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Argyll and Bute Council
Comhairle Earra Ghaidheal agus Bhoid

Corporate Services
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21 November 2008

NOTICE OF MEETING

A meeting of the **ARGYLL AND BUTE COUNCIL** will be held in the **KIRN CHURCH CENTRE, HUNTER STREET, DUNOON** on **THURSDAY, 27 NOVEMBER 2008** at **1:30 PM**, which you are requested to attend.

Nigel Stewart
Director of Corporate Services

BUSINESS

1. **APOLOGIES FOR ABSENCE**

2. **DECLARATIONS OF INTEREST**

3. **MINUTES**

   (a) Argyll and Bute Council 2 October 2008 (Pages 1 - 6)

   (b) Argyll and Bute Council 6 November 2008 (Pages 7 - 8)

4. **AUDIT OF ACCOUNTS 2007/2008: MEMBERS LETTER/AUDIT OF ACCOUNTS AND CERTIFIED ACCOUNTS**
   Report by Head of Strategic Finance (Pages 9 - 88)

5. **CORPORATE PLAN REVIEW**
   Report by Chief Executive

6. **APPOINTMENTS TO THE LICENSING FORUM - VACANCIES**
   Report by Director of Corporate Services (Pages 89 - 90)

7. **PROGRAMME OF MEETINGS 2009/10**
   Report by Director of Corporate Services (Pages 91 - 92)

8. OUTLINE BUSINESS CASES

(a) Report by Director of Corporate Services (Pages 93 - 96)

(b) Report by RPS Consultants (Pages 97 - 128)

Copies of the following papers were previously circulated to all Members

(1) Outline Business Cases Main Dossier, Working Papers and DTZ Reports for each of Campbeltown; Helensburgh; Oban; Rothesay and Dunoon.
(2) DTZ Chord Report

COUNCIL

Contact: Sandra McGlynn Tel: 01546 604401

MINUTES of MEETING of ARGYLL AND BUTE COUNCIL held in the COUNCIL CHAMBER, KILMORY, LOCHGILPHEAD on THURSDAY, 2 OCTOBER 2008

Present: Provost William Petrie (Chair)

Councillor Chalmers	Councillor Mackay
Councillor Colville	Councillor MacMillan
Councillor Currie	Councillor McNaughton
Councillor Dance	Councillor Marshall
Councillor Freeman	Councillor Morton
Councillor Hay	Councillor Mulvaney
Councillor Horn	Councillor Nisbet
Councillor Daniel Kelly	Councillor Philand
Councillor Donald Kelly	Councillor Reay
Councillor Kinniburgh	Councillor Robb
Councillor MacAlister	Councillor Robertson
Councillor McAlpine	Councillor Semple
Councillor McCuish	Councillor Strong
Councillor D MacIntyre	Councillor Walsh
Councillor R Macintyre	

Attending: Sally Reid, Chief Executive
Nigel Stewart, Director of Corporate Services
Andy Law, Director of Operational Services
Angus Gilmour, Head of Planning
Charles Reppke, Head of Democratic Services and Governance

The Provost, on behalf of the Council welcomed Sally Reid, Chief Executive to her first meeting of the Council. He wished her well in her new role and extended best wishes to her and her family and hoped they would be happy in Argyll and Bute.

The Provost announced that on 18 September 2008 Ronnie Gould retired as Head of Secondary Education. The Depute Provost had recently made a presentation to him on behalf of the Council. Although he couldn't attend the meeting today, the Provost asked the Council to record its appreciation of the leadership which Ronnie gave to the education service in Argyll and Bute over the years.

The Provost extended the Council's congratulations to the Customer Services Team in Corporate Services who recently won the "Best in Scotland Award" for their project in the category "Excellence in IT" at the recent IRRV Scottish Performance Awards. A delegation will be representing the Council at the National Finals in Manchester today, and the Council hoped that the first class work they had done in the Customer Services Centre would be recognised at UK level.

The Provost announced that he was calling a Special meeting of the Council on 6 November 2008 to consider the report from the Local Plan Reporter following the Local Plan Inquiry, and to progress the finalisation of the Local Plan.

The Provost ruled, and the Council agreed, that the business dealt with at item 11 of this Minute be dealt with as a matter of urgency by reason of the need for the Council to make any views available to Greater Glasgow and Clyde Health Board by the end of October 2008.

1. APOLOGIES FOR ABSENCE

Apologies for absence were intimated from Councillors Devon, Macdonald, McQueen, McIntosh and Scoullar.

2. DECLARATIONS OF INTEREST

Councillor Dance declared a financial interest in respect of a recommendation from the Helensburgh and Lomond Area Committee following consideration of a Planning Application: 06/00361/DET: Land Between 19 and 37 Cumberland Avenue, Helensburgh, which is dealt with at item 6 of these Minutes, by reason that she was a Director of a company that provided related consultancy services. She left the room during the consideration of the item.

Councillor Kinniburgh declared a non financial interest in respect of a recommendation from the Helensburgh and Lomond Area Committee following its consideration of a Planning Application: 06/00361/DET: Land Between 19 and 37 Cumberland Avenue, Helensburgh, which is dealt with at item 6 of these Minutes, by reason that he had earlier expressed a view on the application. He left the room during the consideration of the item.

Councillor Morton declared a non financial interest in relation to a letter from Reading Borough Council about Gurkha Rights, which is dealt with at item 7 of these Minutes, by reason of her membership of an immigration tribunal panel. She left the room during the consideration of the item.

3. MINUTES

The Council approved the Minutes of the Council Meeting of 7 August 2008 as a correct record.

4. CORPORATE PLANNING AND PERFORMANCE MANAGEMENT

The Council considered a report by the Chief Executive which outlined a proposal to simplify the Corporate Planning and Performance Management Framework within Argyll and Bute Council.

Decision

1. To develop a risk based approach to Corporate Planning.

2. To move to outcome measures within Corporate and Service Plans.

3. To develop clear measurable actions for Corporate and Service Plans.

4. To work with partners to adopt the same approach for community planning and that future Single Outcome Agreements only contain actions from Community and Corporate Plans.

5. That the process of costing Corporate, and Service Plans begins for 2009/2010 – starting with costing those measures which are an additional cost and cannot be contained within current budget.

6. To develop a corporate scorecard which measure the Corporate Plan, Single Outcome Agreement, management PIs, strategic risk, external/internal audits and

financial management thematic plans.

7. To adopt a similar approach for service plans, area plans, team plans, and develop performance scorecards for each of these planning levels.

8. That the draft Corporate Plan be proposed to Council on 27 November 2008 for consultation with the public. The final draft Corporate Plan and Service Plan will be proposed to Council at its meeting in February 2009.

9. That clear guidance is developed to support this approach for Elected Members and Officers.

(Ref: Report by Chief Executive dated 2 October 2008, submitted)

5. SHARED SERVICES DIAGNOSTIC - FINAL REPORT AND APPROVAL TO DESIGN STAGE

The Council considered a report by the Shared Services and Procurement Board which provided information on the final report from the Shared Services Diagnostic Project; the final version of the outline business cases for the Tier 1 opportunity themes; along with plans for progressing each of these themes through to design and then implementation. The Final Report and Business Cases were submitted.

Motion

That the Council:-

1. Congratulates all those who have been involved during the shared services diagnostic phase, particularly the Diagnostic Project Team for the work that has been carried which enables the Council to move forward from the final report.

2. Approves the recommendations contained in the report from the Shared Services and Procurement Board.

3. Agrees that the project management arrangements for the high level design phase will incorporate regular briefings for Members and that the Organisational Development PPG will scrutinise the project as it progresses.

4. Agrees that the high level design stage report will be presented to the Executive and the full Council to ensure that all Members will participate in any decisions which are to be taken at that stage.

Moved by Councillor Walsh, seconded by Councillor R Macintyre.

Amendment

Accept recommendations 2.1, 2.2, 2.3, 2.5 & 2.6 as set out on page 11 of the submitted report.

Amend recommendation 2.4 to read:

The arrangements for the governance of the high level design of the key opportunity themes arising from the shared services diagnostic as set out in the report be approved.

In addition, to ensure a sufficient degree of member involvement and scrutiny the following be approved:-

(a) The Performance Improvement Board membership is increased to include an additional 4 Councillors. In addition to the Council Leader, two members from the Coalition and two members from the opposition groupings will be nominated by the Council to sit on the Performance Improvement Board.

(b) That minutes, agenda and meeting dates for the various projects boards are made available to all members, with members entitled to attend in an observer capacity.

(c) The Organisational Development PPG scrutinises the shared services diagnostic project.

(d) Members are regularly updated of progress with reports to Council and seminars are as appropriate.

Moved by Councillor Mulvaney, seconded by Councillor Nisbet.

Decision

The Motion was carried by a substantial majority and the Council resolved accordingly.

(Ref: Report by Shared Services and Procurement Board dated 24 September 2008, submitted, Final Report and Business Cases previously submitted)

6. PLANNING APPLICATION: 06/00361/DET: LAND BETWEEN 19 AND 37 CUMBERLAND AVENUE, HELENSBURGH

The Helensburgh and Lomond Area Committee had recommended that the Council gives consideration to soliciting the Area Committee's views on all the recommendations within the Reporter's Report on the Local Plan, prior to the Council's decisions on the local plan.

Decision

In light of the special meeting of the Council to be held on 6 November to allow all Members the opportunity to consider the report from the Reporter following the Local Plan Inquiry, and to input fully to the finalisation of the Local Plan, the Area Committee's recommendation was noted.

(Ref: Recommendation by the Helensburgh and Lomond Area Committee of 5 August 2008, submitted)

7. GURKHA RIGHTS

The Council had been requested by Reading Borough Council to support their resolution in support of the Campaign for Gurkha Rights.

Decision

Argyll and Bute Council noted that the Government announced in September 2004 a change in immigration rules that allowed Gurkhas who had served in the British Army to settle in the United Kingdom with their families.

The Council noted with concern however that this offer only covered those Gurkhas who had served at least four years and been discharged after 1 July 1997.

The Council welcomed the decision of the High Court in England to require the Home Secretary to review current Government policy.

The Council instructed the Director of Corporate Services to write to the Prime Minister requesting that in accordance with the Court's decision the Government reviews their policy and ensures all retired Gurkhas who served in the British Army, get the right to citizenship, as well as a fair deal on pensions.

(Ref: Letter from Reading Borough Council, submitted)

8. VACANCY ON THE AUDIT COMMITTEE

Councillor Ron Simon had tendered his resignation from the Audit Committee. The vacancy required to be filled by a Member who was not a Spokesperson, Depute Spokesperson or a Member of the Executive.

Decision

The Council appointed Councillor Nisbet to be a Member of the Audit Committee.

(Ref: Report by the Director of Corporate Services dated 18 September 2008, submitted)

9. APPOINTMENT OF THIRD RELIGIOUS REPRESENTATIVE ON THE EXECUTIVE

A vacancy had arisen amongst the Church representatives on the Executive due to the resignation of Charlotte Hanbury (Scottish Episcopal Church). The Scottish Episcopal Church had been invited to nominate a replacement but had been unable to do so by the date of the Council Meeting.

Decision

The Council delegated to the Executive to confirm the appointment when the nomination from the Scottish Episcopal Church was received.

(Ref: Verbal update by the Director of Corporate Services)

10. NOTICE OF MOTION - ARMED SERVICES VISITS TO SCHOOLS

Councillor Nisbet, seconded by Councillor Morton had given notice of, and moved the following Motion:-

This Council requests that the Social Affairs Policy Performance Group considers what, if any, guidelines should be in place to govern goodwill visits by the Armed Services to council premises, particularly schools.

Decision

The Council resolved in terms of the Motion and agreed that the Director of Community Services submit a report to the next meeting of the PPG.

11. VALE OF LEVEN HOSPITAL

The Council considered a report which advised of the publication by NHS Greater

Glasgow and Clyde of a pre-consultation document “Vision for the Vale of Leven”.

Motion

In light of its previous decisions, the Council welcomes the positive aspects relating to the provision of local services contained in the consultation document published by Greater Glasgow and Clyde Health Board “Vision for the Vale of Leven”.

There are two substantive issues on which the Council requires guidance –
- The provision of anaesthetic services
- And the related provision of unscheduled care

Council wishes to see as many services as possible provided at the Vale of Leven Hospital, and in that context the Council requests the Social Affairs PPG to convene as a matter of urgency to provide advice on these and other relevant matters to the Executive on 16 October in order that the Executive on behalf of the Council may help shape the public consultation.

The PPG is requested to take account of views from NHS Greater Glasgow and Clyde and NHS Highland, as well as other relevant professionals, and Councillors whose constituents may be expected to receive services from Vale of Leven.

Moved by Councillor Walsh, seconded by Councillor R Macintyre

Amendment

The Council:-

1. Reaffirms its support for local peoples’ desire to retain a consultant led, full 24 hrs anaesthetics service at the Vale of Leven hospital.

2. Welcomes the Scottish Government’s commitment to the long term future of the Vale of Leven hospital.

3. Welcomes the opportunity to be involved in this pre-consultation exercise.

4. Agrees that all members should be involved in this, through a seminar followed, if necessary, by a special meeting of the Council.

Moved by Councillor Morton, seconded by Councillor Mulvaney.

Decision

The motion was carried by a substantial majority and the Council resolved accordingly.

(Ref: Report by the Director of Corporate Services dated 30 September 2008, submitted)

MINUTES of MEETING of ARGYLL AND BUTE COUNCIL held in the COUNCIL CHAMBER, KILMORY, LOCHGILPHEAD on THURSDAY, 6 NOVEMBER 2008

Present: Provost William Petrie (Chair)

Councillor Colville	Councillor MacMillan
Councillor Currie	Councillor McNaughton
Councillor Dance	Councillor McQueen
Councillor Freeman	Councillor Mulvaney
Councillor Horn	Councillor Nisbet
Councillor Daniel Kelly	Councillor Philand
Councillor Kinniburgh	Councillor Reay
Councillor MacAlister	Councillor Robertson
Councillor McCuish	Councillor Scoullar
Councillor Macdonald	Councillor Semple
Councillor McIntosh	Councillor Simon
Councillor R Macintyre	Councillor Strong
Councillor Mackay	Councillor Walsh

Attending: Charles Reppke, Head of Democratic Services and Governance
George Harper, Director of Development Services
Angus Gilmour, Head of Planning
Blair Fletcher, Transportation Manager
Fergus Murray, Development Policy Manager

The Provost announced that Blair Fletcher, Transportation Manager was retiring after 36 years of service to Argyll and Bute Council. He thanked Blair on behalf of the Council for his outstanding service and presented him with a quaich to mark his retirement.

1. APOLOGIES FOR ABSENCE

Apologies for absence were intimated from Councillors Chalmers, Devon, Hay, Donald Kelly, McAlpine, MacIntyre, Marshall, Morton and Robb

2. DECLARATIONS OF INTEREST

There were no declarations of interest intimated.

3. FINDINGS OF THE REPORTERS INTO VALID OBJECTIONS MADE TO THE ARGYLL AND BUTE LOCAL PLAN

The Council considered a report which advised on the content of the Reporters' findings and recommendations on the objections received to the Modified Finalised Argyll and Bute Local Plan following the Local Plan Inquiry and sought Council agreement on the modifications to the plan for further public advertisement. A supplementary report was also tabled at the meeting which advised the Council of a small number of additional minor amendments made to the Renewable Energy Chapter of the proposed modifications to the Modified Finalised Argyll and Bute Local Plan and sought agreement that these amendments also be included in the modifications to the plan and be issued for further public advertisement.

Decision

The Council:-

1. Noted the findings and recommendations contained within the Reporter's Report following the Public Local Inquiry held between May 2007 and January 2008 into unresolved objections to the Finalised Local Plan as modified;

2. Approved the Council's response to the Reporters' recommendations and subsequent proposed modifications to the Argyll and Bute Local Plan as contained in the Statement of Decisions on Reporters' Findings as detailed at Annex 1 of the main report and that they be subsequently advertised and placed on deposit for a six week period to allow further representations to be made;

3. Approved the additional minor modifications to the renewable energy proposals maps and to chapter 11 attached as Annex 2 to the supplementary report, together with any other alterations which are required to correct editorial or typographical errors; and

4. Noted that a further report will be prepared, for consideration by the Council, on any objections received in due course to the published modifications as part of the process towards adopting the Argyll and Bute Local Plan.

(Ref: Report and Appendices by Director of Development Services dated 6 November 2008, submitted and Supplementary Report, tabled)

Agenda Item 4

ARGYLL AND BUTE COUNCIL **COUNCIL**
STRATEGIC FINANCE **27 NOVEMBER 2008**

AUDITED ACCOUNTS 2007/2008 AND EXTERNAL AUDIT REPORT

1 INTRODUCTION

1.1 The external auditors, Grant Thornton UK LLP, have completed their audit of the Council's accounts for the year to 31 March 2008. The audited accounts incorporating the audit certificate and the external audit report for 2007-2008 are attached. The audit certificate contains no qualifications. The external audit report highlights key issues for attention of members.

2 RECOMMENDATION

2.1 The audited accounts, the terms of the audit certificate and the external audit report are noted.

2.2 To note the Audit Committee will monitor the action plans agreed in response to individual audit reports that have been issued during the year.

3. DETAILS

3.1 The audited accounts including the audit certificate and the external audit report for the 2007-08 audit are attached.

3.2 The accounts were completed and submitted by the statutory date of 30 June 2008. The audit has been completed within the timescale of 30 September 2008, set by Audit Scotland.

3.3 The audit certificate on the Council's accounts for the year ended 31 March 2008 contains no qualification. External audit are able to conclude that the Council's accounts present fairly its financial position as at 31 March 2008.

3.4 The audit certificate notes that the Council has failed to comply with the statutory requirement that the income from the Catering and Cleaning Trading Account is not less than expenditure over a three-year period. The report to the Council of 26 June 2008 regarding the unaudited accounts drew members' attention to the failure to achieve the breakeven position for the above trading account.

3.5 The external audit report outlines the scope of the audit and identifies the key issues that require to be brought to members' attention. No action plan is attached to the report as all of the points raised have been drawn from individual audit reports issued during the year and action plans have been prepared for each of these to address the matters raised by external audit.

3.6 A summary of the key points identified by external audit in the audit report on the 2007-08 Accounts have been attached as Appendix 2. Included with this are details of the action the Council has already agreed to take in relation to each point.

3.7 The external audit report provides comments on the following:

- Financial Statements
- Governance
- Performance

3.8 Appendix 1 is a schedule of the significant changes to the accounts. The 3 most significant adjustments to the accounts were as follows:

- An adjustment was made to ensure the Council fully complied with the 2007 SORP in relation to financial instruments. Borrowings were increased by £0.363m to adjust for the effective interest rate calculation and the premiums and discounts figure of £7.528m, previously recorded as long term debtors, was transferred to the new financial instrument adjustment account. There is no impact on the general fund balance from these changes as all financial instrument adjustments are processed by statutory adjustments through the Statement of Movement on the General Fund Balance.

- £1.3m of deferred government grants held by the Council could not be matched to individual assets on the Council's fixed asset register. The grants mainly related to infrastructure assets transferred from Strathclyde Regional Council following local government reorganisation in 1996. An adjustment was processed to de-recognise these grants by transferring the outstanding balance to the capital adjustment account in the opening 2006-07 balance sheet.

- Accounting treatment for PFI schemes require the Council to recognise the assets it will acquire in 2029 when the schools built under the NPDO project revert back to the Council's control for nil consideration. Accordingly, the Council deducts the proportion of residual value that it builds up each year from the service charge in the I&E account and recognises a long term debtor. Our initial calculation of the long term debtor was adjusted from £3.575m down to £0.65m as a result of further work in conjunction with CIPFA.

3.9 The table below reconciles the changes from unaudited accounts to audited accounts for surplus/ (deficit) on the Income and Expenditure Account on the General Fund Balance.

	Surplus (Deficit) £000	**General Fund Balance £000**
Unaudited Accounts	8,424	31,213
Re-calculation of residual value of NPDO schools	(2,925)	
Adjustment to Housing Benefit overpayment debtor and bad debt provision	95	95
Deferred Government Grant write back	(157)	
Clearance of election control account expenditure	(133)	(133)
Transfer of Youth ASBO funding from earmarked balance to creditor balance	(160)	(160)
Other	(79)	(9)
Audited Accounts	**5,065**	**31,006**

3.10 The committed funds within the General Fund Balance were £26.077m per the unaudited accounts. Following the audit the committed funds stand at £26.098m. This leaves a free General Fund Balance of £4.908m. From this the Council has already approved the supplementary estimate to be funded from General Fund Balance of £86,000; this is to cover the loss of income after removing the charges for home care meal preparation. In addition, a supplementary estimate of £221,000 was approved by Council on 2 October for the Shared Services Diagnostic project. The resulting net balance is £4.602m. This compares to £3.980m being the agreed 1.5% contingency level approved as part of the 2008-09 to 2010-11 budget process. The level of General Fund Balance and contingency will require to be considered during the 2009-10 to 2011-12 budget process.

3.11 The full text of the external audit report is attached as Appendix 3.

4. IMPLICATIONS

4.1 Policy — The completion of the accounts and the audit within set timescales complies with the Council's objectives on providing timeous and accurate information to the public.

4.2	Financial	The external auditor's independent examination of the Councils financial records had resulted in a clear audit certificate. The level of free General Fund Balance sits at 1.95% of the Council's budgeted net expenditure for 2008-09 and will require to be considered during the budget process.
4.3	Legal	The Accounts have been completed in accordance withal legislative and Code of Practice requirements.
4.4	Personnel	None
4.5	Equal Opportunities	None

Bruce West
Head of Strategic Finance
4 November 2008

APPENDIX 1 - SUMMARY OF MAIN CHANGES TO FINANCIAL STATEMENTS ARISING FROM AUDIT

Section of Accounts Changed	Audited Accounts £000s	Unaudited Accounts £000s	Change £000s	Comment/Explanation
Income & Expenditure Account (Page 13)				
Net Cost of Services	205,721	202,432	3,289	Reduction in credit to I&E for NPDO residual value - £2,925,000. Part reversal of single status provision for amounts paid in 2007-08 – (£47,000). Write back of deferred government grant credit after prior year adjustment - £157,000. Adjustment to housing benefit overpayment debtor and corresponding bad debt provision – (£95,000) Increase in housing benefit subsidy accrual - £56,000 Transfer of funding for Youth ASBO's from earmarked reserve to creditor balance - £160,000. Charge of elections control account balance to I&E - £133,000.
Interest Payable and Similar Charges	11,249	11,179	70	In year charge to I&E of impact of effective interest calculation on borrowings.
Surplus/(Deficit) for the year	5,065	8,424	3,359	Due to the net impact of the above changes.
Statement of Movement on the General Fund Balance (Pages 14-15)				
Surplus/(Deficit) for the year	5,065	8,424	3,359	See Income and Expenditure Account above.
Net Additional Amount to be debited or credited to the General Fund for the year	888	(2,264)	3,152	Reversal of change to deferred government grant credit through I&E - £157,000 Reversal of change on capital element of schools NPDO payment - £2,925,000 Reversal of in year charge to I&E of impact of effective interest calculation on borrowings £70,000
Increase/(Decrease) in General Fund Balance for the Year	5,953	6,160	207	Due to the net impact of the various changes to the Income and Expenditure Account less the reversals out through the Statement of Movement on the General Fund Balance.
Balance on General Fund	31,006	31,213	207	As above.

Section of Accounts Changed	Audited Accounts £000s	Unaudited Accounts £000s	Change £000s	Comment/Explanation
Carried Forward				
Balance Sheet (Page 17)				
Long Term Debtors	1,657	4,582	(2,925)	Change in NPDO Schools residual value after re-working of calculation.
Debtors	20,296	20,334	(38)	Clearance of elections control account expenditure from debtors to I&E - £133,000. Adjustment to Housing Benefit Overpayment debtor and related bad debt provision – (£95,000).
Investments	5,000	-	5,000	Transfer from cash and bank of deposits identified as short term investments.
Cash and Bank	-	5,000	(5,000)	Transfer to investments of deposits identified as short term investments.
Creditors	(35,680)	(35,464)	(216)	Additional accrual for housing benefit subsidy £56,000. Transfer of Youth ASBO funding from earmarked reserve to creditors £160,000.
Borrowings Repayable in excess of 12 months	(187,476)	(187,113)	(363)	Increase in borrowings as a result of effective interest calculation, required to comply with financial instrument part of 2007 SORP.
Government Grants - Deferred	(49,485)	(50,683)	1,198	Prior year adjustment to write off deferred government grants which could not be matched to individual assets on the council's asset register.
Provisions	(5,971)	(6,018)	47	Part reversal of single status provision for payments made during 2007-08.
Deferred Liabilities	(1,822)	(1,072)	(750)	Transfer of Land Contamination Repairs and Renewal Reserve to Deferred Liabilities.
Capital Adjustment Account	(72,050)	(73,777)	1,727	Prior year adjustment to write off deferred government grants which could not be matched to individual assets on the council's asset register to the Capital Adjustment Account – (£1,198,000). Change in NPDO Schools residual value after re-working of calculation, reversal of impact on I&E through Statement of Movement on General Fund Balance to Capital Adjustment Account - £2,925,000.
Financial Instruments Adjustment Account	7,114	6,751	363	Write off to Financial Instruments Adjustment Account of increase in borrowings as a result of effective interest calculation, required to comply with financial instrument part of 2007 SORP.
General Fund Balance	31,006	31,213	207	As above

APPENDIX 2 – KEY MATTERS IDENTIFIED IN EXTERNAL AUDIT REPORT 2007-2008 AND ACTION BEING TAKEN BY THE COUNCIL

Ref	Matter Identified by External Audit	Action Being Taken by Council
1	**Financial Statements – To provide an opinion on the Council's financial statements for the year ended 31 March 2008.**	
1.1	We gave an unqualified opinion on the Council's 2007-08 financial statements on 30 September 2008.	Noted
1.2	The Council's catering and cleaning trading operation has recorded a £3.7million deficit over a rolling 3 year period and has, therefore, failed to meet its statutory financial target for the third successive year. The Council should: **Continue to progress the action plan to reduce the significant deficits recorded by the Catering and Cleaning Trading Account and ensure it delivers best value.**	Noted
1.3	We note that the Council's target level for reserves has not been calculated as part of a risk based assessment of the balances required to be held to meet contingencies and respond effectively to unforeseen events. In addition, the revised target is unlikely to be achieved for the 2008-09 financial year, and this could represent a risk to the achievement of corporate objectives. The Council should: **Review the appropriateness of the financial assumptions contained within the three year budget plan to ensure it continues to be achievable.**	This is carried out as part of the budget process each year.
1.4	The Council will be required to adopt International Financial Reporting Standards (IFRS) in the preparation of the 2010-11 accounts. The Council's 2009-10 accounts will also require to be restated under IFRS accounting rules to provide appropriate comparative information. The Council should: **Take early action to prepare for the implementation of International Financial Reporting Standards.**	The Council has already started to prepare for the implementation of International Financial Reporting Standards and has just finished a review in conjunction with CIPFA of the implications of IFRS on PFI schemes and leases.

