



ACCOUNTS FOR THE PERIOD

1 APRIL 2007 TO 31 MARCH 2008

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## INTRODUCTION

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

## THE FINANCIAL STATEMENTS

### Core Financial Statements

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

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

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

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

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

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

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

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

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

### Supplementary Financial Statements

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

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

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

### The Group Accounts

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

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

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

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

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

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

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

### Statement of Responsibilities for the Statement of Accounts

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

### Statement on Internal Control

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

### FINANCIAL PERFORMANCE

#### Income and Expenditure Account

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

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

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

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

#### General Fund Balance

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

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

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

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

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

### Statement of Total Recognised Gains and Losses

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

### Balance Sheet

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

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

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

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

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

### Significant Trading Organisations

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

### Housing Revenue Account

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

### Capital Expenditure and Borrowing

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

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

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

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

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

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

**PROPERTY VALUATIONS**

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

**PENSIONS LIABILITY**

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

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

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

- Strathclyde Police Board
- Strathclyde Fire Board

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

**STATEMENT ON INTERNAL CONTROL**

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

**OTHER SIGNIFICANT MATTERS**

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

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

**CONCLUSION**

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



Bruce West  
 Head of Strategic Finance  
 30 September 2008

### THE AUTHORITY'S RESPONSIBILITIES

The Council is required:

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

### THE HEAD OF STRATEGIC FINANCE'S RESPONSIBILITIES

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

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

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

The Head of Strategic Finance has also:

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

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

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

Bruce West  
Head of Strategic Finance  
30 September 2008



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

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

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

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

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

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

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

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

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

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

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

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



Bruce West  
Head of Strategic Finance  
30 September 2008

## 1. INTRODUCTION

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

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

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

## 2. MAJOR CHANGES IN ACCOUNTING PRACTICE

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

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

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

## 3. ACCRUALS OF INCOME AND EXPENDITURE

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

- Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services.
- Supplies and services are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption; they are carried as stocks on the balance sheet.
- Works are charged as expenditure when they are completed, before which they are carried as work in progress on the balance sheet.
- Interest payable and receivable on borrowings is accounted for in the year to which it relates, on a basis that reflects the overall effect of the loan or investment.
- Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Income and expenditure are credited and debited to the relevant revenue account, unless they properly represent capital receipts or expenditure.

## 4. OVERHEADS AND SUPPORT SERVICES

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

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

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

## 5. GOVERNMENT GRANTS AND CONTRIBUTIONS (REVENUE)

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

## 6. RETIREMENT BENEFITS

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

### 6.1 Teachers

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

### 6.2 Local Government Pension Scheme

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

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

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

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

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

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

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

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

### 6.3 Discretionary Benefits

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

## 7. INTANGIBLE FIXED ASSETS

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

## 8. TANGIBLE FIXED ASSETS

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

### 8.1 Recognition

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

### 8.2 Measurement

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

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

Net current replacement cost is assessed as:

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

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

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

### 8.3 Impairment

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

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

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

### 8.4 Disposals

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

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

### 8.5 Depreciation

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

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

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

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

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

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

#### 8.6 *Grants and Contributions*

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

### 9. CHARGES TO REVENUE FOR FIXED ASSETS

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

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

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

### 10. LEASES

#### 10.1 *Finance Leases*

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

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

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

#### 10.2 *Operating Leases*

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

### 11. FINANCIAL LIABILITIES

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

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

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

### 12. STOCK AND WORK IN PROGRESS

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

### 13. PROVISIONS

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

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

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

#### 14. RESERVES

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

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

#### 15. VALUE ADDED TAX (VAT)

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

#### 16. INTERESTS IN COMPANIES AND OTHER ENTITIES

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

#### 17. PRIVATE FINANCE INITIATIVE (PFI)

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

##### 17.1 Prepayments

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

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

##### 17.2 Reversionary Interests

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

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

##### 17.3 Residual Interests

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

##### 17.4 PFI Credits

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

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

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

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

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

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

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

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



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

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

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

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

2006/07 £'000	Note	2007/08 £'000
<b>Fixed Assets</b>		
155	14	193
<i>Intangible Assets</i>		
<i>Tangible Fixed Assets</i>		
Operational Assets		
173,023	15.1	169,347
7,250		6,206
97,717		112,629
1,912		1,964
Non-operational Assets		
6,704	15.2	6,682
21,624		21,233
4,947		15,573
<b>313,332</b>		<b>333,827</b>
<b>Total Fixed Assets</b>		
1,079	18	1,657
7,235		-
-	29.6	818
<b>321,646</b>		<b>336,302</b>
<b>Total Long Term Assets</b>		
<b>Current Assets</b>		
253		245
16,603	19	20,296
-		5,000
6,215		38,380
<b>344,717</b>		<b>400,223</b>
<b>Total Assets</b>		
<b>Current Liabilities</b>		
(539)	21	(559)
(31,034)	20	(35,680)
(6,480)		(3,972)
<b>306,664</b>		<b>360,012</b>
<b>Total Assets less Current Liabilities</b>		
(157,302)	21	(187,476)
(37,336)	22	(49,485)
(4,026)	23	(5,971)
(2,220)	24	(1,822)
(34,782)	29.6	-
<b>70,998</b>		<b>(244,754)</b>
<b>Total Assets less Liabilities</b>		
<i>Financed by:</i>		
-	31.1	13,559
76,602	31.2	72,050
2,539	31.3	2,681
-	31.4	1,356
(34,782)	31.5	818
-	31.6	(7,114)
1,586	31.7	902
255		-
24,798	31.8	31,006
<b>70,998</b>		<b>115,258</b>
<b>Total Net Worth</b>		

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

Bruce West  
Head of Strategic Finance  
30 September 2008



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

Continued from previous page.

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

## 1. DISCONTINUED OPERATIONS

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

## 2. OTHER OPERATING INCOME AND EXPENDITURE

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

## 3. SIGNIFICANT TRADING ORGANISATIONS

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

### 3.1 Roads and Lighting Trading Account

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

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

### 3.2 Catering and Cleaning Trading Account

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

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

## 4. LOCAL GOVERNMENT ACT 1986 – SEPARATE PUBLICITY ACCOUNT

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

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

## 5. AGENCY INCOME

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

2006/07		2007/08
£'000		£'000
229	Scottish Water	239
<u>229</u>	<b>Agency Income</b>	<u>239</u>

## 6. LOCAL AUTHORITY (GOODS AND SERVICES) ACT 1970

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

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

## 7. COMMUNITY CARE HEALTH (SCOTLAND) ACT 2002

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

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

## 8. MEMBERS' ALLOWANCES

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

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

## 9. OFFICERS' EMOLUMENTS

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

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

## 10. WASTE MANAGEMENT PUBLIC PRIVATE PARTNERSHIP

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

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

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

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

## 11. SCHOOLS NON PROFIT DISTRIBUTING ORGANISATION

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

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

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

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

## 12. FEES PAYABLE TO AUDIT SCOTLAND

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

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



### 13. RELATED PARTY TRANSACTIONS

During the year transactions with related parties arose as follows:

		Income £'000	
<b>Central Government and Agencies</b>			
Revenue Grants:	Revenue Support Grant	142,283	
	Non-Domestic Rates	33,171	
	Housing Benefit Subsidy	16,865	
	Council Tax Benefit Subsidy	5,612	
	Other Government Grants	29,532	
		<u>227,463</u>	
Capital Grants:	European Grants	1,759	
	Sportscotland / Lottery	13	
	AIE - Argyll Air Services	100	
	Community Council	10	
	School Fund	870	
	Energy Efficiency	2,370	
	Other Government Capital Grants	8,877	
		<u>13,999</u>	
			<b>Expenditure</b>
<b>Related Bodies:</b>			<b>£'000</b>
Transactions with related bodies during the year totalled			18,970
Of these, transactions with the following exceeded £10,000:			
	Joint Boards		16,577
	Strathclyde Partnership for Transport		560
	Argyll, the Isles, Loch Lomond, Stirling and the Trossachs Tourist Board		205
	Convention of Scottish Local Authorities (COSLA)		79
	Cowal Council on Alcohol and Drugs		110
	Dunoon and Cowal Youth Project		17
	Helensburgh Addiction Rehabilitation Team		65
	Islay and Jura Community Enterprise		118
	Kintyre Alcohol and Drugs Advisory Service		31
	Mid Argyll Community Enterprises		46
	Nadair Trust		12
	NHS		1,034
	Oban Addiction Support and Information Services (OASIS)		43
	Oban and Lorn Enterprises - Atlantis Leisure		36
	Oban Youth and Community Association		15

