audited annual accounts are published.	Complied – unaudited accounts are available on the website.	✓
The Council (or a committee whose remit includes audit or governance) must consider the unaudited accounts at a meeting by 31 August.	Complied – presented to Audit Committee on 21 June 2016.	✓
The Council must give public notice of the right of interested persons to inspect and object to its accounts.	Complied – public notice given.	✓
The Council (or a committee whose remit includes audit or governance) must aim to approve the audited annual accounts for signature no later than 30 September 2016.	On track - will be presented to Inverclyde Council meeting on 29 September 2016 for approval.	●

✓ Fully compliant at date of this report

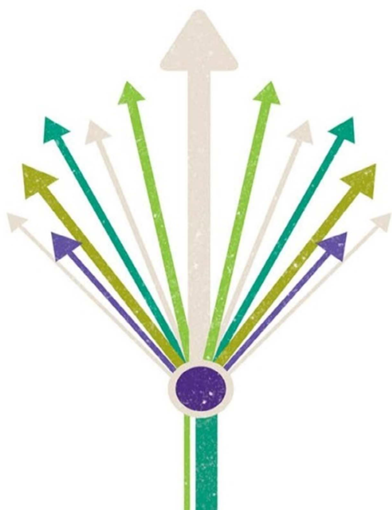
● On track to comply



Appendix F: Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1	Written representations	• A letter of representation has been requested from the Council • In particular, representations will be requested from management in respect of: – significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable – responsibility for the design and implementation of internal control to prevent and detect error and fraud – related party relationships and transactions being appropriately accounted for and disclosed in accordance with the requirements of the CIPFA Code – all events subsequent to the date of the financial statements and for which the CIPFA Code and International Financial Reporting Standards requires adjustment or disclosure having been adjusted or disclosed
2	Disclosures	• Our audit work identified no material omissions in the financial statements. We have proposed a number of amendments to improve compliance and disclosures (see appendix B) which the Council has reflected in the audited Statement of Accounts.
3	Matters in relation to fraud	• We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures
4	Matters in relation to laws and regulations	• We are aware that in December 2015 the Court of Session found that Inverclyde Council had incorrectly awarded a contract for the provision of street lighting. The Court ruled that that the error made by the Council was not one of mis-designation. Inverclyde Council are to appeal the decision and the contract will remain in place until the outcome is known.
5	Matters in relation to related parties	• The related party transactions note has been updated to provide greater commentary and to include disclosures for Inverclyde Integration Joint Board. We have also recommended improvements to the system to help assess whether any related party disclosures are required for senior officers.
6	Going Concern	• We have considered managements assessment of going concern. Our work has identified no significant issues in relation to going concern



Appendix G - Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
Inverclyde Council (including grant certification)	262,095	262,095
Lady Alice-Shaw Stewart Memorial Fund	800	800
Total audit fees	**262,895**	**262,895**

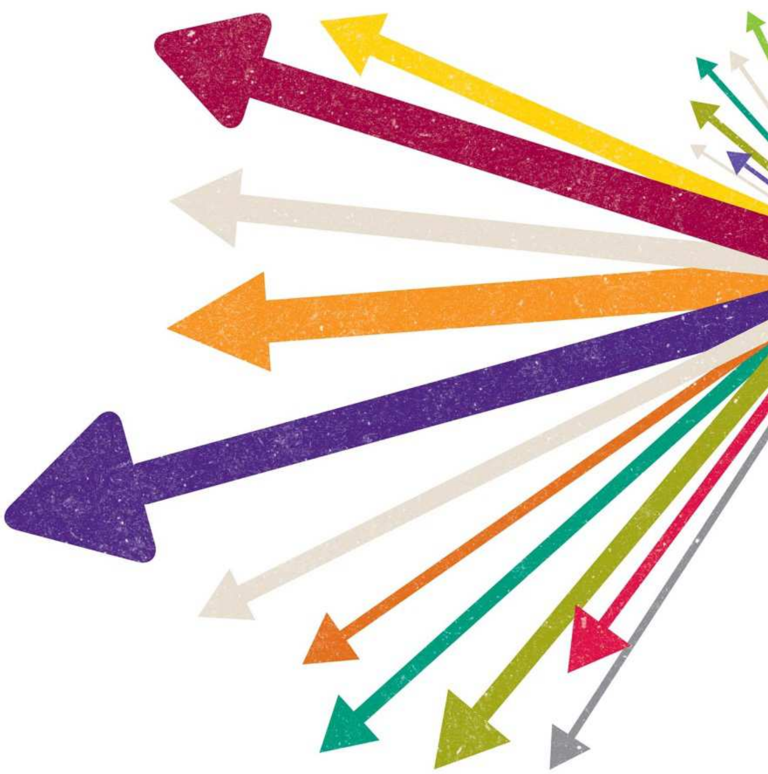
Fees for other services

Service	Fees £
None	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.



Appendix H: Draft Independent Auditor's report

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

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

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, we 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

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

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

Opinion on other prescribed matters

In our opinion:

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

Matters on which we are required to report by exception

We are required to report to you if, in our opinion:

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

We have nothing to report in respect of these matters.

Michael Thomas, (for and on behalf of Grant Thornton UK LLP)

Royal Liver Building

Liverpool

L3 1PS

To be dated 2016

Appendix I: Draft Letter of Representation

Mr Michael Thomas
Director
Grant Thornton UK LLP
Royal Liver Building
Liverpool
L3 1PS

29 September 2016

Dear Mr Thomas

Inverclyde Council

Group Financial Statements for the year ended 31 March 2016

This representation letter is provided in connection with the audit of the group financial statements of Inverclyde Council and its associate undertakings as shown in Appendix 1 of this letter, for the year ended 31 March 2016 for the purpose of expressing an opinion as to whether the group and parent Council financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

We have fulfilled our responsibilities for the preparation of the group and parent Council financial statements in accordance with proper practices as set out in the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ("the Code"); which give a true and fair view in accordance therewith.

We have complied with the requirements of all statutory directions affecting the group and parent Council and these matters have been appropriately reflected and disclosed in the group and parent Council financial statements.

The Council has complied with all aspects of contractual agreements that could have a material effect on the group and parent Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the group and parent Council financial statements in the event of non-compliance.

We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

We are satisfied that the material judgements used in the preparation of the group and parent Council financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.

Except as disclosed in the financial statements:

a there are no unrecorded liabilities, actual or contingent;

b none of the assets of the group or parent Council has been assigned, pledged or mortgaged; and

c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

All events subsequent to the date of the group and parent Council financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.

Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.

We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and parent Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the group and parent Council financial statements.

We believe that the group and parent Council’s financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the group and parent Council’s needs. We believe that no further disclosures relating to the group and parent Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

We have provided you with:

a access to all information of which we are aware that is relevant to the preparation of the group and parent Council financial statements such as records, documentation and other matters;

b additional information that you have requested from us for the purpose of your audit; and

c unrestricted access to persons within the group and parent Council from whom you determined it necessary to obtain audit evidence.

We have communicated to you all deficiencies in internal control of which management is aware.

All transactions have been recorded in the accounting records and are reflected in the group and parent Council financial statements.

We have disclosed to you the results of our assessment of the risk that the group and parent Council financial statements may be materially misstated as a result of fraud.

We have disclosed to you all our knowledge of fraud or suspected fraud affecting the group and parent Council involving:

a management;

b employees who have significant roles in internal control; or

c others where the fraud could have a material effect on the group and parent Council financial statements.

We have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the group and parent Council’s financial statements communicated by employees, former employees, regulators or others.

We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the group and parent Council's financial statements.

We have disclosed to you the identity of all the group and parent Council's related parties and all the related party relationships and transactions of which we are aware.

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the group and parent Council financial statements.

Annual Governance Statement

We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Management Commentary

The disclosures within the 'Management Commentary' fairly reflect our understanding of the group and parent Council's financial and operating performance over the period covered by the group and parent Council financial statements.

Approval

The approval of this letter of representation was minuted by the Council at its meeting on 29 September 2016.

Signed on behalf of the Council

Yours sincerely

Name: Alan Puckrin

Position: Chief Financial Officer.

Date: 29 September 2016

Appendix 1 – Associate undertakings for Group Accounts

- Strathclyde Partnership for Transport
- Strathclyde Concessionary Travel Scheme Joint Board
- Renfrewshire Valuation Joint Board
- Inverclyde Leisure
- Riverside Inverclyde

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APPENDIX 2

Inverclyde Council

Audited Annual Accounts

2015-2016

Inverclyde council

Contents

Management Commentary

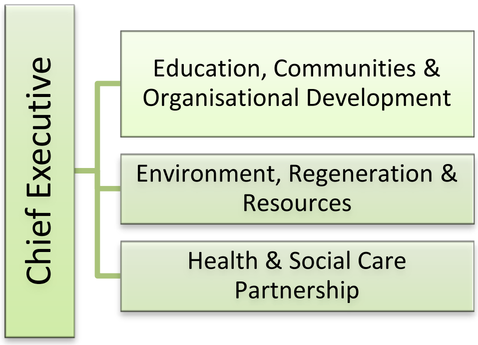
1. Introduction

This publication contains the financial statements of both Inverclyde Council and its group for the year ended 31 March 2016, and its main purpose is to demonstrate the stewardship of public funds entrusted to the Council. This foreword outlines the objectives and strategy of the Council and its financial performance for the year 2015-2016. It also provides an indication of issues and risks which may impact upon the finances of the Council in the future.

Principal Activities

Inverclyde Council was established in 1996 as part of local government reorganisation in Scotland under the Local Government (Scotland) Act 1994. The Council has responsibility for providing local authority services for the residents of Inverclyde which is located in West Scotland along the River Clyde. It is one of the smallest local authorities in Scotland, covering 61 square miles and serving a population of 79,500 (1.5% of the total population of Scotland). The Council employs 4,186 employees and provides a wide range of vital services to the public such as education, social services, leisure and recreation, libraries and museums, regeneration, planning and building standards, roads and transport, street cleaning and refuse collection. The Council transferred its housing stock to River Clyde Homes, a not-for-profit social housing provider, in 2007. Inverclyde Council and NHS Greater Glasgow and Clyde created an Integrated Joint Board for the delivery of Health and Social Care Services during 2015-2016 although budgets will not be delegated to the IJB until 1 April 2016.

Inverclyde Council has twenty councillors elected every five years to represent the interest of the local community. The Council has a minority Labour administration with Councillor Stephen McCabe as its Leader. During 2015-2016 the management of Inverclyde Council was led by the Chief Executive, John Mundell. The operational structure is divided into three directorates as shown on the right. The Council has established two Arms' Length Organisations – Inverclyde Leisure and Riverside Inverclyde – to deliver certain services more effectively on the Council's behalf. Section 5 has more details of these and the other entities in the Inverclyde Council group and section 6 has links to their websites.



2. Objectives and Strategy of the Council

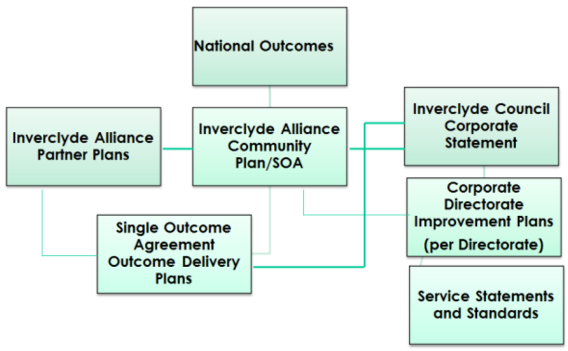
Getting it Right for Every Child, Citizen and Community

The Corporate Statement is a public facing, focused statement, setting out the Council's vision for Inverclyde, which is "*Getting it Right for Every Child, Citizen and Community*". Inverclyde Council wants all of its residents to be "*safe, healthy, achieving, nurtured, active, respected, responsible and included*". In addition the Inverclyde Alliance Single Outcome Agreement (SOA) has established eight local strategic outcomes based on local evidence, partner experiences and the priorities and aspirations of the local community. The outcomes cover repopulation, successful communities, best start in life for children and young people, economic regeneration, employability, alcohol misuse, tackling inequalities, the environment, and creating better, best value services. Responsibility for the delivery of these outcomes rests with Outcome Delivery Groups which include representation from various organisations involved in community planning. The SOA and SOA Annual Report can be found on the Council's website at http://www.inverclyde.gov.uk/council-and-government/community-planning-partnership.

Delivering the Strategy

Inverclyde Council has an established framework in place that integrates strategic planning with performance management to ensure the effective delivery of corporate and service outcomes. The main aspects of the framework are illustrated in the diagram right.

The Scottish Government publishes a set of "national outcomes" for public services and engages with each local authority to reach agreement on local outcomes and measures which are set out in SOA. This will become Inverclyde's Local Outcome Improvement Plan (as set out in the Community Empowerment (Scotland) Act 2015). Inverclyde Council's Corporate Statement sets out the key outcomes the Council is committed to delivering with its partners.



Services demonstrate how their own activities link to the Council's vision and priorities through their Corporate Directorate Improvement Plans (CDIPs). Consultation on the future vision and activities of the Council is undertaken through the Council's Citizens' Panel and through specific consultations.

Public Performance Reporting

Inverclyde Council publishes a wide range of comprehensive and diverse performance indicators to allow the public to make an informed assessment of how the Council is performing. Full details of the Council's performance can be found by following the link to the Council's performance pages on its website http://www.inverclyde.gov.uk/council-and-government/performance. The CDIPs also contain details about financial and non-financial performance indicators. The most recent indicators, including snapshots of these, can be found at http://www.inverclyde.gov.uk/council-and-government/performance/statutory-performance-indicators.

The most recent available data for the Council's performance relates to 2014-2015. Figures for the 2015-2016 Local Government Benchmarking Framework are being finalised and are not yet available. Some of the 2014-2015 performance highlights are:

- Costs per pre-school registration and cost per primary and secondary school pupil have gone up, whilst attainment, satisfaction with schools and the proportion of pupils entering positive destinations has also risen.
- Inverclyde's older people's care costs per hour are the lowest in Scotland. Our net cost of residential care for older adults (65 and over) per week fell by £35.21 in 2014/15. Our cost is also £55.55 lower than the national average.
- The Council sits near the Scottish average for the percentage of people 65 and over with intensive needs receiving care at home yet satisfaction with social care or social work services fell by 15% in 2014/15 to 58%; however, our figure is still higher than the national average.
- The cost per attendance at sport facilities decreased and satisfaction with leisure facilities increased. During the Spring 2015 survey, libraries were rated highly on the list of Council services that respondents were either satisfied or very satisfied with, attracting a score of 81%.
- Inverclyde ranks second cheapest for both gross and net cost for waste collection per premises, despite costs rising slightly.
- Inverclyde currently spends the most proportionately on the maintenance per kilometre of roads, reflecting its significant investment plan. This investment now shows fewer roads requiring maintenance treatment.
- The proportion of operational buildings that are suitable for their current use and the proportion of internal floor area of operational buildings in satisfactory condition are both increasing reflecting the Council's approach to reducing its foot print and improving accommodation. Performance on both is above the national average.
- The Council is ranked first for the percentage of unemployed people assisted into work from Council operated or funded employability programmes. Our score is also almost 11% higher than the national average.

Further information and commentary on these indicators can be found on the Council's website using the web links above.

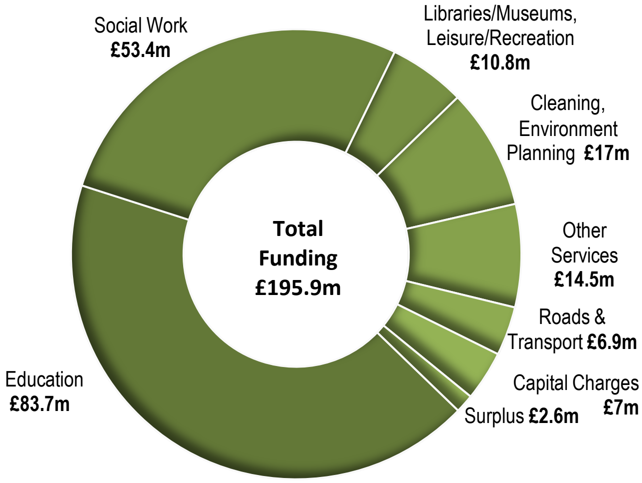
The Annual Budget and Setting Council Tax

2015-2016 was the final year of the Council's three-year budget and was approved by the Council on 19 February 2015. A decision was taken at this meeting to approve a two-year budget covering the financial years 2015-2016 and 2016-2017. The budget was based on the Council Tax for band D remaining at £1,198 for the eighth successive year.

For 2015-2016, spending of £193.3 million was planned after taking account of Government Grants, inflation, borrowing costs, approved savings plus a surplus of £2.6 million. The planned surplus would be carried forward into 2016-2017 to help balance the budget on the assumption of no increase in council tax.

The Council also approved a £98 million three-year capital investment programme covering 2015-2018 of which over

Revenue Budget 2015-2016



Funding from Scottish Government (Non-domestic Rates and Government Grants) £162.6m (83%) and Council Tax (including Council Tax Reduction costs) £33.3m (17%)

£72 million would be funded by the Council with the balance met from government grants. The major areas of planned investment were the ongoing programme of construction and refurbishment of schools, key improvements to the roads and lighting infrastructure plus significant capital work on other Council properties.

3. Financial Performance in 2015-2016

General Revenue Budget

The General Fund is the statutory fund into which all the receipts of the Council are required to be paid and out of which all liabilities of the Council are to be met, except to the extent that statutory rules provide otherwise. The General Fund is funded by Government Grant and Council Tax revenues and the Movement in Reserves Statement on page 23 shows a surplus of £4.1 million. The Council budgeted to return a surplus of £2.6 million in 2015-2016. This was achieved and in addition to this the Council saved on Council contribution to Council Tax Reduction Scheme of £0.5 million, underutilised inflation contingencies of £2.4 million, a one off underspend within pressures contingency of £0.5 million, benefitted from Grant redeterminations of £0.8 million and from the advancement of savings and turnover savings generated underspends of £2.0 million across all Service areas. This has been partly offset by a planned spend on earmarked reserves carried forward from previous years and a review on the amounts set aside within certain earmarked reserves which has resulted in the surplus in the year of £4.1 million.

Combining the surplus with the accumulated funds brought forward from 2014-2015 of £45.0 million, produces a working balance of £49.1 million to be carried forward to 2016-2017. Of the balance, £40.3 million has been earmarked for particular purposes as detailed in Note 2 on Page 30. This leaves a balance of £8.8 million of unallocated reserves (4.5% of the Council's budgeted net annual running costs). This is £5.0 million more than the recommended level of £3.8 million (2% of annual turnover based on the 2015-2016 budget), and the Council will consider uses for the excess later in 2016.

Capital Budget

The Council continues to make significant capital investment in schools, roads, leisure, community and town centre estate with £30.5 million being spent in 2015-2016. The largest individual element of the capital expenditure for the year was the £8.3 million spent on building and refurbishing educational properties as part of the Council's School Estates Strategy. Funding of capital expenditure included £4.4 million from revenue, £0.5 million from receipts, and £16.1 million from Government grants with the balance of £9.5 million being met through internal funding and borrowing. Further information about the spending on capital projects is shown in Note 10 on page 38.

Major projects progressed during the year included:

- £3.2 million on the Regeneration of Gourock Pierhead
- £7.2 million on the Roads Asset Management Plan
- £1.9 million on the Office and Depot Rationalisation Programme
- £2.9 million on the replacement of St Patrick's Primary School

The Council is able to regulate its own capital spending limits within a Prudential Framework recommended by CIPFA and endorsed by the Scottish Government. The Council's performance confirms its overall capital spending of £30.5 million was managed within the "Prudential Framework" limits approved by the Council. There was net advancement of £0.9 million (3%) against the approved capital programme. This is an improvement on 2014-2015 where there was slippage of £4.1 million (14.0%) against the approved capital programme.

Key Financial Ratios

The Chartered Institute of Public Finance and Accountancy (CIPFA) Directors of Finance Section recommends that certain "financial ratios" are included in the Management Commentary to assist the reader to assess the performance of the Council over the financial year and of the affordability of its ongoing commitments. The following table provides the indicators with an explanation of each, grouped into CIPFA categories for the various areas of financial activity.

Financial Indicator	Commentary	2015-2016	2014-2015
Reserves			
Uncommitted General Fund Reserve as a proportion of Annual Budgeted Net Expenditure	Reflects the level of funding available to manage Financial risk/unplanned expenditure. The Council's Policy is 2% of annual turnover which is considered appropriate in the context of the Council's financial and ongoing risk profile. More Information is provided in the *General Revenue Budget* section above.	4.50%	2.60%
Movement in the Uncommitted General Fund Balance	Reflects the extent to which the Council is using its Uncommitted General Fund Reserve.	£3.8m increase	£0.2m increase
Council Tax			
In-year collection rate	Reflects the Council's effectiveness in collecting Council Tax debt and financial management. The Council continues to achieve high collection Levels despite the current economic climate and its effect on the local economy. Collection in 2015-2016 was the Council's highest level to date.	95.12%	94.8%
Council Tax			
Ratio of Council Tax Income to Overall Level of Funding	Reflects the Council's capacity to vary expenditure by raising Council Tax income, the only principal source of finance within Local Authority control. Inverclyde Council, in common with all Scottish Local Authorities, has frozen Council Tax bills at 2007-2008 levels.	12.89%	13.26%
Financial Management			
Actual Outturn compared to Budgeted Expenditure	How closely expenditure compares to the budget is a reflection of the effectiveness of financial management. This indicator is based on the format of budget monitoring as reported throughout the year. More details are provided in the *General Revenue Budget* section above.	93.53%	95.39%
Actual contribution to/from Unallocated General Fund Balance compared to Budget.		2.08%	1.08%
Debt/Long-term Borrowing			
Capital Financing Requirement (CFR) for the current year	External debt levels are less than the CFR. This demonstrates that borrowing is for capital investment purposes only. More information is provided within the *Long-term and Short-term Borrowing and Lease Finance* section below.	£302.2m	£303.8m
External Debt Levels for the current year		£281.0m	£284.1m
Ratio of financing costs to net revenue stream	These two ratios compliment the assurances of borrowing only being for capital purposes with an indication of the Council's ability to service the borrowing costs. The Council's cost of borrowing remains consistently below the Scottish average; is affordable; and fits with the Council's medium to long-term financial strategy.	12.21%	12.50%
Impact of Capital Investment on Council Tax		£3.25	£4.62

Assets and Liabilities

The Balance Sheet on page 26 summarises the Council's assets and liabilities as at 31 March 2016 and explanatory notes are provided. Net Assets have increased by £103.3 million to £123.4 million. Within this headline figure, there have been significant changes in both asset values and liabilities. Property, plant & equipment has increased by £49.2 million while cash and cash equivalents have increased by £10.9 million; on the liabilities side the pensions liability has reduced by £46.8 million and borrowing and lease finance has reduced by £3.8 million. The major changes in the Council's Balance Sheet between March 2015 and March 2016 are explained in more detail in the following paragraphs.

