



AUDITED ACCOUNTS FOR THE PERIOD

1 APRIL 2009 TO 31 MARCH 2010

Argyll and Bute Council
Comhairle Earra Ghàidheal agus Bhòid

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Foreword by the Head of Strategic Finance	2-6
Statement of Responsibilities for the Statement of Accounts	7
Statement of Governance and Internal Control	8-10
Statement of Accounting Policies	11-17
Income and Expenditure Account	18
Statement of Movement on the General Fund Balance	19-20
Statement of Total Recognised Gains and Losses	21
Balance Sheet	22
Cash Flow Statement	23-24
Notes to the Core Financial Statements	25-54
Council Tax Income Account	55
Notes to the Council Tax Income Account	56
Non Domestic Rate Income Account	57
Notes to the Non Domestic Rate Income Account	58
Group Income and Expenditure Account	59
Reconciliation of the Single Entity Surplus to the Group Deficit	60
Group Statement of Total Recognised Gains and Losses	61
Group Balance Sheet	62
Notes to the Group Accounts	63-65
Independent Auditor's Report	66-67

INTRODUCTION

The Annual Accounts demonstrate the Council's stewardship of the public funds it controls. The financial results for 2009-10 are set out on pages 18 to 65. The Statement of Accounting Policies on pages 11 to 17 sets out the accounting policies adopted by the Council to ensure that the Accounts give a "true and fair view" of 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 (LASAAC). The Annual Accounts for 2009-10 have been prepared in compliance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: 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 2009 - Scotland (BVACOP).

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 tax payers.

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, associates 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 of Governance and Internal Control

This statement covers the whole Group Account position rather than just the Council on its own. This statement shows how the Council and its Associates have put in place proper arrangements for the governance of its affairs and the stewardship of the resources at its disposal.

MAJOR CHANGES IN ACCOUNTING PRACTICE

The accounting requirements for Private Finance Initiative (PFI) and similar contracts have changed to be accounted for under International Financial Reporting Standards (IFRS). The new accounting requirements apply in respect of all new contracts entered into from 1 April 2009 and all existing contracts at 31 March 2009. The Schools NPDO contract has now been accounted for under these new arrangements and the 2008-09 accounts restated.

The impact of the prior year adjustment on the 2008-09 Audited Financial Statements is to recognise the five schools built under the NPDO contract as "on Balance Sheet". Operational Land and Buildings was increased by £88.4m representing the construction cost of the schools, this was revalued as at 1 April 2008 and an initial impairment recognised of £0.345m. These assets have been depreciated and the depreciation charged to the Education Service in the Income and Expenditure Account. At the same time a liability of £88.4m for financing by the operator was recognised.

The impact on the Income and Expenditure Account was to split out the annual unitary charge payment into the following elements:

- Fair value of services during the year, charged to the Education Service in the Income and Expenditure Account.
- Finance cost on the outstanding Balance Sheet Liability, charged to Interest Payable and Similar Charges in the Income and Expenditure Account.
- Contingent Rent, charged to Interest Payable and Similar Charges in the Income and Expenditure Account.
- Payment towards the financing liability, applied to write down the Balance Sheet liability towards the PFI operator.

Previous accounting entries to build up an asset on the Council's Balance Sheet over the life of the contract were reversed.

The overall impact on the 2008-09 Income and Expenditure Account was to reduce the surplus for the year from £8.167m to £6.010m. There was no impact on the overall General Fund Balance with all prior year adjusting entries being reversed through the Statement of Movement on the General Fund Balance.

Note 13 provides further information on the accounting treatment of the Schools NPDO contract.

The waste management PFI contract has also been reviewed under the new accounting arrangements and continues to be "off Balance Sheet".

FINANCIAL PERFORMANCE

Income and Expenditure Account

The Council ended the year with an accounting surplus of £3.088m for 2009-10 compared to a surplus of £6.010m for 2008-09. 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 £264.251m for 2009-10 compared to £254.916m for 2008-09. An increase of £9.335m (3.7%). This includes revenue support grant up from £174.047m in 2008-09 to £179.139m in 2009-10, non domestic rates up from £35.058m in 2008-09 to £38.448m in 2009-10 and council tax up from £45.811m in 2008-09 to £46.664m in 2009-10.

Net operating expenditure increased from £248.906m in 2008-09 to £261.163m in 2009-10. An increase of £12.257m (4.9%).

General Fund Balance

The balance on the General Fund at 31 March 2010 stands at £33.020m compared to £32.627m at 31 March 2009. An increase of £0.393m. The “free” General Fund Balance stands at £4.482m at 31 March 2010. This equates to 1.7% of the net revenue expenditure for 2010-11. There are a range of balances earmarked within the General Fund Balance. These total £28.538m and are laid out in note 28.8.

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

	£m	£m
Balance on General Fund 31 March 2009		32.627
Less budgeted transfer to services 2009-10		6.729
		25.898
 Add outturn for 2009-10		
Increase in council tax income	0.589	
Savings in loan charges	0.133	
Net underspend on departmental expenditure compared to budget	0.263	
		0.985
Surplus against budget 2009-10		
Council Tax collection on second homes	1.776	
Contribution to PPP smoothing funds	1.354	
Funds earmarked by departments from budgets	3.007	
		6.137
		33.020

The budgeted transfer to services total of £6.729m consists of funds released to services for amounts previously earmarked, an amount allocated to balance the 2009-10 budget and additional monies agreed by Council to fund Process for Change and the Council Modernisation programme.

The net adjustment to the surplus per the Income and Expenditure to reflect the impact on Council Tax is a credit of £2.695m. In summary this credit represents the difference between:

- Principal repayment to the loans fund and the depreciation or 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 finance lease payments on the schools NPDO contract and other finance leases.

The net surplus on the Income and Expenditure Account of £3.088m less the adjustments to reflect impact on Council Tax at £2.695m equates to the increase on the balance on the General Fund of £0.393m.

Statement of Total Recognised Gains and Losses

This analyses the decrease in the net worth of the Council from 31 March 2009 of £108.484m to £48.404m at 31 March 2010 based on the Balance Sheet. This is a decrease in the net worth of the Council in accounting terms and does not represent a decrease in the spending power of the Council. The reduction in net worth arises mainly from an actuarial loss on the pension plan of £74.367m offset by a gain on revaluation of fixed assets of £11.199m. These changes do not represent any change in the cash available to the Council.

Balance Sheet

As indicated above the accounting net worth of the Council has decreased by £60.080m from £108.484m at 31 March 2009 to £48.404m at 31 March 2010.

The value of fixed assets has increased from £452.051m at 31 March 2009 to £471.080m at 31 March 2010, an increase of £19.029m (4.2%). 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 there was an increase in current liabilities of £3.506m, increasing from £12.033m at 31 March 2009 to £15.539m at 31 March 2010. The net cash, bank, short term borrowing and bank overdraft has moved from a net cash deficit of £4.982m at 31 March 2009 to a net cash deficit of £10.673m at 31 March 2010. This is an increase of £5.691m. This represents a further reduction in short term cash investments, offset by a reduction in long term borrowing.

Overall, long term liabilities have increased from £327.514m at 31 March 2009 to £397.397m at 31 March 2010. The increase of £69.883m masks some significant movements.

- Long term borrowing has decreased from £145.724m to £131.242. This reflects the decision to repay external borrowing thereby reducing the Council's exposure from external investments.
- The FRS17 valuation of the pension scheme liability increased from £32.517m to £107.969m.
- Deferred government grants increased by £10.666m. This increase represents £12.822m of capital grants received in the year offset by £2.156m credit to revenue.

Pension Liability

As noted above the FRS17 valuation of the pension scheme liability has increased from £32.517m at 31 March 2009 to £107.969m at 31 March 2010. This pension liability represents the best estimate of the current value of pension benefits that will have to be funded by the Council. The liability relates to benefits earned by existing or previous employees up to 31 March 2010.

These benefits are expressed in current value terms rather than the cash amount that will actually be paid out. This is to allow for the 'time value of money', whereby the value of cash received now is regarded as higher than cash received, for example, in ten years time, since the money received now could be invested and would earn interest or returns during the ten years. In order to adjust the pension liability cash flows for the time value of money, a discount factor based on corporate bonds is used. The corporate bond rate used for discounting scheme liabilities in the valuation as at 31 March 2010 (5.5%) is significantly lower than that used at 31 March 2009 (6.9%). This has contributed to a significant increase in the estimated current value of the pension liability.

Hymans Robertson (Independent Actuaries) were instructed by Glasgow City Council, the administering authority to the Strathclyde Pension Fund, to undertake calculations in respect of the Local Government Pension Scheme on behalf of Argyll and Bute Council as at 31 March 2010. 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.

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 2 of the Notes to the Core Financial Statements. During 2009-10 the Roads and Lighting trading account achieved a surplus of £1.071m. It achieved a rolling breakeven position with a three year surplus of £1.676m. The Catering & Cleaning trading account returned a surplus of £0.680m for the year, and it achieved a rolling breakeven position with a three year surplus of £0.622m. Any surplus or deficit is treated as part of the General Fund.