APPENDIX 2 – KEY MATTERS IDENTIFIED IN EXTERNAL AUDIT REPORT 2007-2008 AND ACTION BEING TAKEN BY THE COUNCIL

Ref	Matter Identified by External Audit	Action Being Taken by Council
2	**Governance – To review and report on the Council's corporate governance arrangements, including: systems of internal financial control, arrangements for the prevention and detection of fraud and corruption, standards of conduct and the Council's financial position.**	
2.1	We have concluded that the Council's systems of internal financial control and governance arrangements are generally operating adequately.	Noted
2.2	The Council generally has good arrangements for financial management and budgetary control. However, we noted that there is scope to align departmental budgets more clearly with corporate priorities. The Council should: **Align departmental budgets more clearly with corporate priorities.**	Planning and budgeting arrangements will be further developed in the coming planning and budgeting exercise. The Council agreed a Planning and Performance Management Framework at its meeting in October which assists in addressing this point.
2.3	There is scope for greater challenge in the plans the Council has to apply all earmarked reserves, including those currently earmarked within departmental budgets. The Council should: **Ensure plans to utilise earmarked reserves within departmental budgets are challenged effectively.**	The report submitted to the Council with the unaudited accounts lists the department, description and reason for carry forward for each element of unspent grants, unspent contribution and budgetary underspends to be carried forward. Whilst consideration will be given to what form of challenge there should be on proposed carry forwards the Council should avoid the situation whereby it is setting the budget on a 3 year basis but enforcing annuality in terms of allowing the carry forward of underspends (or overspends). Further consideration will be given to how this recommendation might or might not be implemented.
2.4	We reviewed the Council's overall arrangements for contract management, including an overview of the Oban Airport contract. Our review found significant scope for the Council to improve its arrangements for project and risk management in relation to large capital projects. The Council should: **Undertake a review of its approach to project management in relation to major capital projects to**	A detailed response to this will be submitted to the Audit Committee once the report on Oban Airport is received.

APPENDIX 2 – KEY MATTERS IDENTIFIED IN EXTERNAL AUDIT REPORT 2007-2008 AND ACTION BEING TAKEN BY THE COUNCIL

Ref	Matter Identified by External Audit	Action Being Taken by Council
	ensure it meets good practice consistently.	
2.5	Our review found that the Council's audit committee operates effectively and complies with the majority of good practice principles outlined in the CIPFA guidance.	Noted
2.6	As part of our 2007-08 audit, we reviewed the Council's internal audit department against the eleven standards set out in the Code of Practice for Internal Audit. We found that the internal audit section did well in undertaking and reporting its work but was not sufficiently resourced to deliver its audit plan effectively. The Council should: **Develop a longer term plan for internal audit to ensure it remains fully resourced to meet audit plan commitments.**	Recruitment to vacant posts is being undertaken and this is being supported by employment of contractors and use of KPMG as internal audit partners.
3	**Performance – To review and report on the Council's arrangements to achieve Best Value, other aspects of arrangements to manage performance as they relate to economy, efficiency and effectiveness in the use of resources and arrangements for preparing and publishing statutory performance indicators.**	
3.1	We undertook a review of the Council's progress in addressing the recommendations made in the 2006 Best Value report. We completed our review in June 2008 and reported the draft findings to the Council in August 2008. Audit Scotland's report will be considered by the Accounts Commission in November 2008 and is expected to be published in early December 2008.	Following the completion of our audit work, the Council have introduced a Planning and Performance Management Framework and decided to take forward the opportunities identified in the shared services diagnostic project. The Council considers these projects will contribute positively to their approach to Best Value. An Improvement Plan for the Council will be prepared. This will set the improvement agenda for the Council as well as addressing issues from the BV Follow Up report.
3.2	The efficient government initiative is a central part of the government's programme of investment, reform and modernisation. The Efficient Government Plan sets targets for local government bodies to achieve 2%	

APPENDIX 2 – KEY MATTERS IDENTIFIED IN EXTERNAL AUDIT REPORT 2007-2008 AND ACTION BEING TAKEN BY THE COUNCIL

Ref	Matter Identified by External Audit	Action Being Taken by Council
	cash-releasing savings by 2010-11. For Argyll and Bute this equates to a savings target of around £4million over the three year reporting period. In order to claim an efficiency service outcomes need to be maintained or improved, this can only be achieved through a robust performance management system. The Council is currently at an early stage in developing such a system. Forecasts for the 2008-09 financial year estimate that additional savings of up to £3.553m will be required. The financial constraints referred to above highlight the priority need to bring forward a programme of efficiency reviews across all Council operations.	The Council recognises the need to further develop its performance systems to support the 'efficiency statement' and arrangements are being developed through the PPMF and development of monitoring reports. The Council has agreed to take forward the shared service diagnostic and develop the high level design for the 7 key themes identified.
3.3	The Council has generally satisfactory arrangements for producing SPI information, but has been unable to produce reliable information for one SPI.	The Council has agreed to ensure this information is available for reporting on its SPI performance for 2008-09.
3.4	The Council has prepared an action plan to identify the key recommendations for improvement in SWIA report and both SWIA and Scottish Ministers have commented favourably on the Council's progress to date.	Noted
3.5	The follow-up report of Her Majesty's Inspectorate of Education (HMIE) reported that 'the authority had taken very effective action to implement the recommendations and showed clear capacity for improvement'. The Council should: **Continue to build on the progress made in addressing the recommendations made in inspection reports to build on the progress made in addressing the recommendations made in inspection reports and share the lessons learned from the improvement in education more widely across Council Services.**	Noted

APPENDIX 3

Argyll and Bute Council

Report on the 2007-08 Audit

31 October 2008

Contents **Page**

Appendices

1 Executive Summary

1.1 Introduction

This report summarises the outcome of our audit and key messages for members. We planned and performed our 2007-08 audit in accordance with our Audit Plan issued in February 2008. The Code of Audit Practice objectives and key findings for the audit are summarised in Exhibit 1 below.

Exhibit 1 - Key findings from the 2007-08 audit

Code Objective	Key Findings
Financial statements To provide an opinion on the Council's financial statements for the year ending 31 March 2008.	• We gave an unqualified opinion on the Council's 2007-08 financial statements on 30 September 2008. • Our audit opinion, however, draws attention to a failure to comply with the statutory requirement that all significant trading organisations break even on a rolling three year basis. • The Council's finance team prepared well for implementing the 2007 Statement of Recommended Practice (SORP) and the standard of accounts and supporting working papers were generally good. • The Council's current financial position is healthy, however, additional cost pressures have emerged in the last year which may impact on the Council's ability to meet its financial targets going forward. The Council should review the appropriateness of the financial assumptions contained within its three year budget plan to ensure it continues to be achievable.
Governance To review and report on the Council's corporate governance arrangements, including: systems of internal financial control, arrangements for the prevention and detection of fraud and corruption, standards of conduct and the Council's financial position.	• We have concluded that the Council's systems of internal financial control are operating adequately. • The Council has generally good financial management and budgetary control arrangements. however, there is scope to further improve the linkage between budget setting and corporate priorities. • The Council's governance arrangements are generally sound although there is scope to develop the role of internal audit and ensure it is fully resourced to meet audit plan commitments. The appointment of non-councillors as chair and vice chair of the audit committee goes beyond good practice, and strengthens overall governance and scrutiny arrangements. • We found weaknesses in the Council's project management arrangements in relation to major capital projects, and further work is required to improve performance in this area. • We found a number of areas for improvement in the Council's arrangements for participating in the National Fraud Initiative (NFI) exercise, in particular the need for improved documentation of progress monitoring, investigation and closure of case matches.

Code Objective	Key Findings
Performance To review and report on the Council's arrangements to achieve Best Value, other aspects of arrangements to manage performance in the use of resources, and arrangements for preparing and publishing statutory performance indicators.	• As part of our 2007-08 we have worked with Audit Scotland to follow up the Council's progress in addressing the recommendations made in the Best Value report issued in February 2006. The findings from our review are expected to be published in December 2008. • The Council should continue to build on the progress made in addressing the recommendations made in inspection reports and share the lessons learned from the improvement in education more widely across Council services. • The Council should develop a clear framework for identifying, monitoring and reporting efficiency savings and integrating these savings into the Council's financial plans.

1.2 Action needed by the Council

Our audit identified the following key actions for the Council in the coming year. The Council should:

- revise its medium term financial strategy to take account of emerging financial pressures and ensure reserves are maintained at an acceptable level
- take action to address the significant deficits recorded by the Catering and Cleaning Trading Account and consider whether it continues to deliver best value
- develop its project management arrangements for major capital projects to ensure they operate consistently across all Council services
- take action to ensure internal audit remain adequately resourced to deliver the 2008-09 audit plan.

Detailed action plans have been agreed with the Council and included in our audit reports issued during the year (Appendix A).

1.3 Acknowledgements

We would like to take this opportunity to thank the staff who have been involved in the 2007-08 audit for their assistance and co-operation.

This report is part of a continuing dialogue between the Council and Grant Thornton and is not, therefore, intended to cover every matter which came to our attention. Our procedures are designed to support our audit opinion and they cannot be expected to identify all weaknesses or inefficiencies in the Council's systems and work practices.

The report is not intended for use by third parties and we do not accept responsibility for any reliance that third parties may place on it.

Grant Thornton UK LLP
31 October 2008

2 Financial Statements

2.1 Introduction

We have audited the Council's 2007-08 accounts in accordance with our Audit Plan issued in February 2008. The key messages arising from our financial statements audit are contained in our Report to those Charged with Governance, issued in September 2008, and summarised below.

2.2 Audit opinion

We gave an unqualified opinion on the Council's 2007-08 financial statements on 30 September 2008.

The Council's catering and cleaning trading operation has recorded a £3.7 million deficit over a rolling 3 year period and has, therefore, failed to meet its statutory financial target for the third successive year. This matter has been referred to in an explanatory paragraph in the audit report.

2.3 Accounting requirements

The 2007 SORP introduced significant accounting changes for 2007-08, including the introduction of a revaluation reserve, the creation of a new capital adjustment account, and the introduction of new standards for the accounting and disclosure of financial instruments. The Council largely complied with the 2007 SORP in preparing its accounts and this is reflected in only a small number of adjustments made to the draft accounts following our audit. This was a significant achievement for the Council's finance team.

2.4 International Financial Reporting Standards

The Council will be required to adopt International Financial Reporting Standards (IFRS) in the preparation of the 2010-11 accounts. The Council's 2009-10 accounts will also require to be re-stated under IFRS accounting rules to provide appropriate comparative information.

The adoption of IFRS is likely to impact on the way the Council's financial results are reported in the future, in particular the service contracts for the Schools NPDO scheme and the Waste Management PPP scheme may be recorded on the Council's balance sheet. We are aware that the Council has initiated an early review of the impact of IFRS on the accounting treatment for leased assets.

Grant Thornton provides an annual training workshop for the Council's finance staff on developments in accounting and auditing standards and we will continue to work closely with the Council's finance team over the period of our appointment.

2.5 Financial results

The Council reported a surplus on the Income and Expenditure account for 2007-08 of £5.1 million (2006-07: £0.4 million). The net increase on the general fund was £5.9 million (2006-07: £10 million).

The total net worth of the Council has increased by £44.2 million over the course of the year, mainly due to actuarial gains on the Strathclyde Pension Fund and revaluation gains on fixed assets.

2.6 Trading Accounts

The Council operates trading accounts for Roads and Lighting and Catering and Cleaning operations, having re-classified Leisure Trading and Waste Management as non-trading activities, and closed the Building Maintenance trading account as a result of the transfer of the Council's housing stock.

Roads and Lighting Trading Account

The Roads and Lighting Trading Account recorded a surplus of £68,000 (2006-07 £208,000) for the financial year on a turnover of £13.2 million (2006-07 £11.6 million) and achieved its key financial target to break even over a rolling three year period.

Profitability, however, declined significantly during the year as the overall surplus fell by 67% whilst turnover increased by 14% over the same period, highlighting that costs increased faster than income over the financial year. This outcome is caused mainly by the impact of higher salary costs resulting from implementation of the single status agreement.

Catering and Cleaning Trading Account

The Catering and Cleaning Trading Account recorded a deficit of over £1 million (2006-07 £1 million) for the financial year on a turnover of £7 million (2006-07 £7.1 million) and has recorded a £3.7 million deficit over a rolling 3 year period, failing to meet its statutory financial target for the third successive year. The key factor impacting on this outcome is higher salary costs resulting from the implementation of the single status agreement, and the costs associated with equal pay settlements.

The high level of the cumulative deficit on this trading account means that it is unlikely to meet its financial break-even target for the foreseeable future. The Council has a duty to demonstrate best value and competitiveness from its operations and is taking forward an action plan to address the deficit position.

2.7 General Fund

The Council's reserves policy for the year ending 31 March 2008 was to retain un-earmarked reserves of at least 1.9% of net operating expenditure. At 31 March 2008 the Council's un-earmarked reserves totalled £4.9 million, representing 2.3% of net operating expenditure in line with this policy.

From 2008-09, the target level of un-earmarked reserves has been reduced to 1.5% of net operating expenditure reflecting the Council's decision to prioritise spending on corporate objectives. We note that the Council's target level for reserves has not been calculated as part of a risk based assessment of the balances required to be held to meet contingencies and respond effectively to unforeseen events. In addition, the revised target is unlikely to be achieved for the 2008-09 financial year, and this could represent a risk to the achievement of corporate objectives.

Additional cost pressures have emerged in the last year, linked to higher than expected energy costs and wage inflation, which may impact on the Council's ability to meet its financial targets going forward. The Council should review the appropriateness of the financial assumptions contained within its three year budget plan to ensure it continues to be achievable, and to maintain un-earmarked reserves at a level commensurate with risk.

2.8 Capital Expenditure and the Prudential Code

The Council incurred gross capital expenditure of £34.2 million during the year (2006-07 £38.4 million), reflecting a continuing high level of spending on schools and roads with additional projects to redevelop harbours and Oban airport undertaken during the year. The Council's level of outstanding debt rose by 19% from £158 million in 2006-07 to £188 million at 31 March 2008.

Local authority capital expenditure and borrowing is regulated by the Prudential Code which requires councils to ensure capital plans are affordable, borrowing is prudent and sustainable, and treasury management arrangements reflect good practice. The Council approved a set of prudential indicators for 2007-08 and managed capital expenditure within these approved limits.

The planned increase in capital expenditure, reflected in the increase in the Council's debt levels, will result in a long term financial commitment to meet higher interest payments and repay the debt over time. The Council has fully considered these additional costs in developing its medium term financial strategy.

2.9 Key actions going forward

In summary, the key recommendations arising from our audit of the financial statements are that the Council should:

- review the appropriateness of the financial assumptions contained within the three year budget plan to ensure it continues to be achievable
- continue to progress the action plan to reduce the significant deficits recorded by the Catering and Cleaning Trading Account and ensure it delivers best value
- take early action to prepare for the implementation of International Financial Reporting Standards.

A detailed action plan has been agreed with the Council to address these key issues and is contained in our Report on the 2007-08 Accounts Audit issued in September 2008.

3 Governance

3.1 Introduction

In accordance with the 2007-08 Audit Plan we have reviewed key aspects of the Council's governance arrangements. The detailed findings from our governance review are contained in our interim report issued in August 2008. Key messages are summarised below.

3.2 Overview of arrangements in 2007-08

We have concluded that the Council's systems of internal financial control and governance arrangements are generally operating adequately. Key findings from our review included:

- the Council generally has good arrangements for financial management and budgetary control. However, we noted that there is scope to align departmental budgets more clearly with corporate priorities
- more generally, there is scope for greater challenge in the plans the Council has to apply all earmarked reserves, including those currently earmarked within departmental budgets
- overall, we found that the Council has good controls over its IT systems, networks and applications. In addition, the Council's arrangements to ensure compliance with the Data Protection Act 1998 are satisfactory.

3.3 Contract management

As part of our 2007-08 audit we reviewed the Council's overall arrangements for contract management, including an overview of the Oban Airport contract. Our review found significant scope for the Council to improve its arrangements for project and risk management in relation to large capital projects.

3.4 Audit Committee arrangements

Our review found that the Council's audit committee operates effectively and complies with the majority of good practice principles outlined in the CIPFA guidance. In particular, the approach adopted by the Council to appoint non-councillors as chair and vice chair of the audit committee goes beyond good practice, and significantly strengthens overall governance and scrutiny within the Council.

3.5 Internal Audit

As part of our 2006-07 audit, we reviewed the Council's internal audit department against the eleven standards set out in the Code of Practice for Internal Audit. We found that the internal audit section did well in undertaking and reporting its work but was not sufficiently resourced to deliver its audit plan effectively.

Our review on the progress of implementation of prior year recommendations found that only 4 out of the 12 outstanding recommendations from our 2006-07 report have been fully implemented. We have highlighted below the key areas for further improvement:

- the Council has not yet created a 'chief internal auditor' position
- further work is required to ensure the assurance grading provided by audit work is consistent with evidence contained in audit working papers
- a longer term plan for internal audit is required to ensure it remains fully resourced to meet audit plan commitments.

3.6 National Fraud Initiative

The Council participates in the National Fraud Initiative (NFI) Exercise, but has identified only one housing benefit fraud following its 2006-07 review. We found a number of areas for improvement in the Council's arrangements for participating in the NFI exercise, in particular the need for improved documentation of progress monitoring, investigation and closure of case matches.

3.7 Key actions going forward

In summary, the key recommendations arising from our governance audit are that the Council should:

- undertake a review of its approach to project management in relation to major capital projects to ensure it meets good practice consistently
- align departmental budgets more clearly with corporate priorities
- ensure plans to utilise earmarked reserves within departmental budgets are challenged effectively
- develop a longer term plan for internal audit to ensure it remains fully resourced to meet audit plan commitments.

Detailed action plans have been agreed with the Council to address these key issues and are contained in our Interim Report issued in August 2008, our report on IT Systems and Applications issued in June 2008, our report on Contract Management issued in draft in October 2008 and in our follow up report on Internal Audit issued in May 2008.

4 Performance

4.1 Introduction

In accordance with the 2007-08 Audit Plan we have reviewed key aspects of the Council's performance arrangements during 2007-08. The detailed findings from our performance review are contained in our Interim Report. The key findings from our audit of the Council's performance arrangements are summarised below.

4.2 Best Value

Audit Scotland issued its report on Best Value to the Council in February 2006. As part of our 2007-08 audit we were commissioned by Audit Scotland (on behalf of the Accounts Commission) to undertake a review of the Council's progress in addressing the recommendations made in the 2006 Best Value report. We completed our review in June 2008 and reported the draft findings to the Council in August 2008. Audit Scotland's report will be considered by the Accounts Commission in November 2008 and is expected to be published in early December 2008.

Following the completion of our audit work, the Council have introduced a Planning and Performance Management Framework and decided to take forward the opportunities identified in the shared services diagnostic project. The Council considers these projects will contribute positively to their approach to Best Value.

4.3 Efficient Government

The efficient government initiative is a central part of the government's programme of investment, reform and modernisation. The Efficient Government Plan sets targets for local government bodies to achieve 2% cash-releasing savings by 2010-11. For Argyll and Bute Council this equates to a savings target of around £4 million over the three year reporting period.

In order to claim an efficiency, the Council needs to demonstrate that service outcomes have been maintained or improved and this can only be achieved through a robust performance management system that captures information and baseline data covering both cost and quality aspects of service provision. As we reported in 2006-07, the Council is currently at an early stage in developing such a system.

The Council recognises the need to further develop its performance systems to support the 'efficiency statement' it is required to submit annually to the Scottish Government. In particular, the Council currently produces limited information on service quality and volume.

In its 2007-08 'efficiency statement', the Council estimates that it achieved cash releasing savings of £3.314 million (representing 1.6% of its net cost of services) for that year and forecasts that additional savings of up to £3.553 million will be required for the 2008-09 financial year.

The financial constraints referred to earlier in this report highlight the priority need to bring forward a programme of efficiency reviews across all Council operations.

4.4 Statutory Performance Indicators

The Council is required to prepare Statutory Performance Indicators (SPIs) in accordance with a direction issued annually by the Accounts Commission. We audit these indicators to ensure they are prepared in accordance with the guidance. In the absence of locally determined performance measures, SPIs represent the main source of performance information for the Council.

The Council has generally satisfactory arrangements for producing SPI information, but has been unable to produce reliable performance information for one of the 78 SPIs relating to the number of visitor numbers for council funded museums. The Council has agreed to ensure this information is available for reporting on its SPI performance for 2008-09.

4.5 Inspection Reports

The Social Work Inspection Agency (SWIA) reported on the Authority in October 2007 and found some examples of good services delivered by social work services and partner agencies. The inspection also noted that the attitude and motivation for improving social work services was positive.

SWIA use a six point scale ranging from excellent (level 6) to unsatisfactory (level 1). Out of ten evaluation areas assessed by the inspectors only one, capacity for improvement, was rated as good (level 4). Six of the evaluation categories were rated as adequate (level 3) and three were rated weak (level 2), including leadership and direction.

The Council has prepared an action plan to address the key recommendations for improvement made in the SWIA report and both SWIA and the Scottish Ministers have commented favourably on the Council's progress to date.

In June 2007, Her Majesty's Inspectorate of Education (HMIE) published a follow up report to its original 2005 inspection of the education authority. The original inspection identified four main areas for improvement and, overall, the favourable follow up report states that the authority had made, 'notable progress'. In particular, HMIE reported that, 'the authority had taken very effective action to implement the recommendations and showed clear capacity for improvement. It had made very good progress on three action points and good progress on the remaining one.'

There is a need for the council to build on this positive report, which reflects the Council's long term drive to invest in education, and share the lessons learned for the improvement in education more widely in the council.

4.6 Key actions going forward

In summary, the key recommendation arising from our performance audit is that the Council should continue to build on the progress made in addressing the recommendations made in inspection reports and share the lessons learned from the improvement in education more widely across Council services.

Grant Thornton UK LLP
31 October 2008

Appendix A

Audit Reports Issued During the Year

A summary of the audit reports issued during 2007-08 is provided below:

Report Title	Key Topic	Month Issued
Annual Audit Plan	Summary of the 2007-08 planned audit work, demonstrating how we will discharge our responsibilities under Audit Scotland's Code of Audit Practice.	February 2008
Follow up review of Internal Audit	Follow up of the Council's progress in implementing agreed recommendations following our 2006-07 review of Internal Audit	May 2008
Review of IT Systems and Applications	Overview of the effectiveness of key controls over IT systems and applications.	June 2008
Interim Report	Review of the operation of the Council's key financial systems and governance arrangements.	August 2008
Review of Contract Management Arrangements	Review of the operation of the Council's key financial systems and governance arrangements.	October 2008 (Draft)
Report on the 2007-08 Accounts Audit	Summary of key issues emerging from the audit of the Council's financial statements.	September 2008
Annual Report to Members	Summary of the key issues emerging from the 2007-08 audit.	October 2008
Follow-Up Review of Best Value	Summary of the Councils progress in addressing the recommendations made in Audit Scotland's Best Value Report issued in September 2007.	Expected December 2008

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ACCOUNTS FOR THE PERIOD

1 APRIL 2007 TO 31 MARCH 2008

Argyll and Bute Council
Comhairle Earra Ghàidheal agus Bhòid

2007-2008 ANNUAL ACCOUNTS
LANGUAGE OPTIONS

If you would like this document in another language or format, or if you require the services of an interpreter, please contact us.

Ma tha sibh ag iarraidh an sgrìobhainn seo ann an cànan no riochd eile, no ma tha sibh a' feumachdainn seirbheis eadar, feuch gun leig sibh fios thugainn.

本文件可以翻譯為另一語文版本，或製作成另一格式，如有此需要，或需要傳譯員的協助，請與我們聯絡。

यह दस्तावेज़ यदि आपको किसी अन्य भाषा या अन्य रूप में चाहिये, या आपको आनुवाद-सेवाओं की आवश्यक्ता हो तो हमसे संपर्क करें

本文件可以翻译为另一语文版本，或制作成另一格式，如有此需要，或需要传译员的协助，请与我们联系。

ਜੇ ਇਹ ਦਸਤਾਵੇਜ਼ ਤੁਹਾਨੂੰ ਕਿਸੇ ਹੋਰ ਭਾਸ਼ਾ ਵਿਚ ਜਾਂ ਕਿਸੇ ਹੋਰ ਰੂਪ ਵਿਚ ਚਾਹੀਦਾ ਹੈ, ਜਾਂ ਜੇ ਤੁਹਾਨੂੰ ਗੱਲਬਾਤ ਸਮਝਾਉਣ ਲਈ ਕਿਸੇ ਇੰਟਰਪ੍ਰੇਟਰ ਦੀ ਲੋੜ ਹੈ, ਤਾਂ ਤੁਸੀਂ ਸਾਨੂੰ ਦੱਸੋ।

یہ دستاویز اگر آپ کو کسی دیگر زبان یا دیگر شکل میں درکار ہو، یا اگر آپ کو ترجمان کی خدمات چاہئیں تو برائے مہربانی ہم سے رابطہ کیجئے۔

Jeżeli chcieliby Państwo otrzymać ten dokument w innym języku lub w innym formacie albo jeżeli potrzebna jest pomoc tłumacza, to prosimy o kontakt z nami.

Strategic Finance
Argyll and Bute Council
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PA31 8RT
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2007-2008 ANNUAL ACCOUNTS

CONTENTS

INTRODUCTION

The Annual Accounts demonstrate the Council's stewardship of the public funds it controls. The financial results for 2007-2008 are set out on pages 13 to 52. The Statement of Accounting Policies on pages 8 to 12 sets out the accounting policies adopted by the Council to ensure that the Accounts "present fairly" our financial performance.