Non-current and Current Assets

Property, Plant & Equipment have increased in value by £49.2 million to £471.0 million. This substantial increase in asset values is mostly a result of the independent five-yearly revaluation of the Council's land and buildings plus the Council's investment in key capital projects. Short term investments have reduced by £5.6 million whilst cash equivalents have increased by £10.9 million. This has arisen as a result of prevailing interest rates and funding requirements for 2016-2017. Long and short-term Debtors and Creditors decreased by a net £2.3 million.

Pensions Position

The Council's pension position has improved over the year and the net liability has reduced by £46.8 million. The improvement is mostly due to a change in the discount rate used by the appointed actuaries to calculate the current value of future payments to pensioners according to accounting standards. The net discount rate has increased bringing down the value of future liabilities. Other contributory factors are lower rates of increase assumed in the actuarial projections for future salaries and pensions. The details are shown in Note 17.

The change in the valuation of the net liability does not impact upon the General Fund balance. Scottish Government regulations require the General Fund balance to be charged with the amount payable by the Council to the pension fund or to pensioners in the year, not the amount calculated according to accounting standards.

Long-term and Short-term Borrowing and Lease Finance

The Council's net borrowing (including finance leases) reduced by £3.8 million during the year. Short-term borrowing and lease financing increased by £4.1 million, whilst long-term borrowing and lease financing reduced by £7.9 million. This reflects the funding of the capital programme this year and the repayment of borrowing and lease finance.

The borrowing strategy is prepared in accordance with the Code of Practice on Treasury Management in Local Authorities. The Council's borrowing comes from market loans and from borrowing from the Public Works Loan Board. Further details are provided at Note 21. The Council regulates its capital spending limits within a prudential framework recommended by CIPFA and endorsed by the Scottish Government. Each year, the Council calculates its capital financing requirement (CFR) for the forthcoming year. The CFR is a prudent assessment of the external borrowings for capital investment purposes that are affordable and sustainable over the longer-term. The Council's external borrowings have only been for capital investment purposes. The Council's gross external debt was £281.0 million at 31 March 2016 compared to the CFR limit of £302.2 million. The Council's average loans rate was 3.84% for 2015-2016, a decrease of 0.09% from 2014-2015. The Council made no additional long-term borrowings during the year.

4. Financial Outlook, Key Risks & Plans for the Future

Financial Outlook

The pressure on public finances is scheduled to continue to at least 2021. The Scottish Government's grant settlement for 2016-2017 was significantly less than Scottish local authorities had anticipated in their financial planning assumptions. The remaining revenue funding gap for Inverclyde for the two-year period 2016-2018 is £3.4 million and is being addressed through the budget planning process by a combination of further savings, a possible Council Tax increase and the use of reserves.

At the same time, the Council faces ongoing service and cost pressures arising from a range of issues, most significantly demographic and socio-economic factors which continue to play a major role in driving spending pressures for the Council, particularly in relation to social care services. The UK Government's welfare reform agenda continues with changes to the benefits system providing challenges for the Council in terms of demand for services and support. In terms of structural reform, Inverclyde Council has been actively preparing for the Scottish Government's policy to integrate health and social care.

In addition to this, other factors will impact on future budgets in the medium term including implementation of the Scottish Fiscal Framework, the re-emergence of inflationary pressures and implementation of auto enrolment of pensions in October 2017.

Management of Risk

The Council has strengthened its Financial Strategy to address the challenges of forward planning, preparatory investment and a sufficient lead-in period prior to implementation of both savings and investment over the short, medium and longer term.

Over the short-term, the primary financial challenge and risk facing the Council will be to stay within the approved revenue budget and deliver a capital programme that continues to maintain a high level of investment in key infrastructure.

Over the medium to longer term, the major challenges and risks faced by the Council include the changes to the fiscal arrangements, increasing demands upon services and the Council's finances including depopulation, demographic change and the need for a better alignment between available resources across all agencies and the outcomes identified in the SOA. Given the difficult position the Council faces on capital expenditure, future capital expenditure proposals are largely self–financing through the release of other capital assets, in addition to delivering efficiencies that will secure ongoing revenue savings.

The Annual Governance Statement, shown on pages 11-15, details the arrangements the Council has put in place for the proper governance of the Council's affairs and for the management of risk. This Statement explains the system of internal control in place and sets out improvements actions to the governance framework identified from the Council's ongoing review of these arrangements.

Change in Accounting

A major change for the 2016-2017 Annual Accounts will be the move to re-measure the Highways Network Asset (HNA) at depreciated replacement cost. The change in the basis of measurement will align local authority assets – such as carriageways and footpaths, street lighting, bridges and traffic lights etc. – with how such assets are measured by HM Treasury. These assets are currently held on the Council's balance sheet at depreciated historic cost. The value of HNA in Inverclyde Council's balance sheet will increase considerably as a result. There will be no direct effect upon useable reserves, council tax or the taxpayer as the impact will be absorbed by adjustments between the accounting basis and funding basis under regulations. Preparations for the change-over are well advanced including the early involvement of external and internal audit.

Plans for the Future

2016 will be a hugely important year for the Scottish Public Sector with the outcome of the EU Referendum and the new Scottish Parliament setting out a vision for the next Parliamentary term. The combination of anticipated cost pressures, coupled with reduced Government Grant, presents major challenges and financial risks to the Council over the medium term. Inverclyde Council estimates that over the three financial years 2017 to 2020 further budget reductions of between £13.1 million (optimistic) to £37.4 million (pessimistic) could be required, depending upon different assumptions around Government Grant, income, inflation and budget pressures. Cost reductions of this level will require a fundamental review of priorities, income levels and how services are delivered to the public.

The Single Outcome Agreement and Inverclyde Alliance Community Engagement Strategy provide a helpful focus in terms of the policy priorities for the Council whilst recognising the financial pressures existing and forecast. The Council and Community Planning Partnership are developing approaches to implement the requirements set out in the Community Empowerment Act including approaches to locality planning (in line with the Health and Social Care Partnership), community participation and engagement. Communities will have a key role to play in shaping local public services.

Inverclyde Council is one of the member local authorities of the £1.1 billion Glasgow and Clyde Valley City Deal, the largest in the UK and the first of its kind in Scotland. This is one of the most significant funding arrangements to take place in Scotland and will fund major infrastructure projects and greatly add to the value of the wider local economy over the next 20 years. The headline projects within the Inverclyde area are the developments to the Greenock Ocean Terminal and the Greenock Inchgreen dockland plus the Inverkip transport interchange.

The recently revised Financial Strategy demonstrates that the Council is clear both about the outcomes it wants to achieve for the communities in Inverclyde and the financial challenges that must be addressed if the Council is to successfully deliver on these outcomes.

5. Supplementary Information

Common Good

The Common Good Fund, administered by the Council, returned a deficit of £0.085 million on the usable reserves available for spending and an unrealised surplus of £0.187 million on the revaluation of its land and buildings. The total usable reserves of the Common Good Fund now stand at £0.014 million, this is below the recommended minimum level of £0.100 million for this fund. Action has been taken in the 2016-2018 budget to address this and return reserves to an acceptable level. The financial statements and notes of the Common Good Fund are detailed on pages 63-64.

Inverclyde Council Group

Local Authorities are required to prepare Group Accounts in addition to their own Council's accounts where they have a material interest in other organisations. The Group Accounts consolidate the results of the Council with its share of five other entities – Inverclyde Leisure, Riverside Inverclyde, Strathclyde Partnership for Transport, Strathclyde Concessionary Travel Scheme Joint Board, and Renfrewshire Valuation Joint Board. The effect of the inclusion of the five associate bodies in the Group Balance Sheet is to increase both net assets and total reserves by £3.568 million representing the Council's share of the net assets in these entities.

Inverclyde Leisure (IL) provides leisure facilities within the Inverclyde Council area to the general public and manages sports and leisure facilities, community centres, swimming pools and parks and pitches owned by the Council. A number of significant new facilities were opened to the public during the year. Membership rates increased as a result. The opening of the £1.2 million Ravenscraig Activity Centre added new attractions, the gym equipment in the Birkmyre Park leisure centre was comprehensively renewed and Boglestone and Ravenscraig leisure facilities introduced the affordable "Fitness for Less" fitness model. All of these developments have contributed to IL's mission statement of "getting people active".

Riverside Inverclyde (ri) is the urban regeneration company responsible for a series of regeneration projects predominately on a 4.5 mile stretch of waterfront at Greenock and Port Glasgow and in the town centres of Gourock, Greenock and Port Glasgow. During the year, ri commissioned a review of the future delivery of regeneration services. This highlighted the success of the first two years of the innovative Single Operating Plan partnership between ri and the Council. The recommendations in the report have been fully adopted by both organisations and a revised and extended Single Operating Plan developed for the three-year period to March 2019. The revised Plan reflects the transition towards an increased focus on public realm and environmental improvements and less on creating new speculative business premises. The joint working between ri and the Council continues to maximise the efficiency and collective impact of the two organisations in the face of increasingly scarce resources.

Strathclyde Partnership for Transport (SPT) and Strathclyde Concessionary Travel Scheme (SCTS) are public transport related Joint Boards and look after the public transport policy for the twelve local authorities in the area of the former Strathclyde Region. During the year, SPT provided funding to the Council for cycle routes and quality bus corridor improvements in Inverclyde. SCTS looked after the operation of the concessionary fares scheme for public transport. The main focus for Renfrewshire Valuation Joint Board was preparation for the forthcoming Revaluation of Non-domestic Property which comes into effect on 1 April 2017.

Further details about the associates in the Inverclyde Council group and their financial results can be found on pages 66 to 71.

Carbon Emissions and Energy Consumption

The Council takes its responsibilities with regard to reducing the effects of climate change seriously. This is most visibly demonstrated in the drafting of its five-year Carbon Management Plan 2012-2017. The Council has set a target to reduce carbon emissions, the largest contributor to climate change, from its operations by 12% by 31 March 2017 from a 1 April 2012 baseline.

Energy use from its buildings is the Council's largest carbon emitter, making up almost half of its total emissions. Between the baseline and financial year 2014-2015, the year that there is most recent data available, the Council has reduced carbon emissions from buildings by nearly 7%. This equates to 873 tonnes of carbon. The Council continues to develop projects with which to reduce carbon emissions from its buildings and other operations.

Equality and Diversity

Inverclyde Council is firmly committed to, the principle of equality of opportunity. The Council recognises its responsibility as a community leader, service provider and employer to encourage the fair treatment of all individuals and to tackle social exclusion. The Council is also committed to eradicate all forms of discrimination, direct or indirect and aims to eliminate discriminatory practices and promote measures to combat its effects.

Information on the Council's Equality Outcomes and its mainstreaming report can be found on its website at http://www.inverclyde.gov.uk/council-and-government/equality-and-diversity.

Consultation and Communication with Workforce

Inverclyde Council has in place employee governance arrangements to ensure its employees are well informed, involved in decisions, appropriately trained, treated fairly and consistently and provided with a safe environment. The Council carries out periodic employee surveys and seeks the views of the workforce through regular consultations with staff and trade unions. Inverclyde Council is an accredited Living Wage Employer and was voted the best government services employer in the UK in the Bloomberg Best Employer Awards 2016.

Events after the Balance Sheet Date

Events from the Balance Sheet Date until the Date of Signing the Accounts have been taken into consideration. There are no significant post balance sheet events to report.

6. Where to Find More Information

In This Publication

An explanation of the financial statements which follow and their purpose are shown at the top of each page. The accounting policies and a glossary of terms can be found at the end of this publication and these provide an explanation of the main guidelines and terms used.

On Our Website

Further information about Inverclyde Council can be obtained on the Council's website (www.inverclyde.gov.uk) or from Finance Services, Municipal Buildings, Clyde Square, Greenock PA15 1LY.

On Group Entities' Websites

Further information about the entities within the Inverclyde Council group, the nature of their business and their financial results can be found on Inverclyde Leisure (www.inverclydeleisure.com), Riverside Inverclyde (www.riversideinverclyde.com), SPT (www.spt.co.uk) and Renfrewshire Valuation Joint Board (www.renfrewshire-vjb.gov.uk).

7. Conclusion and Acknowledgements

The continuation of prudent financial management and medium term financial planning have allowed the Council to 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, the Road Assets Management Plan, the formation of the Health and Social Care Partnership, the Leisure Strategy and regeneration via Riverside Inverclyde. This reflects well on both the efforts and professionalism of the employees and the effectiveness of our financial management procedures.

We would like to take this opportunity to acknowledge the significant effort in producing the Annual Accounts and to record our thanks to our colleagues for their continued hard work and support. We greatly appreciate the significant efforts of all who were involved.

Cllr Stephen McCabe
Leader of the Council

Aubrey Fawcett
Chief Executive

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

Statement of Responsibilities for the Annual Accounts

1. The Council's Responsibilities

The Council is required to:

(i) Make arrangements for the proper administration of its financial affairs and to ensure that the proper officer of the authority has responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). In this authority, that officer is the Chief Financial Officer.
(ii) Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
(iii) Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003).
(iv) Approve the Annual Accounts for signature.

I confirm that these Annual Accounts were approved for signature by Inverclyde Council's Audit Committee at its meeting on 29th September 2016.

Signed on behalf of Inverclyde Council

Cllr Stephen McCabe
Leader of the Council **Date:** 29 September 2016

2. The Chief Financial Officer's Responsibilities

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

In preparing the Annual 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 legislation.
(iv) Complied with the Local Authority Accounting Code (in so far as it is compatible with legislation).

The Chief Financial Officer has also:

(i) Kept adequate accounting records which were up to date.
(ii) Taken reasonable steps for the prevention and detection of fraud and other irregularities.
(iii) Signed and dated the Balance Sheet.

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

Alan Puckrin C.P.F.A
Chief Financial Officer **Date:** 29 September 2016

1. Scope of Responsibility

Inverclyde Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. Under the Local Government in Scotland Act 2003, the Council also has a statutory duty to make arrangements to secure best value, which is defined as continuous improvement in the performance of the Council's functions.

In discharging these responsibilities, Elected Members and the Corporate Management Team are responsible for putting in place proper arrangements for the governance of the Council's affairs, and for facilitating the effective exercise of its functions, including the arrangements for the management of risk. The Council has established two Arms-Length External Organisations – Inverclyde Leisure and Riverside Inverclyde – to deliver services more effectively on the Council's behalf, and which report regularly to Elected Members. During 2015-2016, the Inverclyde Health and Social Care Joint Board was established for the formal integration of health and care services between Inverclyde Council and the NHS Greater Glasgow and Clyde. The commissioning of services for the joint service operations will commence from 1 April 2016.

The Council has adopted a Local Code of Corporate Governance ("the Local Code") consistent with the six principles of CIPFA and the Society of Local Authority Chief Executives (SOLACE) framework, "*Delivering Good Governance in Local Government*". A copy of the Local Code can be obtained from the Corporate Policy Unit, Municipal Buildings, Greenock, PA15 1LY.

This statement explains how Inverclyde Council has complied with the Local Code and also meets the Code of Practice on Local Authority Accounting in the UK, which details the requirements for an Annual Governance Statement.

2. The Purpose of the Governance Framework

The governance framework comprises the systems, processes, culture and values, by which the Council is directed and controlled and through which it accounts to, and engages with communities. It enables the Council to monitor the achievement of its key corporate priorities and strategic objectives set out in the Council's Corporate Statement. It enables the Council to consider whether those objectives have led to the delivery of appropriate value for money services.

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

This governance framework has been in place at Inverclyde Council for the year ended 31 March 2016 and up to the date of the approval of the Statement of Accounts.

3. The Governance Framework

The main features of the Council's governance arrangements are described in the Local Code but are summarised below:

- The overarching strategic vision and objectives of the Council are detailed in the Council's Corporate Statement which sets out the key outcomes the Council is committed to delivering with its partners, as set out in the Community Plan and Single Outcome Agreement.
- Services are able to demonstrate how their own activities link to the Council's vision and priorities through their Corporate Directorate Improvement Plans. Performance management and monitoring of service delivery is reported principally through the Policy & Resources Committee and to other Committees as appropriate on a regular basis. The Corporate Management Team monitors performance information. The Council publishes information about its performance regularly as part of its public performance reporting requirements at http://www.inverclyde.gov.uk/council-and-government/performance/.
- The Inverclyde Alliance Community Engagement Strategy sets out the Alliance's approach for engaging with stakeholders. Consultation on the future vision and activities of the Council is undertaken through the Inverclyde Alliance, and through service specific consultations and the Council actively engages the Council's partners through existing community planning networks.

- Effective scrutiny and service improvement activities are supported by the formal submission of reports, findings and recommendations from Audit Scotland, the external auditor, Inspectorates and the Internal Audit section to the Corporate Management Team, the relevant service Committee of the Council and, where appropriate, the Audit Committee.
- The Council operates within an established procedural framework. The roles and responsibilities of Elected Members and officers are defined within the Council's Standing Orders and Scheme of Administration, Contract Standing Orders, Scheme of Delegation and Financial Regulations; these are subject to regular review. The Council facilitates policy and decision making through a thematic Committee structure.
- Responsibility for maintaining and operating an effective system of internal financial control rests with the Council's Chief Financial Officer as Section 95 Officer. The system of internal financial control is based on a framework of regular management information, Financial Regulations, administrative procedures (including segregation of duties), management and supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by managers within the Council.
- The Council's approach to risk management is set out in the risk management strategy and is being embedded within the Council's Strategic Planning and Performance Management Framework. Regular reporting on risk management is undertaken and reported at least bi-annually to the Audit Committee.
- The Council has adopted a code of conduct for its employees. Elected Members observe and comply with terms of the Councillors' Code of Conduct. In addition, the Council has developed a protocol on Member/officer relations, a multi-member ward protocol and guidance on Member/Member relationships.
- Comprehensive arrangements are in place to ensure Members and officers are supported by appropriate learning and development.

4. Review of Effectiveness

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

The review of the Council's governance framework is supported by a process of self-assessment and assurance certification by Heads of Service. Heads of Service were provided with a "Self-assessment Checklist" to complete and return as evidence of review of six key areas of the Council's governance framework. As part of this process, Heads of Service were asked to identify their progress on implementing improvement actions identified as part of their 2015-2016 assessments and to identify actions they proposed to take during 2016-2017 to address service governance arrangements. The Corporate Directors then considered the completed evaluations and provided a Certificate of Assurance for their Directorate. In addition, the review of the effectiveness of governance arrangements and the systems of internal control within the group entities places reliance upon the individual bodies' management assurances in relation to the soundness of their systems of internal control.

There were no significant governance issues identified by the review but a number of issues worthy of noting were identified and are detailed in Section 7. We propose over the coming year to take steps to address these matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements which were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

5. Roles and Responsibilities of the Audit Committee and the Chief Internal Auditor

Elected Members and officers of the Council are committed to the concept of sound governance and the effective delivery of Council services. The Council's Audit Committee operates in accordance with CIPFA's *Audit Committee Principles in Local Authorities in Scotland* and *Audit Committees: Practical Guidance for Local Authorities.*
The Audit Committee performs a scrutiny role in relation to the application of CIPFA's *Public Sector Internal Audit Standards 2013 (PSIAS)* and regularly monitors the performance of the Council's Internal Audit service. The Council's Chief Internal Auditor has responsibility to review independently and report to the Audit Committee annually, to provide assurance on the adequacy and effectiveness of conformance with the PSIAS.

The Internal Audit service undertakes an annual programme of work, approved by the Audit Committee, based on a strategic risk assessment. The Chief Internal Auditor provides an independent opinion on the adequacy and effectiveness of the system of internal control. The Chief Internal Auditor has conducted a review of all Internal Audit reports issued in 2015-2016 and the Certificates of Assurance from Corporate Directors. In conclusion, although no systems of internal control can provide absolute assurance, nor can Internal Audit give that assurance, on the basis of the audit work undertaken during the 2015-2016 financial year, the Chief Internal Auditor is able to conclude that a reasonable level of assurance can be given that the system of internal control is operating effectively within the Council.

6. Compliance with Best Practice

The Council complies with the requirements of the CIPFA Statement on *"The Role of the Chief Financial Officer in Local Government 2010".* The Council's Chief Financial Officer (Section 95 Officer) has overall responsibility for the Council's financial arrangements, and is professionally qualified and suitably experienced to lead the Council's finance function and to direct finance staff.

The Council complies with the requirements of the CIPFA Statement on "*The Role of the Head of Internal Audit in Public Service Organisations 2010".* The Council's Chief Internal Auditor has responsibility for the Council's Internal Audit function and is professionally qualified and suitably experienced to lead and direct the Council's Internal Audit staff. The Internal Audit service generally operates in accordance with the CIPFA *"Public Sector Internal Audit Standards 2013".*

7. Governance Issues and Planned Actions

The Council continues to recognise the need to exercise strong management arrangements to manage the financial pressures common to all Local Authorities. Regular reviews of the Council's arrangements are undertaken by Internal Audit and overall the Council's arrangements are satisfactory. The table below sets out improvement actions to the governance framework identified from the Council's ongoing review and monitoring of the effectiveness of its governance arrangements. These represent corporate initiatives that will be undertaken or further progressed during 2016-2017.

	Where are we now?	Where do we want to be?	How will we know we are getting there?	Who is responsible?
1	Work is ongoing to address organisation-wide issues identified by the Corporate Complaints audit.	Complaints procedures become fully embedded within services processes.	Action plans will be progressed via the Complaints Working Group to assist services to comply with the corporate complaints procedures.	Corporate Complaints Steering Group March 2017
2	Key governance documentation requires to be reviewed and updated to take account of organisational changes.	Key governance documentation is up to date.	Key governance documentation will be reviewed and updated including: • Scheme of Delegation • Scheme of Administration • Standing Orders Relating to Contracts • Financial Regulations	Head of Legal and Property Services / Chief Financial Officer 30 September 2016
3	The Council has recently established a corporate fraud team. Policies and procedures and awareness arrangements require to be reviewed and implemented.	Corporate Fraud Policies and Procedures are in place.	Action plans for reviewing corporate fraud policy and training and awareness arrangements will be developed and implemented over 2016-2017.	Chief Internal Auditor 31 October 2016

	Where are we now?	Where do we want to be?	How will we know we are getting there?	Who is responsible?
4	Organisational Development Strategy 2013-2016 is currently being reviewed and updated to cover areas such as: • Mandatory training • Succession planning • Performance appraisal process	Organisational Development Strategy is up to date and covers all key areas.	Organisational Development Strategy 2013-2016 will be reviewed and updated.	Head of Organisational Development, Human Resources and Corporate Communications. 31 March 2017
5	Corporate guidance on document management has been approved and rolled out across Directorates for hard copy documentation. Corporate guidance on electronic information filing and archiving requires to be developed as part of the Council's Business Classification Scheme.	Up to date corporate guidance on document management for hard copy and electronic records is implemented across the Council in line with the Business Classification Scheme.	The business classification scheme is being developed by the Information Governance Steering Group. This will inform the Council's approach to the filing and archiving of electronic records.	Information Governance Steering Group. 2016-2018
6	Training and development plan for members requires to be refreshed for 2016-2017.	Members have access to suitable training in order to discharge their responsibilities.	Personal development plans are in the process of being refreshed to inform the Members training and development plan for 2016-2017.	Head of Legal and Property Services. 31 October 2016
7	The Council requires to clarify and agree its role and relationship with the Integrated Joint Board.	The Council's role and relationship with the Integrated Joint Board is clearly defined and agreed.	The Council's role and relationship with the Integrated Joint Board will be defined and agreed.	Chief Executive. 31 March 2017

8. Assurance

Subject to the above, and on the basis of the assurances provided, we consider the governance and internal control environment operating during 2015-2016 provides reasonable and objective assurance that any significant risks impacting on the achievement of our principal objectives will be identified and actions taken to avoid or mitigate their impact. Systems are in place to continually review and improve the governance and internal control environment and action plans are in place to address identified areas for improvement.