Capital Expenditure and Borrowing

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

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

The Council approved a set of prudential indicators for 2009-10 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	28.170
Less: Capital Receipts	0.114
Government Grants and Other Contributions	12.822
Revenue Contributions	0.443
	14.791

The external borrowing of the Council at 31 March 2010 amounted to £143.881m. The majority of this was financed by the Public Works Loan Board (£91.066m), with the remainder coming mainly from the money market. During the year the Council completed £0.315m of new external borrowing. This was used to finance capital expenditure incurred during the year. The Council also prematurely repaid loans of £13.216m.

The capital financing requirement at 31 March 2010 was £274.450m. This was financed as follows:

	£'m
Long Term Borrowing	130.878
Short Term Borrowing	12.639
Schools NPDO Finance Lease Liability	85.096
General Fund Balance	33.020
Other Internal Funds	12.057
	273.690

PROPERTY VALUATIONS

In accordance with the 2009 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 was started in 2009-10.

GROUP ACCOUNTS

Group Accounts have been prepared and show a significant increase in the overall net liability position. This net liability position of the Group Accounts is a result of the Police and Fire Pension Schemes being unfunded and reflects the proper accounting treatment as determined by FRS 17. The technical accounting treatment has no impact on the underlying basis for meeting the Police and Fire Boards' current and on-going pension liabilities. These will continue to be met from Government Grants and contributions from constituent authorities.

Further information regarding these pension deficits can be found in Note 6 to the Group Accounts on page 64.

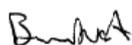
STATEMENT OF GOVERNANCE AND INTERNAL CONTROL

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 of Governance and Internal Control on pages 8 to 10.

FUTURE OUTLOOK

The Council is not immune from the current economic climate. An exceptionally challenging financial outlook is envisaged for the next few years with significant real cuts in spending power. This will require a fundamental consideration of the services the Council provides, and how the services are delivered and paid for. To address these challenges the Council has developed a Transformation Programme. The Transformation Programme is a substantial change programme designed to co-ordinate and challenge activity in the Council to ensure the Council continues to develop and improve but also is well positioned to meet future financial challenges. The Transformation Programme will cover a broad range of activity including the ongoing modernisation of the Council, shared services and alternative service deliveries and a three year programme of service reviews.

Bruce West
Head of Strategic Finance
30 September 2010



THE AUTHORITY'S RESPONSIBILITIES

The Council is required:

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

THE HEAD OF STRATEGIC FINANCE'S RESPONSIBILITIES

The Head of Strategic Finance is responsible for the preparation of the Council's Statement of Accounts, which in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code of Practice), are required to show a true and fair view of the financial position of the Council as at 31 March 2010 and its income and expenditure for the year ended on that date.

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

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

The Head of Strategic Finance has also:

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

This Statement of Accounts show a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31 March 2010.



Bruce West
Head of Strategic Finance
30 September 2010

BACKGROUND

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

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

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

THE GOVERNANCE FRAMEWORK

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

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

GOVERNANCE ROLES AND RESPONSIBILITIES

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

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

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

INTERNAL FINANCIAL CONTROL

In ensuring that an effective system of internal financial control is maintained and operated in connection with the resources concerned, this statement also covers the other bodies whose activities are incorporated into our Group Accounts, i.e.

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

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

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

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

RISK MANAGEMENT

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

INTERNAL AUDIT

Argyll and Bute Council and the above named bodies have an internal audit function, which operates to standards defined in the Chartered Institute of Public Finance and Accountancy's Code of Practice for Internal Audit in Local Government in the United Kingdom. The work of internal audit is informed by an analysis of the risk to which the Council and the above named bodies are exposed, and annual internal audit plans are based on the analysis. The Council's and the named bodies' Audit Committees endorse the analysis of risk and the internal audit plans.

The Internal Audit Manager provides the Audit Committee with an annual report on internal audit activity in the Council. The report includes the Internal Audit Manager's independent opinion on the adequacy and effectiveness of the Council's systems of governance and internal control.

ISSUES FOR FURTHER DEVELOPMENT

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

- The continued development of performance management throughout the Council, by means of Pyramid, the Council's performance management system;
- Introduce Best Value 2 including development of the Public Service Improvement Service self assessment processes;
- The risk management framework and business continuity strategy will continue to be developed and embedded within the Council;
- The development of asset management including consideration of funding the investment required for schools, roads and other assets, and the embedding of this revised approach to capital planning based around business cases and gateway reviews;
- Action the Corporate Governance Improvement Plan and embed good governance arrangements within the Council, partnerships and joint working arrangements.

ASSURANCE

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

- The work of Officers within the Council;
- The work of Internal Audit as described above;

- The work of External Audit;
- The Statements of Governance and/or Internal Control provided by the bodies mentioned above;
- External review and inspection reports; and
- Recommendations from the Audit Committee.

It is the Council's view that the systems for governance and internal control are operating effectively within Argyll and Bute Council and the aforementioned bodies during 2009 - 2010 and that there are no significant weaknesses. This assurance is limited, however, to the work undertaken during the year and the evidence available at the time of preparing this statement.

Handwritten signature of Dick Walsh in black ink.

CLlr Dick Walsh
Leader

Handwritten signature of Sally Loudon in black ink.

Sally Loudon
Chief Executive

Handwritten signature of Bruce West in black ink.

Bruce West
Head of Strategic Finance

30 September 2010

1. INTRODUCTION

The Financial Statements for the year ended 31 March 2010 have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice (the SORP). It is designed to present “a true and fair view” of 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 have 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

Under the 2009 SORP the accounting requirements for PFI and similar contracts has changed. Previous editions of the SORP required these to be accounted for in accordance with FRS 5 – Substance of Transactions. The 2009 SORP requires these contracts to be accounted for in a manner that is consistent with the adaptation of IFRIC 12 – Service Concession Arrangements. IFRIC 12 is the interpretation of IFRS that applies to operators of PFI and similar contracts. More detail on the accounting policy which has been applied to the Council’s PFI contracts can be found in 17 below.

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 2009 – Scotland (BVACOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

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

5. GOVERNMENT GRANTS AND CONTRIBUTIONS (REVENUE)

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

6. RETIREMENT BENEFITS

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

6.1 Teachers

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

6.2 Local Government Pension Scheme

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

- The liabilities of the Strathclyde Pension Fund attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 6.9% (based on the indicative rate of return on a “high quality corporate bond of equivalent term and currency to the liability” (as measured by the yield on iboxx Sterling Corporates Index, AA over 15 years)).

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

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

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

- Current service cost – the increase in liabilities as a result of years of service earned this year and allocated to the revenue accounts of services for which the employees worked

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

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

6.3 Discretionary Benefits

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

7. INTANGIBLE FIXED ASSETS

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

8. TANGIBLE FIXED ASSETS

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

8.1 Recognition

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

8.2 Measurement

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

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

Net current replacement cost is assessed as:

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

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

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

8.3 Impairment

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

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

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

8.4 Disposals

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

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

8.5 Depreciation

Depreciation is provided for on all assets with a determinable finite life 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 over the expected life of the asset, after allowing for the residual value of an asset as follows:

Operational Buildings	-	20 – 50 years
Non-Operational Buildings	-	21 – 50 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 (plus accrued interest) 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. As the Council is deemed to control the services that are provided under its PFI schemes and as ownership of the fixed assets will pass to the Council at the end of the contracts for no additional charge, the Council carries the fixed assets used under the contracts on the balance sheet.

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

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

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

- Fair value of the services received during the year, debited to the relevant service in the Income and Expenditure Account.
- Annual Finance cost – this is calculated by applying the implicit interest rate in the lease to the opening lease liability for the period, this is debited to Interest Payable and Similar Charges in the Income and Expenditure Account.
- Contingent rent – an element of the annual unitary payment increase due to cumulative indexation is allocated to the finance lease. In accordance with IAS 17, this amount is not included in the minimum lease payments but treated as contingent rent and is expensed as incurred.
- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator.
- Lifecycle replacement costs – components of the asset replaced by the operator during the contract ('lifecycle replacement') are capitalised when they meet the accounting definition of capital expenditure. They are capitalised at the time they are provided by the operator and are measured initially at their fair value.

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.

