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17 November 2011

NOTICE OF MEETING

A meeting of **ARGYLL AND BUTE COUNCIL** will be held in the **COUNCIL CHAMBER, KILMORY, LOCHGILPHEAD** on **THURSDAY, 24 NOVEMBER 2011** at **11:30 AM**, or at the conclusion of the Executive, whichever is the later, which you are requested to attend.

[Note: Prior to the start of the Council business, there will be a presentation by Alan Thomson, Head of Corporate Relations, Scottish Water. Scottish Water are also hosting a lunch at 1.00pm in the Members Room, Kilmory.]

Douglas Hendry
Executive Director - Customer Services

BUSINESS

1. **APOLOGIES FOR ABSENCE**
2. **DECLARATIONS OF INTEREST (IF ANY)**
3. **MINUTES**
Argyll and Bute Council 6 October 2011 (Pages 1 - 8)
4. **OBAN NORTH AND LORN BY-ELECTION**
Report by Returning Officer (Pages 9 - 10)
5. **TOURISM IN ARGYLL AND BUTE**
Report by Executive Director – Development and Infrastructure (Pages 11 - 12)

Presentation by Mike Storey and Calum Ross, Argyll and the Isles Strategic Tourism Partnership.

6. **AUDIT OF ACCOUNTS 2010/2011: MEMBERS' LETTER/AUDIT OF ACCOUNTS AND CERTIFIED ACCOUNTS**
Report by Head of Strategic Finance (Pages 13 - 152)
7. **THE ELECTION OF A TEACHER REPRESENTATIVE TO THE EXECUTIVE**
Report by Executive Director – Community Services (Pages 153 - 154)

8. 6TH REVIEW OF PARLIAMENTARY CONSTITUENCIES - BOUNDARY COMMISSION PROPOSALS

Report by Executive Director – Customer Services (Pages 155 - 158)

9. REQUIREMENT TO ACHIEVE THE 2012 HOMELESSNESS TARGET - INCREASED PRIORITY NEED

Report by Executive Director – Community Services issued with the Executive Agenda and Recommendation by Executive (to follow)

E1 10. LAND AT DUNBEG, OBAN, ARGYLL

Report by Executive Director – Customer Services (Pages 159 - 166)

The Council will be asked to pass a resolution in terms of Section 50(A)(4) of the Local Government (Scotland) Act 1973 to exclude the public for items of business with an “E” on the grounds that it is likely to involve the disclosure of exempt information as defined in the appropriate paragraph of Part I of Schedule 7a to the Local Government (Scotland) Act 1973.

The appropriate paragraph is:-

E1 Paragraph 13 Information which, if disclosed to the public, would reveal that the authority proposes-

- (a) to give under any enactment a notice under or by virtue of which requirements are imposed on a person; or
- (b) to make an order or direction under any enactment.

COUNCIL

ALL MEMBERS

Contact: Sandra McGlynn Tel: 01546 604401

**MINUTES of MEETING of ARGYLL AND BUTE COUNCIL held in the COUNCIL CHAMBER, KILMORY,
LOCHGILPHEAD
on THURSDAY, 6 OCTOBER 2011**

Present: Provost William Petrie (Chair)

Councillor Chalmers	Councillor MacMillan
Councillor Colville	Councillor McQueen
Councillor Currie	Councillor Marshall
Councillor Dance	Councillor Morton
Councillor Freeman	Councillor Mulvaney
Councillor Hay	Councillor Philand
Councillor Daniel Kelly	Councillor Reay
Councillor Donald Kelly	Councillor Scoullar
Councillor Kinniburgh	Councillor Semple
Councillor MacAlister	Councillor Simon
Councillor McAlpine	Councillor Strong
Councillor McCuish	Councillor Walsh
Councillor Mackay	

Attending: Sally Loudon, Chief Executive
Douglas Hendry, Executive Director of Customer Services
Cleland Sneddon, Executive Director of Community Services
Carol Walker, Head of Education
Jim Smith, Head of Roads and Amenity Services
Malcolm MacFadyen, Head of Facility Services
Alan Shields, Quality Improvement Manager

Prior to the consideration of business the Council heard a presentation by Stephen House, Chief Constable, Strathclyde Police.

The Provost ruled, and the Council agreed, to adjourn the meeting at 12.45 pm and reconvene at 1.30 pm. Councillor Len Scoullar did not return to the meeting.

The Provost ruled, and the Council agreed, that the business dealt with at item 15 of this Minute be taken as a matter of urgency as a decision on this was required before the next ordinary meeting of the Council.

1. APOLOGIES FOR ABSENCE

Apologies for absence were intimated from Councillors Mary-Jean Devon, Anne Horn, Donald McIntosh, Duncan MacIntyre, Robert Macintyre, Alex McNaughton, Andrew Nisbet, James Robb and Elaine Robertson.

2. DECLARATIONS OF INTEREST

None declared.

3. MINUTES

The Council approved the Minutes of the Council meeting of 18 August 2011 as a correct record.

4. LUSS BYE LAW - CONSUMPTION OF ALCOHOL IN PUBLIC PLACES

A report advising the Council of a proposal to amend the Luss byelaw prohibiting consumption of alcohol in designated public places was considered.

Decision

Agreed to proceed with the steps details at paragraph 3.4 of the Executive Director's report to align the offence description within the Luss byelaw with that of the other byelaws in Argyll and Bute.

(Reference: Report by Executive Director – Customer Services dated 8 September 2011, submitted)

5. SCHOOL ESTATE REVIEW CONSULTATION REPORT: ST KIERANS PRIMARY SCHOOL TO CASTLEHILL PRIMARY SCHOOL

The Executive at its meeting on 6 October 2011 considered a report on the outcome of the statutory consultation exercise carried out by the Council in relation to the proposed discontinuation of education provision at St Kieran's Primary School and recommended to the Council that education provision at St Kieran's Primary School be discontinued from 6 January 2012.

Decision

1. Noted the arrangements in place in respect of the catchment areas for Castlehill and Dalintober Primary Schools;
2. Agreed that the education provision at St Kieran's Primary School be discontinued from 6 January 2012; and
3. Noted that the decision at 2 above would be referred to the Scottish Ministers.

(Reference: Report by Executive Director – Community Services, submitted)

6. SCHOOL ESTATE REVIEW CONSULTATION REPORT: ARDCHONNEL PRIMARY SCHOOL TO DALMALLY PRIMARY SCHOOL AND KILMARTIN PRIMARY SCHOOL

The Executive at its meeting on 6 October 2011 considered a report on the outcome of the statutory consultation exercise carried out by the Council in relation to the proposed discontinuation of education provision at Ardchnonnel Primary School and recommended to the Council that education provision at Ardchnonnel Primary School be discontinued from 6 January 2012.

Decision

4. Agreed that the education provision at Ardchnonnel Primary School be discontinued from 6 January 2012; and
5. Noted that this decision would be referred to the Scottish Ministers.

(Reference: Report by Executive Director – Community Services, submitted)

7. JOINT HEADSHIP INITIATIVE PILOT - CARRADALE AND DRUMLEMBLE PRIMARY SCHOOLS

The Executive, at its meeting on 6 October 2011 considered the outcome of the joint head teacher pilot project for Carradale and Drumlemble Primary Schools which was established in May 2010 and recommended to the Council the proposed way forward for any future joint headships.

Motion

1. Agreed the criteria as outlined in Appendix 1 of the Executive Director's report to establish joint headships subject to the wording at bullet point 7 being amended to read "Consultation with both parent councils and the wider parent body";
2. Agreed that Officers explore establishing other joint headships where appropriate to help ensure sustainable and viable schools across the Council area; and
3. Agreed to authorise the Executive Director – Community Services to make the joint headship a permanent arrangement in Carradale and Drumlemble Primary Schools.

Moved by Councillor Ellen Morton, seconded by Councillor Vivien Dance

Amendment

1. Agreed the criteria as outlined in Appendix 1 of the Executive Director's report to establish joint headships subject to the wording at bullet point 7 being amended to read "Agreement with both parent councils";
2. Agreed that Officers explore establishing other joint headships where appropriate to help ensure sustainable and viable schools across the Council area; and
3. Agreed to authorise the Executive Director – Community Services to make the joint headship a permanent arrangement in Carradale and Drumlemble Primary Schools.

Moved by Councillor John Semple, seconded by Councillor Isobel Strong

The requisite number of Members required the vote to be taken by calling the roll and Members voted as follows:-

Motion

Councillor Rory Colville
Councillor Robin Currie
Councillor Vivien Dance
Councillor Alison Hay
Councillor Daniel Kelly
Councillor David Kinniburgh
Councillor Neil Mackay
Councillor Donald MacMillan
Councillor James McQueen
Councillor Bruce Marshall
Councillor Ellen Morton
Councillor Gary Mulvaney
Provost William Petrie
Councillor Al Reay
Councillor Dick Walsh

Amendment

Councillor Gordon Chalmers
Councillor George Freeman
Councillor Donald Kelly
Councillor Alister MacAlister
Councillor John McAlpine
Councillor Roderick McCuish
Councillor Douglas Philand
Councillor John Semple
Councillor Ron Simon
Councillor Isobel Strong

Decision

The Motion was carried by 15 votes to 10 and the Council resolved accordingly.

(Reference: Report by Executive Director – Community Services, submitted and recommendation from Executive of 6 October 2011, tabled)

8. PARKLANDS SCHOOL, HELENSBURGH

The Executive, at its meeting on 6 October 2011 considered a report on the investigation of potential future options for the delivery of education services from Parklands School in Helensburgh and recommended to the Council adoption of all these options.

Decision

1. Approved the implementation of all three of the following options:-
 - The development of provision of pupils with an autistic spectrum disorder (ASD);
 - The development of nurture provision for the Helensburgh and Lomond area; and
 - The continued use of the facilities at Parklands to help support the needs of learners within the Helensburgh and Lomond area.
2. Noted that the implementation of these options will involve ongoing discussions with appropriate national bodies which support people with learning disabilities.
3. Recorded their congratulations to Alan Shields as Quality Improvement Manager for his outstanding work on the project.

(Reference: Report by Executive Director – Community Services dated September 2011, submitted and Extract from Minutes of Executive 6 October 2011, tabled)

9. ANNUAL REPORT BY THE AUDIT COMMITTEE 2010-2011

A report by the Audit Committee summarising the work of the Audit Committee during 2010 – 2011 and outlining its view of the Council's internal control framework, risk management and governance arrangements was considered.

Decision

Approved the contents of the Audit Committee Annual Report for 2010 – 2011.

(Reference: Extract from Minutes of Audit Committee 16 September 2011 and Annual Report by Audit Committee 2010 – 2011, submitted)

10. CORPORATE GOVERNANCE IMPROVEMENT PLAN

The Executive, at its meeting on 29 September 6 October 2011 considered a report detailing the Corporate Governance Improvement Plan and draft Joint Statement of Governance and Internal Control to accompany the 2010 – 2011 Annual recommended

to the Council approval of the Plan.

Decision

Approved the Corporate Governance Improvement Plan.

(Reference: Extract from Minutes of Executive 29 September 2011, tabled and Report by Executive Director – Customer Services dated September 2011, submitted)

11. ELECTIONS TO THE CROFTING COMMISSION: CONSULTATION PAPER ON DRAFT REGULATIONS

The Executive, at its meeting on 29 September 2011 considered a report on the current Consultation on Crofting Elections and recommended to the Council adoption of Option 1 for the proposed configuration of constituencies.

Decision

Agreed the adoption of Option 1 for Argyll and Bute as detailed in Appendix 3 of the Executive Director's report.

(Reference: Extract from Minutes of Executive 29 September 2011, tabled and Report by Executive Director – Customer Services dated 19 September 2011, submitted)

12. FURTHER CONSULTATION ON THE FUTURE OF POLICING

The Scottish Government intends to bring forward legislation to create a Single Scottish Police Service and a Single Fire and Rescue Service and follows consultation on the principles of reform and engagement with stake holders across Scotland about the future of these services. A report proposing arrangements for responding to this further consultation which closes on 2 November 2011 was considered.

Decision

Agreed to instruct the Executive Director – Customer Services to draft a response to the proposals which will follow the Council's existing policy position, as set out in responses to the previous consultation, so far as is possible, in consultation with the Leader and Depute Leader of the Council, and submit this to the Scottish Government before the consultation deadline of 2 November 2011.

(Reference: Report by Executive Director – Customer Services dated 28 September 2011, tabled)

13. NOTICE OF MOTION UNDER STANDING ORDER 13

Councillor John Semple, seconded by Councillor Donald Kelly had given notice of the following motion:-

Following the decision of the Council, as part of the 2011/12 budget to withdraw funding for the Campbeltown Ring n Ride service concern has been expressed by a wide range of users of the service that no alternative public transport will be available. The Leader of the Council gave assurances that alternatives would be made available and that users would be kept well informed. The service will be withdrawn on the 28th November

and as yet no wide ranging consultation with service users has taken place and no alternative's identified to members.

The Council instructs the Chief Executive to:-

1. investigate why wide-ranging consultation with service users did not take place and report back to the next Council Meeting.
2. engage with communities affected by the withdrawal of the ring n ride service to identify individuals affected.
3. instruct officers to implement whatever plans are necessary to meet the commitment made by the Leader of the Council for alternatives to be available.

Moved by Councillor John Semple, seconded by Councillor Donald Kelly.

Amendment

That the Council:-

Notes and acknowledges that the proposals to change the current Ring and Ride Service in Campbeltown follows the decisions taken as part of the Service Review process in November/December 2010, the decision of the Council in determining the Council budget on 10 February 2011 and the decision of the Council's Executive on 21 April 2011.

Notes and acknowledges within this process the consultations carried out on the potential impacts of the transportation service review changes with Focus Groups by Hexagon on behalf of the Council and the Forward Together Consultation events with the wider community carried out throughout the Argyll and Bute area.

Notes that ongoing measures are being implemented by Social Work to assist Learning Disability clients who will be affected by the withdrawal of the service including person centred planning where appropriate, the provision of bus passes to enable free transport on the fleet of low access vehicles.

Notes and acknowledges that alternative and regular bus services exist within the Campbeltown area and that discussions are ongoing with both the Red Cross and the local bus service operator as part of a continuing review process to support the transport needs of the community from within available resources.

Moved by Councillor Dick Walsh, seconded by Councillor Ellen Morton.

The requisite number of Members required the vote to be taken by calling the roll and Members voted as follows:-

Motion

Councillor Gordon Chalmers
Councillor George Freeman
Councillor Donald Kelly
Councillor Alister MaAlister
Councillor John McAlpine
Councillor Roderick McCuish
Councillor Douglas Philand
Councillor John Semple
Councillor Ron Simon
Councillor Isobel Strong

Amendment

Councillor Rory Colville
Councillor Robin Currie
Councillor Vivien Dance
Councillor Alison Hay
Councillor Daniel Kelly
Councillor David Kinniburgh
Councillor Neil Mackay
Councillor Donald MacMillan
Councillor James McQueen
Councillor Bruce Marshall

Councillor Ellen Morton
Councillor Gary Mulvaney
Provost William Petrie
Councillor Al Reay
Councillor Dick Walsh

Decision

The Amendment was carried by 15 votes to 10 and the Council resolved accordingly.

14. NOTICE OF MOTION UNDER STANDING ORDER 13

Councillor John Semple, seconded by Councillor Donald Kelly had given notice of the following motion:-

Following the decision of the Council, as part of the 2011/12 budget to withdraw Steward and Cleaning Services to Community Education Centres, concern has been expressed in some communities that their community centre will no longer be viable and may have to close as a result.

The Council instructs the Chief Executive to:-

1. instruct appropriate staff to undertake a full appraisal of the viability of the affected community centres.
2. identify clearly how the projected savings can be achieved for each centre and what the impact will be on service users for each centre if they close.
3. instruct staff to assist community centres develop a viable operating model which meets the needs of the users and wider community.
4. make available resources to assist community centres implement an action plan which will deliver both long term savings and a viable future affected Community Education Centres.

Moved by Councillor John Semple, seconded by Councillor Donald Kelly

Amendment

That the Council :-

Notes that the decision to implement the current consultations on the option to remove the stewarding and cleaning services from Community Centres follows the Service Review process in November/December 2010 and the Council Budget meeting on 10th February 2011.

Notes that this option was always highlighted as a contentious issue and as a result, the implementation of the option was delayed until 1st April 2012. This delay was designed to allow consultation with all staff and service users and to discuss issues around opportunities for staff redeployment and the exploration of means to mitigate any impact on the communities if the service were to be removed.

Acknowledges that the ongoing process of consultation with staff, centre management committees, centre users will continue over the next month with the progress on this review being reported back to the Councils Budget Working Group along with updates on the full review programme.

Confirms that following this scrutiny and consultation, detailed proposals will be developed for implementation that will reflect practical measures with outcomes based on the priorities indicated by centre users and management committees. This would outline the proposed changes and the impact they would have on the operation of each centre.

Agrees that the Executive Director of Customer Services issue a letter to each Management Committee confirming the process that will be undertaken following the Council meeting today.

Moved by Councillor Dick Walsh, seconded by Councillor Ellen Morton

Decision

The mover of the Motion, with the agreement of his seconder, withdrew the Motion and the Amendment became the decision of the Council.

Councillor Donald Kelly left the meeting.

The Committee resolved in terms of Section 50A(4) of the Local Government (Scotland) Act 1973, to exclude the public for the following item of business on the grounds that it was likely to involve the disclosure of exempt information as defined in Paragraphs 8 and 9 respectively of Part 1 of Schedule 7A to the Local Government (Scotland) Act 1973.

15. RELOCATION OF SEEMIS GROUP

Consideration was given to a report regarding the relocation of SEEMIS Group LLP from their premises in Hope Street, Glasgow.

Decision

1. Agreed the contents of the report; and
2. Noted that the Chief Executive would write to the Chair of the SEEMIS Group Board of Management to advise of the concerns expressed by the Council regarding the process undertaken.

(Reference: Report by Executive Director – Community Services dated 6 October 2011, tabled)

ARGYLL AND BUTE COUNCIL**ELECTION OF COUNCILLOR****WARD 5 OBAN NORTH AND LORN 3 NOVEMBER 2011**

The name and address of the person who has been elected as a Councillor in Ward 5 Oban North and Lorn at the by election held on 3 November 2011 is as follows:-

ELECTORAL WARD	NAME	ADDRESS	DESCRIPTION
Oban North and Lorn	Louise Glen-Lee	Old Post Office, Kilninver, Oban	Scottish National Party (SNP)

Sally Loudon
Returning Officer
4 November 2011

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ARGYLL AND BUTE COUNCIL**COUNCIL****DEVELOPMENT AND INFRASTRUCTURE
SERVICES****24 NOVEMBER 2011**

TOURISM UPDATE

1. SUMMARY

- 1.1 This report presents an overview of developments in respect of tourism in Argyll and Bute and the key role the Council has undertaken in realising key actions within Council plans.

2. DETAIL

- 2.1 It is increasingly recognised that tourism is one of Argyll and Bute's most important sustainable economic assets where nearly 15% of all jobs are tourism related. There has been significant developments within Argyll and Bute in respect of tourism, all of which the Council plays a key role.
- 2.2 Whilst tourism is not a statutory function of local authorities, it is increasingly recognised that local authorities have an important role to play, particularly in facilitating partnership working between the tourism industry, the enterprise agency, local marketing groups and VisitScotland. The Council recognises this and formally appointed a Spokesperson, Councillor Neil Mackay, as a champion for tourism.
- 2.3 Within the Council's Economic Development Action Plan (EDAP) is an outcome to move the tourism industry up the value chain, extend the season and improve profile and propositions. The actions to deliver this outcome are i) work with local and national partners to stimulate tourism investment, and, ii) effective and targeted marketing with partners.
- 2.4 The Council is a key stakeholder in the Argyll and the Isles Strategic Tourism Partnership (AISTP), chaired by Provost Petrie and facilitated by VisitScotland. The Council's Spokesperson for Tourism is also a member. The AISTP is also attended by officers of the Economic Development Service.
- 2.5 At the request of Councillor Neil Mackay, the AISTP facilitated the Argyll and the Isles Tourism Summit 'Stronger Together' on the 31st March 2011. The event in Oban attracted over 120 delegates from the tourism industry and local tourism marketing groups. In addition to key national tourism industry representatives as speakers, there was a number of industry led thematic workshops which were essential to ensure two way communication to deliver the following objectives;
- Inspire collaboration
 - Demonstrate the work that has been undertaken to support tourism in the area
 - Identify clear actions to drive forward a joined up regional approach to tourism
- 2.6 Key actions developed were published in the Tourism Summit Report. The most significant action is for the AISTP to develop an 'Argyll and the Isles' Umbrella Identity under which local marketing groups and business collaborate on developing our regional identity as a marketing tool. This work is currently ongoing and a key outcome is for a strong, cohesive regional presence at the VisitScotland Exposition 2012. The primary aim will be to raise the tourism profile of Argyll and the Isles.

- 2.7 Elected members and council officers have been cultivating greater partnership working with VisitScotland resulting in a better understanding of our respective organisations. In respect of VisitScotland's area publications (where to stay and what to do), from the 01st April 2011, the former 'Argyll, the Isles, Stirling and the Trossachs' (AILLST) was broken up and our particular region is now 'Argyll and the Isles' which aims to resonate more directly with (potential) visitors who disregard local authority boundaries and explore 'regions'.
- 2.8 Other significant tourism activities involving the Council includes support for key events which are essential for attracting visitors, and the CHORD project, which is giving a boost to some of our most significant tourism infrastructure in our 5 main towns which are all waterfront tourism destinations.
- 2.9 Another significant development is the launch of 'MalinWaters', an exciting new sailing brand investing €750,000 of EU Interreg IVA funding in promoting our sailing waters and ports with our partners in the West of Scotland, Northern Ireland and the Republic of Ireland.

3. CONCLUSION

- 3.1 There is no doubt as to the importance of the role that the Council has to play in growing the tourism sector for Argyll and Bute. As outlined above, there are a number of exciting developments within which the Council has a key role. The future role for the Council relates to influencing the strategic direction of tourism with our partners including the AISTP, and to build on the 'stronger together' joined up approach to developing tourism. Collectively this will raise the profile of tourism in Argyll and the Isles and deliver an outcome in the EDAP.

Sandy Mactaggart, Executive Director Development and Infrastructure Services
14 September 2010

For further information, contact Stuart Green (01546) 604243

AUDITED ACCOUNTS 2010/2011 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 2011. The audited accounts incorporating the audit certificate and the external audit report for 2010-2011 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 2010-11 audit are attached.
- 3.2 The accounts were completed and submitted by the statutory date of 30 June 2011. The audit has been completed within the timescale of 30 September 2011, set by Audit Scotland.
- 3.3 The audit certificate on the Council's accounts for the year ended 31 March 2011 contains no qualification. External audit are able to conclude that the Council's accounts present a true and fair view of its financial position as at 31 March 2011. It should also be noted this is the first year the Council has had to prepare accounts based on international financial reporting standards (IFRS) and the external auditors have commented that the Council prepared well for the transition to IFRS.
- 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 findings identified by external audit in the audit report on the 2010-11. 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 Position
- Financial Statements Audit
- 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:

- 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. At the time the unaudited accounts were prepared it was felt that the Council were nearing final settlement and a further £2.4m was provided for. However, post balance sheet correspondence with the Council's solicitors highlighted that the status of the claims was not as advanced as previously thought and the provision was revised downwards by £1.8m to £0.6m.
- The valuation methodology for the former Hermitage Academy site was corrected, increasing the value of Corporate Surplus assets by £2.9m. This has no impact on the General Fund Balance or usable reserves.
- Provisions amounting to £0.6m were reversed on the basis that they no longer met the definition of a provision.

- 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) on Provision of Services £000	General Fund Balance £000
Unaudited Accounts	(48,127)	(30,582)
Reversal of Equal Pay Provision	(1,823)	(1,823)
Reversal of Former Operational Services Provisions	(573)	(573)
Correction of Former Hermitage Academy Site Valuation	(2,960)	-
Adjustment to Bad Debt Provisions	165	165
Write-off of Creditor no longer repayable	(160)	(160)
Audited Accounts	(53,478)	(32,973)

- 3.10 The committed funds within the General Fund Balance were £26.734m per the unaudited accounts. This figure has changed by £2.391m to £29.125m in the audited accounts. This leaves a free General Fund Balance of £3.848m. This equates to 1.5% of the Council's budgeted net expenditure for 2011-12 and is the agreed contingency level approved as part of the 2011-12 to 2013-14 budget process. The level of General Fund Balance and contingency will require to be considered during the 2012-13 to 2014-15 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 1.5% of the Council's budgeted net expenditure for 2011-12 and will require to be considered during the budget process.
4.3	Legal	The Accounts have been completed in accordance with all legislative and Code of Practice requirements.
4.4	Personnel	None
4.5	Equal Opportunities	None

Bruce West
Head of Strategic Finance
3 November 2011

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

Section of Financial Statements Changed	Audited Accounts £000s	Unaudited Accounts £000s	Change £000s	Comment/Explanation
Comprehensive Income & Expenditure Account (Page 28-29)				
Net Cost of Services	209,324	214,276	4,952(Cr)	Reversal of Equal Pay Provision - £1,823,000 Cr Reversal of Former Operational Services Provisions - £573,000 Cr Correction of Valuation for Former Hermitage Academy Site - £2,960,000 Cr Adjustment to Bad Debt Provisions - £165,000 Dr Write off of Creditor no longer required to be paid - £160,000 Cr Transfer of to Strathclyde Police, Capital Grant received on their behalf - £399,000 Dr
Government Capital Grants and Other Capital Contributions	(7,494)	(7,095)	399(Cr)	Recognition of Police Capital Grant as income - £399,000 Cr
(Surplus)/Deficit on Provision of Services	(53,478)	(48,127)	5,351(Cr)	Due to the net impact of the above changes.
Statement of Movement in Reserves (Pages 24-25)				
Surplus/(Deficit) on Provision of Services	(53,478)	(48,127)	5,351(Cr)	See Comprehensive Income and Expenditure Account above.
Depreciation and Impairment of Non-Current Assets	(19,570)	(22,530)	2,960(Dr)	Reversal of adjustment for correction to revaluation methodology for former Hermitage Academy site
Increase/(Decrease) in General Fund Balance for the Year	47	2,438	2,391(Cr)	Due to the net impact of the various changes to the Comprehensive Income and Expenditure Account less the reversal out through the Movement in Reserves Statement.
Balance on General Fund Carried Forward	(32,973)	(30,582)	2,391(Cr)	As above.

