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Argyll and Bute Council
Comhairle Earra-Ghàidheal Agus Bhòid

Customer Services
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15 June 2018

SUPPLEMENTARY PACK 1

AUDIT AND SCRUTINY COMMITTEE - COUNCIL CHAMBERS, KILMORY, LOCHGILPHEAD on **TUESDAY, 19 JUNE 2018** at **11:15 AM**

I enclose herewith **item 18 (UNAUDITED FINANCIAL ACCOUNTS)** which was marked to follow on the Agenda for the above meeting.

I also enclose herewith additional **item 20 (INTERNAL AUDIT REPORTS TO AUDIT AND SCRUTINY COMMITTEE - SERVICE LEVEL AGREEMENT ICT REPORT)** which was not included on the Agenda for the above meeting.

Douglas Hendry
Executive Director of Customer Services

ITEM TO FOLLOW and ADDITIONAL ITEM

18. UNAUDITED FINANCIAL ACCOUNTS (Pages 3 - 154)

Report by Head of Strategic Finance

20. INTERNAL AUDIT REPORTS TO AUDIT AND SCRUTINY COMMITTEE - SERVICE LEVEL AGREEMENT ICT REPORT (Pages 155 - 166)

Report by Chief Internal Auditor

Audit and Scrutiny Committee

Martin Caldwell (Chair)
Councillor George Freeman
Councillor Alan Reid
Councillor Richard Trail
Councillor Jim Findlay
Councillor Sir Jamie McGrigor
Councillor Sandy Taylor (Vice-Chair)
Councillor Andrew Vennard

Contact: Lynsey Innis, Senior Committee Assistant; Tel: 01546 604338

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ARGYLL AND BUTE COUNCIL | **AUDIT AND SCRUTINY COMMITTEE**

STRATEGIC FINANCE | **19 JUNE 2018**

2017-18 UNAUDITED ANNUAL ACCOUNTS

1. EXECUTIVE SUMMARY

1.1 This covering report gives an overview of the Unaudited Annual Accounts for 2017-18 and a summary of the significant movements from 2016-17. It also gives information on the revenue outturn for 2017-18 and Council will be asked to approve the unaudited financial statements in respect of 2017-18 for issue.

1.2 The Comprehensive Income and Expenditure statement shows a deficit on the provision of services of £15.441m, a surplus on the revaluation of Long Term Assets of £52.780m and an actuarial gain on the pension fund assets/liability of £96.302m giving an accounting surplus of £133.641m.

1.3 The Balance Sheet shows that the net worth of the Council has increased to £285.205m compared to a net worth at 31 March 2017 of £151.564m. The main reason for this increase relates to an increase in the land and buildings value due to the valuation of four new schools added into the balance sheet, Campbeltown, Oban, Kirn and Dunoon refurbishment, a reduction in the pension liability offset by an increase in long term liabilities due to the leases for the two new schools that are financed through the Design, Build, Finance and Maintain (DBFM) model (Campbeltown and Oban).

1.4 The balance of unusable reserves has increased by £135.938m from £93.115m as at 31 March 2017 to £229.053m as at 31 March 2018. The main reasons for this increase relates to the increase in the revaluation reserve due mainly as a result of the two new schools offset by a decrease in the pension fund reserve which matches the pensions liability.

1.5 The balance of usable reserves has decreased by £2.297m from £58.449m as at 31 March 2017 to £56.152m as at 31 March 2018. This is mainly as a result of the decrease to the General Fund Balance of £3.178m offset by small increases in the Capital Fund and the Repairs and Renewals Fund.

1.6 The General Fund balance at 31 March 2017 was £53.489m; of this a total of £41.519m was approved by Council to be earmarked for specific purposes. The new earmarked balance as at 31 March 2018 amounts to £43.717m and Note 5 in the Accounts provides further detail of the movement.

1.7 The performance against budget for financial year 2017-18 was an overall underspend of £2.567m (1.03%), after adjusting to reflect the new amounts earmarked by departments at the year end and taking account of the social work element of the Health and Social Care Partnership overspend. There was a net underspend of £0.958m in relation to departmental expenditure and a net underspend of £0.877m in relation to other central/non-departmental costs. The remainder of the underspend of £0.732m is in relation to funding and the over-recovery of Council Tax income.