THE FINANCIAL STATEMENTS

Core Financial Statements

The Statement of Accounting Policies sets out the basis upon which the Financial Statements have been prepared and explains the accounting treatment of both general and specific items. The Council continues to adopt the accounting practices recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authorities (Scotland) Accounts Advisory Committee (LA(S)AAC). The Annual Accounts for 2007/2008 have been prepared in compliance with the Code of Practice on Local Authority Accounting in the United Kingdom 2007: A Statement of Recommended Practice (SORP). The format of the Income and Expenditure Account reflects the requirements of the Best Value Accounting Code of Practice 2006 - Scotland (BVACOP).

The 2007 Statement of Recommended Practice (the "SORP") introduced a number of changes to the main or "core" single entity financial statements for Argyll and Bute Council. The changes introduced this year are explained in more detail on page 8.

The following statements are grouped together to give the 'core' single entity financial statements for the Council:

The Income and Expenditure Account reports the net cost for the year of all the functions for which the Council is responsible and demonstrates how that cost has been financed from general government grants and income from local taxpayers.

The Statement of Movement on the General Fund Balance shows the amounts in addition to the Income and Expenditure Account surplus or deficit for the year that are by statute and non-statutory proper practices charged or credited to the General Fund in determining the movement on the General Fund for the year.

The Statement of Total Recognised Gains and Losses (STRGL) shows all gains and losses experienced by a local authority, not just those that are reflected in the Income and Expenditure Account. It is necessary to consider all gains and losses recognised in a period when assessing the financial result for the period.

The Balance Sheet brings together all the assets and liabilities of the Council's General Fund and Loans Fund. It is the statement of the resources of the Council and the means by which they have been financed. It is also a report on the Council's financial position at one particular point in time, a snapshot of its financial affairs at the close of the year expressed in accounting terms.

The Cash Flow Statement summarises the inflows and outflows of cash arising from transactions with third parties on both day to day revenue transactions and on capital activities. Cash is defined for the purposes of this statement, as cash in hand and deposits repayable on demand less overdrafts repayable on demand.

The Notes to the Core Financial Statements give further information on the local authority's core financial statements.

Supplementary Financial Statements

The following statements make up the 'supplementary' single entity financial statements for the Council:

The Council Tax Income Account shows the net income raised from council taxes under the Local Government Finance Act 1992.

The Non-domestic Rate Income Account shows the build up of non-domestic rate income, the contribution to or from the national pool and the resulting net income for the financial year to the Council that is shown in the Income and Expenditure Account.

The Group Accounts

The following statements make up the 'Group Accounts' for the Council:

The Group Income and Expenditure Account combines the Income and Expenditure Account figures for the Council as a whole with those of entities in which the Council has a controlling interest in or where significant influence is exerted.

Reconciliation of the Single Entity Surplus or Deficit for the Year to the Group Surplus or Deficit – the main reconciling items here are:

- Deduction of subsidiary and associate dividend income and other distributions.
- Addition of the surplus / deficits attributable to subsidiaries, associated and joint ventures.

The Group Statement of Total Recognised Gains and Losses shows all gains and losses experienced by the group as a whole, not just those that are reflected in the Group Income and Expenditure Account. It is necessary to consider all gains and losses recognised in a period when assessing the Group's financial result for the period.

The Group Balance Sheet brings together all the assets and liabilities of the Group. It is the statement of the resources of the Group and the means by which they have been financed.

Notes to the Group Accounts give further information on the Council's Group Accounts.

Statement of Responsibilities for the Statement of Accounts

This statement sets out the respective financial responsibilities of the Council and the chief financial officer for the accounts. In Argyll and Bute Council the chief financial officer is the Head of Strategic Finance.

Statement on Internal Control

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

FINANCIAL PEFORMANCE

Income and Expenditure Account

The Council ended the year with an accounting surplus of £5.065m for 2007-08 compared to a surplus of £0.385m for 2006-07. This is the accounting surplus based on the SORP compliant accounts rather than the movement in the General Fund Balance.

Income from taxation and government grants totalled £221.946m for 2007-08 compared to £210.844m for 2006-07. An increase of £11.102m (5.3%). This includes revenue support grant up from £131.957m in 2006-07 to £142.282m in 2007-08, non domestic rates down from £33.828m in 2006-07 to £33.171m in 2007-08 and council tax up from £45.059m in 2006-07 to £46.493m in 2007-08.

Net operating expenditure increased from £210.459m in 2006-07 to £216.881m in 2007-08. An increase of £6.422m (3%). The main factors giving rise to the increase in expenditure are summarised below.

	£'m	Comment
Housing Service (Non HRA)	2.720	Difference due to transfer of additional council tax on second homes from creditor to earmarked reserves in 06-07.
Housing Service (HRA) Discontinued Operations	10.828	HRA ceased in 2006-07
Education	(4.391)	Decrease in depreciation and credit in 2007-08 for build up of NPDO residual value asset (schools)
Social Work	2.634	Reflects increase in budgetary allocation
Non Distributed Costs	3.852	Change in FRS17 charges, re pensions
Reduction in Interest Payable and Similar Charges	(13.549)	Costs on early redemption of debt on housing stock transfer in 2006-07
Other	4.328	
	6.422	

General Fund Balance

The balance on the General Fund at 31 March 2008 stands at £31.006m compared to £24.798m at 31 March 2007. An increase of £6.208m. The "free" General Fund Balance stands at £4.908m at 31 March 2008. This equates to 1.95% of the net revenue expenditure for 2008-09. There are a range of balances earmarked within the General Fund Balance. These total £26.098m and are laid out in note 31.8. The movement in the General Fund can be summarised as follows;

	£m	£m
Balance on General Fund 31 March 2007		24.798
Less budgeted transfer to services 2007-08		9.212
		15.586
Add outturn for 2007-08		
Increase in council tax income	1.415	
Reduction in AEF	(0.116)	
Savings in loan charges	1.040	
Net overspend on departmental expenditure compared to budget	(0.174)	
Surplus against budget 2007-08		**2.165**
Add earmarked funds for 2007-08		
Council Tax collection on second homes	1.743	
Contribution to PPP smoothing funds	5.132	
Funds earmarked by departments from budgets	6.125	
		13.000
Add transfer of HRA balance		0.255
Balance on General Fund 31 March 2008		**31.006**

The net adjustment to the surplus per the Income and Expenditure to reflect the impact on council tax is a credit of £0.888m. In summary this debit represents the difference between:

- Principal repayment to the loans fund and the depreciation on amortisation of fixed assets and government grant and any gain/loss on sale of assets
- Cash paid as pension contributions and the costs charged in accordance with FRS17.
- Statutory provision relating to amounts due on early repayment of loans and the charges in accordance with the SORP.
- Capital element of the schools NPDO payment and build-up of the debtor to reflect the residual value of the NPDO schools at the end of the contract.

The net surplus on the Income and Expenditure Account of £5.065mm plus the HRA balance transferred to the General Fund of £0.255m plus the adjustments to reflect impact in Council Tax at £0.888m equates to the increase on the balance on the General Fund of £6.208m.

Statement of Total Recognised Gains and Losses

This analyses the increase in the net worth of the Council from 31 March 2007 of £70.998m to £115.258m at 31 March 2008 based on the Balance Sheet. This is an increase in the net worth of the Council in accounting terms and does not represent an increase in the spending power of the Council. The increases from revaluation of fixed assets £13.559m and the additional gain on pension assets/liability at £33.164m do not represent additional cash to the Council.

Balance Sheet

As indicated above the accounting net worth of the Council has increased by £44.260m from £70.998m at 31 March 2007 to £115.258m at 31 March 2008.

The value of fixed assets has increased from £313.332m at 31 March 2007 to £333.827m at 31 March 2008, an increase of £20.495m (6.5%). This comprises a net upward revaluation of fixed assets and capital expenditure less the value of fixed assets disposed of.

In terms of current assets and current liabilities the net of stock, debtors and creditors remains broadly the same, moving from £14.178m at 31 March 2007 to £15.139m at 31 March 2008. However the net cash, bank, short term borrowing and bank overdraft has moved from a net amount owed by the Council of £0.804m at 31 March 2007 to a net amount of surplus cash invested of £38.849m at 31 March 2008. This is an increase of £39.653m. This reflects the level of General Fund Balance and borrowing closer to the capital finance requirement in order to take advantage of attractive interest rates during 2007/08.

Overall long term liabilities have increased from £235.666m at 31 March 2007 to £244.754m at 31 March 2008. The increase of £9.088m masks some significant movements.

- Long term borrowing has increased from £157.302m to £187.476m as the Council drew down long term loans to secure funds at attractive interest rates and to move closer to our capital finance requirement.
- The FRS17 valuation of pension scheme moved from a liability of £34.782m to an asset of £0.818m.
- There were also government grants in relation to fixed assets and an increase in the provision to cover single status back pay as this is being paid in 2008-09.

Significant Trading Organisations

Councils are required to identify their Significant Trading Organisations. Significant Trading Organisations must achieve a breakeven financial position over a rolling three year period. Information on the financial performance of Significant Trading Organisations is given in the Accounts and this is laid out in note 3 of the Notes to the Core Financial Statements. The Council previously decided to remove Waste and Leisure from a trading account environment and the Building Maintenance trading account ended upon housing stock transfer in 2006-07. During 2007-08 the Roads and Lighting trading account achieved a surplus of £0.068m. It achieved a rolling breakeven position with a three year surplus of £0.346m. The Catering & Cleaning trading account returned a deficit of £1.013m for the year and failed to achieve a breakeven position over the rolling three year period. Any surplus or deficit is treated as part of the General Fund.

Housing Revenue Account

The Housing Revenue Account has now been closed and the residual balances transferred to the General Fund. These balances have been earmarked as part of the Strategic Housing Fund.

Capital Expenditure and Borrowing

Local authority capital expenditure and borrowing is regulated by the Prudential Code, a regime of self regulation. Under the Prudential Code of Practice the Council must ensure that:

- Capital expenditure plans are affordable;
- Borrowing is sustainable and prudent; and
- Treasury management reflects good professional practice.

The Council approved a set of prudential indicators for 2007-08 and managed capital expenditure and borrowing within these approved limits.

Capital expenditure was incurred across a range of services enhancing the value, useful life or working capacity of the Council's assets. This included investments in schools, offices, other premises and facilities, information technology and roads. Details of capital expenditure are as follows:

	£'m
Gross Capital Expenditure	34.215
Less:	
Capital Receipts	1.332
Government Grants and Other Contributions	13.999
	18.884

The external borrowing of the Council at 31 March 2008 amounted to £188.035m. The majority of this was financed by the Public Works Loan Board (£135.261m), with the remainder coming mainly from the money market. During the year the Council completed £98.626m of new external borrowing. This was used to finance capital expenditure incurred during the year. The Council also prematurely repaid loans of £68.795m.

PROPERTY VALUATIONS

In accordance with the 2007 Statement of Recommended Practice (SORP) all properties are required to be formally revalued at intervals of not more than five years. The current five year rolling programme of revaluation of all land and buildings, started in 2004-05, was continued during 2007-08.

PENSIONS LIABILITY

Pension costs have been recognised in accordance with FRS17. As a result of this an asset of £0.818m is recorded in the Council's balance sheet. This represents the Council's share of the surplus on Strathclyde Pension Fund. This asset is offset by a Pensions Fund reserve of an equivalent amount.

Hymans Robertson (Independent Actuaries) were instructed by Glasgow City Council, the administering authority to the Strathclyde Pension Fund, to undertake calculations in respect of the Local Government Pension Scheme on behalf of Argyll and Bute Council as at 31 March 2008. Their calculations have been carried out in accordance with Guidance Note 36: Accounting for Retirement Benefits under FRS17, issued by the Institute and the Faculty of Actuaries.

Local Government legislation provides that local authorities have an obligation to meet the expenditure of the Joint Boards of which they are constituent members. As a consequence Argyll and Bute Council has additional liabilities arising from the pension deficits of:

- Strathclyde Police Board
- Strathclyde Fire Board

Further information regarding these deficits can be found in Note 6 to the Group Accounts on pages 50 to 52.

STATEMENT ON INTERNAL CONTROL

In overall terms the Council has an adequate and effective system of internal control. There are however some areas where improvements are required and these are noted in the Statement on Internal Control on page 7.

OTHER SIGNIFICANT MATTERS

During 2007-08 the ten schools on five sites developed as part of the non profit distribution organisation (NPDO) variant of a public private partnership became operational.

The Council concluded implementation of single status with a new pay and grading model and terms and conditions becoming effective on 18 February 2008.

CONCLUSION

The Council ends the 2007-08 financial year on a relatively stable footing. Once again overall expenditure has been contained within budget. The surplus arising from council tax income and savings in loans charges has ensured a balance on the General Fund in excess of the general contingency. This provides a useful basis for moving into the next budget round.

Bruce West
Head of Strategic Finance
30 September 2008

THE AUTHORITY'S RESPONSIBILITIES

The Council is required:

- to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Head of Strategic Finance.
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

THE HEAD OF STRATEGIC FINANCE'S RESPONSIBILITIES

The Head of Strategic Finance is responsible for the preparation of the Council's statement of accounts, which in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code of Practice), is required to present fairly, the financial position of the Council as at 31 March 2008 and its income and expenditure for the year ended on that date.

In preparing this statement of accounts, the Head of Strategic Finance has:

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

The Head of Strategic Finance has also:

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

This statement of accounts presents fairly the financial position of the Council at the accounting date and its income and expenditure for the year ended 31 March 2008.

Bruce West
Head of Strategic Finance
30 September 2008

STATEMENT ON INTERNAL CONTROL

This statement is given in respect of the statement of accounts for Argyll and Bute Council for the financial year ended 31 March 2008. The statement also covers the other bodies whose activities are incorporated into our Group Accounts, i.e.

- Strathclyde Joint Police board
- Strathclyde Fire and Rescue Joint Board
- Dunbartonshire and Argyll & Bute Valuation Board
- Strathclyde Partnership for Transport
- Strathclyde Concessionary Travel Scheme Joint Committee

With respect to Argyll & Bute Council and the above named bodies I acknowledge my responsibility for ensuring that an effective system of internal financial control is maintained and operated in connection with the resources concerned.

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

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

- comprehensive budgeting systems with an annual budget which is reviewed and agreed by the Council and the above named bodies;
- regular reviews by the Council and the above named bodies of periodic and annual financial reports which indicate financial performance against the forecasts;
- setting targets to measure financial and other performance; and
- the preparation of regular financial reports which indicate actual expenditure against the forecasts.

Argyll and Bute Council and the above named bodies have an internal audit function, which operates to standards defined in the Chartered Institute of Public Finance and Accountancy's Code of Practice for Internal Audit in Local Government in the United Kingdom. The work of internal audit is informed by an analysis of the risk to which the Council and the above named bodies is exposed, and annual internal audit plans are based on the analysis. The Council's and the named bodies' Audit Committees endorse the analysis of risk and the internal audit plans. At least annually, the Internal Audit Manager provides the Audit Committee with a report on internal audit activity in the Council. The report includes the Internal Audit Manager's independent opinion on the adequacy and effectiveness of the Council's systems of internal control.

My review of the effectiveness of the system of internal financial control is informed by:

- the work of Directors and managers within the Council;
- the work of internal auditors as described above;
- the external auditors in their annual audit letter and other reports; and
- the Statements of Internal Control provided by the above named bodies.

The following areas have been identified for further development by the Council:

- The development of asset management including consideration of funding the investment requirements for schools, roads and other assets and embed the revised approach to capital planning based around business cases and gateway reviews.
- The development of performance management throughout the Council by means of Pyramid, the Council's Performance Management System.
- There will be ongoing development to achieving full compliance with the Code of Practice – Following the Public Pound
- The risk management framework will continue to be developed and embedded within the Council.
- The implementation of the Single Status agreement which came into effect from 18 February 2008.
- The implementation of the action plans arising from Best Value Review follow up carried out by Grant Thornton.
- The ongoing development of Business Continuity Planning.
- Monitoring of the NPDO schools contract.

In summary, the year-end outturn has resulted in a generally satisfactory position and Internal Audit's Annual Report and the Assurance Statements received from the named bodies, allow me to take comfort that, other than as outlined above, reasonable assurance can be placed on the adequacy and effectiveness of the Council's Internal Financial Control System.

Bruce West
Head of Strategic Finance
30 September 2008

1. INTRODUCTION

The Financial Statements for the year ended 31 March 2008 have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2007: A Statement of Recommended Practice (the SORP). It is designed to "present fairly" the financial performance and position of the Council and comparative figures for the previous financial year are provided. There are no significant departures from these recommendations.

The accounting concepts of "materiality", "accruals", going concern" and "primacy of legislative requirements" have been considered in the application of accounting policies. In this regard the materiality concept means that information is included where the information is of such significance as to justify its inclusion. The accruals concept requires the non-cash effects of transactions to be included in the financial statements for the year in which they occur, not in the period in which payment is made or income received. The going concern concept assumes that the Council will not significantly curtail the scale of its operations. Lastly, legislative requirements have priority over accounting principles in the event of conflict between legislation and the Accounting Code.

The accounts have been prepared under the historic cost convention, other than changes resulting from the revaluation of certain categories of fixed assets. The following accounting policies used in its preparation been reviewed in line with changes made to the ACOP following the introduction of Financial Reporting Standard, FRS 18 "Accounting Policies".

2. MAJOR CHANGES IN ACCOUNTING PRACTICE

The 2007 SORP introduced a number of presentational changes to the main or "core" financial statements. This is the result of the greater convergence between the Accounting Code of Practice (ACOP) and the wider UK Generally Accepted Accounting Practices (GAAP). Although there is no impact on the overall reported financial position of the Council, the content of the financial statements is amended. The following changes have been introduced this year for the first time:

- The re-measurement of "financial instruments" (investments, lending, borrowing and guarantees). Loans receivable and payable are now carried at amortised cost in the Balance Sheet. Investments and guarantees are carried at "fair value". Premiums on debt restructuring are written-off completely to the Income and Expenditure Account. The interest receivable or payable that is recognised in the Income and Expenditure Account is based on the carrying amount of the lending or borrowing multiplied by its effective rate of interest.
- The introduction of a new accounting reserve that arises from the restatement to amortised cost or fair value - the Financial Instruments Adjustment Account. The Financial Instruments Adjustment Account is a balancing account to allow for differences in statutory requirements and proper accounting practices from lending and borrowing by the Council.
- The replacement of the Fixed Asset Restatement Account and Capital Financing Account by a Revaluation Reserve and Capital Adjustment Account. The Revaluation Reserve represents the store of gains on revaluation of fixed assets not yet realised through sales and the Capital Adjustment Account relates to amounts set aside from capital resources to meet past expenditure.

The 2006-07 comparative figures have been brought forward from the 2006-07 Statement of Accounts in accordance with the SORP requirements. All adjustments to balances as a result of the recognition, extinguishment and re-measurement of financial instruments have been made to the opening balances for 2007-08, i.e. disclosed as a "prior year" adjustment in the Balance Sheet. The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

3. ACCRUALS OF INCOME AND EXPENDITURE

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

- Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services.
- Supplies and services 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 stocks on the balance sheet.
- Works are charged as expenditure when they are completed, before which they are carried as work in progress on the balance sheet.
- Interest payable and receivable on borrowings is accounted for in the year to which it relates, on a basis that reflects the overall effect of the loan or investment.
- Where income and expenditure has 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.
- Income and expenditure are credited and debited to the relevant revenue account, unless they properly represent capital receipts or expenditure.

4. OVERHEADS AND SUPPORT SERVICES

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2006 – Scotland (BVACOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

These two cost categories are accounted for as separate headings in the Income and Expenditure, as part of Net Cost of Services.

5. GOVERNMENT GRANTS AND CONTRIBUTIONS (REVENUE)

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as income at the date that the authority satisfies the conditions of entitlement to the grant/contribution and there is reasonable assurance that the monies will be received. Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (e.g. Revenue Support Grant) are credited to the foot of the Income and Expenditure Account after Net Operating Expenditure.

6. RETIREMENT BENEFITS

The Council participates in two different pension schemes which meet the needs of employees in particular services. Both schemes provide members with defined benefits related to pay and service. The schemes are as follows:

6.1 Teachers

This is an unfunded scheme administered by the Scottish Government. This means that liabilities for the benefits provided cannot be identified by the Council. The scheme is therefore accounted for as if it were a defined contributions scheme where no liability for future payments of benefits is recognised in the balance sheet and revenue accounts are charged with the employer's contributions payable to the Scottish Government in the year.

6.2 Local Government Pension Scheme

Other employees, subject to certain qualifying criteria, are eligible to join the Local Government Pension Scheme. This pension scheme is accounted for as a defined benefits scheme:

The liabilities of the Strathclyde Pension Fund attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate of 6.9% (based on the indicative rate of return on a "high quality corporate bond of equivalent term and currency to the liability" (as measured by the yield on iboxx Sterling Corporates Index, AA over 15 years))

The assets of the Strathclyde Pension Fund attributable to the Council are included in the balance sheet at their fair value:

- Quoted securities – mid market value
- Unquoted securities – professional estimate
- Unitised securities – average of the bid and offer rates
- Property – market value

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

- Current service cost – the increase in liabilities as a result of years of service earned this year and allocated to the revenue accounts of services for which the employees worked
- Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs
- Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to Net Operating Expenditure in the Income and Expenditure Account.
- Expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long term return – credited to Net Operating Expenditure in the Income and Expenditure Account.
- Gains/losses on settlements and curtailments – the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Statement of Total Recognised Gains and Losses.
- Contributions paid to the Strathclyde Pension Fund – cash paid as employer's contributions to the pension fund.

Statutory provisions limit the Council to raising council tax to cover the amounts payable by the Council Pension Fund in the year. In the Statement of Movement on the General Fund Balance this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end.

6.3 Discretionary Benefits

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

7. INTANGIBLE FIXED ASSETS

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council (e.g. software licences) is capitalised when it will bring benefits to the Council for more than one financial year. The balance is amortised to the relevant service revenue account over the economic life of the investment to reflect the pattern of consumption of benefits.

8. TANGIBLE FIXED ASSETS

Tangible fixed assets are assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

8.1 Recognition

Expenditure on the acquisition, creation, or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it yields benefits to the Council and the services that it provides for more than one financial year. Expenditure that secures but does not extend the previously assessed standards of performance of asset (e.g. repairs and maintenance) is charged to revenue as it is incurred.

8.2 Measurement

Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the balance sheet using the following measurement bases:

- Investment properties and assets surplus to requirements – lower of net current replacement cost or net realisable value
- Dwellings, other land and buildings, vehicles, plant and equipment – lower of net current replacement cost or net realisable value in existing use
- Infrastructure assets and community assets – depreciated historical cost.

Net current replacement cost is assessed as:

- Non-specialised operational properties – existing use value
- Specialised operational properties – depreciated replacement cost
- Investment properties and surplus assets – market value.

Assets included in the balance sheet at current value are revalued where there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

8.3 Impairment

The values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for by:

- Where attributable to the clear consumption of economic benefits – the loss is charged to the relevant service revenue account
- Otherwise – written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

Where an impairment loss is charged to the Income and Expenditure Account but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

8.4 Disposals

When an asset is disposed of or decommissioned, the value of the asset in the balance sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of the disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate accounting arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the Statement of Movement on the General Fund Balance.

8.5 Depreciation

Depreciation is provided for on all assets with a determinable finite life (except for investment properties), by allocating the value of the asset in the balance sheet over the periods expected to benefit from their use.

The Council depreciates its fixed assets on a straight line basis (with the exception of certain IT equipment, which is based on a reducing balance) over the expected life of the asset, after allowing for the residual value of an asset as follows:

Operational Buildings – Other	-	20 – 50 years
Operational Buildings – Dwellings	-	30 years
Infrastructure	-	40 years
Vehicles	-	4 – 20 years

Plant and Equipment	-	3 – 10 years
Vessels	-	25 years

Where an asset has major components with different estimated useful lives, these are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

8.6 Grants and Contributions

Where grants and contributions are received that are identifiable to fixed assets with a finite useful life, the amounts are credited to the Government Grants Deferred Account. The balance is then written down to revenue to offset depreciation charges made for the relevant assets in the relevant service revenue account, in line with the depreciation policy applied to them.

9. CHARGES TO REVENUE FOR FIXED ASSETS

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

- Depreciation
- Impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service
- Amortisation of intangible fixed assets attributable to the service.

The council is not required to raise council tax to cover depreciation, impairment losses or amortisations. These transactions are reversed out through the Statement of Movement on the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

10. LEASES

10.1 Finance Leases

The Council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased asset transfer to the Council. Lease payments are apportioned between:

- A charge for the acquisition of the interest in the asset (recognised as a liability in the balance sheet at the start of the lease, matched with a tangible fixed asset – the liability is written down as the rent becomes payable) and
- A finance charge (debited to Net Operating Expenditure in the Income and Expenditure Account as rent becomes payable).

Fixed assets recognised under finance leases are accounted for using the policies applied generally to tangible fixed assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

10.2 Operating Leases

Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable are charged to the relevant service revenue account on a straight line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

11. FINANCIAL LIABILITIES

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying value of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

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

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

12. STOCK AND WORK IN PROGRESS

Stocks are included on the balance sheet at the lower of cost and net realisable value. Work in progress is subject to an interim valuation at the year-end and recorded in the balance sheet at cost plus any profit reasonably attributable to the works.

13. PROVISIONS

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain.

Provisions are charged to the appropriate service revenue account when the authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the balance sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes more likely than not that a transfer of economic benefits will not now be required, the provision is reversed and credited back to the relevant service revenue account.

Where some or all of the payment required to settle a provision is expected to be met by another party, this is only recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

14. RESERVES

Reserves are created by appropriating amounts in the Statement of Movement on the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in the year to score against the Net Cost of Services in the Income and Expenditure Account. The reserve is then appropriated back into the General Fund Balance statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies above.

15. VALUE ADDED TAX (VAT)

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from them.

16. INTERESTS IN COMPANIES AND OTHER ENTITIES

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates or joint ventures and requires to prepare group accounts. In the Council's own single-entity accounts, the interests in companies and other entities are recorded as investments, i.e. at cost, less any provision for losses.