Balance Sheet (Page 30-31)						
Property, Plant and Equipment	476,245	473,285	2,960(Dr)	Correction of Valuation for Former Hermitage Academy Site - £2,960,000 Dr		
Short Term Debtors (Net of Impairment)	15,256	15,421	165(Cr)	Adjustment to Bad Debt Provisions - £165,000 Cr		
Creditors	(37,423)	(37,582)	159(Dr)	Write off of Creditor no longer required to be paid - £159,000 Dr		
Provisions (Short Term)	(4,676)	(6,499)	4(Dr)	Reversal of Equal Pay Provision - £1,823,000 Dr		
Provisions (Long Term)	(235)	(808)	573(Dr)	Reversal of Former Operational Services Provisions - £573,000 Dr		
Capital Adjustment Account	163,891	160,938	2,953(Cr)	Correction of Valuation for Former Hermitage Academy Site - £2,953,000 Cr		
Revaluation Reserve	51,658	51,651	7 (Cr)	Correction of Valuation for Former Hermitage Academy Site - £7,000 Cr		
General Fund Balance	32,973	30,582	2,391(Cr)	As above, per Movement in Reserves Statement		

Appendix 2 – Summary of Key Findings

Audit Area	Key Finding	Comment/Action
Financial position	<ul style="list-style-type: none"> • The Council reported total comprehensive income and expenditure for 2010-11 of £101.1 million (2010 deficit: £50.7 million). Net cost of services was £209.3 million (2010: £242.4 million). The main movements reflect changes in the assumptions used to calculate the Council's pension liabilities. • The Council reported a budget underspend of £2.2 million in its annual report. • The General Fund balance as at 31 March 2011 was £33 million, with the un-earmarked balance at £3.9 million (1.5% of net operating expenditure). • The Council's net worth increased from £111.5 million to £212.6 million as at 31 March 2011. This reflects the reduction in pension liabilities from changes in the actuarial assumptions. • Capital expenditure was significantly behind budget, continuing the trend to underspend in recent years. We note the central government budget allocations for capital will fall significantly over the next 2 years. • The Scottish Government announced funding allocations for local government in their comprehensive spending review on 21 September 2011. Total allocations will fall over the next three years. The Council's current budget funding gap will be £3.7 million by 2014. 	<p>Noted. This is as reported in audited accounts.</p> <p>Noted. This is as reported in audited accounts.</p> <p>Noted. This is as reported in audited accounts.</p> <p>Noted. This is as reported in audited accounts.</p> <p>Capital expenditure is projected to be in line with budget for 2011-12. Future capital funding forecasts were reported to the Executive on 29 September 2011.</p> <p>Revenue budget forecasts for the period to 2014-15 have been reported to the Executive on 29 September 2011 and 3 November 2011.</p>
Financial statements	<ul style="list-style-type: none"> • We issued an unqualified report on the Council's financial statements for the year to 31 March 2011. • The Council's trading organisations achieved their statutory target of breaking even over the three year period to 31 March 2011. • This is the first year the Council prepared its accounts under the Code of Practice on Local authority Accounting in the United Kingdom, which is based on International Financial Reporting Standards (IFRS). The Council prepared well for the introduction of IFRS, and there were only a small number of adjustments processed during the audit. • The Council has published a Remuneration Report for the first time, reflecting changes in accounting disclosures introduced by statute. • The Council is closer to settling outstanding equal pay claims, with a provision of £600,000 recognised for claim balances. • The Group accounts record net assets of £18.8 million compared to 212 million in the Council's single entity balance sheet, reflecting mainly the Council's share of the net liabilities associated with the unfunded police and fire pension schemes. 	<p>Noted.</p> <p>Noted.</p> <p>Noted.</p> <p>The Remuneration Report complied with the statutory requirements.</p> <p>This is the amount of provision that can be made based on accounting requirements but the potential for further costs in relation to equal pay claims is noted as a contingent liability.</p> <p>Noted.</p>
Governance	<ul style="list-style-type: none"> • We have concluded that the Council's systems of internal financial control are operating adequately. The Council continues to develop its financial management and budgetary control arrangements to meet the 	<p>Noted.</p>

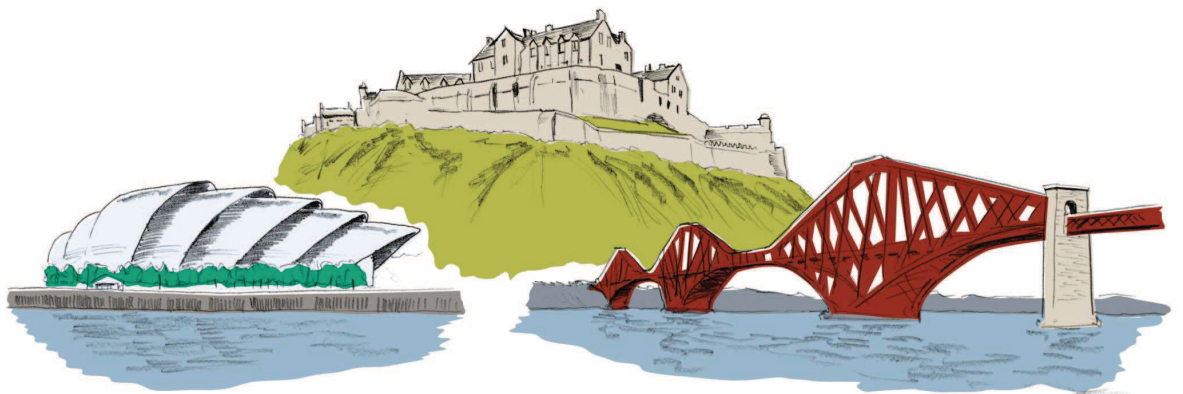
Appendix 2 – Summary of Key Findings

Audit Area	Key Finding	Comment/Action
	<p>challenges ahead.</p> <ul style="list-style-type: none"> • The Council generally complies with CIPFA guidance on the role of the head of internal audit. The Council has recently completed a best value review of internal audit and is currently considering how to take forward the outcomes from that review. • The Council has improved its participation in the NFI exercise, and is currently considering how to take forward the outcomes from that review. • The Council complied with relevant statutory and internal guidance on its redundancy scheme. 	<p>Future options for delivery of internal audit are being considered as part of the Support Services review.</p> <p>5 of the 6 NFI categories have completed their reviews with one currently in progress. This is in line with expected progress.</p> <p>Noted.</p>
Performance	<ul style="list-style-type: none"> • The Council continues to improve its Best Value arrangements; we note in particular the recent review of the Council's approach to performance management reporting. • The Assurance and Improvement Plan was updated for the revised risk assessment in April 2011. A number of areas of improved performance were noted and the Council has been categorised as 'low risk' by its auditors and inspectors. • The Single Outcome Agreement was reviewed and a progress report issued. Of the 72 targets in the SOA, 59 have been rated 'green' with improved performance, and 12 with performance falling or targets not met. • The Council has met the requirements of reporting Statutory Performance Indicators, although we noted a number of amendments were required to draft figures following review by internal audit. • Following the Council's recent decision not to proceed with its proposals to rationalise the school estate, it currently has no clear way forward for addressing the strategic issue relevant to the development of that estate. The Council will also need to consider how the efficiency savings contribution expected from the education service will now be met. 	<p>Noted.</p> <p>The Assurance and Improvement Plan was reported to the Executive on 2 June 2011.</p> <p>Progress against the Single Outcome Agreement for 2010-11 was reported to the Executive on 11 August 2011.</p> <p>Improvements to data collection and record keeping for the SPIs has been agreed and will be monitored for 2011-12 SPIs.</p> <p>The Council will need to consider this matter following the conclusion of the Commission on Rural Education and the resulting legislative and funding position developed for delivery of rural education.</p>

Argyll and Bute Council

Annual Report to Members and the Controller of Audit

31 October 2011



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1 Introduction

Scope

- 1.1 The Accounts Commission for Scotland appointed Grant Thornton UK LLP as auditors of Argyll and Bute Council (the Council) under the Local Government (Scotland) Act 1973 (the 1973 Act) for the period of 2006-07 to 2010-11. This is therefore the final year of our appointment. This document summarises our responsibilities as external auditors for the year ended 31 March 2011 and our approach to issues impacting the Council's activities in that year.
- 1.2 We carry out our audit in accordance with our statutory responsibilities under the 1973 Act and in accordance with the International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB) and the wider responsibilities embodied in Audit Scotland's Code of Audit Practice (the Code).

Summary of findings

- 1.3 We planned and performed our 2010-11 audit in accordance with our Audit Plan issued in February 2011. The Code objectives and key findings arising from the audit are summarised in Exhibit 1 below.

Exhibit 1 - Key findings from the 2010-11 audit

	Summary
Financial position	<ul style="list-style-type: none"> The Council reported total comprehensive income and expenditure for 2010-11 of £101.1 million (2010 deficit: £50.7 million). Net cost of services was £209.3 million (2010: £242.4 million). The main movements reflect changes in the assumptions used to calculate the Council's pension liabilities. The Council reported a budget underspend of £2.2 million in its annual report. The General Fund balance at 31 March 2011 was £33 million, with the un-earmarked balance at £3.9 million (1.5% of net budget expenditure). The Council's net worth increased from £111.5 million to £212.6 million as at 31 March 2011. This reflects the reduction in pension liabilities from changes in the actuarial assumptions. Capital expenditure was significantly behind budget, continuing the trend to underspend in recent years. We note that central government budget allocations for capital will fall significantly over the next 2 years. The Scottish Government announced funding allocations for local government in their comprehensive spending review on 21 September 2011. Total allocations will fall over the next three years. The Council's current budget funding gap will be £3.7 million by 2014.
Financial statements	<ul style="list-style-type: none"> We issued an unqualified report on the Council's financial statements for the year to 31 March 2011. The Council's trading organisations achieved their statutory target of breaking even over the three year period to 31 March 2011. This is the first year the Council prepared its accounts under the Code of Practice on Local Authority Accounting in the United Kingdom, which is

	Summary
	<p>based on International Financial Reporting Standards (IFRS). The Council prepared well for the introduction of IFRS, and there were only a small number of adjustments processed during the audit.</p> <ul style="list-style-type: none"> • The Council has published a Remuneration Report for the first time, reflecting changes in accounting disclosures introduced by statute. • The Council is closer to settling outstanding equal pay claims, with a provision of £600,000 recognised for claim balances. • The Group accounts record net assets of £18.8 million compared to £212 million in the Council's single entity balance sheet, reflecting mainly the Council's share of the liabilities associated with the unfunded police and fire pension schemes.
Governance	<ul style="list-style-type: none"> • We have concluded that the Council's systems of internal financial control are operating adequately. The Council continues to develop its financial management and budgetary control arrangements to meet the challenges ahead. • The Council generally complies with CIPFA guidance on the role of the head of internal audit. The Council has recently completed a best value review of internal audit and is currently considering how to take forward the outcomes from that review. • The Council has improved its participation in the NFI exercise, and is close to finalising the processing of all required matches • The Council complied with relevant statutory and internal guidance on its redundancy scheme.
Performance	<ul style="list-style-type: none"> • The Council continues to improve its best value arrangements, we note in particular the recent review of the Council's approach to performance management reporting. • The Assurance and Improvement Plan was updated for the revised risk assessment in April 2011. A number of areas of improved performance were noted and the Council has been categorised as 'low risk' by its auditors and inspectors. • The Single Outcome Agreement was reviewed and a progress report issued. of the 72 targets in the SOA, 59 have been rated 'green' with improved performance, and 12 with performance falling or targets not met. • The Council has met the requirements of reporting Statutory Performance Indicators, although we noted a number of amendments were required to draft figures following reviews by internal audit. • Following the Council's recent decision not to proceed with its proposals to rationalise the school estate, it currently has no clear way forward for addressing the strategic issue relevant to the development of that estate. The Council will also need to consider how the efficiency savings contribution expected from the education service will now be met.

Acknowledgements

- 1.4 We would like to take this opportunity to thank the staff who have been involved in the 2010-11 audit for their assistance and co-operation.
- 1.5 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.

- 1.6 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.

2 Financial position

Comprehensive Income and Expenditure Account

- 2.1 The Council reported total comprehensive income and expenditure for 2010-11 of £101.1 million (2010 deficit: £50.7 million). Net cost of services was £209.3 million (2010: £242.4 million).

Table 1: Financial results for 2011 and 2010

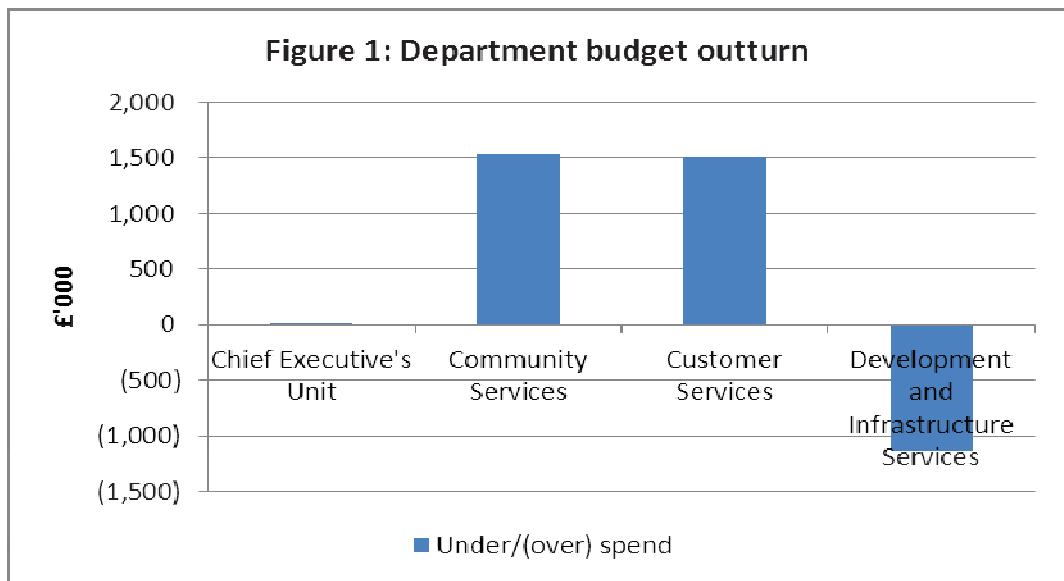
	2011 £'000	2010 £'000
Net Cost of Services	209,324	242,450
Other operating income and expenditure	1,453	1,501
Financing and investment income and expenditure	15,670	20,934
Taxation and non-specific grant income	(279,925)	(277,497)
Surplus on the provision of services	(53,478)	(12,612)
Other comprehensive income and expenditure	(47,572)	63,326
Total Comprehensive Income and Expenditure	(101,050)	50,714

Source: Argyll and Bute Council 2010-11 financial statements

- 2.2 The main movements in the Comprehensive Income and Expenditure Account relate to pension movements resulting from two changes to the actuarial assumptions used to calculate the Council's liabilities in the Strathclyde Pension Fund.
- 2.3 The first change has arisen as a result of the change in the index used to measure pension inflation from the Retail Price Index (RPI) to the Consumer Price Index (CPI). Although both indices measure the average change in the cost of a basket of retail goods and services, CPI is generally lower than RPI and by switching to CPI for measuring pension inflation, the value of pension liabilities is reduced. The impact of the change is that a past service gain of £42.2 million is recognised in the 2010-11 accounts and this has been credited to Non-Distributed Costs within Net Cost of Services.
- 2.4 The assumption for salary increases has also changed in 2010-11 to take into account the Government's public sector pay freeze. This change to the salary increase assumption has led to a reduction in the value of active members' liabilities in the year. This has contributed to actuarial gains on the Council's share of the Fund of £38.9 million (2010: an actuarial loss was recorded of £74 million resulting from a change in the discount rate).

Performance against budget

- 2.5 The Council reported an underspend of £2.2 million against budget (0.9% of the overall revenue budget) after processing audit adjustments. An analysis of budget outturn by department is shown in Figure 1 below.



The largest department outturns versus budget are as follows:

- Community Services - an underspend of £1.5 million. The main underspend relates to £2.6 million savings in adult care services arising from changes to the charges applied to residential care services. In addition there was savings of £1.5 million from vacancy savings and reduced spending on festivals and events, private sector housing grants and homelessness services. This is offset by an additional £2.5 million costs in education, mainly arising from teacher's early retirement.
- Customer Services- an underspend of £1.5 million. The underspends in this department relate to savings in transport, catering and cleaning and property services arising from actions taken before the savings review, and also from vacancy savings.
- Development and Infrastructure Services- an overspend £1.1 million. This related to increased winter maintenance costs following the severe weather over the Winter of 2010/11.

Balance sheet

- 2.6 The total net worth of the Council at 31 March 2011 was £212.5 million (2010 restated: £111.5 million).

Table 2: Balance sheet as at 31 March 2011 and 2010

	31 March 2011 £'000	31 March 2010 £'000
Long term assets	478,875	462,277
Current assets	47,527	29,667
Current liabilities	(44,421)	(55,693)
Long term liabilities	(269,404)	(324,724)
Total assets less liabilities	212,577	111,527
Unusable reserves	176,135	75,055
Usable reserves	36,442	36,472
Total reserves	212,577	111,527

Source: Argyll and Bute Council 2010-11 financial statements

- 2.7 The movement in net worth reflects the significant fall in the Council's share of pension liabilities in the Strathclyde Pension Fund. The total pension liability has decreased from £108 million to £26 million as a result of the issues noted at sections 2.3 and 2.4.

General Fund

- 2.8 For the year ending 31 March 2011, the Council had a total general fund reserve balance of £33 million, of which £29.1 million was earmarked for specific purposes, leaving £3.8 million available for new expenditure or to meet the costs of contingencies and unforeseen events. Table 3 below provides a breakdown of general fund balances at 31 March 2011.

Table 3: General Fund balances as at 31 March 2011 and 2010

	31 March 2011 £'000	31 March 2010 £'000
PPP Smoothing Funds	15,327	15,993
Strategic Housing Fund	7,366	6,953
Unspent grants	328	1,044
Contributions carried forward	265	465
Unspent budget carried forward	502	1,796
Schools budget carried forward	657	595
Unspent budget for existing legal commitments	115	258
CHORD	908	860
Process for change	326	574
Additional SG Grant carried forward	2,455	-
Reserves committed for 2011-12 budget	876	-
Total Earmarked	29,125	28,538
Unearmarked	3,848	4,482
Total General Fund	32,973	33,020

Source: Argyll and Bute Council 2010-11 financial statements (Note 5)

- 2.9 The unearmarked proportion of the general fund at 31 March 2011 is 1.5% of net budgeted expenditure for 2011-12, and within the Council's current reserves policy.
- 2.10 In the 2011-12 budget setting process, the Head of Strategic Finance presented a report on reserves and balances, which formulates the Council's strategy on maintaining the general fund reserve. In addition, a review of year end reserve balances was presented to the Council in June 2011 which provided a review of the outturn against the strategy. Our review of the general fund reserves as at 31 March 2011 highlighted the following:
- The Council continues to earmark a proportion of the general fund to deal with fluctuations in the payment profile of the Waste Management PPP Scheme and the Schools NPDO Scheme. The Council is planning to review this reserve to determine the optimal level of reserves versus the current levels of the reserve to ensure it remains adequate for the two scheme's models. In 2010-11, the Council allocated a portion of the reserve to meet the costs of the restructuring programme (£728,000). Contributions from future budgets will restore the Smoothing Funds to the required levels.
 - The earmarked balance for the Strategic Housing Fund arises from the additional council tax collected on second homes. The fund was £7.3 million as at 31 March 2011, The Council approved a new strategy for the fund in August 2010, to improve the methodology for reviewing and approving bids and to take account of recent changes in Scottish Government funding of social housing projects. The new strategy aims to channel the fund to support registered social landlords in the current financial climate, while recognising the continuing demand for housing in the Argyll and Bute area.
 - The Council received £2.4 million from the Scottish Government at the end of the 2010-11 financial year as one-off funding, to compensate for the higher than average reduction in

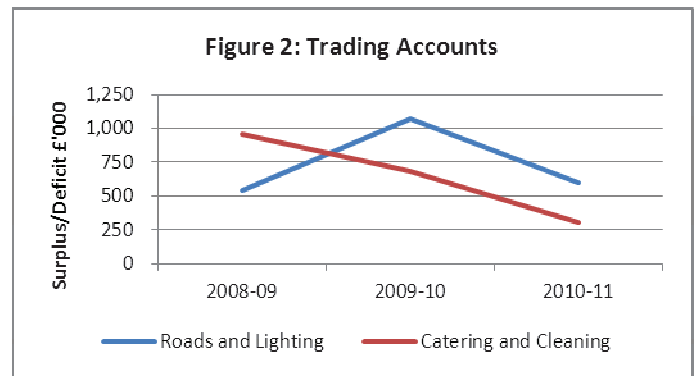
funding as part of the finance settlement for 2011-12. These funds are accounted for as grant income in the 2010-11 accounts, but have been earmarked to cover expenditure in 2011-12, in line with budgetary commitments.

- Budget carried forward was £0.5 million (2010: £1.7 million), a reduction of £1.2 million from 2010. The Council's year end review of the general fund reserve balance included a separate review of each area of budget carried forward to 2010-11. The reduction in carry forward represents a stronger analysis of carry forward requests, which now must be supported and approved by the Senior Management Team based on a business case.

2.11 The Council's total cash backed reserves as at 31 March 2011 were £36.4 million. This is 7th out of the 32 local authorities in Scotland. Per head of population, this is approximately £408 (7th highest in the country, the same as in 2010). The Council's cash backed reserves position remains strong, and is above the mean average for Scottish local authorities of £273.85 (excluding Shetland and Orkney Councils).

Trading accounts

2.12 The Council maintains two trading accounts: roads and lighting and catering and cleaning. Section 10 of the Local Government in Scotland Act 2003 requires that local authorities' significant trading organisations break even over a three year rolling period. Figure 2 highlights the performance of the Council's two trading accounts over the three year period.



2.13 In previous years, the Catering and Cleaning trading account has not met the statutory three year break even target. The recorded deficit largely resulted from the impact of the cost of equal pay claims and implementing single status, which was not accounted for when the budget recharges were originally set.

2.14 The Council prepared a financial strategy to return the trading account to a break even position and new budget recharges were agreed to better reflect the trading account's cost base. For the past three years, both trading accounts have reported surpluses and have achieved their statutory targets.

Capital expenditure

2.15 Total capital expenditure in the year was £21.3 million versus a budget of £30.1 million, an underspend of £8.8 million (29%). This continues the trend of underspends against the Council's capital budget in recent years. Table 4 below highlights capital expenditure by funding source versus budget, and the budget position for 2011-12 financial year.

Table 4: Capital budget position

Funded from	Budget 2010-11	Actual expenditure 2010-11	Budget 2011-12
Borrowing	22,055	13,182	14,333
Capital funded from current revenue	0	915	0
Grants	7,804	7,095	12,651
Capital receipts	250	147	0
Capital Fund	0	12	0
	30,109	21,351	26,984

Source: Argyll and Bute Council 2010-11 financial return

- 2.16 Although the capital programme as a whole is currently behind budget, the costs for current capital schemes is forecast to marginally overspend budget by £0.9 million out of the total budget of £135 million. The key project showing an overspend at the year end was the Campbeltown Infrastructure Improvement scheme where an overspend of £1.1 million was forecast. We understand that the Council has recently reviewed this project and now expect an outturn closer to the original budget.
- 2.17 Going forward, the Council has a number of ongoing capital projects including the CHORD programme to redevelop the waterfronts in Campbeltown, Helensburgh, Oban, Rothesay and Dunoon. There are active projects in place for Campbeltown and Helensburgh, with other CHORD projects at the business case stage for the other towns. In addition, there are ongoing capital works to improve the transport infrastructure, and business cases for a new swimming pool and office in Helensburgh are being reviewed.

Completion of these projects will depend on the ability of the Council to finance the ongoing capital plan, which has been made more difficult by reductions in central government financial support. The Spending Review announced by Cabinet Secretary for Finance and Sustainable Growth to the Scottish Parliament cuts capital grants to local authorities from £691.8 million in 2011-12 to £563 million in 2012-13 and £517.3 million in 2013-14, before rising back to £759.7 million the year after. This rescheduling of capital grants may have an impact on the timing and availability of resources for the capital plan. The Council is considering the sustainability of the capital plan in light of recent announcements as part of its annual review of the capital budgeting process.

Treasury management

- 2.18 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 2010-11 and managed capital expenditure within these approved limits.
- 2.19 Table 5 below highlights the Council's treasury management position with regards to cash and loan balances.

Table 5: Treasury management

	31 March 2011	31 March 2010
Cash and cash equivalents	30,446	3,350
Short term borrowing	496	12,639
Long term borrowing	160,229	131,242

Source: Argyll and Bute Council 2010-11 financial return

- 2.20 Total cash balances are significantly higher reflecting the Council's drawdown of further loan finance from the Public Works Loan Board (PWLB). The loans are to support the Council's capital programme.
- 2.21 Overall long term borrowing levels for the Council are £160 million, which is 20th out of 32 local authorities in the country. This approximates to £60,000 per head of the population (17th highest in the country). This outcome is partly historical reflecting the Council's capital funding position. The Council remains well within its prudential borrowing indicators and its relative borrowing position has reduced over the year as it applies cash backed reserves to manage its overall level of indebtedness.

Future financial position

2.22 The Scottish public sector continues to face a period of sustained financial austerity. The initial reduction in the Council's budget settlement for 2011-12 was £11.389 million (4.9%), which is significantly higher than the national average of 2.59%. The Council's higher share of the cuts reflects significant variation in funding for two areas:

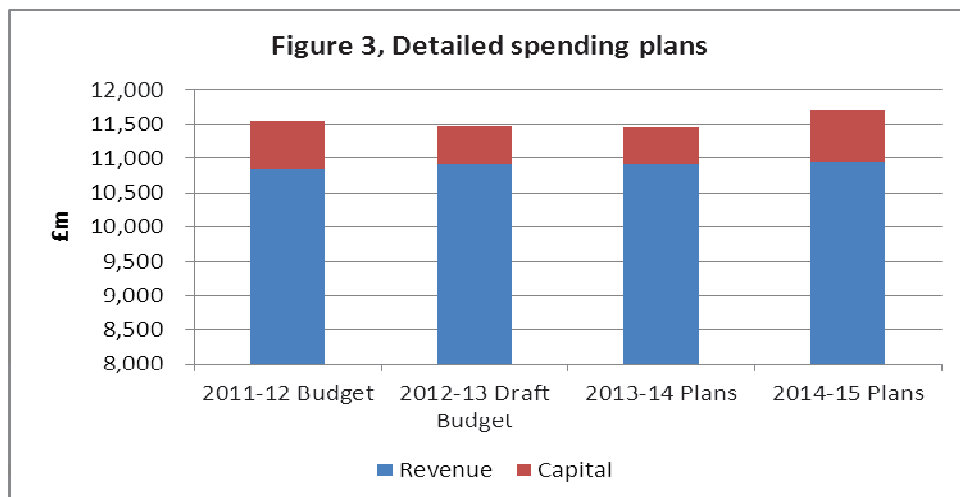
- the Special Islands Needs Allowance (SINA) following the reclassification of Seil island which leads to a reduction of £400,000
- Supporting People allowance - a reduction of £5.6 million due to an alteration in the distribution process for this allowance. The reduction was not anticipated by the Council in the budget setting process.

2.23 An additional allocation of government funding provided £1.3 million in funding to the Council to reduce the impact of the changes in Supporting People funding, giving a total reduction for 2011-12 of £10 million. There is no certainty that this support will continue going forward.

2.24 The Council faces significant budget cuts in line with the rest of the local authority sector and the public sector more widely. The Council has asked services to carry out service reviews to identify options if they had to operate with budget cuts of up to 20%. We have considered the Council's financial projections and its plans to ensure it can continue to deliver services in light of significant budget cuts.

Local government settlement in the Spending Review

2.25 The Spending Review announced by Cabinet Secretary for Finance and Sustainable Growth to the Scottish Parliament on 21 September 2011 allocates a total funding package amounting to £11.5 billion to local government. Figure 3 below highlights the 2011-12 allocations and plans for expenditure levels in subsequent years.

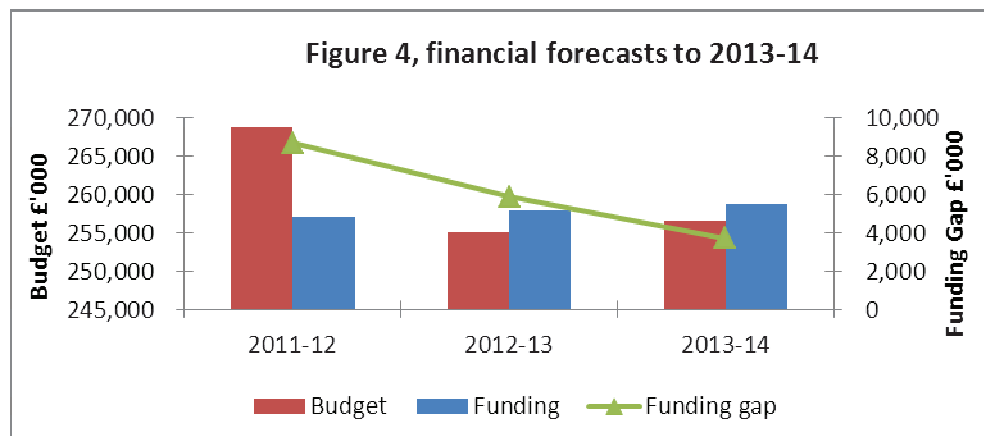


- 2.26 As in prior years, the level of spend available to local authorities will be dependent on agreeing a council tax freeze for the fifth consecutive year. The Review also announced the Scottish Government's commitments to maintain police and teacher numbers in Scotland.
- 2.27 The Council will be reviewing the impact of the spending review on its forecast of future revenue support grant funding, and individual council allocations will be known in December 2011.