1.8 The Committee is asked to consider the Unaudited Annual Accounts for the year ended 31 March 2018.

ARGYLL AND BUTE COUNCIL | **AUDIT AND SCRUTINY COMMITTEE**

STRATEGIC FINANCE | **19 JUNE 2018**

2017-18 UNAUDITED ANNUAL ACCOUNTS

2. INTRODUCTION

2.1 This covering report gives an overview of the Unaudited Annual Accounts for 2017-18 and a summary of the significant movements from 2016-17. It also gives information on the revenue outturn for 2017-18 and asks Members to approve the unaudited financial statements in respect of 2017-18 for issue.

3. RECOMMENDATIONS

3.1 The Committee is asked to consider the Unaudited Annual Accounts for the year ended 31 March 2018.

4. DETAIL

4.1 Introduction

4.1.1 The Annual Accounts set out the financial statements of the Council and its group for the year ended 31 March 2018. Its main purpose is to demonstrate the stewardship of public funds entrusted to the Council. The requirements governing the format and content of local authorities' annual accounts are contained in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The 2017-18 Accounts have been prepared in accordance with this Code.

4.1.2 There is a statutory requirement to prepare a set of Accounts and submit them to the Council and the Controller of Audit. The date set by the Scottish Government for the submission of the Unaudited Annual Accounts is 30 June each year.

4.1.3 It should be noted that the Accounts have still to be audited. The Audit Committee at its meeting in September will be advised by the external auditor of any material issues coming to light during the audit and any changes to the Accounts. The Audited Accounts, Audit Certificate and Auditors final report will be submitted to the November meeting of the Council. Figures are therefore subject to change.

4.1.4 Since 2010-11, Local Authorities have been required to prepare financial statements following International Financial Reporting Standards (IFRS). Under the Local Authority Accounts (Scotland) Regulations 2014 there is a requirement to include a Management Commentary in the Accounts. The contents of the Annual Accounts are noted below:

- Management Commentary
- Statement of Responsibilities for Annual Accounts

- Annual Governance Statement
- Remuneration Report
- Expenditure and Funding Analysis
- Statement of Comprehensive Income and Expenditure
- Balance Sheet
- Statement of Movement in Reserves
- Cash Flow Statement
- Notes to the Financial Statements
- Council Tax and Non-Domestic Rate Income Accounts
- Group Accounts

4.1.5 There are no significant changes in accounting policies in 2017-18.

4.1.6 The Council also produces a set of summary accounts for 2017-18 and these are included as a separate item on the agenda.

4.2 Management Commentary

4.2.1 The Management Commentary outlines the key messages regarding the objectives and strategy of the Council and its financial performance for the year. It also looks forward, outlining the future financial plans for the organisation and the challenges and risks which are faced in making Argyll and Bute a place where people want to live, learn, work and do business.

4.2.2 The management commentary has been updated to reflect 2017-18 performance and also includes detail on the plans for the future which includes the work of the Transformation Board and progress with the Rural Growth Deal. The commentary includes the following:

- Objectives and Strategy of the Council
- Performance against our Priorities
- Finance Performance 2017-18
- Key Financial Indicators
- Plans for the Future.

4.3 Statement of Responsibilities for Annual Accounts

4.3.1 The Statement of Responsibilities for the Annual Accounts outlines the Council's responsibilities and also the responsibilities of the Head of Strategic Finance.

4.4 Annual Governance Statement

4.4.1 The Governance Statement states its view on the adequacy of its governance and internal control system. It is the Council's view that the systems for governance and internal control are operating effectively within Argyll and Bute Council during 2017-18 and that there are no significant weaknesses.

4.5 Remuneration Report

4.5.1 The Remuneration Report gives details of the remuneration policy, remuneration and pension benefits of senior councillors and senior officers in addition to detail on employee exit packages.

4.6 Expenditure and Funding Analysis

4.6.1 The expenditure and funding analysis was a new statement last year. It shows how the Council funding is spent across services. It also compares to the expenditure shown in the statement of comprehensive income and expenditure and details the differences between the two. The differences are as a result of accounting statutory adjustments that are required within the Statement of comprehensive income and expenditure, for example, depreciation, pension adjustments etc.