2008/09 (Restated) Net Expenditure £'000	Service	Note	2009/10		
			Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
92,970	Education Services		103,889	8,984	94,905
13,129	Housing Services (Non-HRA)		39,146	25,592	13,554
8,958	Cultural and Related Services		11,831	2,355	9,476
17,885	Environmental Services		20,919	4,414	16,505
18,862	Roads and Transport Services		26,340	7,098	19,242
1,715	Trading Services		6,669	4,900	1,769
4,725	Planning and Development Services		12,385	7,651	4,734
47,391	Social Work		59,661	9,782	49,879
	Central Services:				
5,470	- Corporate and Democratic Core		5,963	207	5,756
723	- Non Distributed Costs		3,643	3	3,640
1,822	- Central Services to the Public		3,486	1,104	2,382
1,290	- Other Operating Income and Expenditure	1	1,393	414	979
10,256	Strathclyde Police Joint Board		10,665	-	10,665
5,829	Strathclyde Fire and Rescue Joint Board		6,131	-	6,131
231,025	Net Cost of Services		312,121	72,504	239,617
1,429	Net (Gain)/loss on Disposal of Fixed Assets				562
(93)	(Surplus)/deficit on trading undertakings				(40)
21,927	Interest Payable and Similar charges				18,608
(4,808)	Interest and Investment Income				(787)
(574)	Pension Interest Cost and Expected Return on Pension Assets				3,203
248,906	Net Operating Expenditure				261,163
174,047	General Government Grants				179,139
35,058	Non-domestic Rates Redistribution				38,448
45,811	Council Tax Income				46,664
254,916	Total Income				264,251
6,010	Surplus for the Year				3,088

Statement of Movement on the General Fund Balance

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.

2008/09 (Restated) £'000		2009/10 £'000
6,010	Surplus for the Year on the Income and Expenditure Account	3,088
(4,389)	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>	(2,695)
1,621	Increase/(Decrease) in General Fund Balance for the Year	393
31,006	Closing General Fund Balance at 31 March	32,627
32,627	Balance on General Fund Carried Forward	33,020

Supplement Note to the Statement of Movement on the General Fund Balance

2008/09 (Restated) £'000		2009/10	
		£'000	£'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>		
75	Amortisation of Intangible Fixed Assets	102	
19,705	Depreciation and Impairment of Fixed Assets	19,377	
(1,791)	Amortisation of Deferred Government Grants	(2,156)	
(356)	Capital Element of Finance Lease Payments	(350)	
(873)	Repayment of NPDO Schools Finance Lease Creditor	(1,235)	
1,429	Net Gain or Loss on Sale of Assets	562	
(364)	Expenditure Accounts and amounts payable/receiveable to be recognised under statutory provisions relating to soft loans and premiums and discounts on the early repayment of debt.	(372)	
(3,165)	Net Charges made for retirement benefits in accordance with FRS 17	1,085	
14,660			17,013
	<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>		
(19,222)	Loans fund principal repayments	(20,070)	
(714)	Capital expenditure charged in year to the General Fund Balance	(443)	
(19,936)			(20,513)
	<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>		
887	Transfer to/from Other Funds	805	
887			805
(4,389)	Net Additional amount required to be credited/(debited) to the General Fund Balance for the year		(2,695)

Statement of Total Recognised Gains and Losses

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.

2008/09 (Restated) £'000		2009/10 £'000
6,010	Surplus on the Income and Expenditure Account	3,088
7,707	Surplus Arising on Revaluation of Fixed Assets	11,199
(35,084)	Actuarial (Loss)/Gain on Pension Assets and Liabilities	(74,367)
-	Any Other (Losses) required to be included	-
(21,367)	Total Recognised (Losses)/Gains	(60,080)

The 2008-09 gains and losses have been restated. Details of the changes can be seen in note 13 to the Financial Statements.

31 March 2009 (Restated) £'000		Note	31 March 2010	
			£'000	£'000
	Fixed Assets			
308	<i>Intangible Assets</i>	10		420
	<i>Tangible Fixed Assets</i>			
	Operational Assets	11.1		
276,169	- Other Land and Buildings			292,660
5,550	- Vehicles, Plant, Furniture and Equipment			5,008
132,244	- Infrastructure Assets			139,371
2,051	- Community Assets			2,140
	Non-operational Assets	11.2		
6,843	- Investment Property			7,129
14,568	- Assets Under Construction			10,298
14,318	- Surplus Assets, held for Disposal			14,054
452,051	Total Fixed Assets			471,080
962	Long-Term Debtors	15		933
453,013	Total Long Term Assets			472,013
	Current Assets			
108	Stocks and Work in Progress		117	
19,924	Debtors	16	17,522	
10,000	Investments		-	
3,164	Cash and Bank		6,795	24,434
486,209	Total Assets			496,447
	Current Liabilities			
(11,061)	Borrowing Repayable on Demand or within 12 Months	18	(12,639)	
(1,235)	Deferred Liabilities Payable within 12 Months	21	(1,385)	
(32,065)	Creditors	17	(33,178)	
(5,850)	Bank Overdraft		(3,444)	(50,646)
435,998	Total Assets less Current Liabilities			445,801
(145,724)	Borrowing Repayable within a Period in Excess of 12 Months	18	(131,242)	
(60,629)	Government Grants - Deferred	19	(71,295)	
(1,959)	Provisions	20	(1,941)	
(86,685)	Deferred Liabilities Payable in a Period in Excess of 12 Months	21	(84,950)	
(32,517)	Liability related to Defined Benefit Pension Schemes	26	(107,969)	(397,397)
108,484	Total Assets less Liabilities			48,404
	Financed by:			
36,495	Revaluation Reserve	28.1		45,981
74,452	Capital Adjustment Account	28.2		80,297
2,762	Useable Capital Receipts Reserve	28.3		2,773
871	Capital Fund	28.4		204
(32,517)	Pensions Reserve	28.5		(107,969)
(6,750)	Financial Instruments Adjustment Account	28.6		(6,378)
544	Repairs and Renewals Funds	28.7		476
32,627	General Fund Balance	28.8		33,020
108,484	Total Net Worth			48,404

The unaudited accounts were issued on 24 June 2010 and the audited accounts were authorised for issue on 30 September 2010.



Bruce West, Head of Strategic Finance
30 September 2010

2008/09 (Restated) In/(Out) £'000		Note	2009/10 In/(Out) £'000
	REVENUE ACTIVITIES		
	<i>Cash outflows</i>		
136,580	Cash Paid to and on Behalf of Employees		141,453
113,511	Other Operating Cash Payments		113,116
18,848	Housing Benefit Paid Out		20,637
17,219	Precepts Paid		18,207
286,158			293,413
	<i>Cash inflows</i>		
1,010	Rents (after rebates)		870
40,577	Council Tax Income		41,005
35,100	National Non-domestic Rate Receipts from Pool		38,495
171,945	Revenue Support Grant		181,241
24,810	DWP Grants for Benefits		25,684
7,444	Other Government Grants	29	7,120
22,090	Cash Received for Goods and Services		24,617
10,428	Other Operating Cash Receipts		8,297
313,404			327,329
27,246	Net Cash Inflow From Revenue Activities	30	33,916
	SERVICING OF FINANCE		
	<i>Cash outflows</i>		
11,182	Interest paid		9,352
8,754	Interest element of finance leases		8,640
19,936			17,992
	<i>Cash inflows</i>		
2,866	Interest received		181
2,866			181
(17,070)	Net Cash (Outflow) From Servicing of Finance		(17,811)
	CAPITAL ACTIVITIES		
	<i>Cash outflows</i>		
20,393	Purchase of Fixed Assets		18,824
20,393			18,824
	<i>Cash inflows</i>		
786	Sale of Fixed Assets		118
12,157	Capital Grants Received		13,375
19	Other Capital Cash Receipts		30
12,962			13,523
(7,431)	Cash (Outflow) From Capital		(5,301)
2,745	Net Cash Inflow/(Outflow) Before Financing		10,804
	MANAGEMENT OF LIQUID RESOURCES		
(5,000)	Net (Increase)/Decrease in Short Term Deposits		10,000
(2,355)	Net (Increase)/Decrease in Other Liquid Resources		(281)

Continued from previous page.

2008/09 (Restated) In/(Out) £'000		Note	2009/10 In/(Out) £'000
	FINANCING		
	<i>Cash outflows</i>		
69,884	Repayments of Amounts Borrowed		13,216
1,229	Capital element of Finance Lease Rental Payments		1,585
71,113			14,801
	<i>Cash inflows</i>		
38,629	New Loans Raised		315
38,629			315
(32,484)	Net Cash Inflow / (Outflow) From Financing		(14,486)
(37,094)	Net Increase / (Decrease) in Cash	31	6,037

1. OTHER OPERATING INCOME AND EXPENDITURE

The expenditure of £0.979m shown in the Other Operating Income and Expenditure line on the Income and Expenditure Account consists of the requisition paid to Dunbartonshire and Argyll & Bute Joint Valuation Board of £1.393m offset by £0.414m of backdated VAT income received as a result of claims being made under “the Fleming” case law principle.

2. 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:

2.1 Roads and Lighting Trading Account

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

Roads and Lighting Trading Account	2007/08 Actual £'000	2008/09 Actual £'000	2009/10 Actual £'000	2009/10 3 year Cumulative £'000
Turnover	13,229	16,008	18,555	47,792
Expenditure	13,161	15,471	17,484	46,116
Net Deficit/Surplus	68	537	1,071	1,676

2.2 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. Previously a deficit had arisen over the three year period due to equal pay settlements and single status implementation which were budgeted for centrally rather than against individual cost centres. A surplus over the three year period has now been achieved.