Projected financial position

- 2.28 The Council has been analysing the impact of reductions in central government support, and performing scenario planning to determine the likely impact on its financial position. The Council has adopted a three year budget planning cycle, and set a target of maintaining a balanced budget over this term.

Figure 4 below highlights the current financial forecasts, taking into account the Council's assumptions on future reductions in central government grants, and inflationary and demand pressures.



- 2.29 The total forecasted budget deficit by 2014 represents a funding gap of £3.7 million. The size of the budget deficit highlights the significant financial pressures on the Council's financial position, and presents a major challenge in sustaining current levels of service provision and quality.
- 2.30 The Settlement and Distribution Group are currently reviewing the allocation of supporting people funding and the potential reinstatement of the prior methodology for awarding this revenue support which was removed in 2011-12. The Council will monitor the outcomes from this review and the potential impact on future budget forecasts.

Service reviews

- 2.31 The Council is currently undertaking a review of services in order to plan ahead for the challenging financial position as well identifying ways of securing best value in the delivery of services. The aim is to review the baseline budget of each service, benchmark services with similar service providers, identify future challenges and cost pressures and identify options for meeting an initial 15% savings target rising to 20% for year three service reviews. A project team is appointed to carry out each review and this is led by the head of each service. All reports are reviewed and approved by the Council's Transformation Board.
- 2.32 At this stage of the process, the Council has reviewed the following services in year 3:

- Housing Services
- Adult Care Support Services

- Property Services
- Planning
- Streetscene
- Roads Design
- Network and Environment
- Fleet

2.33 In addition service reviews are underway for support services and marine services.

2.34 A report was produced for the Executive meeting on 29 September 2011 which sets out the findings of each service review for member consideration.

3 Financial statements audit

Introduction

- 3.1 We have audited the Council's 2010-11 accounts in accordance with our Audit Plan issued in February 2011. The key messages arising from our financial statements audit are contained in our Report on the 2010-11 Accounts Audit, issued on 14 September 2011, and summarised below.

Audit opinion

- 3.2 We gave an unqualified opinion on the Council's 2010-11 financial statements on 30 September 2011.
- 3.3 There were a number of audit adjustments to the draft financial statements:
- to correct the valuation methodology for the former Hermitage Academy site
 - to update the equal pay provision following receipt of post balance sheet information from the Council's solicitors
 - a requirement to recognise the police capital grant as income, with an equivalent amount of expenditure, in both 2010 and 2011
 - to release provisions previously made that no longer meet the definition of a provision under IAS 36
 - increase the bad debt provision for aged debts over one year
 - to correct the group accounts following changes in the recognition of the pension costs of injury benefits at two associates.
- 3.4 There is one unadjusted misstatement, and there would be no impact on the reported surplus for the year, or on the general fund balance if it had been adjusted.

Significant accounting issues

Implementation of IFRS

- 3.5 Local authorities are required to comply with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). From 2010/11 this Code is based on International Financial Reporting Standards (IFRS) rather than a UK GAAP based Statement of Recommended Practice (SORP). The Code requires a restated balance sheet at 1 April 2009, restated 2009/10 accounts and full published IFRS accounts for 2010/11. During the year, we performed an arrangements review to provide feedback on the Council's approach to restatement with detailed work on the restated figures taking place during the 2010/11 final accounts audit.
- 3.6 Our report, Review of arrangements for implementation of International Financial Reporting Standards (IFRS), was presented to the audit committee in June 2011 and summarised our review. Overall we found that the Council had made good progress in the transition to IFRS, with further work required in the areas of fixed asset re-categorisation and group accounts.

3.7 There was two issues arising relating from the introduction of IFRS in the financial statements audit:

- The revaluation of the former Hermitage Academy site under the Code
- We also recommended that the Council investigate methods of improving data collection on officer's leave and holiday entitlements for the holiday pay accrual. The implementation of improvements to the Council's HR system is expected to address this matter.

Remuneration Report

3.8 During the year, Scottish Ministers approved an amendment to the Local Authority Accounts (Scotland) Regulations 1985 to publish a remuneration report as part of their annual accounts. The report is similar to that produced for listed companies and public sector bodies that report under the Government Financial Reporting Manual.

3.9 The amendments to the Regulations require the Council to disclose:

- remuneration policies for senior members and senior officers
- remuneration paid to senior members and senior officers for 2009-10 and 2010-11
- pension benefits including pension contributions paid by the Council and the value of accrued pension benefits at the balance sheet date
- information of the number of employees earning in excess of £50,000 per year.

3.10 We concluded that the Council's remuneration report complied with the new regulations. In future years, the Council will also be required to disclose summary information in relation to exit packages, including compulsory and voluntary redundancy costs, ex-gratia payments and other departure costs.

Equal pay claims

3.11 In 1999, local authorities in Scotland agreed that a new pay and grading system would be introduced (single status), which would ensure equality in pay structures across employee grades. The Council implemented its new pay and grading model in 2007-08.

3.12 Under the Equal Pay Act 1970, employees are entitled to make claims for equal pay settlements for a period up to six years. As at 31 March 2010, the Council recognised a provision of £163,000 relating to the claims received, with a contingent liability for those claims it could not quantify at that time.

3.13 During 2010-11, the Council was nearing agreement of the settlement of all outstanding claims and the provision was increased to £2.4 million in the draft accounts. Post balance sheet correspondence with the Council's solicitors, however, highlighted that the status of the claims was not as advanced as previously thought, and the Council revised the provision to £0.6 million to match the project settlement amounts provided by its solicitors. The Council has recognised a contingent liability for those claims where a final settlement figure is not yet known

Group accounts

3.14 The Council's group accounts consolidate the following bodies:

- Strathclyde Police Joint Board
- Strathclyde Fire and Rescue Joint Board
- Strathclyde Partnership for Transport
- Strathclyde Partnership for Transport Concessionary Fares

- Dunbartonshire Argyll and Bute Valuation Joint Board
- Oban Common Good Fund
- Campbeltown Common Good Fund.

- 3.15 The net worth of the Group is £18.8 million (2010: deficit of £113 million) compared to the Council's individual net worth of £212 million (2010: £112 million). The difference reflects the Council's share of deficits in the pension schemes of the Strathclyde Police Joint Board and the Strathclyde Fire and Rescue Joint Board, both of which are unfunded schemes. The schemes are effectively underwritten by the Scottish Government from funding provided to local authorities.
- 3.16 In September 2011, the Cabinet Secretary for Justice announced plans to establish a single police force and a single fire brigade for Scotland. It is anticipated that single forces will be established from April 2013. The creation of single police and fire services could impact in how such services are delivered and may lead to a fundamental change in the group structure of the Council when implemented.

4 Governance

Introduction

- 4.1 In accordance with the 2010-11 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 on 6 June 2011.

Core Financial Systems

- 4.2 During the year we reviewed the effectiveness of the Council's core financial systems and financial management and budgetary control arrangements.
- 4.3 Our overall conclusion is that the core financial systems continue to operate effectively, however we identified three medium risk issues in our financial statements audit:
- bank reconciliations for the deposit bank accounts not completed during the year
 - transactions in 2010-11 relating to two of the Council's bank accounts were not originally included in the general ledger for the year or on the original year end bank reconciliations.
 - the bad debt provision methodology should be reviewed on an annual basis, including a review of significant individual debtors for impairment.
- 4.4 We reviewed the Council's progress in implementing agreed recommendations to improve financial planning and budgetary control arrangements. Overall, we concluded that the Council continues to closely monitor its finances and the impact of the deterioration of the wider public sector finances. We have provided commentary on the Council's updated financial position at Section 2.22.

IT systems and applications

- 4.5 Our overall conclusion is that the controls over IT systems and applications continue to operate effectively. We made four new recommendations from our audit of which three are classed as medium risk:
- the access rights of leavers should be disabled in a more timely manner
 - network password settings should be encrypted to improve security and reduce the risk of unauthorised access to the network
 - Oracle access rights should only be granted after being authorised by a member of staff included in the list of designated approvers.
- 4.6 The Council has reported that they have now implemented the encryption of network password settings. The other two medium risk recommendations were not accepted by management.

Contract management

- 4.7 Our 2009-10 audit found that the Council had made significant improvements to its contract management procedures since our original audit review in 2007-08. In particular, we noted that the Gateway process has now been implemented and embedded into the Council's working practices.

- 4.8 There were two recommendations relating to the Argyll Air Services project, which require further management action to fully implement: completing a post completion review of the project; and finalising the draft business plan. The business plan was approved by the Executive at its meeting in June 2011.

Internal audit

- 4.9 We have continued to follow up our recommendations following our 2006-07 review of the Council's internal audit department against the requirements The Code of Practice for Internal Audit in Local Government in the United Kingdom (the Code) issued by CIPFA. In addition, in our 2008-09 audit, we recommended that the Council perform a review of the future strategic direction of internal audit and consider the best way of providing the service.
- 4.10 In June 2010, the Council appointed a 'Head of Internal Audit' (HIA) to lead the department, and this addresses one of the main areas of previous non-compliance with the Code. As part of the 2010-11 audit, we have assessed the extent to which the Council meets the requirements of CIPFA guidance on the role of the HIA. Our review found that the Council have adopted the majority of the guidance although we noted that the Council's constitution, terms of reference for the internal audit department and the internal audit manual all require updating to take account of the recent changes in the internal audit department, and this is currently being actioned.
- 4.11 We raised concerns that the vacancy in the audit manager position will impact on the department's ability to meet the 2011-12 audit plan. However we are aware that the Council intends to use contractors and partnership resources to meet the deficit in audit resource. We are aware the Council is currently reviewing the future provision of internal audit, and this should include a review of resources and consider the appropriate mix of qualified staff.

The National Fraud Initiative

- 4.12 The National Fraud Initiative (NFI) is a nationwide data matching exercise run jointly by Audit Scotland and the Audit Commission. In our 2009-10 audit we made a number of recommendations for the Council to take action on to improve their participation in the NFI process. We are pleased to note that the Council's procedures in place for NFI have improved significantly, and at this stage, a large proportion of the matches have now been processed. We were also pleased to note that regular updates on NFI are now provided to the audit committee and SMT.
- 4.13 As at 30 September 2011, the Council have processed five out of six datasets in the NFI matches. Further work is required to complete the processing of matches received for housing benefits. In addition, the Council will be required to process matches from the electoral register and council tax when they are received later in the year. To date there has been no recorded frauds noted from the process.
- 4.14 We are due to complete a summary review of the Council's participation in the NFI scheme for Audit Scotland. A national report on the process in Scotland is due to be published in 2012.

Corporate restructuring

- 4.15 In view of the potential significance of severance schemes in the public sector and the associated interest from stakeholders in the costs and impact of such schemes, auditors have a role in considering the arrangements for such schemes as part of their responsibilities in respect of probity, regularity and value for money
- 4.16 In 2009-10, the Council completed a significant restructuring of the Strategic Management Team and service heads. This involved replacing the four Strategic Directors with three Executive Directors, and a restructure of the services, with a realignment of services leading to the creation

of 12 new services to replace the previous 15. As such, there was a reduction in the number of heads of service from 15 to 12. The changes took effect from 1 April 2010. During 2010-11, the Council introduced a voluntary severance scheme, which is expected to contribute significantly to the required cost savings over the next three years.

- 4.17 Our review was carried out in line with guidance in Audit Scotland's note for guidance, *Severance schemes*, the Council's process for undergoing the restructure process and concluded that it was in compliance with relevant legislation and guidance.

Audit Committee

- 4.18 In 2008-09, we carried out a review of the audit committee's compliance with best practice, as set out in the CIPFA guidance note, *Audit committee principles in local authorities in Scotland: a guidance note*. The Council has now implemented the majority of our recommendations following this review.
- 4.19 Previous results of the self assessment carried out by audit committee members highlighted that progress was to be made, in particular with regard to induction training for new members. The Committee held an away day in January 2011 which determined a training programme to address this improvement objective.
- 4.20 The audit committee appointed a new Vice Chair in 2010-11. A key challenge going forward will be finding a replacement for the current Chair when his term of office expires in April 2012. The Committee has made good progress in ensuring its role is discharged effectively and is continuously seeking to improve. There is some scope for the Committee to consider how it could better measure and report the impact of its work and enhance further financial stewardship, governance and performance management within the Council for example through closer working with the Senior Management Team and the Executive Committee.

5 Performance

Introduction

5.1 In accordance with our Audit Approach Memorandum and the Assurance and Improvement Plan, we continue to review the Council's arrangements for delivering Best Value and reporting on performance. The Local Government in Scotland Act 2003 established Best Value as a statutory requirement for all councils. The Act defines Best Value as 'continuous improvement in the performance of the authority's functions'. The objective of Best Value is to ensure that councils deliver better and more responsive public services by:

- balancing the quality of services with cost
- continuously improving the services provided
- being accountable and transparent, by listening and responding to the local community
- achieving sustainable development in how the council operates
- ensuring equal opportunities in the delivery of services.

Assurance and Improvement Plan

5.2 Under the National Scrutiny Plan for Local Government 2010-11, Scotland's scrutiny agencies work together to develop a shared risk assessment and AIP for each council area. As part of our 2010-11 audit, we have followed up the progress made by the Council, both in addressing the improvement agenda and against specific areas of risk or uncertainty identified by scrutiny partners.

5.3 The Council's Local Area Network (LAN) published an updated Shared Risk Assessment and Assurance and Improvement Plan in April 2011. The scrutiny partners agreed that Argyll & Bute Council has a number of areas of improving performance, particularly in corporate management arrangements, early years services, primary education and some aspects of social care services. The revised management structure, planning and performance management framework, and transformation programme are now embedded and beginning to make a real difference to the effectiveness of services. Overall the LAN has categorised the Council a 'lower risk' for the purposes of scrutiny planning which is a significant achievement.

5.4 The LAN drew attention to the following aspects of the Council's services it categorised as 'improving':

- Sustainable growth
- Aftercare for care leavers
- Organisational development and modernisation
- Leadership and culture
- Competitiveness
- Managing people
- Equalities.

5.5 The SRA also found that, whilst services are improving overall and corporate management processes appear to be operating well, there were some services where the LAN regarded performance direction as uncertain:

- Management of the School Estate
- Community support for children
- Support for adults at home
- Local access to social housing
- Services for homeless people
- Impact and outcomes from the Transformation Programme.

5.6 In addition, for road services, the LAN felt there was a higher risk that performance might not improve in the way the Council would like.

5.7 The LAN acknowledged that the Council had plans to improve these services and it did not regard performance as high risk. The LAN will continue to keep the Council's overall performance under annual review.

Managing Performance

5.8 One of the key sources of information for the LAN is the Council's approach to performance management and self-evaluation. The Council's Planning and Performance Management Framework (PPMF) was revised in March 2011 to reflect the council's revised structures. The PPMF ensures that all services contribute to the delivery of the Corporate Plan and report on performance, outcomes and challenges in a consistent way. The Council also adopted the Public Service Improvement Framework (PSIF) approach to self-evaluation and continuous improvement in 2009. The corporate self assessment was completed in May 2010, and helped the Council identify a number of areas for improvement. These actions are being taken forward in the Corporate Improvement Plan, and include an organisational development framework, a number of leadership development programmes, and further improvements in internal communications. A programme of PSIF reviews are also being rolled out across service areas.

5.9 Under the PPMF, the objectives within the Corporate Plan are translated into reporting outcomes in quarterly scorecards at corporate and department level. The scorecards, produced from the Pyramid performance management system, are reported to the Executive quarterly, but are also available on the performance pages of the Council's website.

Single Outcome Agreement

5.10 Single Outcome Agreements (SOAs) are the main mechanism in place to align and report on public sector activity with national priorities. The shared risk assessment and BV2 processes draw upon evidence contained within SOAs in order to consider outcomes more widely, as planning for and managing the delivery of outcomes should be central to all aspects of the council's activity.

5.11 Successful delivery of SOAs depends on the degree to which they are supported by effective planning, budgeting and performance management arrangements at service-level, within councils and across partner agencies. We noted that arrangements to extend the Council's performance and risk management processes to the Community Planning Partnership (CPP) are now

embedded. The Council's partners have access to the Pyramid system and are able to populate and comment upon data within the scorecards.

- 5.12 The Council has agreed a revised vision and values with all partners in the CPP. Key priorities within the Community Plan are translated into outcomes and success measures within the CPP scorecard. The scorecards are reviewed within thematic groups, and by the CPP Management Committee on a quarterly basis. The key area for development in 2011-12 is to integrate the Community Plan and SOA into a single plan for the area by April 2012.
- 5.13 The SOA Progress Report for 2010-11 outlines a number of areas of success. Of the 71 measures where data is available in the SOA, 59 (81.9%) are green and have improved from the previous year or are exceeding the targets that have been set, and only 12 (18.1%) have seen performance fall or have not met the targets that have been set. Key successes include the delivery of Business Gateway business set-ups, and Highlands & Island Enterprise reported new growth plans for account managed businesses and social enterprises. Data from Visit Scotland also suggests that tourism numbers were above target in 2010-11. The Council has met its targets to implement the Curriculum for Excellence, and the number of school leavers achieving positive destinations increased to 87.8%.
- 5.14 Areas for improvement include secondary school attainment for reading and writing, and for looked after children. The SOA also raises concerns around increasing higher education activity due to the impact of the economy on the UHI.

Statutory Performance Indicators

- 5.15 One of the key ways that members of the public can measure council performance is through the statutory performance indicators (SPIs). In 2009/10, the Accounts Commission made a significant change to the SPI direction. The 2008 direction, which was introduced in 2009/10, has been retained for 2010/11. This direction requires that councils report:
- a range of sufficient information to demonstrate best value in relation to corporate management (SPI 1)
 - a range of information sufficient to demonstrate best value in relation to service performance (SPI 2).
- 5.16 In reporting against SPI 1 and SPI 2 above, all councils are required to report performance against 25 specified indicators, as defined in the 2008 direction. In addition, councils must select a range of non-specified indicators to demonstrate that best value and compliance with the 2008 direction.
- 5.17 To meet the requirements of the Direction, under the Council's Public Performance Reporting Framework, an Annual Report is produced in October. The report covers the specified SPIs, along with other indicators reported in the Scorecards, and includes national and family group benchmarking information. This, along with the quarterly performance reports and range of information on the Council's website, is sufficient to demonstrate that the Council has met the requirements of SPI 1 and SPI 2.
- 5.18 During the year the council's internal auditors have carried out sample testing on a range of the councils specified indicators. Eight indicators were selected by internal audit for testing. Eight SPIs were reviewed by Internal Audit. Although internal audit found that processes for compiling SPI data had improved, we noted that of the eight checked, five had to be amended after discussion with the staff involved in providing the figures, although all amendments were to improve the performance reported. The robustness of data is critical for all models of self-evaluation, which Council's and their scrutiny partners rely on. We were therefore pleased to

note the further work that Internal Audit prepared on the arrangements for recording performance information on Pyramid, which highlighted no significant concerns.

- 5.19 Analysis of the SPIs highlights that 40% of the nationally specified indicators improved by more than 5% during the year, and a further 34% maintained levels of performance. Notable improvements were noted in processing homeless cases, and the levels of home care for people over the age of 65. However, sickness absence rates for teachers remain over the national average, and visitor numbers for leisure centres and museums fell in the year.

National Studies

- 5.20 Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports published in the last year with a direct impact on the council include:

- How council's work: roles and working relationships: are you getting it right?
- Improving energy efficiency: a follow up report
- Getting it right for children in residential care
- Physical recreation services in local government

- 5.21 Audit Scotland ask us to ensure that local government bodies review the national studies relevant to them and action them accordingly. We review whether the council has considered the national report at a council committee and whether the council has carried out a self-assessment against the national report and plans to take forward any improvements.

- 5.22 At Argyll & Bute Council, the Internal Audit Manager reviews and summarises all reports from external audit, including Audit Scotland, and prepares a report for the Audit Committee on a quarterly basis. This allows Audit Committee members to ask for further work to be done, or for copies of the full reports. We therefore consider that this is good practice, however, there is scope for Audit Committee to receive information which explains which elements of national report recommendations the Council considers are relevant and how the Council intends to take these recommendations forward. The Audit Committee agreed to this proposal at its meeting in September 2011.

Procurement

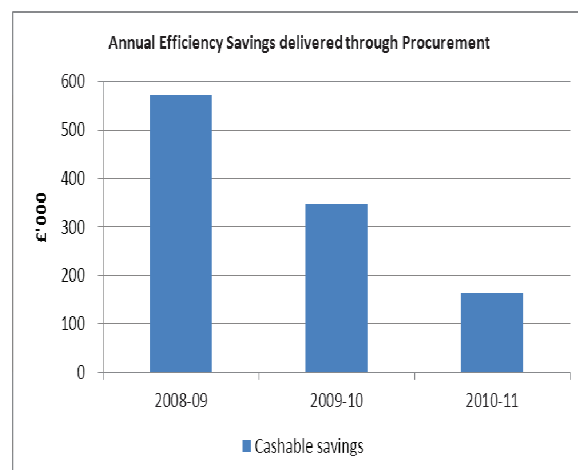
- 5.23 In 2009 Audit Scotland published a report on "Improving Public Sector Purchasing." The report examined the progress and impact of the Public Procurement Reform Programme which was launched in 2006. This programme aimed to improve public sector purchasing practice and make substantial savings. The 2009 Audit Scotland report highlighted the need for greater assurance on the quality of purchasing practice in over 150 public sector bodies.

- 5.24 In response to this report the Scottish Government brought out an assessment tool to monitor how effectively public bodies were adopting purchasing good practices. This tool is called the Procurement Capability Assessment (PCA). The PCA process is undertaken annually to drive continuous improvement in public sector procurement. In 2010 the Scottish Government published the findings of the first round of PCA reviews. The findings indicated that whilst there were instances of best practices throughout the Scottish public sector there was room for significant improvement in many public bodies.

- 5.25 Argyll & Bute Council's overall performance was ranked as conformant in its 2010 PCA. The score of 36% compared favourably with the national average of 22.6%. Our follow up review has found that the Council continues to build on this performance, although the 2011 PCA score will not be available until later this year.

5.26 The Council has a Procurement Board in place, which includes Service Managers from across the Council to ensure that Exchequer Services can influence and deliver good procurement practice at service level. The Council has also recently updated its Procurement Manual to increase its scope and reflect current best practice.

5.27 The Council's Annual Efficiency Statements (Figure 5) highlight that over £1million of cashable savings have been delivered by better procurement in the last three years. A further £212,000 of non-cashable savings were achieved due to the council's early adoption of the PECOS e-procurement system.



Sustainable Waste Management

5.28 In 2010-11, Audit Scotland asked us to conduct a targeted follow up review to assess what steps the council had taken in response to their *Sustainable Waste Management* report to ensure they would be able to meet future European Union and Scottish Government targets to improve waste management.

5.29 The Scottish Government’s Zero Waste Plan sets out a roadmap for how Scotland can further improve its waste management efforts. The plan includes a range of targets to be achieved between 2010 and 2025. Table 6, below, illustrates that Argyll & Bute has performed well against targets to date. Initiatives such as the PPP scheme with Shanks, and a food waste collection in the Helensburgh and Lomond areas has meant that recycling rates have increased.

Table 6: Argyll & Bute Council progress against national targets

Target	National	Argyll & Bute
40% of municipal waste to be recycled or composted by the end of 2010 (Scottish Government target)	37% municipal waste recycled and composted	41.5% municipal waste recycled and composted
No more that 2.7 million tonnes of biodegradable municipal waste to be sent to landfill (Article 5 (2) of the EU Landfill Directive)	1.1 million tonnes of biodegradable municipal waste land filled	20,772 tonnes of biodegradable municipal waste land filled

Source: Argyll & Bute Council / SEPA

5.30 However, the Draft Zero Waste (Scotland) Regulations 2011 propose a change to the definition of recycled waste. Under the draft Regulations, Compost Like Output (CLO) would not be classified as recycling. This would have a significant impact on the performance of Argyll & Bute Council as the waste management contract with Shanks uses diversion into CLO, rather than sending waste to landfill. The Council estimates that such a change in definition would reduce their recycling rates from 41% to around 26%. The Council has responded positively to the Scottish Government's consultation on the draft Regulations to outline the impact that the change would have on practices and public opinion.

Schools estate strategy

5.31 In previous year’s audits, our work has drawn the Council's attention to the relatively poor occupancy rates in the Council's schools and the significant backlog of maintenance in the schools estate (estimated at c£25 million).

- 5.32 Following the Scottish Parliamentary elections in May 2011, and the formation of the new Scottish Government, the Cabinet Secretary for Education called for a moratorium in rural school closure plans for one year while a rural education commission was established to review the associated legislation passed in the previous Parliament on school closure consultations.
- 5.33 On 17 May 2010, the Executive instructed officers to begin a review of the sustainability of the school estate. The Council met on 25 November 2010 and agreed a set of proposals to be put out to consultation. At a meeting on 5 January 2011 the Council suspended its school closure consultation process. A revised set of proposals on the school estate were agreed for consultation by the Council at a meeting on 19 April 2011. The Council decided to formally end the consultation process, with the exception of two schools with no pupils, at a meeting on 14 June 2011.
- 5.34 The Council will need to develop a clear way forward on addressing the strategic issues related to the school estate taking into account the Scottish Government's legislative response and consideration of funding for rural education arising from the findings of the Commission on Rural Education and other national policy drivers related to the Education service. The saving of £1m built into the budget for 2011-12 to 2013-14 will now not be achieved. This has been recognised in the budget forecast for the period to 2014-15 presented to the Executive on 29 September. The Council will need to address this as part of its overall budget considerations for 2012-13 to 2014-15.

6 Looking forward

- 6.1 Scottish public spending will continue to reduce significantly over the next four years to 2014-15, with capital budgets facing the largest reductions. The demand for public services is increasing, and this is likely to continue in the future. An ageing population, the effects of the recession and heightened expectations of the public all increase the demand for public services. This places an additional pressure on councils to provide efficient and quality services at a time when budgets are already stretched and reducing. This means that all public bodies, including the council, may find it difficult to continue to deliver the current level of services to citizens and continue to achieve efficiency savings in future years.
- 6.2 The initial reduction in the Council's budget settlement for 2011-12 was £11.389 million (4.9%), which is significantly higher than the national average of 2.59%. The Council later received additional funding allocated by the Scottish Government totalling £3.763 million which partially offset the initial funding reduction.
- 6.3 In addition to the scale of the savings required, the Council faces an added challenge in meeting its savings plans as projected savings in the school estate will no longer be possible. The saving built into the budget for 2011-12 to 2013-14 was £1 million out of a total of £55 million in savings.
- 6.4 The Audit and Improvement Plan in arriving at its conclusions also notes the following areas where further progress may be required:
- a key challenge for the council will be to translate improvements in corporate working arrangements into demonstrably better service outcomes and outputs for its citizens
 - the council has clear plans in place to achieve the required level of budget savings, but faces a significant challenge to deliver those savings over the three year period of the budget
 - the council will need to consider how it is to address the backlog investment and school occupancy levels.
- 6.5 Local government elections are due to take place in May 2012 and have the potential to change the political dynamic of the Council. This presents a good opportunity for the Council to review its political management arrangements and ensure they continue to effectively meet the needs of the Council.
- 6.6 A number of initiatives and policy changes will also impact the future direction of the Council:
- Implementation of the Christie Commission report on the Future Delivery of Public Services in Scotland, including a focus on more preventative spending.
 - Efforts to increase collaboration and shared services amongst local authorities in Scotland, although many council's will be looking to the Clackmannanshire and Stirling Council's Shared Service Model.
 - Reforms to the provision of housing and council tax benefit arising from UK government policy and the Welfare Reform Bill 2011.
 - Changes to how Non Domestic Rates charges are applied in Scotland, which could impact on tax collection and the charges paid by the Council for its own properties.

- 6.7 The Council is alert to all of these issues and has implemented a range of significant improvements in recent years covering its corporate working arrangements, financial management arrangements and performance management framework. These changes have improved the Council's ability and capacity to meet the challenges of the future and placed it in a good position to meet new challenges flexibly and effectively. We wish the Council every success as it takes forward this exciting new agenda.