4.7 Statement of Comprehensive Income and Expenditure

4.7.1 The statement of comprehensive income and expenditure shows the accounting cost of providing services rather than the amount to be funded from taxation. The Council is required to make various statutory accounting adjustments to the net cost of services as reported in the budgetary outturn in order to comply with the Code of Practice for Local Authority Accounting in the United Kingdom 2017-18 (The Code). These accounting adjustments include depreciation, loans fund principal repayment and accrued holiday leave not taken by 31 March 2018.

4.7.2 The Council ended the year with a surplus of £133.641m for 2017-18, this is the accounting surplus based on the IFRS compliant accounts rather than the movement in the General Fund Balance. The total Comprehensive Income and Expenditure comprises of a deficit on the provision of services of £15.441m, reduced by a surplus on the revaluation of Long Term Assets of £52.780m and an actuarial gain on the pension fund assets/liability of £96.302m.

4.7.3 The deficit on the provision of services of £15.441m compares to a deficit of £4.638m for 2016-17. The main factors contributing to this change is an increase in the Net Cost of Services of £9.985m (4.2%), an increase in financing and investment income and expenditure of £3.211m, offset by an increase in the overall funding of £5.762m.

4.7.4 The table below, sets out a reconciliation of the Deficit/(Surplus) on the provision of services of £15.441m as noted in the Statement of Comprehensive Income and Expenditure to the revenue budgetary outturn of £2.567m (underspend).

	£000	£000
Deficit on Provision of Services		**15,441**
Remove statutory adjustments that don't feature in budget outturn:		
Depreciation	(21,378)	
Impairments of Asset charged to services	(7,581)	
Capital Funding	17,243	
CFCR	4,135	
Pension Adjustment	(14,776)	
Statutory Repayment of Debt	10,361	
Repayment of Finance Leases	2,042	
Transfers to/from Other Statutory Reserves	629	
Other Adjustments	(2,938)	
		(12,263)
Movement In General Fund Balance		**3,178**
Adjust for earmarkings:		
Released sums earmarked to service budgets 2017-18	(10,602)	
Supplementary estimates agreed during 2017-18	(123)	
Budgeted Surplus in 2017-18 transferred to General Fund	193	
Contributions to earmarked reserves 2017-18	4,787	
		(5,745)
Revenue Budget Outturn		**(2,567)**

4.8 Balance Sheet

4.8.1 The Balance Sheet shows that the net worth of the Council has increased to £285.205m compared to a net worth at 31 March 2017 of £151.564m. The main reason for this increase relates to an increase in the land and buildings value due to the valuation of four new schools added into the balance sheet, Campbeltown, Oban, Kirn and Dunoon refurbishment, a reduction in the pension liability offset by an increase in long term liabilities due to the leases for the two new schools that are financed through the Design, Build, Finance and Maintain (DBFM) model (Campbeltown and Oban).

4.8.2 The value of Long Term Assets includes property, plant and equipment as well as other intangible assets. They have increased by £106.348m from £509.123m as at 31 March 2017 to £615.471m as at 31 March 2018. The main reason for the increase is in relation to the valuation of four new schools, Campbeltown, Oban, Kirn and Dunoon refurbishment.

4.8.3 Total Current Assets has increased by £11.068m from £77.672m as at 31 March 2017 to £88.740m at 31 March 2018. The main reason for this increase relates to a small increase in short term investments, cash held and debtors at the end of the year.

4.8.4 Total current liabilities have decreased by £1.409m from £48.461m as at 31 March 2017 to £47.052m as at 31 March 2018. The main reason for this reduction is due to the repayment of external debt which had a life of less than one year.

4.8.5 Total long term liabilities have decreased by £14.816m from £386.770m as at 31 March 2017 to £371.954m as at 31 March 2018. The main reason for this decrease relates to a reduction in the pension liability offset by the finance lease liabilities for the two new schools under the DBFM model.

4.9 Statement of Movement in Reserves

4.9.1 This Statement shows the movement on the different reserves held by the Council, analysed into usable reserves (resource backed reserves which can be used to fund expenditure) and unusable reserves (required purely for accounting purposes and are not backed by resources).

4.9.2 The total Council reserves have increased from £151.564m at 31 March 2017 to £285.260m at 31 March 2018, an increase of £133.641m.

4.9.3 The balance of unusable reserves has increased by £135.938m from £93.115m as at 31 March 2017 to £229.053m as at 31 March 2018. The main reasons for this increase relates to the increase in the revaluation reserve due mainly as a result of the two new schools offset by a decrease in the pension fund reserve which matches the pensions liability.