Cllr Stephen McCabe
Leader of the Council

29th September 2016

Aubrey Fawcett
Chief Executive

29th September 2016

1. Introduction

The Local Authority Accounts (Scotland) Amendment Regulations 2011 (SSI No. 2011/64) amend the Local Authority Accounts (Scotland) Regulations 1985 (SI No. 1985/267) and require Local Authorities in Scotland to prepare a Remuneration Report as part of the statutory Annual Accounts.

All information disclosed in the tables in this Remuneration Report, with the exception of the Tiered Contribution Pay Rates table on Page 18, will be audited by the appointed auditors Grant Thornton UK LLP and the information reviewed by them to ensure it is consistent with other sections of the Annual Accounts.

2. Remuneration Policy for the Leader of the Council, the Provost and Senior Councillors

The annual salary of the Leader of the Council and the upper limit for the annual salary of the Provost are set out by the Scottish Government in terms of the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007, as amended by the Local Governance (Scotland) Act 2004 (Remuneration) Amendment Regulations 2008. The salary for the Leader of the Council is £27,878 per annum (2014-2015 £27,602) and for the Provost is £20,909 per annum (2014-2015 £20,702).

In terms of the same Regulations, the Scottish Government permits Inverclyde Council to nominate up to nine Senior Councillors (in addition to the Leader of the Council and the Provost) whose salaries in aggregate must not exceed a specified amount, currently £169,353 per annum (2014-2015 £167,679) and whose salaries individually must be on a specified scale, currently £16,726 to £20,909 (2014-2015 £16,560 to £20,702). The Inverclyde Council Members' Salary and Expense scheme was agreed at a meeting of the full Council on 24 May 2006. On 17 May 2012 the Council approved that Inverclyde would have nine senior Councillors, (four Strategic Committee Convenors, three Regulatory Board Chairs, one Depute Leader and one Leader of the Opposition); each paid a salary of £18,817 per annum (2014-2015 £18,631). Councillors received a 1% pay award in 2015-2016.

3. Remuneration Policy for Senior Officers

The salaries of Senior Officers are set by reference to national arrangements. The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services sets out the salary for the Chief Executives of Scottish Local Authorities. The salaries of the Corporate Directors and Heads of Service are based on a fixed percentage of the Chief Executive's salary as agreed at a special committee meeting of the full Council on 20 June 2006. Corporate Directors receive 89%; two Heads of Service receive 72.5%; and other Heads of Service receive 64.5% of the Chief Executive's salary. Inverclyde Council does not pay bonuses or performance related pay. In line with all Local Government employee groups, Senior Officers received a 1% pay award in 2015-2016.

4. Remuneration of Senior Officers

The Regulations define a Senior Officer as an employee who meets one or more of the following criteria:

- Who has responsibility for the management of the Local Authority to the extent that the person has the power to direct or control the major activities of the Authority, whether solely or collectively with other persons;
- Who holds a post that is politically restricted by reason of section 2(1) (a),(b) or (c) of the Local Government and Housing Act 1989; or
- Whose annual remuneration, including any annual remuneration from a Local Authority subsidiary body, is £150,000 or more.

The Council has interpreted the above criteria as including the Chief Executive, Corporate Directors, Chief Financial Officer and the Head of Legal & Property Services.

The term *remuneration* means gross salary, fees and bonuses, allowances and taxable expenses, and compensation for loss of employment. The table below outlines the remuneration details for Senior Officers, including prior year figures. The table shows the relevant amounts, before tax and other deductions, for each of the persons named for the year to 31 March 2016. The remuneration of the Corporate Director Health and Social Care Partnership is 50% funded by NHS Greater Glasgow and Clyde Health Board through the Inverclyde HSCP Partnership. The remuneration of the Corporate Director Environment, Regeneration and Resources is 35% funded by Riverside Inverclyde. The table below contains remuneration details for those persons who were Senior Officers in 2015-2016. Salaries are paid four-weekly and the figures in the table include the effect of the leap year.

Senior Officers	Year ended 31 March 2016					2014-2015
	Gross salary	Other Fees and Allowances (5)	Taxable Expenses	Compensation for Loss of Employment (6)	Total Remuneration	Total Remuneration
	£	£	£	£	£	£
Mundell, J: Chief Executive	119,028	2,968			121,996	123,453
Bain, W: Corporate Director Education, Communities & Organisational Development (1)	37,627				37,627	0
Cassidy, P: Corporate Director Education, Communities & Organisational Development (1)	23,734	150		38,993	62,877	104,385
Fawcett, A: Corporate Director Environment, Regeneration & Resources (2)	105,935	200			106,135	104,435
Malone, G: Head of Legal & Property Services	86,296	2,880			89,176	85,888
Moore, B: Corporate Director, Health and Social Care Partnership (3)	105,935	150	68		106,153	104,453
Puckrin, A: Chief Financial Officer (4)	86,296	200			86,496	96,608
Totals	**564,851**	**6,548**	**68**	**38,993**	**610,460**	**619,222**

(1) Mrs Bain joined on 23 November 2015; Mrs Cassidy left on 21 June 2015. The full-time equivalent for the Corporate Director of Education, Communities & Organisational Development's post is £105,646.
(2) Mr Fawcett's remuneration is 35% funded by Riverside Inverclyde. In the prior year, Mr Fawcett was seconded to Riverside Inverclyde as its Interim Chief Executive until 31 October 2014. For the period of his secondment, Mr Fawcett's remuneration was fully reimbursed by Riverside Inverclyde.
(3) Mr Moore is the Chief Officer of Inverclyde HSCP. 50% of his salary is funded by NHS Greater Glasgow & Clyde.
(4) In the prior year, Mr Puckrin was Acting Corporate Director of Environment, Regeneration & Resources from 7 October 2013 to 2 November 2014. His appointment as the Council's Section 95 Officer was unaffected.
(5) Election payments shown in the column "Other Fees & Allowances" are reimbursed by the Scottish Government.
(6) Includes any other payment made to the person in connection with the termination of their employment.

Salaries are paid four-weekly and the above figures include the effect of the leap year.

5. Remuneration of Senior Councillors

Under the Regulations, remuneration disclosures are to be made for the Leader of the Council, the Provost and any Councillor designated a Senior Councillor. The table below shows the relevant amounts, before tax and other deductions, for each of the persons named for the year to 31 March 2016. The table contains remuneration details for those persons who were Senior Councillors in 2015-2016. Salaries are paid four-weekly and the figures in the table include the effect of the leap year.

Leader of the Council, Provost and Senior Councillors	Year ended 31 March 2016			2014-2015
	Gross salary	Taxable expenses	Total Remuneration	Total Remuneration
	£	£	£	£
Ahlfeld, R: Chair, Licensing Board	18,869	0	18,869	18,638
Clocherty, J: Depute Leader of the Council	18,869	0	18,869	18,631
Dorrian, G: Chair, General Purposes	18,869	253	19,122	19,022
Loughran, T: Convenor, Education	18,869	220	19,089	18,936
McCabe, S: Leader of the Council	27,954	218	28,172	27,815
McCormick, M: Convenor, Environment & Regeneration	18,869	0	18,869	18,631
McEleny, C: Leader of the Opposition	18,869	0	18,869	18,631
McIlwee, J: Convenor, Health & Social Care	18,869	0	18,869	18,631
Moran, R: Provost	20,966	0	20,966	20,702
Rebecchi, L: Convenor, Audit	18,869	0	18,869	18,631
Wilson, D: Chair, Planning	18,869	320	19,189	18,945
Totals	**218,741**	**1,011**	**219,752**	**217,213**

1. All figures shown reflect the remuneration for the period of the appointment as a Senior Councillor in the reporting periods.
2. No payments were made in connection with loss of employment or office, nor were any other payments received which are not in the above table.
3. No Senior Councillor received any remuneration from a subsidiary of the Council as a representative of the Council.

6. Pension Entitlement

Pension benefits for Councillors and Local Government employees are provided through the Local Government Pension Scheme (LGPS). The pension is based on the person's pensionable service (how long he or she has been a member of the LGPS) and his or her pay. For Councillors, the pension is based on a "career average" – the aggregate of each year's pay (adjusted by inflation) is divided by the total number of years and part years they have been a member of the LGPS.

For officers, the pension is based on a career average from 1 April 2015. For service before this date, the annual pension is calculated by dividing their pay by 80 (60 for service after 31 March 2009) and multiplying this by their total membership. The normal retirement age (NRA) for service post 1 April 2015 is the same as for the state pension; the NRA for service pre 1 April 2015 is 65. Pensions payable are increased annually in line with changes in the Pensions (Increase) Act 1971 and Section 59 of the Social Security Pension Act 1975. Members may opt to give up (commute) pension for lump sum up to the limit set by the Finance Act 2004.

A LGPS member's contribution depends upon his or her full-time equivalent pay. The tables for the allocation of rates for 2015-2016 and 2014-2015 are shown below.

Tiered Contribution Pay Rates

Full Time Equivalent (FTE) Pensionable Pay (2015/2016)	Rate (%)
On earnings up to and including £20,500	5.50%
On earnings above £20,500 and up to £25,000	7.25%
On earnings above £25,000 and up to £34,400	8.50%
On earnings above £34,400 and up to £45,800	9.50%
On earnings above £45,800	12.00%

Full Time Equivalent (FTE) Pensionable Pay (2014/2015)	Rate (%)
On earnings up to and including £20,335	5.50%
On earnings above £20,335 and up to £24,853	7.25%
On earnings above £24,853 and up to £34,096	8.50%
On earnings above £34,096 and up to £45,393	9.50%
On earnings above £45,393	12.00%

The value of benefits in the table below has been provided by the Strathclyde Pension Fund Office and is calculated on the basis of the age at which the person will first become entitled to a full pension on retirement without reduction on account of its payment at that date: without exercising any option to commute pension entitlement into a lump sum: and without any adjustment for the effects of future inflation. The pension figures shown relate to the benefits that the person has accrued as a consequence of their total Local Government service, and not just their current appointment.

The pension entitlements for Senior Officers and Senior Councillors for the year to 31 March 2016 are shown in the tables below, together with the contribution made by the Council to each person's pension during the year. The tables contain information for those persons who were Senior Officers or Senior Councillors in 2015-2016.

Senior Officers	Accrued Pension Benefits as at 31 March 2016		Change in Accrued Benefits since 31 March 2015		Pension Contributions made by Inverclyde		Length of Service at 31 March 2016
	Pension £	Lump Sum £	Pension £	Lump Sum £	2015-2016 £	2014-2015 £	
Mundell, J: Chief Executive	66,071	155,270	3,523	2,712	22,972	22,571	41/288
Bain, W: Corporate Director Education, Communities & Organisational Development	44,358	0	644	0	7,262	0	32/56
Cassidy, P: Corporate Director Education, Communities & Organisational Development	2,312	0	473	0	4,581	20,088	1/104
Fawcett, A: Corporate Director Environment, Regeneration & Resources	41,524	86,352	2,834	1,508	20,445	20,088	28/270
Malone, G: Head of Legal & Property Services	38,117	83,217	2,384	1,455	16,655	16,364	32/262
Moore, B: Corporate Director Health & Social Care Partnership	53,086	121,038	3,036	2,114	20,445	20,088	36/360
Puckrin, A: Chief Financial Officer	39,909	85,618	1,749	(1)	16,655	18,568	30/268
Totals	**285,377**	**531,495**	**14,643**	**7,788**	**109,015**	**117,767**	

Leader of the Council, Provost and Senior Councillors	Accrued Pension Benefits as at 31 March 2016		Change in Accrued Benefits since 31 March 2015		Pension Contributions made by Inverclyde Council	
	Pension	Lump Sum	Pension	Lump Sum	2015-2016	2014-2015
	£	£	£	£	£	£
Ahlfeld, R: Chair, Licensing Board	2,180	0	404	0	3,642	3,596
Clocherty, J: Depute Leader of the Council	2,858	1,431	406	13	3,642	3,596
Dorrian, G: Chair, General Purposes	2,698	1,339	283	(17)	3,642	3,596
Loughran, T: Convenor, Education	2,730	1,357	113	(71)	3,642	3,596
McCabe, S: Leader of the Council	2,974	2,159	583	0	5,395	5,327
McCormick, M: Convenor, Environment & Regeneration	2,816	887	383	0	3,642	3,596
McIlwee, J: Convenor, Health & Social Care	1,159	0	261	0	3,642	3,596
Moran, R: Provost	3,012	1,495	3	(118)	4,046	3,995
Rebecchi, L: Convenor, Audit	2,643	1,307	429	27	3,642	3,596
Wilson, D: Chair, Planning	2,859	1,432	406	14	3,642	3,596
Totals	**25,929**	**11,407**	**3,271**	**(152)**	**38,577**	**38,090**

Notes:

1. Councillor McEleny is not a member of the Strathclyde Pension Fund.
2. Strathclyde Pension Fund Office has reviewed each individual's calculations this year. This has led to the adjustments in accrued benefits shown above.

7. Councillors' Remuneration

The Council paid the salaries, allowances and expenses to Councillors (including the Senior Councillors above) detailed in the table below for 2015-2016. The annual return of Councillors' salaries and expenses 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 http://www.inverclyde.gov.uk/council-and-government/councillors/elected-members-expenses/

The annual return of Councillors' salaries and expenses is compiled under Scottish Local Authority Remuneration Committee (SLARC) guidance for public records whereas the Remuneration Report is compiled under a Scottish Statutory Instrument (SSI).

All Councillors	2015-2016	2014-2015
	£	£
Salaries	370,512	365,444
Travel costs - reimbursed	7,808	7,984
Travel costs - paid directly by the Council	8,035	3,719
Subsistence expenses - accommodation	414	226
Subsistence expenses - meals	98	187
Training and conferences - reimbursed	0	0
Training and conferences - paid directly by the Council	1,443	2,570
Telephone and ICT expenses - reimbursed	1,498	1,293
Telephone and ICT expenses - paid directly by the Council	2,900	3,904
Other allowances and expenses	8	0
Totals	**392,716**	**385,327**

8. Remuneration of Officers receiving more than £50,000

The following table details the number of employees whose remuneration, excluding pension contributions, was in excess of £50,000 during 2015-2016 in bands of £5,000; the details of the number of those employees who left the employment of the Council during 2015-2016; and the details of the number of those employees who were part or fully funded by other bodies.

Officers over £50,000	Number of Employees		Left during	Part funded or fully funded by
Remuneration Bands	2015-2016	2014-2015	2015-2016	other organisations
£50,000 - £54,999	64	49	3	7
£55,000 - £59,999	17	18	2	0
£60,000 - £64,999	4	5	1	0
£65,000 - £69,999	1	3	0	0
£70,000 - £74,999	4	4	1	0
£75,000 - £79,999	5	6	0	2
£80,000 - £84,999	2	1	0	0
£85,000 - £89,999	2	1	0	0
£90,000 - £94,999	0	1	0	0
£95,000 - £99,999	0	2	0	0
£100,000 - £104,999	0	3	0	0
£105,000 - £109,999	2	0	0	2
£110,000 - £114,999	0	0	0	0
£115,000 - £119,999	0	0	0	0
£120,000 - £124,999	1	1	0	0
£125,000 - £129,999	0	0	0	0
Totals	**102**	**94**	**7**	**11**

Of the 7 employees who left during the year, none would have appeared in this note if costs associated with redundancy or early retirement payments were excluded.

9. Exit Packages of Employees

The Council has agreed a number of exit packages as detailed in the table on page 22. The exit packages agreed were all on a voluntary basis - there were no compulsory redundancies. The Council only agrees exit packages where they are consistent with wider workforce planning and service delivery objectives; and where the savings accruing from an individual ceasing employment with the Council exceed the costs of the exit package within an acceptable period.

(a) Exit package cost band (including special payments)	(b) Number of compulsory redundancies		(c) Number of other departures agreed		(d) Total number of exit packages by cost band [(b) + (c)]		(e) Total cost of exit packages in each band £'s	£'s
	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15
£0 - £20,000	0	0	3	0	3	0	24,501	0
£20,001 - £40,000	0	0	3	0	3	0	99,269	0
£40,001 - £60,000	0	0	5	1	5	1	256,114	50,847
£60,001 - £80,000	0	0	0	0	0	0	0	0
£80,001 - £100,000	0	0	2	0	2	0	198,334	0
£100,001 - £150,000	0	0	4	0	4	0	468,420	0
£150,001 - £200,000	0	0	2	0	2	0	351,792	0
£200,001 - £250,000	0	0	0	0	0	0	0	0
Total	**0**	**0**	**19**	**1**	**19**	**1**	**1,398,430**	**50,847**

Notes:

1. The above exit package values include redundancy, pension strain, and compensatory lump sums for all retirees, the cost of which is reported under Note 17 Defined Benefit Pension Schemes.
2. For employees with pensions provided by the Scottish Public Pensions Agency (the pension provider for teachers), the values include the notional capitalised cost of compensatory added years. The notional cost has not been assessed by the pensions provider and the values have instead been calculated by the local authority using a calculator developed and provided by the pensions provider on the understanding that it is fit for purpose.
3. For employees with pensions provided by the Strathclyde Pension Fund (the pensions provider for all employees other than teachers), the values also include the notional capitalised cost of added years. These costs are based on an assessment by the pensions provider itself of the present value of all future payments to the retiree until death.

Termination Benefits of Employees

The Council terminated the contracts of a number of employees in 2015-2016. Included in the above table are liabilities relating to these releases of £0.992 million (2014-2015 £0.037 million).

Cllr Stephen McCabe
Leader of the Council

Aubrey Fawcett
Chief Executive

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into "Usable Reserves" (i.e. those that can be applied to fund expenditure or reduce local taxation) and unusable reserves. The Surplus or (Deficit) on the Provision of Services line shows the cost of providing the Council's services in accordance with accounting practice, more details of which are shown in the Comprehensive Income & Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting. The Net Increase or (Decrease) before Transfers (to) and from Other Statutory Reserves shows the statutory General Fund Balance before any discretionary transfers to and from the other statutory reserves of the Council.

Year ended 31 March 2016

	Usable Reserves						Unusable Reserves	Total Reserves of the Council
	General Fund Balance	Capital Grants Unapplied Account	Capital Fund	Repairs & Renewal Fund	Insurance Fund	Total Usable Reserves		
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2015	**44,991**	**0**	**2,590**	**2,959**	**3,860**	**54,400**	**(34,292)**	**20,108**
Movement in Reserves during 2015-2016								
Surplus or (Deficit) on Provision of Services	4,198	0	0	0	0	4,198	0	**4,198**
Other Comprehensive Expenditure & Income	0	0	0	0	0	0	99,113	**99,113**
Total Comprehensive Expenditure & Income	**4,198**	**0**	**0**	**0**	**0**	**4,198**	**99,113**	**103,311**
Adjustments between Accounting Basis and Funding Basis under Regulations (Note 1)	171	0	0	0	0	171	(171)	**0**
Net Increase or (Decrease) before Transfers to Other Statutory Reserves	**4,369**	**0**	**0**	**0**	**0**	**4,369**	**98,942**	**103,311**
Transfers (to) and from Other Statutory Reserves	(305)	396	(272)	226	(45)	0	0	**0**
Increase or (Decrease) in the Year	**4,064**	**396**	**(272)**	**226**	**(45)**	**4,369**	**98,942**	**103,311**
Balance at 31 March 2016 Carried Forward	**49,055**	**396**	**2,318**	**3,185**	**3,815**	**58,769**	**64,650**	**123,419**

Comparative Figures for Year ended 31 March 2015

	Usable Reserves						Unusable	Total
	General Fund Balance	Capital Grants Unapplied Account	Capital Fund	Repairs & Renewal Fund	Insurance Fund	Total Usable Reserves	Reserves	Reserves of the Council
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2014	**42,890**	**0**	**940**	**2,727**	**4,277**	**50,834**	**2,739**	**53,573**
Movement in Reserves during 2014-2015								
Surplus or (Deficit) on Provision of Services	(15,011)	0	0	0	0	(15,011)	0	**(15,011)**
Other Comprehensive Expenditure & Income	0	0	0	0	0	0	(18,454)	**(18,454)**
Total Comprehensive Expenditure & Income	**(15,011)**	**0**	**0**	**0**	**0**	**(15,011)**	**(18,454)**	**(33,465)**
Adjustments between Accounting Basis and Funding Basis under Regulations (Note 1)	16,231	0	2,346	0	0	18,577	(18,577)	**0**
Net Increase or (Decrease) before Transfers to Other Statutory Reserves	**1,220**	**0**	**2,346**	**0**	**0**	**3,566**	**(37,031)**	**(33,465)**
Transfers (to) and from Other Statutory Reserves	881	0	(696)	232	(417)	0	0	**0**
Increase or (Decrease) in the Year	**2,101**	**0**	**1,650**	**232**	**(417)**	**3,566**	**(37,031)**	**(33,465)**
Balance at 31 March 2015 Carried Forward	**44,991**	**0**	**2,590**	**2,959**	**3,860**	**54,400**	**(34,292)**	**20,108**

Comprehensive Income & Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with International Financial Reporting Standards, rather than the amount to be funded from taxation. Local authorities raise taxation to cover expenditure in accordance with regulations, and this is different from the accounting cost. The position for Council Tax is shown in the *Movement in Reserves Statement*.

2014-2015				2015-2016		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000		£000	£000	£000
3,302	(1,282)	2,020	Central Services to the Public	3,243	(1,322)	1,921
13,605	(1,136)	12,469	Cultural & Related Services	13,704	(1,369)	12,335
91,748	(3,189)	88,559	Education Services	92,430	(4,283)	88,147
14,529	(1,902)	12,627	Environmental Services	14,663	(1,943)	12,720
44,248	(40,738)	3,510	Housing Services	43,252	(39,968)	3,284
11,967	(3,648)	8,319	Planning and Development Services	11,574	(3,681)	7,893
10,925	(3,590)	7,335	Roads & Transportation	11,813	(4,372)	7,441
69,899	(15,470)	54,429	Social Work	72,084	(15,787)	56,297
2,173	0	2,173	Corporate and Democratic Core	2,007	0	2,007
854	(3)	851	Non-Distributable Costs	409	(6)	403
263,250	**(70,958)**	**192,292**	**Cost of Services**	**265,179**	**(72,731)**	**192,448**
		6,811	Other Operating Expenditure and (Income) - (Gain)/Loss on disposal of non-current assets			(245)
		20,349	Financing and Investment (Income) and Expenditure (Note 3)			18,718
		(204,441)	Taxation and Non-specific Grant Income (Note 4)			(215,119)
		15,011	**(Surplus) or Deficit on the Provision of Services**			**(4,198)**
		(504)	(Surplus) or deficit on the revaluation of non current assets			(43,146)
		1,470	Impairment losses on non-current assets charged to the Revaluation Reserve			0
		17,488	Remeasurement of the net defined benefit pensions liability (Note 17)			(55,967)
		18,454	**Other Comprehensive (Income) and Expenditure**			**(99,113)**
		33,465	**Total Comprehensive (Income) and Expenditure**			**(103,311)**

Balance Sheet

The Balance Sheet is a snapshot of the value at the reporting date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves is "usable reserves" which are reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves is "unusable reserves" and these are not available to provide services. This category of reserves holds unrealised gains or losses (in for example the Revaluation Reserve) and timing differences (as detailed in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations").