A Audit reports issued during the year

Audit Area	Target Delivery	Outturn
Planning		
Audit Approach Memorandum	11 th February 2011	16 February 2011
Financial statements		
Interim report- implementation of IFRS	29 April 2011	22 April 2011
Report on the 2010-11 financial statements audit	22 August 2011	14 September 2011
Audit opinion on the 2009-10 financial statements	30 September 2011	30 September 2011
Whole of Government accounts return	30 September 2011	30 September 2011
Governance		
Interim report	27 May 2011	8 June 2011
Performance audit		
Audit and Assurance Improvement Plan	1 April 2011	Completed
National Performance Studies - impact assessments	As required	As required and summarised in annual report
Public sector purchasing	30 August 2011	Completed
Grant claim audits		
Education maintenance allowance	31 July 2011	Completed
Housing Benefit and Council Tax Benefit subsidy	30 November 2011	Not yet due (initial fieldwork completed)
Non Domestic Rates	February 2012	Not yet due
Overall audit		
Report to members and the Accounts Commission for Scotland	31 October 2011	31 October 2011



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AUDITED FINANCIAL STATEMENTS FOR THE PERIOD

1 APRIL 2010 TO 31 MARCH 2011

Argyll and Bute Council
Comhairle Earra Ghàidheal agus Bhòid

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INTRODUCTION

The Annual Accounts demonstrate the Council's stewardship of the public funds it controls. The financial results for 2010-11 are set out on pages 24 to 98. Note 1 to the Financial Statements on pages 33 to 42 sets out the Summary of Significant Accounting Policies adopted by the Council to ensure that the Financial Statements give a "true and fair view" of our financial performance.

THE FINANCIAL STATEMENTS

The objectives of financial statements are to provide information on the financial position, financial performance and cash flows of the Authority which is useful to a wide range of users in making and evaluating decisions about the allocation of resources. The information provided by the financial statements should be useful for decision making and demonstrate the accountability of the Authority for the resources entrusted to it.

The financial statements comprise:

- Movement in Reserves Statement for the period
- Comprehensive Income and Expenditure Statement for the period
- Balance Sheet as at the end of the period
- Cash Flow Statement for the period
- Notes, comprising a summary of significant accounting policies and other explanatory information, and
- Balance Sheet as at the beginning of the earliest comparative period where a retrospective restatement if items in its financial statements have been made.

MAJOR CHANGES IN ACCOUNTING PRACTICE – TRANSITION TO IFRS

In the 2007 Budget, the Chancellor of the Exchequer announced that there would be a requirement for local authorities to adopt International Financial Reporting Standards (IFRS) from 2010-11. This is a significant departure from UK Generally Accepted Accounting Practice (UK GAAP) on which previous versions of the Code are based. The adoption of IFRS has required a complete revision of the accounting policies operated by the Council.

Under IFRS1 – *First Time Adoption of International Financial Reporting Standards* accounting policy changes arising from adoption of IFRS are applied retrospectively unless the Code requires an alternative treatment. This means that the 1st April 2009 Balance Sheet has been restated to fully comply with IFRS along with the 2009-10 comparative figures.

While many accounting policies are similar to those which existed under UK GAAP, there are a small number of areas where there is a material change, and these are outlined below:

Government Grants: Under IFRS, grants and contributions for capital schemes are recognised as income when they become receivable. Previously, grants were held in a grants deferred account and recognised as income over the life of the assets which they were used to fund.

Asset Reclassification: Assets previously classified as Non-operational Fixed Assets have been reclassified as appropriate under IFRS to Property, Plant and Equipment, Investment Property and Assets Held for Sale. This has resulted in a different basis of valuation for some assets and a different treatment of valuation impairment losses through the Comprehensive Income and Expenditure Account.

Employee Benefits: Under IAS19 and the Code, local authorities are now obliged to account for accumulated short term compensated absences such as annual leave and flexi-time accrued by employees. The accrual has been calculated for these costs and included in the Comprehensive Income and Expenditure Statement.

A detailed explanation of the material differences between the amounts presented in the 2009-10 financial statements and the equivalent amounts presented in the 2010-11 financial statements can be found in note 38 on pages 82 to 84.

FINANCIAL PERFORMANCE

Statement of Movement in Reserves

The total Council reserves have increased from £111.527m at 31 March 2010 to £212.577m at 31 March 2011, an increase of £101.050m. This is represented by a Surplus on Provision of Services of £53.478m and Other Comprehensive Income and Expenditure of £47.572m.

The Council's reserves are split into Usable and Unusable Reserves. Usable reserves are those which are backed by actual resources and can be applied to fund expenditure or reduce local taxation. Unusable reserves are not backed by resources and are required purely for accounting purposes, these reserves do not represent resources available for the Council to utilise.

Unusable Reserves have increased by £101.080m from £75.055m at 31 March 2010 to £176.135m at 31 March 2011. The main reasons for this are a decrease in the Pension Reserve of £81.742m, a surplus on the revaluation of fixed assets of £8.592m and the transfer of £7.094m from the Comprehensive Income and Expenditure Statement for Capital Grants.

The Usable Reserves have decreased from £36.472m at 31 March 2010 to £36.442m at 31 March 2011, a reduction of £0.030m. The main reason for this is a reduction in the General Fund Balance of £0.047m.

A number of adjustments are made between Council reserves to reflect the correct charge to Council Tax for the year. The net adjustment to the surplus per the Comprehensive Income and Expenditure Statement to reflect the impact on Council Tax is a debit of £53.525m. In summary this debit represents the difference between:

- Principal repayment to the loans fund, the depreciation or amortisation of property, plant and equipment, government grants and any gain/loss on sale of assets
- Cash paid as pension contributions and the costs charged in accordance with IAS19.
- Statutory provision relating to amounts due on early repayment of loans and the charges in accordance with the Code.
- Capital element of finance lease payments on the schools NPDO contract and other finance leases.

The net surplus on the Provision of Services on the Comprehensive Income and Expenditure Account of £53.478m less the adjustments to reflect impact on Council Tax of £53.525m equates to the decrease on the balance on the General Fund of £0.047m.

General Fund Reserve

The balance on the General Fund at 31 March 2011 stands at £32.973m compared to £33.020m at 31 March 2010, a decrease of £0.047m. The "free" General Fund Balance stands at £3.848m at 31 March 2011. This equates to 1.5% of the net revenue expenditure for 2011-12, the Council has a policy of maintaining an unallocated balance in the General Fund Reserve equivalent to 1.5% of budgeted net revenue expenditure. There are a range of balances earmarked within the General Fund, these total £29.125m and are laid out in note 5 on page 45. The main balances include £15.327m for PPP Smoothing Funds, £7.366m for the Strategic Housing Fund generated from Council Tax on second homes and £2.455m of additional grant monies received from the Scottish Government prior to 31 March 2011.



Explanatory Foreword by the Head of Strategic Finance

The movement in the General Fund can be summarised as follows:

	£m	£m
Balance on General Fund 31 March 2010		33.020
Release of sums previously earmarked to service budgets 2010-11		4.845
		28.175
Add outturn for 2010-11		
Increase in council tax income	0.924	
Savings in loan charges	0.946	
Net underspend on departmental and other expenditure compared to budget	2.243	4.113
		4.113
One-off Costs in 2010-11		
Severance Costs	(4.885)	
Equal Pay Provision	(0.427)	(5.312)
		(5.312)
Deficit against budget 2010-11		
Council Tax collection on second homes	1.788	
Contribution to PPP smoothing funds	0.062	
Additional Scottish Government Grant Carried Forward to 2011-12	2.455	
Funds earmarked by departments from budgets	1.692	
		5.997
		32.973

The release of sums already earmarked to service budgets total of £4.845m consists of funds released to services for amounts previously earmarked including monies agreed by Council to fund Process for Change and the CHORD programme.

In February 2011 the Council took the decision to fund one-off severance costs initially from the funds earmarked in the General Fund balance for the PPP Smoothing Funds. At 31 March 2011 the total earmarked was £16.055m and an amount of £0.728m has been transferred to meet severance costs. This amount has been removed temporarily from the Smoothing Fund balance and will be re-paid into the General Fund Balance in future years.

Performance against budget

At the year-end, expenditure excluding loans charges was underspent by £2.243m. The table below is a summary of the year-end actual expenditure for each department compared to the annual budget.

	(over) /underspend £m	% age of annual budget £m
Chief Executive's Unit	0.016	0.21%
Community Services	1.534	1.07%
Customer Services	1.515	4.57%
Development and Infrastructure Services	(1.132)	(3.19%)
Non-controllable expenditure	<u>0.310</u>	<u>1.38%</u>
TOTAL	2.243	0.93%

The overspend in Development and Infrastructure Services relates to the additional costs associated with Winter Maintenance. This overspend was forecast and monitored during 2010-11 and steps were taken to ensure that overall the departmental year-end variance position was not unfavourable.

Comprehensive Income and Expenditure Statement

The Council ended the year with an accounting surplus of £101.050m for 2011-12 compared to a deficit of £50.714m in 2010-11, this is the accounting surplus based on the IFRS compliant accounts rather than the movement in the General Fund Balance. The total Comprehensive Income and Expenditure for 2010-11 represents the increase in the net worth of the Council from 31 March 2010 of £111.527m to £212.577m at 31 March 2011. 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 total Comprehensive Income and Expenditure comprises a surplus on the provision of services of £53.478m, a surplus on the revaluation of Long Term Assets of £8.592m and an actuarial gain on the pension fund assets/liability of £38.980m.

The surplus on the provision of services of £53.478m compares to a surplus of £12.612m for 2009-10. The main factors contributing to these changes are as follows:

- Taxation and Non-Specific Grant Income increased from £277.497m to £279.925m an increase of £2.428m (0.9%). This increase comprised a general year on year increase in General Government Grants and an additional £2.455m received from the Scottish Government prior to 31 March 2011. In addition there was a significant reduction in the Government and other Capital Grants received reducing from £13.246m in 2009-10 to £7.494m in 2010-11.
- Financing and Investment Income and Expenditure fell from £20.934m in 2009-10 to £15.670m in 2010-11 a reduction of £5.264m (25.1%). The reduction is due to an increase in the expected return on pension assets
- Other Operating Income and Expenditure decreased from £1.501m in 2009-10 to £1.453m 2010-11 a reduction of £0.048m (3.2%), this is due to a reduction on the loss on disposal of Long Term Assets.
- The Net Cost of Services has decreased from £242.450m in 2009-10 to £209.324m in 2010-11 a decrease of £33.126m (13.6%). This is a decrease in expenditure in accounting terms and does not represent a true reduction in spend on services by the Council. The main reason for this is a credit of £42.187m to Non Distributed costs for a reduction in the Pension Liability. This adjustment is the impact on the pension liability as a result of the basis for future pension increases being linked to the Consumer Price Index (CPI).

Balance Sheet

As indicated above the accounting net worth of the Council has increased by £101.050m from £111.527m at 31 March 2010 to £212.577m at 31 March 2011.

The value of long term assets has increased from £462.277m at 31 March 2010 to £478.875m at 31 March 2011, an increase of £16.598m (3.6%). This comprises a net upward revaluation of fixed assets, capital expenditure less the value of fixed assets disposed of and a transfer of assets from Assets Held for Sale to Surplus Assets.

Total current assets have increased from £29.667m at 31 March 2010 to £47.527m at 31 March 2011 an increase of £17.860m. The main variances are due to a reduction in the value of Assets Held for Sale of £6.957m from £8.679m at 31 March 2010 to £1.722m at 31 March 2011 and an increase in Cash and Cash Equivalents of £27.096m from £3.350m at 31 March 2010 to £30.446m at 31 March 2011.

Total current liabilities have reduced from £55.693m at 31 March 2010 to £44.421m at 31 March 2011 a reduction of £11.272m. Short term borrowing has fallen from £12.639m to £0.496m and short term creditors have fallen from £40.242m to £37.422m. This has been partially offset by an increase in provisions of £3.588m. The provisions relate to the estimated costs of settling equal pay claims and the severance costs associated with employees leaving the Council under redundancy and early retirement.



Explanatory Foreword by the Head of Strategic Finance

Overall, long term liabilities have decreased from £324.724m at 31 March 2010 to £269.404m at 31 March 2011. The decrease of £55.320m masks some significant movements.

- Long term borrowing has increased from £131.242m to £160.229m. New long term borrowing was arranged to take advantage of low interest rates and to protect the Council against potential future interest rate increases.
- The IAS19 valuation of the pension scheme liability decreased from £107.969m to £26.227m.

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the financial year. The Cash and Cash Equivalents balance at 31 March 2010 was £3.350m and increased by £27.096m to £30.446m at 31 March 2011. The Net Cash Flows from Operating Activities have increased from £16.153m at 31 March 2010 to £19.738m at 31 March 2011, this increase of £3.585m represents an increase in the Councils income funded from taxation, grant income and fees and charges made to service users. Cash outflows for Investment Activities have increased from £5.299m during 2009-10 to £6.968m in 2010-11, this is representative of cash outflows for resources to contribute to the Councils future service delivery. Cash flows from Financing Activities were a cash outflow of £14.817m during 2009-10 and a net cash inflow during 2010-11 of £14.326m, this increase relates to new borrowing during 2010-11.

Pension Liability

As noted above the IAS19 valuation of the pension scheme liability has decreased from £107.969m at 31 March 2010 to £26.227m at 31 March 2011. This pension liability represents the best estimate of the current value of pension benefits that will have to be funded by the Council. The liability relates to benefits earned by existing or previous employees up to 31 March 2011.

These benefits are expressed in current value terms rather than the cash amount that will actually be paid out. This is to allow for the 'time value of money', whereby the value of cash received now is regarded as higher than cash received, for example, in ten years time, since the money received now could be invested and would earn interest or returns during the ten years. In order to adjust the pension liability cash flows for the time value of money, a discount factor based on corporate bonds is used. Following the Chancellors budget statement in June 2010 the calculations on future pension increases are now linked to the Consumer Price Index (CPI) and not the Retail Price Index (RPI), the impact of this is a significantly lower pension liability.

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 2011. Their calculations have been carried out in accordance with Guidance Note 36: Accounting for Retirement Benefits under IAS19, issued by the Institute and the Faculty of Actuaries.

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 8 of the Notes to the Core Financial Statements on page 49. During 2010-11 the Roads and Lighting trading account achieved a surplus of £0.601m. It achieved a rolling breakeven position with a three year surplus of £2.209m. The Catering & Cleaning trading account returned a surplus of £0.306m for the year, and it achieved a rolling breakeven position with a three year surplus of £1.941m. The surplus on the Catering & Cleaning trading account reduced in 2010-11 as a result of the costs for Equal Pay settlements and termination benefits. Any surplus or deficit on trading organisations is treated as part of the General 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.



Explanatory Foreword by the Head of Strategic Finance

The Council approved a set of prudential indicators for 2010-11 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	21.201
Less: Capital Receipts	0.159
Government Grants and Other Contributions	7.095
Revenue Contributions	0.915
	13.032
Balance Funded from Borrowing	13.032

The capital financing requirement at 31 March 2011 was £264.298m. This was financed as follows:

	£'m
Long Term Borrowing	160.229
Short Term Borrowing	0.496
Schools NPDO Finance Lease Liability	83.309
Internal Funds	20.264
	264.298

The external borrowing of the Council at 31 March 2011 amounted to £160.725m. The majority of this was financed by the Public Works Loan Board (£108.066m), with the remainder coming mainly from the money market.

During the year the Council completed £29.231m of new external borrowing. This was used to finance capital expenditure incurred during the year. The Council also repaid loans of £12.387m.

PROVISIONS AND CONTINGENT LIABILITIES

The Council has created a number of new provisions during 2010-11, these include:

- Equal Pay - the Council is nearing agreement on the final settlement for Equal Pay claims. A reliable estimate of the liability could be made for those claims where settlement offers have been made, as such a provision has been created providing for the full cost of these claims and an amount of £0.590m has been provided for during 2010-11. There are further outstanding claims where the settlement amount cannot be estimated reliably enough to provide for the cost.
- Single Status - all of the remaining appeals were heard by 31 March 2011. A further provision of £0.911m has been created in 2010-11 to fund the back-pay costs associated with the multiple post holders who are identical to successful appellants. Further Equal Pay claims may come forward as a result of Single Status, the cost of these cannot yet be reliably estimated.
- Severance costs – a number of employees have either taken or been offered a redundancy package as part of the Council Modernisation programme. A provision of £3.134m has been created in 2010-11 for the termination benefits for employees who have accepted redundancy but are not planned to leave until after 31 March 2011.

GROUP ACCOUNTS

Group Accounts have been prepared and show a decrease in the overall net liability position of the previous year to a net asset position in 2010-11. This reduction in net assets position of the Group Accounts, compared to the single entity accounts, is a result of the Police and Fire Pension Schemes being unfunded and reflects the proper accounting treatment as determined by IAS19. The technical accounting treatment has no impact on the underlying basis for meeting the Police and Fire Boards' current and on-going pension liabilities. These will continue to be met from government grants and contributions from constituent authorities.

Explanatory Foreword by the Head of Strategic Finance

Further information regarding these pension deficits can be found in Note 5 to the Group Accounts on page 97.

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

- The Group Movement in Reserves Statement shows the movement in the year of the different reserves the Council holds, along with the movement in the Council's share of the reserves of its associates.
- The Group Comprehensive Income and Expenditure Statement combines the Income and Expenditure Figures for the Council with the Council's share of the operating results of each associate.
- The Group Balance Sheet brings together all the assets and liabilities of the group, and combines the Council's assets and liabilities with its share of each associate's net assets or liabilities.
- The notes to the Group Accounts give further information on the Council's group accounts.

FUTURE OUTLOOK

The outlook for all public sector organisations is challenging. The Council established a Transformation Board to oversee its major change programme. A key element of this is a 3 year programme of service reviews which have been set targets to identify potential savings of 15% for reviews completed to date and 20% for those reviews now underway. These reviews will be a key element in identifying the savings to balance the Council budget.

The Council has prepared budgets for the period to 2013-14 and is managing its budgetary position over this 3 year period. The Council's funding for 2011-12 reduced by 3.21% and increases of 0.4% have been assumed for 2012-13 and 2013-14. The table below summarises the Council revenue budget plan for the 3 years to 2013-14:

	2011-12	2012-13	2013-14
	£m	£m	£m
Base Expenditure Budget for Services	268.893	270.369	274.103
Budget Savings Agreed	(12.034)	(19.912)	(23.161)
Revenue Expenditure on Services	256.859	250.457	250.942
Estimated Severance Costs	5.295	4.166	1.852
Funding	(256.558)	(256.084)	(256.929)
Annual Surplus/(Deficit)	(5.596)	1.461	4.135

A proportion of the severance costs have been met during 2010-11. The overall financial profile in terms of the impact on the General Fund was a shortfall of £5.596m in 2011-12, which would be repaid in 2012-13 - £1.461m and 2013-14 - £4.135m resulting in a balanced budget over the 3 years. At the end of year 3 (2013-14), the Council should have a level of expenditure on services which should be sustainable going forward.

The 3 year capital plan has been agreed by the Council for the period to 2013-14. The capital plan estimates capital expenditure of £28.7m, £33.9m and £24.7m over 3 years with the funding assumptions being borrowing of £16.0m, £21.2m and £12.0m and capital grant of £12.7m in each year.

The Council in common with many other organisations is facing a period of significant financial challenge. However it moves forward from a sound financial base in terms of reserves and control of expenditure and with clear plans to maintain financial sustainability. The financial position will be monitored on an ongoing basis during 2011-12 and the revenue budget and capital plan reviewed for 2012-13.



Bruce West
Head of Strategic Finance
30 September 2011



Statement of Responsibilities for the Statement of Accounts

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), are required to show a true and fair view of the financial position of the Council as at 31 March 2011 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 show a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31 March 2011.

A handwritten signature in black ink, appearing to read 'Bruce West'.

Bruce West
Head of Strategic Finance
30 September 2011

BACKGROUND

Argyll and Bute Council conducts its business in accordance with the law and proper standards. The Council has a duty to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to the economic, efficient and effective use of public money.

In discharging these responsibilities, the Council has put in place proper arrangements for the governance of its affairs and the stewardship of the resources at its disposal. The Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles and reflects the requirements of the CIPFA/SOLACE Framework Note for Scottish Authorities – Delivering Good Governance in Local Government (2007).

A copy of the Code may be obtained from the Head of Governance and Law, Kilmory, Lochgilphead, PA31 8RT.

THE GOVERNANCE FRAMEWORK

The Code of Corporate Governance details how the Council will demonstrate compliance with the fundamental principles of Corporate Governance for public sector bodies to the following six headings:

- Focusing on the purpose of the Authority and on outcomes for the community, and creating and implementing a vision for the local area;
- Members and officers working together to achieve a common purpose with clearly defined functions and roles;
- Promoting values for the Authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
- Taking informed and transparent decisions which are subject to effective scrutiny, and managing risk;
- Developing the capacity and capability of members and officers to be effective;
- Engaging with local people and other stakeholders to ensure robust public accountability.

GOVERNANCE ROLES AND RESPONSIBILITIES

Argyll and Bute Council has put in place appropriate management and reporting arrangements to enable it to satisfy itself that its approach to corporate governance is adequate and effective in practice. The Director of Customer Services as Monitoring Officer has responsibility for:

- Overseeing the implementation of the Code of Corporate Governance and monitoring its operation;
- Reporting annually to the Council on compliance with the Code and any changes required to maintain it and ensure its effectiveness

Account has been taken of the results of reviews of internal control that have been carried out within each Council Service. Specific responsibilities are assigned to the Head of Strategic Finance to ensure that public funds are properly accounted for.

INTERNAL FINANCIAL CONTROL

In ensuring that an effective system of internal financial control is maintained and operated in connection with the resources concerned, this 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

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.

RISK MANAGEMENT

The Council's Risk Management and Business Continuity Strategy continues to be developed and the Head of Strategic Finance has reported regularly to the Audit Committee to assist in their assessment of internal control, risk and governance arrangements.

INTERNAL AUDIT

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 are 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.

The Internal Audit Manager provides the Audit Committee with an annual 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 governance and internal control.

ISSUES FOR FURTHER DEVELOPMENT

The review of governance and internal control has identified the following areas for further development, particularly in the context of the new management structure within the Council:

- The continued development of performance management throughout the Council by embedding links between corporate and service outcomes and the performance scorecards;
- Improving self assessment through the rollout of PSIF and using the results to drive continuous improvement;
- Further development of the approach to risk management integrated as part of planning and performance management framework;
- Ongoing development of asset management to improve the availability and use of performance management information for assets;
- Action the Corporate Governance Improvement Plan;
- Development of partnership agreements for key partners.

ASSURANCE

The review of the effectiveness of the system of governance and internal financial control is informed by:

- The work of officers within the Council;
- The work of Internal Audit as described above;
- The work of External Audit;
- The Statements of Governance and/or Internal Control provided by the bodies incorporated into our Group Accounts;
- External review and inspection reports; and
- Recommendations from the Audit Committee.

It is the Council's view that the systems for governance and internal control are operating effectively within Argyll and Bute Council and the aforementioned bodies during 2010-11 and that there are no significant weaknesses. This assurance is limited, however, to the work undertaken during the year and the evidence available at the time of preparing this statement.



CLlr Dick Walsh
Leader



Sally Loudon
Chief Executive



Bruce West
Head of Strategic Finance

30 September 2011

BACKGROUND

The Local Authority Accounts (Scotland) Amendment Regulations 2011 amend the Local Authority Accounts (Scotland) Regulations 1985 and require Scottish Local Authorities to prepare a Remuneration Report for the first time as part of its annual Financial Statements.

REMUNERATION POLICY AND ARRANGEMENTS

Councillors

The remuneration of councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007 (SSI No 2007/183). The Regulations provide for the grading of councillors for the purposes of remuneration arrangements, as the Leader of the Council, the Civic Head (Provost), senior councillors or councillors. The Leader of the Council and the Provost cannot be the same person for the purposes of payment of remuneration. A senior councillor is a councillor who holds a significant position of responsibility in the Council's political management structure.

When determining the level of remuneration for councillors the Scottish Ministers consider the recommendations of the Scottish Local Authority Remuneration Committee (SLARC). SLARC is an advisory Non-Departmental Public Body set up in 2005 to advise Scottish Ministers on the remuneration, allowances and expenses incurred by local authority councillors.

The Regulations also provide for the banding of local authorities – Argyll and Bute is in Band B, the Council has determined the level of remuneration for councillors within that banding. The salary that is to be paid to the Leader of the Council is set out in the Regulations. For 2010-11 the salary for the Leader of Argyll and Bute Council is £32,470. The Regulations permit the council to remunerate one Civic Head. The Regulations set out the maximum salary that may be paid to that Civic Head. The Council's Civic Head is The Provost and his remuneration is set at £24,353 which is the maximum allowed for Local Authorities in Band B.

The Regulations also set out the remuneration that may be paid to senior councillors in addition to the Leader and Civic Head and the total number of senior councillors the Council may have. The maximum yearly amount that may be paid to a senior councillor is 75 per cent of the total yearly amount payable to the Leader of the Council. The total yearly amount payable by the Council for remuneration of all its senior councillors shall not exceed £284,116. The Council is able to exercise local flexibility in the determination of the precise number of senior councillors up to a maximum of 14 and their salary within these maximum limits. The Council's policy is to pay the maximum salary of £24,353 to each appointed spokesperson and the Chair of the Protective Services and Licensing Committee. Chairs of Area Committees without a spokesperson's remit are paid a salary of £19,962. The Leader of the largest opposition group is paid a salary of £19,962.

In 2010-11 Argyll and Bute Council had 11 senior councillors for the period to 25 November 2010 and 12 senior councillors in the period from 6 December 2010 to 31 March 2011. The total remuneration for senior councillors during 2010-11 was £261,596. The Regulations also permit the Council to pay contributions or other payments as required to the Local Government Pension Scheme in respect of those councillors who elect to become councillor members of the pension scheme.

Senior Employees

The salary of senior employees is set by reference to national arrangements. The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services sets the salaries for the Chief Executives of Scottish local authorities. Circular CO/144 sets the amount of salary for the Chief Executive of Argyll and Bute Council for the period 2008 to 2011. The salaries of the Executive Directors and Heads of Service are based on a fixed percentage of the Chief Executive's salary in two bandings. Executive Directors receive 80% of the amount of the Chief Executive's salary and Heads of Service 75% of Executive Director's salary. This equates to Chief Officers Salary Scale Point (SCP) 43 for Executive Directors and SCP 29 for Heads of Service.

COUNCILLORS' REMUNERATION

Payments to councillors are made in accordance with the Local Government (Scotland) Act 2004 (Remuneration) Regulations 2007 and The Local Government (Allowances and Expenses) (Scotland) Regulations 2007.

The total amount of councillors' remuneration paid by the Council during the year was:

Members Allowances	2010-11	2009-10
	Actual £'000	Actual £'000
Basic Councillor Salaries	368	376
Senior Councillor Salaries (Includes Salary of Leader and Provost)	319	307
Other Expenses and Allowances paid to Members	180	175
Total Allowances	867	858

The annual return of councillors' salaries and expenses for 2010-11 is available for any member of the public to view at all Council libraries and public offices during normal working hours. It is also available on the Council's website at <http://www.argyll-bute.gov.uk/council-and-government/councillors-and-community-councillors>.

SENIOR COUNCILLORS' REMUNERATION

Additional disclosures are required for senior councillors' remuneration. Senior councillors' remuneration is in accordance with the Local Government (Scotland) Act 2004 (Remuneration) Regulations 2007 which for the purpose of remuneration, grades Councillors as either the Leader of the Council, The Civic Head (Provost), senior councillors or councillors.