4.9.4 The balance of usable reserves has decreased by £2.297m from £58.449m as at 31 March 2017 to £56.152m as at 31 March 2018. This is mainly as a result of the decrease to the General Fund Balance of £3.178m offset by small increases in the Capital Fund and the Repairs and Renewals Fund.

4.9.5 In respect of the General Fund Balance movement, there were £10.602m of earmarked reserves released to services and spent during 2017-18 and a supplementary estimate of £0.123m drawn down to meet the increased cost of the settled pay award. The contributions to earmarked reserves amount to £4.787m and there was a small surplus from the 2017-18 budget of £0.193m. The overall underspend on the revenue budget amounted to £2.567m. All these factors contribute to the increase in the General Fund balance as summarised within the table below:

	£000
Balance on General Fund 31 March 2017	53,489
Released sums earmarked to service budgets 2017-18	(10,602)
Supplementary Estimates agreed and used during 2017-18	(123)
Contributions to earmarked reserves 2017-18	4,787
Budgeted contribution to General Fund 2017-18	193
Overall budget underspend as above	2,567
Balance on General Fund 31 March 2018	50,311

4.9.6 The General Fund balance at 31 March 2017 was £53.489m; of this a total of £41.519m was approved by Council to be earmarked for specific purposes. The new earmarked balance as at 31 March 2018 amounts to £43.717m and Note 5 in the Accounts provides further detail of the movement.

4.9.7 The Council has agreed to hold a contingency balance equivalent to 2% of the Council budget for 2018-19. This contingency is held to provide a working balance to help cushion the impact of uneven cash flows and cushion the impact of unexpected events. The unallocated General Fund balance, over and above the contingency, amounts to £1.868m.

4.10 Cash Flow Statement

4.10.1 The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the financial year. This is analysed into Operating, Investing and Financing Activities. The Cash and Cash Equivalents balance increased by £2.537m to £10.426m. The operating activities generated cash of £9.208m this increase was partly offset by the purchase of assets under the investment activities which saw an outflow of £11.438m. The financing activities were an inflow of £4.767m which reflect the increased borrowing taken by the Council.

4.11 Notes to the Financial Statements

4.11.1 The notes section provides further information and explanation on some of key figures included within the Accounts. The notes conform to the guidance issued by CIPFA/LASAAC within the Code of Practice on Local Authority Accounting.

4.12 Council Tax Income Account

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

4.12.2 Council tax rate for Band D was £1,213.34 for 2017-18 compared to £1,178.00 for 2016-17.

4.12.3 The income transferred to the General Fund for Council tax in 2017-18 was £48.080m. This compared to £44.051m in 2016-17.

4.13 Non Domestic Rate Income Account

4.13.1 The Non-Domestic Rate Account is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate non-Domestic Rate Account.

4.13.2 Non Domestic Rate Income amounted to a share of £29.615m for 2017-18 allocated from the national pool. This compares to £30.446m in 2016-17. Our own net income amounted to £35.947m and we made a contribution to the national pool of £6.332m for 2017-18. These figures compared to income of £30.787m and a contribution to the national pool of £0.341m for 2016-17.

4.14 Group Accounts

4.14.1 Argyll and Bute Council Group comprise the following entities:

- Argyll and Bute Council
- Dunbartonshire and Argyll and Bute Valuation Joint Board
- Strathclyde Partnership for Transport
- Strathclyde Concessionary Travel Scheme Joint Committee
- Live Argyll (Leisure Trust).

In addition, the council's Common Good Funds have been fully consolidated into the Group Accounts.

4.14.2 The effect of inclusion of the Associates and Common Good Funds on the Group Balance Sheet is to increase both reserves and net worth by £10.329m. This gives an overall net asset position for the Group of £295.534m, an increase of £137.417m from the previous year. As with the single entity Balance Sheet, the increase is mainly due to annual revaluations new schools as well as a reduction in the pension liability.