Catering and Cleaning Trading Account	2007/08 Actual £'000	2008/09 Actual £'000	2009/10 Actual £'000	2009/10 3 year Cumulative £'000
Turnover	7,002	8,010	8,470	23,482
Expenditure	8,015	7,055	7,790	22,860
Net Deficit/Surplus	(1,013)	955	680	622

3. AGENCY INCOME

The Council have an ongoing agency agreement with Scottish Water to collect domestic water and sewerage charges. During 2009-10 income from this agreement amounted to £0.25m.

Agency Income	2009/10 Actual £'000	2008/09 Actual £'000
Scottish Water	250	239
Total	250	239

4. COMMUNITY CARE HEALTH (SCOTLAND) ACT 2002

During 2009-10, under the Community Care and Health (Scotland) Act 2002, the Council continued to develop services which centred on joint working with the Argyll & Bute Community Health Partnership (CHP) and NHS Highland within the Argyll and Bute Health and Social Care Partnership.

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

During 2009-10 the Partnership included provision of services to older people, supporting people with a learning disability and provision of support to adults who have a mental health difficulty.

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

During 2009-10 income received by the Council from this source amounted to £4.116m and the related expenditure was £5.548m. This can be analysed as follows:

Purpose of Services	Income £'000	Expenditure £'000
Care of the Elderly	1,225	1,764
Provision of Services for People with Learning Disabilities	2,246	3,123
Provision of Services for People with Mental Health Needs	645	661
Total	4,116	5,548

5. MEMBERS' ALLOWANCES

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

Members Allowances	2009/10 Actual £'000	2008/09 Actual £'000
Basic Allowance	376	381
Special Responsibility Allowance	307	272
Other Expenses paid to Members	175	218
Total Allowances	858	871

6. OFFICERS' EMOLUMENTS

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

Range £	2009/10 Number of Officers	2008/09 Number of Officers
£50,000 - £59,999	27	14
£60,000 - £69,999	15	12
£70,000 - £79,999	7	4
£80,000 - £89,999	1	3
£90,000 - £99,999	-	1
£100,000 - £109,999	1	1
£140,000 - £149,999	1	-
£180,000 - £189,999	1	-
Total	53	35

As result of the ongoing Council Modernisation a number of senior officers received redundancy payments during 2009-10, in addition a number reached the £50k reporting limit as a result of annual cost of living salary increases.

7. 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 five years.

A service charge to the Income and Expenditure Account of £5.487m (2008/09 - £5.401m) has been incurred which represents the value of the service provided from 1 April 2009 to 31 March 2010. Under the agreement the Council anticipates paying the following sums based on estimated tonnage:

Future Repayment Periods	£'000
2010 - 2012	10,917
2012 - 2017	28,265
2017 - 2022	31,396
2022 - 2027	29,980
Total	100,558

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

8. FEES PAYABLE TO AUDIT SCOTLAND

In 2009-10 the following fees relating to external audit and inspection were incurred:

Auditor's Remuneration	2009/10 £'000	2008/09 £'000
Fees payable to Audit Scotland with regard to external audit services carried out by the appointed Auditor	302	288
Total Remuneration	302	288

9. RELATED PARTY TRANSACTIONS

During the year transactions with related parties arose as follows:

Central Government and Agencies		Income £'000	Expenditure £'000
Revenue Grants:	Revenue Support Grant	179,139	
	Scottish Government Specific Grants	1,918	
	Non-Domestic Rates	38,448	
	Housing Benefit Subsidy	19,908	
	Council Tax Benefit Subsidy	5,777	
	Other Government Grants	3,388	
Total		248,578	
Capital Grants:	Sports Scotland	124	
	SUSTRANS	951	
	Specific Capital Grant	2,153	
	General Capital Grant	10,419	
	Other Government Capital Grants	1,328	
Total		14,975	

Related Bodies:	Income £'000	Expenditure £'000
Transactions with related bodies during the year totalled	860	21,839
<i>Of these, transactions with the following exceeded £10,000:</i>		
Joint Boards		18,146
Strathclyde Partnership for Transport		734
Argyll, the Isles, Loch Lomond, Stirling and the Trossachs Tourist Board		209
Convention of Scottish Local Authorities (COSLA)		77
Cowal Council on Alcohol and Drugs		117
Dunoon and Cowal Youth Project		11
Helensburgh Addiction Rehabilitation Team		88
Islay and Jura Community Enterprise		93
Kintyre Alcohol and Drugs Advisory Service		24
Mid Argyll Community Enterprise		36
Criminal Justice Partnership	860	808
NHS		1,032
Oban Addiction Support and Information Services (OASIS)		46
Oban and Lorn Community Enterprise - Atlantis Leisure		404
Oban Youth and Community Association		-
Total	860	21,825

Transactions in which Members have a significant interest	Income £'000	Expenditure £'000
During the year there was one company in which members had a significant interest and where the total of transactions exceeded £10,000.		
<i>This was as follows:</i>		
Trident Taxis		67

10. MOVEMENT IN INTANGIBLE FIXED ASSETS

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

11. FIXED ASSETS

11.1 Movement in Operational Fixed Assets

	Other Land & Buildings £'000	Vehicles Plant & Equipment £'000	Infra-structure Assets £'000	Community Assets £'000	Total 2009/10 £'000
Cost or Valuation					
At 1 April 2009	291,676	14,887	164,814	2,059	473,436
Additions	9,663	1,452	8,129	67	19,311
Disposals	(759)	(917)	-	-	(1,676)
Reclassifications	8,407	404	3,800	22	12,633
Revaluations	(1,037)	-	-	-	(1,037)
At 31 March 2010	307,950	15,826	176,743	2,148	502,667
Depreciation and Impairments					
At 1 April 2009	(15,507)	(9,337)	(32,570)	(8)	(57,422)
Charge for 2009/10	(10,782)	(2,392)	(4,802)	-	(17,976)
Disposals	185	911	-	-	1,096
Revaluations	10,814	-	-	-	10,814
At 31 March 2010	(15,290)	(10,818)	(37,372)	(8)	(63,488)
Balance Sheet amount at 1 April 2010	292,660	5,008	139,371	2,140	439,179
Balance Sheet amount at 1 April 2009	276,169	5,550	132,244	2,051	416,014

11.2 Movement in Non-Operational Fixed Assets

	Investment Properties £'000	Assets Under Construction £'000	Surplus Assets Held for Disposal £'000	Total 2009/10 £'000
Cost or Valuation				
At 1 April 2009	6,843	14,568	18,393	39,804
Additions	21	8,724	23	8,768
Disposals	(96)	(183)	-	(279)
Reclassifications	(10)	(12,811)	65	(12,756)
Revaluations	371	-	(1,470)	(1,099)
At 31 March 2010	7,129	10,298	17,011	34,438
Depreciation and Impairments				
At 1 April 2009	-	-	(4,075)	(4,075)
Charge for 2009/10	-	-	(91)	(91)
Disposals	-	-	-	-
Revaluations	-	-	1,209	1,209
At 31 March 2010	-	-	(2,957)	(2,957)
Balance Sheet amount at 1 April 2010	7,129	10,298	14,054	31,481
Balance Sheet amount at 1 April 2009	6,843	14,568	14,318	35,729

11.3 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	Infra-structure Assets £'000	Community Assets £'000	Total 2009/10 £'000
Valued at historical Cost		5,008	139,371	2,140	146,519
Valued at Current Value in:					
2009/2010	105,905				105,905
2008/2009	22,232				22,232
2007/2008	125,979				125,979
2006/2007	14,560				14,560
2005/2006	23,984				23,984
Total	292,660	5,008	139,371	2,140	439,179

11.4 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 2009/10 £'000
Valued at Historical Cost		10,298		10,298
Valued at Current Value in:				
2009/2010	814		3,324	4,138
2008/2009	1,647		279	1,926
2007/2008	686		597	1,283
2006/2007	2,458		216	2,674
2005/2006	1,524		9,638	11,162
Total	7,129	10,298	14,054	31,481

11.5 Fixed Assets Information on Assets Held on 31 March 2010

	Number of Properties	
	2009/10	2008/09
OPERATIONAL BUILDINGS		
Administrative Buildings	47	47
Depots	34	33
Social Work Homes for the Elderly	7	7
Social Work Children's Homes	4	4
Hostels	4	5
Primary Schools	74	74
Secondary Schools	6	6
Special Schools	1	2
Nursery Schools	4	3
Halls	6	7
Swimming Pools	5	5
Museums and Libraries	10	10
Community Centres	8	8
Crematoria	1	1
Public Conveniences	73	74
Airports	1	1
OPERATIONAL EQUIPMENT		
Vehicles and Heavy Plant	241	243
INFRASTRUCTURE ASSETS		
Highways (miles)	1,406	1,406
Bridges	954	954
Car Parks	138	138
Vessels	6	5
COMMUNITY ASSETS		
Parks/Play Areas	62	62
Civic Regalia (Provosts' Chains)	4	4
Civic Regalia (Bailies' Chains)	1	1
Cemeteries	126	126
War Memorials	55	55
Works of Art	299	299