Details of senior councillors' remuneration are as follows:

Senior Members	2010-11				2009-10
	Salary, Fees and Allowances £	Taxable Expenses £	Non-cash Expenses & Benefits-in-kind £	Total Remuneration £	Total Remuneration £
Provost - Councillor William Petrie	24,353	580	-	24,933	24,365
Leader - Councillor Dick Walsh	32,470	2,067	-	34,537	34,158
Education and Lifelong Learning Spokesperson - Councillor Isobel Strong (to 25-11-10)	17,303	-	-	17,303	25,294
Education and Lifelong Learning Spokesperson - Councillor Ellen Morton (from 06-12-10)	7,022	-	-	7,022	-
Leader of the Opposition - Councillor Ellen Morton (to 25-11-10)	14,183	-	-	14,183	16,284
Economy, Environment and Rural Affairs Spokesperson - Councillor Robert Macintyre (to 25-11-10)	17,303	-	-	17,303	25,106
Leader of the Opposition - Councillor Robert Macintyre (from 06-12-10)	5,804	262	-	6,066	-
Housing and Communities Spokesperson - Councillor George Freeman (to 25-11-10)	17,303	526	-	17,829	25,400
Transport and Infrastructure Spokesperson - Councillor Duncan MacIntyre	24,353	333	-	24,686	24,851
Islands and European Affairs Spokesperson (to 06-12-10), European Issues Spokesperson (from 06-12-10) - Councillor Len Scoullar	24,353	440	-	24,793	23,876

Senior Members	2010-11				2009-10
	Salary, Fees and Allowances £	Taxable Expenses £	Non-cash Expenses & Benefits-in-kind £	Total Remuneration £	Total Remuneration £
Rural and Island Affairs, Housing and Gaelic Spokesperson - Councillor Robin Currie (from 06-12-10)	7,022	-	-	7,022	-
Social Services Spokesperson - Councillor Donald McIntosh (to 25-11-10)	17,303	122	-	17,425	24,373
Social Services Spokesperson - Councillor Andrew Nisbet (from 06-12-10)	7,022	-	-	7,022	-
Third Sector Spokesperson - Councillor John Semple (to 25-11-10)	17,303	645	-	17,948	20,595
Third Sector and Communities Spokesperson - Councillor Rory Colville (from 06-12-10)	7,022	-	-	7,022	-
Enterprise, Energy, Culture and Tourism Spokesperson - Councillor Neil MacKay (from 06-12-10)	7,022	-	-	7,022	-
Chair - Helensburgh and Lomond Area Committee - Vivien Dance (from 06-12-10)	5,756	-	-	5,756	-
Chair - Bute and Cowal Area Committee - Councillor Bruce Marshall	21,205	535	-	21,740	20,440
Spokesperson for Environment - Councillor Bruce Marshall (from 06-12-10)					
Chair - Mid Argyll, Kintyre & Islands Area Committee - Councillor Donald MacMillan	19,962	-	-	19,962	19,978
Chair - Protective Services and Licensing Committee - Councillor Daniel Kelly	24,353	368	-	24,721	24,165

EMPLOYEES' REMUNERATION

The Local Authority Accounts (Scotland) Regulations 1985 (Amended 2011) requires local authorities to provide an analysis of the number of employees whose remuneration in the year was £50,000 or more, including those classified as senior employees who are subject to separate disclosure requirements. The definition of remuneration includes all sums paid to or receivable by an employee, expense allowances chargeable to tax and the monetary value of benefits received other than in cash. This definition therefore includes all payments made in respect of agreed employment terminations or retirements. However, employer pension contributions are excluded from the definition.

Readers should be aware when making comparisons between years that, due to contractual incremental pay increases, the number of employees covered by this disclosure will increase each year. In addition, payments made in respect of agreed employment terminations or retirements can also distort the number and/or banding of employees.

The number of employees whose remuneration, excluding employer pension contributions and including redundancy/retirement payments, that was £50,000 or more in bands of £5,000 was:

Range £	2010-11 Number of Officers	2009-10 Number of Officers
£50,000 - £54,999	29	39
£55,000 - £59,999	21	9
£60,000 - £64,999	4	4
£65,000 - £69,999	18	16
£70,000 - £74,999	2	1
£75,000 - £79,999	4	4
£80,000 - £84,999	1	2
£85,000 - £89,999	-	1
£90,000 - £94,999	2	2
£95,000 - £99,999	-	-
£100,000 - £104,999	-	-
£105,000 - £109,999	-	-
£110,000 - £114,999	1	1
£115,000 - £119,999	1	-
£150,000 - £154,999	-	1
£155,000 - £159,999	-	-
£210,000 - £214,999	-	1
Total	83	81

As a result of the ongoing Council modernisation programme a number of senior officers received redundancy payments during 2009-10. This was ongoing during 2010-11 and the employees above include a number of employees receiving redundancy payments.

SENIOR EMPLOYEES' REMUNERATION

The Local Authority Accounts (Scotland) Regulations 1985 (Amended 2011) requires the separate disclosure and analysis of remuneration for senior employees (defined by the regulations) as those employees forming part of the Council's senior management team, or holding certain statutory posts, whose salary is over £50,000 and any additional employee whose salary is over £150,000).

In 2010-11 there were no employees earning more than £150,000.

The following table sets out the remuneration disclosures for 2010-11 for senior officers:

Post Holder	Salary	Taxable Expenses	Benefits	Total Remuneration 2010/11	Total Remuneration 2009-10
	(Including Fees and Allowances)		other than in cash		
	£	£	£	£	£
Chief Executive - Sally Loudon	116,317	1,922	-	118,239	115,549
Director of Community Services - Cleland Sneddon (from 17-05-10) <i>(Full year equivalent)</i>	77,082 <i>(92,625)</i>	1,260	-	78,342 <i>(92,625)</i>	- -
Director of Customer Services (2010-11), Director of Community Services (2009-10) Douglas Hendry	92,515	658	-	93,173	90,970
Director of Development and Infrastructure Services - Sandy MacTaggart (from 01-04-10)	91,790	643	-	92,433	-
Head of Strategic Finance (Section 95 Financial Officer) - Bruce West	68,539	770	-	69,309	67,623
Head of Children and Families (Section 3 Social Work Officer) - Dougie Dunlop	68,764	414	-	69,178	67,542
Head of Improvement and HR - Jane Fowler (from 01-07-09) <i>(Full year equivalent)</i>	68,764	-	-	68,764	47,358 <i>(66,944)</i>

The Chief Executive's salary of £116,317 includes £3,241 of remuneration for acting as Returning Officer during 2010-11.

The senior employees included in the table include any local authority employee:

- Who has responsibility for management of the local authority to the extent that the person has power to direct or control the major activities of the authority (including activities involving the expenditure of money), during the year to which the Report relates, whether solely or collectively with another person;
- Who holds a post that is politically restricted by reason of section 2(1) (a), (b) or (c) of the Local Government and Housing Act 1989; or
- Whose annual remuneration is £150,000 or more.

PENSION BENEFITS

Pension benefits for councillors and local government employees are provided through the Local Government Pension Scheme (LGPS).

Councillors' pension benefits are based on career average pay. The councillor's pay for each year or part year ending 31 March (other than the pay in the final year commencing 1 April) is increased by the increase in the cost of living, as measured by the appropriate index (or indices) between the end of that year and the last day of the month in which their membership of the scheme ends. The total of the revalued pay is then divided by the period of membership to calculate the career average pay. This is the value used to calculate the pension benefits.

For local government employees this is a final salary pension scheme. This means that pension benefits are based on the final year's pay and the number of years that person has been a member of the scheme.

The scheme's normal retirement age for both councillors and employees is 65.

From 1 April 2009 a five tier contribution system was introduced with contributions from scheme members being based on how much pay falls into each tier. This is designed to give more equality between the cost and benefits of scheme membership. Prior to 2009 contributions rates were set at 6% for all non manual employees.

The tiers and members contribution rates for 2010-11 remain at the 2009-10 rates (due to negative increase in the cost of living index for 2010-11) and are as follows:

Whole time pay	Contribution Rate	
	2010-11	2009-10
On earnings up to and including £18,000	5.50%	5.50%
On earnings above £18,000 and up to £22,000	7.25%	7.25%
On earnings above £22,000 and up to £30,000	8.50%	8.50%
On earnings above £30,000 and up to £40,000	9.50%	9.50%
On earnings above £40,000	12.00%	12.00%

If a person works part-time their contribution is worked out on the whole-time pay rate for the job, with actual contributions paid on actual pay earned.

There is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for lump sum up to the limit set by the Finance Act 2004. The accrual rate guarantees a pension based on 1/60th of final pensionable salary and years of pensionable service. (Prior to 2009 the accrual rate guaranteed a pension based on 1/80th and a lump sum based on 3/80th of final pensionable salary and years of pensionable service).

The value of the accrued benefits has been calculated on the basis of the age at which the person will first become entitled to receive a full pension on retirement without reduction on account of its payment at that age; without exercising any option to commute pension entitlement into a lump sum; and without any adjustment for the effects of future inflation.

The pension figures shown relate to the benefits that the person has accrued as consequence of their local government service, and not just their current appointment.

SENIOR COUNCILLORS' PENSION BENEFITS

The pension entitlements for senior councillors for the year to 31 March 2011 are shown in the table below, together with the contribution made by the Council to each senior councillors' pension during the year.

Senior Members	In-year pension contributions			Accrued pension benefits	
	For year to 31 March 2011 £	For year to 31 March 2010 £		As at 31 March 2011 £	Difference from 31 March 2010 £
Education and Lifelong Learning Spokesperson (from 06-12-10) and Leader of the Opposition (to 25-11-10) - Councillor Ellen Morton	3,844	3,334	<i>Pension</i>	1,078	384
			<i>Lump Sum</i>	1,350	124
Housing and Communities Spokesperson - Councillor George Freeman (to 25-11-10)	3,983	4,205	<i>Pension</i>	1,398	425
			<i>Lump Sum</i>	1,752	32
Islands and European Affairs Spokesperson (to 06-12-10), European Issues Spokesperson (from 06-12-10) - Councillor Len Scoullar	4,414	4,072	<i>Pension</i>	1,199	450
			<i>Lump Sum</i>	1,503	178
Rural and Island Affairs, Housing and Gaelic Spokesperson - Councillor Robin Currie (from 06-12-10)	3,365	2,803	<i>Pension</i>	791	332
			<i>Lump Sum</i>	627	50
Social Services Spokesperson - Councillor Andrew Nisbet (from 06-12-10)	3,365	2,803	<i>Pension</i>	904	337
			<i>Lump Sum</i>	972	74
Third Sector Spokesperson Councillor John Semple (to 25-11-10)	3,983	3,953	<i>Pension</i>	1,144	400
			<i>Lump Sum</i>	1,434	119
Third Sector and Communities Spokesperson - Councillor Rory Colville (from 06-12-10)	3,365	2,803	<i>Pension</i>	992	341
			<i>Lump Sum</i>	1,243	92
Enterprise, Energy, Culture and Tourism Spokesperson - Councillor Neil MacKay (from 06-12-10)	3,365	2,803	<i>Pension</i>	777	321
			<i>Lump Sum</i>	973	166
Chair - Helensburgh and Lomond Area Committee - Vivien Dance (from 06-12-10)	3,135	2,803	<i>Pension</i>	973	322
			<i>Lump Sum</i>	1,219	68
Chair - Bute and Cowal Area Committee and Spokesperson for the Environment (from 06- 12-10)- Councillor Bruce Marshall	3,844	3,447	<i>Pension</i>	1,084	385
			<i>Lump Sum</i>	1,358	122

The pension benefits shown relate to the benefits that the individual has accrued as a consequence of their total local government service and not just their current appointment.

SENIOR EMPLOYEES' PENSION BENEFITS

The pension entitlements for senior employees for the year to 31 March 2011 are shown in the table below, together with the contribution made by the Council to each senior employee's pension during the year.

Senior Officers	In-year pension contributions			Accrued pension benefits	
	For year to 31 March 2011 £	For year to 31 March 2010 £		As at 31 March 2011 £	Difference from 31 March 2010 £
Chief Executive - Sally Loudon	21,085	19,525	<i>Pension</i>	28,399	2,662
			<i>Lump Sum</i>	73,567	2,012
Director of Community Services - Cleland Sneddon (from 17-05-10)	14,028	-	<i>Pension</i>	20,949	-
			<i>Lump Sum</i>	55,135	-
Director of Customer Services - Douglas Hendry	16,812	15,594	<i>Pension</i>	33,954	2,322
			<i>Lump Sum</i>	91,624	1,234
Director of Development and Infrastructure Services - Sandy MacTaggart (from 01-04-10)	16,619	-	<i>Pension</i>	9,338	3,628
			<i>Lump Sum</i>	18,850	5,070
Head of Strategic Finance (Section 95 Financial Officer) - Bruce West	12,448	11,547	<i>Pension</i>	26,066	1,741
			<i>Lump Sum</i>	71,358	1,723
Head of Children and Families (Section 3 Social Work Officer) - Dougie Dunlop	12,437	11,553	<i>Pension</i>	21,764	1,647
			<i>Lump Sum</i>	58,430	1,427
Head of Improvement and HR - Jane Fowler	12,437	8,192	<i>Pension</i>	18,076	6,390
			<i>Lump Sum</i>	47,368	14,678

The pension benefits shown relate to the benefits that the individual has accrued as a consequence of their total local government service and not just their current appointment.



CLr Dick Walsh
Leader



Sally Loudon
Chief Executive

30 September 2011

Statement of Movement in Reserves

	Usable Reserves (Note 30)				Unusable Reserves (Note 29)							Total Reserves £'000
	General Fund Balance £'000	Repairs and Renewals Fund £'000	Capital Funds £'000	Total Usable Reserves £'000	Revaluation Reserve £'000	Capital Adjustment Account £'000	Pensions Reserve £'000	Financial Instrument Adjustment Account £'000	Accumulated Absences Account £'000	Total Unusable Reserves £'000		
											£'000	
Movements in 2010-11												
Balance at 31 March 2010	(33,020)	(475)	(2,977)	(36,472)	(45,814)	(150,652)	107,969	6,378	7,064	(75,055)	(111,527)	
(Surplus)/Deficit on Provision of Services	(53,478)			(53,478)	(8,592)		(38,980)			(47,572)	(53,478)	
Other Comprehensive Expenditure and Income												
Total Comprehensive Expenditure and Income	(53,478)	0	0	(53,478)	(8,592)	0	(38,980)	0	0	(47,572)	(101,050)	
Adjustments between accounting basis and funding basis under regulations:												
Adjustment between CAA and Revaluation Reserve for depreciation that is related to the revaluation balance rather than historic cost.				-	2,748	(2,748)					-	
Amortisation of Intangible Assets	(127)			(127)		127				127	-	
Depreciation and Impairment of Non-current Assets	(19,570)			(19,570)		19,570				19,570	-	
Capital Grants and Contributions credited to the Comprehensive Income and Expenditure Statement	7,094			7,094		(7,094)				(7,094)	-	
Capital Expenditure Charged to the General Fund	915			915		(915)				(915)	-	
Net Gain or Loss on Sale of Non-current Assets	(201)		(174)	(375)		375				375	-	
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	372			372				(372)		(372)	-	
Employee Benefits	(117)			(117)					117	117	-	
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under pension scheme regulations	42,762			42,762			(42,762)			(42,762)	-	
Statutory Repayment of Debt - Loans Fund Advances	20,416			20,416		(20,416)				(20,416)	-	
Statutory Repayment of Debt - Finance Leases	339			339		(339)				(339)	-	
Statutory Repayment of Debt - NPDO Finance Lease	1,787			1,787		(1,787)				(1,787)	-	
Total Statutory Adjustments	53,670	-	(174)	53,496	2,748	(13,227)	(42,762)	(372)	117	(53,496)	-	

Statement of Movement in Reserves

Net (Increase)/Decrease before Transfers to Other Statutory Reserves	192	-	(174)	18	(5,844)	(13,227)	(81,742)	(372)	117	(101,068)	(101,050)
Other Transfers required by Statute											
Transfer to/from Other Statutory Reserves	(145)	(22)	179	12		(12)				(12)	-
(Increase)/Decrease in Year	47	(22)	5	30	(5,844)	(13,239)	(81,742)	(372)	117	(101,080)	(101,050)
Balance at 31 March 2011 Carried Forward	(32,973)	(497)	(2,972)	(36,442)	(51,658)	(163,891)	26,227	6,006	7,181	(176,135)	(212,577)

This Statement shows the movement in the 2010-11 financial year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The '(Surplus) or Deficit on the provision of services' line shows the true economic cost of providing the authority's services, more details of which are shown in Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting purposes. The 'Net (Increase) /Decrease before transfers to Earmarked Reserves' line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

Statement of Movement in Reserves

	Usable Reserves (Note 29)				Unusable Reserves (Note 30)						Total Reserves £'000	
	Repairs and Renewals Fund		Capital Funds	Total Usable Reserves	Revaluation Reserve	Capital Adjustment Account	Pensions Reserve	Financial Instrument Adjustment Account	Accumulated Absences Account	Total Unusable Reserves		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000		
Comparative Movements in 2009-10												
Balance at 31 March 2009	(32,627)	(543)	(3,633)	(36,803)	(36,470)	(135,108)	32,517	6,750	6,873	(125,438)	(162,241)	
(Surplus)/Deficit on Provision of Services	(12,612)			(12,612)	(11,041)					0	(12,612)	
Other Comprehensive Expenditure and Income							74,367			63,326	63,326	
Total Comprehensive Expenditure and Income	(12,612)	0	0	(12,612)	(11,041)	0	74,367	0	0	63,326	50,714	
Adjustments between accounting basis and funding basis under regulations:												
Adjustment between CAA and Revaluation Reserve for depreciation that is related to the revaluation balance rather than historic cost.				-	1,697	(1,697)				-	-	
Amortisation of Intangible Assets	(102)			(102)						102	-	
Depreciation and Impairment of Non-current Assets	(20,425)			(20,425)		20,425				20,425	-	
Capital Grants and Contributions credited to the Comprehensive Income and Expenditure Statement	12,822			12,822		(12,822)				(12,822)	-	
Capital Expenditure Charged to the General Fund	443			443		(443)				(443)	-	
Net Gain or Loss on Sale of Non-current Assets	(562)		(114)	(676)		676				676	-	
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	372			372				(372)		(372)	-	
Employee Benefits	(191)			(191)					191	191	-	
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under pension scheme regulations	(1,085)			(1,085)			1,085			1,085	-	
Statutory Repayment of Debt - Loans Fund Advances	20,070			20,070		(20,070)				(20,070)	-	
Statutory Repayment of Debt - Finance Leases	399			399		(399)				(399)	-	
Statutory Repayment of Debt - NPDO Finance Lease	1,235			1,235		(1,235)				(1,235)	-	
Total Statutory Adjustments	12,976	-	(114)	12,862	1,697	(15,463)	1,085	(372)	191	(12,862)	-	

Statement of Movement in Reserves

Net (Increase)/Decrease before Transfers to Other Statutory Reserves	364	-	(114)	250	(9,344)	(15,463)	75,452	(372)	191	50,464	50,714
Other Transfers required by Statute											
Transfer to/from Other Statutory Reserves	(757)	68	770	81		(81)				(81)	-
(Increase)/Decrease in Year	(393)	68	656	331	(9,344)	(15,544)	75,452	(372)	191	50,383	50,714
Balance at 31 March 2010 Carried Forward	(33,020)	(475)	(2,977)	(36,472)	(45,814)	(150,652)	107,969	6,378	7,064	(75,055)	(111,527)

This Statement shows the movement in the 2009-10 financial year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The 'Surplus) or Deficit on the provision of services' line shows the true economic cost of providing the authority's services, more details of which are shown in Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting purposes. The 'Net (Increase) /Decrease before transfers to Earmarked Reserves' line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

Statement of Comprehensive Income and Expenditure

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

2009-10			Note	2010-11		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
104,895	8,975	95,920	Service	110,900	8,442	102,458
39,175	25,569	13,606	Education Services	40,024	25,465	14,559
12,023	2,355	9,668	Housing Services (Non-HRA)	13,649	2,629	11,020
20,904	4,414	16,490	Cultural and Related Services	21,812	4,223	17,589
26,774	7,090	19,684	Environmental Services	28,288	7,324	20,964
7,321	4,897	2,424	Roads and Transport Services	8,418	4,324	4,094
12,414	7,651	4,763	Trading Services	11,239	6,197	5,042
59,716	9,782	49,934	Planning and Development Services	63,461	12,549	50,912
6,017	160	5,857	Social Work	4,734	140	4,594
4,498	3	4,495	Central Services:	(37,260)	2	(37,262)
3,493	1,104	2,389	- Corporate and Democratic Core	2,549	1,106	1,443
11,089	-	11,089	- Non Distributed Costs	8,927	-	8,927
6,131	-	6,131	- Central Services to the Public	4,984	-	4,984
			Strathclyde Police Joint Board			
			Strathclyde Fire and Rescue Joint Board			
314,450	72,000	242,450	Net Cost of Services	281,725	72,401	209,324

Statement of Comprehensive Income and Expenditure

		201
Other Operating Income and Expenditure:		(82)
Net (Gain)/loss on Disposal of Long Term Assets	562	(82)
(Surplus)/deficit on trading undertakings	(40)	1,334
Other Operating Income and Expenditure:	979	7
	1,501	1,453
Financing and Investment Income and Expenditure:		
Interest Payable and Similar charges	18,608	18,070
Interest and Investment Income	(877)	(512)
Pension Interest Cost and Expected Return on Pensions Assets	3,203	(1,888)
	20,934	15,670
Taxation and Non-Specific Grant Income		
General Government Grants	(179,139)	(189,205)
Government Capital Grants and Other Capital Contributions	(13,246)	(7,494)
Non-domestic Rates Redistribution	(38,448)	(36,214)
Council Tax Income	(46,664)	(47,012)
	(277,497)	(279,925)
(Surplus)/Deficit on Provision of Services	(12,612)	(53,478)
(Surplus)/Deficit on revaluation of Long Term Assets	(11,041)	(8,592)
Actuarial (Gains)/Losses on Pension Assets/Liabilities	74,367	(38,980)
	63,326	(47,572)
Total Comprehensive Income and Expenditure	50,714	(101,050)

1 April 2009 £'000	31 March 2010 £'000	Note	31 March 2011	
			£'000	£'000
		Long Term Assets		
		Property Plant & Equipment		
280,766	297,041	15		
5,648	5,058	- Other Land and Buildings	301,804	
132,244	139,371	- Vehicles, Plant, Furniture and Equipment	5,713	
2,222	2,310	- Infrastructure Assets	145,554	
6,671	5,753	- Community Assets	2,440	
14,569	10,299	- Surplus Assets	12,137	
		- Assets Under Construction	8,597	
442,120	459,832	Property Plant & Equipment		476,245
308	420	Intangible Assets		365
1,052	1,090	Investment Property		1,290
964	935	Long-Term Debtors		975
444,444	462,277	Total Long Term Assets		478,875
		Current Assets		
107	116	Inventories	103	
19,924	17,522	Short Term Debtors (Net of Impairment)	15,256	
8,679	8,679	Assets Held for Sale	1,722	
7,313	3,350	Cash and Cash Equivalents	30,446	
36,023	29,667	Total Current Assets		47,527
		Current Liabilities		
(11,061)	(12,639)	Short-term Borrowing	(496)	
(38,949)	(40,242)	Short-term Creditors	(37,423)	
-	-	Capital Grant Receipts in Advance	(280)	
(1,086)	(1,088)	Provisions	(4,676)	
(1,634)	(1,724)	Other Short Term Liabilities	(1,546)	
(52,730)	(55,693)	Total Current Liabilities		(44,421)
		Long-term Liabilities		
(145,724)	(131,242)	Borrowing Repayable within a Period in Excess of 12 Months	(160,229)	
(86,384)	(84,660)	Other Long-term liabilities	(82,713)	
(871)	(853)	Provisions	(235)	
(32,517)	(107,969)	Other Long-term liabilities (Pensions)	(26,227)	
(265,496)	(324,724)	Total Long-term Liabilities		(269,404)
162,241	111,527	Total Assets less Liabilities		212,577

1 April 2009 £'000	31 March 2010 £'000	Note	31 March 2011	
			£'000	£'000
		Unusable Reserves		
36,470	45,814	29 - Revaluation Reserve	51,658	
135,108	150,652	- Capital Adjustment Account	163,891	
(6,750)	(6,378)	- Financial Instruments Adjustment Account	(6,006)	
(32,517)	(107,969)	- Pensions Reserve	(26,227)	
(6,873)	(7,064)	- Accumulated Absences Account	(7,181)	
125,438	75,055			176,135
		Usable Reserves		
3,633	2,977	30 - Capital Funds	2,972	
543	475	- Repairs and Renewals Funds	497	
32,627	33,020	- General Fund Balance	32,973	
36,803	36,472			36,442
162,241	111,527	Total Reserves		212,577

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories:

- The first category of reserves are usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and statutory limitations on their use (for example the capital receipts reserve that may only be used to fund capital expenditure or repay debt).
- The second category of reserves are those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold: and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

The financial statements were issued on 27 June 2011 and the audited financial statements were authorised for issue on 30 September 2011.



Bruce West
Head of Strategic Finance
30 September 2011

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

2009-10 £'000		Note	2010-11 £'000
(12,612)	Net (Surplus) or Deficit on the Provision of Services		(53,478)
(13,738)	Adjustments to net surplus or deficit on the provision of services for non-cash movements		29,101
10,197	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		4,639
(16,153)	Net Cash Flows from Operating Activities	35	(19,738)
5,299	Investing Activities	36	6,968
14,817	Financing Activities	37	(14,326)
3,963	Net Increase or Decrease in Cash and Cash Equivalents		(27,096)
(7,313)	Cash and Cash Equivalents at the beginning of the Reporting Period		(3,350)
(3,350)	Cash and Cash Equivalents at the end of the Reporting Period	23	(30,446)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 General Principles

The Statement of Accounts summarises the Authority's transactions for the 2010-11 financial year and its position at the year-end of 31 March 2011. The Authority is required to prepare an annual Statement of Accounts by the Local Authority Accounts (Scotland) Regulations 1985, which section 12 of the Local Government in Scotland Act 2003 require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2010-11 and the Best Value Accounting Code of Practice 2010-11, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

1.2 Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded for the income that might not be collected.

1.3 Cash and Cash Equivalents

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

In the Balance Sheet and Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

1.4 Changes in Accounting Policies, Estimates and Errors

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Changes in accounting estimates are accounted for prospectively, ie in the current and future years affected by the change.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances.

1.5 Charges to Revenue for Non-Current Assets

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

- Depreciation attributable to the assets used by the relevant service

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

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

1.6 Employee Benefits

1.6.1 Benefits Payable during Employment

Short-term benefits, such as wages and salaries, paid annual and sick leave, bonuses and non-monetary benefits (eg cars) for current employees, are recognised as an expense in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end and which employees can carry forward into the next financial year.

1.6.2 Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to either terminating the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

1.6.3 Post Employment 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:

a) 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.

b) 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 – current bid price
 - Unquoted securities – professional estimate

- Unitised securities – current bid price
- Property – market value
- The change in the net pension’s liability is analysed into seven components:
 - Current service cost – the increase in liabilities as a result of years service earned this year - allocated in the comprehensive Income and Expenditure Statement to the services for which the employees worked
 - Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
 - 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 the Finance and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
 - Expected return on assets – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long term return – credited to the Finance and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
 - Gains/losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited/credited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement 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 Pensions Reserve
 - Contributions paid to the Strathclyde Pension Fund – cash paid as employer’s contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

Statutory provisions limit the Council to raising council tax to cover the amounts payable by the Council Pension Fund in the year. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any amounts payable to the fund but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

1.6.4 Post Employment Discretionary Benefits

The Authority 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.

1.7 Events after the Reporting Period

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

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

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

1.8 Exceptional Items

When items of income and expenditure are material, their nature and amount are disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to the understanding of the Authority's financial performance.

1.9 Financial Liabilities

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

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

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of 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 Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority 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 Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

1.10 Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

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

Amounts recognised as due to the Authority are not credited to the Comprehensive Income and Expenditure Account until conditions attaching to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have been satisfied are carried on the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable to revenue grants/contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

When capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Account. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account once they have been applied.

1.11 Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential flow from the intangible asset to the Authority.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Authority's goods or services.

Intangible assets are measured initially at cost. Amounts are not revalued, as the fair value of the assets held by the Authority cannot be determined by reference to an active market. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service lines in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service lines in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

1.12 Interests in Companies and Other Entities

The Authority 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 Authority'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.

1.13 Inventories

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

1.14 Investment Properties

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the Balance. The gains and losses are therefore reversed out of the General fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

1.15 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

1.15.1 The Authority as Lessee

a) Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property – applied to write down the lease liability and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

The Authority is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

b) Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

1.15.2 The Authority as Lessor

a) Finance Leases

Where the Authority grants a finance lease over a property or an item of plant and equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal), matched by a debtor in the Balance Sheet.