4.15 Performance Against Budget

4.15.1 The performance against budget for financial year 2017-18 was an overall underspend of £2.567m (1.03%), after adjusting to reflect the new amounts earmarked by departments at the year end and taking account of the social work element of the Health and Social Care Partnership overspend. There was a net underspend of £0.958m in relation to departmental expenditure and a net underspend of £0.877m in relation to other central/non-departmental costs. The remainder of the underspend of £0.732m is in relation to funding and the over-recovery of Council Tax income. The main reasons for the year-end underspend are noted below:

- Additional savings were generated during the year as a consequence of deliberate decisions not to fill posts which became vacant during the year and had been identified for removal as part of savings options in future years.
- Non Profit Distributing Organisation (NPDO) costs were lower than expected due to insurance and utility cost savings arising as a result of the annual renegotiation of insurance costs and contract management arrangements which are in place.
- Savings in pensions costs due to a superannuation budget no longer required (removed from the 2018-19 budget) and lower than anticipated pension costs.

- Loans charges were underspent by £0.500m as a decision was taken to defer some of the special repayments of principal to allow some underspend to be transferred to the General Fund balance.
- Additional funding received as part of the budget announcement in 2018-19, but paid in 2017-18.
- Council tax income was better than expected partly due to better than expected collection of double Council Tax on empty homes and growth in the tax base. This has also been reflected in the 2018-19 budget.
- These underspends were partly offset by an overspend on winter maintenance, lower than expected income from planning fees and increased demand for Additional Support Needs and placements in residential schools

4.15.2 A summary of the final outturn position is noted within the table below:

Final Outturn Variance (Un-audited) 2017/18				
Department	**Actuals**	**Budget Adjusted for Earmarkings**	**Variance (Overspend) Underspend**	**% age**
Chief Executive's Unit	2,409,184	2,479,125	69,940	2.82%
Community Services	79,766,285	79,435,211	(331,073)	(0.42%)
Customer Services	40,037,393	41,343,626	1,306,233	3.16%
Development and Infrastructure Services	34,181,985	34,095,168	(86,817)	(0.26%)
Total Departmental Expenditure	**156,394,847**	**157,353,130**	**958,283**	**0.61%**
Integration Services	57,579,226	56,424,128	(1,155,098)	(2.05%)
Joint Boards	1,352,303	1,374,371	22,068	1.61%
Loans Charges	18,583,976	19,083,976	500,000	2.62%
Pension Costs	2,358,705	2,727,399	368,694	13.52%
Other	7,632,489	8,773,813	1,141,324	13.01%
Total Non-Departmental Expenditure	**87,506,699**	**88,383,687**	**876,988**	**0.99%**
Total Expenditure	**243,901,546**	**245,736,817**	**1,835,271**	**0.75%**
Total Funding	251,256,208	250,524,053	732,155	0.29%
UNDERSPEND			**2,567,426**	

5. CONCLUSION

5.1 The Unaudited Annual Accounts have been prepared in accordance with professional and statutory requirements. The General Fund Balance has decreased by £3.178m, which includes the revenue year-end outturn being £2.567m better than budgeted. The net worth per the balance sheet increased by £133.641m to £285.205m. Overall the financial position of the Council remains stable.

6. IMPLICATIONS

6.1	Policy –	None.
6.2	Financial -	None, summarises the financial position for 2017-18.
6.3	Legal -	None.
6.4	HR -	None.

6.5	Equalities -	None.
6.6	Risk -	None.
6.7	Customer Service -	None.

Kirsty Flanagan
Head of Strategic Finance
15 June 2018

Gary Mulvaney - Policy Lead for Strategic Finance and Capital Regeneration Projects

For further information please contact Peter Cupples, Finance Manager Corporate Support 01546-604183.

Appendix 1 – Unaudited Annual Accounts 2017-18.

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Argyll and Bute Council

Comhairle Earra Ghàidheal agus Bhòid

Unaudited Annual Accounts

for the year ending 31 March 2018

FRONT COVER PICTURE: WINTER GARDENS - ROTHESAY

LANGUAGE OPTIONS

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

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

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

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

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

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

یہ دستاویز اگرآپ کوکسی دیگرزبان یادیگرشکل میں درکارہو، یااگرآپ کوترجمان کی خدمات چاہئیں توبرائے مہربانی ہم سے رابطہ کیجئے۔