17. PRIVATE FINANCE INITIATIVE (PFI)

PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the services passes to the PFI contractor. Payments made by the council under a contract are generally charged to reflect the value of services received in each financial year.

17.1 Prepayments

A prepayment for services receivable under the contract arises when assets are transferred to the control of the PFI contractor, usually at the start of the scheme. The difference between the value of the asset at the date of transfer and any residual value that might accrue to the authority at the end of the contract is treated as a contribution made to the contractor and is accounted for as a prepayment. The prepayment is written down (charged) to the respective revenue account over the life of the contract to show the full value of services received in each year. However, as the charge is a notional one, it is reversed out in the Statement of Movement in the General fund Balance to remove any impact on council tax or rents.

Dowry payments, made at the start of the contract, which result in lower unitary payments over the life of the contract are accounted for by setting up the contribution (dowry) as a prepayment for services receivable and writing the balance down to revenue over the life of the contract as services are received to reflect their real cost.

17.2 Reversionary Interests

The council has passed control of certain land and buildings over to the PFI contractor, but this property will return to the council at the end of the scheme (reversionary interests). An assessment has been made of the net present value that these assets will have at the end of the scheme (unenhanced) and a reversionary interest asset has been created in the council's balance sheet.

As the asset is stated initially at net present value, over the life of the scheme, the discount will need to be unwound by earmarking (decreasing) part of the unitary payment to ensure the reversionary interest is recorded at current prices when the interests revert to the council.

17.3 Residual Interests

Where assets created or enhanced under the PFI scheme are to pass to the council at the end of the scheme at a cost less than the fair value (including nil or residual interests), an amount equal to the difference between the fair value and the payment to be made at the end of the contract is built up as a long term debtor over the contract life by reducing the amount of the unitary payment charged to revenue.

17.4 PFI Credits

Government grants received for PFI Schemes, in excess of current level of expenditure, are carried forward as an earmarked reserve within the General Fund Balance to fund future contract expenditure.

Argyll & Bute COUNCIL

2007-2008 ANNUAL ACCOUNTS

INCOME AND EXPENDITURE ACCOUNT for the year ended 31 March 2008

This account summarises the resources that have been generated and consumed in providing services and managing the council during the last year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees in the year.

2006/07 Net Expenditure £'000		Note	2007/08 Gross Expenditure £'000	2007/08 Gross Income £'000	2007/08 Net Expenditure £'000
	Council Services:				
92,808	Education Services		108,666	20,244	88,422
(929)	Housing Services (Non-HRA)		37,693	35,899	1,794
(10,828)	Housing Services (HRA) - Discontinued Operation	1	-	-	-
8,894	Cultural and Related Services		9,852	21	9,831
15,188	Environmental Services		20,983	5,388	15,595
15,506	Roads and Transport Services		24,253	7,443	16,810
1,136	Trading Services		4,952	3,276	1,676
3,163	Planning and Development Services		8,568	4,520	4,048
40,350	Social Work		54,726	11,755	42,971
	Central Services:				
4,096	- Corporate and Democratic Core		5,380	600	4,780
(2,982)	- Non Distributed Costs		876	6	870
2,223	- Central Services to the Public		3,493	1,120	2,373
1,250	- Other Operating Income and Expenditure	2	1,272	-	1,272
9,883	Strathclyde Police Joint Board		9,823	-	9,823
5,315	Strathclyde Fire and Rescue Joint Board		5,456	-	5,456
185,073	**Net Cost of Services**		**295,993**	**90,272**	**205,721**
4,998	Net (Gain)/loss on Disposal of Fixed Assets				5,291
24,728	Interest Payable and Similar charges				11,249
(1,600)	Interest and Investment Income				(1,535)
(2,740)	Pension Interest Cost and Expected Return on Pension Assets				(3,845)
210,459	**Net Operating Expenditure**				**216,881**
	Income from Taxation and General Government Grants:				
131,957	General Government Grants				142,282
33,828	Non-domestic rates Redistribution				33,171
45,059	Council Tax Income				46,493
385	**Surplus / (Deficit) for the Year**				**5,065**

2007-2008 ANNUAL ACCOUNTS

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE
for the year ended 31 March 2008

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

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

The General Fund Balance compares the council's spending against the council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to funds and reserves.

This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund Balance.

2006/07 £'000		2007/08 £'000	2007/08 £'000
385	Surplus/(Deficit) for the Year on the Income and Expenditure Account		5,065
9,660	Net Additional amount required by statute or non-statutory proper practice to be debited or credited to the General Fund for the year *(See Supplement)*		888
10,045	**Increase/(Decrease) in General Fund Balance for the Year**		**5,953**
14,753	Closing General Fund Balance at 31 March 2007	24,798	
-	Transition Adjustments to comply with SORP 2007	(7,528)	
-	Transfer from the Financial Instruments Adjustment Account (per Statutory Guidance)	7,528	
-	Restated General Fund Balance at 1 April 2007		24,798
-	Transfer of HRA Balance		255
24,798	**Balance on General Fund Carried Forward**		**31,006**

SUPPLEMENT NOTE OF RECONCILING ITEMS FOR THE STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

2006/07 £'000		2007/08 £'000	2007/08 £'000
	Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year		
18	Amortisation of Intangible Fixed Assets	38	
27,039	Depreciation and Impairment of Fixed Assets	18,559	
(1,586)	Amortisation of Deferred Government Grants	(1,850)	
(363)	Capital Element of Finance Lease Payments	(398)	
-	Capital Element of Schools NPDO Payment	(650)	
4,903	Net Gain or Loss on Sale of Assets	5,291	
-	Differences beween amounts debited / credited to the Income and Expenditure Accounts and amounts payable/receiveable to be recognised under statutory provisions relating to soft loans and premiums and discounts on the early repayment of debt.	(414)	
(3,539)	Net Charges made for retirement benefits in accordance with FRS 17	(2,436)	
26,472			18,140
	Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year		
(17,279)	Loans fund principal repayments	(17,793)	
(346)	Capital expenditure charged in year to the General Fund Balance	-	
(17,625)			(17,793)
	Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year		
1,501	Transfer to/from HRA Balance	-	
(688)	Transfer to/from Other Funds	541	
813			541
9,660	**Net Additional amount required to be credited to the General Fund Balance for the year**		**888**

2007-2008 ANNUAL ACCOUNTS

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES for the year ended 31 March 2008

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

2006/07 £'000		2007/08 £'000
385	**Surplus / (Deficit) on the Income and Expenditure Account for the Year**	**5,065**
(2,121)	Surplus/ (Deficit) Arising on Revaluation of Fixed Assets	13,559
27,360	Actuarial Gain on Pension Assets and Liabilities	33,164
-	Any Other Gains and (Losses) required to be included	(7,528)
25,624	**Total Recognised Gains for the Year**	**44,260**

Argyll & Bute COUNCIL

2007-2008 ANNUAL ACCOUNTS
BALANCE SHEET as at 31 March 2008

2006/07 £'000		Note		2007/08 £'000
	Fixed Assets			
155	*Intangible Assets*	14		193
	Tangible Fixed Assets			
	Operational Assets	15.1		
173,023	- Other Land and Buildings			169,347
7,250	- Vehicles, Plant, Furniture and Equipment			6,206
97,717	- Infrastructure Assets			112,629
1,912	- Community Assets			1,964
	Non-operational Assets	15.2		
6,704	- Investment Property			6,682
21,624	- Assets Under Construction			21,233
4,947	- Surplus Assets, held for Disposal			15,573
313,332	**Total Fixed Assets**			**333,827**
1,079	Long-Term Debtors	18		1,657
7,235	Deferred Premiums on Early Repayment of Debt			-
-	Asset Related to Defined Benefit Pension Schemes	29.6		818
321,646	**Total Long Term Assets**			**336,302**
	Current Assets			
253	Stocks and Work in Progress		245	
16,603	Debtors	19	20,296	
-	Investments		5,000	
6,215	Cash and Bank		38,380	63,921
344,717	**Total Assets**			**400,223**
	Current Liabilities			
(539)	Borrowing Repayable on Demand or within 12 Months	21	(559)	
(31,034)	Creditors	20	(35,680)	
(6,480)	Bank Overdraft		(3,972)	(40,211)
306,664	**Total Assets less Current Liabilities**			**360,012**
(157,302)	Borrowing Repayable within a Period in Excess of 12 Months	21	(187,476)	
(37,336)	Government Grants - Deferred	22	(49,485)	
(4,026)	Provisions	23	(5,971)	
(2,220)	Deferred Liabilities	24	(1,822)	
(34,782)	Liability related to Defined Benefit Pension Schemes	29.6	-	(244,754)
70,998	**Total Assets less Liabilities**			**115,258**
	Financed by:			
-	Revaluation Reserve	31.1		13,559
76,602	Capital Adjustment Account	31.2		72,050
2,539	Useable Capital Receipts Reserve	31.3		2,681
-	Capital Fund	31.4		1,356
(34,782)	Pensions Reserve	31.5		818
-	Financial Instruments Adjustment Account	31.6		(7,114)
1,586	Repairs and Renewals Funds	31.7		902
255	Housing Revenue Account Balance			-
24,798	General Fund Balance	31.8		31,006
70,998	**Total Net Worth**			**115,258**

The unaudited accounts were issued on 26 June 2008 and the audited accounts were authorised for issue on 30 September 2008.

Bruce West
Head of Strategic Finance
30 September 2008

2007-2008 ANNUAL ACCOUNTS

CASH FLOW STATEMENT for the year ended 31 March 2008

2006/07 Actual £'000	REVENUE ACTIVITIES	Note	2007/08 Actual £'000
	Cash outflows		
123,729	Cash Paid for and on Behalf of Employees		126,550
78,361	Other Operating Cash Payments		106,688
11,247	Housing Benefit Paid Out		17,857
16,577	Precepts Paid		16,843
229,914	**Total Cash Outflows**		**267,938**
	Cash inflows		
4,921	Rents (after rebates)		1,046
39,116	Council Tax Income		39,720
34,388	Non-domestic Rate Receipts		33,345
25	Community Charge		12
130,518	Revenue Support Grant		142,283
22,285	DWP Grants for Benefits		22,435
30,270	Other Government Grants	32	29,763
22,183	Cash Received for Goods and Services		22,035
-	National Non-domestic Rate Payments from National Pool		1,213
18,683	Other Operating Cash Receipts		6,677
302,389	**Total Cash Inflows**		**298,529**
72,475	**Net Cash Inflow From Revenue Activities**	33	**30,591**
	SERVICING OF FINANCE		
	Cash outflows		
13,859	Interest paid		10,598
(35)	Interest element of finance lease		20
13,824	**Total Cash Outflows**		**10,618**
	Cash inflows		
1,048	Interest received		1,285
1,048	**Total Cash Inflows**		**1,285**
(12,776)	**Net Cash (Outflow) From Servicing of Finance**		**(9,333)**
	CAPITAL ACTIVITIES		
	Cash outflows		
29,653	Purchase of Fixed Assets		27,676
30	Other Capital Cash Payments		-
29,683	**Total Cash Outflows**		**27,676**
	Cash inflows		
3,226	Sale of Fixed Assets		2,616
10,276	Capital Grants Received		13,999
57	Other Capital Cash Receipts		43
13,559	**Total Cash Inflows**		**16,658**
(16,124)	**Cash (Outflow) From Capital**		**(11,018)**

CASH FLOW STATEMENT for the year ended 31 March 2008

Continued from previous page.

2006/07 Actual £'000		Note	2007/08 Actual £'000
43,575	**Net Cash Inflow / (Outflow) Before Financing**		**10,240**
	MANAGEMENT OF LIQUID RESOURCES		
-	Net (Increase) / Decrease in Short Term Deposits		(5,000)
	FINANCING		
	Cash outflows		
100,942	Repayments of Amounts Borrowed		68,795
315	Capital element of Finance Lease Rental Payments		398
101,257	**Total Cash Outflows**		**69,193**
	Cash inflows		
35,667	New Loans Raised		98,626
35,667	**Total Cash Inflows**		**98,626**
(65,590)	**Net Cash Inflow / (Outflow) From Financing**		**29,433**
(22,015)	**Net Increase / (Decrease) in Cash**	34	**34,673**

1. DISCONTINUED OPERATIONS

The Council's housing stock was transferred to Argyll Community Housing Association (ACHA) on the 21 November 2006. The Council's Housing Revenue Account has been closed from the commencement of the 2007/08 financial year and all retained balances transferred to the General Fund.

2. OTHER OPERATING INCOME AND EXPENDITURE

The expenditure of £1.272m shown in the Other Operating Income and Expenditure line on the Income and Expenditure Account consists entirely of the requisition paid to Dunbartonshire and Argyll & Bute Joint Valuation Board.

3. SIGNIFICANT TRADING ORGANISATIONS

Details of trading units where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the authority or other organisations are as follows:

3.1 Roads and Lighting Trading Account

The Council runs its Roads and Lighting Service on the basis of agreements concluded between the Service Managers, the relevant Council Departments and external organisations. The Service maintains the road network throughout Argyll and Bute excluding Trunk Roads (which are the responsibility of the Scottish Government). The trading objective is to break-even over a three year period.

	2005/06 Actual £'000	2006/07 Actual £'000	2007/08 Actual £'000	3 Year Actual Performance £'000
Turnover	11,664	11,621	13,229	36,514
Expenditure	11,594	11,413	13,161	36,168
Surplus	**70**	**208**	**68**	**346**

3.2 Catering and Cleaning Trading Account

The Council runs its Catering and Cleaning Service on the basis of agreements concluded between the Service Managers, the relevant Council Departments and external organisations. The Service provides Catering and Cleaning to all Schools and Council Offices as well as providing a Cleaning Service to external clients such as Police Stations and Outdoor Centres. The trading objective is to break-even over a three year period. A deficit has arisen over the three year period due to equal pay settlements and single status implementation which were budgeted for centrally rather than against each cost centre.

	2005/06 Actual £'000	2006/07 Actual £'000	2007/08 Actual £'000	3 Year Actual Performance £'000
Turnover	7,185	7,106	7,002	21,293
Expenditure	8,761	8,165	8,015	24,941
Surplus/(Deficit)	**(1,576)**	**(1,059)**	**(1,013)**	**(3,648)**

4. LOCAL GOVERNMENT ACT 1986 – SEPARATE PUBLICITY ACCOUNT

The Council is required under Section 5 of the Act to maintain a separate account for publicity. Expenditure of £0.564m was incurred during 2007/08 and is included within service expenditure as follows:

2006/07 £'000		2007/08 £'000
273	Staff Advertising	273
16	Leaflets and publications	11
136	Statutory notices	133
132	Other	147
557	**Total**	**564**

5. AGENCY INCOME

The Council have an ongoing agency agreement with Scottish Water to collect domestic water and sewerage charges. During 2007/08 income from this agreement amounted to £0.239m.

2006/07 £'000		2007/08 £'000
229	Scottish Water	239
229	**Agency Income**	**239**

6. LOCAL AUTHORITY (GOODS AND SERVICES) ACT 1970

The Council is empowered by this Act to provide goods and services to other public bodies. Income from these services amounted to £0.647m and the related expenditure was £0.617m. The goods and services provided during the year were as follows:

Name of Body	Purpose of Work	Income £'000	Expenditure £'000
North Lanarkshire Council	Cleaning and Catering - Kilbowie OC	202	164
Strathclyde Police	Cleaning of Police Stations	107	67
Strathclyde Fire and Rescue	Maintenance of Fire Stations		
Various Public Bodies	Grounds Maintenance	21	18
Various Councils	Provision of Health Packs		
Various Councils	Provision of SEN Assistant Support	37	37
NHS Highland	Provision of Care for the Elderly	117	133
Glasgow City Council	Provision of Care for the Elderly	35	44
West Dunbartonshire Council	Section 23 Payments - Out of Authority Pupils	125	151
West Dunbartonshire Council	Pupil Transport	3	3
		647	**617**

7. COMMUNITY CARE HEALTH (SCOTLAND) ACT 2002

The Council has a joint working arrangement with NHS Highland whereby it provides certain types of care of the elderly and services for those with learning disabilities or mental health problems. During 2007/08 income from this source amounted to £4.274m and the related expenditure was £5.416m. These sums can be analysed as follows:

Purpose of Services	Income £'000	Expenditure £'000
Care of the Elderly	1,542	1,867
Provision of Services for People with Learning Disabilities	2,101	2,949
Provision of Services for People with Mental Health Needs	631	600
	4,274	**5,416**

8. MEMBERS' ALLOWANCES

The total amount of member's allowances paid by the Council during the year was:

2006/07 £'000		2007/08 £'000
220	Basic Allowance	359
267	Special Responsibility Allowance	259
487	**Total Allowances**	**618**

9. OFFICERS' EMOLUMENTS

The number of employees whose remuneration, excluding pension contributions, was £50,000 or more in bands of £10,000 was:

2006/07 No.		2007/08 No.
23	£50,000 - £59,999	14
2	£60,000 - £69,999	12
5	£70,000 - £79,999	3
1	£80,000 - £89,999	2
1	£90,000 - £99,999	1

10. WASTE MANAGEMENT PUBLIC PRIVATE PARTNERSHIP

The Council has entered into a Public Private Partnership for the provision of its waste disposal service. This agreement requires the provider to upgrade or replace three waste disposal sites, two transfer stations and five civic amenity sites. In addition, the provider will also provide composting facilities to meet waste diversion targets. When the agreement ends in September 2026 the provider will hand back to the Council the waste disposal facilities with a life of 5 years.

The Council has paid a service charge of £5.254m which represents the value of the service provided from 1 April 2007 to 31 March 2008. Under the agreement the Council is committed to paying the following sums:

Future Repayment Periods	£'000
2008 - 2012	21,091
2012 - 2017	28,265
2017 - 2022	31,396
2022 - 2027	29,980
Total Allowances	**110,732**

This equates to £5.828m per annum over the life of the contract.

11. SCHOOLS NON PROFIT DISTRIBUTING ORGANISATION

During 2007-08 the ten schools on five sites developed as part of the non profit distribution organisation (NPDO) variant of a public private partnership became operational. When the agreement ends in 2035 the provider will hand the five school complexes back to the Council, it is expected at that point in time each school will have an estimated life of 30 years remaining.

The Council has paid a service charge of £5.414m which represents the value of the service provided from 1 April 2007 to 31 March 2008. Under the agreement the Council is committed to paying the following sums:

Future Repayment Periods	£'000
2008 - 2013	66,107
2013 - 2018	69,786
2018 - 2023	73,572
2023 - 2028	77,855
2028 - 2033	82,700
2033 - 2039	25,877
Total Allowances	**395,897**

This equates to £11.466m per annum over the life of the contract.

12. FEES PAYABLE TO AUDIT SCOTLAND

In 2007/08 the following fees relating to external audit and inspection were incurred:

2006/07 £'000		2007/08 £'000
286	Fees payable to Audit Scotland with regard to external audit services carried out by the appointed Auditor	293
286		**293**

13. RELATED PARTY TRANSACTIONS

During the year transactions with related parties arose as follows:

		Income
Central Government and Agencies		**£'000**
Revenue Grants:	Revenue Support Grant	142,283
	Non-Domestic Rates	33,171
	Housing Benefit Subsidy	16,865
	Council Tax Benefit Subsidy	5,612
	Other Government Grants	29,532
		227,463
Capital Grants:	European Grants	1,759
	Sportscotland / Lottery	13
	AIE - Argyll Air Services	100
	Community Council	10
	School Fund	870
	Energy Efficiency	2,370
	Other Government Capital Grants	8,877
		13,999

	Expenditure
Related Bodies:	**£'000**
Transactions with related bodies during the year totalled	18,970
Of these, transactions with the following exceeded £10,000:	
Joint Boards	16,577
Strathclyde Partnership for Transport	560
Argyll, the Isles, Loch Lomond, Stirling and the Trossachs Tourist Board	205
Convention of Scottish Local Authorities (COSLA)	79
Cowal Council on Alcohol and Drugs	110
Dunoon and Cowal Youth Project	17
Helensburgh Addiction Rehabilitation Team	65
Islay and Jura Community Enterprise	118
Kintyre Alcohol and Drugs Advisory Service	31
Mid Argyll Community Enterprises	46
Nadair Trust	12
NHS	1,034
Oban Addiction Support and Information Services (OASIS)	43
Oban and Lorn Enterprises - Atlantis Leisure	36
Oban Youth and Community Association	15

Other Related Party Transactions:

Transactions in which Members have a significant interest

During the year there was one company in which members had a significant interest and where the total of transactions exceeded £10,000.

This was as follows:	**£'000**
Trident Taxis	78

14. MOVEMENT IN INTANGIBLE FIXED ASSETS

	Purchased Software Licences 2007/08	Purchased Software Licences 2006/07
Original Cost at 31/03/07	173	56
Accumulated Depreciation	(18)	(7)
Net Book Value at 31/03/07	**155**	**49**
Movement in 2007/08		
Expenditure in Year	76	97
Transfers from Under Construction	-	27
Depreciation	(38)	(18)
Net Book Value at 31/03/08	**193**	**155**

15. FIXED ASSETS

15.1 Movement in Operational Fixed Assets

	Other Land & Buildings £'000	Vehicles Plant & Equipment £'000	Infrastructure Assets £'000	Community Assets £'000	Total 2007/08 £'000	Total 2006/07 £'000
Certified Valuation at 31/03/07	**236,281**					
Accumulated Depreciation	(63,258)					
Accumulated Impairment						
Net Book Value at 31/03/07	**173,023**	**7,250**	**97,717**	**1,912**	**279,902**	**315,761**
Movement in 2007/08						
Expenditure in Year	8,331	1,553	3,427	52	**13,363**	**20,638**
Assets Acquired Under Finance Leases	-	-	-	-	**-**	**791**
Adjustment Finance Leases	-	-	-	-	**-**	**529**
Disposals	(7,128)	(646)	-	-	**(7,774)**	**(45,767)**
Revaluations	11,697	-	-	-	**11,697**	**1,034**
Transfers from Non Operational Assets	(6,145)	119	15,936	-	**9,910**	**13,955**
Depreciation	(10,431)	(2,070)	(4,451)	-	**(16,952)**	**(27,039)**
Net Book Value at 31/03/08	**169,347**	**6,206**	**112,629**	**1,964**	**290,146**	**279,902**

15.2 Movement in Non-Operational Fixed Assets

	Investment Properties	Assets Under Construction	Surplus Assets Held for Disposal	Total 2007/08	Total 2006/07
	£'000	£'000	£'000	£'000	£'000
Certified Valuation at 31/03/07	**6,704**		**5,653**		
Accumulated Depreciation			(706)		
Net Book Value at 31/03/07	**6,704**	**21,624**	**4,947**	**33,275**	**34,212**
Movement in 2007/08					
Expenditure in Year	12	20,763	1	**20,776**	**16,337**
Disposals	(124)		(8)	**(132)**	**(134)**
Revaluations	90	-	165	**255**	**(3,155)**
Transfers to Operational Assets	-	-	10,468	**10,468**	**(13,998)**
Transfers from Assets Under Construction	-	(20,378)	-	**(20,378)**	**16**
Write off to Revenue	-	(776)	-	**(776)**	**(3)**
Net Book Value at 31/03/08	**6,682**	**21,233**	**15,573**	**43,488**	**33,275**

15.3 Valuation of Operational Fixed Assets

During the current year, revaluations on operational land and buildings were carried out by Hugh Blake, M.R.I.C.S., Estates Manager for Argyll and Bute Council, in accordance with the Council's rolling programme of revaluations. The basis of valuation is set out in the Statement of Accounting policies.

The following statement shows the progress of the Council's rolling programme for the revaluation of operational fixed assets:

	Other Land & Buildings	Vehicles Plant & Equipment	Infrastructure Assets	Community Assets	Total 2007/08
	£'000	£'000	£'000	£'000	£'000
Valued at historical Cost		6,206	112,629	1,964	**120,799**
Valued at Current Value in:					
2007/2008	52,173				**52,173**
2006/2007	41,737				**41,737**
2005/2006	24,409				**24,409**
2004/2005	37,219				**37,219**
2003/2004	13,809				**13,809**
Total	**169,347**	**6,206**	**112,629**	**1,964**	**290,146**

15.4 Valuation of Non-Operational Fixed Assets

During the current year, revaluations on non-operational land and buildings were carried out by Hugh Blake, M.R.I.C.S., Estates Manager for Argyll and Bute Council, in accordance with the Council's rolling programme of revaluations. The basis of valuation is set out in the Statement of Accounting policies.

The following statement shows the progress of the Council's rolling programme for the revaluation of non-operational fixed assets:

	Investment Properties	Assets Under Construction	Surplus Assets Held for Disposal	Total 2007/08
	£'000	£'000	£'000	£'000
Valued at Historical Cost		21,233		**21,233**
Valued at Current Value in:				
2007/2008	914		805	**1,719**
2006/2007	2,475		3,338	**5,813**
2005/2006	1,289		10,047	**11,336**
2004/2005	632		1,133	**1,765**
2003/2004	1,372		250	**1,622**
Total	**6,682**	**21,233**	**15,573**	**43,488**

15.5 Fixed Assets Information on Assets Held on 31 March 2007

	No.
OPERATIONAL BUILDINGS	
Administrative Buildings	56
Depots	33
Social Work Homes for the Elderly	7
Social Work Children's Homes	4
Hostels	6
Primary Schools	74
Secondary Schools	6
Special Schools	2
Nursery Schools	4
Halls	8
Swimming Pools	5
Museums and Libraries	10
Community Centres	8
Crematoria	1
Public Conveniences	77
Airports	1

	No.
OPERATIONAL EQUIPMENT	
Vehicles and Heavy Plant	260
INFRASTRUCTURE ASSETS	
Highways (miles)	1,406
Bridges	954
Car Parks	138
Vessels	5
COMMUNITY ASSETS	
Parks/Play Areas	62
Civic Regalia (Provosts' Chains)	4
Civic Regalia (Bailies' Chains)	1
Cemeteries	125
War Memorials	55
Works of Art	299

The above is a selection from the asset register of the main asset categories.