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

12. SUMMARY OF CAPITAL EXPENDITURE AND FINANCING

	2009/10 £'000	2008/09 £'000
Opening Capital Financing Requirement	280,688	285,972
<i>Capital Investment:</i>		
Operational Assets - Expenditure	19,311	23,999
Operational Assets - Finance Leases	-	123
Non-Operational Assets	8,768	4,770
Intangible Assets	91	79
Deferred Charges - Long Term Debtor	-	4
Total Capital Investment	28,170	28,975
<i>Sources of Finance:</i>		
Capital Receipts	(114)	(865)
Government Grants	(12,822)	(12,935)
Capital Financed from Current Revenue	(443)	(714)
Repayment of External Loans	(20,070)	(19,222)
Capital Element of Finance Lease Payments	(350)	(356)
Capital Element of Schools NPDO Payments	(1,235)	
Capital Receipts transferred to Capital Fund	114	860
Capital Receipts Used from Capital Fund	(33)	(713)
Other	(215)	(314)
Total Funding	(35,168)	(34,259)
Closing Capital Financing Requirement	273,690	280,688

13. SCHOOLS NON PROFIT DISTRIBUTING ORGANISATION (NPDO)

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.

Under the 2009 SORP the accounting requirements for Private Finance Initiative (PFI) and similar contracts have changed to be accounted for under International Financial Reporting Standards (IFRS). The accounting treatment for the Schools NPDO contract has therefore been changed and the 2008-09 accounts restated.

The impact on the Income and Expenditure Account was to split out the annual unitary charge payment into the following elements:

	2008-09 Restated £'000	2009-10 £'000
Charged to Education Service:		
Fair Value of Services	3,319	3,298
Charged to Interest Payable and Similar Charges		
Finance Lease Creditor Interest	8,492	8,399
Contingent Rent	153	218
Payment towards Financing liability		
Finance Lease Creditor Repayment	873	1,235
Total Unitary Charge	12,837	13,150

Previous accounting entries to build up an asset on the Council's Balance Sheet over the life of the contract were reversed and depreciation of £1.460m charged. The overall impact on the 2008-09 Income and Expenditure Account was to reduce the surplus for the year from £8.167m to £6.010m.

The 2008-09 Balance Sheet has also been restated. Operational Land and Buildings was increased by £88.4m for the five schools coming "on Balance Sheet", they have been revalued and depreciated giving a net book value figure of £87.573m as at 31 March 2009. The land occupied by the five schools was also revalued giving a further increase in Operational Land and Buildings of £16.291m, this land is owned by the Council. An initial finance lease liability of £88.4m was recognised, repayments of £2.069m have been made in the 2007-08 and 2008-09 financial years, this gives a closing liability of £86.331m as at 31 March 2009.

13.1 Assets Held under Schools NPDO Contract

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

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

13.2 Schools NPDO Finance Lease Liability

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

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

13.3 Payments due to Operator under Schools NPDO Contract

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

Future Repayment Periods	Repayment of Liability £'000	Lifecycle Costs £'000	Payment of Interest £'000	Service Charges £'000	Total Payments £'000
2010 - 2011	1,385	-	8,488	3,438	13,311
2011 - 2015	6,075	-	32,796	15,683	54,554
2015 - 2020	10,143	-	37,516	23,739	71,398
2020 - 2025	14,820	918	31,896	27,760	75,394
2025 - 2030	22,094	2,807	23,186	31,831	79,918
2030 - 2035	30,579	3,088	9,794	32,849	76,310
Total	85,096	6,813	143,676	135,300	370,885

14. FINANCE AND OPERATING LEASES

14.1 Finance Leases – Amounts Paid to Lessors

The Authority holds various vehicles under finance leases. The finance lease payment for the year amounted to £0.375m.

	2009/10 £'000	2008/09 £'000
Vehicles	375	464
Total	375	464

14.2 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 2009-10 were as follows:

	2009/10 £'000	2008/09 £'000
Land and Buildings	247	219
Vehicles	1,560	1,530
Plant and Equipment	170	166
Total	1,977	1,915

14.3 Assets Held Under Finance Leases

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

	Plant and Equipment £'000
Value at 1 April 2009	839
Additions	-
Depreciation	(351)
Value at 31 March 2010	488

Outstanding obligations to make payments under these finance lease (excluding finance costs) as at 31 March 2010, accounted for as part of long-term liabilities are as follows:

	Plant and Equipment £'000
Obligations payable within 1 year	289
Obligations payable between 1 and 5 years	199
Obligations payable after 2013/2014	-
Total Liabilities at 31 March 2010	488

14.4 Assets Held Under Operating Leases

The Council was committed at 31 March 2010 to making payments of £1.605m under operating leases in 2009-10 comprising the following elements:

	Other Land and Buildings £'000	Vehicles, Plant and Equipment £'000
Leases expiring within 1 year	18	364
Leases expiring between 1 and 5 years	31	1,020
Leases expiring after 5 years	172	-
Value at 31 March 2010	221	1,384

15. LONG TERM DEBTORS

	31st March 2010 £'000	31st March 2009 £'000
House Loans	183	210
Car Loans	-	3
Waste PPP Historic Contamination Fund	750	750
Total Long Term Debtors	933	963

16. DEBTORS

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

17. CREDITORS

	31st March	31st March
	2010	2009
	£'000	£'000
Loans Fund Interest	1,517	1,536
Accrued Payrolls and Superannuation	6,556	5,973
Accrued Employer's National Insurance Contributions and PAYE	2,499	2,423
Creditors System Liability	6,932	7,468
Accrued Expenditure	7,782	4,436
Other Creditors	7,892	10,229
Total Creditors	33,178	32,065

18. FINANCIAL INSTRUMENTS DISCLOSURES

18.1 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 31st March 2010 £'000	Current 31st March 2010 £'000	Long Term 31st March 2009 £'000	Current 31st March 2009 £'000
Investments and Lending				
Loans and Receivables	933	24,317	963	33,088
Available-for-sale financial assets	-	-	-	-
Borrowing				
Financial Liabilities at amortised cost	215,538	50,935	232,058	50,562
Financial Liabilities at fair value through profit and loss	-	-	-	-

18.2 Fair Value of Assets and Liabilities carried at Amortised Cost

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

- Estimated interest rates at 31 March 2010 for loans from the PWLB were taken from the appropriate interest rate notice and for other loans receivable and payable from market rates obtained by our treasury advisors.
- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values are calculated as follows:

	31st March 2010		31st March 2009	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Lending				
Loans and Receivables	25,250	25,250	34,051	34,096
Borrowing				
Financial Liabilities	266,473	305,931	282,620	321,248

The fair value of the Council's lending is the same as the carrying value at 31 March 2010 because the lending was at variable interest rates whilst the fair value is greater than the carrying amount at 31 March 2009 because the Council's lending figure includes a number of loans where the interest rate receivable is higher than the rates available for similar loans at the balance sheet date. The commitment to receive interest above current market rates increases the amount that the Council would receive if it agreed to early repayment of the loans.

18.3 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.

18.4 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.

18.5 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 2010 £'000	Historical Experience of Non- payment adjusted for Market Conditions at 31 March 2010 %	Estimated Maximum Exposure to Default and Uncollectibility £'000
Deposits with Banks, Building Societies and Local Authorities	6,795	-	-

The information in respect of the Council's debtors can be found in note 15 and 16. The Debtor Accounts represents the amounts owed by the Council's customers; Other Debtors include prepaid expenditure, accrued income and money owed to the Council in respect of projects being carried out under partnerships where the Council is the lead partner. The bad debt provision shown in note 16 represents the Council's assessment of the likely recoverability of the debt outstanding.

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

18.6 Liquidity Risk

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

The maturity analysis of financial liabilities is as follows:

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

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

18.7 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 2010, with all other variables held constant.

	31st March 2010 £'000	31st March 2009 £'000
Impact on tax-payer		
Increase on interest payable on variable rate borrowings	6	123
Increase in interest receivable on variable rate lending	-	(100)
Increases in government grant receivable for “loan charges”	-	-
Net effect on Income & Expenditure Account	6	23
	31st March 2010 £'000	31st March 2009 £'000
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)	16,995	35,370

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

18.8 Price Risk

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

18.9 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.

18.10 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.

	31st March 2010 £'000	31st March 2009 £'000
Banks	6,795	13,164

18.11 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 2009 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 24 and 25 on pages 44-46.