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

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ANNUAL ACCOUNTS CONTENTS

NOTES TO THE FINANCIAL STATEMENTS CONTENTS

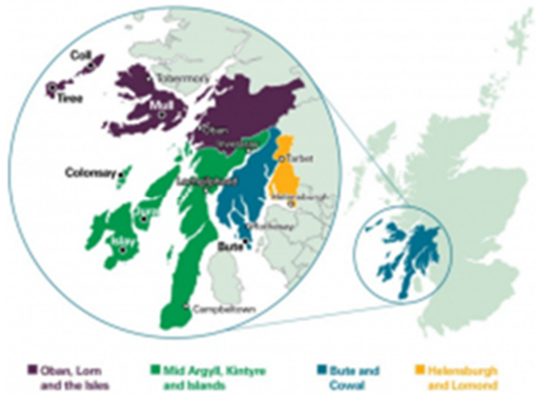
NOTES TO THE FINANCIAL STATEMENTS CONTENTS

1. INTRODUCTION

What is the Management Commentary?

This Management Commentary outlines the key messages regarding the objectives and strategy of the Council and its financial performance for the year. It also looks forward, outlining the future financial plans for the organisation and the challenges and risks which are faced in making Argyll and Bute a place where people want to live, learn, work and do business.

Argyll and Bute: The Geography



Argyll and Bute is bounded by the urban areas of Helensburgh and Dunoon along the Clyde, Loch Lomond to the East, Mull of Kintyre to the south, Atlantic Islands to the west, and the Sound of Mull and Appin to the north. It covers an area of 691,000 hectares making it the second largest local authority area in Scotland. Our area has the third sparsest population density of the 32 Scottish local authority areas, with an average population density of just 13 persons per square kilometre.

Argyll and Bute has 23 inhabited islands (Census 2011) more than any other local authority in Scotland with around 17% of the population living on Islands (Census 2011). The area is also home to several long sea lochs, which bisect the landscape and along with the islands give Argyll and Bute a very long coastline and a higher level of reliance on ferries for travel. Almost 80% of the population live within one kilometre of the coast (Scottish Coastal Forum, 2002).

Argyll and Bute: Population and Demographics

The total population of Argyll and Bute was 88,166 based on the 2011 census. This compares to a total population for the area of 91,306 in the 2001 census, a reduction of 3.4%. Argyll and Bute was one of only 4 local authority areas to show a decrease in population. The mid-year estimate as at the end of June 2017 was 86,810, a further decline from the census figure for 2011 and a decline from the previous mid-year estimate in 2016 of 0.4%. The net in-migrations has shown an increase for the second year in a row (2016 and 2017) and this means that there are more people coming into the area than are leaving it by choice, however, this is offset by more deaths than births hence the overall decline. Having a positive in-migrations is encouraging in reversing population decline.

In terms of overall projections, the decline is projected to continue. The latest National Records of Scotland projection up to 2041 is reported as 78,504, a decrease of 8,626 (9%) based on the 2016 based population projections. There is a national trend of an ageing population, however, proportionately, Argyll and Bute have a much older population than the national average. These changes in population will have significant implications for the delivery of Council services now and into the future. The change in population has particular challenges in relation to the provision of care, the future sustainability of Argyll and Bute’s workforce and the economic sustainability of the area. Population projections are based on past trends – growing the population through economic development is the Council’s overarching priority.

Argyll and Bute: Key Challenges

- Our geography – A highly rural area with many small communities, often separated by water. Access to the area and to key services is a perennial challenge.
- Reducing population – The projected decline in total population is a real threat to the viability of the area with a potential to adversely impact on the economy/wealth creation, workforce availability and efficient service delivery.

- Changing population – With more extremes than most of Scotland we face increasing costs and challenges to deliver services to older people and we need to encourage younger people to move to the area so that our economy can grow.
- Economy – Unlocking the opportunities offered by its significant, sustainable economic assets for the benefit of its communities and the competitiveness and security of the Scottish, UK economies.
- Employment – Developing education, skills and training to maximise opportunities for all and create a workforce to support economic growth.
- Infrastructure – Improving and making better use of infrastructure in order to promote the conditions for economic growth including enhancing the built environment and our town centres.
- Sustainability – Ensuring a sustainable future by protecting the natural environment and mitigating climate change.
- Health – Improving health and wellbeing and reducing health inequalities.
- Deprivation – Inequalities exist in Argyll and Bute so we need to improve how we identify and implement action to address them.
- People on the fringe – Many of our communities are very isolated and risk collapsing as population change takes affect alongside urban communities where deprivation can create real hardships.