16. SUMMARY OF CAPITAL EXPENDITURE AND FINANCING

	31 March 2008 £'000	31 March 2007 £'000
Opening Capital Financing Requirement	**199,721**	**228,114**
Capital Investment:		
Operational Assets - Expenditure	13,363	20,638
Operational Assets - Finance Leases	-	1,320
Non-Operational Assets	20,776	16,337
Intangible Assets	76	97
Total Capital Investment	**34,215**	**38,392**
Sources of Finance:		
Capital Receipts	(2,688)	(41,070)
Government Grants	(13,999)	(10,276)
Capital Financed from Current Revenue	-	(346)
Repayment of External Loans	(17,793)	(17,279)
Capital Element of Finance Lease Payments	(398)	(363)
Capital Element of Schools NPDO Payments	(650)	-
Capital Receipts from Useable Capital Receipts Reserve	-	2,539
Capital Fund	1,356	-
Other	(776)	10
Total Funding	**(34,948)**	**(66,785)**
Closing Capital Financing Requirement	**198,988**	**199,721**

17. FINANCE AND OPERATING LEASES

17.1 Finance Leases – Amounts Paid to Lessors

The Authority holds various vehicles under finance leases. The finance lease payment for the year amounted to £0.418m.

2006/07 £'000		2007/08 £'000
280	Vehicles	418
280	**Total**	**418**

17.2 Operating Leases – Amounts Paid to Lessors

The Council uses land, buildings, vehicles, plant and equipment financed under the terms of an operating lease. The amounts paid under these arrangements in 2007/08 were as follows:

2006/07 £'000		2007/08 £'000
175	Land and Buildings	193
1,338	Vehicles	1,598
183	Plant and Equipment	232
1,696		**2,023**

17.3 Assets Held Under Finance Leases

The following values of assets are held under finance leases by the Authority, accounted for as part of tangible fixed assets.

	Vehicles, Plant and Equipment
	£'000
Value at 1 April 2007	**1,470**
Additions	-
Depreciation	(398)
Disposals	-
Value at 31 March 2008	**1,072**

Outstanding obligations to make payments under these finance lease (excluding finance costs) as at 31 March 2008, accounted for as part of long-term liabilities are as follows:

	Vehicles, Plant and Equipment
	£'000
Obligations payable within 1 year	349
Obligations payable between 1 and 5 years	723
Obligations payable after 2011/2012	-
Total Liabilities at 31 March 2008	**1,072**

17.4 Assets Held Under Operating Leases

The authority was committed at 31 March 2008 to making payments of £1.614m under operating leases in 2007/08 comprising the following elements:

	Other Land and Buildings	Vehicles, Plant and Equipment
	£'000	£'000
Leases expiring within 1 year	5	166
Leases expiring between 1 and 5 years	4	1,258
Leases expiring after 5 years	150	31
Value at 31 March 2008	**159**	**1,455**

18. LONG TERM DEBTORS

	31 March 2008	31 March 2007
	£'000	£'000
House Loans	257	329
NPDO Residual Value (see note below)	650	-
Waste PPP Historic Contamination Fund	750	750
Total Long Term Debtors at 31 March 2007	**1,657**	**1,079**

It is estimated that at the end of the schools NPDO contract the net depreciated construction cost of premises returning to the Council will be £43.427m. Accounting arrangements require this sum to be recognised in the Council's balance sheet over the life of the contract, initially as a long-term debtor with the full value transferring to fixed assets at the end of the contract.

19. DEBTORS

19. Debtors

		31 March 2008		31 March 2007	
		£'000	£'000	£'000	£'000
Arrears of Local Taxation	Council Tax	13,375		13,035	
	Less: Provision for Bad Debts	(10,204)		(10,375)	
			3,171		2,660
	Community Charge	7,559		7,572	
	Less: Provision for Bad Debts	(7,559)		(7,572)	
			-		-
	Non-Domestic Rates	1,123		1,350	
	Less: Provision for Bad Debts	(683)		(735)	
			440		615
Housing Benefits Overpayments		701		886	
Less: Provision for Bad Debts		(414)		(693)	
			287		193
Debtor Accounts		4,713		3,063	
Less: Provision for Bad Debts		(670)		(566)	
			4,043		2,497
VAT Recoverable			2,480		2,114
Other Debtors			9,875		8,524
Total Debtors			**20,296**		**16,603**

20. CREDITORS

	31 March 2008	31 March 2007
	£'000	£'000
Loans Fund Interest	1,727	1,520
Accrued Payrolls and Superannuation	5,593	5,235
Accrued Employer's National Insurance Contributions and PAYE	2,618	2,502
Payables Liability	9,653	7,902
Accrued Expenditure	4,781	8,772
Other Creditors	11,308	5,103
Total Creditors	**35,680**	**31,034**

21. FINANCIAL INSTRUMENTS DISCLOSURES

21.1 Types of Financial Instruments

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

	Long Term 31 March 2008 £'000	Current 31 March 2008 £'000
Investments and Lending		
Loans and Receivables	1.007	63.714
Available-for-sale financial assets	-	-
Borrowing		
Financial Liabilities at amortised cost	187.113	39.995
Financial Liabilities at fair value through profit and loss	-	-

21.2 Fair Value of Assets and Liabilities carried at Amortised Cost

Financial assets (represented by lending and receivables) and financial liabilities (represented by borrowings) and are carried in the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining period of the instrument, using the following assumptions:

- Estimated interest rates at 31 March 2008 for loans from the PWLB were taken from the appropriate interest rate notice and for other loans receivable and payable from market rates obtained by our treasury advisors.
- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months, carrying amount is 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 values are calculated as follows:

	31 March 2008 Carrying Amount £'000	Fair Value £'000
Lending		
Loans and Receivables	64.721	64.726

The fair value is greater than the carrying amount because the Council's lending figure includes a number of loans where the interest rate receivable is lower than the rates available for similar loans at the balance sheet date. The commitment to receive interest above current market rates increases the amount that the Council would receive if it agreed to early repayment of the loans.

Borrowing		
Financial Liabilities	227.108	263.665

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

21.3 Gains and Losses on Financial Instruments

There are no gains and losses recognised in the Income and Expenditure Account and STRGL in relation to financial instruments.

21.4 Nature and Extent of Risks arising from Financial Instruments

The Council's management of treasury risks actively works to minimise the Council's exposure to the unpredictability of financial markets and to protect the financial resources available to fund services. The Council has fully adopted CIPFA's Code of Treasury Management Practices and has written principles for overall risk management as well as written policies and procedures covering specific areas such as credit risk, liquidity risk and market risk.

21.5 Credit Risk

Credit risk arises from the short-term lending of surplus funds to banks, building societies and other local authorities as well as credit exposures to the Council's customers. It is the policy of the Council to place deposits only with a limited number of high quality UK banks and building societies whose credit rating is independently assessed as sufficiently secure by the Council's treasury advisers and to restrict lending to a prudent maximum amount for each institution.

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

	Amount at 31 March 2008	Historical Experience of Non-payment adjusted for Market Conditions at 31 March 2008	Estimated Maximum Exposure to Default and Uncollectibility
	£'000	%	£'000
Deposits with Banks, Building Societies and Local Authorities	42.920	0	0

The information in respect of the Council's debtors can be found in note 18 and 19.

21.6 Liquidity Risk

The Council main source of borrowing is the Treasury's Public Works Loans Board. There is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments. The Council has safeguards in place to ensure that a significant proportion of its borrowings does not mature for repayment at any one time in the future to reduce the financial impact of re-borrowing at a time of unfavourable interest rates. The Council's policy is to ensure that not more than 30% of the loans are due to mature within any financial year and 60% within a rolling five-year period through a combination of prudent planning of new loans taken out and, where it is economic to do so, making early repayments.

The maturity analysis of financial liabilities is as follows:

	£'000
Less than one year	559
Between one and two years	68
Between two and five years	5
More than five years	187,040

All other amounts due to the Council for council tax, non-domestic rates and other income are due to be paid in less than one year.

21.7 Market Risk

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

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

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

- It is the policy of the Council to limit its exposure to variable rate borrowing to a maximum of 30% 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 the 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 restructuring of existing borrowings.
- Any potential for a financial impact on the Council is also significantly limited by the Scottish Government's grant distribution mechanism that automatically adjusts for changes in interest rates in the government grant support the Council receives for "loan charges".

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 2008, with all other variables held constant.

Impact on tax-payer	**£'000**
Increase on interest payable on variable rate borrowings	162
Increase in interest receivable on variable rate lending	(50)
Increases in government grant receivable for "loan charges"	-
Net effect on Income &Expenditure Account	**112**

Other accounting presentational changes

A decrease in the "fair value" of fixed rate lending (disclosed in the STRGL)	-
A decrease in the "fair value" of fixed rate borrowing (disclosure confined to notes to the core financial statements)	31.332

The impact of a 1% fall in the interest rates would be as above but with the changes being reversed.

21.8 Price Risk

The Council has no investment classified as "available-for-sale".

21.9 Foreign Exchange Risk

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

21.10 Short-Term Deposits

The short-term investments arise as a result of the timing of expenditure and associated income and movements in fund and revenue balances. The council adopts a proactive but prudent approach to its Treasury Management operations, which are governed by the fully revised edition of CIPFA's Code of Practice on Treasury Management.

	31 March 2008
	£'000
Banks	38.380

21.11 Short-Term Borrowing

The Common Good and the various trust administered by the Council had monies temporarily invested with the Council's loans fund during the year. The amounts at 31 March 2008 are shown in the table below. Further details of the nature and amounts of the funds of the Common Good and trusts are shown in notes 27 to 28 on pages 34-35.

	31 March 2008
	£'000
Common Good	239
Trust Funds	908

22. DEFERRED GOVERNMENT GRANTS

Where grants and contributions are received that are identifiable to fixed assets with a finite useful life, the amounts are credited to the Government Grants Deferred Account. The balance is then written down to revenue to offset depreciation charges made for the relevant assets.

	Applied	Unapplied	Total
	£'000	£'000	£'000
Balance at 1 April 2007	**(37,922)**	**(769)**	**(38,691)**
Prior Year Adjustment for Write off of Deferred Government Grants	1,355	-	1,355
Revised Balance at 1 April 2007	**(36,567)**	**(769)**	**(37,336)**
Grants Received During the Year to Finance Capital Projects	(4,370)	(9,629)	(13,999)
Credit to Revenue Account During the Year	1,850	-	1,850
Balance at 31 March 2008	**(39,087)**	**(10,398)**	**(49,485)**

23. PROVISIONS

Liabilities have continued to arise in respect of the former Strathclyde Regional Council's operations. Cost sharing arrangements are in place with the other eleven authorities that make up the former Strathclyde Region. Argyll and Bute Council's share of liabilities, which materialise in the future, will be approximately 4.75%. At present, potential liabilities in respect of insurance claims and various legal actions could cost the Council £0.06m. Full provision for this amount has been made.

A provision was created at the end of 2005/06 in relation to the 9% of female employees in catering, cleaning and home care services who had not accepted the Council's equal pay settlement. During 2007/08, further settlements have been paid in full and the provision has, therefore, reduced in line with the staff that have not yet signed acceptance.

During 2007/08 the Council implemented a new Pay and Grading Model and also revised Terms and Conditions. Where the new grade has resulted in an increase in pay, then this will be backdated to 1 April 2006. A provision has been created based on the pay and grading approved by Council and estimates the cost of backdating the pay increase to 1 April 2006 for all staff who have received a pay increase.

The Council reduced the discount on council tax from second homes to 10% during 2005/06. The additional council tax income invoiced during 2007/08 amounted to £1.743m; this amount is to be paid to registered social landlords to invest in social housing. A provision for cash not yet collected, due to be paid to registered social landlords, has been created amounting to £0.064m.

As within previous years, Liabilities have also arisen in respect of employees who will be made redundant as a result of restructuring. In line with the SORP, the authority has raised valid expectations to those affected by announcing the features of the plan or actually starting to implement it.

Operational Services created a number of provisions during 2006/07. There are two main provisions that make up the large majority of the balance:

- Shanks do not have approval for their compost product from SEPA and if the composting was judged to be non-compliant, then Argyll and Bute Council would be required to pay a penalty for tonnage over the Biodegradable Municipal Waste limit.
- Shanks are progressing Pollution Prevention Control (PPC) Permit applications for Garbreck and Glengorm Landfill Sites and have advised that Argyll and Bute Council are potentially liable to meet the costs in relation to these applications.

These provisions comply with the requirements of Financial Reporting Standard 12 – "Provisions, Contingent Liabilities and Contingent Assets" and meets the following criteria:

- There is a present obligation (legal or constructive) as a result of a past event.
- It is probable that a transfer of economic benefit will be required to settle the obligation: and
- A reliable estimate can be made of the obligation.

	Opening Balance	Movement in Year	Closing Balance
	£'000	£'000	£'000
SRC Insurance Claims	(60)	-	(60)
Equal Pay Claims	(222)	54	(168)
Single Status Provision	(2,596)	(2,301)	(4,897)
Income due to Registered Social Landlords (Additional Council Tax on Second Homes)	(50)	(14)	(64)
Reorganisation Redundancy Costs	(434)	233	(201)
Operational Services - various provisions	(664)	83	(581)
Total Provisions	**(4,026)**	**(1,945)**	**(5,971)**

24. DEFERRED LIABILITIES

Deferred liabilities consist of liabilities which by arrangement are payable beyond the next year at some point in the future or paid off by an annual sum over a period of time. Deferred liabilities total £1.822m as at 31 March 2008 and comprise the following:

	Opening Balance	Movement in Year	Closing Balance
	£'000	£'000	£'000
Finance Lease Liability (See note 17.3 - Finance Leases)	(1,470)	398	(1,072)
Land Contamination	(750)	-	(750)
Total Deferred Liabilities	**(2,220)**	**398**	**(1,822)**

25. CONTINGENT GAINS AND LIABILITIES

The Council has a number of applications for equal pay at various stages of completion at Industrial Tribunals. The final outcomes of these applications are unknown at this time, although there is the possibility that the Council may lose at least some of these cases. There is also the potential for other equal pay claims whose costs may be met by the Council. No financial provision has been made in 2007/08 Accounts given the uncertainties that surround both the final outcomes and the settlement levels.

During the 2006-07 the Council transferred its housing stock to Argyll Community Housing Association (ACHA). Some council houses involved in the transfer had been built on land not owned by the Council. The transfer agreement requires the Council to purchase this land and transfer it to ACHA at nil cost. A price has yet to be negotiated with the landowners and therefore a reliable estimate cannot be made of the obligation at this stage.

26. COMMITMENTS UNDER CAPITAL CONTRACTS

At 31 March 2008, the Council had commitments on capital contracts of £14.037m. This expenditure will be funded from a combination of government grants, borrowing, income from selling assets and contributions from Revenue Accounts.

	£'000
ICT and Financial Services	123
Community Services	2,146
Infrastructure and Transport	9,155
Operational Services	2,613
Total	**14,037**

27. TRUST FUNDS AND OTHER THIRD PARTY FUNDS

The Council acts as sole or custodian trustee for 75 trust funds. The funds do not represent assets of the Council, and as such have not been included in the Balance Sheet.

Funds for which Argyll and Bute Council act as sole trustee:

	Income	Expenditure	Net Assets	Reserves
	£'000	£'000	£'000	£'000
Argyll Education Trust	16	12	265	265
GM Duncan Trust	5	1	86	86
McDougall Trust	30	-	575	575
Various Other Trust Funds	27	1	489	489
Total Trust Funds	**78**	**14**	**1,415**	**1,415**

Argyll Education Trust: this is made up of a number of small trusts to award prizes, bursaries, etc. to pupils and ex-pupils of schools within the former Argyll County Council area. GM Duncan Trust: for the provision of fuel, clothing and foodstuffs for the needy of Campbeltown. McDougall Trust: for the provision of sheltered housing on the Ross of Mull.

Further information on the Trust Funds, administered by Argyll and Bute Council, can be obtained from Strategic Finance within the Chief Executive's Unit.

28. COMMON GOOD FUNDS

The Council administers the Common Good Accounts for the former Burghs of Oban, Campbeltown, Rothesay, Dunoon, Lochgilphead, Inveraray and Helensburgh. The figures below summarise the aggregate income and expenditure for the year as well as providing a snapshot picture of the assets and liabilities at 31 March 2008. The Common Good Funds are for the benefit of the geographical areas of the former burghs. Further information on the Common Good Funds can be obtained from Strategic Finance within the Chief Executive's Unit.

28.1 COMMON GOOD INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2008.

	£'000
Expenditure	120
Income	(112)
Deficit for the Year	**8**

28.2 COMMON GOOD BALANCE SHEET AS AT 31 MARCH 2008.

	£'000
Tangible Fixed Assets	50
Investments	1,780
Current Assets	181
Current Liabilites	(5)
Total Assets less Liabilities	**2,006**
Revaluation Reserve	511
Common Good Fund	1,495
Total Net Worth	**2,006**

29. PENSIONS ASSETS AND LIABILITIES – FRS17 DISCLOSURE

In accordance with Financial Reporting Standard 17 – "Retirement Benefits (FRS17)" the Council is required to disclose certain information concerning assets, liabilities, income and expenditure related to pension schemes for its employees. However, the Council is not required to record such information for the Teachers Pensions Scheme as the liability for payment of pensions rest ultimately with the Scottish Government.

29.1 Accrued Pensions Contribution

Due to the timing of salary processing, not all employee and employer contributions have been paid to the Pensions Schemes by the 31 March 2008. These payments have been accrued and are included within the creditors figure on the balance sheet. These have been paid during April 2008. The amounts are as follows:

- Local Government Pension Scheme – £0.982m
- Teachers' scheme – £0.609m

29.2 Summary of Transactions in Respect of the Local Government Pensions Scheme

The Local Government Pension Scheme is a funded scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level estimated to balance the pension's liabilities and investment assets. The Strathclyde Pension Fund Office oversees the operation of this scheme. The contributions are based on rates determined by the Fund's professionally qualified actuary and based on triennial valuations of the Fund.

The latest formal valuation of the Strathclyde Pension Fund for funding purposes was 31 March 2005. The independent actuaries appointed by the Council are Hymans Robertson and they have assumed that employees have continued to earn new benefits on the same basis as the latest formal valuation and that the employer's pensionable payroll over the year to 31 March 2008 remains substantially stable with new entrants replacing any leavers.

The following transactions have been made during the year in relation to the Local Government Pension Scheme.

2006/07 £'000		2007/08 £'000
	Net Cost of Services:	
11,897	Current Service Cost	10,293
(3,639)	Past Service Cost	221
408	Settlements and Curtailments	498
-	Provision for Teachers Premature Retirement Scheme	
	Net Operating Expenditure:	
18,428	Interest Cost	20,018
(21,168)	Expected Return on Employer Assets	(23,863)
	Amounts to be met from Government Grants and Local Taxation:	
3,539	Movement on Pension Reserve	2,436
	Actual Amount charged against Council Tax for pension in the year:	
9,465	Employer's Contributions Payable to the Scheme	**9,603**

29.3 Actuarial Gains and Losses on the Pension Reserve

The actuarial gains and losses identified as movements on the Pensions Reserve in 2007/08 have been analysed over the following categories, measures as absolute amounts and as a percentage of assets and liabilities at 31 March 2008. Comparatives figures for the previous year are also included.

	2007/08 £'000	2006/07 £'000
Differences Between the Expected and Actual Return on Assets	(33,995)	256
Differences Between Actuarial Assumptions about Liabilities and Actual Experience	(146)	1,071
Change in the Demographic and Financial Assumptions used to Estimate Liabilities	67,305	26,033
Actuarial Gain / (Loss) in Pension Plan	**33,164**	**27,360**

29.4 Financial Assumptions

The main assumptions used by Hymans Robertson in the calculations for the Local Government Pensions Scheme were as follows:

	31 March 2008 % per annum	31 March 2007 % per annum
Price Increases	3.6%	3.2%
Salary Increases	5.1%	4.7%
Pension Increases	3.6%	3.2%
Discount Rate	6.9%	5.4%

29.5 Fair Value of Assets

Assets in the Strathclyde Pension Fund are valued at fair value, principally market value for investments, and consist of the following categories shown by the proportion of the total assets held by the fund.

Assets (Employer Share)	Return within 2007/08 % per annum	Fund Value at 31 March 2008 £'000
Equities	7.7%	237,138
Bonds	5.7%	47,018
Properties	5.7%	32,143
Cash	4.8%	10,333
Total		**326,632**

29.6 Net Pension Asset / (Liability)

The net pension asset / (liability) of Argyll and Bute Council as at 31 March 2008 is as follows:

	31 March 2008 £'000	31 March 2007 £'000
Estimated Employer Assets	326,632	333,767
Present Value of Scheme Liabilities	305,815	346,700
Present Value of Unfunded Liabilities	19,999	21,849
Total Value of Liabilities	**325,814**	**368,549**
Net Pension Asset (Liability)	**818**	**(34,782)**

30. TEACHERS PENSIONS – ADMINISTERED BY SCOTTISH PUBLIC PENSIONS AGENCY

This is an unfunded scheme administered by the Scottish Government. The pension cost charged in the accounts is the contribution rate set by the Scottish Government on the basis of a notional fund.

2006/07		2007/08
4,170	**Amount Paid Over (£'000)**	**4,672**
12.50%	Rate of Contribution (%)	12.50%
476	**Amount of Added Years Awarded by the Council (£'000)**	**559**

31. DETAILS OF MOVEMENTS ON RESERVES

The following two reserves (note 31.1 to 31.2) reflect the changes required to the financial statements to implement the new requirement for a revaluation reserve. The Balance Sheet figures for the 31 March 2007 have been adjusted from those included in the Statement of Accounts for 2006/07 to accommodate the implementation of the Revaluation Reserve (see accounting policy 7.2). The Revaluation Reserve replaces the Fixed Asset Restatement Account (FARA). The credit balance of £38.260m on the FARA at 31 March 2007 has been written off to the Capital Financing Account (£36.987m) to form the new Capital Adjustment Account with a new opening balance of £75.247m. The Revaluation Reserve has then been included in the Balance Sheet with a zero opening balance. The closing position on the Reserve at 31 March 2008 therefore only shows revaluation gains accumulated since 1 April 2007.

31.1 Revaluation Reserve

	£'000
Balance at 1 April 2007	**-**
Revaluations of Fixed Assets	13,559
Balance at 31 March 2008	**13,559**

31.2 Capital Adjustment Account

		£'000	£'000
Balance at 1 April 2007			**75,247**
Prior Year Adjustment for Write off of Deferred Government Grants			1,355
Revised Balance at 1 April 2007			**76,602**
Appropriations:	Amortisation of Intangible Fixed Assets	(38)	
	Depreciation and Impairment of Fixed Assets	(18,559)	
	Amortisation of Deferred Government Grants	1,850	
	Capital Element of Finance Lease Payments	398	
	Capital Element of Schools NPDO Payment	650	
	Write off of Net Book Value on Disposal of Fixed Assets	(7,906)	
	Loans fund principal repayments	17,793	
			(5,812)
	Proceeds of Disposals		1,260
	Other Capital Receipts		-
Balance at 31 March 2008			**72,050**

31.3 Useable Capital Receipts Reserve

During the 2006-07 financial year and prior to the transfer of the Council's housing stock during November 2006 the receipts from the sale of council houses were transferred to the Useable Capital Receipts Reserve. The amounts held in this reserve can only be used for social housing capital expenditure. The movement in the Useable Capital Receipts Reserve during 2007/08 is as follows:

	£'000
Balance at 1 April 2007	**2,539**
Interest Earned	142
Transfer to Capital Adjustment Account	-
Balance at 31 March 2008	**2,681**

31.4 Capital Fund

During the year the Council established a Capital Fund under Section 22 of Schedule 3 of the Local Government (Scotland) Act 1975. All receipts from capital disposals are to be paid into this fund with effect from 14 February 2008. The movement in the Capital Fund during 2007/08 is as follows:

	£'000
Balance at 1 April 2007	**-**
Proceeds of Disposals	1,356
Transfer to Capital Adjustment Account	-
Balance at 31 March 2008	**1,356**

31.5 Pensions Reserve

The movement in the Pensions Reserve during 2007/08 is as follows:

	£'000
Balance at 1 April 2007	**(34,782)**
Transfer to Revenue	2,436
Actuarial Gain / (Loss) in Pension Plan	33,164
Balance at 31 March 2008	**818**

31.6 Financial Instruments Adjustment Account

	£'000
Balance at 1 April 2007	**-**
Transitional adjustments to comply with the 2007 SORP	(7,528)
Additional Interest on Borrowings for Amortised Cost Basis	(70)
Re-measurement of "soft" loans	-
Annual Release of Debt Premiums / Discounts on Statutory Basis	484
Balance at 31 March 2008	**(7,114)**

31.7 Repairs and Renewals Funds

	Balance at 31 March 2007 £'000	Contribution from Revenue £'000	Interest Earned £'000	Appropriation to Revenue £'000	Balance at 31 March 2008 £'000
Revenue Repairs and Renewals Funds:					
Education	1,523	400	48	(1,135)	836
Vehicles	63	-	3	-	66
Total	**1,586**	**400**	**51**	**(1,135)**	**902**

31.8 General Fund Balance

The Council has ring-fenced £26.098m of the balance on the General Fund as follows:

	Balance 1 April 2007 £'000	Allocation of Funds £'000	Contributions to Funds £'000	Funds Used £'000	Balance 31 March 2008 £'000
Ring-fenced					
Waste Management PPP	4,038		541	-	4,579
NPDO Affordability Funding	2,549		4,591	-	7,140
Revenue from Additional Council Tax on Second Homes	3,173		1,743	-	4,916
Reserve Committed for 2007/08 Budget	1,928		-	(1,928)	-
Reserve Committed for 2008/09 Budget	-	1,542	-	-	1,542
Savings agreed to be carried forward to 2007/08	98		-	(43)	55
Savings agreed to be carried forward to 2008/09	-	130	-	-	130
Unspent Grants	2,991		967	(2,892)	1,066
Contributions Carried Forward	927		885	(927)	885
Unspent Budget Carried Forward	1,962		4,273	(1,923)	4,312
Previous Earmarking	2,140		-	(1,173)	967
Former HRA Balance	-	255	-	(190)	65
Kilmartin and Auchendrain Museums	-	36	-	(36)	0
Housing / Council Tax Benefits	-	100	-	(100)	0
Projects transferred from Capital	741	(300)	-	-	441
Total Ringfenced	**20,547**	1,763	13,000	(9,212)	**26,098**
Unallocated	4,251	(1,508)	2,165	-	4,908
Total General Fund Balance	**24,798**	**255**	**15,165**	**(9,212)**	**31,006**

The unallocated balance of £4.908m is 1.95% of the Council's budgeted net expenditure for 2008-09.