31 March 2015 £000		Note	31 March 2016 £000
421,877	Property, Plant & Equipment	8	471,048
18,059	Heritage Assets	11	18,059
172	Intangible Assets		121
2,137	Long-term Debtors	12	2,659
442,245	**Non-current Assets**		**491,887**
17,582	Short-term Investments	21	12,017
0	Assets Held for Sale	9	500
284	Inventories		339
10,606	Short-term Debtors	12	9,670
27,567	Cash and Cash Equivalents	13	38,489
56,039	**Current Assets**		**61,015**
(3,668)	Short-term Borrowing	21	(7,974)
(24,830)	Short-term Creditors	14	(26,705)
(1,514)	Short-term Provisions	15	(1,538)
(2,084)	Short-term Finance Leases	16&20	(1,908)
(32,096)	**Current Liabilities**		**(38,125)**
(497)	Long-term Provisions	15	(497)
(214,249)	Long-term Borrowing	21	(208,212)
	Other Long-term Liabilities:		
(67,727)	Finance Leases	16&20	(65,819)
(163,607)	Pensions	17	(116,830)
(446,080)	**Long-term Liabilities**		**(391,358)**
20,108	**Net Assets**		**123,419**
54,400	Usable Reserves	2	58,769
(34,292)	Unusable Reserves	19	64,650
20,108	**Total Reserves**		**123,419**

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

Issued on: 29 September 2016

These financial statements replace the unaudited financial statements issued on 28th June 2016.

Cash Flow Statement

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

2014-2015 £000		2015-2016 £000
(15,011)	Net surplus or (deficit) on the provision of services	4,198
41,687	Adjustments to net surplus or (deficit) on the provision of services for non-cash movements (Note 27)	35,004
1,749	Adjustments for items included in the net surplus or (deficit) on the provision of services that are investing and financing activities (Note 27)	(2,510)
28,425	**Net cash inflow from Operating Activities (Note 27)**	**36,692**
(23,953)	Investing Activities (Note 28)	(22,495)
(7,750)	Financing Activities (Note 29)	(3,275)
(3,278)	**Net increase or (decrease) in cash and cash equivalents**	**10,922**
30,845	Cash and cash equivalents at the beginning of the reporting period	27,567
27,567	**Cash and cash equivalents at the end of the reporting period (Note 13)**	**38,489**

Note 1 Adjustments between Accounting Basis and Funding Basis under Regulations

Income and expenditure is recognised by the Council in the Comprehensive Income & Expenditure Statement (CIES) in accordance with proper accounting practice. Certain adjustments are then made by law in the Movement in Reserves Statement (MiRS). The adjusted figures are those that are available to meet future capital and revenue expenditure. The table below details these adjustments. Figures for 2014-2015 are provided in an additional table for the purposes of comparison.

2015-2016	Usable Reserves		Corresponding Adjustments to Unusable Reserves					
	Adjustments to Comprehensive Income & Expenditure £000	Adjustment to Capital Fund (Usable Reserve) £000	Revaluation Reserve £000	Pensions Reserve £000	Capital Adjustment Account £000	Financial Instruments Adjustment Account £000	Employee Statutory Adjustment Account £000	Net Movement in Unusable Reserves £000
Charges for depreciation and impairment of non-current assets	23,660				(23,660)			(23,660)
Amortisation of intangible assets	141				(141)			(141)
Capital grants and contributions applied	(16,139)				16,139			16,139
Capital expenditure charged in-year to the General Fund balance.	(4,385)				4,385			4,385
Net gain or (loss) on non-current asset disposals	(245)				245			245
Statutory provision for the principal repayment of loan charges.	(11,127)				11,127			11,127
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements.	(629)					629		629
Reversal of items relating to retirement benefits debited or credited to the CIES (see note 17).	20,381			(20,381)				(20,381)
Employers' pension contributions payable in the year.	(11,191)			11,191				11,191
Amount by which employees' remuneration charged to the CIES on an accrual basis is different from remuneration chargeable in the year in accordance with statutory requirements.	(295)						295	295
Total Adjustments	**171**	**0**	**0**	**(9,190)**	**8,095**	**629**	**295**	**(171)**

Comparative Information 2014-2015

2014-2015	Usable Reserves		Corresponding Adjustments to Unusable Reserves					
	Adjustments to Comprehensive Income & Expenditure	Adjustment to Capital Fund (Usable Reserve)	Revaluation Reserve	Pensions Reserve	Capital Adjustment Account	Financial Instruments Adjustment Account	Employee Statutory Adjustment Account	Net Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
Charges for depreciation and impairment of non-current assets	26,155				(26,155)			(26,155)
Amortisation of intangible assets	126				(126)			(126)
Capital grants and contributions applied	(9,171)				9,171			9,171
Capital expenditure charged in-year to the General Fund balance.	(5,455)				5,455			5,455
Net gain or (loss) on non-current asset disposals	6,811	2,346			(9,157)			(9,157)
Statutory provision for the principal repayment of loan charges.	(10,486)				10,486			10,486
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements.	(130)					130		130
Reversal of items relating to retirement benefits debited or credited to the CIES (see note 17).	19,846			(19,846)				(19,846)
Employers' pension contributions payable in the year.	(11,381)			11,381				11,381
Amount by which employees' remuneration charged to the CIES on an accrual basis is different from remuneration chargeable in the year in accordance with statutory requirements.	(84)						84	84
Total Adjustments	**16,231**	**2,346**	**0**	**(8,465)**	**(10,326)**	**130**	**84**	**(18,577)**

Note 2 Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement (MiRS). The major part of the General Fund balance shown in the MiRS has been earmarked and effectively committed to fund specific projects in future years. The amounts set aside for earmarked reserves are shown in the following table:

	31 March 2016 £000	31 March 2015 £000
Modernisation Fund	323	308
School Estate Management Plan	5,701	2,942
Contribution to Riverside Inverclyde	1,690	1,858
Miscellaneous Community Health & Social Care Partnership Reserves	326	996
Fostering & Adoption	682	1,143
Miscellaneous Policy and Resources Committee Reserves	790	724
Miscellaneous Environment & Regeneration Committee Reserves	3,120	1,861
Renewal of Clune Park Area	1,910	1,835
Asset Management Plan	1,344	1,578
Support for Owners	921	713
Flooding Works	1,863	1,863
Roads Asset Management Plan	0	2,165
Early Retiral / Voluntary Severance Reserve	2,571	3,562
Capital Funded from Current Revenue	5,926	3,623
Integrated Care Fund	704	0
Miscellaneous Education & Communities Reserves	1,295	999
Vehicle Replacement Programme	208	255
Equal Pay	4,561	4,668
Youth Employment	70	151
Deferred Income - Health & Social Care	116	407
Repopulating/Promoting Inverclyde	385	606
Beacon Arts Centre	129	1,950
Temporary Use of Reserves - Revenue Budget	2,000	3,298
Welfare Reforms	1,027	1,007
Loans Charges Reserve	2,152	1,200
Roads Defects & Drainage Works	468	291
Total Earmarked Reserves	**40,282**	**40,003**
Non-earmarked balance	8,773	4,988
Total General Fund Balance	**49,055**	**44,991**
Capital Grants Unapplied Account	396	0
Capital Fund	2,318	2,590
Repairs & Renewal Fund	3,185	2,959
Insurance Fund	3,815	3,860
Total Usable Reserves	**58,769**	**54,400**

Note 3 Financing and Investment Income and Expenditure

	2015-2016 £000	2014-2015 £000
(Surplus) or deficit on trading undertakings not reported elsewhere	303	465
Interest payable and similar charges:		
- Schools' Public Private Partnership finance lease	4,885	4,960
- Other finance leases	0	0
- Other interest payments and similar charges	9,038	9,701
Net interest on the defined benefit pension liability	5,297	5,968
Interest receivable and similar income	(805)	(745)
Total	**18,718**	**20,349**

Note 4 Taxation and Non-specific Grant Income

	2015-2016 £000	2014-2015 £000
Income from Council Tax	(27,730)	(27,116)
Distribution from Non-Domestic Rates pool	(24,443)	(22,832)
General Revenue Grant	(146,410)	(145,322)
Recognised Capital Grants and contributions	(16,536)	(9,171)
Total	**(215,119)**	**(204,441)**

The Council credited the following grants, contributions and donations to the CIES in 2015-2016.

	2015-2016	2014-2015
Credited to Taxation and Non-specific Grant Income	£000	£000
General Revenue Grant	(146,410)	(145,322)
Distribution from Non-Domestic Rates pool	(24,443)	(22,832)
General Capital Grant (excludes amounts directly credited to Services)	(10,516)	(8,425)
Capital Grants	(6,020)	(746)
Credited to Services		
Housing Benefit	(35,480)	(35,581)
Housing Benefit Administration	(602)	(635)
Other Housing	(2,049)	(2,675)
Community Service Grant	(128)	(228)
Social Work	(1,967)	(2,006)
Education	(2,106)	(1,363)
Employability	(561)	(459)
Other	(198)	(227)
Total	**(230,480)**	**(220,499)**

Note 5 Material Items of Income and Expenditure

Where items are not disclosed on the face of the Comprehensive Income & Expenditure Statement (CIES), *The Code* requires a disclosure of the nature and amount of material items. The material items in the Council's CIES are as follows:

Item	Nature	Amount
Cost of Service:		
Education Services	Schools PPP operator, payment for provision of educational facilities.	£9.423 million.
Housing Services	Rent Allowances.	£35.399 million
Housing Services	DWP – Rent Allowances	£34.701 million

Note 6 External Audit Fees

The Council incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections by the Council's external auditors.

	2015-2016	2014-2015
	£000	£000
Fees payable to Audit Scotland with regard to external audit services carried out by the appointed auditor for the year.	262	262
	262	**262**

Note 7 Amounts Reported for Resource Allocation Decisions

The standard service groups shown on the face of the Comprehensive Income & Expenditure Statement (CIES) are prescribed by the Service Reporting Code of Practice (SeRCOP) and are designed to make inter-authority comparisons more meaningful. These nationwide generic groups do not reflect the local management of service delivery and budgetary responsibilities as determined by the Council.

During 2015-2016 the management of Inverclyde Council was led by the Chief Executive, John W Mundell. The operational structure of the Council as at 31 March 2016 was divided into three Directorates reporting to four Committees. Financial reports to management are prepared on a different basis from the accounting policies used in the Statement of Accounts. In particular:

- No charges are made in relation to capital expenditure (whereas depreciation, impairment losses and amortisations are charged to services in the CIES).
- The cost of retirement benefits is based on cash flows (payment of employer's pension contributions) rather than the current service cost of benefits accrued in the year.
- Expenditure on support services is budgeted for centrally and is not recharged to individual services within financial reports to management.

The income and expenditure of the Council's four Committees as reported to management for the outturn for the financial year is as follows:

Committees' Income and Expenditure (2015-2016)

	Committees				
	Health & Social Care	Education & Communities	Policy & Resources	Environment & Regeneration	Total
	£000	£000	£000	£000	£000
Fees, charges and other service income	(14,352)	(3,872)	(2,347)	(10,003)	**(30,574)**
Government grants	(1,967)	(4,289)	(36,110)	(725)	**(43,091)**
Total Income	**(16,319)**	**(8,161)**	**(38,457)**	**(10,728)**	**(73,665)**
Employee expenses	26,223	56,617	9,269	11,549	**103,658**
Other service expenses	40,033	31,860	43,964	19,304	**135,161**
Total Operating Expenses	**66,256**	**88,477**	**53,233**	**30,853**	**238,819**
Net Expenditure	**49,937**	**80,316**	**14,776**	**20,125**	**165,154**

Committees' Income and Expenditure (2014-2015 Comparative Figures)

	Committees				
	Health & Social Care	Education & Communities	Policy & Resources	Environment & Regeneration	Total
	£000	£000	£000	£000	£000
Fees, charges and other service income	(14,156)	(3,056)	(12,286)	(8,958)	**(38,456)**
Government grants	(2,006)	(4,266)	(36,262)	(640)	**(43,174)**
Total Income	**(16,162)**	**(7,322)**	**(48,548)**	**(9,598)**	**(81,630)**
Employee expenses	26,241	55,529	9,428	11,823	**103,021**
Other service expenses	39,482	30,120	53,531	19,252	**142,385**
Total Operating Expenses	**65,723**	**85,649**	**62,959**	**31,075**	**245,406**
Net Expenditure	**49,561**	**78,327**	**14,411**	**21,477**	**163,776**

Reconciliation of Committees' Income and Expenditure to "Cost of Services" in Comprehensive Income & Expenditure Statement (CIES)

This table shows how the figures in the above analysis of Committees' Income and Expenditure reconcile to the amounts included in the CIES.

	2015-2016	2014-2015
	£000	£000
Net expenditure in the Committee analysis tables above	165,154	163,776
Net expenditure of services and support services not included in the analysis	0	0
Amounts in the CIES not reported to management in the analysis	27,294	28,516
Amounts included in the analysis not included in the CIES	0	0
Cost of Services in the Comprehensive Income & Expenditure Statement	**192,448**	**192,292**

Reconciliation to Subjective Analysis

This table shows how the figures in the analysis of Committee Income & Expenditure reconcile to a subjective analysis of the "(Surplus) or Deficit on the Provision of Services" included in the CIES.

2015-2016

	Committee Analysis	Service and Support Services not in Analysis	Amounts not Reported to Management	Amounts not Included in CIES	Allocation of Recharges	**Cost of Services**	Corporate Amounts	**Total**
	£000	£000	£000	£000	£000	**£000**	£000	**£000**
Fees, charges and other service income	(30,574)				934	**(29,640)**		**(29,640)**
Interest and investment income						**0**		**0**
Income from Council Tax						**0**	(27,730)	**(27,730)**
Government grants and contributions	(43,091)					**(43,091)**	(187,389)	**(230,480)**
Total Income	**(73,665)**	**0**	**0**	**0**	**934**	**(72,731)**	**(215,119)**	**(287,850)**
Employee expenses	103,658		3,493		(3,493)	**103,658**		**103,658**
Other service expenses	135,161				(6,246)	**128,915**		**128,915**
Support services recharges					8,805	**8,805**		**8,805**
Depreciation, amortisation & impairment			23,801			**23,801**		**23,801**
Interest payments						**0**	18,718	**18,718**
(Gain) or loss on disposal of non-current assets						**0**	(245)	**(245)**
Total Expenditure	**238,819**	**0**	**27,294**	**0**	**(934)**	**265,179**	**18,473**	**283,652**
(Surplus) or Deficit on the Provision of Services	**165,154**	**0**	**27,294**	**0**	**0**	**192,448**	**(196,646)**	**(4,198)**

2014-2015 Comparative Figures

	Committee Analysis	Service and Support Services not in Analysis	Amounts not Reported to Management	Amounts not Included in CIES	Allocation of Recharges	**Cost of Services**	Corporate Amounts	**Total**
	£000	£000	£000	£000	£000	**£000**	£000	**£000**
Fees, charges and other service income	(38,456)				(1,351)	**(39,807)**		**(39,807)**
Interest and investment income						**0**		**0**
Income from Council Tax						**0**	(27,116)	**(27,116)**
Government grants and contributions	(43,174)					**(43,174)**	(177,325)	**(220,499)**
Total Income	**(81,630)**	**0**	**0**	**0**	**(1,351)**	**(82,981)**	**(204,441)**	**(287,422)**
Employee expenses	103,021		2,235		6,374	**111,630**		**111,630**
Other service expenses	142,385				4,654	**147,039**		**147,039**
Support services recharges					(9,677)	**(9,677)**		**(9,677)**
Depreciation, amortisation & impairment			26,281			**26,281**		**26,281**
Interest payments						**0**	20,349	**20,349**
(Gain) or loss on disposal of non-current assets						**0**	6,811	**6,811**
Total Expenditure	**245,406**	**0**	**28,516**	**0**	**1,351**	**275,273**	**27,160**	**302,433**
(Surplus) or Deficit on the Provision of Services	**163,776**	**0**	**28,516**	**0**	**0**	**192,292**	**(177,281)**	**15,011**

Note 8 Property, Plant & Equipment

Movement on Balances

The movements on balances for Property, Plant & Equipment (PPE) are shown in the following table. Figures for 2014-2015 are provided in an additional table below for the purposes of comparison.

Movements in 2015-2016

	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets not for Sale	Asset Under Construction	Schools PPP Assets	Total PPE
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation								
At 1 April 2015	479,902	36,316	56,884	5,466	4,142	455	88,046	**671,211**
Additions in year	14,984	3,105	10,982	369	6	979	33	**30,458**
Disposals in year	(305)	(769)						**(1,074)**
Revaluation adjustments to Revaluation Reserve	7,955	0	2,440	124	(12)		6,987	**17,494**
Revaluation adjustments to CIES	(12,488)	(436)	84	(108)	(15)			**(12,963)**
Reclassifications to/from Held for Sale	(718)							**(718)**
Other reclassifications*	(174,087)	(92)	(1,332)	(2,629)	(862)		(4,207)	**(183,209)**
At 31 March 2016	**315,243**	**38,124**	**69,058**	**3,222**	**3,259**	**1,434**	**90,859**	**521,199**
Depreciation and Impairment								
At 1 April 2015	192,876	30,660	13,984	2,630	891		8,293	**249,334**
Depreciation charge for the year	8,799	2,093	2,032		16		1,779	**14,719**
Impairment losses to Revaluation Reserve								**0**
Impairment losses to CIES								**0**
Depreciation on disposals	(33)	(768)						**(801)**
On Revaluations to Revaluation Reserve	(20,198)		(26)		(48)		(5,562)	**(25,834)**
On Revaluations to CIES	(4,001)	(22)						**(4,023)**
Reclassifications to/from Held for Sale	(35)							**(35)**
Other reclassifications*	(174,087)	(92)	(1,332)	(2,629)	(862)		(4,207)	**(183,209)**
At 31 March 2016	**3,321**	**31,871**	**14,658**	**1**	**(3)**	**0**	**303**	**50,151**
Balance Sheet amount at 31 March 2016	**311,922**	**6,253**	**54,400**	**3,221**	**3,262**	**1,434**	**90,556**	**471,048**
Balance Sheet amount at 31 March 2015	**287,026**	**5,656**	**42,900**	**2,836**	**3,251**	**455**	**79,753**	**421,877**
Nature of asset holding								
Owned	294,923	6,253	54,400	3,221	3,262	1,434		**363,493**
Finance lease	16,999							**16,999**
PPP							90,556	**90,556**

*other reclassifications relate to the write back of depreciation from prior years revaluations.

Comparative Movements in 2014-2015

	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets not for Sale £000	Asset Under Construction £000	Schools PPP Assets £000	Total PPE £000
Cost or Valuation								
At 1 April 2014	478,697	34,291	49,009	5,399	4,093	1,247	88,046	**660,782**
Additions in year	13,569	2,670	7,875	67	49	271		**24,501**
Disposals in year	(10,171)	(645)						**(10,816)**
Revaluation adjustments to Revaluation Reserve	(72)							**(72)**
Revaluation adjustments to CIES	(3,184)							**(3,184)**
Reclassifications to/from Held for Sale								**0**
Other reclassifications	1,063					(1,063)		**0**
At 31 March 2015	**479,902**	**36,316**	**56,884**	**5,466**	**4,142**	**455**	**88,046**	**671,211**
Depreciation and Impairment								
At 1 April 2014	175,787	29,104	12,270	2,563	832		6,359	**226,915**
Depreciation charge for the year	9,714	2,134	1,644		16		1,934	**15,442**
Impairment losses to Revaluation Reserve	1,424		3		43			**1,470**
Impairment losses to CIES	7,523		67	67				**7,657**
Depreciation on disposals	(867)	(578)						**(1,445)**
On Revaluations to Revaluation Reserve	(576)							**(576)**
On Revaluations to CIES	(129)							**(129)**
Reclassifications to/from Held for Sale								**0**
Other reclassifications								**0**
At 31 March 2015	**192,876**	**30,660**	**13,984**	**2,630**	**891**	**0**	**8,293**	**249,334**
Balance Sheet amount at 31 March 2015	**287,026**	**5,656**	**42,900**	**2,836**	**3,251**	**455**	**79,753**	**421,877**
Balance Sheet amount at 31 March 2014	**302,910**	**5,187**	**36,739**	**2,836**	**3,261**	**1,247**	**81,687**	**433,867**
Nature of asset holding								
Owned	272,301	5,656	42,900	2,836	3,251	455		**327,399**
Finance lease	14,725							**14,725**
PPP							79,753	**79,753**

Depreciation

The depreciation methods used and the useful lives or depreciation rates used are disclosed separately in Note 34 Accounting Policies under section S “Property, Plant & Equipment”.

Commitments under Capital Contracts

At 31 March 2016, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant & Equipment and for contributions to capital works budgeted to cost £16.989 million. Similar contracts at 31 March 2015 were £6.909 million. The major capital commitments include:

	£000
Greenock Municipal Buildings - District Court Offices	2.062
Vehicle Maintenenace Shed	3.801
St Patrick's PS New Build	3.976
Kilmacolm PS Refurbishment	2.694
Neil St Children's Home Replacement	1.630

Revaluation Programme

The following statement shows the progress of the Council's programme for the revaluation of Property, Plant & Equipment that ensures all its PPE assets required to be measured at fair value are revalued at least every five years. The measurement bases used for determining the gross carrying amount, the valuers, and the significant assumptions applied in estimating the fair values are disclosed separately in Note 34 Accounting Policies under section S "Property, Plant & Equipment".

	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets not for Sale	Asset Under Construction	Schools PPP Assets	Total PPE
	£000	£000	£000	£000	£000	£000	£000	£000
Carried at historical cost	6,947	6,253	50,024	1,769	0	1,434	0	**66,427**
Valued at fair value as at:								
31 March 2016	284,340		4,163	1,437	3,249		90,556	**383,745**
31 March 2015	1,349							**1,349**
31 March 2014								**0**
31 March 2013	18,342		198	15				**18,555**
31 March 2012	944		15		13			**972**
Total Cost or Valuation	**311,922**	**6,253**	**54,400**	**3,221**	**3,262**	**1,434**	**90,556**	**471,048**

Note 9 Assets Held for Sale

At 31 March 2016, the Council had one asset held for sale valued at £0.500 million (31 March 2015 nil).