Lease rentals receivable are apportioned between:

- A capital receipt for the disposal of the asset – applied to write down the Debtor (together with any premiums received), and
- Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and will be required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the movement in reserves statement. When the future rentals are received, the element for the capital receipt on disposal of the asset is used to write down the debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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

b) Operating Leases

Where the Authority grants an operating lease over a property or an item of plant and equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g., there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

1.16 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 2010-11 – 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 defined in BVACOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

1.17 Assets Held for Sale

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

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

When these criteria are met, assets within the category of *Property, Plant and Equipment* will be reclassified as *Assets Held for Sale*.

1.18 Property, Plant and Equipment

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

1.18.1 Recognition

Expenditure on the acquisition, creation, or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset’s potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

1.18.2 Measurement

Assets are initially measured at cost, comprising:

- The purchase price
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition will not increase the cash flows of the Authority. In the latter case, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Accounts. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

- Infrastructure assets and community assets – depreciated historical cost
- All other assets – fair value, determined the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost is used as a proxy for fair value.

Assets included in the balance sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, 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 Comprehensive Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service.

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.

1.18.3 Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve, the carrying amount of the asset is written down against the relevant service lines in the Comprehensive Income and Expenditure Statement

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant Service lines in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

1.18.4 Disposals

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an *Asset Held for Sale*. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

Assets that are to be abandoned or scrapped are not reclassified as *Assets Held for Sale*.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Disposal receipts are categorised as capital receipts. All capital receipts are credited to the Capital Fund, and can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

1.18.5 Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- Buildings – straight-line allocation over the useful life of the property as estimated by the valuer (20 to 50 years)
- Infrastructure – straight-line allocation over 40 years
- Vehicles, Plant and Equipment - straight-line allocation over the useful life of the asset as determined by a suitably qualified office (3 to 20 years)
- Vessels – straight line allocation over 25 years

Where an asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

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

1.19 Private Finance Initiative (PFI) and Similar Contracts

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. As the Council is deemed to control the services that are provided under its PFI schemes and as ownership of the fixed assets will pass to the Council at the end of the contracts for no additional charge, the Council carries the fixed assets used under the contracts on the balance sheet.

The original recognition of these fixed assets was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets.

Fixed assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- Fair value of the services received during the year, debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- Annual Finance cost – this is calculated by applying the implicit interest rate in the lease to the opening lease liability for the period, this is debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator.
- Lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

1.20 Provisions, Contingent Liabilities and Contingent Assets

1.20.1 Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation, and measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision set up in the balance sheet. Estimated settlements are reviewed at the end of each financial year and where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (eg from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the obligation is settled.

1.20.2 Contingent Liabilities

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

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

1.20.3 Contingent Assets

A contingent asset arises where an event has taken place that gives the Authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

1.21 Reserves

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

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments and retirement benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies above and Note 29 to the accounts.

1.21 VAT

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

2. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

Financial Reporting Standard (FRS) 30 – *Heritage Assets* will be adopted as part of the 2011-12 Code of Practice. This will be disclosed as a change in accounting policy.

Heritage assets are assets that are held and maintained by the Authority for their contribution to knowledge and culture. Heritage assets can have historical, artistic, scientific, geophysical or environmental qualities. Heritage assets are to be identified and recognised as a separate class of assets for the first time in the 2011-12 financial statements.

The carrying amount of assets expected to be reclassified as Heritage Assets in the 2011-12 financial statements is £1.142m. This figure mainly comprises works of art currently held at valuation within Property, Plant and Equipment as Community Assets. No significant revaluation gains or losses are expected on reclassification and there will be no material change to depreciation and impairment charged to the 2010-11 Comprehensive Income and Expenditure Statement.

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 1, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. Where a critical judgement has been made this is referred to in the relevant note to the core financial statements; however a summary of those with the most significant effect is detailed below:

Government Funding: There is a high degree of uncertainty about future levels of funding for local government. However, the Authority had determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.

Service Concessions: The Authority currently operates two Private Finance Initiative (PFI) or similar contracts which are accounted for as Service Concession arrangements under IFRIC12 – *Service Concession Arrangements*. The Authority has determined that in the case of the Schools NPDO contract the authority has control over the services provided through use of the schools and that a qualifying asset has been created. The appropriate accounting treatment is to bring the assets “on balance sheet” along with a finance lease liability.

The Authority also operates a Waste Management PPP contract. In this case the Council determined that a “qualifying asset” had not been created and that the Authority did not have significant control over the services being provided. The appropriate accounting treatment was therefore determined to be “off balance sheet” and that payments to the contractor are charged to the appropriate service line within the Comprehensive Income and Expenditure Account.

4. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

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

The items in the Authority’s Balance Sheet at 31 March 2011 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions															
<p>Property, Plant and Equipment</p>	<p>Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives.</p>	<p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.</p> <p>It is estimated that the annual depreciation charge for buildings would increase by £1.2m for every year that useful lives had to be reduced.</p>															
<p>Pensions Liability</p>	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied</p>	<p>The effects on the net pensions liability of changes in individual assumptions can be measured. The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out as follows:</p> <table border="1" data-bbox="826 103 1241 1014"> <thead> <tr> <th>Sensitivities at 31 March 2011</th> <th>Approx % Increase to Employer Obligation</th> <th>Approximate monetary amount £'000</th> </tr> </thead> <tbody> <tr> <td>0.5% decrease in real discount rate</td> <td>9%</td> <td>37,381</td> </tr> <tr> <td>1 year increase in member expectancy.</td> <td>3%</td> <td>12,269</td> </tr> <tr> <td>0.5% increase in salary increase rate</td> <td>3%</td> <td>10,294</td> </tr> <tr> <td>0.5% increase in pension increase rate</td> <td>6%</td> <td>24,468</td> </tr> </tbody> </table>	Sensitivities at 31 March 2011	Approx % Increase to Employer Obligation	Approximate monetary amount £'000	0.5% decrease in real discount rate	9%	37,381	1 year increase in member expectancy.	3%	12,269	0.5% increase in salary increase rate	3%	10,294	0.5% increase in pension increase rate	6%	24,468
Sensitivities at 31 March 2011	Approx % Increase to Employer Obligation	Approximate monetary amount £'000															
0.5% decrease in real discount rate	9%	37,381															
1 year increase in member expectancy.	3%	12,269															
0.5% increase in salary increase rate	3%	10,294															
0.5% increase in pension increase rate	6%	24,468															
<p>Arrears</p>	<p>At 31 March 2011, the Authority had a balance of sundry debtors of £2.467m. A review of significant balances suggested an allowance of 41.5% (£1.024m) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.</p>	<p>If collection rates were to deteriorate an increase of the allowance to 50% would increase the bad debt provision required by £0.210m</p>															

5. TRANSFERS TO/FROM EARMARKED RESERVES

The Council has ring-fenced £29.125m of the balance on the General Fund as follows:

Ring-fenced Balances	Balance 1 April 2010 £'000	Funds Used £'000	Contributions to Funds £'000	Balance 31 March 2011 £'000
PPP Smoothing Funds:				
Waste Management PPP	5,466	-	21	5,487
NPDO Affordability Funding	10,527	-	41	10,568
Provision for Future Severance Costs to be repaid to Smoothing Fund in Future Years	-	(728)	-	-728
Total Ring-fenced for PPP Smoothing Funds	15,993	(728)	62	15,327
Other Ring-fenced Balances:				
Revenue from Additional Council Tax on Second Homes (Strategic Housing fund)	6,953	(1,375)	1,788	7,366
Unspent Grants	1,044	(855)	139	328
Contributions Carried Forward	465	(217)	17	265
Unspent Budget Carried Forward	1,796	(1,659)	365	502
School Budget Carry Forwards	595	(595)	657	657
Unspent Budget Required for Existing Legal Commitments	258	(143)	-	115
CHORD	860	(466)	514	908
Process for Change	574	(248)	-	326
Additional Scottish Government Grant carried forward to 2011-12	-	-	2,455	2,455
Reserve Committed for 2011-12 Budget	-	-	876	876
Total Ringfenced	28,538	(6,286)	6,873	29,125
Unallocated	4,482	(634)		3,848
Total General Fund Balance	33,020	(6,920)	6,873	32,973

The unallocated balance of £3.848m is 1.5% of the Council's budgeted net expenditure for 2011-12.

6. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice. However, decisions about resource allocation are taken by the Council's Strategic Management Team on the basis of budgets analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- No charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement)
- The cost of retirement benefits is based on cash flows, (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year
- Certain costs are deemed to be outwith departmental control and are therefore reported separately to management, for example insurances across the Council.

6.1 Departmental Information for the year ended 31 March 2011

The income and expenditure of the Authority's principal departments recorded in the budget reports for the 2010-11 year is as follows:

Departmental Income and Expenditure 2010-11	Community Services £'000	Development and Infrastructure Services £'000	Customer Services £'000	Chief Executive's Unit £'000	Total £'000
Fees, Charges and Other Service Income	(19,861)	(41,693)	(21,971)	(373)	(83,898)
Government Grants	(3,133)	-	(22,673)	-	(25,806)
Total Income	(22,994)	(41,693)	(44,644)	(373)	(109,704)
Employee Expenses	88,392	23,502	17,483	5,846	135,223
Other Operating Expenses	75,173	54,288	58,718	1,840	190,019
Support Service Recharges					-
Total Operating Expenses	163,565	77,790	76,201	7,686	325,242
Net Cost of Services	140,571	36,097	31,557	7,313	215,538

During 2009-10 the Authority was restructured and moved from four departmental directors to three executive directors with an individual departmental remit. Budget monitoring reports were therefore issued on the previous departmental structure during 2009-10 and therefore comparative year figures are not available.

6.2 Reconciliation to Net Cost of Services in Comprehensive Income and Expenditure Statement

The reconciliation below shows how the figures in the analysis of departmental income and expenditure relate to the total Net Cost of Services in the Comprehensive Income and Expenditure Statement.

	2010-11 £'000
Cost of Services in Service Analysis	215,538
Add Services not included in Main Analysis	23,047
Add Amounts not Reported to Management	(27,667)
Remove Amounts Reported to Management not Included in Comprehensive Income and Expenditure Statement	(1,594)
Net Cost of Services in Comprehensive Income and Expenditure Statement	209,324

6.3 Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of departmental income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2010-11	Service Analysis £'000	Services not in Analysis £'000	Not Reported to Management £'000	Not Included in I&E £'000	Total Net Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, Charges and Other Service Income	(83,898)	(81)		170	(83,809)	(71)	(83,880)
Surplus or Deficit on Associated and Joint Ventures	-				-	(82)	(82)
Interest and Investment Income	-				-	(2,400)	(2,400)
Income from Council Tax	-				-	(47,012)	(47,012)
Government Grants and Contributions	(25,806)				(25,806)	(232,913)	(258,719)
Total Income	(109,704)	(81)	-	170	(109,615)	(282,478)	(392,093)
Employee Expenses	135,223	4,845	(35,773)		104,295		104,295
Other Service Expenses	190,019	2,897	(453)	(359)	192,104		192,104
Support Service Recharges	-		8,559		-		-
Depreciation, Amortisation and Impairment	-				8,559		8,559
Interest Payments	-				-	18,070	18,070
Precepts and Levies	-	15,386		(1,405)	13,981	1,405	15,386
Gain or Loss on Disposal of Assets	-				-	201	201
Total Operating Expenses	325,242	23,128	(27,667)	(1,764)	318,939	19,676	338,615
Surplus or Deficit on the Provision of Services	215,538	23,047	(27,667)	(1,594)	209,324	(262,802)	(53,478)

7. OTHER OPERATING INCOME AND EXPENDITURE

The expenditure of £1.334m shown in the Other Operating Income and Expenditure line on the Income and Expenditure Account consists of the requisition paid to Dunbartonshire and Argyll & Bute Joint Valuation Board of £1.405m offset by £0.071m of backdated VAT income received as a result of claims being made under "the Fleming" case law principle.

8. 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:

8.1 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.

Roads and Lighting Trading Account	2008-09	2009-10	2010-11	3 year Cumulative £'000
	Actual £'000	Actual £'000	Actual £'000	
Turnover	16,008	18,555	19,406	53,969
Expenditure	15,471	17,484	18,805	51,760
Net Surplus/(Deficit)	537	1,071	601	2,209

8.2 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 Catering and Cleaning Trading account returned a surplus of £0.306m in 2010-11; the reduction in surplus is a result of the one-off costs in 2010-11 for Equal Pay and severance which were not budgeted for. The trading objective is to break-even over a three year period, the trading account has achieved this objective with a 3 year surplus.

Catering and Cleaning Trading Account	2008-09	2009-10	2010-11	3 year Cumulative £'000
	Actual £'000	Actual £'000	Actual £'000	
Turnover	8,010	8,470	8,643	25,123
Expenditure	7,055	7,790	8,337	23,182
Net Surplus/(Deficit)	955	680	306	1,941

9. AGENCY INCOME

The Council have an ongoing agency agreement with Scottish Water to collect domestic water and sewerage charges. During 2010-11 income from this agreement amounted to £0.255m.

Agency Income	2010-11	2009-10
	Actual £'000	Actual £'000
Scottish Water	255	250
Total	255	250

10. COMMUNITY CARE HEALTH (SCOTLAND) ACT 2002

During 2010-11, under the Community Care and Health (Scotland) Act 2002, the Council continued to develop services which centred on joint working with the Argyll & Bute Community Health Partnership (CHP) and NHS Highland within the Argyll and Bute Health and Social Care Partnership.

The aspiration of the Partnership is to work together to fully integrate the delivery of health and social care services, focusing on achieving good outcomes for all those who use our services and have an efficient, cost effective and seamless delivery of service.

During 2010-11 the Partnership included provision of services to older people, supporting people with a learning disability and provision of support to adults who have a mental health difficulty.

Budgets are currently aligned which means that each Partner organisation holds their own element of the budget and records the income and expenditure that relates to the part of the service for which they are responsible.

During 2010-11 income received by the Council from this source amounted to £4.467m and the related expenditure was £5.836m. This can be analysed as follows:

Purpose of Services	Income £'000	Expenditure £'000
Care of the Elderly	1,616	2,194
Provision of Services for People with Learning Disabilities	2,172	2,934
Provision of Services for People with Mental Health Needs	679	708
Total	4,467	5,836

11. 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 £5.895m (2009-10 - £5.487m) which represents the value of the service provided from 1 April 2010 to 31 March 2011. Under the agreement the Council is committed to paying the following sums:

Future Repayment Periods	£'000
2011 - 2012	5,310
2012 - 2017	28,265
2017 - 2022	31,396
2022 - 2027	29,980
Total	94,951

This equates to £5.418m per annum over the life of the contract.

12. FEES PAYABLE TO AUDIT SCOTLAND

In 2010-11 the following fees relating to external audit and inspection were incurred:

Auditor's Remuneration	2010-11 £'000	2009-10 £'000
Fees payable to Audit Scotland with regard to external audit services carried out by the appointed Auditor	287	302
Total Remuneration	287	302

13. GRANT INCOME

The Authority credited the following grants to the Comprehensive Income and Expenditure Statement in 2010-11.

Grant Income	2010-11 £'000	2009-10 £'000
Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	189,205	179,139
Non Domestic Rates	36,214	38,448
Specific Capital Grant	154	164
General Capital Grant	6,381	10,843
Sport Scotland	11	124
SUSTRANS	477	951
Highlands and Islands Enterprise	28	-
Other Government Capital Grants	443	1,164
Total	232,913	230,833
Credited to Services		
Scottish Government Specific Grants	784	1,903
Specific Capital Grant - Private Sector Housing Improvement Grants	1,484	3,184
Housing Benefit Subsidy	21,776	19,908
Council Tax Benefit Subsidy	5,999	5,777
Other Revenue Government Grants	1,872	3,388
Total	31,915	34,160

14. RELATED PARTIES

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

14.1 Scottish Government

The Scottish Government has effective control over the general operations of the Authority – it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 6 on reporting for resource allocation decisions and also in Note 13 – Grant Income

14.2 Members

Members of the council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2010-11 is shown in the Remuneration Report on page 16.

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

Transactions in which Members have a significant interest	Income £'000	Expenditure £'000
Trident Taxis		63

14.3 Other Related Bodies

This category relates to transactions with other public bodies which are subject to common control by the Scottish Government and also other entities which are controlled or significantly influenced by the Authority.

During the year transactions with other related bodies were as follows:

Related Bodies:	Income £'000	Expenditure £'000
Transactions with related bodies during the year totalled	807	20,477
<i>Of these, transactions with the following exceeded £10,000:</i>		
Joint Boards		15,316
Strathclyde Partnership for Transport		733
Argyll Community Housing Association		125
Dunbritton Housing Association		849
West Highland Housing Association		400
Argyll, the Isles, Loch Lomond, Stirling and the Trossachs Tourist Board		209
Authorities Buying Consortium		70
Convention of Scottish Local Authorities (COSLA)		77
Cowal Council on Alcohol and Drugs		123
Dunoon and Cowal Youth Project		15
Helensburgh Addiction Rehabilitation Team		86
Islay and Jura Community Enterprise		105
Kintyre Alcohol and Drugs Advisory Service		26
Mid Argyll Community Enterprise		17
Criminal Justice Partnership	807	795
NHS		1,046
Oban Addiction Support and Information Services (OASIS)		48
Oban and Lorn Community Enterprise - Atlantis Leisure		410
Total	807	20,450

15. PROPERTY, PLANT AND EQUIPMENT

15.1 Movement in Property, Plant and Equipment

The movement on property, plant and equipment analysed by category in 2010-11 was:

Movements in 2010-11	Other Land & Buildings £'000	Vehicles Plant & Equipment £'000	Infra- structure Assets £'000	Community Assets £'000	Corporate Surplus Assets £'000	Assets Under Construction £'000	Total 2010-11 £'000
Cost or Valuation							
At 1 April 2010	312,534	16,171	176,743	2,318	6,573	10,299	524,638
Additions	4,657	2,229	4,683	130	-	9,502	21,201
Disposals	-	(898)	-	-	(495)	(4)	(1,397)
Reclassifications	4,988	368	5,755	-	9,073	(11,200)	8,984
Revaluations	(2,688)	-	-	-	(675)	-	(3,363)
At 31 March 2011	319,491	17,870	187,181	2,448	14,476	8,597	550,063
Depreciation and Impairments							
At 1 April 2010	(15,493)	(11,113)	(37,372)	(8)	(820)	-	(64,806)
Charge for 2010-11	(11,758)	(1,927)	(4,255)	-	(339)	-	(18,279)
Disposals	-	883	-	-	36	-	919
Reclassifications	-	-	-	-	(2,165)	-	(2,165)
Revaluations	9,564	-	-	-	949	-	10,513
At 31 March 2011	(17,687)	(12,157)	(41,627)	(8)	(2,339)	-	(73,818)
Balance Sheet amount at 1 April 2011	301,804	5,713	145,554	2,440	12,137	8,597	476,245
Balance Sheet amount at 1 April 2010	297,041	5,058	139,371	2,310	5,753	10,299	459,832

The comparative movement on property, plant and equipment analysed by category in 2009-10 was:

Comparative Movements in 2009-10	Other Land & Buildings £'000	Vehicles Plant & Equipment £'000	Infra- structure Assets £'000	Community Assets £'000	Corporate Surplus Assets £'000	Assets Under Construction £'000	Total 2010-11 £'000
Cost or Valuation							
At 1 April 2009	296,296	15,231	164,814	2,230	8,520	14,569	501,660
Additions	9,708	1,453	8,129	66	-	8,724	28,080
Disposals	(856)	(917)	-	-	-	(183)	(1,956)
Reclassifications	8,397	404	3,800	22	64	(12,811)	(124)
Revaluations	(1,011)	-	-	-	(2,011)	-	(3,022)
At 31 March 2010	312,534	16,171	176,743	2,318	6,573	10,299	524,638
Depreciation and Impairments							
At 1 April 2009	(15,530)	(9,583)	(32,570)	(8)	(1,849)	-	(59,540)
Charge for 2009-10	(10,962)	(2,441)	(4,802)	-	(159)	-	(18,364)
Disposals	185	911	-	-	-	-	1,096
Reclassifications	-	-	-	-	-	-	-
Revaluations	10,814	-	-	-	1,188	-	12,002
At 31 March 2010	(15,493)	(11,113)	(37,372)	(8)	(820)	-	(64,806)
Balance Sheet amount at 1 April 2010	297,041	5,058	139,371	2,310	5,753	10,299	459,832
Balance Sheet amount at 1 April 2009	280,766	5,648	132,244	2,222	6,671	14,569	442,120

15.2 Valuation of Property, Plant and Equipment

IAS 16 – Property, Plant and Equipment has been adapted for the public sector by IPSAS 17 – Property, Plant and Equipment. Under IPSAS 17 each category of property, plant and equipment is valued as follows:

- Infrastructure, community assets and assets under construction are valued at historical cost
- All other classes of assets are valued at fair value. Where there is no market based evidence of fair value because of the specialist nature of the asset and the asset is rarely sold then an estimate of fair value is made using a depreciated replacement cost approach.
- Vehicles, plant and equipment are valued at depreciated historical cost as a proxy for fair value.

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years.

Revaluations of council owned Land and Property were carried out at 31 March 2011 in accordance with the Council’s rolling programme of revaluations. The revaluations have been carried out by Hugh Blake, M.R.I.C.S, Estates Manager for Argyll and Bute Council. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

The following statement shows the progress of the Council’s rolling programme for the revaluation of property, plant and equipment:

	Other Land & Buildings £'000	Vehicles Plant & Equipment £'000	Infra- structure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total 2010-11 £'000
Carried at historical Cost		5,713	145,554	2,440		8,597	162,304
Valued at Fair Value as at:							
31 March 2011	62,574				899		63,473
31 March 2010	73,634				1,731		75,365
31 March 2009	21,702				345		22,047
31 March 2008	124,234				290		124,524
31 March 2007	19,660				8,872		28,532
Total Cost or Valuation	301,804	5,713	145,554	2,440	12,137	8,597	476,245

15.3 Summary of Capital Expenditure and Financing

Capital expenditure involves the creation of assets, the benefit of which will be available to future rates and council taxpayers. It is financed from borrowing, capital receipts and capital grants. The cost of the asset is effectively borne over a period of years. In 2010-11 total spending on capital projects was £21.201m.

	2010-11 £'000	2009-10 £'000
Opening Capital Financing Requirement	273,738	280,798
Capital Investment:		
Property Plant and Equipment:		
Other Land and Buildings	4,657	9,707
Vehicles, Plant, Furniture and Equipment	2,229	1,452
Infrastructure Assets	4,683	8,129
Community Assets	130	67
Surplus Assets	-	-
Assets Under construction	9,502	8,724
Property Plant and Equipment acquired under Finance Leases:		
Vehicles, Plant, Furniture and Equipment	-	-
Intangible Assets	-	91
Total Capital Investment	21,201	28,170
Sources of Finance:		
Capital Receipts	(159)	(114)
Government Grants	(7,095)	(12,822)
Capital Financed from Current Revenue	(915)	(443)
Repayment of External Loans	(20,416)	(20,070)
Capital Element of Finance Lease Payments	(338)	(399)
Capital Element of Schools NPDO Payments	(1,787)	(1,235)
Capital Receipts transferred to Capital Fund	159	114
Capital Receipts Used from Capital Fund	-	(33)
Other	(90)	(228)
Total Funding	(30,641)	(35,230)
Closing Capital Financing Requirement	264,298	273,738

15.4. Commitments under Capital Contracts

At 31 March 2011, the Council had commitments on capital contracts of £2.838m. This expenditure will be funded from a combination of government grants, borrowing, income from selling assets and contributions from Revenue Accounts. Similar commitments at 31 March 2010 were £4.519m. The major commitments are:

	£'000
Education	551
Social Work	400
Roads and Infrastructure	1,473
Other Buildings	316
Information Technology	98
Total	2,838

16. INTANGIBLE ASSETS

Intangible assets relate wholly to software licences purchased during the year and these are shown at cost. This cost is charged to the relevant service lines within the Comprehensive Income and Expenditure Account over the economic life of the licences, assessed as five years. The movement in intangible assets during the year was:

Movements in 2010-11	Purchased Software Licences 2010-11 £'000
Cost or Valuation	
At 1 April 2010	643
Additions	4
Disposals	-
Reclassifications	68
At 31 March 2011	715
Depreciation and Impairments	
At 1 April 2010	(223)
Charge for 2010-11	(127)
Disposals	-
At 31 March 2011	(350)
Balance Sheet amount at 1 April 2011	365
Balance Sheet amount at 1 April 2010	420

The comparative movement in intangible assets in 2009-10 was:

Comparative Movements in 2009-10	Purchased Software Licences 2009-10 £'000
Cost or Valuation	
At 1 April 2009	449
Additions	91
Disposals	(20)
Reclassifications	123
At 31 March 2010	643
Depreciation and Impairments	
At 1 April 2009	(141)
Charge for 2009-10	(102)
Disposals	20
At 31 March 2011	(223)
Balance Sheet amount at 1 April 2010	420
Balance Sheet amount at 1 April 2009	308

17. INVESTMENT PROPERTY

Investment property has been accounted for in accordance with IAS 4 - Investment Property, except where interpretations or adaptations to fit the public sector are detailed in the Code. The definition of an investment property in the context of the public sector is one that is used solely to earn rentals or for capital appreciation or both.

The value of investment property is initially measured at cost and thereafter measured at fair value. The fair value of investment property reflects market conditions at 31 March 2011. Revaluations of investment properties were carried out at 31 March 2011 by Hugh Blake, M.R.I.C.S, Estates Manager for Argyll and Bute Council.

17.1 Movement in Investment Property

The movement in investment property during 2010-11 was:

Movements in 2010-11	Investment Properties £'000
Cost or Valuation	
At 1 April 2010	1,090
Acquisitions	-
Disposals	-
Net Gains/Losses from fair value adjustments	200
Transfers	-
At 31 March 2011	1,290

The comparative movement in investment property during 2009-10 was:

Comparative Movements in 2009-10	Investment Properties £'000
Cost or Valuation	
At 1 April 2009	1,052
Net Gains/Losses from fair value adjustments	47
Transfers	(9)
At 31 March 2010	1,090

17.2 Investment Property Income and Expenditure

The following items of income and expenditure have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

	2010-11 £'000	2009-10 £'000
Rental Income from Investment Property	87	90
Direct operating expenses arising from investment property	-	-
Net gain/(loss)	87	90

18. SCHOOLS NON PROFIT DISTRIBUTING ORGANISATION (NPDO)

During 2007-08 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.

18.1 Assets Held under Schools NPDO Contract

Five schools were constructed under the Schools NPDO Contract; Hermitage Academy, Dunoon Grammar, Lochgilphead Joint Campus, Rothesay Joint Campus and Oban Primary Campus. The construction costs of the buildings, adjusted for revaluations on 31 March 2008 and depreciation to date, are included as part of Tangible Fixed Assets as follows.

Movements in 2010-11	Other Land & Buildings £'000
Cost or Valuation	
At 1 April 2010	87,573
Additions	-
Revaluations	-
At 31 March 2011	87,573
Depreciation and Impairments	
At 1 April 2010	(2,919)
Charge for 2010-11	(1,468)
Revaluations	-
At 31 March 2011	(4,387)
Balance Sheet amount at 1 April 2011	83,186
Balance Sheet amount at 1 April 2010	84,654

Comparative Movements in 2009-10	Other Land & Buildings £'000
Cost or Valuation	
At 1 April 2009	87,573
Additions	-
Revaluations	-
At 31 March 2010	87,573
Depreciation and Impairments	
At 1 April 2009	(1,459)
Charge for 2009-10	(1,460)
Revaluations	-
At 31 March 2010	(2,919)
Balance Sheet amount at 1 April 2010	84,654
Balance Sheet amount at 1 April 2009	86,114

18.2 Schools NPDO Finance Lease Liability

The finance lease liability arising from the Schools NPDO contract is as follows:

Movements in 2010-11		£'000
Balance at 1 April 2010		(85,096)
Repayments		1,787
Schools NPDO Finance Lease Liability at 31 March 2011		(83,309)
Split:		
Obligations payable within 1 year		(1,388)
Obligations payable after 1 year		(81,921)
Schools NPDO Finance Lease Liability at 31 March 2011		(83,309)

Comparative Movements in 2009-10		£'000
Balance at 1 April 2009		(86,331)
Repayments		1,235
Schools NPDO Finance Lease Liability at 31 March 2010		(85,096)
Split:		
Obligations payable within 1 year		(1,385)
Obligations payable after 1 year		(83,711)
Schools NPDO Finance Lease Liability at 31 March 2010		(85,096)

18.3 Payments due to Operator under Schools NPDO Contract

The Council is committed to paying the following sums under the Schools NPDO contract:

Future Repayment Periods	Repayment of Liability £'000	Lifecycle Costs £'000	Payment of Interest £'000	Service Charges £'000	Total Payments £'000
2011 - 2015	6,010	-	32,933	15,867	54,810
2015 - 2020	10,049	-	37,688	24,017	71,754
2020 - 2025	14,717	928	32,066	28,085	75,796
2025 - 2030	21,998	2,840	23,332	32,203	80,373
2030 - 2035	30,535	3,125	9,879	33,233	76,772
Total	83,309	6,893	135,898	133,405	359,505

19. FINANCE AND OPERATING LEASES

19.1 Finance Leases – Amounts Paid to Lessors

The Authority holds various vehicles under finance leases. The finance lease payment for the year amounted to £0.4m.