	31st March 2010 £'000	31st March 2009 £'000
Common Good	241	106
Trust Funds	959	1,195

19. 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
Balance at 1 April 2009	(57,317)	(3,312)	(60,629)
Grants Received During the Year to Finance Capital Projects	(9,742)	(3,080)	(12,822)
Transfer to Applied Government Grants	(2,181)	2,181	-
Credit to Revenue Account During the Year	2,156	-	2,156
Balance at 31 March 2010	(67,084)	(4,211)	(71,295)

20. 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 £0.039m. 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 the Council implemented a new Pay and Grading Model and also revised Terms and Conditions. Some 580 staff have appealed the determination of their allocated grade under single status arrangements. If an appeal is successful then any pay differential is normally backdated to 1 April 2006. A provision of £0.768m was created during 2008-09 for the backdated pay element for appeals which were successful during 2008-09, this provision was fully released during 2009-10. A provision of £0.571m has been created in 2009-10 to fund the additional backdated pay costs for all of the remaining 99 appeals which have still to be heard.

The Council reduced the discount on council tax from second homes to 10% during 2005-06. The additional council tax income invoiced during 2009-10 amounted to £1.776m; 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 £0.078m.

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 Council has raised valid expectations to those affected by announcing the features of the plan or actually starting to implement it.

The Council is in dispute with a care provider over fees and charges for 2009-10. The Council position being that the fee increases imposed during 2009-10 are unreasonably high, therefore the uplift element of the payments have been withheld from the provider. It is likely that the settlement of the dispute may involve litigation and that the Council may have to meet the payment demands, therefore a provision of £0.116m has been created for this in 2009-10.

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)	21	(39)
Equal Pay Claims	(168)	5	(163)
Single Status Provision	(768)	197	(571)
Income due to Registered Social Landlords (Additional Council Tax on Second Homes)	(62)	(16)	(78)
Reorganisation Redundancy Costs	(320)	(81)	(401)
Care Charges Provision	-	(116)	(116)
Operational Services - various provisions	(581)	8	(573)
Total Provisions	(1,959)	18	(1,941)

21. 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 £86.335m as at 31 March 2010 and comprise the following:

	Opening Balance £'000	Movement in Year £'000	Closing Balance £'000
Finance Lease Liability (See note 14.3)	(839)	350	(489)
Schools NPDO Finance Lease Liability (See note 13.2)	(86,331)	1,235	(85,096)
Land Contamination	(750)	-	(750)
Total Deferred Liabilities	(87,920)	1,585	(86,335)
Split:			
Obligations payable within 1 year			(1,385)
Obligations payable after 1 year			(84,950)
Total Deferred Liabilities			(86,335)

22. 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 the 2009-10 Accounts given the uncertainties that surround both the final outcomes and the settlement levels.

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

23. COMMITMENTS UNDER CAPITAL CONTRACTS

At 31 March 2010, the Council had commitments on capital contracts of £4.519m. 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	58
Community Services	2,570
Infrastructure and Transport	1,173
Operational Services	718
Total	4,519

24. 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	12	9	309	309
GM Duncan Trust	1	1	88	88
McDougall Trust	2	-	599	599
Various Other Trust Funds	6	2	518	518
Total Trust Funds	21	12	1,514	1,514

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.

25. 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 2010. 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.

25.1 Common Good Income and Expenditure Account for the year ended 31 March 2010

2008/09 Actual £'000		2009/10 Actual £'000
107	Expenditure	85
(95)	Income	(81)
12	Deficit for the Year	4

25.2 Common Good Balance Sheet at 31 March 2010

2008/09 Actual £'000		2009/10 Actual £'000
50	Tangible Fixed Assets	133
1,301	Investments	1,725
171	Current Assets	166
(14)	Current Liabilities	(26)
1,508	Total Assets less Liabilities	1,998
-	Revaluation Reserve	1,076
1,508	Common Good Fund	922
1,508	Total Net Worth	1,998

26. 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.

26.1 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 2010. These payments have been accrued and are included within the creditors figure on the balance sheet. These have been paid during April 2010. The amounts are as follows:

- Local Government Pension Scheme – £1.102m
- Teachers’ scheme – £0.660m

26.2 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 at 31 March 2008. The independent actuaries appointed by the Council are Hymans Robertson and they have assumed that employees have continued to earn new benefits on the same basis as the latest formal valuation and that the employer’s pensionable payroll over the year to 31 March 2010 remains substantially stable with new entrants replacing any leavers.

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

	2009/10 £'000	2008/09 £'000
Net Cost of Services:		
Current Service Cost	6,924	7,654
Past Service Cost	2,429	279
Settlements and Curtailments	229	175
Net Operating Expenditure:	9,582	8,108
Interest Cost	19,923	22,607
Expected Return on Employer Assets	(16,720)	(23,181)
Net Charge to the Income and Expenditure Account	12,785	7,534
Statement of Movement on the General Fund Balance:		
Reversal of net charges made for retirement benefits in accordance with FRS17	(1,085)	3,165
Actual Amount charged against Council Tax for pension in the year:		
Employer's Contributions Payable to the Scheme	11,700	10,699

In addition to the recognised gains and losses included in the Income and Expenditure Account, actuarial losses of £74.367m (£35.084m loss in 2008-09) were included in the Statement of Total Recognised Gains and Losses.

26.3 Assets and Liabilities in Relation to Retirement Benefits

Reconciliation of defined benefit obligation:

	2009/10 £'000	2008/09 £'000
Defined Benefit Obligation at 1 April	289,681	325,814
Current Service Cost	6,924	7,654
Interest Cost	19,923	22,607
Contributions by Scheme Participants	3,502	3,268
Actuarial (Gains) and Losses	154,401	(56,347)
Estimated Unfunded Benefits Paid	(1,557)	(1,474)
Estimated Benefits Paid	(13,447)	(12,295)
Losses on Curtailments	229	175
Past Service Costs	2,429	279
Defined Benefit Obligation at 31 March	462,085	289,681

Reconciliation of fair value of the scheme assets:

	2009/10 £'000	2008/09 £'000
Fair Value of Employer Assets at 1 April	257,164	325,216
Expected Rate of Return	16,720	23,181
Actuarial Gains and (Losses)	80,034	(91,431)
Employers Contributions	11,700	10,699
Contributions by Scheme Participants	3,502	3,268
Estimated Unfunded Benefits Paid	(1,557)	(1,474)
Estimated Benefits Paid	(13,447)	(12,295)
Fair Value of Employer Assets at 31 March	354,116	257,164

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption

yields as at the balance sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £16.7m (2008-09: £23.1m).

26.4 Scheme History

Local Government Pension Scheme	2005/06 £'000	2006/07 £'000	2007/08 £'000	2008/09 £'000	2009/10 £'000
Present Value of Scheme Liabilities	(374,999)	(368,549)	(325,814)	(289,681)	(462,085)
Fair Value of Assets	307,978	332,321	325,216	257,164	354,116
(Deficit) in the Scheme	(67,021)	(36,228)	(598)	(32,517)	(107,969)

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2011 is £10.3m.

26.5 Basis for Estimating Assets and Liabilities

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

The principal assumptions used by the actuary have been:

Long Term expected rate of return on assets in the scheme:	2009/10 %	2008/09 %
Equity Investments	7.8%	7.0%
Bonds	5.0%	5.4%
Property	5.8%	4.9%
Cash	4.8%	4.0%

Financial Assumptions	2009/10 %	2008/09 %
Rate of Inflation	3.8%	3.1%
Rate of Increase in Salaries	5.3%	4.6%
Rate of Increase in Pensions	3.8%	3.1%
Rate for discounting scheme liabilities	5.5%	6.9%

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

26.6 History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2009-10 can be analysed into the following categories:

Local Government Pension Scheme	2005/06 £'000	2006/07 £'000	2007/08 £'000	2008/09 £'000	2009/10 £'000
Scheme					
Experience gains and losses on assets	48,769	255	(33,965)	(91,431)	80,034
Experience gains and losses on liabilities	9,656	1,071	146	35,766	(977)

27. 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.

	2009/10	2008/09
Amount Paid Over (£'000)	5,342	4,768
Rate of Contribution (%)	14.90%	12.50%
Amount of Added Years Awarded by the Council (£'000)	516	528

28. DETAILS OF MOVEMENTS ON RESERVES

28.1 Revaluation Reserve

The revaluation reserve records unrealised revaluation gains arising since 1 April 2007 from holding fixed assets.

Revaluation Reserve	£'000
Balance at 1 April 2009	36,495
Revaluations of Fixed Assets	11,199
Transfer to Capital Adjustment Account for Depreciation on Revalued Assets	(1,713)
Balance at 31 March 2010	45,981

28.2 Capital Adjustment Account

The Capital Adjustment Account provides a balancing mechanism between the different rates at which assets are depreciated under the SORP and are financed through the capital controls system.