	31 March 2016	31 March 2015
	£000	£000
Opening Balance at 1 April	0	0
Assets newly classified as "held for sale": Property, plant & equipment	682	0
Revaluation adjustments to Revaluation Reserve	(182)	0
Closing Balance at 31 March	**500**	**0**

Note 10 Capital Expenditure and Capital Financing

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

	2015-2016	2014-2015
	£000	£000
Opening Capital Financing Requirement	303,781	304,506
Capital Investment:		
~ Capital Expenditure	30,549	24,600
~ Leased equipment and Schools PPP assets	0	0
Total Capital Investment for the year	**30,549**	**24,600**
Sources of Finance:		
~ Capital receipts from the sale of assets	(518)	(213)
~ Government grants and other contributions	(16,139)	(9,171)
~ Capital from current revenue	(4,385)	(5,455)
~ Loans Fund principal repayment (including finance leases & PPP)	(11,127)	(10,486)
Total Capital Financing for the year	**(32,169)**	**(25,325)**
Closing Capital Financing Requirement	**302,161**	**303,781**

	2015-2016	2014-2015
	£000	£000
Explanation of movements in the year:		
~ Increase/(Reduction) in underlying need to borrow	464	1,228
~ Increase/(Reduction) in finance leases obligations	0	0
~ Increase/(Reduction) in PPP finance lease creditor	(2,084)	(1,953)
Increase/(Reduction) in Capital Financing Requirement	**(1,620)**	**(725)**

Note 11 Heritage Assets

Reconciliation of the Carrying Value of Heritage Assets held by the Council

	2015-2016 Total Assets £000	2014-2015 Total Assets £000
Valuation or Cost		
1 April	18,059	18,059
Revaluations	0	0
31 March	**18,059**	**18,059**

The valuation disclosed in the Balance Sheet is based on the assessment by the Council's previous insurers of the replacement value for the combined collections. These insurance valuations are updated periodically. In addition, individual collections are reviewed periodically to ensure the adequacy of the valuation. The Council's policy on management, acquisitions and disposals is contained in its policy document. This document and further information about the collections are publicly available on the Museum's section of Inverclyde Council's website: http://www.inverclyde.gov.uk/community-life-and-leisure/museum/museum-collections

During the year, a number of public works of art were transferred from Riverside Inverclyde to the Council and are currently held on the Balance Sheet at £nil value.

Note 12 Debtors

	31 March 2016				31 March 2015			
	Short-term		Long-term		Short-term		Long-term	
	£000	£000	£000	£000	£000	£000	£000	£000
Scottish Government (including NHS bodies)		**1,670**		**0**		**1,494**		**0**
Central Government bodies		**2,028**		**0**		**1,624**		**0**
Other Local Authorities		**88**		**0**		**199**		**0**
Council Tax receivable from taxpayers	16,360		0		16,270		0	
Impairment	(14,123)		0		(14,209)		0	
Council Tax (net of impairment)		**2,237**		**0**		**2,061**		**0**
Trade debtors	8,260		0		9,757		0	
Impairment	(4,673)		0		(4,646)		0	
Trade Debtors (net of impairment)		**3,587**		**0**		**5,111**		**0**
Other entities and individuals	60		2,659		117		2,137	
Impairment	0		0		0		0	
Other entities and individuals (net of impairment)		**60**		**2,659**		**117**		**2,137**
Totals for Short-term and Long-term Debtors		**9,670**		**2,659**		**10,606**		**2,137**

In March 2013, the Council made a long-term loan of £1.969 million to Inverclyde Property Renovations LLP, a partnership established to develop the offices at Wallace Place, Greenock and Princes Street, Port Glasgow under the Business Premises Renovation Allowance (BPRA) Scheme. In March 2016, the Council made a £0.6 million loan to Inverclyde Leisure. This is shown within 'other entities and individuals (net of impairment)'.

Note 13 Cash and Cash Equivalents

	31 March 2016	31 March 2015
	£000	£000
Cash held by the Council	6	5
Bank current accounts	24,874	12,471
Deposits up to three months with UK Banks, Buildings Societies and Local Authorities	13,609	15,091
Total Cash and Cash Equivalents	**38,489**	**27,567**

Note 14 Creditors

Short Term Creditors

	31 March 2016	31 March 2015
	£000	£000
Scottish Government (including NHS bodies)	(1,585)	(350)
Central Government bodies	(2,524)	(3,751)
Other Local Authorities	(1,063)	(1,072)
Trade creditors	(21,078)	(19,160)
Public Corporations	(455)	(497)
Total Short-term Creditors	**(26,705)**	**(24,830)**

Note 15 Provisions

Short-term Provisions - Movement on Balances 2015-2016

	Balance at 1 April 2015	Additional Provisions made in 2015-2016	Amounts used in 2015-2016	Unused amounts written back in 2015-2016	Balance at 31 March 2016
	£000	£000	£000	£000	£000
Compensation Payments (note 1)	(665)	0	158	0	(507)
Municipal Mutual Insurance Claims (note 2)	(379)	(14)	0	0	(393)
Gourock Waterfront Redevelopment (note 3)	(50)	0	0	0	(50)
Clune Park Provision (note 4)	0	(200)	0	0	(200)
Greenock Academy Site Contamination Provision (note 5)	(420)	0	32	0	(388)
Total Short-term Provisions	**(1,514)**	**(214)**	**190**	**0**	**(1,538)**

Long-term Provisions - Movement on Balances 2015-2016

	Balance at 1 April 2015	Additional Provisions made in 2015-2016	Amounts used in 2015-2016	Unused amounts written back in 2015-2016	Balance at 31 March 2016
	£000	£000	£000	£000	£000
Former St Stephen's High School Demolition Provision (note 6)	(497)	0	0	0	(497)
Total Long-term Provisions	**(497)**	**0**	**0**	**0**	**(497)**

Notes
1. For the potential outcome of conceded outstanding equal pay claims.
2. For any potential shortfall in the current Scheme of Arrangement to meet any new claims.
3. For the potential outcome of a dispute relating to works carried out for Gourock waterfront redevelopment.
4. For the potential outcome of on-going legal action in relation to the Clune Park Area.
5. For the removal of asbestos from the Greenock Academy site.
6. For the demolition of the former St Stephen's High School on termination of short-term lease.

Note 16 Schools Public Private Partnership

The Council has entered into a Public Private Partnership (PPP) for the provision of educational buildings, their maintenance and related facilities. The agreement provides the Council with 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.

Property, Plant & Equipment

The assets used to provide services at the schools are recognised on the Council's Balance Sheet. Movements in value over the year are detailed in the analysis of the movement in Note 8 Property, Plant & Equipment.

Remaining Payments under the Agreement

The Council makes payments each year, which are increased by inflation and reduced if the contractor fails to meet availability and performance standards. Payments remaining to be made under the PPP contract at 31 March 2016 (assuming an adjusted inflation rate of 1.67% and excluding any estimation of availability and performance deductions) are as follows:

	Future Payments for services (including lifecycle maintenance)	Repayment of Liability	Finance Interest Estimated Inflation	Finance Interest Subsequent RPI Changes	Total
	£000	£000	£000	£000	£000
Not later than one year	2,825	1,908	4,053	779	9,565
Later than 1 year and not later than 5 years	13,671	7,111	15,098	3,938	39,818
Later than 5 years and not later than 10 years	19,086	10,986	16,360	7,389	53,821
Later than 10 years and not later than 15 years	22,400	13,752	12,565	9,944	58,661
Later than 15 years and not later than 20 years	26,680	16,928	8,003	12,374	63,985
Payable within twenty one to twenty five years	22,142	17,042	2,214	11,729	53,127
Total	**106,804**	**67,727**	**58,293**	**46,153**	**278,977**

Fair Value of Liability

The treasury advisor to Inverclyde Council has assessed the fair value of the lease liability as £96.4 million. The impact of a 1% increase in the discount factor is assessed at £9.7 million and would reduce the fair value to £86.7 million. More information on the assessment of fair values is available in Note 21 Financial Instruments.

Liabilities from PPP Arrangements

Although the payments to the provider are described as unitary payments, they have been calculated to compensate the provider for the fair value of the services they provide and the capital expenditure incurred plus the interest payable whilst the capital expenditure remains to be reimbursed. The liability outstanding to pay to the provider for the capital expenditure (the outstanding finance lease obligation) is as follows:

	2015-2016	2014-2015
	£000	£000
Balance outstanding at the start of the year	69,811	71,764
Payments during the year	(2,084)	(1,953)
Capital expenditure incurred in the year	0	0
Balance outstanding at year-end	**67,727**	**69,811**
Included in Balance Sheet		
~ Current	1,908	2,084
~ Non-current	65,819	67,727
	67,727	**69,811**

Note 17 Defined Benefit Pension Schemes

Participation in Pension Schemes

The post employment scheme for employees other than teachers is the Local Government Pension Scheme (LGPS), and is administered in the West of Scotland by Glasgow City Council in respect of all local authorities and admitted bodies in the former Strathclyde area. This is a multi-employer scheme in which it is possible for an employer to identify its share of the assets and liabilities on a consistent and reasonable basis. Employer's liabilities can be evaluated directly by the Actuary at any time on membership data. Individual employer assets have been apportioned to each employer since 2002. Prior to that date, each employer was considered to have the same funding as the whole Fund.

Benefits

- It is a defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level to balance the pensions liability with investment assets.
- A new Career Average Related Earnings (CARE) pension scheme has been introduced from 1 April 2015. The pension accrual rate guarantees a pension that is built up at a rate of 1/49th of the pensionable pay in the financial year. The amount built up in the year is transferred to the member's Pension Account and at the end of each financial year the total in the member's Pension Account is adjusted in line with the cost of living to ensure it retains its purchasing power.
- For pension contributions from 2009 to 2015, the pension is based on 1/60th of final pensionable salary and years of service, and prior to 2009, the accrual rate guarantees a pension based on 1/80th and a lump sum based on 3/80th of final pensionable pay and years of pensionable service.
- There is no automatic entitlement to a lump sum. Members of the Pension Scheme may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004. The scheme's retirement age is the normal age for the state pension. Pensions are increased annually in line with changes to the Pensions (Increase) Act 1971 and Section 59 of the Social Security Pensions Act 1975.

Governance

- The Strathclyde Pension Fund is operated under the regulatory framework for the LGPS in Scotland and the governance of the scheme is the responsibility of the Strathclyde Pension Fund Committee. This committee is comprised solely of Elected

Members of Glasgow City Council. The Strathclyde Pension Fund Board meets alongside the Strathclyde Pension Fund Committee. It helps with compliance and to take account of all shareholder interests. The Board has eight members, four employer representatives and four from trade unions.

- Policy is determined in accordance with the Local Government Pension Scheme (Scotland) Regulations. Management of the Fund's investments is carried out by the Fund's Investment Advisory Panel which selects and appoints a number of external investment managers/partners and monitors their investment performance.
- Under the Regulations, employers fall into three categories, scheme employers (also known as schedule bodies) such as Inverclyde Council, community admission bodies and transferee admission bodies. Admission agreements are generally assumed to be open-ended. However, either party can voluntarily terminate the admission agreement by giving an appropriate period of notice to the other parties. Any deficit arising from the cessation valuation will usually be levied on the departing admission body as a capital payment.

Principal Risks

- The principal risks to the Scheme are the longevity assumptions, statutory changes to the Scheme, changes to inflation, bond yields and the performance of the investments held by the Scheme. The long-term funding strategy and the employer's contribution rates are reviewed triennially and take into account these factors to mitigate the risks. The taxpayer is protected from temporary swings in some of these factors (inflation, bond yields and investment performance) by the adjustments by law to the amount charged to the General Fund as detailed in Note 1.

Discretionary Post-employment Benefits

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

Transactions Relating to Post-employment Benefits

The cost of retirement benefits is recognised in the reported Cost of Services 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 Movement in Reserves Statement to achieve this.

The following transactions have been included in the accounting statements in 2015-2016 and the prior year 2014-2015.

Comprehensive Income & Expenditure Statement (CIES)	31 March 2016 £000	31 March 2015 £000
Cost of Services:		
Service Cost comprising:		
~ Current service cost	14,904	13,486
~ Past service costs (including curtailments)	180	392
~ Unfunded benefits	0	0
Financing and Investment Income and Expenditure:		
~ Net interest expense	5,297	5,968
Total Post-employment Benefit charged to (Surplus) or Deficit on the Provision of Services	**20,381**	**19,846**
Other Post-employment Benefits Charged to the CIES:		
Re-measurement of the net defined benefit liability comprising:		
~ Expected return on pension fund assets	2,628	(24,770)
~ Actuarial (gains) or losses arising on changes in demographic assumptions	0	13,968
~ Actuarial (gains) or losses arising on changes in financial assumptions	(51,568)	58,235
~ Actuarial (gains) or losses arising on changes in experience assumptions	(7,027)	(29,945)
Total Post-employment Benefit Charged to the CIES	**(55,967)**	**17,488**
Movement in Reserves Statement (MiRS)		
~ Reversal of net charges made to the (Surplus) or Deficit on the Provision of Services for post-employment benefits in accordance with the Code	67,158	(6,107)
Actual amount charged against the General Fund balance for pensions in the year:		
Employers' contributions payable to Strathclyde Pension Fund	**11,191**	**11,381**

Pensions Assets and Liabilities Recognised in the Balance Sheet

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

	31 March 2016 £000	31 March 2015 £000
Present value of the defined benefit obligation*	(563,326)	(603,325)
Fair value of pension fund assets	446,496	439,718
Net Liability arising from Defined Benefit Obligation	**(116,830)**	**(163,607)**
*Unfunded liabilities included in the figure for present value of liabilities		
~ unfunded liabilities for Pension Fund	(21,203)	(22,485)
~ teachers' unfunded pensions	(13,287)	(14,740)
~ unfunded liabilities prior to 1996 local government reorganisation	(7,163)	(8,046)

A reconciliation of Inverclyde Council's share of the present value of Strathclyde Pension Fund's defined benefit obligation (liabilities) is as follows:

	2015-2016	2014-2015
	£000	£000
Opening balance at 1 April	(603,325)	(537,557)
Current service cost	(14,904)	(13,486)
Interest cost	(19,295)	(23,107)
Contributions by Pension Fund participants	(2,782)	(2,889)
Re-measurement gains and (losses)		
~ Actuarial gains/(losses) from changes in demographic assumptions	0	(13,968)
~ Actuarial gains/(losses) from changes in financial assumptions	51,568	(58,235)
~ Actuarial gains/(losses) from changes in experience assumptions	7,027	29,945
Past service costs (including curtailments)	(180)	(392)
Settlements	0	0
Benefits paid	18,565	16,364
Closing balance at 31 March	**(563,326)**	**(603,325)**

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

	2015-2016	2014-2015
	£000	£000
Opening fair value of pension fund assets	439,718	399,903
Interest income	13,998	17,139
Re-measurement gains and (losses):		
~ expected rate of return on pension fund assets	(2,628)	24,770
The effect of changes in foreign exchange rates	0	0
Contributions from employers	11,191	11,381
Contributions from employees into the scheme	2,782	2,889
Benefits paid	(18,565)	(16,364)
Closing fair value of pension fund assets	**446,496**	**439,718**

Analysis of Pension Fund's Assets

Inverclyde Council's share of the Pension Fund's assets at 31 March 2016 comprised:

	31 March 2016			31 March 2015		
	Quoted Prices in Active Markets	Prices not Quoted in Active Markets	Totals	Quoted Prices in Active Markets	Prices not Quoted in Active Markets	Totals
	£000	£000	£000	£000	£000	£000
Cash and cash equivalents	14,909	476	15,385	0	10,804	10,804
Equity instruments	162,445	351	162,796	161,199	333	161,532
Debt instruments	0	1	1	0	2	2
Real Estate	0	47,966	47,966	0	40,174	40,174
Derivatives	108	0	108	135	0	135
Private Equity	0	43,431	43,431	0	42,788	42,788
Investment Funds	4,035	172,774	176,809	4,791	179,492	184,283
Asset-backed Securities	0	0	0	0	0	0
Structured Debt	0	0	0	0	0	0
Total assets	**181,497**	**264,999**	**446,496**	**166,125**	**273,593**	**439,718**

Basis for Estimating Assets and Liabilities

The Council's share of the net obligations of the Strathclyde Pension Fund is an estimated figure based on actuarial assumptions about the future and is a snapshot at the end of the financial year. The net obligation has been assessed using the "projected unit method", that estimates the pensions that will be payable in future years dependent upon assumptions principally about mortality rates, salary levels and inflation.

The Fund's obligation has 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 2016. The significant assumptions used by the actuary are shown in the table below. Note 37 includes a sensitivity analysis for the pension obligation based on possible changes of these assumptions occurring at the reporting date.

	2015-2016	2014-2015
Long-term expected rate of return on assets in the Fund:		
~ Equity investments	3.5%	3.2%
~ Bonds	3.5%	3.2%
~ Property	3.5%	3.2%
~ Cash	3.5%	3.2%
Mortality Assumptions:		
Longevity at 65 for current pensioners (years):		
~ Men	22.1	22.1
~ Women	23.6	23.6
Longevity at 65 for future pensioners (years):		
~ Men	24.8	24.8
~ Women	26.2	26.2
Rate of inflation	2.2%	2.4%
Rate of increase in salaries	4.2%	4.3%
Rate of increase in pensions	2.2%	2.4%
Rate for discounting Fund liabilities	3.5%	3.2%
Take-up option to convert annual pension into retirement lump sum	50.0%	50.0%

Asset and Liability Matching (ALM) Strategy

The main fund (Fund 1) of the Strathclyde Pension Fund does not have an ALM as this is used mainly by mature funds. The Fund does match, to the extent possible, the types of assets invested to the liabilities in the defined benefit obligation. As is required by the pensions and investment regulations, the suitability of various types of investment has been considered, as has the need to diversify investments to reduce the risk of being invested in too narrow a range. The Fund invests in equities (i.e. stocks and shares), bonds, properties and in cash.

Impact on the Council's Cash Flow

The objectives of the Fund are to keep employers' contributions at as constant a rate as possible. The Fund has agreed a strategy to achieve a funding rate of 100% in the longer term. The Scheme is a multi-employer defined benefit plan and employers' contributions have been determined so that employee and employer rates are standard across all participating Local Authorities. The triennial review set employer's contributions for Inverclyde Council at 19.3% for the period 1 April 2015 to 31 March 2018.

The Local Government Pension Scheme in Scotland moved from 1 April 2015 to a new Career Average Revalued Earning Scheme (CARE) for future accruals. The Fund is actively taking account of this and other national changes to the Local Government Pension Scheme in Scotland.

The total contributions expected to be made by the Council to Strathclyde Pension Fund in the year to 31 March 2017 is £8.824 million.

The assumed weighted average duration of the defined benefit obligations is 17.8 years.

Note 18 Post-employment Benefits Teachers

The Teachers' Pension Scheme is administered directly by the Scottish Government and is technically a "defined benefit" scheme. However the scheme is unfunded and the Council is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. In this Statement of Accounts, it is therefore accounted for on the same basis as a "defined contribution" scheme. As a proportion of the total contributions into the teachers' pension scheme, the Council's own contributions equated to approximately 1.22% during the year ended 31 March 2015. The actual contributions for the year ended 31 March 2016 will not be published until November 2016, however the Council assumes that the percentage contribution will be similar to 31 March 2015.

In 2015-2016, Inverclyde Council paid £4.737 million in respect of teachers' retirement benefits, representing 16.2% of pensionable pay. The figures for 2014-2015 were £4.295 million and 14.9%. There were no contributions remaining payable at the year-end.

Note 19 Unusable Reserves

Summary of Year-end Balances

The total for Unusable Reserves in the Balance Sheet is made up of the following reserves:

	31 March 2016 £000	31 March 2015 £000
Revaluation Reserve	151,681	108,764
Capital Adjustment Account	35,886	27,563
Financial Instruments Adjustment Account	(2,755)	(3,385)
Pensions Reserve	(116,830)	(163,607)
Employee Statutory Adjustment Account	(3,332)	(3,627)
Balance at 31 March	**64,650**	**(34,292)**

Movement on Balances – Revaluation Reserve

The Revaluation Reserve contains the unrealised gains made by the Council arising from increases in the value of its property, plant and equipment. The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created.

	2015-2016	2014-2015
	£000	£000
Balance at 1 April	108,764	110,107
Revaluation of non-current assets not posted to the Surplus or (Deficit) on the Provision of Services	43,146	504
Difference between fair value depreciation and historical cost depreciation written off to Capital Adjustment Account	(229)	(377)
Impairments Charged to Revaluation Reserve Account	0	(1,470)
Accumulated gains or (losses) transferred to the Capital Adjustment Account	0	0
Balance at 31 March	**151,681**	**108,764**

Movement on Balances – Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. Note 1 provides a summary of transactions posted to the Account during the year.

	2015-2016	2014-2015
	£000	£000
Balance at 1 April	27,563	37,513
Items relating to capital expenditure charged to CIES:		
~ Charges for depreciation and impairment of non-current assets	(23,801)	(26,281)
~ Disposals of non-current assets	(273)	(9,371)
Transfers from Revaluation Reserve	229	377
Capital financing applied in the year:		
~ Use of the Capital Receipts Reserve to finance new capital expenditure	517	213
~ Capital grants and contributions credited to the CIES that have been applied to capital financing	16,139	9,171
~ Loans Fund principal repayments	11,127	10,486
~ Capital financed from current revenue	4,385	5,455
Balance at 31 March	**35,886**	**27,563**

Movement on Balances – Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the income and expenses relating to certain financial instruments and for bearing losses or benefitting from gains per statutory provisions.

	2015-2016	2014-2015
	£000	£000
Balance at 1 April	(3,385)	(3,515)
Amount by which finance costs charged to the CIES Statement are different from finance costs chargeable in the year in accordance with statutory requirements	630	130
Balance at 31 March	**(2,755)**	**(3,385)**

Movement on Balances – Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Pensions Reserve shows a significant shortfall in the benefits earned by past and current employees and the Council's share of Strathclyde Pension Fund resources available to meet them. The triennial review by the Pension Fund in 2014 set employer's contribution rates for Inverclyde Council at 19.3% for the period 1 April 2015 to 31 March 2018.

	2015-2016	2014-2015
	£000	£000
Balance at 1 April	(163,607)	(137,654)
Actuarial gains or (losses) on pension assets and liabilities	55,967	(17,488)
Reversal of items relating to net charges for retirement benefits charged to Surplus or (Deficit) on the Provision of Services in the CIES	(20,381)	(19,846)
Employers' pension contributions paid to Strathclyde Pension Fund	11,191	11,381
Balance at 31 March	**(116,830)**	**(163,607)**

Movement on Balances – Employee Statutory Adjustment Account

The Employee Statutory Adjustment Account absorbs the differences that would otherwise arise on the General Fund balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March.