	2010-11 £'000	2009-10 £'000
Vehicles	400	375
Total	400	375

19.2 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 2010-11 were as follows:

	2010-11 £'000	2009-10 £'000
Land and Buildings	250	247
Vehicles	1,068	1,560
Plant and Equipment	61	170
Total	1,379	1,977

19.3 Assets Held Under Finance Leases

The following values of assets are held under finance leases by the Council, accounted for as part of long term assets.

Movements in 2010-11	Vehicles, Plant and Equipment £'000
Value at 1 April 2010	538
Additions	-
Depreciation	(338)
Value at 31 March 2011	200

Comparative Movements in 2009-10	Vehicles, Plant and Equipment £'000
Value at 1 April 2009	937
Additions	-
Depreciation	(399)
Value at 31 March 2010	538

Outstanding obligations to make payments under these finance leases (excluding finance costs) as at 31 March 2011, accounted for as part of other liabilities are as follows:

	Plant and Equipment £'000
Obligations payable within 1 year	158
Obligations payable between 1 and 5 years	42
Obligations payable after 2013-14	-
Total Liabilities at 31 March 2011	200

19.4 Assets Held Under Operating Leases

The Council was committed at 31 March 2011 to making payments of £1.04m under operating leases in 2011-12 comprising the following elements:

	Other Land and Buildings £'000	Vehicles, Plant and Equipment £'000
Leases expiring within 1 year	13	231
Leases expiring between 1 and 5 years	5	619
Leases expiring after 5 years	172	-
Value at 31 March 2011	190	850

20. LONG TERM DEBTORS

	31st March 2011 £'000	31st March 2010 £'000	31st March 2009 £'000
House Loans	125	185	214
Waste PPP Historic Contamination Fund	750	750	750
Other Long Term Debtors	100	-	-
Total Long Term Debtors	975	935	964

21. DEBTORS

		31 March 2011		31 March 2010	31 March 2009
		£'000	£'000	£'000	£'000
Arrears of Local Taxation	Council Tax	11,579		11,452	12,285
	Less: Provision for Bad Debts	(9,390)		(9,112)	(9,855)
			2,189	2,340	2,430
	Community Charge	7,551		7,550	7,554
	Less: Provision for Bad Debts	(7,551)		(7,550)	(7,554)
			-	-	-
Housing Benefits Overpayments		878		787	787
Less: Provision for Bad Debts		(552)		(457)	(454)
			326	330	333
Debtor Accounts		2,467		6,184	4,713
Less: Provision for Bad Debts		(1,024)		(1,079)	(958)
			1,443	5,105	3,755
Net Debtor to Scottish Government for Non Domestic Rates			1,355	961	680
VAT Recoverable from HMRC			3,130	2,149	2,638
Other Debtors			6,813	6,637	10,088
Total Debtors			15,256	17,522	19,924

22. ASSETS HELD FOR SALE

	2010-11 £'000	2009-10 £'000
Balance outstanding at start of year	8,679	8,679
Assets newly classified as held for sale (Property, Plant and Equipment)	1,670	-
Revaluation losses	(66)	-
Revaluation gains		
Impairment losses		
Assets declassified as held for sale (Property, Plant and Equipment)	(8,561)	-
Assets Sold		
Balance outstanding at year-end	1,722	8,679

23. CASH AND CASH EQUIVALENTS

The balance of Cash and Cash Equivalents is made up of the following elements:

	31 March 2011 £'000	31 March 2010 £'000	31 March 2009 £'000
Cash held by the Authority	62	62	60
Cash in transit	43	87	44
Short term deposits with banks and building societies	34,836	6,645	13,060
Bank Current Accounts (Overdraft)	(4,495)	(3,444)	(5,851)
Total Cash and Cash Equivalents	30,446	3,350	7,313

24. CREDITORS

	31 March 2011 £'000	31 March 2010 £'000	31 March 2009 £'000
Loans Fund Interest	1,255	1,517	1,536
Accrued Payrolls and Superannuation	6,470	6,556	5,973
Accrued Employer's National Insurance Contributions and PAYE	2,598	2,499	2,423
Accrual for Short Term Accumulating Absences	7,181	7,064	6,873
Creditors System Liability	5,961	6,932	7,468
Accrued Expenditure	6,456	7,782	4,436
Other Creditors	7,502	7,892	10,240
Total Creditors	37,423	40,242	38,949

25. FINANCIAL INSTRUMENTS DISCLOSURES

25.1 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":

	31 March 2011		31 March 2010		31 March 2009	
	Long Term £'000	Current £'000	Long Term £'000	Current £'000	Long Term £'000	Current £'000
Investments and Lending						
Loans and Receivables	975	45,702	933	24,317	963	33,088
Borrowing						
Financial Liabilities at amortised cost	242,942	39,464	215,538	50,935	232,058	50,562

25.2 Fair Value of Assets and Liabilities carried at Amortised Cost

Financial assets (represented by lending and receivables) and financial liabilities (represented by borrowings) 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 2011 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, the 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 2011		31 March 2010		31 March 2009	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Lending						
Loans and Receivables	46,667	46,103	25,250	25,250	34,051	34,096
Borrowing						
Financial Liabilities	282,406	309,325	266,473	305,931	282,620	321,248

The fair value of the Authority's lending is the same as the carrying value at 31 March 2010 because the lending was at variable interest rates whilst the fair value is less than the carrying amount at 31 March 2011 because the Council's lending 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 receive interest above current market rates increases the amount that the Council would receive if it agreed to early repayment of the loans.

25.3 Gains and Losses on Financial Instruments

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

25.4 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.

25.5 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 2011 £'000	Historical Experience of Non- payment adjusted for Market Conditions at 31 March 2011 %	Estimated Maximum Exposure to Default and Uncollectibility £'000
Deposits with Banks, Building Societies and Local Authorities	34,836	-	-

The information in respect of the Council's debtors can be found in note 20 and 21. The Debtor Accounts represents the amounts owed by the Council's customers; Other Debtors include prepaid expenditure, accrued income and money owed to the Council in respect of projects being carried out under partnerships where the Council is the lead partner. The bad debt provision shown in note 21 represents the Council's assessment of the likely recoverability of the debt outstanding.

The credit risk around unprovided for debt is considered to be low. Debtors relate to the normal business of the council and credit is issued on the council's standard credit terms. There are no significant amounts past due but not impaired where recoverability is considered to be an issue.

25.6 Liquidity Risk

The Council's main source of borrowing is the Treasury's Public Works Loans Board (PWLb). 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:

	31 March 2011 £'000	31 March 2010 £'000	31 March 2009 £'000
The maturity analysis of financial liabilities is as follows:			
Less than one year	39,464	50,935	50,562
Between one and two years	1,427	1,589	13,739
Between two and five years	23,116	6,287	4,363
More than five years	218,399	207,662	213,956

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.

25.7 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 2011, with all other variables held constant.

	31 March 2011 £'000	31 March 2010 £'000
Impact on tax-payer		
Increase on interest payable on variable rate borrowings	5	6
Increase in interest receivable on variable rate lending	-	-
Increases in government grant receivable for "loan charges"	-	-
Net effect on Comprehensive Income & Expenditure Account	5	6

	31 March 2011 £'000	31 March 2010 £'000
Other accounting presentational changes		
A decrease in the "fair value" of fixed rate borrowing (disclosure confined to the notes to the financial statements)	22,736	22,463

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

25.8 Price Risk

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

25.9 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.

25.10 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 2011 £'000	31 March 2010 £'000	31 March 2009 £'000
Banks	34,836	6,645	13,060

25.11 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 2011 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 33 and 34 on pages 79-80.

	31 March 2011 £'000	31 March 2010 £'000	31 March 2009 £'000
Common Good	101	97	106
Trust Funds	1,219	1,207	1,195

26. OTHER LIABILITIES

Other liabilities consist of liabilities which by arrangement are payable at some point in the future or paid off by an annual sum over a period of time. Other liabilities total £84.260m as at 31 March 2011 and comprise the following:

	Opening Balance 31 March 2010 £'000	Movement in Year £'000	Closing Balance 31 March 2011 £'000
Movements in 2010-11			
Finance Lease Liability (See note 19.3)	(538)	338	(200)
Schools NPDO Finance Lease Liability (See note 18.2)	(85,096)	1,787	(83,309)
Land Contamination	(750)	-	(750)
Total Other Liabilities	(86,384)	2,125	(84,259)
Split:			
Short Term Liabilities (due within 1 year)			(1,546)
Long Term Liabilities (due after 1 year)			(82,713)
Total Other Liabilities			(84,259)

	Opening Balance 31 March 2009 £'000	Movement in Year £'000	Closing Balance 31 March 2010 £'000
Comparative Movements in 2009-10			
Finance Lease Liability (See note 19.3)	(937)	399	(538)
Schools NPDO Finance Lease Liability (See note 18.2)	(86,331)	1,235	(85,096)
Land Contamination	(750)	-	(750)
Total Other Liabilities	(88,018)	1,634	(86,384)
Split:			
Short Term Liabilities (due within 1 year)			(1,724)
Long Term Liabilities (due after 1 year)			(84,660)
Total Other Liabilities			(86,384)

27. PROVISIONS

	Opening Balance 31 March 2010 £'000	Additional Provision £'000	Amounts Used £'000	Unused Amounts Reversed £'000	Closing Balance at 31 March 2011 £'000
SRC Insurance Claims	(39)		17		(22)
Equal Pay Claims	(163)	(590)		163	(590)
Single Status Provision	(571)	(911)	571		(911)
Income due to Registered Social Landlords	(78)	(10)			(88)
Reorganisation Redundancy Costs	(401)	(3,134)	336		(3,199)
Care Charges Provision	(116)		15		(101)
Operational Services - various provisions	(573)			573	-
Total Provisions	(1,941)	(4,645)	939	736	(4,911)
Split:					
Short Term Provisions (due within 1 year)					(4,676)
Long Term Provisions (due after 1 year)					(235)
Total Other Liabilities					(4,911)

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 £0.022m. 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. The Council is nearing agreement on the final settlement for Equal Pay claims. A reliable estimate of the liability could be made for those claims where settlement offers have been made and as such a provision has been created providing for the full cost of these claims. There are further outstanding claims where the settlement amount cannot be estimated reliably enough to provide for the costs.

During 2007-08 the Council implemented a new Pay and Grading Model and also revised Terms and Conditions. Some 580 staff appealed the determination of their allocated grade under single status arrangements. If an appeal was successful then any pay differential would be back-dated to 1 April 2006. A provision was created during 2009-10 to fund the backdated pay element for all of the remaining 99 appeals at that time, all of these appeals were settled during 2010-11. Following on from the completion of the appeals process the Council undertook a review of each of the successful single status appeals which resulted in an increase in pay grade and assessed the multiple post holders who are identical to the successful appellant and therefore would have a claim on the higher grade for the post. As a result of this exercise 1,935 posts were assessed and 131 were deemed to be identical. A provision has been created in 2010-11 to fund the backdated pay costs for these identical posts, with pay being backdated to the date of single status implementation in February 2008.

The Council reduced the discount on council tax from second homes to 10% during 2005-06. The additional council tax income invoiced during 2010-11 amounted to £1.788m; 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 £0.088m.

As with previous years, liabilities have arisen in respect of employees who will be made redundant as a result of restructuring. The Council has significant budget savings to make in the coming years; in advance of this, the Council Transformation Programme of service reviews has been put in place to achieve the savings required. As part of this the Council invited all employees to express an interest in voluntary redundancy. As a result of service review savings agreed as part of the budget process for 2011-12 and beyond, a number of employees have subsequently either taken or have been offered a redundancy package. The additional costs for employees terminated on or before 31 March 2011 were

incurred in-year. For the employees who have confirmed acceptance of redundancy but have left or are leaving after 31 March 2011, a provision of £3.134m has been created during 2010-11. For further information refer to note 32 - Termination Benefits.

The Council is in dispute with a care provider over fees and charges from 2009-10. The Council position was that fee increases imposed during 2009-10 were unreasonably high, therefore the uplift element of the payments have been withheld from the provider. It is likely that the settlement of the dispute may involve litigation and that the Council will have to meet the payment demands, therefore a provision was created in 2009-10 for these costs. Settlement for one of the care packages was made with the provider during 2010-11.

Operational Services created a number of provisions during 2006-07, an assessment was made during 2010-11 as to whether these provisions are still required and as a result of this they have been reversed back into the General Fund.

28. DEFINED BENEFIT PENSION SCHEMES

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:

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.

Local Government Pension Scheme

This is administered by Strathclyde Pension Fund – this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets. The contributions are based on rates determined by the Fund's professionally qualified actuary and based on triennial valuations of the Fund.

28.1 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 2011. These payments have been accrued and are included within the creditors figure on the balance sheet. These have been paid during April 2011. The amounts are as follows:

- Local Government Pension Scheme – £1.214m
- Teachers' scheme – £0.680m

28.2 Transactions in Respect of the Local Government Pensions Scheme

The latest formal valuation of the Strathclyde Pension Fund for funding purposes was at 31 March 2008. 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 2011 remains substantially stable with new entrants replacing any leavers.

We recognise the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund via the Movement in Reserves Statement during the year:

	2010-11 £'000	2009-10 £'000
Comprehensive Income and Expenditure Statement		
Cost of Services:		
Current Service Cost	12,732	6,924
Past Service Cost/(Gain)	(42,187)	2,429
Settlements and Curtailments	1,164	229
Net Operating Expenditure:	(28,291)	9,582
Financing and Investment Income and Expenditure		
Interest Cost	23,629	19,923
Expected Return on Scheme Assets	(25,517)	(16,720)
Total Post Employment Benefit Charged to the surplus or Deficit on the Provision of Services	(30,179)	12,785
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement		
Actuarial (Gains) and Losses	(38,980)	74,367
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	(69,159)	87,152
Statement of Movement in Reserves:		
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	42,762	(1,085)
Actual Amount charged against the General Fund Balance for pensions in the year:		
Employer's Contributions Payable to the Scheme	12,583	11,700

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2011 is a gain of £38.980m (£74.367m loss in 2009-10).

28.3 Assets and Liabilities in Relation to Post Employment Benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	2010-11 £'000	2009-10 £'000
Defined Benefit Obligation at 1 April	462,085	289,681
Current Service Cost	12,732	6,924
Interest Cost	23,629	19,923
Contributions by Scheme Participants	3,515	3,502
Actuarial (Gains) and Losses	(36,528)	154,401
Estimated Unfunded Benefits Paid	(1,700)	(1,557)
Estimated Benefits Paid	(13,757)	(13,447)
Losses on Curtailments	1,164	229
Past Service Costs (Gains)	(42,187)	2,429
Defined Benefit Obligation at 31 March	408,953	462,085

Reconciliation of fair value of the scheme (plan) assets:

	2010-11 £'000	2009-10 £'000
Fair Value of Employer Assets at 1 April	354,116	257,164
Expected Rate of Return	25,517	16,720
Actuarial Gains and (Losses)	2,452	80,034
Employers Contributions	12,583	11,700
Contributions by Scheme Participants	3,515	3,502
Estimated Unfunded Benefits Paid	(1,700)	(1,557)
Estimated Benefits Paid	(13,757)	(13,447)
Fair Value of Employer Assets at 31 March	382,726	354,116

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

The actual return on scheme assets in the year was £25.5m (2009-10: £16.7).

28.4 Scheme History

Local Government Pension Scheme	2006-07 £'000	2007-08 £'000	2008-09 £'000	2009-10 £'000	2010-11 £'000
Present Value of Scheme Liabilities	(368,549)	(325,814)	(289,681)	(462,085)	(408,953)
Fair Value of Assets	332,321	325,216	257,164	354,116	382,726
(Deficit) in the Scheme	(36,228)	(598)	(32,517)	(107,969)	(26,227)

The liabilities show the underlying commitments that the authority has in the long run to pay post employment (retirement) benefits. The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2012 is £10.833m.

28.5 Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on the assumptions about mortality rates, salary levels, etc.

The principal assumptions used by the actuary have been:

Long Term expected rate of return on assets in the scheme:	2010-11 %	2009-10 %
Equity Investments	7.5%	7.8%
Bonds	4.9%	5.0%
Property	5.5%	5.8%
Cash	4.6%	4.8%

Mortality assumptions	2010-11 Years	2009-10 Years
Longevity at 65 for current pensioners:	Men	20.6
	Women	23.9
Longevity at 65 for future pensioners:	Men	22.6
	Women	25.0

Financial Assumptions	2010-11 %	2009-10 %
Rate of Inflation	2.8%	3.8%
Rate of Increase in Salaries	5.1%	5.3%
Rate of Increase in Pensions	2.8%	3.8%
Rate for discounting scheme liabilities	5.5%	5.5%

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2009 service and 75% of the maximum tax-free cash for post-April 2009 service.

The Pension Fund's assets consist of the following categories by proportion of the total assets held:

	2010-11 %	2009-10 %
Equity Investments	77.0%	77.0%
Bonds	13.0%	13.0%
Property	6.0%	7.0%
Cash	4.0%	3.0%
Total	100.0%	100.0%

28.6 History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2010-11 can be analysed into the following categories:

Local Government Pension Scheme	2006-07 %	2007-08 %	2008-09 %	2009-10 %	2010-11 %
Experience gains and losses on assets	0.08%	-10.44%	-35.55%	22.60%	0.64%
Experience gains and losses on liabilities	0.29%	0.04%	12.35%	-0.21%	-0.55%

28.7 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.

	2010-11 £'000	2009-10 £'000
Amount Paid Over (£'000)	5,457	5,342
Rate of Contribution (%)	14.90%	14.90%
Amount of Added Years Awarded by the Council (£'000)	515	516

29. UNUSABLE RESERVES

Movements in the Authority's unusable reserves are detailed in the Movement in Reserves Statement on pages 24 to 27.

29.1 Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and gains are lost
- Used in the provision of services and the gains are consumed through depreciation, or
- Disposed of and the gains realised.

The reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

29.2 CAPITAL ADJUSTMENT ACCOUNT

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting on non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations which are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date the Revaluation Reserve was created to hold such gains.

29.3 FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Authority uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on Council Tax.

29.4 PENSIONS RESERVE

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority had set aside to meet them. The statutory arrangements will ensure funding will have been set aside by the time the benefits come to be paid.

29.5 ACCUMULATED ABSENCES ACCOUNT

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

30. USABLE RESERVES

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement on pages 24 to 27.

30.1 Capital Funds

The Authority holds two funds which make up the Capital Funds total in the Statement of Movement in Reserves, these are:

Usable 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.

Capital Fund

During the 2007-08 financial 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 Usable Capital Receipts Reserve and Capital Fund are as follows:

Movements in 2010-11	Usable Capital Receipts Reserve £'000	Capital Fund £'000	Total Capital Funds £'000
Balance at 1 April 2010	2,773	204	2,977
Proceeds of Disposals	1	173	174
Transfer to Capital Adjustment Account	-	(12)	(12)
Contribution to Loans Fund Charges	-	(179)	(179)
Interest Earned	11	1	12
Balance at 31 March 2011	2,785	187	2,972

Comparative Movements in 2009-10	Usable Capital Receipts Reserve £'000	Capital Fund £'000	Total Capital Funds £'000
Balance at 1 April 2009	2,762	871	3,633
Proceeds of Disposals	-	114	114
Transfer to Capital Adjustment Account	-	(33)	(33)
Contribution to Loans Fund Charges	-	(750)	(750)
Interest Earned	11	2	13
Balance at 31 March 2010	2,773	204	2,977

30.2 Repairs and Renewals Funds

The movement in the Repairs and Renewals Funds are as follows:

Movements in 2010-11	Balance at 31 March 2010 £'000	Contribution from Revenue £'000	Interest Earned £'000	Contribution to Revenue £'000	Balance at 31 March 2011 £'000
Education	407	124	1	(104)	428
Vehicles	68	-	1	-	69
Total	475	124	2	(104)	497

Comparative Movements in 2009-10	Balance at 31 March 2009 £'000	Contribution from Revenue £'000	Interest Earned £'000	Contribution to Revenue £'000	Balance at 31 March 2010 £'000
Education	475	102	2	(172)	407
Vehicles	68	-	-	-	68
Total	543	102	2	(172)	475

31. CONTINGENT LIABILITIES

The Council has had significant budget savings to make from 2011-12 onwards, the Transformation Programme has been put in place to help the Council identify the level of savings required to balance the budget over the coming years through a programme of service reviews. As part of this process all Council employees were asked to express an interest in voluntary redundancy. Termination costs for all employees who have since been accepted for redundancy have been accounted for in 2010-11. The service reviews are ongoing and it is likely that further redundancies will be required to meet the savings. The outcome of the ongoing service reviews is unknown and as a result the redundancy costs cannot be estimated reliably, therefore no financial provision can be made for any further termination benefits although it is likely that the Council will have an obligation to meet these in the future.

During the 2006-07 financial year 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.

The Council has a number of applications for equal pay at various stages of completion at Industrial Tribunals. The final outcome of all of these applications are unknown at this time. There is also the potential for other equal pay claims whose costs may be met by the Council. Some claims were at the point of being settled on 31 March 2011, these have been provided for in 2010-11 (see Note 27).

32. TERMINATION BENEFITS

A number of savings options were brought forward at the Council budget meeting in February 2011 to balance the Council budget from 2011-12 to 2013-14, these included savings from service reviews and further savings options in advance of service reviews. A number of these savings options were reliant on a reduction in the Councils staffing levels. The Council had forewarning of the level of savings required to balance the budget and had previously asked all Council employees to express an interest in voluntary redundancy. As a result of the budget meeting in February 2011 a number of employees had their redundancy application accepted.

The Council has either incurred expenditure in 2010-11 or provided for the cost of all employees planned to leave as a result of budget decisions in February 2011, with the exception of one saving in the Education service for which sufficient information was not available at the year-end to provide for the costs in 2010-11.

The Council has accounted for the severance costs of a number of employees in 2010-11, incurring a total liability of £4.885m, a reduction of 207 full time equivalent posts. This reduction in the staffing establishment includes posts from across all services across the Council and reductions were in line with the savings agreed by the Council in February 2011.

33. 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 £'000	Expenditure £'000	Net Assets £'000	Reserves £'000
Argyll Education Trust	11	5	317	317
GM Duncan Trust	1	1	88	88
McDougall Trust	2	-	601	601
Various Other Trust Funds	5	1	526	526
Total Trust Funds	19	7	1,532	1,532

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.

34. 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 2011. 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.

34.1 Common Good Income and Expenditure Account for the year ended 31 March 2011

2009-10 Actual £'000		2010-11 Actual £'000
85	Expenditure	74
(81)	Income	(77)
4	Deficit for the Year	(3)

34.2 Common Good Balance Sheet at 31 March 2011

2009-10 Actual £'000		2010-11 Actual £'000
133	Tangible Fixed Assets	110
1,725	Investments	1,762
166	Current Assets	161
(26)	Current Liabilities	(2)
1,998	Total Assets less Liabilities	2,031
1,076	Revaluation Reserve	241
922	Common Good Fund	1,790
1,998	Total Net Worth	2,031

35. CASH FLOW STATEMENT – OPERATING ACTIVITIES

The Net Cash Flows for Operating Activities can be reconciled to the Net (Surplus)/Deficit on the Provision of Services as follows:

	2010-11 £'000	2009-10 £'000
Net (Surplus)/Deficit on Provision of Services	(53,478)	(12,612)
Adjustments to Net (Surplus)/Deficit on the Provision of Service for Non Cash Movements:		
Statutory Adjustments through Statement of Movement in Reserves	53,670	12,976
Transfer to/from Other Statutory Reserves	(145)	(757)
Increase/(Decrease) in Stocks	(13)	9
Increase/(Decrease) in Debtors	(2,522)	(2,307)
(Increase)/Decrease in Creditors and Provisions	(305)	(3,631)
Other Revenue Adjustments	(21,584)	(20,028)
	29,101	(13,738)
Adjustments for items included in the Net (Surplus)/Deficit on the Provision of Services that are Investing and Financing Activities:		
Non Cash Capital	6,763	11,832
Capital Element of Finance Lease Payments	(2,124)	(1,635)
	4,639	10,197
Net Cash Flows from Operating Activities	(19,738)	(16,153)
The cash flows for Operating Activities include the following items:		
Interest Paid on Borrowings	9,783	9,352
Interest Paid on Finance Leases	8,723	8,640
Interest Received on Bank Deposits	(264)	(181)
Net Cash Outflow from Servicing of Finance	18,242	17,811

36. CASH FLOW STATEMENT – INVESTING ACTIVITIES

The cash flows for Investing Activities include the following items:

	2010-11 £'000	2009-10 £'000
Purchase of Property, Plant and Equipment, Investment Property and Intangible Assets	14,714	18,641
Proceeds from the Sale of Property, Plant and Equipment and Investment Property	(244)	(118)
Other Receipts from Investing Activities	(7,502)	(13,224)
Net Cash Outflow from Investing Activities	6,968	5,299

37. CASH FLOW STATEMENT –FINANCING ACTIVITIES

The cash flows for Financing Activities include the following items:

	2010-11 £'000	2009-10 £'000
Cash Receipts of Short and Long Term Borrowing	(29,231)	(315)
Other Receipts from Financing Activities		
Cash Payments for the Reduction of the Outstanding Liabilities relating to Finance Leases and on Balance Sheet PFI Contracts	2,124	1,635
Repayments of Short and Long Term Borrowing	12,387	13,216
Other Payments from Financing Activities	394	281
Net Cash Outflow from Financing Activities	(14,326)	14,817

38. IMPACT OF THE ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Financial Statements for 2010-11 are the first to be prepared on an IFRS basis. Adoption of the IFRS-based Code has resulted in the restatement of various balances and transactions, with the result that some amounts presented in the financial statements are different from the equivalent figures presented in the Audited Financial Statements for 2009-10.

The following table explains the material amounts presented in the 2009-10 Financial Statements and the equivalent amounts presented in the 2010-11 Financial Statements. This is a reconciliation of the net worth reported under previous GAAP to the net worth under IFRS at the date of transition to IFRS (1 April 2009) and the end of the latest period presented in the most recent financial statements under the previous GAAP (31 March 2010):

	Note ref.	1st April 2009 £'000	31st March 2010 £'000
Net assets under previous GAAP		108,484	48,404
<i>Adjustments:</i>			
Government Grants	1	60,629	71,295
Asset Recategorisation Depreciation/Revaluations	2	12	(1,109)
Short-term accumulating compensated absences	3	(6,884)	(7,181)
Other		-	118
Net Assets under IFRS		162,241	111,527

The table below is a reconciliation to the total Comprehensive Income and Expenditure under IFRS for the latest period in the most recent Financial Statements (year ended 31st March 2010):

		Year ended 31st March 2010 £'000
Note ref.		
Total Comprehensive Income and Expenditure under previous GAAP		60,080
<i>Adjustments:</i>		
Government Grants	1	(10,666)
Asset Recategorisation Depreciation/Revaluations	2	1,109
Short-term accumulating compensated absences	3	191
Other		
Total Comprehensive Income and Expenditure under IFRS		50,714

NOTES:

1. Government Grants

Under the Code, grants and contributions for capital schemes are recognised as income when they become receivable. Previously, grants were held in a grants deferred account and recognised as income over the life of the assets which they were used to fund.