32. ANALYSIS OF GOVERNMENT GRANTS SHOWN IN THE CASH FLOW STATEMENT

2006/07 £'000		2007/08 £'000
-	Associated Schools Group	25
470	Community Regeneration Funding	1,000
327	Discipline Task Group	178
964	DWP Other Grants	1,003
480	Education Maintenance Allowance	433
-	Fairer Scotland Fund	167
418	Gaelic Education Grants	334
680	Housing Stock Transfer	714
87	Housing Support Grant	172
5,900	National Priorities Action Fund	4,382
3,044	Other Educational Grants	3,830
1,690	Other Grants (e.g. Civil Defence)	1,232
830	Other Social Work Grants	589
94	Pre-school Gaelic Education Grants	88
1,997	Private Sector Housing Grant	2,395
28	Public Transport Grants	999
13,261	Supporting People	12,222
30,270	**Total**	**29,763**

33. NET CASH FLOW RECONCILIATION

2006/07 £'000		2007/08 £'000
385	Surplus / (Deficit) for Year	5,065
(1,324)	Transfers to / (from) HRA Balance	-
(939)		**5,065**
780	Movements in Reserves	
75,928	Adjustments Not Involving Movement in Funds	23,094
356	(Increase) / Decrease in Stocks	8
2,077	(Increase) / Decrease in Debtors	(3,693)
(5,727)	Increase / (Decrease) in Creditors	6,117
72,475	**Revenue Activities Net Cash Flow**	**30,591**

34. ANALYSIS OF NET DEBT

	31 March 2008 £'000	31 March 2007 £'000	Cash Flow £'000
Cash at Bank and in Hand	38,380	6,215	32,165
Bank Overdraft	(3,972)	(6,480)	2,508
Net Increase / (Decrease) in Cash	**34,408**	**(265)**	**34,673**
Debt due within one year	(559)	(539)	(20)
Debt due after one year	(187,113)	(157,302)	(29,811)
(Increase) / Decrease in Debt Financing	**(187,672)**	**(157,841)**	**(29,831)**
Movement in Debt in Period			**4,842**
Capital Element of Finance Lease			398
Net Cash Inflow from Debt and the Capital Element of Finance Leases			**5,240**

35. RECONCILIATION OF MOVEMENT IN CASH TO NET DEBT

2006/07 £'000		2007/08 £'000
(22,015)	Increase / (Decrease) in Cash in Period	34,673
65,275	(Increase) / Decrease in Debt Financing	(29,831)
43,260	**Movement in Debt in Period**	**4,842**
(201,366)	Net Debt as at 1 April 2007	(158,106)
(158,106)	**Net Debt as at 1 April 2008**	**(153,264)**

2007-2008 ANNUAL ACCOUNTS

COUNCIL TAX INCOME ACCOUNT for the year ended 31 March 2008

Shows the net income raised from council taxes levied under the Local Government Finance Act 1992.

2006/07 Actual £'000		2007/08 Actual £'000
51,059	Gross Council Tax Levied and Contributions in Lieu excluding RSL Second Home Additional Income	52,335
	Add Back:	
1,611	RSL Second Home Discount Additional Income	1,687
	Less:	
-	Discounts for prompt payment	
(7,185)	Other Discounts and Reductions	(6,984)
(1,132)	Provision for Bad and Doubtful Debts	(978)
44,353	**Total for 2007/08**	**46,060**
706	Adjustment to Previous Years' Community Charge and Council Tax	433
45,059	**Transfers to General Fund**	**46,493**

1. CALCULATION OF THE COUNCIL TAX

Dwellings are valued by the Assessor and placed within a valuation band ranging from the lowest "A" to the highest "H". The Council Tax charge is calculated using the Council Tax Base, Band D equivalent as below. This value is then decreased or increased dependent upon the band of the dwelling. The charge for each band for 2007/08 was as follows:

Band	Valuation Band	% Band D	£ per year
A	Under £27,000	67%	785
B	£27,000 - £35,000	78%	916
C	£35,000 - £45,000	89%	1,047
D	£45,000 - £58,000	100%	1,178
E	£58,000 - £80,000	122%	1,440
F	£80,000 - £106,000	144%	1,702
G	£106,000 - £212,000	167%	1,963
H	Over £212,000	200%	2,356

2. CALCULATION OF THE COUNCIL TAX BASE 2007/08

Council Tax Base	A	B	C	D	E	F	G	H	Total
Total Number of Properties	7,885	9,523	9,280	5,718	6,944	3,708	2,518	218	45,794
Less - Exemptions / Deductions	1,035	648	955	474	549	213	118	28	4,020
- Adjustment for Single Chargepayers	927	1,029	785	439	392	167	97	7	3,843
Effective Number of Properties	**5,923**	**7,846**	**7,540**	**4,805**	**6,003**	**3,328**	**2,303**	**183**	**37,931**
Band D Equivalent Factor (ratio)	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	
Band D Equivalent Number of Properties	**3,948**	**6,102**	**6,702**	**4,805**	**7,337**	**4,807**	**3,838**	**366**	**37,905**
Add Contribution in lieu in respect of Class 18 dwellings (Band D Equivalent)									459
Nominal Tax Yield									**38,364**
Less Provision for Non-Collection - 4.77%									1,831
Council Tax Base 2007/08 - Number of Band D equivalents									**36,533**

NON-DOMESTIC RATE INCOME ACCOUNT for the year ended 31 March 2008

Shows the income from the rate levied under the Local Government (Scotland) Act 1975 as amended by the Local Government Finance Act 1992 on non-domestic property.

2006/07 Actual £'000		2007/08 Actual £'000
31,358	Gross rates levied	30,653
	Less:	
(4,868)	Reliefs and other deductions	(4,191)
(5)	Payment of Interest	(9)
14	Provision for Bad and Doubtful Debts	(192)
26,499	**Net Non-Domestic Rate Income**	**26,261**
2	Adjustment for years prior to introduction of national non-domestic rate pool	1
7,327	Contribution from national non-domestic rate pool	6,909
33,828	**Transfers to General Fund**	**33,171**

1. ANALYSIS OF RATEABLE VALUES

2006/07 £		2007/08 £
3,486,735	Industrial and freight transport subjects	3,384,840
39,008,662	Miscellaneous including Telecomms, Rail, Gas and Electricity Companies	39,817,777
	Commercial subjects:	
10,356,770	Shops	10,794,190
4,676,390	Offices	4,693,060
7,206,275	Hotels, Boarding Houses etc.	7,218,505
5,953,545	Others	5,904,185
296,746	Formula valued subjects	297,432
70,985,123	**Total Rateable Value**	**72,109,989**

2. NON-DOMESTIC RATE CHARGE

2006/07 Pence		2007/08 Pence
44.9p	**Rate Per Pound**	**44.1p**
0.40p	**Supplementary Rate Per Pound for Properties over £25,000**	**0.30p**

3. CALCULATION OF RATE CHARGE FOR EACH PROPERTY

The rates charge for each subject is determined by the rateable value placed upon it by the Assessor multiplied by the Rate per £ announced each year by the Government.

Argyll & Bute COUNCIL

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GROUP INCOME AND EXPENDITURE ACCOUNT for the year ended 31 March 2008

2006/07 Actual Net Expenditure £'000		2007/08 Actual Gross Expenditure £'000	2007/08 Actual Gross Income £'000	2007/08 Actual Net Expenditure £'000
	Council Services			
92,808	Education Services	108,666	20,244	88,422
15,188	Environmental Services	20,983	5,388	15,595
8,932	Cultural and Related Services	9,852	21	9,831
3,163	Planning and Development Services	8,568	4,520	4,048
40,350	Social Work Services	54,726	11,755	42,971
(929)	Housing Services (Non-HRA)	37,693	35,899	1,794
(10,828)	Housing Services (HRA) - Discontinued Operation	-	-	-
15,506	Roads and Transport Services	24,253	7,443	16,810
1,214	Trading Services	4,952	3,276	1,676
	Central Services			
2,252	- Central Services to the Public	3,611	1,120	2,491
4,096	- Corporate and Democratic Core	5,380	600	4,780
(2,982)	- Non-distributed Costs	876	6	870
1,257	- Other Operating Income and Expenditure	1,272	-	1,272
9,883	Strathclyde Police Joint Board	9,823	-	9,823
5,315	Strathclyde Fire Joint Board	5,456	-	5,456
185,225	**Net Cost of General Fund Services**	**296,111**	**90,272**	**205,839**
1,707	Share of Operating Results of Associates			1,695
186,932	**Net Cost of Services**			**207,534**
4,998	Net (Gain)/Loss on Disposal of Fixed Assets			5,291
(12)	Share of Associates (Gain)/Loss on Disposal of Fixed Assets			40
24,719	External Interest Payable			11,243
326	Share of Interest Payable by Associate			351
(1,702)	Interest and Investment Income			(1,615)
(242)	Share of Associate Interest and Investment Income			(342)
(2,740)	Pensions interest costs and expected return on pension assets			(3,845)
8,419	Share of Associate Pensions interest costs and expected return on pension assets			9,092
220,698	**Net Operating Expenditure**			**227,749**
131,957	General Government Grants			142,282
45,059	Income from Council Tax			46,493
33,828	Distribution from Non-domestic rate pool			33,171
(9,854)	**Deficit for Year**			**(5,803)**

RECONCILIATION OF THE SINGLE ENTITY SURPLUS OR DEFICIT TO THE GROUP SURPLUS OR DEFICIT for the year ended 31 March 2008

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

2006/07 £'000		2007/08 £'000
385	Surplus / (Deficit) on Income and Expenditure Account for the Year	5,065
	Add:	
(10,198)	(Deficit) attributable to Associates	(10,836)
(41)	Surplus / (Deficit) attributable to Common Good Funds	(32)
(9,854)	**Group Account Deficit for the Year**	**(5,803)**

2007-2008 ANNUAL ACCOUNTS

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 March 2008

This statement brings together all the gains and losses of the Group for the year. In addition to the deficit generated on the Group Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

2006/07 £'000		2007/08 £'000
(9,854)	**Group Account Deficit for the Year**	(5,803)
(1,915)	Surplus / (Deficit) on Revaluation of Fixed Assets	15,248
41,277	Actuarial Gains on Pension Fund Assets and Liabilities	68,486
51	Other Gains or (Losses) to be Included in the STRGL	(7,480)
29,559	**Total Recognised Gains and (Losses)**	**70,451**

Argyll & Bute COUNCIL

2007-2008 ANNUAL ACCOUNTS

GROUP BALANCE SHEET as at 31 March 2008

2006/07 £'000			2007/08 £'000
	Fixed Assets		
155	*Intangible Fixed Assets*		193
	Tangible Fixed Assets		
	Operational Assets		
173,023	- Other Land and Buildings		169,347
7,250	- Vehicles, Plant and Equipment		6,206
97,717	- Infrastructure Assets		112,629
1,962	- Community Assets		2,014
	Non-operational Assets		
6,704	- Investment Property		6,682
21,624	- Assets Under Construction		21,233
4,947	- Surplus Assets held for Disposal		15,573
313,382	**Total Fixed Assets**		**333,877**
1,230	Other Long Term Investments		1,740
1,079	Long Term Debtors		1,657
7,235	Deferred Premiums on Early Repayment of Debt		-
-	Asset Related to Defined Benefit Pension Schemes		818
322,926	**Total Long Term Assets**		**338,092**
	Current Assets		
253	Stock and Work in Progress	245	
16,622	Debtors	20,327	
-	Investments	5,000	
6,227	Cash and Bank	38,410	63,982
346,028	**Total Assets**		**402,074**
	Current Liabilities		
(389)	Short Term Borrowing	(504)	
(31,034)	Creditors	(35,577)	
(6,484)	Bank Overdraft	(3,976)	(40,057)
308,121	**Total Assets less Current Liabilities**		**362,017**
(157,302)	Long Term Borrowing	(187,476)	
(2,220)	Deferred Liability - Finance Leases	(1,822)	
(37,336)	Government Grants - Deferred	(49,485)	
(4,026)	Provisions	(5,971)	
(163,642)	Investment in Associate	(137,999)	
(34,782)	Liability Related to Defined Benefit Pension Scheme	-	(382,753)
(91,187)	**Total Assets less Liabilities**		**(20,736)**
	Financed by:		
-	Revaluation Reserve		14,070
76,604	Capital Adjustment Account		72,050
2,539	Useable Capital Receipts Reserve		2,681
-	Capital Fund		1,356
(34,782)	Pensions Reserve		818
-	Financial Instruments Adjustment Account		(7,114)
24,798	General Fund Balance		31,006
(163,642)	Group Reserves		(137,999)
1,455	Common Good Reserves		1,494
255	Housing Revenue Account Balance		-
1,586	Repairs and Renewals Funds		902
(91,187)	**Total Net Worth**		**(20,736)**

Bruce West
Head of Strategic Finance
30 September 2008

1. INTRODUCTION

The Code of Practice on Local Authority Accounting in the United Kingdom 2004: A Statement of Recommended Practice (the 2004 SORP) placed a requirement on authorities to consider all their interests in external organisations including limited companies and other statutory bodies. Where the interest is considered to be material, the authority is required to prepare a full set of group accounts in addition to those prepared for Argyll and Bute Council. The Group Accounts are designed to "present fairly" the financial performance and position of the Council's Group. Comparative figures for the previous year have been included where relevant.

2. GROUP ACCOUNTING POLICIES

The group accounts are prepared in accordance with the policies set out in the Statement of Accounting Policies on pages 8 to 12 with the exception of the following:

- The Strathclyde Partnership for Transport and Strathclyde Concessionary Travel Scheme Joint Committee financial statements have been prepared under the historic cost convention. Therefore all land and buildings are reported at cost less accumulated depreciation.

3. COMBINING ENTITIES

The Council has an interest in a number of Associate Entities. For the purposes of consolidation and incorporation within the Group Accounts recognition has been made of the Council's significant influence over Joint Boards and other entities.

The Associates which have been incorporated are:

- Strathclyde Joint Police Board
- Strathclyde Fire and Rescue Joint Board
- Dunbartonshire and Argyll & Bute Valuation Joint Board
- Strathclyde Partnership for Transport
- Strathclyde Concessionary Travel Scheme Joint Committee

The accounting period for all entities is 31 March 2008.

The 2006-07 Group Accounts included the Argyll, Bute and the Dunbartonshires' Criminal Justice Social Work Partnership, this partnership ceased on 31 March 2007. The North Strathclyde Community Justice Authority replaced the Social Work Partnerships across the North Strathclyde area. This new authority is not an associate for group account purposes.

4. NON MATERIAL INTEREST IN OTHER ENTITIES

The Council had an interest in the Authorities Buying Consortium. The Authorities Buying Consortium was a Joint Committee of all councils in the West of Scotland. It was the largest non profit making purchasing agency in Scotland and served the buying needs of the public sector, charities and voluntary organisations. From 1st April 2008 Scotland Excel has taken over the functions of the Authorities Buying Consortium on a Scotland wide basis.

The Council also has an interest in the Highlands and Islands Transport Partnership (HITRANS). The Partnership was established as one of the seven Scottish Regional Transport Partnerships. The Transport (Scotland) Act 2005 requires these Partnerships to prepare Transport Strategies for their regions which will enhance economic well being; promote safety, social inclusion and equal opportunity; plan for a sustainable transport system; and integrate across boundaries with other partnerships.

These entities are part of the Council's group for the purposes of Group Accounts. As such it is recognised that the nature of the relationship with these bodies should be included within these notes. However, it has been decided that the Council's share of the net worth of these entities is not material to a fair understanding of the financial position of the Council, and so they have not been consolidated into the Group Accounts.

5. NATURE OF COMBINATION

The Council inherited its interest in these entities following the reorganisation of local government in 1996. It is considered that the acquisition was based on an acquisition basis. However, as no consideration was given for this interest there is no goodwill involved in these instances.

6. FINANCIAL IMPACT OF CONSOLIDATION

The effect of inclusion of the Associates and Common Good Funds on the Group Balance Sheet is to decrease both reserves and net worth by £135.994m. This gives an overall net liability for the Group of £20.736m. This net liability position is due to the FRS17 Pension Liability within the Associates' Single Entity Accounts. This can be summarised as follows:-

	Pension Liability per Associates Accounts	Argyll and Bute Council's Group Share
	£'m	£'m
Strathclyde Joint Police Board	2,941.926	116.794
Strathclyde Fire and Rescue Joint Board	820.228	31.907
Total Pension Liability of Associates	**3,762.154**	**148.701**

The Police and Fire Schemes are unfunded with no attributable assets. However, the Scottish Government effectively underwrites these liabilities through provision within the Revenue Support Grant System. This means that the financing of police and fire pensions is raised in the year the pensions are actually paid and offset by recognition within the revenue stream from the Scottish Government.

All associates have prepared their accounts on a 'going concern' basis. Statutory arrangements are in place with the Scottish Government and constituent authorities for the funding of the deficit due to Police and Fire pensions. This means that the financial position of these two Boards remains assured. Similarly, for Strathclyde Passenger Transport Authority and the Joint Valuation Board funding arrangements between the Scottish Government and constituent authorities remains assured. In common with these public bodies, the Council's Group Accounts have been prepared on a 'going concern' basis as there is no reason to suggest that future funding will not continue.

7. FURTHER DETAILS ON CONSOLIDATION

Due to the significant impact upon the reported figures of the Group Accounts further information in respect of the Associate Entities outlined above can be summarised as follows:-

Strathclyde Police Joint Board

Strathclyde Police Joint Board is the statutory corporate body established under the Strathclyde Combined Police Area Amalgamation Order 1975 and provides a comprehensive range of policing services on behalf of the 12 constituent local authorities in the West of Scotland. During 2007/08 the Council contributed £9.823m or 3.97% of the Board's estimated running costs and its share of the net liability on the balance sheet is £112.582m and is included in the Group Balance Sheet. The accounts of the Board are subject to independent audit and can be obtained from the Treasurer to Strathclyde Police Joint Board, Glasgow City Chambers, Glasgow G2 1DU.

Strathclyde Fire and Rescue Joint Board

This is the statutory body responsible for supervising the activities of Strathclyde Fire and Rescue Service. Strathclyde Fire and Rescue provides fire and emergency cover for the 12 constituent local authorities in the West of Scotland. The Council contributed £5.456m to the Boards revenue costs in 2007/08 or 3.89% and has accounted for £27.309m as its representative share of the Net Balance Sheet Liabilities within the Group Balance Sheet. The accounts of the Board are subject to independent audit scrutiny and available from the Treasurer to Strathclyde Fire and Rescue Joint Board, Bothwell Road, Hamilton ML3 0EA.

Strathclyde Partnership for Transport

Strathclyde Partnership for Transport was formed on 1 April 2006 as the successor to the Strathclyde Passenger Transport Authority. It is a Joint Committee of all councils in the West of Scotland plus Dumfries and Galloway Council. In association with the related Structure Planning Committees, the Partnership's remit included the promotion of joint working to set out the policy framework for achieving the most effective management, development and integration of the transport network across boundaries in the medium to longer term through the Joint Transport Strategy. The Council contributed £0.433m or 1.24% of the Board's estimated net running costs during 2007/08 and accounted for £0.771m of the Net Balance Sheet Assets within the Group Balance Sheet. The accounts of the Board are subject to independent audit and are available from the Treasurer to Strathclyde Partnership for Transport, Consort House, 12 West George Street, Glasgow G2 1HN.

Strathclyde Concessionary Travel Scheme Joint Board

This body comprises the 12 local authorities within the West of Scotland which oversees the operations 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 constituent councils and direct grant funding from the Scottish Government. From 1 April 2006 the rollout of the national concessionary fares scheme has seen a significant funding change with the vast majority of funding now coming directly from the Scottish Government. During 2007/08 the Council contributed £0.126m or 4.14% of the net annual running costs and accounted for £0.383m of the Net Balance Sheet Assets within the Group Balance Sheet. The accounts of the Board are subject to independent audit and are available from the Treasurer to Strathclyde Concessionary Travel Scheme, Consort House, 12 West George Street, Glasgow G2 1HN.

Dunbartonshire and Argyll and Bute Valuation Joint Board

This body was formed in October 1995 at local government reorganisation by a Statutory Instrument and is responsible for the maintenance of the electoral, council tax and non-domestic rates registers for Argyll and Bute, West Dunbartonshire and East Dunbartonshire Councils. The Board's running costs are met by the three Councils. During 2007/08 Argyll and Bute Council contributed £1.272m towards estimated running costs and accounted for £0.738m of Net Balance Sheet Assets within the Group Balance Sheet. The accounts of the Board are subject to independent audit and are available from the Treasurer to Dunbartonshire and Argyll and Bute Valuation Joint Board, Council Offices, Garshake Road, Dumbarton G82 3PU.

The following disclosures are also required for Dunbartonshire and Argyll and Bute Valuation Joint Board because the Council's interest exceeds the 25% threshold for accounting purposes:-

	2007/08 £'m	2006/07 £'m
Argyll and Bute Council has a 47.5% share of:		
Gross Income	2.718	2.598
Net Surplus (Deficit)	(0.119)	0.610
Fixed Assets	0.617	0.614
Current Assets	0.411	0.426
Liabilities due within one year	(0.392)	(0.404)
Liabilities due over one year	(0.014)	(0.027)
Retirement Benefit Asset	0.931	0.158
Capital and Revenue Reserves	1.552	0.767

8. REPORTING AUTHORITY ADJUSTMENTS

A number of adjustments are required to the Council's Income and Expenditure Account (page 13) for group accounting purposes. These can be summarised as follows:

- All intra-group transactions have been removed from the Group Accounts as part of the subsidiary consolidation process.
- The Common Good Funds described in note 28 of the Notes to the Core Financial Statements on pages 34-35 have been fully consolidated into the Group Accounts. This adjustment increases the net assets and reserves of Argyll and Bute Council's Group by £2.005m.

9. GROUP CASH FLOW STATEMENT

The impact of the incorporation of the associates has no effect upon the Cash Flow statement for Argyll and Bute Council on pages 18 to 19. Only the Common Good transactions would have an impact. However, this impact is not material enough for a separate Group Cash Flow Statement to be prepared.

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

We certify that we have audited the financial statements of Argyll and Bute Council and its group for the year ended 31 March 2008 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Statement of Total Recognised Gains and Losses, Balance Sheet and Cash-Flow Statement, the Council Tax Income Account, the Non-Domestic Rate Income Accounts, and the related notes and the Statement of Accounting Policies together with the Group Accounts. These financial statements have been prepared under the accounting policies set out within them.

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

Respective responsibilities of the Responsible Financial Officer and auditor

The Responsible Financial Officer's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2007 - A Statement of Recommended Practice (the 2007 SORP) are set out in the Statement of Responsibilities for the financial statements.

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

We report our opinion as to whether the financial statements present fairly, in accordance with relevant legal and regulatory requirements and the 2007 SORP the financial position of the local authority and its group and its income and expenditure for the year, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements:

- present fairly, in accordance with relevant legal and regulatory requirements and the 2007 SORP, the financial position of Argyll and Bute Council and its group as at 31 March 2008 and its income and expenditure for the year then ended; and

- have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

Failure to comply with a statutory requirement

It has not been necessary to qualify our opinion in respect of the following matter. The Council has a statutory duty under section 10 of the Local Government in Scotland Act 2003 to conduct each of their significant trading operations so that income is not less than expenditure over each three year period.

The Council failed to comply with this statutory requirement for the three year period ending 31 March 2008 in respect of the following significant trading operation:

- Catering and Cleaning Service.

Grant Thornton UK LLP

Grant Thornton UK LLP

Chartered Accountants and Registered Auditors
1-4 Atholl Crescent
Edinburgh
EH3 8LQ

30 September 2008

Agenda Item 6

ARGYLL AND BUTE COUNCIL	**COUNCIL**
CORPORATE SERVICES	**27 NOVEMBER 2008**

VACANCIES ON THE LOCAL LICENSING FORUM

1. SUMMARY

1.1 Due to the recent resignations of Thomas Brodie and Gordon Tran, community representatives on the Local Licensing Forum, two vacancies have arisen which requires to be filled.

2. RECOMMENDATIONS

2.1 The Council is requested to approve a process of advertisement in the Mid Argyll and Helensburgh and Lomond areas to recruit two community representatives, one from each area, to attend the Local Licensing Forum.

3. DETAIL

3.1 The Licensing (Scotland) Act 2005 provided that the Council must establish a Local Licensing Forum. The Forum must meet at least 4 times a year with one joint meeting with the Licensing Board(s) per year. The costs associated with the operation of the Forum must be absorbed by the Council.

The role of the Forum is to keep under review the operation of the licensing system in the area and to give advice and recommendations to the Licensing Board. The Board has a duty to "have regard" to the Forum's views and must offer reasons where it takes decisions against the advice of the Forum.

3.2 The Act provided that the Licensing Standards Officer must be a member of the Forum. The other members were to be individuals appointed by the Council on such terms and conditions as may be determined. The relevant guidance issued by the Scottish Executive had suggested that the following should be included:-

(a) Holders of premises licences and personal licences;

(b) The Chief Constable;

(c) Persons having functions relating to health, education or social work;

(d) Young people; and

(e) Persons resident within the Forum area.

3.3 The Council, at it's meeting on 17 May 2007, agreed to establish a Local Licensing Forum for the Argyll and Bute Council area comprising of 20 members.

The following persons or their nominated representatives were appointed as members of the Licensing Forum:-

- Chief Constable of Strathclyde Police;
- Licensing Standards Officer;
- Representative from the Council's Social Work/Substance Misuse Service;
- Representative from the Council's Education Service;
- Representative from the Health Service;
- Representative for young persons such as the Young Scot Co-ordinator;
- Alcohol and Drug Action Team (ADAT) Officer
- Having regard to geography and range of interests, 13 members of the community

3.4 The Council is being asked to place advertisements to recruit two community representatives to fill the two vacancies on the Licensing Forum.