	2015-2016	2014-2015
	£000	£000
Balance at 1 April	(3,627)	(3,712)
Settlement or cancellation of accrual made at the end of the preceding year	3,627	3,712
Amounts accrued at the end of the current year	(3,332)	(3,627)
Balance at 31 March	**(3,332)**	**(3,627)**

Note 20 Leases

Finance Leases

The Council has entered into a finance lease type agreement to manage various Common Good land and buildings. The agreement is on a full repairs basis by the Council and at a peppercorn rental of £1 on demand. Included with the "Property, Plant & Equipment" figure on the Balance Sheet is £16.999 million (2014-2015 £14.725 million) that relates to these assets. This comprises Greenock Municipal Buildings (£3.532 million), Port Glasgow Town Hall (£2.389 million), Port Glasgow Pool (£1.933 million), Gourock Outdoor Pool (£3.360 million), Lady Octavia Sports Centre (£1.728 million), Battery Park Pavilion (£1.457 million) and miscellaneous recreational facilities, parks and other property (£2.600 million).

Operating Leases, Inverclyde Council as Lessee

The Council leases various properties as tenant on a variety of lease terms that are accounted for as operating leases. The rentals in 2015-2016 were £0.167 million (2014-2015 £0.186 million) and this expenditure has been included in the CIES. The rental commitments in future years under non-cancellable leases are shown in the table below.

	Future Rental Payable	
	31 March 2016	31 March 2015
	£000	£000
Not later than one year	138	160
Later than one year and not later than five years	300	411
Later than five years	19	19
	457	**590**

Operating Leases, Inverclyde Council as Lessor

The Council has granted commercial leases for properties to various tenants on a variety of lease terms. These arrangements are accounted for as operating leases. The rental income receivable in 2015-2016 was £0.688 million (2014-2015 £0.774 million) and is included in the CIES. The rents receivable under non-cancellable leases in future years are shown in the table below.

	Future Rental Receivable	
	31 March 2016	31 March 2015
	£000	£000
Not later than one year	562	612
Later than one year and not later than five years	1,484	1,659
Later than five years	1,049	1,257
	3,095	**3,528**

Note 21 Financial Instruments

Categories of Financial Instruments

The following categories of financial instruments were carried in the Balance Sheet:

	Long-term		Short-term	
	31 March 2016	31 March 2015	31 March 2016	31 March 2015
	£000	£000	£000	£000
Investments				
Loans and receivables	0	0	12,017	17,582
Cash and Cash Equivalents				
Cash and Cash Equivalents	0	0	38,489	27,567
Debtors				
Loans and receivables (note 1)	2,659	2,137	4,203	6,246
Borrowings				
Financial liabilities at amortised cost	(208,212)	(214,249)	(7,974)	(3,668)
Other Long Term Liabilities				
PPP and finance lease liabilities	(65,819)	(67,727)	(1,908)	(2,084)
Creditors				
Financial liabilities at amortised cost (note 2)	0	0	(23,322)	(21,536)

Notes

1. Per Balance Sheet, Short-term Loans and Receivables net of £5.467m (2014-2015 £4.360m) not regarded as Financial Instruments.
2. Per Balance Sheet, Short-term Financial Liabilities net of £3.383m (2014-2015 £3.294m) not regarded as Financial Instruments.

Reclassifications between Categories

The Council did not reclassify any financial assets or liabilities between categories during the year.

Collateral

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.

Income, Expense, Gains and Losses

There was interest expenditure of £9.018 million (2014-2015 £9.216 million) and interest income of £0.443 million (2014-2015 £0.410 million) that were recognised in the CIES for the year.

Financial Guarantees

The Council has provided a financial guarantee in respect of a bank loan obtained by Inverclyde Leisure to fund fitness suite equipment. This has been initially recognised at fair value. Subsequently, this is measured at the higher of the amount recognised initially or the amount determined in accordance with IAS37 Provisions, Contingent Liabilities and Assets less, when appropriate, cumulative depreciation.

Fair Values of Financial Assets and Financial Liabilities

All financial assets (represented by lending and long-term debtors) and financial liabilities (represented by borrowing and long-term creditors) are carried in the Balance Sheet at amortised cost. In such cases, the Regulations require a set of additional disclosures about 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. Further information about how the Council has assessed fair value (and the fair value hierarchy) is provided below.

The fair values calculated (and compared to carrying values) are as follows:

Financial Assets	31 March 2016		31 March 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£000	£000	£000	£000
Loans and receivables - deposits with banks	12,017	12,030	17,582	17,604
Loans and receivables - cash and cash equivalents	38,489	38,489	27,567	27,567
Long-term debtors	2,659	2,659	2,137	2,137
Short-term debtors (at cost)	4,203	4,203	6,246	6,246
TOTAL	**57,368**	**57,381**	**53,532**	**53,554**

The fair value of loans and receivables – deposits with banks is higher than the carrying amount because the Council's portfolio of investments includes fixed rate loans where the interest rate receivable is higher than the rates available for similar loans at the Balance Sheet date.

Financial Liabilities	31 March 2016		31 March 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£000	£000	£000	£000
Borrowing - PWLB & Non-PWLB Debt	216,186	279,493	217,916	273,491
School PPP Lease	67,727	96,414	69,811	99,290
Long-term creditors	0	0	0	0
Short-term creditors (at cost)	23,322	23,322	21,536	21,536
TOTAL	**307,235**	**399,229**	**309,263**	**394,317**

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 the current market rates increases the amount the Council would have to pay if the lender requested or agreed to early repayment of the loans.

Fair Value Hierarchy for Financial Assets and Financial Liabilities

The inputs to the measurement techniques are explained in the Accounting Policies, section J.

The Council uses Level 2 inputs for all its fair value calculations for financial assets and financial liabilities, with the exception of cash and cash equivalents, debtors and creditors that are carried at cost as this is considered a fair approximation of their value. This is considered most appropriate to the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

	31 March 2016	31 March 2015
	Level 2 (Other Significant Observable Inputs)	Level 2 (Other Significant Observable Inputs)
	£000	£000
Recurring fair value measurements using:		
Financial Assets		
Loans & receivables	12,030	17,604
Total	**12,030**	**17,604**
Financial Liabilities		
Financial Liabilities held at amortised cost:		
- PWLB & Non-PWLB Borrowings	279,493	273,491
- PPP Finance Lease Liabilities	96,414	99,290
TOTAL	**375,907**	**372,781**

The fair values of the above financial assets and financial liabilities in the above table have been arrived at using a discounted cash flow technique with the most significant inputs being the discount rate. The fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments using the following methodology and assumptions:

- The valuation date is 31 March 2016
- No early repayment or impairment is recognised

- The discount factor used in the NPV calculations is the comparable new borrowing or deposit rate of the same financial instruments from a comparable lender with a published market rate at the valuation date, using bid process 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 has been used as the discount rate.
- The fair values include accrued interest up to and including the valuation date.
- Where an instrument will mature within the next twelve months, carrying amounts are assumed to approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.
- The fair value of the schools PPP liability has been assessed taking the carrying obligation at 31 March 2016 and applying an annuity repayment profile using the PWLB new borrowing rate for a comparable period (24 years) at 31 March 2016.

Note 22 Nature and Extent of Risks Arising from Financial Instruments

The Management of Treasury Risk by the Council

The Council's activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

The Council's management of treasury risk 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 manages its risk by various means including:

- A full and formal adoption of the requirements of CIPFA's Treasury Management in the Public Services: Code of Practice and by the adoption of a Treasury Policy Statement and treasury management clauses within the Council's financial regulations;
- The adoption of written principles for overall risk management and rigorous observance of the written policies and procedures;
- The approval annually in advance of Prudential Indicators for the forthcoming three years;
- The approval of an investment strategy for the forthcoming year;
- Regular reporting to the members of the Policy & Resources Committee and the full Council on treasury matters.

Management of 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 exposure to the Council's customers. This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum criteria, in accordance with the Fitch, Moody's and Standard & Poor's Credit Ratings Service. The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution.

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with the Council's internal ratings procedures.

The Council's maximum exposure to credit risk in relation to its deposits in banks and building societies of £52.279 million cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all the Council deposits, but there is no evidence at 31 March 2016 that this is likely to crystallise.

Credit limits were not exceeded during the year. The Council expects full repayment on the due date of deposits placed with its counterparties.

The Council has a potential maximum credit risk exposure of £4.673 million (2014-2015 £4.646 million) from debtors excluding council tax. This estimate is based on past experience and current market conditions.
The Council does not generally allow credit for customers, such that £8.876 million of the £11.535 million debtors regarded as Financial Instruments 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 provision for the loss of income based on previous experience.

	31 March 2016 £000	31 March 2015 £000
Less than three months	8,230	10,393
Three to six months	112	55
Six months to one year	133	64
More than one year	401	380
	8,876	**10,892**

Management of Liquidity Risk

The Council has a responsive system of safeguards for the management of cash flow that seeks to ensure that cash is available as needed. The Council has ready access to borrowings from market loans and the UK 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 secure 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 sets limits on the proportion of its fixed rate borrowing during specified periods. The Council's policy is to ensure that no more than 25% 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 these policies, whether short-term or long-term, require the prior approval of the Policy & Resources Committee. The maturity analysis of financial liabilities is as follows:

	31 March 2016 £000	31 March 2015 £000
Less than one year	31,296	25,204
Between one and two years	441	5,529
Between two and five years	30,649	26,038
Between five and ten years	25,187	30,239
Between ten and thirty years	8,878	8,878
Between thirty and fifty years	58,500	40,000
Over fifty years	83,900	102,400
	238,851	**238,288**

Management of Market Risk

The key area of market risk for the Council is in terms of its exposure to interest rate movements on its borrowings and investments. Changes in interest rates influence the interest payable on borrowings and on interest receivable on surplus funds invested. 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 40% 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 the restructuring 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 2016, with all other variables held constant.

	31 March 2016 £000	31 March 2015 £000
Impact on taxpayer		
Increase on interest payable on variable rate borrowings	315	669
Increase in interest receivable on variable rate lending	(523)	(456)
Net effect on Comprehensive Income & Expenditure Statement	**(208)**	**213**
Other presentational changes		
A decrease in the "fair value" of fixed rate borrowing (disclosure confined to the Notes to the Accounts)	(35,252)	(24,476)
	(35,252)	**(24,476)**

The impact of a 1% fall in interest rates would be as above but with the changes being reversed.
Other areas of market risk are price risk and foreign exchange risk. The Council has no exposure to these risks through its treasury activities. The Council does not invest in equity shares (so called "available-for-sale" assets) and consequently is not exposed to gains or losses arising from movements in the prices of shares. 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 23 Related Parties

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

The Scottish Government

The Scottish Government has significant influence over the general operations of the Council, being responsible for providing the statutory framework within which the Council operates. The Scottish Government also provides the majority of the Council's funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (such as Council Tax bills and Housing Benefits). Grants received from the Scottish Government are disclosed in Note 4 Taxation and Non-Specific Grant Income on page 31.

Elected Members

Elected Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2015-16 is shown in the Remuneration Report on page 16. There are no other significant related party transactions with members of the Council. Elected Members are required to declare an interest if he or she believes that there may be a perception that their decision making may be influenced in any way by a personal interest. Should this arise, the relevant Member does not take part in any discussion or decision relating to that interest. The Register of Interests of each Member is available on the Councils' website http://www.inverclyde.gov.uk/council-and-government/councillors/.

Senior Officers

Senior Officers, as listed within the Remuneration Report on page 16, are required to declare an interest if he or she believes that there may be a perception that their decision making may be influenced in any way by a personal interest. Interests identified are disclosed in the table below.

Entities Controlled or Significantly Influenced by the Council

The Council has entered into a number of transactions under associates and other trading arrangements deemed to be a related party mainly through the Council's ability to exert influence over the entity through its representation on the respective Boards. The relevant transactions with the bodies are detailed below.

	2015-2016				2014-2015			
	Income from Related Parties £000	Expenditure to Related Parties £000	Amounts Due to Related Parties £000	Amounts Owed by Related Parties £000	Income from Related Parties £000	Expenditure to Related Parties £000	Amounts Due to Related Parties £000	Amounts Owed by Related Parties £000
Inverclyde Leisure Limited*1	(522)	1,832	(61)	1,187	(144)	1,852	(19)	537
Riverside Inverclyde Limited*1	(5)	4,849	(351)	0	(5)	2,610	(741)	10
Inverclyde Renovations Limited	0	0	0	0	0	0	0	0
Greenock Arts Guild Ltd (the Beacon Arts Centre)	0	2,298	0	0	0	117	(44)	0
Inverclyde Community Development Trust	(35)	2,941	0	0	(50)	2,696	(15)	0
River Clyde Homes	(228)	2,601	(43)	42	(87)	2,607	(41)	5

Notes:
*1 Further details of these entities are disclosed in the Group Accounts Note 30 Combining Entities.

Grants from government are disclosed in Note 4 Taxation and Non-Specific Grant Income.

Inverclyde Integration Joint Board

Inverclyde Integration Joint Board was established on 27 June 2015. The Council provides assistance in kind in terms of Board staff (Chief Officer) and administrative support for the operation of the Board. Delegation of resources by the Council to the Board is with effect from 1 April 2016.

Strathclyde Pension Fund

The Council is an admitted body to the local government pension scheme and has made payments as shown in Note 17 Defined Benefits Pension schemes on page 42.

Joint Boards

The Council is a member of the Joint Boards for Valuation, Strathclyde Partnership for Transport and Strathclyde Concessionary Travel Scheme. The Councils contributions are disclosed in the Group Accounts Note 30 Combining Entities on pages 69-70.

Note 24 Agency Services

The Council bills and collects non-domestic rates on behalf of the Scottish Government. During 2015-2016 the Council collected £20.6 million and received £0.23 million contribution from the non-domestic rates pool (2014-2015 £20.8 million and £0.52 million). The Council also bills and collects domestic water and sewerage charges on behalf of Scottish Water with its own Council Tax. During 2015-2016 the Council collected and paid over £11.53 million (2014-2015 £11.23 million) and received £0.302 million (2014-2015 £0.312 million) for providing this service.

The Council provides a range of community based services funded from resource transfer, delayed discharge and other Health Board contributions totalling £12.46 million in 2015-16 (£12.06 million in 2014-15).

Note 25 Contingent Assets and Liabilities

There is currently 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.

The Council transferred the bulk of its housing stock and some areas of land for the development of social housing to River Clyde Homes in December 2007. The Council retains the risk of any contamination present when the land transferred. The extent of any potential remedial work has not been assessed.

The Council has outstanding Employment Tribunals which, if the Employees' action is successful will result in a liability to the Council.

A recent EU ruling has highlighted that the Council may have some liability in respect of additional Holiday Pay entitlement. The extent of this liability cannot be assessed at this stage.

Due to works carried out at the former Greenock Academy site an issue over the level of the known contamination has arisen. The extent of any additional liability cannot be assessed at this stage.

The Council agreed to act as sponsor with respect to Inverclyde Leisure and Riverside Inverclyde's admission to the Strathclyde Pension Fund. In the event of either organisation ceasing to exist the Council will assume any contingent liability for non-funded costs.

The Council is unaware of any other material contingent asset or liability at 31 March 2016.

Note 26 Events after the Balance Sheet Date

The accounts were approved on 29 September 2016. There have been no material events after the balance sheet date which necessitate revision of figures in the financial statements or notes thereto including contingent assets or liabilities.

Note 27 Cash Flow Statement – Operating Activities

	2015-2016	2014-2015
	£000	£000
Net surplus or (deficit) on the Provision of Services	**4,198**	**(15,011)**
Adjustments to net surplus or (deficit) on the provision of services for non-cash movements		
Depreciation, amortisation & impairment	23,801	26,281
Net (gain) or loss on non-current assets	(245)	6,811
Retirement benefits	9,190	8,465
(Increase) or decrease in inventories	(55)	34
(Increase) or decrease in debtors	414	(428)
Increase or (decrease) in creditors and provisions	1,899	524
Other non-cash movements	0	0
	35,004	**41,687**
Adjustments for items included in the net surplus/(deficit) on the provision of services that are investing and financing activities		
Non-cash capital movements	(535)	1,946
Non-cash borrowing movements	(540)	(180)
Non-cash investing movements	(1,435)	(17)
	(2,510)	**1,749**
Net cash flow from Operating Activities	**36,692**	**28,425**

The net cash flow from Operating Activities in the above table includes the following elements of interest paid and received.

	2015-2016	2014-2015
	£000	£000
Interest received	482	471
Interest paid	(9,001)	(9,246)
Interest element of finance lease and PPP payments	(4,885)	(4,960)
Net cash flow from Servicing of Finance	**(13,404)**	**(13,735)**

Note 28 Cash Flow Statement – Investing Activities

	2015-2016	2014-2015
	£000	£000
Purchase of property, plant and equipment and intangible assets	(30,013)	(24,200)
Purchase of short-term and long-term investments	(39,500)	(47,376)
Other payments for investing activities	0	0
Proceeds from sale of property, plant and equipment and intangible assets	518	213
Proceeds from short-term and long-term investments	46,500	47,410
Other receipts from investing activities	0	0
Net cash flows from investing activities	**(22,495)**	**(23,953)**

Note 29 Cash Flow Statement – Financing Activities

	2015-2016	2014-2015
	£000	£000
Cash receipts of short-term and long-term borrowing	1	1
Cash payments for the reduction of the outstanding liabilities relating to finance leases for schools PPP contracts	(2,084)	(1,953)
Repayment of short-term and long-term borrowing	(1,192)	(5,798)
Net cash flows from financing activities	**(3,275)**	**(7,750)**

Council Tax Income Account

Councils raise taxes from residents by way of 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. The net income is transferred to the Comprehensive Income & Expenditure Statement of the Council. Council Tax Reduction (CTR) was introduced from 1 April 2013 to replace Council Tax benefit (CTB) as part of the Scottish Government's welfare reform programme. The reduction in income is disclosed in a separate line in the table below.

	2015-2016	2014-2015
	£000	£000
Gross Council Tax levied and contributions in lieu	40,139	40,005
Adjustment: Council Tax Reduction Scheme	(6,457)	(6,716)
Less:		
Other discounts and reductions	(5,551)	(5,624)
Write offs	(11)	(13)
Provision for bad and doubtful debts	(534)	(719)
Net Council Tax income	**27,586**	**26,933**
Less Prior years' Council Tax adjustments	144	183
Net Council Tax income transferred to General Fund	**27,730**	**27,116**

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 10% -50%	Total Effective No. Of Dwellings	Council Tax Reduction Scheme	Proportion of Band D	Band D Equivalents
Band A*				43	14	0	40	8	5/9	18
Band A	19,119	1,144	43	23	9,041	487	15,451	4,266	6/9	7,457
Band B	5,845	214	23	17	2,652	117	4,904	1,187	7/9	2,891
Band C	3,504	104	17	15	1,225	54	3,065	555	8/9	2,231
Band D	3,305	69	15	32	1,047	51	2,966	266	9/9	2,700
Band E	3,468	57	32	19	850	60	3,156	142	11/9	3,684
Band F	1,912	28	19	10	345	32	1,773	61	13/9	2,473
Band G	1,422	15	10	0	212	30	1,329	17	15/9	2,187
Band H	212	5	0	0	23	4	199	2	18/9	394

* 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
Total	**24,037**
Provision for Bad Debt at 1.92%	(461)
Council Tax Base	**23,576**

Calculation of the Council Tax

Dwellings fall within a valuation band between A to H based on the value as determined by the Assessor. The Council Tax charge is calculated using the Council Tax base i.e. band D equivalents. This amount is then decreased or increased dependent on the band as is illustrated below. The band D charge for 2015-2016 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 and long term empty properties. Total exemptions are available if all the occupants are students, all 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

This account is an agent's statement that reflects the statutory obligation for billing Authorities to maintain a separate Non-Domestic Rate Account. The statement shows the gross income from the rates and deductions made under statute. The net Non-Domestic Rate income plus the contribution to the Council from the national Non-Domestic Rate pool is transferred to the Comprehensive Income & Expenditure Statement of the Council. The Business Rates Incentivisation Scheme (BRIS) was introduced from April 2012 and allows Councils that exceed their annual business rates target to retain 50% of any additional income. In accordance with guidance, the table below discloses this element of the Non-Domestic Rate income as "income retained by the Council".

The amount deemed to be collected locally was £24.443m. The sum actually collected locally and contributed to the pool was £20.582m.

	2015-2016	2014-2015
	£000	£000
Gross rates levied	29,304	29,548
Relief and other remissions	(7,953)	(7,926)
Payment of interest	0	0
Provision for bad and doubtful debts	(792)	(839)
Net non-domestic rate income	**20,559**	**20,783**
Adjustments for years prior to introduction of national non-domestic rate pool	0	0
Non-domestic rates income retained by authority	0	0
Contribution from national non-domestic rate pool	23	523
Net non-domestic rate income transferred to General Fund	**20,582**	**21,306**

	2015	2014
	£000	£000
Rateable values at 1 April		
Commercial	31,155	30,230
Industrial / freight transport	8,828	8,871
Others	20,256	21,159
	60,239	**60,260**

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 2015-2016 the charge was 48p in the £ sterling for properties with a rateable value under £35,000. Properties with a rateable value over £35,000, the charge was 49.3p.

Common Good Fund

The Common Good, administered by the Council, must be applied for the benefit of the people of Inverclyde. The figures below summarise the income and expenditure for the year as well as providing a snapshot of the assets and liabilities as at 31 March 2016. Each year, applications for funding support are considered by the Council's Policy & Resources Committee. The Common Good Fund is not included within the Principal financial statements of the Council or its Group.

Summary Income and Expenditure Account for the Year Ended 31 March 2016

2014-2015 £000		Usable Reserves: Revenue £000	Unusable Reserves: Revaluation Reserve £000	2015-2016 Total £000
323	Gross Expenditure	255	0	255
(142)	Gross Income	(116)	0	(116)
181	**Cost of Service**	**139**	**0**	**139**
0	Interest Payable and Similar Charges	0	0	0
(1)	Interest and Investment Income	(1)	0	(1)
(1)	**Financing and Investment Income and Expenditure**	**(1)**	**0**	**(1)**
180	**(Surplus) or Deficit on Provision of Services**	**138**	**0**	**138**
	Other Income and Expenditure			
	Unrealised gains on revaluation of land and buildings	0	(187)	(187)
		138	**(187)**	**(49)**
	Transfers between Reserves			
0	Transfer from Revaluation Reserve	(53)	53	0
180	**(Increase) or Decrease in the Year**	**85**	**(134)**	**(49)**
(1,676)	Balance on Reserves brought forward	(99)	(1,397)	(1,496)
(1,496)	**Balance on Reserves carried forward**	**(14)**	**(1,531)**	**(1,545)**

Balance Sheet at 31 March 2016

31 March 2015 £000		Notes	31 March 2016 £000
	Non-current Assets		
1,397	Property, Plant & Equipment	1	1,531
	Current Assets		
2	Short-term investments		2
3	Short-term debtors		3
94	Deposits up to 3 months with Inverclyde Council		9
	Current Liabilities		
0	Short-term creditors		0
1,496	**Net Assets**		**1,545**
99	Usable Reserves: Revenue Reserve		14
1,397	Unusable Reserves: Revaluation Reserve		1,531
1,496	**Total Reserves**		**1,545**

Notes to the Common Good

1. Property, Plant & Equipment

	2015-2016 Other Land & Buildings £000	2014-2015 Other Land & Buildings £000
Cost or Valuation		
At 1 April	2,002	2,002
Revaluation Adjustments to Revaluation Reserve	28	0
Other reclassifications*	(461)	0
At 31 March	**1,569**	**2,002**
Depreciation and Impairment		
At 1 April	605	552
Depreciation charge for the year	53	53
Depreciation on revalutaion to the revaluation reserve	(159)	0
Other reclassifications*	(461)	0
At 31 March	**38**	**605**
Balance Sheet amount at 31 March	**1,531**	**1,397**

*other reclassifications relate to the write back of depreciation from prior years revaluations.