Capital Adjustment Account	£'000	£'000
Balance at 1 April 2009		74,452
Appropriations: Amortisation of Intangible Fixed Assets	(102)	
Depreciation and Impairment of Fixed Assets	(19,377)	
Amortisation of Deferred Government Grants	2,156	
Capital Element of Finance Lease Payments	350	
Repayment of NPDO Schools Finance Lease Creditor	1,235	
Write off of Net Book Value on Disposal of Fixed Assets	(676)	
Capital Financed from Current Revenue	443	
Loans fund principal repayments	20,070	
		4,099
Transfer from Capital Fund		33
Transfer from Revaluation Reserve for Depreciation on Revalued/Disposed Assets		1,713
Balance at 31 March 2010		80,297

It should be noted and stressed that both the Capital Adjustment Account and the Revaluation Reserve are matched by fixed assets within the Balance Sheet; they are not resources available to the Council.

28.3 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 2009-10 is as follows:

Useable Capital Receipts Reserve	£'000
Balance at 1 April 2009	2,762
Interest Earned	11
Balance at 31 March 2010	2,773

28.4 Capital Fund

During the 2007-08 financial year the Council established a Capital Fund under Section 22 of Schedule 3 of the Local Government (Scotland) Act 1975. All receipts from capital disposals are to be paid into this fund with effect from 14 February 2008. The movement in the Capital Fund during 2009-10 is as follows:

	£'000
Balance at 1 April 2009	871
Proceeds of Disposals	114
Transfer to Capital Adjustment Account	(33)
Contribution to Loans Fund Charges	(750)
Interest Earned	2
Balance at 31 March 2010	204

28.5 Pensions Reserve

The movement in the Pensions Reserve during 2009-10 is as follows:

Pension Reserve	£'000
Balance at 1 April 2009	(32,517)
Transfer to Revenue	(1,085)
Actuarial Loss in Pension Plan	(74,367)
Balance at 31 March 2010	(107,969)

28.6 Financial Instruments Adjustment Account

The financial Instruments Adjustment Account provides a balancing mechanism between the different rates at which gains and losses (such as premiums on the early payment of debt) are recognised under the SORP and are required by statute to be met from the General Fund.

Financial Instruments Adjustment Account	£'000
Balance at 1 April 2009	(6,750)
Additional Interest on Borrowings for Amortised Cost Basis	4
Annual Release of Debt Premiums / Discounts on Statutory Basis	368
Balance at 31 March 2010	(6,378)

It should be noted and stressed that the Financial Instrument Adjustment Account is matched by borrowings and investments within the Balance Sheet; they are not resources available to the Council.

28.7 Repairs and Renewals Funds

	Balance at 31 March 2009 £'000	Contribution from Revenue £'000	Interest Earned £'000	Contribution to Revenue £'000	Balance at 31 March 2010 £'000
Repairs and Renewals Funds:					
Education	475	102	2	(172)	407
Vehicles	69	-	-	-	69
Total	544	102	2	(172)	476

28.8 General Fund Balance

The Council has ring-fenced £28.538m of the balance on the General Fund as follows:

	Balance 1 April 2009 £'000	Funds Used £'000	Contributions to Funds £'000	Balance 31 March 2010 £'000
Ring-fenced				
Reserve Committed for 2009-10 Budget	1,673	(1,673)		-
Waste Management PPP	5,444		22	5,466
NPDO Affordability Funding	9,195		1,332	10,527
Revenue from Additional Council Tax on Second Homes (Strategic Housing fund)	6,032	(855)	1,776	6,953
Unspent Grants	1,363	(1,210)	891	1,044
Contributions Carried Forward	557	(169)	77	465
Unspent Budget Carried Forward	1,490	(863)	1,169	1,796
School Budget Carry Forwards	838	(838)	595	595
Unspent Budget Required for Existing Legal Commitments	186	(54)	126	258
CHORD	711		149	860
Process for Change	526		48	574
Total Ringfenced	28,015	(5,662)	6,185	28,538
Unallocated	4,612	(130)		4,482
Total General Fund Balance	32,627	(5,792)	6,185	33,020

The unallocated balance of £4.482m is 1.7% of the Council's budgeted net expenditure for 2010-11.

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

	2009/10 £'000	2008/09 £'000
Community Planning Partnership - Fairer Scotland Fund	965	978
Community Regeneration Funding	27	330
DWP Other Grants	924	817
Education Maintenance Allowance	608	501
Gaelic Education Grants	396	377
Housing Support Grant	139	192
Other Educational Grants	577	753
Other Grants (e.g. Civil Defence)	108	172
Other Social Work Grants	100	125
Private Sector Housing Grant	3,066	3,182
Public Transport Grants	11	17
Road Repairs Grant	199	-
Total	7,120	7,444

30. NET CASH FLOW RECONCILIATION

	2009/10 £'000	2008/09 £'000
Surplus / (Deficit) for Year	3,088	6,010
Adjustments Not Involving Movement in Funds	24,889	26,154
(Increase) / Decrease in Stocks	(9)	137
(Increase) / Decrease in Debtors	2,307	1,464
Increase / (Decrease) in Creditors	3,641	(6,519)
Revenue Activities Net Cash Flow	33,916	27,246

31. ANALYSIS OF NET DEBT

	31st March 2010 £'000	31st March 2009 £'000	Cash Flow £'000
Cash at Bank and in Hand	6,795	3,164	3,631
Bank Overdraft	(3,444)	(5,850)	2,406
Net Increase / (Decrease) in Cash	3,351	(2,686)	6,037
Debt due within one year	(12,639)	(11,061)	(1,578)
Debt due after one year	(130,878)	(145,357)	14,479
(Increase) / Decrease in Debt Financing	(143,517)	(156,418)	12,901
Movement in Debt in Period			18,938
Capital Element of Finance Lease			1,585
Net Cash Outflow from Debt and the Capital Element of Finance Leases			20,523

32. RECONCILIATION OF MOVEMENT IN CASH TO NET DEBT

	2009/10 £'000	2008/09 £'000
Increase / (Decrease) in Cash in Period	6,037	(37,094)
(Increase) / Decrease in Debt Financing	12,901	31,255
Movement in Debt in Period	18,938	(5,839)
Net Debt as at 1 April 2009	(159,103)	(153,264)
Net Debt as at 1 April 2010	(140,165)	(159,103)

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

2008/09 Actual £'000		2009/10 Actual £'000
52,702	Gross Council Tax Levied and Contributions in Lieu excluding RSL Second Home Additional Income	52,892
	Add Back:	
1,734	RSL Second Home Discount Additional Income	1,776
	Less:	
(7,436)	Other Discounts and Reductions	(7,470)
(1,170)	Provision for Bad and Doubtful Debts	(1,171)
45,830	Total	46,027
(19)	Adjustment to Previous Years' Community Charge and Council Tax	637
45,811	Transfers to General Fund	46,664

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 2009-10 was as follows:

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

2. CALCULATION OF THE COUNCIL TAX BASE 2009/10

Council Tax Base	A	B	C	D	E	F	G	H	Total
Total Number of Properties	7,781	9,631	9,325	5,850	7,043	3,859	2,590	227	46,306
Less - Exemptions / Deductions	951	729	973	529	545	229	151	40	4,147
- Adjustment for Single Chargepayers	902	997	759	429	377	174	96	5	3,739
Effective Number of Properties	5,928	7,905	7,593	4,892	6,121	3,456	2,343	182	38,420
Band D Equivalent Factor (ratio)	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	
Band D Equivalent Number of Properties	3,952	6,148	6,749	4,892	7,481	4,992	3,905	364	38,483
Add Contribution in lieu in respect of Class 18 dwellings (Band D Equivalent)									449
Nominal Tax Yield									38,932
Less Provision for Non-Collection - 3.84%									1,496
Council Tax Base 2009/10 - Number of Band D equivalents									37,436

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.

2008/09 Actual £'000		2009/10 Actual £'000
24,928	Gross rates levied and Contributions in Lieu	32,681
	Less:	
(4,407)	Reliefs and other deductions	(7,164)
(223)	Payment of Interest	(144)
(57)	Provision for Bad and Doubtful Debts	(258)
20,241	Net Non-Domestic Rate Income	25,115
1	Adjustment for years prior to introduction of national non-domestic rate pool	-
14,816	Contribution from national non-domestic rate pool	13,333
35,058	Transfers to General Fund	38,448

1. ANALYSIS OF RATEABLE VALUES

	2009/10 £	2008/09 £
Industrial and freight transport subjects	5,279,960	5,294,945
Miscellaneous including Telecomms, Rail, Gas and Electricity Companies	42,536,078	46,825,601
Commercial subjects:		
Shops	10,147,065	10,147,150
Offices	4,441,520	4,370,405
Hotels, Boarding Houses etc.	5,510,080	5,615,130
Others	1,489,475	1,541,675
Total Rateable Value	69,404,178	73,794,906

2. NON-DOMESTIC RATE CHARGE

	2009/10 Pence	2008/09 Pence
Rate Per Pound	48.1p	45.8p
Supplementary Rate Per Pound for Properties over £25,000	0.4p	0.4p