4. IMPLICATIONS

Policy	In keeping with the Licensing (Scotland) Act 2005
Financial	The Council will be required to meet training costs together with travel and subsistence costs
Personnel	None
Equal Opportunities	None
Legal	The Council is required to appoint a Licensing Forum

For further information contact Charles Reppke, Head of Democratic Services and Governance on extn 4192

5 November 2008

PROGRAMME OF MEETINGS – 2009 / 2010

	2009												2010			
Committee	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	March	April
Council						Thurs 25		Thurs 6		Thurs 1	Thurs 26		Thurs 21	Thurs 11 Budget	Thurs 4	Thurs 22
Executive Committee					Thurs 21	Thurs 18		Thurs 20	Thurs 17	Thurs 15	Thurs 19	Thurs 17	Thurs 28 Budget	Thurs 18	Thurs 18	Thurs 15
Protective Services & Licensing #					Wed 20	Wed 17		Wed 19	Wed 16	Wed 21	Wed 18	Wed 16	Wed 20	Wed 17	Wed 17	Wed 21
Audit Committee						Fri 26			Fri 18			Fri 11			Fri 5	
Helensburgh & Lomond Area Committee		Tues 3	Tues 3	Tues 7	Tues 5	Tues 2		Tues 4	Tues 1	Tues 6	Tues 3	Tues 1	Tues 5	Tues 2	Tues 2	Tues 6
Bute and Cowal Area Committee		Tues 3	Tues 3	Tues 7	Tues 5	Tues 2		Tues 4	Tues 1	Tues 6	Tues 3	Tues 1	Tues 5	Tues 2	Tues 2	Tues 6
Mid Argyll, Kintyre & the Islands Area Committee		Wed 4	Wed 4	Wed 8	Wed 6	Wed 3		Wed 5	Wed 2	Wed 7	Wed 4	Wed 2	Wed 6	Wed 3	Wed 3	Wed 7
Oban, Lorn & the Isles Area Committee		Wed 4	Wed 4	Wed 8	Wed 6	Wed 3		Wed 5	Wed 2	Wed 7	Wed 4	Wed 2	Wed 6	Wed 3	Wed 3	Wed 7

\# Will only meet if there is business for consideration
July has been left free from all meetings in order to provide a recess.

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ARGYLL AND BUTE COUNCIL **COUNCIL**
CORPRATE SERVICES **27 NOVEMBER 2008**

TOWN CENTRES AND WATERFRONTS
CHORD OUTLINE BUSINESS CASES

1. Introduction

1.1 This report and the accompanying report from RPS Consultants provides information to allow the Council to consider the Outline Business Cases (OBC) for the town centres and waterfronts of Campbeltown, Helensburgh, Oban, Rothesay and Dunoon and, if so resolved, to allocate resources accordingly.

2. Recommendations

That the Council –

2.1 Notes the Outline Business Cases and associated papers, and the report from RPS.

2.2 If so resolved, prioritises and allocates resources in the Capital Plan.

2.3 Agrees that any capital receipt generated through the implementation of any project will be allocated to the project.

2.4 Requests a further report, to be submitted to the Executive, setting out the structure, process, resources and timescale needed to take the prioritised projects through to Full Business Case and, thereafter, to delivery.

2.5 Recognises that the emerging revised Corporate Plan should reflect the priorities determined by the Council in the light of the development of the Outline Business Cases for the town centre/waterfront developments.

2.6 Noting that while other projects have not been accorded the same priority corporately, endorses the direction for each area as outlined in their Outline Business cases and utilises the Outline Business Cases to inform subsequent reviews and prioritisation of the Capital Plan.

3. OBC Development and Scoring Process

3.1 At its meeting on 26 September 2007 the Council decided to take each of the town centre and waterfront projects to OBC stage. It also agreed that the OBCs would be subject to a process of independent scrutiny.

3.2 The Executive on 20 December 2007 agreed to a process which provided for one consultancy firm to be appointed to prepare the OBCs for all town centre and waterfront projects and a separate firm to be appointed to score the OBCs against scoring criteria agreed by the Council originally in February 2007 and revised by the Executive on 20 March 2008. Project Boards of key stakeholders were established for each project comprising relevant Councillors, officials and local stakeholders to work with the consultants and finally to sign off their OBC. The process represented an example of pro-active community engagement by the Council.

3.3 The purpose of the exercise is to assist the Council to prioritise the £10m allocated in the Capital Programme to Town Centres and Waterfronts over the period 2009-2013.

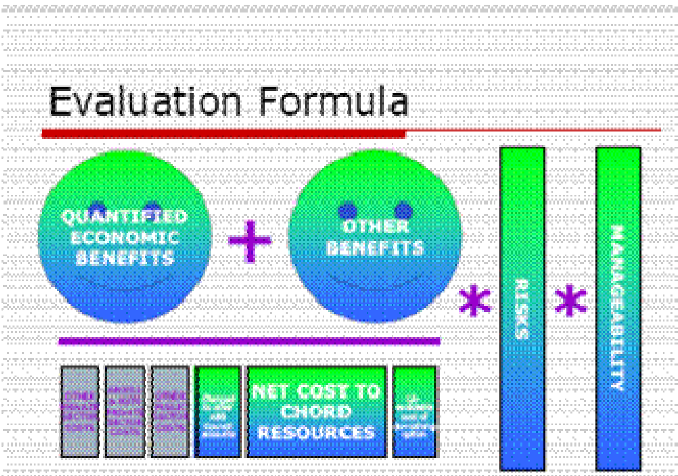
3.4 The OBCs were prepared by consultants from Smiths Gore and CogentSi. On 18 September 2008 the Executive noted that DTZ Consultants had been commissioned to review on the same basis as they had for Dunoon, the OBCs for Campbeltown, Helensburgh, Oban and Rothesay. The OBCs have been scored by RPS Consultants. Their final report is attached.

3.6 The scoring mechanism approved by the Executive on 20 March 2008 involves establishing a ratio of benefits per £1m of expenditure. Benefits are assessed on the same principles as in the original weighting and scoring criteria-

Impact on Corporate Plan
Impact on Service Plan
Impact on Area Plan
Impact on Corporate Strategies
Impact on compliance with legal and national priorities

In addition the assessment of benefits is adjusted for deliverability and risk.

3.7 This is represented in the formula which is contained in each OBC main dossier –



3.8 The report from RPS containing their assessment of the OBCs is attached. For each OBC, the report contains RPS' analysis and assessment of benefits, the extent to which each contributes to council and other policy priorities, and deliverability and risk. RPS has assessed each OBC utilising the Council's scoring methodology approved in March 2008. In accordance with that methodology the report concludes –

"The results of this scoring methodology ranks the proposed projects in order;

1. *Rothesay*
2. *Campbeltown*
3. *Oban*
4. *Helensburgh*
5. *Dunoon*

Based upon the application of the agreed methodology the following allocations would be made

Rothesay	*£ 2.4 Million*
Campbeltown	*£ 6.5 Million*

The highest scoring individual project from among the remaining areas is the Yacht Haven in Oban at a cost of £1.0 Million which could also be afforded within the limited funds available. The next best alternative after that for remaining funds would be Kidston Park in Helensburgh.

Evan Williams from RPS will be at the Council meeting to provide further clarification around the report.

4. Considerations and Conclusions

4.1 The OBC preparation and evaluation process has been completed. If it is to achieve these important priorities it is essential the Council recognises there is a need to ensure a robust and resourced process is in place to take forward the prioritised projects through to Final Business Case and implementation. There is a need for clarity around the priorities so that a project plan can be shaped around structure, process, resources and timescale and a project board and team indentified. This will be done in light of the decisions today, and a report will be submitted to the Executive as soon as possible.

Nigel Stewart

Director of Corporate Services
7 November 2008

Background Papers:-

- Outline Business Cases for Campbeltown, Helensburgh, Oban, Rothesay and Dunoon and associated papers prepared by CogentSi /DTZ/and Project Boards all as signed off by the Boards in October 2008
- OBC Assessment Report – RPS Consultants - November 2008

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RPS

Argyll and Bute Town Centres and Waterfronts Outline Business Cases

Application of Scoring Methodology

Argyll and Bute Council

Prepared by:
Evan Williams

Reviewed by:
John Stevenson

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Planning & Development

This report has been prepared within the RPS Group Quality Management System to British Standard EN ISO 9001 : 2000

STATUS:	**Final**
DATE:	
PROJECT MANAGER:	**Evan Williams**
PROJECT REVIEWER:	**John Stevenson**

Contents

RPS

1. Executive Summary

Argyll and Bute Council have available a capital allocation of up to £10 Million. RPS have been commissioned to undertake a scoring exercise to assist the Council in making a decision about the most effective use of these funds. This report contains the results of RPS analysis of the five outline business cases for town centre and waterfront development projects in Campbeltown, Helensburgh, Oban, Rothesay and Dunoon within Argyll and Bute.

The analysis was conducted in accordance with a scoring methodology adopted by Argyll and Bute Council prior to the appointment of RPS as scoring consultants.

The methodology calls for the estimates of benefits to be modified by reference to impact (in terms of contribution to council and outer priorities) and Risk and Deliverability. This value is then divided by the cost of the proposed project to establish a weighted benefits per unit of expenditure.

The methodology has the virtue of having been agreed in advance, and RPS have applied it uniformly across the range of projects proposed.

The results of this scoring methodology ranks the proposed projects in order;

1. Rothesay
2. Campbeltown
3. Oban
4. Helensburgh
5. Dunoon

Based upon the application of the agreed methodology the following allocations would be made

Rothesay	£ 2.4 Million
Campbeltown	£ 6.5 Million

The highest scoring individual project from among the remaining areas is the Yacht Haven in Oban at a cost of £1.0 Million which could also be afforded within the limited funds available. The next best alternative after that for remaining funds would be Kidston Park in Helensburgh.

RPS

2. Introduction

Argyll & Bute Council has asked RPS to carry out an independent scoring exercise of the outline business case (OBC's) for five town centre and waterfront development projects in Campbeltown, Helensburgh, Oban, Rothesay and Dunoon. Business cases have been prepared by Cogent, Smiths Gore supplemented by additional analysis of costs and values undertaken by DTZ. The business cases have been approved by local project boards each of which have provided additional helpful commentary.

Argyll & Bute Council agreed a methodology on 20th March 2008 (modifying an earlier methodology agreed in February 2007) by which the OBC's would be scored in order to allow an objective assessment of the relative merits of each of the proposals. The Council has available capital funding of £10m but the resources required to support all of the town centre and waterfront developments would be of the order of £36 Million, with additional sums being required from other public and private sector sources.

The Five town centre and waterfront projects are as follows;

- Campbeltown;
    - Kinloch Road - Area Regeneration;
    - Marina Development;
    - Townscape Heritage Initiative;
- Dunoon;
    - Waterfront - Major Project.
- Helensburgh;
    - Town Centre - Streetscape Works;
    - Esplanade Refurbishment;
    - Kidston Park Refurbishment;
- Oban;
    - Development Road -Major Land Release and Traffic Problem Resolution;
    - Harbour Areas for Action – Masterplanning;
    - Yacht Haven (Transit Marina);
- Rothesay;
    - Pavilion - Category A Listed Building Refurbishment;
    - Townscape Heritage Initiative;

This report sets out the results of our application of the agreed scoring methodology. We set out the rational for the judgements we make. We conclude with an ordered list of projects and scores.

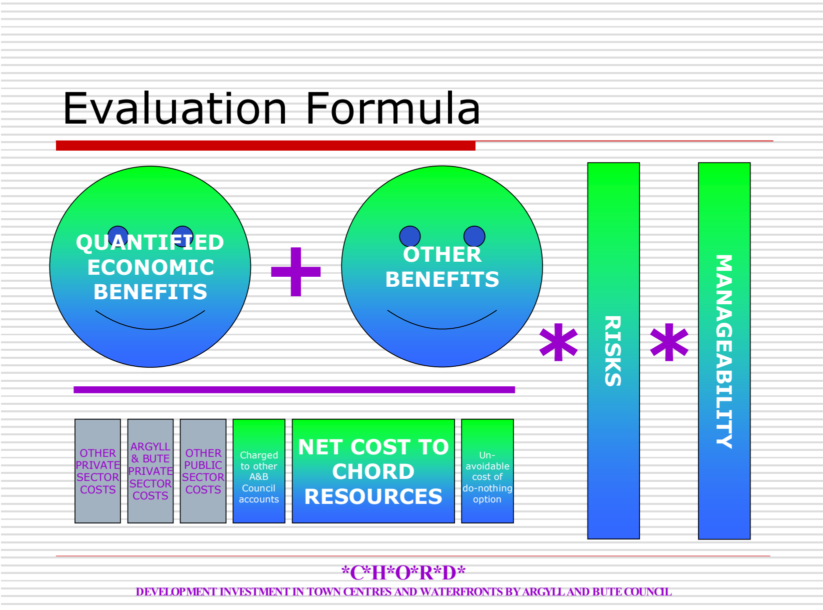
3. Methodology

The methodology applied to the scoring of the business cases was set out in a paper by Bruce West, dated 20 March 2008 and appended to this report (Appendix 1).

In Short the methodology takes a ratio of benefit to expenditure approach. An accounting or Net Present Value Approach, similar to that adopted by DTZ in their helpful desk based study, is modified to have regard to their contribution council and other priorities and adjusted for deliverability and risk. A ratio of benefits to cost is established. Those proposals with higher scores can be said to provide better value for “CHORD” funds than those with lower values.

The reports produced by the Cogent, Smiths Gore team that produced Outline Business Cases included the following diagram is used to illustrate the scoring methodology and this equates most closely to the methodology outlined in the 20 March 2008 report.

Figure 1: Representation of the Evaluation Formula created by Cogent, Smiths Gore.



However, the results of the scoring system should be understood for what they are; the application of a particular methodology in a consistent way to a group of quite different proposals. There are other ways of thinking about or reaching judgements about the best allocation of funds (one of which is suggested by DTZ).

In applying the methodology we take the net benefits of projects multiplied by a factor for each of the criterion; contribution to policies; and risks and manageability. The resulting value is then divided by the costs. This has the effect of showing the ratio of benefits to cost. We did consider the possibility of only considering the cost to the CHORD resources; however this would have had the effect of attributing none of the benefits of expenditure to other Council resources.

In the sections that follow we present an overview of the evidence from the five area based business cases and from the supplementary analysis from DTZ. In addition we were aided by helpful and thoughtful contributions from area partnerships. In section 5 and 6 we present our analysis of each of the projects in turn, concluding with our estimate of the benefit ratio for each of the projects. We provide a summary table of results and an ordered list of projects according to score.

We treat the individual elements of the business cases as separate independent projects before bringing the analysis together on an area by area basis.

Our analysis was conducted during the first two weeks in November and is based entirely on the information supplied to us on 3rd November 2008. We have sought, as far as possible, to apply the Office of Government Commerce Five Case Model for the development of Business Cases, and the UK Treasury's Green Book (A Guide to Investment and Appraisal in the Public Sector).

Our brief did not extend to undertaking original research. In so far as we are able to comment on the data supplied this is not intended as a criticism of the earlier analysis rather it is a comment of its applicability to the specific job in hand of applying the agreed methodology objectively and fairly across all of the business cases.

RPS

4. Overview of the evidence

The principal source of data for our analysis comes from the dossiers and notes and working papers produced by the Cogent Smiths Gore team. In addition we were supplied with desk based appraisal of net present values conducted by DTZ and additional supporting material provided by the project boards it is not our intention to reprise all of the detail contained in those reports. We do however feel that compiling the key information in one place is worthwhile and aids understanding.

4.1 Campbeltown

Campbeltown's position as the most 'peripheral' town in mainland Britain has made it hard to overcome personal and commercial poverty. Historically, the population of the town has been ageing very rapidly, and has been in danger of shrinking into itself as the number of people of childbearing age falls. This makes it hard to raise incomes and asset values and means that opportunities for growth are extremely precious. However, significant private sector investments are being undertaken and in other ways the town may be at a turning point. To be sure of making a transformational change we need to redouble efforts to make the town more attractive for people to visit and live in, to hold on to the major private sector employer, and to make specific investments to attract visitors and investors. What Campbeltown plans are three projects all straddling the public and private sector:

- Revitalise the strategic **Kinloch Road area**, providing commercial premises in a key location, substantially improving the town centre housing stock, and realigning the road which will run from the town entrance towards Campbeltown Loch, past the Aqualibrium leisure centre to the harbour and the ferry facilities.
- Develop its existing **marina** and position it for an improved market presence
- Improve and restore its **heritage and conservation sites** in the town centre and increase residential occupancy

Table 1. Cogent Smiths Gore Analysis (Campbeltown)

Values £million	Kinloch Road	Marina	Heritage and conservation sites	All Campbeltown
Total cost	£ 8.00	£ 2.32	£ 1.30	£ 11.62
Non CHORD	£ 3.00	£ 1.16	£ 1.00	£ 5.16
CHORD Funds	£ 5.00	£ 1.16	£ 0.30	£ 6.46
Quantified economic benefits	£ 28.20	£ 7.99	£ 6.20	£ 42.39
Other benefits	£ 6.83	£ 1.04	£ 1.93	£ 9.80
Total benefits	£ 35.03	£ 9.04	£ 8.13	£ 52.19
Cost: benefit ratio (our calculation)	**4.38**	**3.90**	**6.25**	**4.49**

RPS

4.2 Dunoon

The main function of Dunoon's economy is to provide public and private services for its residents and for people visiting Argyll and Bute and the Loch Lomond and the Trossachs National Park, as the town develops as the Marine Gateway to the National Park.
By far the most dramatic event in Dunoon's recent economic history was the closure of the US Naval base on the Holy Loch in the early 1990s. Dunoon has shown remarkable resilience in recovering from this closure.
In particular Dunoon has successfully attracted younger migrants than other towns and has built up its role as a tourism centre . Dunoon's pier and waterfront is no longer suitable for the 21st Century. Retention of the pier in its present form will jeopardise the town's status as a major transport hub, and will incur substantial ongoing maintenance costs to the Council, therefore new development is required to facilitate economic growth.

Table 2. Cogent Smiths Gore Analysis (Dunoon)

Values £million	Pier and Waterfront
Total cost	£ 27.50
Non CHORD	£ 17.50
CHORD Funds	£ 10.00
Quantified economic benefits	£ 5.80
Other benefits	£ 1.98
Total benefits	£ 7.78
Cost: benefit ratio (our calculation)	**0.28**

4.3 Helensburgh

Helensburgh is Argyll and Bute's largest town, located in a wonderful setting. It has a rich heritage and a community that participates actively in civic affairs That community distinctively comprises long term residents who choose Helensburgh and Argyll and Bute for its quality of life and opportunities, The Helensburgh OBC comprises one project with three elements:-

- Transforming the Town Centre – A Traffic Management and Street Improvement Scheme
- Redeveloping the Esplanade
- Redeveloping Kidston Park

RPS

Table 3. Cogent Smiths Gore Analysis (Helensburgh)

Values £million	Town Centre	Esplanade	Kidston Park	All Helensburgh
Total cost	£ 3.31	£ 3.35	£ 1.00	£ 7.66
Non CHORD	£ -	£ -	£ 0.20	£ 0.20
CHORD Funds	£ 3.31	£ 3.35	£ 0.80	£ 7.46
Quantified economic benefits	£ 14.90	£ 10.90	£ 1.31	£ 27.11
Other benefits	£ 1.88	£ 1.67	£ 0.31	£ 3.85
Total benefits	£ 16.77	£ 12.57	£ 1.62	£ 30.97
Cost: benefit ratio (our calculation)	**5.07**	**3.75**	**1.62**	**4.04**

4.4 Oban

Oban is a key communication node for the islands and the West Highlands, and is succeeding by its own efforts in the market economy. One of Argyll and Bute's major towns with a stable population and the possibility of significant growth, it has the most balanced demographic profile in the region. However it is coming up against capacity limitations because of its over-congested town centre and some labour shortages. Investment in Oban by the Council will resolve congestion by redirecting access, thus facilitating housing developments which will help to address the labour issues. It will enhance Oban's functioning as a transport hub, generating wealth in both a seaward and landward direction. The opportunity to reorganise the harbour and surrounding land also offers a possibility to enhance Argyll and Bute's tourism offering significantly.

The project board has assembled four projects designed to lift the capacity constraint and enhance Oban's ability to grow.

- The **development road**, which will provide new routes to the south of the town and open up new areas for residential and commercial development
- The **Dunbeg corridor** to facilitate access to town centre services from an area of new residences close to hi-tech job opportunities
- Waterfront '**areas for action**' to improve the efficiency of the harbour area itself
- Oban Bay **yacht haven** to provide short stay marina facilities right in the centre of town to complement the existing marina complex on Kerrera, which has recently been given approval to increase the pontoon provision to 205.

RPS

Table 4. Cogent Smiths Gore Analysis (Oban)

Values £million	Development road	Dunbeg Corridor*	Areas for action	Yacht haven	Oban (ex Dunbeg Coridor)
Total cost	£ 15.00	£ -	£ 4.00	£ 1.63	£ 20.63
Non CHORD	£ 9.00	£ -	£ 1.00	£ 0.63	£ 10.63
CHORD Funds	£ 6.00	£ -	£ 3.00	£ 1.00	£ 10.00
Quantified economic benefits	£ 50.90	£ 33.90	£ 9.40	£ 17.96	£ 78.26
Other benefits	£ 6.87	£ 5.49	£ 2.58	£ 2.34	£ 11.80
Total benefits	£ 57.77	£ 39.39	£ 11.98	£ 20.31	£ 90.06
Cost:benefit ratio (our calculation)	**3.85**	**N/A**	**3.00**	**12.46**	**4.37**

* The Dunbeg corridor project is assumed in the Cogent Smiths Gore analysis to be largely self funding via non Council sources, our view is that the benefits ought rightly be attributed to the inputs of the external promoters in this case WHHA.

4.5 Rothesay

Rothesay has an historic building (the art deco Pavilion) which is not only exceptional in European terms but also the most important heritage asset owned by the Council. Property in Rothesay's town centre evidences substantial voids and derelictions in retail, residential and commercial premises, detracting from the town as a place to live and a place to visit. It is expected that through working with Historic Scotland and others such as Heritage Lottery Fund and Princes Regeneration Trust money will be available to help preserve and regenerate. The local community will make its contribution through Argyll and Bute Council. These opportunities can reverse the twin dynamics of ageing and decline in a very special community

The Project Board for Rothesay has selected two projects of the greatest importance to the town:

- Preservation and refurbishment of the **Rothesay Pavilion** as a living building
- A combined **Townscape Heritage Initiative and Conservation Area** Regeneration Scheme to address the town centre

RPS

Table 5. Cogent Smiths Gore Analysis (Rothesay)

Values £million	Rothesay Pavilion	Town Centre	All Rothesay
Total cost	£ 5.00	£ 1.30	£ 6.30
Non CHORD	£ 2.90	£ 1.00	£ 3.90
CHORD Funds	£ 2.10	£ 0.30	£ 2.40
Quantified economic benefits	£ 16.88	£ 7.30	£ 24.18
Other benefits	£ 6.76	£ 2.17	£ 8.93
Total benefits	£ 23.63	£ 9.47	£ 33.10
Cost: benefit ratio (our calculation)	**4.73**	**7.28**	**5.25**

4.6 Area Summary

Combining the aggregate analysis for each area in a single summary table illustrates a simple cost benefit ranking of projects prior to the application of the scoring methodology.

Table 6. Cogent Smiths Gore Analysis (Summary all areas)

Values £million	Campbeltown	Dunoon	Helensburgh	Oban (ex Dunbeg Coridor)	Rothesay
Total cost	£ 11.62	£ 27.50	£ 7.66	£ 20.63	£ 6.30
Non CHORD	£ 5.16	£ 17.50	£ 0.20	£ 10.63	£ 3.90
CHORD Funds	£ 6.46	£ 10.00	£ 7.46	£ 10.00	£ 2.40
Quantified economic benefits	£ 42.39	£ 5.80	£ 27.11	£ 78.26	£ 24.18
Other benefits	£ 9.80	£ 1.98	£ 3.85	£ 11.80	£ 8.93
Total benefits	£ 52.19	£ 7.78	£ 30.97	£ 90.06	£ 33.10
Cost:benefit ratio (our calculation)	**4.49**	**0.28**	**4.04**	**4.37**	**5.25**
Rank order	2	5	4	3	1

Without having taken account of contributions to council priorities, risk and deliverability this analysis suggests that both Rothsay and Campbeltown should be funded (at a cost of £8.9Million)

RPS

4.7 Summary of DTZ Analysis

DTZ took a different approach to the analysis of benefits from Cogent Smiths Gore, applying a range of multipliers and valuations based on their experience of other projects. DTZ's analysis presents a Net Present Value estimate for each area (collecting together all of the sub projects in one estimate).
DTZ then calculated the internal rate of return implied by each project. These estimates are provided without adjustment for contribution to council priorities, risk and deliverability. These net present value and internal rate or return calculations provide an alternative measure of "efficiency" from the area proposals.

Table 7. DTZ Summary Table (re-presented in Alphabetical order

	Campbeltown	**Dunoon**	**Helensburgh**	**Oban**	**Rothesay**
Total Net Present Value (£m)	£14.36	£45.90	£72.37	£106.41	£22.96
Total Cost (£m)	£11.62	£27.50	£7.66	£19.63	£6.30
NPV against Total Cost (£m)	**£2.74**	**£29.60**	**£64.71**	**£86.78**	**£16.66**
Council Totals (£m)	£6.46	£10.00	£7.46	£10.00	£2.40
NPV against Town Totals (£m)	£7.90	£39.60	£64.91	£96.41	£20.56
Uplift needed to break even	**4.8%**	**3.6%**	**1.6%**	**2.7%**	**1.4%**
FTEs created	41	86	136	199	43
Total jobs created	49	103	162	238	51
Internal Rate of Return (IRR)	**5.3%**	**14.3%**	**19.2%**	**24.7%**	**18.0%**

Following just the logic of the internal rate of return calculation would imply a decision to allocate all of the CHORD funds to the Oban projects.

The DTZ team offered another means of weighting by using an income index. This is intended to reflect the "fact" that those areas that are least well off benefit most from injections of new resources. This is re-presented in the table below.

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Table 8. DTZ Weighted net Present Values (re-presented in alphabetical order)

	Campbeltown	**Dunoon**	**Helensburgh**	**Oban**	**Rothesay**
Income index	152	192	100	106	167
Total Net Present Value (£m)	£14.36	£45.90	£72.37	£106.41	£22.96
Weighted NPV (£m)	**£21.88**	**£88.15**	**£72.37**	**£112.73**	**£38.43**
Total Cost (£m)	£11.62	£27.50	£7.66	£19.63	£6.30
Weighted NPV against Total Cost (£m)	**£10.26**	**£60.65**	**£64.71**	**£93.10**	**£32.13**

This further analysis would appear to imply that the best choice for CHORD investment would be Oban with the highest Weighted NPV.