The values above relate to various buildings and land, mostly commercial properties in Port Glasgow. The majority of land and buildings of the Common Good require, under accounting regulations, to be disclosed on the Balance Sheet of the Council and accordingly are not included in the Common Good's Balance Sheet. The Council is the managing agent and is responsible for all costs and any income of these managed assets (see Note 20 on pages 49-50). A full revaluation of all Common Good land and buildings took place at 31 March 2016.

2. Operating Leases

The Common Good has granted commercial leases for properties to various tenants on a variety of lease terms. These arrangements are accounted for as operating leases. The rental income receivable in 2015-2016 was £0.110 million (2014-2015 £0.142 million) and is included in the Summary Income & Expenditure Account. The rents receivable under non-cancellable leases in future years are shown in the table below. (These figures do not include rents that are contingent upon events taking place after the lease was entered into, such as adjustments following rent reviews).

	Future Rental Income Receivable	
	31 March 2016	31 March 2015
	£000	£000
Not later than one year	99	110
Later than one year and not later than five years	220	234
Later than five years	308	342
	627	**686**

Trust Funds

The Council has 7 trust funds, 2 of which are registered Scottish charities. The funds do not represent assets of the Council and as such have not been included in the Council's Balance Sheet. The Income & Expenditure reserves of the trusts for 2015-2016 are as follows:

	2015-2016				2014-2015
	Income	Expenditure	Revaluations	Reserves	Reserves
	£000	£000	£000	£000	£000
1. The Birkmyre Trust To ensure the availability of recreational facilities within the Birkmyre Park, Kilmacolm.	15	(5)	141	1,270	1,119
2. The Watt Institution Trust For the maintenance, preservation, repair, improvement and furnishing of the Watt Library and McLean Museum and Art Gallery.	0	(1)	0	117	118
3. McLeod Trust Port Glasgow High School To provide scholarships for pupils of Port Glasgow High School from disadvantaged backgrounds or with no history of further education.	2	(4)	(6)	68	76
4. The Talented Children and Young People Endowment* To provide endowments for talented children and young people mostly in the areas of arts, creativity, music and sport.	0	(61)	0	0	61
5. Lady Alice Shaw-Stewart Memorial Trust (SC019228) For financial and other assistance to women offenders recommended to the trustees by the Inverclyde Criminal Justice Women's Service	0	(1)	0	45	46
6. Peter Stanton Memorial Trust (SC021862) For the promotion of recreational or other leisure activities for disabled persons in Inverclyde.	1	(2)	0	11	12
7. William Stewart of St Fillans Bequest* For the poor and destitute of Greenock	0	(1)	0	0	1
Total Trust Funds	**18**	**(75)**	**135**	**1,511**	**1,433**

*These trusts were closed during the year. The Stewart Bequest was also removed from the Scottish Charity Register.

Group Movement in Reserves Statement

This statement shows the movement in the year on the reserves held by the Council plus its share of the reserves of its associates. The Council's reserves are analysed into those which are "Usable Reserves" (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Council's share of the reserves of its Associates is an unusable reserve (i.e. it cannot be used to fund expenditure or reduce taxation).

Year ended 31 March 2016

	Council Usable Reserves							
	General Fund Balance	Other Revenue Reserves	Capital Reserves	Total Usable Reserves	Council Unusable Reserves	Share of Associates Usable Reserves	Share of Associates Unusable Reserves	Total Group Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2015	**44,991**	**6,819**	**2,590**	**54,400**	**(34,292)**	**2,706**	**3,806**	**26,620**
Movement in Reserves during 2015-2016								
Surplus or (Deficit) on Provision of Services	4,198	0	0	**4,198**	0	1,649	(61)	**5,786**
Other Comprehensive (Expenditure) and Income	0	0	0	**0**	99,113	(106)	2,086	**101,093**
Total Comprehensive (Expenditure) and Income	**4,198**	**0**	**0**	**4,198**	**99,113**	**1,543**	**2,025**	**106,879**
Adjustments between Accounting Basis and Funding Basis under Regulations (Note 1)	171	0	0	**171**	(171)	(638)	638	0
Net Increase or (Decrease) before Transfers to/from Other Statutory Reserves	**4,369**	**0**	**0**	**4,369**	**98,942**	**905**	**2,663**	**106,879**
Transfers (to) and from Other Statutory Reserves	(305)	181	124	**0**	0	209	(209)	**0**
Increase or (Decrease) in the Year	**4,064**	**181**	**124**	**4,369**	**98,942**	**1,114**	**2,454**	**106,879**
Balance at 31 March 2016 Carried Forward	**49,055**	**7,000**	**2,714**	**58,769**	**64,650**	**3,820**	**6,260**	**133,499**

Comparative Figures for Year ended 31 March 2015

	Council Usable Reserves							
	General Fund Balance	Other Revenue Reserves	Capital Reserves	Total Usable Reserves	Council Unusable Reserves	Share of Associates Usable Reserves	Share of Associates Unusable Reserves	Total Group Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2014	**42,890**	**7,004**	**940**	**50,834**	**2,739**	**4,968**	**4,529**	**63,070**
Movement in Reserves during 2014-2015								
Surplus or (Deficit) on Provision of Services	(15,011)	0	0	**(15,011)**	0	1,112	(39)	**(13,938)**
Other Comprehensive (Expenditure) and Income	0	0	0	**0**	(18,454)	(3,177)	(881)	**(22,512)**
Total Comprehensive (Expenditure) and Income	**(15,011)**	**0**	**0**	**(15,011)**	**(18,454)**	**(2,065)**	**(920)**	**(36,450)**
Adjustments between Accounting Basis and Funding Basis under Regulations (Note 1)	16,231	0	2,346	**18,577**	(18,577)	781	(781)	0
Net Increase or (Decrease) before Transfers to/from Other Statutory Reserves	**1,220**	**0**	**2,346**	**3,566**	**(37,031)**	**(1,284)**	**(1,701)**	**(36,450)**
Transfers (to) and from Other Statutory Reserves	881	(185)	(696)	**0**	0	(978)	978	**0**
Increase or (Decrease) in the Year	**2,101**	**(185)**	**1,650**	**3,566**	**(37,031)**	**(2,262)**	**(723)**	**(36,450)**
Balance at 31 March 2015 Carried Forward	**44,991**	**6,819**	**2,590**	**54,400**	**(34,292)**	**2,706**	**3,806**	**26,620**

Group Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing the Council's services and its share of the results of its associates in accordance with International Financial Reporting Standards, rather than the amount to be funded from taxation. Local authorities raise taxation to cover expenditure in accordance with regulations, and this is different from the accounting cost. The taxation position is shown in the *Group Movement in Reserves Statement*.

2014-2015				2015-2016		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
3,302	(1,282)	2,020	Central Services to the Public	3,243	(1,322)	1,921
13,605	(1,136)	12,469	Cultural & Related Services	13,704	(1,369)	12,335
91,748	(3,189)	88,559	Education Services	92,430	(4,283)	88,147
14,529	(1,902)	12,627	Environmental Services	14,663	(1,943)	12,720
44,248	(40,738)	3,510	Housing Services	43,252	(39,968)	3,284
11,967	(3,648)	8,319	Planning and Development Services	11,574	(3,681)	7,893
10,925	(3,590)	7,335	Roads & Transportation	11,813	(4,372)	7,441
69,899	(15,470)	54,429	Social Work	72,084	(15,787)	56,297
2,173	0	2,173	Corporate and Democratic Core	2,007	0	2,007
854	(3)	851	Non-Distributable Costs	409	(6)	403
263,250	**(70,958)**	**192,292**	**Cost of Services**	**265,179**	**(72,731)**	**192,448**
			Other Operating Expenditure and (Income) -			
		6,811	(Gain)/Loss on disposal of non-current assets			(245)
		20,349	Financing and Investment (Income) and Expenditure (Note 3)			18,718
		(204,441)	Taxation and Non-specific Grant Income (Note 4)			(215,119)
		15,011	**(Surplus) or Deficit on the Provision of Services**			**(4,198)**
		(1,073)	Share of the (surplus) or deficit on the provision of services by associates (Note 32)			(1,588)
		13,938	**Group (Surplus) or Deficit**			**(5,786)**
		(504)	(Surplus) or deficit on the revaluation of non current assets			(43,146)
		1,470	Impairment losses on non-current assets charged to the Revaluation Reserve			0
		17,488	Remeasurement of the net defined benefit pensions liability (Note 17)			(55,967)
		4,058	Share of other Comprehensive (Income) and Expenditure of associates (Note 32)			(1,980)
		22,512	**Other Comprehensive (Income) and Expenditure**			**(101,093)**
		36,450	**Total Comprehensive (Income) and Expenditure**			**(106,879)**

Group Balance Sheet

The Balance Sheet is a snapshot of the value at the 31 March 2016 of the assets and liabilities recognised by the Council and of its share of the net assets or liabilities of its associates. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. The net investment or liability in its associates is matched by its share of the reserves of the associates (i.e. its group reserves).

31 March 2015 £000		Note	31 March 2016 £000
421,877	Property, Plant & Equipment	8	471,048
18,059	Heritage Assets	11	18,059
172	Intangible Assets		121
8,412	Investments in Associates	33	10,738
2,137	Long-term Debtors	12	2,659
450,657	**Non-current Assets**		**502,625**
17,582	Short-term Investments	21	12,017
0	Assets Held for Sale	9	500
284	Inventories		339
10,606	Short-term Debtors	12	9,670
27,567	Cash and Cash Equivalents	13	38,489
56,039	**Current Assets**		**61,015**
(3,668)	Short-term Borrowing	21	(7,974)
(24,830)	Short-term Creditors	14	(26,705)
(1,514)	Short-term Provisions	15	(1,538)
(2,084)	Short-term Finance Leases	20	(1,908)
(32,096)	**Current Liabilities**		**(38,125)**
(497)	Long-term Provisions	15	(497)
(214,249)	Long-term Borrowing	21	(208,212)
(1,900)	Liabilities in Associates	33	(658)
	Other Long-term Liabilities:		
(67,727)	Finance Leases	20	(65,819)
(163,607)	Pensions	17	(116,830)
(447,980)	**Long-term Liabilities**		**(392,016)**
26,620	**Net Assets/(Liabilities)**		**133,499**
54,400	Usable Reserves of the Council	2	58,769
(34,292)	Unusable Reserves of the Council	19	64,650
2,706	Usable Reserves, Share of Reserves of Associates		3,820
3,806	Unusable Reserves, Share of Reserves of Associates		6,260
26,620	**Total Reserves**		**133,499**

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

Issued on: 29 September 2016

These financial statements replace the unaudited financial statements issued on 28th June 2016.

Note 30 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 2016. 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 Partnership for Transport

This is the statutory body responsible for formulating the public transport policy for the 12 local authorities in the former Strathclyde Region area. In 2015-2016, Inverclyde Council contributed £1.478 million or 3.95% (2014-2015 £1.478 million) of the Partnership's estimated running costs and its share of the year-end net asset of £7.081 million (2014-2015 £6.164 million) is included in the Group Balance Sheet. The unaudited accounts of the Board can be obtained from the Treasurer to Strathclyde Partnership for Transport, 131 St Vincent Street, Glasgow G2 5JF.

Strathclyde Concessionary Travel Scheme Joint Board

This Travel Scheme comprises the 12 Councils within the former Strathclyde Region area 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. Strathclyde Partnership for Transport administers the Scheme on behalf of the Board. In 2015-2016, Inverclyde Council contributed £0.171 million or 4.02% (2014-2015 £0.171 million) of the Board's estimated running costs and its share of the year-end net asset of £0.067 million (2014-2015 £0.066 million) is included in the Group Balance Sheet. The unaudited accounts of the Board can be obtained from the Treasurer to Strathclyde Concessionary Travel Scheme, Strathclyde Partnership for Transport, 131 St Vincent Street, Glasgow G2 5JF.

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 2015-2016, Inverclyde Council contributed £0.532 million or 23.70% (2014-2015 £0.541 million) of the Board's estimated running costs and its share of the year-end net liability of £0.658 million (2014-2015 £0.949 million net liability) is included in the Group Balance Sheet. The unaudited accounts of the Board can be obtained from the Treasurer to the Renfrewshire Valuation Joint Board, Renfrewshire House, Paisley PA1 1JB.

Inverclyde Leisure

This is a charitable company registered in Scotland that provides leisure facilities within Inverclyde Council's area to the general public and operates sports & leisure centres, community centres, swimming pools, parks and pitches owned by the Council. Inverclyde Leisure is paid a management fee by the Council for the provision of these services. The charity's net asset at 31 March 2016 was £0.132 million (2014-2015 £2.092 million liability) and its net deficit for the year was £0.188 million (2014-2015 £0.294 million). The Council has no commitment to meet any losses of the company. The accounts of the 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 accounts of the Company have not yet been audited.

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 the right to appoint 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 as an associate because it has a "significant influence" over the financial and operating policies of the charity. In 2015-2016, Inverclyde Council contributed £1.832 million (as per related notes) or 30.31% of the charity's turnover and its share of the year-end net assets of £0.060 million (2014-2015 £0.951 million net liabilities) is included in the Group Balance Sheet. The Council has guaranteed to accept liability for any unfunded pension costs relating to the company's membership of the Local Government Pension Scheme (LGPS) in the event of the company ceasing to exist or withdrawing from the pension scheme.

Riverside Inverclyde

This is an Urban Regeneration Company 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 Inverclyde area. The company's operations are funded by grants from the Scottish Government, Inverclyde Council and Scottish Enterprise Renfrewshire. The Charity's net assets at 31 March 2016 were £10.591 million (2014-2015 £6.546 million) and its net profit for the year was £2.200 million (2014-2015 £3.272 million net profit). The Council has no commitment to meet any losses of the company. The unaudited accounts of the company are published separately and may be obtained from the Chief Executive, Suite G1, Clydeview, 22 Pottery Street, Greenock, PA15 2UZ 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 the right to appoint three of the nine representatives on the company's board, and for the purposes of accounting this equates to an interest of 33.33%. 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 2015-2016, Inverclyde Council contributed £4.849 million (2014-2015 £2.610 million) or 69.9% of the charity's turnover, and its share of the year-end asset of £3.530 million (2014-2015 £2.182 million) is included in the Group Balance Sheet. The Council has guaranteed to accept liability for any unfunded pension costs relating to the company's membership of the Local Government Pension Scheme (LGPS) in the event of the company ceasing to exist or withdrawing from the pension scheme.

Non-Material Interest in Other Entities

The Council has an interest in a number of other organisations. 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 Accounting Regulations, the Council is required to disclose the business nature of each organisation.

- Scotland Excel is a joint committee established through Section 57 of the Local Government (Scotland) Act 1973. The main purpose of the committee includes co-ordination of collaborative buying initiatives, representation of interests in public sector contracts, and the development and operation of a centre of procurement expertise for Local Government in Scotland.
- During the financial year, a new joint venture, Inverclyde Health and Social Care Partnership was established by Inverclyde Council with NHS Greater Glasgow and Clyde to formally integrate health and care provision within Inverclyde. The commissioning of services for the joint service operations did not commence until 1 April 2016 and as a result the transactions in the first year are not material and accordingly have not been consolidated in the Group Accounts of the Council. Inverclyde Council contributed £0.026 million to the running costs in 2015-2016.
- Clyde Muirshiel Park Authority is a joint committee of three councils – Renfrewshire, Inverclyde 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 £0.200 million to the committee's estimated running costs in 2015-2016 (£0.217 million in 2014-2015).
- Greenock Arts Guild Ltd runs the main arts venue for the Inverclyde Area, the Beacon Arts Centre in Greenock. During 2015-2016 the Council provided revenue and capital grants to the Beacon Arts Centre totalling £2.298 million (£0.117 million in 2014-2015).
- The Common Good Fund is for the benefit of the geographical areas of the former burgh and is administered by the Council. The Common Good Account is included within the Council's core financial statements on pages 63-64.

Note 31 Group Cash Flow Statement

The cash flow of the Group is identical to that disclosed for Inverclyde Council on page 27. There is no impact upon cash flow from the consolidation of the associates. Accordingly, no additional cash flow statement is included for the Group.

Note 32 Material Items of Group Income and Expenditure

In order to provide the reader with 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 of income and expenditure disclosed on the face of the CIES. This note should be read in conjunction with the disclosures for the Council in Note 5 *Material Items of Income and Expenditure*.

	2015-2016	2014-2015
	£000	£000
Share of the (surplus) or deficit on the provision of services by associates		
Strathclyde Partnership for Transport	(415)	(160)
Strathclyde Concessionary Travel Scheme Joint Board	(1)	(1)
Renfrewshire Valuation Joint Board	65	45
Inverclyde Leisure	79	134
Riverside Inverclyde	(1,316)	(1,091)
	(1,588)	(1,073)
Share of Other Comprehensive (Income) and Expenditure of Associates		
Strathclyde Partnership for Transport	(502)	234
Strathclyde Concessionary Travel Scheme Joint Board	0	0
Renfrewshire Valuation Joint Board	(356)	312
Inverclyde Leisure	(1,090)	335
Riverside Inverclyde	(32)	3,177
	(1,980)	4,058

Note 33 Group Assets and Liabilities of Associates

	2015-2016	2014-2015
	£000	£000
Net Assets of Associates		
Strathclyde Partnership for Transport	7,081	6,164
Strathclyde Concessionary Travel Scheme Joint Board	67	66
Riverside Inverclyde	3,530	2,182
Inverclyde Leisure	60	0
	10,738	**8,412**
Net Liabilities of Associates		
Renfrewshire Valuation Joint Board	(658)	(949)
Inverclyde Leisure	0	(951)
	(658)	**(1,900)**

Note 34 Accounting Policies

The Council is required to prepare an annual "Statement of Accounts" by the Local Authority Accounts (Scotland) Regulations 2014. Section 12 of the Local Government in Scotland Act 2003 requires such accounts to be prepared in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2015-2016 and the Service Reporting Code of Practice (SeRCOP) 2015-2016, supported by International Financial Reporting Standards (IFRS).These are issued jointly by CIPFA and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) and are designed to give a "true and fair view" of the financial performance of the Council and its Group. The Annual Accounts have been prepared on a "going concern" basis. The accounting convention adopted in the Annual Accounts is principally historic cost, modified by the revaluation of certain categories of non-current and financial assets.

A Accruals of Expenditure and Income

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- All known specific and material sums payable to the Council have been brought into account. Revenue from the sale of goods or the provision of services is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser or can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract. Interest receivable and dividend income is recognised when it is probable that the economic benefits associated with the transaction will flow to the Council.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- The Council Tax income for the year is the accrued income for the year less reliefs and remissions. The net income is transferred to the Comprehensive Income & Expenditure Statement (CIES). The Non-domestic Rates income for the year is the accrued income for the year less reliefs and remissions. The net Non-domestic Rate income plus the contribution to the local authority from the national Non-domestic Rate pool is transferred to the CIES.

B Agency Agreements

Where the Council acts as an agent for another entity, transactions are not reflected in the Council's financial statements, with the exception of cash collected or expenditure incurred by the Council on behalf of the other entity, in which case there is a debtor or creditor position in the balance sheet for amounts due or owed.

C Allocation of Central Support Costs and Recharges to Capital (Overheads and Support Services)

The net cost of central support services is fully allocated to user services with the exception of:

- Corporate and Democratic Core: Costs relating to the Council's status as a multi-functional, democratic organisation.
- Non-Distributable Costs: The cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

These two cost categories are accounted for as separate headings in the CIES, as part of the Cost of Services. All overheads not defined as corporate and democratic core or non-distributable costs are fully charged to service expenditure headings. The method of allocation is determined by the individual support services and is consistent with the principles laid down in the SeRCOP.

D Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the balance sheet date and that are readily convertible to known amounts of cash with insignificant risk of change in value.

E Charges to Revenue for Non-Current Assets

Services are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible non-current assets attributable to the service.

F Employee Benefits

Benefits Payable During Employment

Short-term employee benefits such as salaries, wages, overtime and paid annual leave for current employees are recognised as an expense in the year in which employees render service to the Council. The Council has made provision for the costs of settling claims for equal pay arising before the Council implemented its equal pay strategy. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end and which employees can carry forward into the next financial year.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before their normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits. They are charged on an accruals basis to the appropriate service line in the CIES at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises the costs for a restructuring.

Post Employment Benefits

The Council participates in two separate pension schemes; the Local Government Pension Scheme which is administered by Strathclyde Pension Fund; and the Scottish Teachers' Pension Scheme which is administered by the Scottish Government. Liabilities for the teachers' scheme cannot be identified specifically to the Council, therefore the scheme is accounted for as a defined contributions scheme.

The Local Government Pension Scheme (LGPS) is accounted for as a "defined benefit" scheme in accordance with International Accounting Standard 19 (IAS19). Inverclyde Council's share of the net pension liability in the Strathclyde Pension Fund and a pension reserve are recognised in the Balance Sheet. The CIES recognises changes during the year in the pension liability. Service expenditure includes pension costs based on employers' pension contributions payable and payments to pensioners in the year.

Liabilities are included in the Balance Sheet on an actuarial basis using the "projected credit unit method" i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about longevity, projected earnings and so on. Liabilities are discounted to their value at current prices, using a discount rate (currently 3.5%) based on an average of high quality corporate bonds. Assets are included in the Balance Sheet at their fair value, principally the bid price for quoted securities, estimated fair value for unquoted securities and market price for property.

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

G Events after the Reporting Period

These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. An adjustment is made to the financial statements where there is evidence that the event relates to the reporting period; otherwise the financial statements are not adjusted, and where the amount is material, a disclosure is made in the notes.

H Exceptional Items and Prior Period Adjustments

When items of income and expenditure are material, their nature and amount is disclosed separately, either on the face of the CIES or in the notes to the Accounts, depending on how significant the items are to an understanding of the Council's financial performance.

Prior period adjustments may arise as a result of a change in accounting policy or to correct a material error. Changes are made by adjusting the opening balances and comparative amounts for the prior period.

I Fair Value Measurement

The Council measures the carrying value of some of its non-financial assets, mostly surplus assets, at fair value at each reporting date. Fair value is broadly the amount for which an asset could be exchanged or a liability settled.

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

The inputs to the measurement techniques are categorised in accordance with the following three levels:

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

J Financial Assets

The financial assets of the Council are comprised entirely of Loans and Receivables i.e. assets that have fixed or determinable payments but are not quoted in an active market.

Loans and Receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. For the Council's short-term deposits and most of its other lending, this means that the amount presented in the Balance Sheet is the outstanding principal receivable plus accrued interest, and interest credited to the CIES is the amount receivable for the year in the loan agreement.