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

- The balance on the Government Grants Deferred Account at 31 March 2009 has been transferred to the Capital Adjustment Account in the opening 1 April 2009 Balance Sheet. This has resulted in the balance shown on the Capital Adjustment account in the IFRS accounts being £60.6m and £71.3m higher than shown under the 1 April 2009 and 31 March 2010 previous GAAP based accounts respectively.
- Portions of government grants deferred were previously recognised as income in 2009-10 (£2.1m); these have been removed from the service lines in the Comprehensive Income and Expenditure Statement in the comparative figures.
- Capital grants and other capital contributions are now charged to the Comprehensive Income and Expenditure Statement under the "Taxation and Non-specific Grant Income" section. This resulted in an additional £12.8m being credited to the Comprehensive Income and Expenditure Statement in 2009-10.

There is no change to the General Fund Balance, as capital grant income is transferred out of the General Fund under both the previous and current accounting policies.

2. Asset Recategorisation – Depreciation/Revaluations

Under the Code, long term assets previously classified as fixed assets need to be classified into either:

- Property Plant and Equipment
- Investment Property
- Assets held for sale

This resulted in £21.1m of assets previously classified as Investment (£6.8m) and Surplus Assets (£14.3m) being reclassified into Assets Held for Sale (£8.7m), Surplus Assets within Property, Plant and Equipment (£6.7m) and other Land and Buildings within Property, Plant and Equipment (£4.8m). This left £1.1m in Investment Property.

Where assets were reclassified this may have resulted in a change of valuation basis and treatment of impairments arising from the revaluations carried out during the 2009-10 financial year. A further £1.1m of depreciation/impairment costs were charged to the Net Cost of Services line in the Comprehensive Income and Expenditure Statement. This was then reversed back out through the Movement in Reserves Statement as a statutory adjustment.

3. Short Term Accumulating Compensated Absences

Short-term accumulating compensated absences refers to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the council. The most significant benefit covered by this heading is holiday pay.

Employees build up an entitlement to paid holidays as they work. Under the Code, the cost of providing holidays and similar benefits is required to be recognised when employees render services that increase their entitlement to future compensated absences. As a result, the council is required to accrue for any annual leave earned but not taken at 31 March each year. Under the previous accounting arrangements, no such accrual was required.

The Scottish Government has issued regulations that mean local authorities are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to the Accumulated Absences Account until the benefits are used.

Accruing for short-term accumulating compensated absences has resulted in decreases of net assets in the balance sheet as at 1 April 2009 and as at 31 March 2010 of £6.9m and £7.2m respectively; being increases in accruals, with corresponding decreases in the year end balance on the Accumulated Absences Account (an unusable reserve). The impact on the Comprehensive Income and Expenditure statement is an increase in Expenditure of £0.19m in 2009-10, reflecting the movement in the accrual.

The Council Tax Income Account shows the gross income raised from council taxes levied and deductions made under the Local Government Finance Act 1992. The resultant net income is transferred to the Comprehensive Income and Expenditure Statement of the Authority.

2009-10 Actual £'000		2010-11 Actual £'000
52,892	Gross Council Tax Levied and Contributions in Lieu excluding RSL Second Home Additional Income	53,246
	Add Back:	
1,776	RSL Second Home Discount Additional Income	1,788
	Less:	
(7,470)	Other Discounts and Reductions	(7,548)
(1,171)	Provision for Bad and Doubtful Debts	(1,174)
46,027	Total	46,312
637	Adjustment to Previous Years' Community Charge and Council Tax	700
46,664	Transfers to General Fund	47,012

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 2010-11 was as follows:

Band	Valuation Band	% Band D	£ per year
A	Under £27,000	67%	785.33
B	£27,000 - £35,000	78%	916.22
C	£35,000 - £45,000	89%	1,047.11
D	£45,000 - £58,000	100%	1,178.00
E	£58,000 - £80,000	122%	1,439.78
F	£80,000 - £106,000	144%	1,701.56
G	£106,000 - £212,000	167%	1,963.33
H	Over £212,000	200%	2,356.00

2. CALCULATION OF THE COUNCIL TAX BASE 2010-11

Council Tax Base	A	B	C	D	E	F	G	H	Total
Total Number of Properties	7,752	9,682	9,290	5,875	7,098	3,890	2,632	227	46,446
Less - Exemptions / Deductions	988	752	984	519	562	232	160	42	4,239
- Adjustment for Single Chargepayers	896	1,004	753	436	392	186	100	5	3,772
Effective Number of Properties	5,868	7,926	7,553	4,920	6,144	3,472	2,372	180	38,435
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	3,912	6,165	6,714	4,920	7,509	5,015	3,953	360	38,548
Add Contribution in lieu in respect of Class 18 dwellings (Band D Equivalent)									449
Nominal Tax Yield									38,997
Less Provision for Non-Collection - 3.57%									1,391
Council Tax Base 2010-11 - Number of Band D equivalents									37,606

Non Domestic Rate Income Account

The Non-Domestic Rate Account is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Non-Domestic Rate Account. The statement shows the gross income from the rates and deductions made under the Local Government (Scotland) Act 1975 as amended by the Local Government Finance Act 1992 on non-domestic property. The net income is paid to the Scottish Government as a contribution to the national non-domestic rate pool.

2009-10 Actual £'000		2010-11 Actual £'000
32,681	Gross rates levied and Contributions in Lieu	33,630
	Less:	
(7,164)	Reliefs and other deductions	(8,040)
(144)	Payment of Interest	(1)
(258)	Provision for Bad and Doubtful Debts	(116)
25,115	Net Non-Domestic Rate Income	25,473
-	Adjustment for years prior to introduction of national non-domestic rate pool	-
13,333	Contribution from national non-domestic rate pool	10,741
38,448	Transfers to General Fund	36,214

Notes to the Non Domestic Rate Income Account

1. ANALYSIS OF RATEABLE VALUES

	2010-11 £	2009-10 £
Industrial and freight transport subjects	6,111,030	5,279,960
Miscellaneous including Telecomms, Rail, Gas and Electricity Companies	50,570,494	42,536,078
Commercial subjects:		
Shops	12,982,765	10,147,065
Offices	5,034,535	4,441,520
Hotels, Boarding Houses etc.	6,643,450	5,510,080
Others	2,105,870	1,489,475
Total Rateable Value	83,448,144	69,404,178

2. NON-DOMESTIC RATE CHARGE

	2010-11 Pence	2009-10 Pence
Rate Per Pound	40.7p	48.1p
Supplementary Rate Per Pound for Properties over £35,000 (£29,000 - 2009-10)	0.7p	0.4p

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.

INTRODUCTION

The Code of Practice on Local Authority Accounting in the United Kingdom 2010-11: Based on International Financial Reporting Standards (the 2010 Code) places a requirement on Councils to consider all their interests in external organisations including limited companies and other statutory bodies. Where the interest is considered to be material, the Council 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 show “a true and fair view” the financial performance and position of the Council’s Group.

Group Statement of Movement in Reserves

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

Movements in 2010-11	Argyll and Bute Council							Total Reserves £'000	
	Usable Reserves			Total Unusable Reserves £'000	Total Reserves of the Council £'000	Council's Share of Reserves of Associates £'000	Total Common Good Reserves £'000		
	General Fund Balance £'000	Repairs and Renewals Fund £'000	Capital Funds £'000						
				Total Usable Reserves £'000					
Balance at 31 March 2010	(33,020)	(475)	(2,977)	(36,472)	(75,055)	(111,527)	226,733	(1,998)	113,208
Surplus/(Deficit) on Provision of Services	(53,478)			(53,478)	-	(53,478)	(15,802)	(33)	(69,313)
Other Comprehensive Expenditure and Income					(47,572)	(47,572)	(15,214)	-	(62,786)
Total Comprehensive Expenditure and Income	(53,478)	0	0	(53,478)	(47,572)	(101,050)	(31,016)	(33)	(132,099)
Total Statutory Adjustments (See Page 24)	53,670	-	(174)	53,496	(53,496)	-	-	-	-
Net (Increase)/Decrease before Transfers to Other Statutory Reserves	192	-	(174)	18	(101,068)	(101,050)	(31,016)	(33)	(132,099)
<i>Other Transfers required by Statute</i>									
Transfer to/from Other Statutory Reserves	(145)	(22)	179	12	(12)	0	-	-	-
(Increase)/Decrease in Year	47	(22)	5	30	(101,080)	(101,050)	(31,016)	(33)	(132,099)
Balance at 31 March 2011 Carried Forward	(32,973)	(497)	(2,972)	(36,442)	(176,135)	(212,577)	195,717	(2,031)	(18,891)

The Council's Statement of Movement in Reserves on pages 24-25 give a more detailed analysis of the movement in the Council's usable and unusable reserves during 2010-11.

Group Statement of Movement in Reserves

This statement shows the comparative movement in the year on the reserves held by the Council plus its share of the reserves of its associates. The Common Good reserves are also fully consolidated into the Group Accounts.

Comparative Movements in 2009-10	Argyll and Bute Council							Council's Share of Reserves of Associates £'000	Total Common Good Reserves £'000	Total Reserves £'000
	Usable Reserves				Total Reserves of the Council £'000	Total Unusable Reserves £'000	Total Reserves of the Council £'000			
	General Fund Balance £'000	Repairs and Renewals Fund £'000	Capital Funds £'000	Total Usable Reserves £'000						
	£'000	£'000	£'000	£'000	£'000	£'000	£'000			
Balance at 31 March 2009	(32,627)	(543)	(3,633)	(36,803)	(162,241)	(125,438)	144,123	(1,507)	(19,625)	
Surplus/(Deficit) on Provision of Services	(12,612)			(12,612)	(12,612)	-	8,029	1	(4,582)	
Other Comprehensive Expenditure and Income	(12,612)	0	0	(12,612)	63,326	63,326	74,581	(492)	137,415	
Total Comprehensive Expenditure and Income										
Total Statutory Adjustments (See Page 26)	12,976	-	(114)	12,862	-	(12,862)	-	-	-	
Net (Increase)/Decrease before Transfers to Other Statutory Reserves	364	-	(114)	250	50,714	50,464	82,610	(491)	132,833	
Other Transfers required by Statute										
Transfer to/from Other Statutory Reserves	(757)	68	770	81	(81)	(81)	-	-	-	
(Increase)/Decrease in Year	(393)	68	656	331	50,383	50,383	82,610	(491)	132,833	
Balance at 31 March 2010 Carried Forward	(33,020)	(475)	(2,977)	(36,472)	(111,527)	(75,055)	226,733	(1,998)	113,208	

The Council's Statement of Movement in Reserves on pages 26-27 give a more detailed analysis of the comparative movement in the Council's usable and unusable reserves during 2009-10.

Group Statement of Comprehensive Income and Expenditure

This statement shows the accounting cost in the year of providing the Council's services and its share of the results of its associates in accordance with International Financial Reporting Standards, rather than the amount to be funded from taxation. Local authorities raise taxation to cover expenditure in accordance with regulations, and this is different from the accounting cost. The taxation position is shown in the Statement of Movement in Reserves on pages 24-27.

2009/10			Note	2010/11		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
			Service			
104,895	8,975	95,920	Education Services	110,900	8,442	102,458
39,175	25,569	13,606	Housing Services (Non-HRA)	40,024	25,465	14,559
12,023	2,355	9,668	Cultural and Related Services	13,649	2,629	11,020
20,904	4,414	16,490	Environmental Services	21,812	4,223	17,589
26,774	7,090	19,684	Roads and Transport Services	28,288	7,324	20,964
7,321	4,897	2,424	Trading Services	8,418	4,324	4,094
12,414	7,651	4,763	Planning and Development Services	11,239	6,197	5,042
59,716	9,782	49,934	Social Work	63,461	12,549	50,912
			Central Services:			
6,017	160	5,857	- Corporate and Democratic Core	4,734	140	4,594
4,498	3	4,495	- Non Distributed Costs	(37,260)	2	(37,262)
3,563	1,104	2,459	- Central Services to the Public	2,638	1,106	1,532
11,089	-	11,089	Strathclyde Police Joint Board	8,927	-	8,927
6,131	-	6,131	Strathclyde Fire and Rescue Joint Board	4,984	-	4,984
39,556	31,527	8,029	Associates Accounted for on an Equity Basis	42,841	58,643	(15,802)
354,076	103,527	250,549	Net Cost of Services	324,655	131,044	193,611

Group Statement of Comprehensive Income and Expenditure

			201
			(82)
			1,334
			1,453
			18,070
			(634)
			(1,888)
			15,548
			(189,205)
			(7,494)
			(36,214)
			(47,012)
			(279,925)
			(69,313)
			(8,592)
			(38,980)
			(15,214)
			(62,786)
			(132,099)

The Balance sheet is a snapshot of the value at the 31 March 2011 of the assets and liabilities recognised by the Council and its share of the net assets or liabilities of its associates and Common Good funds. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. The net investment or liability in its associates is matched by its share of the reserves of the associates (i.e. its group reserves).

1 April 2009 £'000	31 March 2010 £'000		31 March 2011	
			£'000	£'000
		Long Term Assets		
		Property Plant & Equipment		
280,766	297,041	- Other Land and Buildings	301,804	
5,648	5,058	- Vehicles, Plant, Furniture and Equipment	5,713	
132,244	139,371	- Infrastructure Assets	145,554	
2,272	2,442	- Community Assets	2,458	
6,671	5,753	- Surplus Assets	12,137	
14,569	10,299	- Assets Under Construction	8,597	
442,170	459,964	Property Plant & Equipment		476,263
308	420	Intangible Assets		365
1,052	1,090	Investment Property		1,382
964	935	Long-Term Debtors		975
1,261	1,684	Long-Term Investments		1,722
2,664	2,783	Investment in Associates		2,733
448,419	466,876	Total Long Term Assets		483,440
		Current Assets		
107	116	Inventories	103	
19,951	17,522	Short Term Debtors (Net of Impairment)	15,256	
8,679	8,679	Assets Held for Sale	1,722	
7,338	3,409	Cash and Cash Equivalents	30,506	
36,075	29,726	Total Current Assets		47,587
		Current Liabilities		
(10,916)	(12,495)	Short-term Borrowing	(355)	
(38,950)	(40,263)	Short-term Creditors	(37,425)	
-	-	Capital Grant Receipts in Advance	(280)	
(1,086)	(1,088)	Provisions	(4,676)	
(1,634)	(1,724)	Other Short Term Liabilities	(1,546)	
(52,586)	(55,570)	Total Current Liabilities		(44,282)
		Long-term Liabilities		
(145,724)	(131,242)	Borrowing Repayable within a Period in Excess of 12 Months	(160,229)	
(86,384)	(84,660)	Other Long-term liabilities	(82,713)	
(871)	(853)	Provisions	(235)	
(146,787)	(229,516)	Liabilities in Associates	(198,450)	
(32,517)	(107,969)	Other Long-term liabilities (Pensions)	(26,227)	
(412,283)	(554,240)	Total Long-term Liabilities		(467,854)
19,625	(113,208)	Total Assets less Liabilities		18,891

1 April 2009 £'000	31 March 2010 £'000		31 March 2011	
			£'000	£'000
		Unusable Reserves		
36,470	45,814	- Revaluation Reserve	51,658	
135,108	150,652	- Capital Adjustment Account	163,891	
(6,750)	(6,378)	- Financial Instruments Adjustment Account	(6,006)	
(32,517)	(107,969)	- Pensions Reserve	(26,227)	
(6,873)	(7,064)	Accumulated Absences Account	(7,181)	
125,438	75,055			176,135
		Usable Reserves		
3,633	2,977	- Capital Funds	2,972	
543	475	- Repairs and Renewals Funds	497	
32,627	33,020	- General Fund Balance	32,973	
36,803	36,472			36,442
(144,123)	(226,733)	Group Reserves		(195,717)
1,507	1,998	Common Good Reserves		2,031
19,625	(113,208)	Total Reserves		18,891



Bruce West,
Head of Strategic Finance
30 September 2011

1. GROUP ACCOUNTING POLICIES

The group accounts are prepared in accordance with the policies set out in Note 1 to the Financial Statements on pages 33-42.

- The Strathclyde Partnership for Transport and Strathclyde Concessionary Travel Scheme Joint Committee financial statements have been prepared under the historic cost convention.

2. 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

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

Four of the five Joint Boards (Police, Fire and Rescue, SPT and Concessionary Travel) are included within the Group Accounts under the wider definition of an "associate" although the Council holds less than 20% of voting rights that is normally presumed to confer significant influence. This is in view of the funding arrangements between the constituent Councils and the Joint Boards.

The accounting period for all entities is 31 March 2011.

3. NON MATERIAL INTEREST IN OTHER ENTITIES

The Council has an interest in Scotland Excel. Scotland Excel took up the activities of the Authorities Buying Consortium and similar bodies across the Scottish local authority sector on 1 April 2008. Renfrewshire Council prepare the financial statements for Scotland Excel in its role as lead authority. Scotland Excel is a not-for-profit organisation funded mainly by the 28 participating Scottish local authorities. Argyll and Bute Council contributed £0.07m towards Scotland Excel in the 2010-11 financial year.

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.

4. NATURE OF COMBINATION

The Council inherited its interest in these entities following the reorganisation of local government in 1996. An acquisition basis has been used as the basis of consolidation. However, as no consideration was given for this interest there is no goodwill involved in these instances.

5. 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 £193.686m. This gives an overall net asset position for the Group of £18.891m. This reduced net asset position is due to the IAS19 Pension Liability within the Associates’ Single Entity Accounts. This can be summarised as follows:-

	Pension Liability per Associates Accounts £'m	Argyll and Bute Council's Group Share £'m
Strathclyde Joint Police Board	4,070.804	162.425
Strathclyde Fire and Rescue Joint Board	1,035.739	40.187
Dunbartonshire and Argyll and Bute Valuation Joint Board	1.219	0.580
Total Pension Liability of Associates	5,107.762	203.192

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.

6. 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 Councils in the West of Scotland. During 2010-11 the Council contributed £8.528m or 3.99% of the Board’s estimated running costs and accounted for £162.972m of Balance Sheet Liabilities within 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 Councils in the West of Scotland. The Council contributed £4.984m to the Boards revenue costs in 2010-11 or 3.88% and has accounted for £35.329m as its representative share of the 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 £0.733m or 1.63% of the Board’s estimated net running costs during 2010-11 and accounted for £2.636m of

the 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. During 2010-11 the Council contributed £0.105m or 4.14% of the net annual running costs and accounted for £0.097m of the 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 2010-11 Argyll and Bute Council contributed £1.405m towards estimated running costs and accounted for £0.149m of Balance Sheet Liabilities 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:-

	2010/11 £'m	2009/10 £'m
Argyll and Bute Council has a 47.5% share of:		
Gross Income	2.661	2.822
Net Surplus (Deficit)	(1.139)	(0.104)
Long Term Assets	0.807	0.782
Current Assets	0.708	0.475
Liabilities due within one year	(0.519)	(0.456)
Liabilities due over one year	(0.089)	-
Pension Liability	(1.219)	(4.093)
Capital and Revenue Reserves	(0.312)	(3.292)

7. REPORTING AUTHORITY ADJUSTMENTS

A number of adjustments are required to the Council’s Statement of Comprehensive Income and Expenditure (pages 28-29) 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 34 of the Notes to the Financial Statements on pages 79-80 have been fully consolidated into the Group Accounts. This adjustment increases the net assets and reserves of Argyll and Bute Council’s Group by £2.031m.

8. 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 page 32. 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 2011 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and authority only Statements of Movement in Reserves, the Comprehensive Income and Expenditure Statements, Balance Sheets, and Cash-Flow Statements, the Council Tax Income Accounts, and the Non-domestic Rate Account and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the 2010/11 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 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

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 11, the Responsible Financial Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Responsible Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Explanatory Foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2010/11 Code of the state of the affairs of Argyll and Bute Council and its group as at 31 March 2011 and of the income and expenditure of Argyll and Bute Council and its group for the year then ended;
- have been properly prepared in accordance with IFRS's as adopted by the European Union, as interpreted and adapted by the 2010/11 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

Opinion on other prescribed matters

In our opinion:

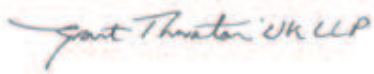
- the part of the remuneration report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 1985; and
- the information given in the Explanatory Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the Statement of Governance and Internal Control does not comply with the 2010/11 Code; or
- there has been a failure to achieve a prescribed financial objective.

We have nothing to report in respect of these matters.



Grant Thornton UK LLP

Chartered Accountants and Registered Auditors

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EDINBURGH
EH3 8LQ

30 September 2011

**ARGYLL AND BUTE COUNCIL
COMMUNITY SERVICES**

**COUNCIL
24 November 2011**

THE ELECTION OF A TEACHER REPRESENTATIVE TO THE EXECUTIVE

1. BACKGROUND

- 1.1 Following the retirement of the teacher representative on the Council's Executive, nominations were sought from teachers serving within the education authority and two members of staff sought membership of the Executive. Arrangements were made for a ballot however one of the members of staff subsequently withdrew his application leaving William Marshall, Principal Teacher in Dunoon Grammar School and also the nominated EIS Local Association Secretary, as the only nomination for the position.

2. RECOMMENDATIONS

- 2.1 The Council is asked to note the position in relation to the proposed ballot and agree that William Marshall, Principal Teacher, Dunoon Grammar School be the Teacher Representative to serve on the Executive for the period of the present Council.

3. IMPLICATIONS

Financial: None.

Personnel: None.

Equal Opportunity: None

Legal: None

Cleland Sneddon
Executive Director
November 2011

Members wishing further information should contact Cleland Sneddon, Executive Director, Kilmory, Lochgilphead. Telephone 01546 60 4168

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ARGYLL AND BUTE COUNCIL
CUSTOMER SERVICES

COUNCIL
24 NOVEMBER 2011

**6th REVIEW OF PARLIAMENTARY CONSTITUENCIES –BOUNDARY
COMMISSION PROPOSALS**

1. SUMMARY

This report advises members of the consultation on the 6th review of UK parliamentary constituency boundaries which proposes adding Lochaber ward 22 of Highland Council to the existing Argyll and Bute Constituency.

2. RECOMMENDATIONS

2.1 The Council is invited to raise no objections to the proposed adjustment to the constituency given the criteria laid down by statute.

3. DETAIL

3.1 Parliament has decided to reduce the number of constituencies from 650 to 600 and therefore there is a reduction in Scottish constituencies. The proposal is to enlarge the existing Argyll and Bute constituency to include the ward 22 of Highland Council adding in the Lochaber area as shown on the map to create a constituency of 75,941 and with an area of 9765 square hectares, the second largest constituency in Scotland. In terms of the Boundary Commission's requirements, the electorate has to fall within a range of 72,810 and 80,473 and cannot exceed 13,000 square kilometres. In the circumstances the proposed area and electorate meets the requirements laid down by statute. It is clear that there is no traditional link between the community of Lochaber ward and the rest of Argyll and Bute but it is fair to assess that the communities share similar issues around remoteness, rurality, sparsity and economic challenges arising therefrom.

- 3.2 The Returning Officer has been consulted and has indicated that the inclusion of the area would involve cross boundary cooperation with Highland Council in regard to polling stations staff and other resources as well as creating a short term challenge for staff in familiarising themselves with the area of Lochaber. It is also necessary to address the additional time for collection of ballot boxes and delivery to a count centre in Lochgilphead will mitigate against any night time counting of votes as the travel time from Fort William to Lochgilphead is upwards of 2 hours and that would be after the arrival of all boxes from outlying areas.
- 3.3 The Council has always been keen to see coterminosity of Council boundaries with electoral processes but given the parameters set by the commission that isn't possible. The Council may wish to consider if there is any alternative option for the Council to meet the parameters

4. CONCLUSION

- 4.1 The proposals are compliant with the legislative requirements placed on the Commission but represent a substantial increase in the area of the constituency which will create the second largest in Scotland. Whilst the communities have similar characteristics they fall within different Local Authority areas and have little tradition of interaction with Fort William looking north to Inverness for all its public and private sector services.

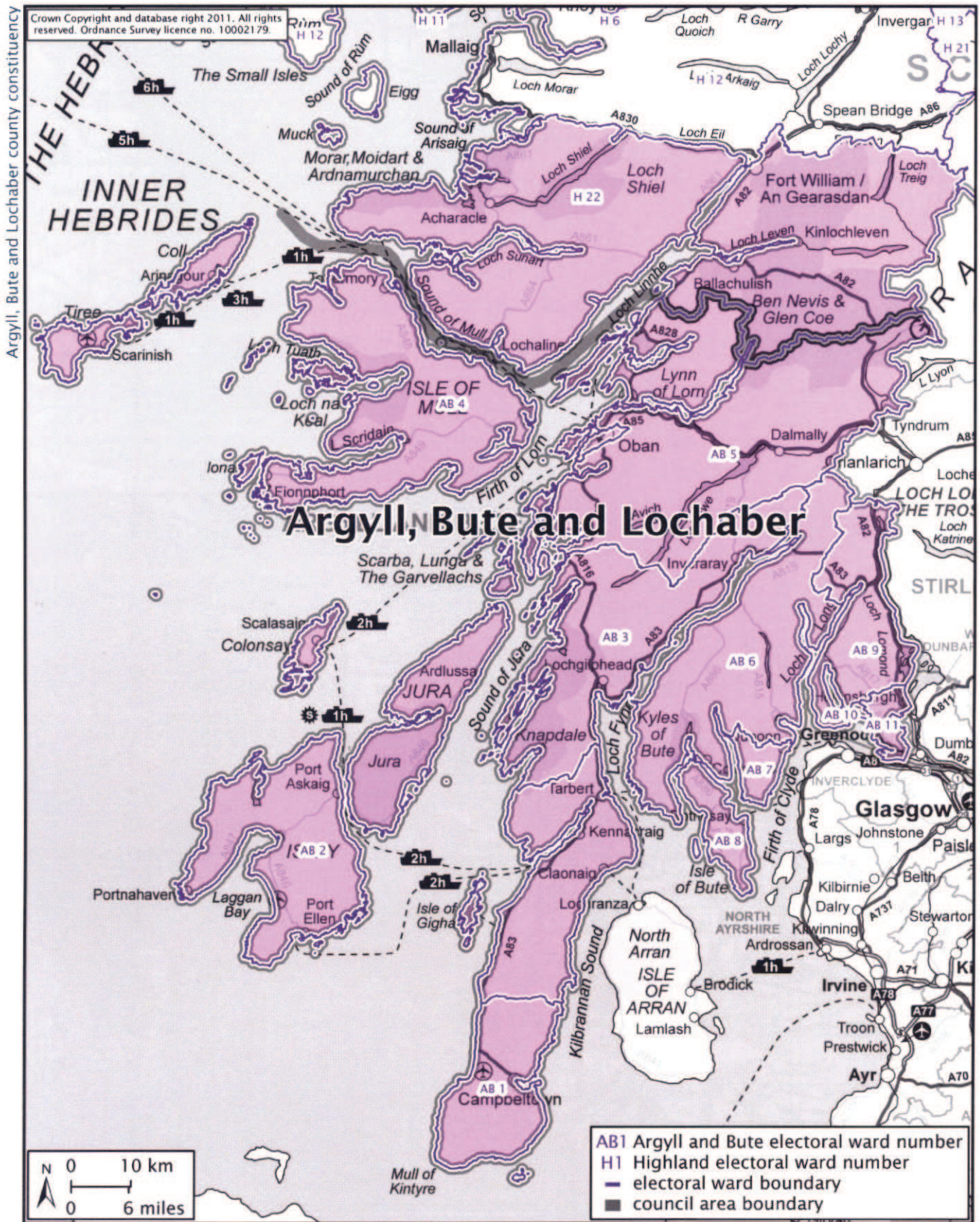
5. IMPLICATIONS

- Policy - Council policy has been to seek coterminosity where possible. That will not be possible in this instance.
- Financial – The costs of running an election will be increased but are met by Government.
- Legal - None.
- Personnel - There will be an increased burden on council staff in supporting elections covering the enlarged area.
- Equal Opportunities - None.

Executive Director of Customer Services
8 November 2011

For further information contact: Charles Reppke, Head of Governance & Law
Tel: 01546 604192

Argyll, Bute and Lochaber county constituency



The proposed constituency contains all of Argyll and Bute council area and ward 22 (Fort William and Ardnamurchan) of Highland council area.

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