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5. Analysis and Results

In this section we set out our analysis and consideration of three issues;
1. The various assessments of net benefits,
2. the extent to which projects contribute to council and other policy priorities,
3. deliverability and risk.

5.1 Assessments of net benefits

As can be seen from the discussion above there are wide disparities between the assessments of net benefits provided by Cogent Smiths Gore and by DTZ.

Table 9. Comparison of benefit estimates from Cogent Smiths Gore and DTZ with rankings and average value for illustration

	Campbeltown	Dunoon	Helensburgh	Oban	Rothesay
Cogent Smiths Gore estimate of Total benefit (£m)	52.20	7.80	31.00	90.10	33.10
RANK	**2**	**5**	**4**	**1**	**3**
DTZ estimate of Total Net Present Value (£m)	14.36	45.90	72.37	106.41	22.96
RANK	**5**	**3**	**2**	**1**	**4**
Average valuation	33.28	26.85	51.68	98.25	28.03
RANK	**3**	**5**	**2**	**1**	**4**

DTZ based their analysis in part upon named case studies from; Dundee, Bristol, Greenwich and Cardiff Bay. And, while using case studies is a reasonable approach to approximate the effects of the proposals the character of the case study areas is substantially different to the five project areas. The use of local population and travel to work areas does represent a way of thinking about the scale of the potential benefit but has the effect of benefiting more populous areas (such as Helensburgh). DTZ considered the displacement of income from one part of Argyll and Bute to another and made allowances for new developments benefiting at the expense of other areas, but this did not extend to considering displacement within Scotland. A traditional "Green Book" approach to the assessment of benefits would normally include an assessment of these displaced benefits at least at a Scotland scale.

Cogent Smiths Gore conducted their analysis more locally and their analysis is considerably more conservative in respect of indirect and other benefits. The estimates of value are approached essentially from the bottom up generating a sum of the identifiable direct benefits.

In conducting our analysis we considered the possibility of averaging the valuations of Cogent Smiths Gore and DTZ as a means of balancing the desperate approaches but because the nature of the approaches is quite different we do not feel that this added clarity to the analysis. We also considered cherry picking the highest valuations form each study but took the view that the essence of the scoring system was consistent application of a process in a transparent manner. Our view therefore is that the analysis should be based upon the Cogent Smiths Gore valuations, the information provided in our analysis below is sufficiently transparent that any values for benefits could be input into the equation and results compared.

5.2 Analysis of Contribution to Council and Other Policies

The first point to make is that all of the proposals represent important and valuable contributions to the communities in which they are based. Irrespective of the economic and other benefits it is clear that all of the projects could be justified by reference to their contributions to the sustainability and growth of important communities in Argyll and Bute.

The methodology specifically requires consideration of the following impacts;

- Corporate Plan
- Service Plans
- Area Plans
- Corporate Strategies
- Legal and National priorities

In the Scoring System as originally approved in February 2007 the weight attributed to each of the different plan areas was different and we have preserved that weighting within this analysis.

Table 10. Weightings as proposed in February 2007

Assessment	Score Max 10 Min 0	Weight	Weighted Score
Impact			
Impact on Corporate Plan		1	
Impact on Service Plans		0.75	
Impact on Area Plans		0.75	
Impact on Corporate strategies		0.5	
Impact on compliance with legal and national priorities		0.5	

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In our analysis we highlight the ways in which the proposals impact on those plans and assign a score between 1 and 10 for each. The resulting Impact score out of a maximum of 35. Which is used as a multiplier for the benefits (impact) score which after further modification can be divided by costs. Broadly speaking if a project delivers a central theme of one of these plans or strategies it scores highly if it does not it will score less well. For Service Plan Impacts the Working Papers do not always identify clear linkages for each of the projects to service plans, given the limited time available to us it was not possible to make a sensible differentiation between the strength of these impacts across different service plans and different areas we therefore allocated a score of 10 to each of the area proposals for that category (a weighted score of 7.5).

Our analysis involves seeking to identify clear linkages in the Cogent Smiths Gore Dossiers and accompanying notes and working papers between the proposals and the Council's plans and other priorities. We do this for each of the areas in turn providing a selection of highlights form the notes and working papers to illustrate our rationale for the score.

5.2.1 Campbeltown

Impact on Corporate Plan

Campbeltown Project objectives are fully compatible with each of the strategic objectives of the Council (Page 10) and in particular the strategic delivery element of Town Centre and Waterfront Regeneration. There are also specific tie-ins with the strategic delivery elements contained within the plan with regard to Strengthening Existing Activity (page 22) and New Opportunities (Page 25/56). The projects contribute to the key objective of "Creating an attractive, well connected modern economy", under the sub topic of "Rejuvenation of the main towns".

Impact on Area Plans

Specified Areas for Action and Preserves and enhances the conservation area both of which feature in the Local Plan
The promotion of 'action programmes' for Campbeltown town centre and waterfront (Structure Plan).

Impact on Corporate strategies

Will help to deliver Housing Strategy / housing obligations
Vibrant communities, strategic delivery element of Town Centre and Waterfront Regeneration. There are also specific tie-ins with the strategic delivery elements contained within the plan with regard to Strengthening Existing Activity and New Opportunities

Impact on compliance with legal and national priorities

National Planning Frameworks; The focus within this project on infrastructure improvements is something at the very core of NPF2. It has particular relevance for the movement of freight (both turbines and timber) and other ferry traffic to and from the harbour, and will be of even greater significance if ferry links to Northern Ireland are re-established

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Table 11. Assessment of Impact on Council and other priorities (Campbeltown)

Assessment	Score Max 10 Min 0	Weight	Weighted Score
Impact			
Impact on Corporate Plan	8	1	8
Impact on Service Plans	10	0.75	7.5
Impact on Area Plans	8	0.75	6
Impact on Corporate strategies	8	0.5	4
Impact on compliance with legal and national priorities	9	0.5	4.5
Total			**30.0**

5.2.2 Dunoon

Impact on Corporate Plan

The council's Corporate Plan identifies waterfront and town centre regeneration as strategic under its "Vibrant Communities" theme.
The Corporate Plan also contains under the Strategic Delivery Topic of Transport – Improving Access to the area;

Impact on Area Plans

Fit with Local Plan Areas for Action, Action programmes to stimulate investment and enhancements in the Rothesay and Dunoon town centres and Waterfronts

Impact on Corporate strategies

Vibrant communities, strategic delivery element of Town Centre and Waterfront Regeneration. There are also specific tie-ins with the strategic delivery elements contained within the plan with regard to Strengthening Existing Activity and New Opportunities.

Impact on compliance with legal and national priorities

The strategy identifies a number of action themes. One, 'the economic coast' recognises the economic opportunities to be gained from the region's coasts and lochs. The proposals for Dunoon marina would fit well into this. Another of the actions singles out Loch Lomond and the Trossachs as 'a long term project of immense significance. Consequently, any aspects of the Dunoon which support the aim of developing the town as the maritime gateway to the national park would be consistent with this theme

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Table 12. Assessment of Impact on Council and other priorities (Dunoon)

Assessment	Score Max 10 Min 0	Weight	Weighted Score
Impact			
Impact on Corporate Plan	8	1	8
Impact on Service Plans	10	0.75	7.5
Impact on Area Plans	8	0.75	6
Impact on Corporate strategies	7	0.5	3.5
Impact on compliance with legal and national priorities	9	0.5	4.5
Total			**29.5**

5.2.3 Helensburgh

Impact on Corporate Plan

Environment: the scheme would propose to enhance the physical environment of the waterfront area of the town.
Helensburgh is also specifically mentioned under the Strategic Delivery topic of Transport – improving access to the area, as "transport functions associated with the regeneration of the Helensburgh Waterfront.

Impact on Area Plans

Local Plan 2.3 … "large population increases projected, particularly for the Helensburgh and Lomond Planning Area.", hence there is scope for expanding the size and success of the shopping centre. "2.18 - Capitalising on the investment and development advantages, in particular tourism offered by the Helensburgh area and its gateway potential with the Loch Lomond & The Trossachs National Park consistent with the special planning circumstances that apply to this area."

Impact on Corporate strategies

These proposals contribute to the theme of "Vibrant Communities", in the strategic delivery element of Town Centre and Waterfront Regeneration. There are also specific tie-ins with the strategic delivery elements contained within the plan with regard to Strengthening Existing Activity and New Opportunities

Impact on compliance with legal and national priorities

The Clyde's rich maritime heritage and the outstanding environmental assets of the Firth of Clyde and the Loch Lomond and the Trossachs National Park are singled out as the basis for a growing tourism and leisure economy in areas to the west of Glasgow in the National Planning Framework

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Table 13. Assessment of Impact on Council and other priorities (Helensburgh)

Assessment	Score Max 10 Min 0	Weight	Weighted Score
Impact			
Impact on Corporate Plan	8	1	8
Impact on Service Plans	10	0.75	7.5
Impact on Area Plans	9	0.75	6.75
Impact on Corporate strategies	7	0.5	3.5
Impact on compliance with legal and national priorities	7	0.5	3.5
Total			**29.25**

5.2.4 Oban

Impact on Corporate Plan

The Corporate Plan refers to, on page 17, waterfront and town centre regeneration. "All the waterfronts and town centre's in Argyll and Bute need investment to rejuvinate them as the main centre of economic activity." The successful delivery of this project will enable the council to rejuvinate and add value to the waterfront of Oban whilst providing a facility that is sustainable, deliverable and high impact.

Impact on Area Plans

Local Plan Policy LP TRAN 8 Piers and Harbours states that "development within harbour areas is to be encouraged provided that such development promotes the retention of the harbour for commercial marine related uses….. The further development of existing piers, harbours and marinas for marine leisure and recreational purposes will be supported…"

The Structure Plan highlights the continuing economic momentum of the North area of Argyll focused on Oban and the strategic transport-related opportunities associated with its location and its road, rail, ferry and air service infrastructure. It highlights the need to expand beyond its containing landform

Impact on Corporate strategies

Vibrant communities, strategic delivery element of Town Centre and Waterfront Regeneration. There are also specific tie-ins with the strategic delivery elements contained within the plan with regard to Strengthening Existing Activity and New Opportunities

Impact on compliance with legal and national priorities

Together three of Oban's projects - the construction of the development road, the reorganisation of the harbour area including new berthing for fishermen and lifeboats and the development of a marina in Oban Bay - have the potential to make a marked improvement to

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freight and other ferry services operating out of the harbour, and also improve the area as a tourist destination.

Table 14. Assessment of Impact on Council and other priorities (Oban)

Assessment	Score Max 10 Min 0	Weight	Weighted Score
Impact			
Impact on Corporate Plan	8	1	8
Impact on Service Plans	10	0.75	7.5
Impact on Area Plans	9	0.75	6.75
Impact on Corporate strategies	8	0.5	4
Impact on compliance with legal and national priorities	8	0.5	4
Total			**30.25**

5.2.5 Rothesay

Impact on Corporate Plan

The CHORD projects contribute to the key objective of “Creating an attractive, well connected modern economy”, under the sub topic of “Rejuvenation of the main towns”.
The Plan specifically sets out the Strategic Delivery Topic of Waterfront and town centre Regeneration and outlines the terms of the CHORD project.

Impact on Area Plans

Policies LP ENV 13 (a) in relation to development affecting listed buildings and their settings.
Policy LP TRAN 8 on Piers and Harbours, encourages development within harbour areas provided that such development promotes the retention of the harbour for commercial marine uses. The policy also supports the enhancement and upgrading of piers, landing facilities and other facilities associated with the fishing industry.
Area For Action

Impact on Corporate strategies

Vibrant communities, strategic delivery element of Town Centre and Waterfront Regeneration. There are also specific tie-ins with the strategic delivery elements contained within the plan with regard to Strengthening Existing Activity and New Opportunities

Impact on compliance with legal and national priorities

The Pavilion is an iconic building in Rothesay and on the West Coast of Scotland. It is of national importance, the only surviving building of its kind in Scotland.

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Table 15. Assessment of Impact on Council and other priorities (Rothesay)

Assessment	Score Max 10 Min 0	Weight	Weighted Score
Impact			
Impact on Corporate Plan	8	1	8
Impact on Service Plans	10	0.75	7.5
Impact on Area Plans	9	0.75	6.75
Impact on Corporate strategies	7	0.5	3.5
Impact on compliance with legal and national priorities	9	0.5	4.5
Total			**30.25**

5.2.6 Summary

Collecting together the assessments of impact in terms of contributions to policy etc in the table below it can be seen that all of the projects were very similar in their anticipated impact, and all were seen to make significant positive contributions.

Table 16. Summary of Assessed contributions to Policies etc.

Contribution to Policies etc	Campbeltown	Dunoon	Helensburgh	Oban (ex Dunbeg Coridor)	Rothesay
Assessed Score	**30.00**	**29.50**	**29.25**	**30.25**	**30.25**

5.3 Assessment of Risk and Deliverability

Risk Assessment Criteria

Using the analysis in the project working papers we have adopted a similar approach to the analysis of contributions to council and other priorities (above) to scoring features of deliverability and risk. In keeping with the original scoring system we assign a score for risk in the range of 0 to 10 on the basis of five criteria weighted at 0.20 each where not progressing might expose the Council to excessive risk. Scores are calculated such that the least risky score well and the most risky sore lower. For deliverability aspects the scoring is across three

The criteria are as follows;

Risks
What are the impact risks
What are the delivery risks
What are the affordability risks
Risk management arrangements
What are the risks of not proceeding with the project

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Deliverability
Timescales for delivery
Management arrangements to deliver project
Residual/knock on consequences

5.3.1 How we interpret these criteria.

Table 17. Our interpretation of the criteria, and how the business cases have been scored.

Assessment	Our interpretation of the criteria
Risks	
What are the impact risks	This is an assessment of risk that the identified contributions to corporate and other priorities will not be achieved.
What are the delivery risks	This is an assessment of risk that the project will not be delivered
What are the affordability risks	This is an assessment of the risk that costs will increase such that projects will no longer be affordable. Are there systems in place to manage cost risks.
Risk management arrangements	Is an assessment of the preparedness of the project board for dealing with unforeseen events.
What are the risks of not proceeding with the project	This is an assessment of the consequences of not proceeding with the project.
Deliverability	
Timescales for delivery	Clarity of timescale and timetable for delivery in place.
Management arrangements to deliver project	Clearly stated project management arrangements for ensuring deliverability.
Residual/knock on consequences	Knock on consequences are understood and planned for

Once combined these Risk and Deliverability criteria yield a total maximum score of 30 which is used as a weighting for the financial and other benefits. Evidence for these scores is based upon the analysis in the OBC Working papers, these do not go into as much detail as a formal risk assessment would require, however given the common approach to and description of risk in each of the town dossiers and working papers it is possible to give an assessment of the relative risk portfolios of each set of area proposals. Our approach has been to assume a score of 7 and to add or subtract from that depending upon indicators within the Cogent Smiths Gore analysis. This approach has the virtue of ensuring no project is unduly penalised for lack of clarity within the background papers. Where we have added or subtracted points the reasons for this are highlighted in the text.

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Table 18. Weighted risk and deliverability scores base case.

Assessment	Score Max 10 Min 0	Weight	Weighted Score
Risks			
What are the impact risks	7	0.2	1.4
What are the delivery risks	7	0.2	1.4
What are the affordability risks	7	0.2	1.4
Risk management arrangements	7	0.2	1.4
What are the risks of not proceeding with the project	7	0.2	1.4
Deliverability			
Timescales for delivery	7	1	7.0
Management arrangements to deliver project	7	0.5	3.5
Residual/knock on consequences	7	0.5	3.5
Total			**21.0**

5.3.2 Cambeltown

There is limited coverage of risk in the working papers, we take this as an endorsement of the deliverability of these projects. The limited detail however includes the strongly expressed view "The execution risks assessed are considered very slight. The works required are well within the proven capability of the Council". Cogent Smiths Gore also note the mitigation of funding risk.

Our interpretation of the evidence presented across the board suggest that the Campbeltown risk and deliverability issues present no impediment to the projects being delivered.

Table 19. Assessment of Risk and Deliverability (Cambeltown)

Assessment	Score Max 10 Min 0	Weight	Weighted Score
Risks			
What are the impact risks	7	0.2	1.4
What are the delivery risks	8	0.2	1.6
What are the affordability risks	7	0.2	1.4
Risk management arrangements	7	0.2	1.4
What are the risks of not proceeding with the project	7	0.2	1.4
Deliverability			
Timescales for delivery	7	1	7.0
Management arrangements to deliver project	8	0.5	4.0
Residual/knock on consequences	7	0.5	3.5
Total			**21.7**

5.3.3 Dunoon

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In the brief assessment of risk contained in the working papers and the Smiths Gore Assessment two particular risk issues stand out – those associated with deliverability due to uncertainty over ground conditions and planning issues and the risk associated with not proceeding, these risks tend to cancel each other out in the scoring methodology. We have taken the view that although Dunoon presents a greater management challenge than many of the other areas these challenges are well enough understood to allow us not to mark down risk or deliverability aspects.

Table 20. Assessment of Risk and Deliverability (Dunoon)

Assessment	Score Max 10 Min 0	Weight	Weighted Score
Risks			
What are the impact risks	7	0.2	1.4
What are the delivery risks	6	0.2	1.2
What are the affordability risks	7	0.2	1.4
Risk management arrangements	7	0.2	1.4
What are the risks of not proceeding with the project	8	0.2	1.6
Deliverability			
Timescales for delivery	7	1	7.0
Management arrangements to deliver project	7	0.5	3.5
Residual/knock on consequences	7	0.5	3.5
Total			**21**

5.3.4 Helensburgh

There is considerably greater discussion of risk in the Helensburgh working papers than in most of the other outline business cases, this is a reflection of the fact that these risks are well understood and relatively low. There is specific reference to three areas of risk, those associated with the innovative nature of the town centre developments, the risks associated with parking and traffic control issues and of land ownership in particular relocation of a Scottish Water pumping shed.

We agree with the overall assessment that these risk are on balance relatively low and have allocated additional scores in three risk areas, delivery, affordability and risk arrangements, and in management arrangements under deliverability.

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Table 21. Assessment of Risk and Deliverability (Helensburgh)

Assessment	Score Max 10 Min 0	Weight	Weighted Score
Risks			
What are the impact risks	7	0.2	1.4
What are the delivery risks	8	0.2	1.6
What are the affordability risks	8	0.2	1.6
Risk management arrangements	8	0.2	1.6
What are the risks of not proceeding with the project	7	0.2	1.4
Deliverability			
Timescales for delivery	7	1	7.0
Management arrangements to deliver project	8	0.5	4.0
Residual/knock on consequences	7	0.5	3.5
Total			**22.1**

5.3.5 Oban

Cogent Smiths Gore describe the risk associated with the Oban projects in the following terms "There are political and topographical risks associated with the Development Road, and there is a risk that agreement may be hard to reach for all parties concerned with the harbour. Beyond these we discern no unusual risks."

For the Marina development the working papers include a formal risk assessment table, this is one of only two projects for which this is provided and we regard this as a prudent attempt to explore the potential for risk at the early stages of a complex project.

On balance our view is that there is a slightly elevated delivery risk, but this does not extend to concerns over the management capacity to deliverability.

Table 22. Assessment of Risk and Deliverability (Oban)

Assessment	Score Max 10 Min 0	Weight	Weighted Score
Risks			
What are the impact risks	7	0.2	1.4
What are the delivery risks	6	0.2	1.2
What are the affordability risks	7	0.2	1.4
Risk management arrangements	7	0.2	1.4
What are the risks of not proceeding with the project	7	0.2	1.4
Deliverability			
Timescales for delivery	7	1	7.0
Management arrangements to deliver project	7	0.5	3.5
Residual/knock on consequences	7	0.5	3.5
Total			**20.8**

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5.3.6 Rothsay

There are a number of important potential areas for risk identified within the working papers and dossier specifically related to the development of the pavilion. These include the risks associated with availability of specialist construction skills, risk to the existing tenants of the pavilion. The nature of these risks mean that they can if not well managed have a detrimental effect on the impact, delivery and affordability, at the same time there are considerable identified risks to not proceeding with the project (to some extent countering the other risks). On deliverability we see the need for extensive project management skills due to the nature of the projects to be undertaken and the inherent complexity within them both management and knock on effects are potentially threaten deliverability.

Table 23. Assessment of Risk and Deliverability (Rothsay)

Assessment	Score Max 10 Min 0	Weight	Weighted Score
Risks			
What are the impact risks	6	0.2	1.2
What are the delivery risks	6	0.2	1.2
What are the affordability risks	6	0.2	1.2
Risk management arrangements	7	0.2	1.4
What are the risks of not proceeding with the project	8	0.2	1.6
Deliverability			
Timescales for delivery	7	1	7.0
Management arrangements to deliver project	6	0.5	3.0
Residual/knock on consequences	6	0.5	3.0
Total			**19.6**

5.3.7 Summary

In all cases the body of evidence on which to form a judgement is limited, however we are satisfied that given the information available all of the projects are deliverable and the risks manageable. The differences between the areas is relatively modest reflecting the fact that in all cases the project boards have thought carefully about the projects they propose and understand the need to manage and mitigate risk.

Table 24. Summary of Risk and Deliverability Scores.

Risk and Deliverability	Campbeltown	Dunoon	Helensburgh	Oban (ex Dunbeg Coridor)	Rothesay
Assessed Score	21.7	21.0	22.1	20.8	19.6

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6. Conclusion

Combining the analysis above and undertaking the mathematical operation for each of the five areas the scores are contained in the table below (A spreadsheet containing the calculations is available). The mathematical formulae used is the value of total benefits multiplied by the weighted impact score multiplied by the weighted risk and deliverability score divided by the total cost.

Table 25. Application of the Scoring Methodology Resultant Scores

Values £million	Campbeltown	Dunoon	Helensburgh	Oban (ex Dunbeg Coridor)	Rothesay
Total cost	£ 11.62	£ 27.50	£ 7.66	£ 20.63	£ 6.30
CHORD Funds	£ 6.46	£ 10.00	£ 7.46	£ 10.00	£ 2.40
Total benefits	£ 52.19	£ 7.78	£ 30.97	£ 90.06	£ 33.10
Weighted Impact (i.e. Contribution to Policies etc) Score	30.00	29.50	29.25	30.25	30.25
Weighted Risk and deliverability	21.70	21.00	22.10	20.80	19.60
Final Score	2,924	175	2,613	2,747	3,090
Rank	**2**	**5**	**4**	**3**	**1**

The results of this analysis place the Areas in the following order;

6. Rothesay
7. Campbeltown
8. Oban
9. Helensburgh
10. Dunoon

If the allocation of funds is to be based exclusively on the application of the agreed scoring system funds should be allocated as follows;

Rothesay £ 2.4 Million
Campbeltown £ 6.5 Million

This amounts to an estimated total cost of £8.9 Million with the remaining funds of £1.1 million left over insufficient to fund any remaining area in its entirety. The highest scoring individual project from among the remaining areas is the Yacht Haven in Oban at a cost of £1.0 Million which could also be supported within the £10.0 Million funding envelope brining the total allocation to £9.9 Million. It should be noted that Cogent Smiths Gore identify the potential risk associated with the Yacht Haven project of not attracting sufficient private sector investment, should this be the case the only remaining project affordable within the fixed budget would be Kidston Park in Helensburgh.

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Appendix 1 – Scoring Methodology

ARGYLL AND BUTE COUNCIL **EXECUTIVE**
STRATEGIC FINANCE **20 MARCH 2008**

TOWN CENTRE & WATERFRONT PROJECTS
ASSESSMENT OF OUTLINE BUSINESS CASES

1. INTRODUCTION

1.1 This report identifies a possible change to the criteria for assessing the Outline Business Cases (OBCs) for town centre and waterfront projects as proposed by the consultants preparing the OBCs.

2. RECOMMENDATIONS

2.1 The Executive are asked to consider revising the criteria for assessing OBCs as outlined in this report.

3. DETAIL

3.1 The Council at its meeting on 26 September 2007 agreed to take each of the town centre and waterfront projects to OBC stage. It also agreed that the OBCs would be "subject to a process of independent scrutiny based on the weighting and scoring criteria approved by Council in February 2007".

3.2 Further to the above the Executive on 20 December 2007 agreed to a process whereby one firm would be appointed to prepare the OBCs for all of the town centre and waterfront projects and a separate firm would be appointed to carry out the scoring of OBCs.

3.3 Consultants have now been appointed to carry out preparation of the OBCs. Owing to the mix of skills required the successful consultants are Smiths Gore, Cogent SI and Melica who will work in partnership on the OBCs.

3.4 During the preliminary stages of the project over the last few weeks the consultants have proposed a different approach to the assessment of the OBCs. This will be based on establishing a ratio of benefits (impact) per £1m of expenditure rather than a weighted scorecard covering benefits (impact), affordability, deliverability and

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risk. It would still be the consultants intention to assess benefits (impact) on the same principles as proposed in the approved weighting and scoring criteria:

Impact on Corporate Plan
Impact on Service Plans
Impact on Area Plan
Impact on Corporate Strategies
Impact on compliance, with legal and national priorities

In addition the assessment of benefits (impact) would be adjusted for deliverability and risk.

3.5 The scoring of impact (benefits) will still require an assessment of a range of different potential outcomes in monetary and non monetary terms. This will be a complex exercise.

3.6 The assessment of expenditure would need to encompass capital and ongoing revenue costs and would be based on NPV of the costs being borne by the Council.

3.7 The consultants proposals should not result in different assessments of benefits (impact), deliverability and risk. The financial assessment will differ slightly as the consultants proposals are based on a simple linear comparison of expenditure whereas the weighting and scoring criteria is skewed to projects with lower costs.

3.8 If a change is to be made to the criteria for assessing OBCs then this should be agreed before the appointment of separate consultants to assess the OBCs commences.

4. CONCLUSION

4.1 It is not anticipated a change to the assessment approach proposed by the consultants would result in a radically different outcome to the assessment stage, however the ratio approach may make the end result clearer and more understandable.

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