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

K Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes contractually obliged by the financial instrument and the liabilities are measured at fair value and then carried at their amortised cost. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable plus accrued interest, and interest charged to the CIES is the amount payable for the year according to the loan agreement.

Costs associated with debt restructuring (premiums and discounts) are charged to the Financing and Investment Income and Expenditure line in the CIES in the year of repayment of the original debt in accordance with accounting regulations. Where premiums and discounts have been charged to the CIES, Scottish Government regulations permit the costs of restructuring to be released to revenue over the period of the replacement loan.

L Government Grants and Contributions

Government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. Where conditions are satisfied, the grant or contribution is credited to the relevant service line (for revenue grants) or Taxation and Non-specific Grant Income (for capital grants). Where capital grants are credited to the CIES, they are reversed out in the General Fund balance in the Movement in Reserves Statement.

M Heritage Assets

The Council holds and conserves heritage assets for future generations in support of the primary objective of increasing the knowledge, understanding and appreciation of the history of the area of Inverclyde.

As a general policy, heritage assets are recognised on the Balance Sheet where the Council has information on the cost or value of the asset. Where information on cost or value is not available, and the cost of obtaining the information outweighs the benefits to the users of the financial statements, the asset is not recognised on the Balance Sheet.

The carrying amount of heritage assets are reviewed where there is evidence of impairment e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment. It is likely that disposals of heritage assets will be made only very occasionally. Where this does occur, the proceeds of such items are accounted for in accordance with the Council's policies relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements.

N Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that it will bring benefits to the Council for more than twelve months. Intangible assets are measured initially at cost. Amounts are not revalued, as the fair value of the assets held by the Council cannot be determined by reference to an active market. The depreciable amount of an intangible asset is amortised over its useful life (assessed as between one to six years) to the relevant service lines in the CIES.

O Interest in Companies and Other Entities

Inverclyde Council has interests in a number of entities that it considers to be associates, because it has a significant influence over their financial and operating policies. The Council does not hold any direct investment in these entities and accordingly no interests are shown in the accounts of the Council itself. The Group Accounts on pages 66 to 71 combine the results of the Council with its share of its associates. More information about the associates is detailed in Note 30.

P Inventories

Inventories include consumable stock and work-in-progress. Consumable stock brought into account is included in the Balance Sheet at the lower of cost and net realisable value. The valuation of work-in-progress has been made at cost plus an appropriate proportion of overheads, together with allowances for foreseeable losses.

Q Leases

Leases are classified as finance leases where the terms of the lease transfer the majority of the risks and rewards incidental to ownership of the property from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

The Council as Lessee

Finance Leases

Assets held under finance leases are recognised on the Balance Sheet at the commencement of the lease at their fair value measured at the lease's inception. The asset recognised has a corresponding liability to pay the lessor.

Operating Leases

Rentals paid under operating leases are charged to the appropriate service account in the CIES as an expense of the services benefitting from use of the leased property over the term of the lease.

The Council as Lessor

Operating Leases

Where the Council grants an operating lease over a property, the asset is retained in the Balance Sheet.

R Property Held for Sale

Property, land and buildings are classified as "*Held for Sale*" when the following criteria are met:

- The property is available for immediate sale in its present condition.

- The sale must be highly probable; and an active programme to locate a buyer and complete the plan must have been initiated.
- The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value.
- The sale should be expected to qualify for recognition as a completed sale within one year (although events or circumstances may extend the period to complete the sale beyond one year).

When these criteria are met, assets within the category of *Property, Plant & Equipment* will be reclassified to "*Assets Held for Sale"*. The date of reclassification will normally be the date approval was granted by Committee to sell the asset.

S Property, Plant & Equipment

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

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis. Expenditure that merely maintains the condition of an asset e.g. repairs and maintenance is charged as an expense when it is incurred.

Plant, furniture and computer equipment costing less than £6,000 are not treated as Property, Plant and Equipment and are charged to the appropriate service line in the CIES. This de-minimus also applies to assets acquired under finance leases. It does not apply where certain categories of assets that individually cost less than £6,000 are grouped together and form part of the approved capital programme.

Measurement

Assets are initially measured at cost, comprising:

- The purchase price, and
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

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

- Infrastructure, community assets & assets under construction – depreciated historic cost.
- Surplus assets – current value as estimated at highest and best use from an open market perspective (fair value).
- All other assets - current value, determined as the amount that would be paid for the asset in its existing use (existing use value).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, in a limited number of instances depreciated replacement cost or insurance replacement cost has been used as an estimate of fair value. For non-property assets that have short useful lives or low values, depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end. The Council revalues its land and buildings in a single exercise at five-yearly intervals. An independent valuation of all Council owned land and buildings was undertaken during 2015-2016 by GVA James Barr, a professional firm of chartered surveyors, and was completed on 31 March 2016.

Impairment

The Council recognises the impairment of non-current assets in accordance with Financial Standard IAS36 (Impairment of Assets) whereby any material reduction in asset value as a result of changing market conditions or clear consumption of an asset is recognised in the CIES only to the extent that the loss exceeds the balance on the Revaluation Reserve relating to the specific asset. An impairment review is conducted annually by the Council's Valuer who is Royal Institution of Chartered Surveyors (RICS) qualified.

Disposals
When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is taken to the CIES. Gains in fair value are recognised only up to the amount of any previously recognised losses in the (Surplus) or Deficit on Provision of Services.

Depreciation
Depreciation is provided for on all Property, Plant and Equipment assets. An exception is made for assets without a determinable finite useful life (i.e. land and certain community assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is charged on a straight-line basis over the useful life of the assets (as advised by a suitably qualified officer). 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:
- Buildings – 10 to 60 years;
- Schools – 10 to 60 years;
- Vehicles, equipment and plant – 2 to 10 years;
- Infrastructure – 2 to 40 years.

Where a material item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately in accordance with the Council approved policy for material assets with a value in excess of £1 million. Significant components are deemed to be those whose value is 25% or more of the total value of the asset.

T Provisions, Contingent Assets and Liabilities
Provisions
Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the CIES in the year that the Council becomes aware of the obligation, and measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes less than probable that a transfer of economic benefits will be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

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

Contingent liabilities and assets are not recognised in the Balance Sheet but disclosed in a Note to the Accounts where they are deemed material.

U Public Private Partnership Schemes
The Public Private Partnership (PPP) agreement for the provision of school buildings, their maintenance and other facilities is accounted for in accordance with International Financial Reporting Interpretations Committee (IFRIC) 12 Service Concession Arrangements. The Council carries the assets and the associated liability to the PPP operator on its Balance Sheet. The annual amount payable to the PPP operator (the unitary charge) is apportioned between operating costs, interest payments and the repayment of debt. The property, plant and equipment of the PPP scheme are depreciated over the useful life of the assets and the associated liability to the operator is reduced by the principal repayments paid as part of the unitary charge.

V Reserves
Reserves are created by appropriating amounts from the General Fund balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service within the CIES. The reserve is then appropriated back into the General Fund balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Usable Reserves
The Council has several reserve funds within this category. The Insurance Fund covers the main classes of insurance and is earmarked for insurance purposes. The Repairs and Renewal Fund provides for the upkeep of specific assets held by 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.

Unusable Reserves
Certain reserves are kept to manage the accounting process for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the authority. These reserves are explained in Note 19 Unusable Reserves.

W VAT
Income in the accounts excludes VAT because all VAT charged by the Council is paid to HM Revenue & Customs. Expenditure in the accounts only includes VAT that cannot be recovered from HM Revenue & Customs.

Group Accounting Policies

A Introduction
The Code of Practice on Local Authority Accounting in the United Kingdom 2015-2016 (The Code) 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. 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. The Accounting Policies in the preceding sections of this note apply to the Council and it's Group members; where Group Accounting Policies differ these are highlighted below.

B Combining Entities and Group Boundary
The Group Accounts consolidate the results of the Council with five other entities:

- Strathclyde Partnership for Transport (SPT)
- Strathclyde Concessionary Travel Scheme Joint Board
- Renfrewshire Valuation Joint Board
- Inverclyde Leisure
- Riverside Inverclyde

Under accounting standards, the Council is required 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.

Two of the three Joint Boards (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. This is in view of the funding arrangements between the constituent Councils and the Joint Boards.

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

All entities have the same reporting date as the Council. Further details for each entity are provided in Note 30 Combining Entities.

During the financial year, a new joint venture, Inverclyde Health and Social Care Partnership Integrated Joint Board was established by Inverclyde Council with NHS Greater Glasgow and Clyde to formally integrate health and care provision within Inverclyde. The commissioning of services for the joint service operations did not commence until 1 April 2016 and as a result the transactions in the first year are not material and accordingly have not been consolidated in the Group Accounts of the Council.

C Basis of Preparation of Group Statements and 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 and its share of other gains and losses (recognised in the Group Comprehensive Income & Expenditure Statement (CIES)).

All associates consider it appropriate that their Statement of Accounts should follow the "going concern" basis of accounting. The Council's Group Accounts have been prepared on a "going concern" basis as it is expected that future local government finance settlements, aligned with the Council's robust budget process, which drives through efficiency savings, will provide sufficient resources to finance future liabilities.

D Employee Benefits: Post-employment Benefits

In common with Inverclyde Council, all combining entities participate in the Strathclyde Pension Fund. This is explained in Note 17 Defined Benefit Pension Schemes. The associates have accounting policies for pensions accounting that are consistent with those of the Council.

E Property, Plant and Equipment

Measurement

The basis of valuation across the combining entities is in accordance with IFRS. PP&E assets are shown at current value with the following exception:

I. The Valuation Joint Board and Concessionary Travel Scheme Joint Board have no non-current assets.
II. The SPT holds exceptional types of non-current 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 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.

F Restrictions on Transfer of Funds

The Council's share of the reserves of its associates is unusable i.e. it cannot be used to fund the Council's services or to reduce taxation. All associates are entirely independent of the Council under law and for taxation. The Council is unable to access their reserves, whether classified as usable or otherwise in the associate's own accounts.

Note 35 Accounting Standards Issued not Adopted

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. The standards introduced in the 2016/17applicable to the Council are:

- Amendments to IAS19 Employee Benefits (Defined Benefit Plans: Employee Contributions)
- Annual Improvements to IFRSs 2010 – 2012 Cycle
- Amendment to IFRS11 Joint Arrangements (Accounting for Acquisitions of Interests in Joint Operations)
- Amendment to IAS16 Property, Plant and Equipment and IAS38 Intangible Assets (Clarification of Acceptable Methods of Depreciation and Amortisation)
- Annual Improvements to IFRSs 2012 – 2014 Cycle
- Amendment to IAS1 Presentation of Financial Statements (Disclosure Initiative)

The Council does not anticipate that these amendments will have a material impact on the information provided in the Financial Statements. The most noticeable change will arise as a result of the Telling the Story review of local authority financial statements. In the 2016-2017 year, the comparator (2015-2016) Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement must reflect the new formats and reporting requirements. A new Expenditure and Funding Analysis is being introduced also.

Note 36 Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 34, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in the Statement of Accounts are:

- The Council has entered into commercial lease agreements both as landlord and tenant for land and buildings on a variety of lease terms. These arrangements are accounted for as operating leases. The Council has considered the tests under IAS17 and concluded that there is no transfer of the risks and rewards of ownership.
- The Council has entered into an arrangement to manage various land and buildings, including the Greenock Municipal Buildings, that belong to the Common Good. This management arrangement is accounted for as a finance lease. The Council has considered the tests under IFRIC4 and concluded that the arrangement has the substance of a lease under which the Council has assumed the risks and rewards of ownership. The assets covered by the management arrangement are carried as Property, Plant & Equipment in the Balance Sheet of the Council.
- The Council has entered into a Public Private Partnership (PPP) for the provision of educational buildings, their maintenance and related facilities. The Council has considered the tests under IFRIC12 and concluded this is a service concession.
- Two Joint Boards (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. This is in view of the funding arrangements between the constituent local authorities and the Joint Boards.
- The Council has considered its exposure to possible losses and made adequate provision where it is probable that an outflow of resources will be required and the amount of the obligation can be measured reliably. Where it has not been possible to measure the obligation, or it is not probable in the Council’s opinion that a transfer of economic benefits will be required, material contingent liabilities have been disclosed in Note 25. This includes the potential cost of claims by other groups of employees for equal pay compensation and the potential costs of unassessed remedial work on contaminated land.
- In the opinion of the Council Valuer, the current value of property, plant and equipment is not materially different from fair value at 31 March 2016.
- The accounts have been prepared on a going concern basis as it is expected that future local government finance settlements, aligned with the Council’s robust process, which drives through efficiency savings, will provide sufficient resources to finance future liabilities.

Note 37 Assumptions made about the Future and Other Major Sources of Estimation Uncertainty

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

The items in the Council's Balance Sheet at 31 March 2016 for which there is a risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Results differ from Assumptions
Pensions liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which pay is projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Strathclyde Pension Fund has engaged a firm of consulting actuaries to provide expert advice about the assumptions to be applied.	The sensitivities regarding the principal assumptions used by the consulting actuaries to measure the scheme liabilities are set out below: • A 0.5% decrease in the real discount rate would result in an 10% increase (£55.3 million) in the employer's obligation. • A one year increase in member life expectancy would result in a 3% increase (£16.9 million) in the employer's obligation. • A 0.5% increase in the salary increase rate would result in a 3% increase (£18.5 million) in the employer's obligation. • A 0.5% increase in the pension increase rate would result in a 6% increase (£35.8 million) in the employer's obligation.
Trade Debtors - Collection levels of arrears	At 31 March 2016, the Council had a balance of trade debtors of £8.4 million. A review of significant balances suggested that an allowance for doubtful debts of 55.8% (£4.7 million) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, a doubling of the amount of doubtful debts would require an additional £4.7 million to be set aside as an allowance.
Property, plant and equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of asset falls. It is estimated that the annual depreciation charge for buildings would increase by £1.1 million for every year that useful lives had to be reduced.

Independent Auditor's Report to the Members of Inverclyde Council and the Accounts Commission for Scotland

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

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, we 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

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

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

Opinion on other prescribed matters

In our opinion:

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

Matters on which we are required to report by exception

We are required to report to you if, in our opinion:

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

We have nothing to report in respect of these matters.

Michael Thomas, (for and on behalf of Grant Thornton UK LLP)

Royal Liver Building
Liverpool
L3 1PS

29th September 2016

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

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

3. Actuarial Gains and Losses (Pensions)
For a defined benefit scheme, 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 and losses) or the actuarial assumptions have changed.

4. Asset
An item having value to the Council in monetary terms. Assets are categorised as either current or non-current. A current asset will be consumed or cease to have material value within the next financial year (e.g. cash and stock). A non-current asset provides benefit to the Council and to the Services it provides for a period of more than one year.

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

6. Audit of Accounts
An independent examination of the Council's financial affairs.

7. Balance Sheet
A statement of the recorded assets, liabilities and other balances at the end of the accounting period.

8. Capital Adjustment Account
This account absorbs the timing differences arising from the different arrangements for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions.

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

10. Capital Financing
Funds raised to pay for capital expenditure. There are various methods of financing capital expenditure including borrowing, leasing, capital receipts and grants, and revenue funding.

11. Capital Grants Unapplied Account
The Capital Grants Unapplied Account holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure.

12. Capital Programme
The capital schemes the Council intends to carry out over a specified period of time.

13. Capital Receipt
The proceeds from the disposal of land or other non-current assets.

14. CIES
The Comprehensive Income & Expenditure Statement (CIES) shows the accounting cost of providing services and managing the Council during the year. It includes, on an accruals basis, all of the Council's day-to-day expenses and related income. It also includes transactions measuring the value of non-current assets actually consumed during the year and the real projected value of retirement benefits earned by employees during the year. The statement shows the accounting cost in accordance with generally accepted accounting practices, rather than the cost according to the statutory regulations that specify the net expenditure that Councils need to take into account when setting the annual Council Tax. The required adjustments between accounting basis and funding basis under regulations are shown in the Movement in Reserves Statement.

15. CIPFA
The Chartered Institute of Public Finance and Accountancy (CIPFA) is one of the major accountancy bodies in the United Kingdom. It develops and sets accounting standards for the public sector.

16. The Code
The Code of Practice on Local Authority Accounting in the United Kingdom (The Code) is the basis on which local authority accounts are prepared. The Code is based on European Union adopted International Financial Accounting Standards (that are primarily drafted for the commercial sector) and where required interprets and adapts these standards to address all the accounting issues relevant to local government in the UK.

17. Community Assets
Assets that the Council intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are municipal parks.

18. Consistency
The concept that the accounting treatment of like items within an accounting period and from one period to the next, are the same.

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

20. 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 service.

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

22. Current Service Cost (Pensions)
The increase in the present value of a defined benefit scheme's liabilities, expected to arise from employee service in the current period.

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

24. Defined Benefit Pension Scheme
Pension schemes in which the benefits received by the participants are independent of the contributions paid and are not directly related to the investments of the scheme.

25. Depreciation
The measure of the cost of wearing out, consumption or other reduction in the useful economic life of the Council's non-current assets during the accounting period, whether from use, the passage of time or obsolescence through technical or other changes.

26. Discretionary Benefits (Pensions)
Retirement awards, which the employer has no legal, contractual or constructive obligation to award and are awarded under the Council's discretionary powers.

27. Employee Statutory Adjustment Account
The Employee Statutory Adjustment Account absorbs the difference that would otherwise arise on the General Fund from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March.

28. 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.

29. Equity
The Council's value of total assets less liabilities.

30. Events after the Balance Sheet Date
Events after the Balance Sheet date are those events, favourable or unfavourable, that occur between the Balance Sheet date and the date when the Annual Accounts are authorised for issue.

31. Exceptional Items
Material items which derive from events or transactions that fall within the ordinary activities of the Council and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

32. 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.

33. Fair Value
The fair value of an asset is the price at which it could be exchanged in an arm's length transaction, less where applicable, any grants receivable towards the purchase or use of the asset.

34. Financial Instruments Adjustment Account
The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the income and expenses relating to certain financial instruments and for bearing losses or benefitting from gains per statutory provisions.

35. Finance Lease
A lease that transfers substantially all the risks and rewards of ownership of a non-current asset to the lessee.

36. General Revenue Grant
A grant paid by the Scottish Government to Councils, contributing towards the general cost of their services.

37. Going Concern
The concept that the Annual Accounts are prepared on the assumption that the Council (and its Associate bodies) will continue in operational existence for the foreseeable future.

38. Government Grants
Grants made by the Government towards either revenue or capital expenditure in return for past or future compliance with certain conditions relating to the activities of the Council. These grants may be specific to a particular scheme or may support the revenue spend of the Council in general.

39. Gross Expenditure
This includes all expenditure attributable to the service and activity including employee costs, premises and transport costs, supplies and services, third party payments, support services and depreciation.

40. Gross Income
This includes grant income and all charges to individuals and organisations for the direct use of the Council's services.

41. Heritage Asset
A tangible or intangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

42. IFRS
International Financial Reporting Standards (IFRS) are a set of accounting standards developed by the International Accounting Standards Board (IASB) that is becoming the global standard for the preparation of public company financial statements and has been extended into the public sector in the UK.

43. Impairment
A reduction in the value of a non-current asset to below its carrying amount on the Balance Sheet.

44. Infrastructure Assets
Non-current assets belonging to the Council that cannot be transferred or sold, on which expenditure is only recoverable by the continued use of the asset created. Examples are highways, footpaths and bridges.

45. Insurance Fund
The Insurance Fund covers the main classes of insurance and is earmarked for insurance purposes.

46. Intangible Assets
An intangible (non-physical asset) item may be defined as an asset when access to the future economic benefits it represents is controlled by the Council. This Council's intangible assets comprise solely of computer software licenses.

47. Interest Cost (Pensions)
For a defined benefit scheme, the expected increase during the period of the scheme's liabilities because the benefits are one period closer to settlement.

48. Inventories
Items of raw materials and stores the Council has procured and holds in expectation of future use. Examples are consumable stores, raw materials and products and services in intermediate stages of completion.

49. Liability
A liability is where the Council owes payment to an individual or another organisation. A current liability is an amount which will become payable or could be called in within the next accounting period e.g. creditors or cash overdrawn. A non-current liability is an amount which by arrangement is payable beyond the next year at some point in the future or to be paid off by an annual sum over a period of time.

50. MiRS
The Movement in Reserves Statement (MiRS) shows the movement in the year on the different reserves held by the Council, analysed into usable reserves (those reserves that can be applied to fund expenditure or to reduce taxation) and unusable reserves.

51. 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.

52. Net Carrying Value
The amount at which non-current assets are included in the Balance Sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

53. Non-current Assets
These are created by capital expenditure incurred by the Council. They include property, vehicles, plant, machinery, roads, computer equipment etc.

54. Non-Distributable Costs
These are overhead costs where there is no direct linkage to services. Examples are audit fee and historic pension costs.

55. Operating Lease
A lease where the ownership of the non-current asset remains with the lessor.

56. Past Service Cost (Pensions)
For a defined benefit scheme, the increase in the present value of the scheme's liabilities relating to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

57. Pension Reserve
The Pension Reserve recognises the Council's share of the actuarial gains and losses in the Strathclyde Pension Fund and the change in the Council's share of the net liability chargeable to the CIES.

58. Pension Scheme Liabilities
The liabilities of a defined benefit pension scheme for outgoings due after the valuation date. The scheme's liabilities, measured using the "projected unit method," reflect the benefits that the employer is committed to provide for service up to the valuation date.

59. Post Employment Benefits
All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment e.g. pensions in retirement.

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

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

62. Public Works Loan Board (PWLB)
A Central Government Agency which provides loans for one year and above to Councils at interest rates only based on those at which the Government can borrow itself.

63. Rateable Value
The annual assumed rental of land or property, which is for national non-domestic rates purposes.

64. Related Parties
Bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. For the Council's purposes related parties are deemed to include the Elected Members, the Chief Executive and its Corporate Directors.

65. Remuneration
All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as these sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash.

66. Repairs and Renewals Fund
The Repairs and Renewals Fund provides for the upkeep of specific assets held by the Council.

67. Reserves
The accumulation of surpluses, deficits and appropriation over past years. Reserves of a revenue nature are available and can be spent or earmarked at the discretion of the Council. Some capital reserves such as the Revaluation Reserve cannot be used to meet current expenditure.

68. Residual Value
The net realisable value of an asset at the end of its useful life.

69. Revaluation Reserve
The Revaluation Reserve represents the store of gains on the revaluation of fixed assets not yet realised through sales.

70. Revenue Expenditure
The day-to-day expenses of providing services.

71. Short-term Borrowing
Money borrowed where repayment is due in the following financial year.

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

73. Soft Loans
Loans made at significantly below market rates are deemed "soft loans" because there may be some element of subsidy between what the loan would have cost at market rates and the amount of interest actually charged. Examples include small start-up loans to small businesses.

74. Trust Funds
Funds administered by the Council for such purposes as awards and specific projects. Some of the Trusts are Charities.

75. Useful Economic Life
The period over which the local authority will derive benefits from the use of a non-current asset.

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