3. CALCULATION OF RATE CHARGE FOR EACH PROPERTY

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

2008/09 (Restated) Net Expenditure £'000	Service	2009/10		
		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
92,970	Education Services	103,889	8,984	94,905
17,885	Environmental Services	39,146	25,592	13,554
8,958	Cultural and Related Services	11,831	2,355	9,476
4,725	Planning and Development Services	20,919	4,414	16,505
47,391	Social Work Services	26,340	7,098	19,242
13,129	Housing Services (Non-HRA)	6,669	4,900	1,769
18,862	Roads and Transport Services	12,385	7,651	4,734
1,715	Trading Services	59,661	9,782	49,879
	Central Services			
1,925	- Central Services to the Public	5,963	207	5,756
5,470	- Corporate and Democratic Core	3,643	3	3,640
723	- Non-distributed Costs	3,556	1,104	2,452
1,290	- Other Operating Income and Expenditure	1,393	414	979
10,256	Strathclyde Police Joint Board	10,665		10,665
5,829	Strathclyde Fire Joint Board	6,131		6,131
231,128	Net Cost of General Fund	312,191	72,504	239,687
(1,640)	Share of Operating Results of Associates			(2,879)
229,488	Net Cost of Services			236,808
1,429	Net (Gain)/Loss on Disposal of Fixed Assets			562
(93)	(Surplus)/deficit on trading undertakings			(40)
13	Share of Associates (Gain)/Loss on Disposal of Fixed Assets			(2)
21,922	External Interest Payable			18,611
475	Share of Interest Payable by Associate			362
(4,900)	Interest and Investment Income			(859)
(271)	Share of Associate Interest and Investment Income			(48)
(574)	Pensions interest costs and expected return on pension assets			3,203
10,317	Share of Associate Pensions interest costs and expected return on pension assets			10,728
257,806	Net Operating Expenditure			269,325
174,047	General Government Grants			179,139
45,811	Income from Council Tax			46,664
35,058	Distribution from Non-domestic rate pool			38,448
(2,890)	Surplus/(Deficit) for Year			(5,074)

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

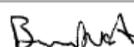
2008/09 (Restated) £'000		2009/10 £'000
6,010	Surplus on Income and Expenditure Account for the Year	3,088
	<i>Add:</i>	
(8,894)	(Deficit) attributable to Associates	(8,161)
(6)	(Deficit) attributable to Common Good Funds	(1)
(2,890)	Group Account Surplus/(Deficit) for the Year	(5,074)

Group Statement of Total Recognised Gains and Losses

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.

2008/09 (Restated) £'000		2009/10 £'000
(2,890)	Group Account Surplus/(Deficit) for the Year	(5,074)
9,109	Surplus on Revaluation of Fixed Assets	11,665
(30,438)	Actuarial (Losses)/Gains on Pension Fund Assets and Liabilities	(147,104)
(539)	Other Losses to be Included in the STRGL	(47)
(24,758)	Total Recognised (Losses)/Gains	(140,560)

2008/09 (Restated) £'000		2009/10	
			£'000
	Fixed Assets		
308	<i>Intangible Fixed Assets</i>		420
	<i>Tangible Fixed Assets</i>		
	Operational Assets		
276,169	- Other Land and Buildings		292,660
5,550	- Vehicles, Plant and Equipment		5,008
132,244	- Infrastructure Assets		139,371
2,101	- Community Assets		2,272
	Non-operational Assets		
6,843	- Investment Property		7,129
14,568	- Assets Under Construction		10,298
14,318	- Surplus Assets held for Disposal		14,054
452,101	Total Fixed Assets		471,212
1,261	Other Long Term Investments		1,684
962	Long Term Debtors		933
454,324	Total Long Term Assets		473,829
	Current Assets		
108	Stock and Work in Progress	117	
19,951	Debtors	17,522	
10,000	Investments	-	
3,202	Cash and Bank	6,854	24,493
487,585	Total Assets		498,322
	Current Liabilities		
(10,916)	Short Term Borrowing	(12,495)	
(1,235)	Deferred Liabilities Payable within 12 Months	(1,385)	
(32,066)	Creditors	(33,199)	
(5,863)	Bank Overdraft	(3,444)	(50,523)
437,505	Total Assets less Current Liabilities		447,799
(145,724)	Long Term Borrowing	(131,242)	
(60,629)	Government Grants - Deferred	(71,295)	
(1,959)	Provisions	(1,941)	
(86,685)	Deferred Liabilities Payable in a Period in Excess of 12 Months	(84,950)	
(143,567)	Investment in Associate	(224,538)	
(32,517)	Liability Related to Defined Benefit Pension Scheme	(107,969)	(621,935)
(33,576)	Total Assets less Liabilities		(174,136)
	Financed by:		
36,532	Revaluation Reserve		47,056
74,452	Capital Adjustment Account		80,297
2,762	Useable Capital Receipts Reserve		2,773
871	Capital Fund		204
(32,517)	Pensions Reserve		(107,969)
(6,750)	Financial Instruments Adjustment Account		(6,378)
32,627	General Fund Balance		33,020
(143,567)	Group Reserves		(224,538)
1,470	Common Good Reserves		923
544	Repairs and Renewals Funds		476
(33,576)	Total Net Worth		(174,136)



Bruce West, Head of Strategic Finance

30 September 2010

1. INTRODUCTION

The Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice (the 2009 SORP) places a requirement on Councils to consider all their interests in external organisations including limited companies and other statutory bodies. Where the interest is considered to be material, the Council is required to prepare a full set of group accounts in addition to those prepared for Argyll and Bute Council. The Group Accounts are designed to show “a true and fair view” the financial performance and position of the Council’s Group. 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 11 to 17 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.

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 2010.

4. NON MATERIAL INTEREST IN OTHER ENTITIES

The Council has an interest in Scotland Excel. Scotland Excel took up the activities of the Authorities Buying Consortium and similar bodies across the Scottish local authority sector on 1 April 2008. Renfrewshire Council prepare the financial statements for Scotland Excel in its role as lead authority. Scotland Excel is a not-for-profit organisation funded mainly by the 28 participating Scottish local authorities. Argyll and Bute Council contributed £0.06m towards Scotland Excel in the 2009-10 financial year.

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

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

5. NATURE OF COMBINATION

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

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 £221.634m. This gives an overall net liability for the Group of £174.843m. 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	4,656.066	185.777
Strathclyde Fire and Rescue Joint Board	1,215.571	47.164
Dunbartonshire and Argyll and Bute Valuation Joint Board	4.093	1.946
Total Pension Liability of Associates	5,875.730	234.887

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 Councils in the West of Scotland. During 2009-10 the Council contributed £10.665m or 3.99% of the Board's estimated running costs and its share of the net liability on the Balance Sheet is £181.113m 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 Councils in the West of Scotland. The Council contributed £6.131m to the Boards revenue costs in 2009-10 or 3.88% and has accounted for £42.515m 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 £0.624m or 1.63% of the Board's estimated net running costs during 2009-10 and accounted for £1.391m 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. During 2009-10 the Council contributed £0.104m or 4.14% of the net annual running costs and accounted for £0.170m 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 2009-10 Argyll and Bute Council contributed £1.394m towards estimated running costs and accounted for £1.565m of Net Balance Sheet Liabilities within the Group Balance Sheet. The accounts of the Board are subject to independent audit and are available from the Treasurer to Dunbartonshire and Argyll and Bute Valuation Joint Board, Council Offices, Garshake Road, Dumbarton G82 3PU.

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

	2009/10 £'m	2008/09 £'m
Argyll and Bute Council has a 47.5% share of:		
Gross Income	2.822	2.810
Net Surplus (Deficit)	(0.104)	(0.030)
Fixed Assets	0.782	0.706
Current Assets	0.475	0.344
Liabilities due within one year	(0.456)	(0.342)
Liabilities due over one year	-	(0.007)
Pension Liability	(4.093)	(0.746)
Capital and Revenue Reserves	(3.292)	(0.045)

8. REPORTING AUTHORITY ADJUSTMENTS

A number of adjustments are required to the Council's Income and Expenditure Account (page 18) 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 25 of the Notes to the Core Financial Statements on pages 45 to 46 have been fully consolidated into the Group Accounts. This adjustment increases the net assets and reserves of Argyll and Bute Council's Group by £2m.

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 23 to 24. 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 2010 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 Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Accounts Commission for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Responsible Financial Officer and auditor

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 2009 - A Statement of Recommended Practice (the 2009 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 for Scotland.

We report our opinion as to whether the financial statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2009 SORP, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

In addition, we 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 of Governance and 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 Foreword by the Head of Strategic Finance. 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 my audit in accordance with Part VII of the Local Government (Scotland) Act 1973 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Accounts Commission. An 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

- give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2009 SORP, of the financial position of Argyll and Bute Council and its group as at 31 March 2010 and the income and expenditure of Argyll and Bute Council and its group for the year then ended; and
- have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

Grant Thornton UK LLP

Grant Thornton UK LLP

Chartered Accountants and Registered Auditors

1-4 Atholl Crescent
EDINBURGH
EH3 8LQ

30 September 2010