#### Other Related Party Transactions:

Transactions in which Members have a significant interest

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

This was as follows:

	£'000
Trident Taxis	78

**14. MOVEMENT IN INTANGIBLE FIXED ASSETS**

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

**15. FIXED ASSETS**

**15.1 Movement in Operational Fixed Assets**

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

### 15.2 Movement in Non-Operational Fixed Assets

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

### 15.3 Valuation of Operational Fixed Assets

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

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

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

#### 15.4 Valuation of Non-Operational Fixed Assets

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

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

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

#### 15.5 Fixed Assets Information on Assets Held on 31 March 2007

	No.		No.
<b>OPERATIONAL BUILDINGS</b>		<b>OPERATIONAL EQUIPMENT</b>	
Administrative Buildings	56	Vehicles and Heavy Plant	260
Depots	33		
Social Work Homes for the Elderly	7	<b>INFRASTRUCTURE ASSETS</b>	
Social Work Children's Homes	4	Highways (miles)	1,406
Hostels	6	Bridges	954
Primary Schools	74	Car Parks	138
Secondary Schools	6	Vessels	5
Special Schools	2		
Nursery Schools	4	<b>COMMUNITY ASSETS</b>	
Halls	8	Parks/Play Areas	62
Swimming Pools	5	Civic Regalia (Provosts' Chains)	4
Museums and Libraries	10	Civic Regalia (Bailies' Chains)	1
Community Centres	8	Cemeteries	125
Crematoria	1	War Memorials	55
Public Conveniences	77	Works of Art	299
Airports	1		

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

## 16. SUMMARY OF CAPITAL EXPENDITURE AND FINANCING

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

## 17. FINANCE AND OPERATING LEASES

### 17.1 Finance Leases – Amounts Paid to Lessors

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

2006/07		2007/08
£'000		£'000
280	Vehicles	418
<b>280</b>	<b>Total</b>	<b>418</b>

### 17.2 Operating Leases – Amounts Paid to Lessors

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

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

### 17.3 Assets Held Under Finance Leases

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

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

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

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

### 17.4 Assets Held Under Operating Leases

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

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

## 18. LONG TERM DEBTORS

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

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

## 19. DEBTORS

### 19. Debtors

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

## 20. CREDITORS

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

## 21. FINANCIAL INSTRUMENTS DISCLOSURES

### 21.1 Types of Financial Instruments

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

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

## 21.2 Fair Value of Assets and Liabilities carried at Amortised Cost

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

- Estimated interest rates at 31 March 2008 for loans from the PWLB were taken from the appropriate interest rate notice and for other loans receivable and payable from market rates obtained by our treasury advisors.
- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values are calculated as follows:

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

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

<b>Borrowing</b>		
Financial Liabilities	227.108	263.665

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

## 21.3 Gains and Losses on Financial Instruments

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

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

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



### 21.5 Credit Risk

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

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

	Amount at 31 March 2008 £'000	Historical Experience of Non-payment adjusted for Market Conditions at 31 March 2008 %	Estimated Maximum Exposure to Default and Uncollectibility £'000
Deposits with Banks, Building Societies and Local Authorities	42,920	0	0

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

### 21.6 Liquidity Risk

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

The maturity analysis of financial liabilities is as follows:

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

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

### 21.7 Market Risk

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

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

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

- It is the policy of the Council to limit its exposure to variable rate borrowing to a maximum of 30% of what it borrows.
- During periods of falling rates and where it is economically advantageous to do so, the Council will consider the repayment and restructuring of fixed interest rate debt.
- The Council takes the daily advice from its specialist treasury advisers and actively monitors changes in interest rates to inform decisions on the lending of surplus funds, new borrowings and restructuring of existing borrowings.
- Any potential for a financial impact on the Council is also significantly limited by the Scottish Government's grant distribution mechanism that automatically adjusts for changes in interest rates in the government grant support the Council receives for "loan charges".

To illustrate the impact of changes in interest rates upon the Council, the following table shows the financial effect if rates had been 1% higher at 31 March 2008, with all other variables held constant.

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

**Other accounting presentational changes**

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

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

**21.8 Price Risk**

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

**21.9 Foreign Exchange Risk**

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

**21.10 Short-Term Deposits**

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

	<b>31 March 2008</b>
	<b>£'000</b>
Banks	38.380

**21.11 Short-Term Borrowing**

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

	<b>31 March 2008</b>
	<b>£'000</b>
Common Good	239
Trust Funds	908

## 22. DEFERRED GOVERNMENT GRANTS

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

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

## 23. PROVISIONS

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

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

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

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

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

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

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

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

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

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

## 24. DEFERRED LIABILITIES

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

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

## 25. CONTINGENT GAINS AND LIABILITIES

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

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

## 26. COMMITMENTS UNDER CAPITAL CONTRACTS

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

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

## 27. TRUST FUNDS AND OTHER THIRD PARTY FUNDS

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

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

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

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

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

## 28. COMMON GOOD FUNDS

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

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

	<b>£'000</b>
Expenditure	120
Income	(112)
<b>Deficit for the Year</b>	<b>8</b>

**28.2 COMMON GOOD BALANCE SHEET AS AT 31 MARCH 2008.**

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

**29. PENSIONS ASSETS AND LIABILITIES – FRS17 DISCLOSURE**

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

**29.1 Accrued Pensions Contribution**

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

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

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

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

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

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

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

### 29.3 Actuarial Gains and Losses on the Pension Reserve

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

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

### 29.4 Financial Assumptions

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

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

### 29.5 Fair Value of Assets

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

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

### 29.6 Net Pension Asset / (Liability)

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

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

### 30. TEACHERS PENSIONS – ADMINISTERED BY SCOTTISH PUBLIC PENSIONS AGENCY

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

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

### 31. DETAILS OF MOVEMENTS ON RESERVES

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

### 31.1 Revaluation Reserve

	£'000
Balance at 1 April 2007	-
Revaluations of Fixed Assets	13,559
<b>Balance at 31 March 2008</b>	<b>13,559</b>

### 31.2 Capital Adjustment Account

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

### 31.3 Useable Capital Receipts Reserve

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

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

### 31.4 Capital Fund

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

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

### 31.5 Pensions Reserve

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

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



### 31.6 Financial Instruments Adjustment Account

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

### 31.7 Repairs and Renewals Funds

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

### 31.8 General Fund Balance

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

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

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

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

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

### 33. NET CASH FLOW RECONCILIATION

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

### 34. ANALYSIS OF NET DEBT

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

35. RECONCILIATION OF MOVEMENT IN CASH TO NET DEBT

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

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

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

## 1. CALCULATION OF THE COUNCIL TAX

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

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

## 2. CALCULATION OF THE COUNCIL TAX BASE 2007/08

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

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

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

### 1. ANALYSIS OF RATEABLE VALUES

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

### 2. NON-DOMESTIC RATE CHARGE

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

### 3. CALCULATION OF RATE CHARGE FOR EACH PROPERTY

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

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



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

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

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

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

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

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

Bruce West  
 Head of Strategic Finance  
 30 September 2008



## 1. INTRODUCTION

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

## 2. GROUP ACCOUNTING POLICIES

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

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

## 3. COMBINING ENTITIES

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

The Associates which have been incorporated are:

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

The accounting period for all entities is 31 March 2008.

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

## 4. NON MATERIAL INTEREST IN OTHER ENTITIES

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

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

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

## 5. NATURE OF COMBINATION

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

## 6. FINANCIAL IMPACT OF CONSOLIDATION

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

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

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

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

## 7. FURTHER DETAILS ON CONSOLIDATION

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

### Strathclyde Police Joint Board

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

### Strathclyde Fire and Rescue Joint Board

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

### Strathclyde Partnership for Transport

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

### Strathclyde Concessionary Travel Scheme Joint Board

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

### Dunbartonshire and Argyll and Bute Valuation Joint Board

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

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

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

## 8. REPORTING AUTHORITY ADJUSTMENTS

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

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

## 9. GROUP CASH FLOW STATEMENT

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

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

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

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

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

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

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

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

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

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

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

### Basis of audit opinion

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

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

### Opinion

In our opinion the financial statements:

- present fairly, in accordance with relevant legal and regulatory requirements and the 2007 SORP, the financial position of Argyll and Bute Council and its group as at 31 March 2008 and its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

### Failure to comply with a statutory requirement

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

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

- Catering and Cleaning Service.

Grant Thornton UK LLP

Grant Thornton UK LLP

#### Chartered Accountants and Registered Auditors

1-4 Atholl Crescent  
Edinburgh  
EH3 8LQ

30 September 2008