Argyll and Bute Council

Argyll and Bute Council was established in 1996 as part of local government reorganisation in Scotland under the Local Government (Scotland) Act 1994.

The Council has thirty six councillors elected every five years to represent the interests of the local community. Argyll and Bute is split into 11 multi-councillor areas or wards. This means that for every ward there are at least 3 councillors that represent the area you live in.

The management of the Council is led by the Chief Executive, Cleland Sneddon. The operational structure is divided into the Chief Executive's Unit and three directorates: Customer Services (that now includes Education from April 2018), Development and Infrastructure and Health and Social Care Partnership. From 1 April 2016, Adult Care and Children and Families Services transferred over to the Health and Social Care Partnership and the responsibility for strategic decisions lies with the Integration Joint Board.

At the Council meeting on 24th November 2016 the Council approved the full business case and the next steps to implementation of a Charitable Trust for Leisure and Libraries. The Trust, called "Live Argyll" went live on 2 October 2017. The first 6 months of the leisure and libraries service is included within the comprehensive income and expenditure in detail and thereafter a management fee is paid over to the Trust to run these services.

Chief Executive's Unit	Customer Services	Development and Infrastructure	Health and Social Care Partnership
• Strategic Finance • Community Planning and Community Development	• Governance and Law • Customer and Support Services • Improvement and Human Resources • Facility Services • Education	• Roads and Amenity Services • Economic Development • Planning, Housing and Regulatory Services	• Adult Care • Children and Families • Health Services (NHS) • Community Justice Services

Annual Accounts 2017-18

The Annual Accounts set out the financial statements of the Council and its group for the year ended 31 March 2018. Its main purpose is to demonstrate the stewardship of public funds entrusted to the Council. The 2017-18 Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Council also produces a set of summary accounts for 2017-18 and these can be accessed on the Council's website.

2. OBJECTIVES AND STRATEGY OF THE COUNCIL

Argyll and Bute Outcome Improvement Plan (ABOIP) 2013-2023

Our geography, coupled with a declining population presents us with unique challenges. The Argyll and Bute Outcome Improvement Plan (ABOIP) sets out the shared vision, priorities and objectives for Argyll and Bute over the next ten years. These are wholly consistent with the Council's Corporate Plan. The overall objective of the plan for the 10 years to 2023 is:

Argyll and Bute's Economic success is built on a growing population.

This outcome is entirely supportive of the 6 national policy priorities set out in the national guidance on community planning and will also see Argyll and Bute contribute to the national outcomes for Scotland. To achieve the overall objective set out above, 6 long term outcomes have been identified. These outcomes will support the overall objective of "Argyll and Bute's economic success is built on a growing population" and also address the 6 national policy priorities for community planning.

The 6 long term outcomes are set out below:

1. The economy is diverse and thriving
2. We have infrastructure that supports sustainable growth
3. Education, skills and training maximises opportunities for all
4. Children and young people have the best possible start
5. People live active, healthier and independent lives
6. People live in safer and stronger communities.

The ABOIP can be accessed at the following web-link:

https://www.argyll-bute.gov.uk/sites/default/files/aboip_v1_2018.pdf

Corporate Plan 2018-22

The landscape in which we deliver our services is changing. We must transform how we work so that we can deliver the services our communities need and the prosperity the future of Argyll and Bute depends upon. We have considerable challenges to meet – declining funding for our services, economic dependence on the public sector, and an ageing population.

Argyll and Bute is recognised as one of Scotland's most promising regions, and we are ambitious for our future and for the future of our young people in Argyll and Bute.

In February 2018 the Corporate Plan 2018-2022 was approved. This sets out our Mission, Vision and Priorities for the next 4 years. It emphasises that we must transform how we work to deliver services our communities need against a backdrop of some considerable challenges. Embedded within the Corporate Plan are the new values which were developed by the Culture Steering Group. The new values of Committed, Creative, Caring and Collaborative (the 4Cs) will be actively promoted across the organisation.

Our Corporate Plan illustrates the Golden Thread from each Individual, through Teams, Services and Departments - everything aligns with the Argyll and Bute Outcome Improvement Plan – to improve the Outcomes for our Communities.

Our mission:

To make Argyll and Bute a place people choose to live, learn, work and do business.

Our Corporate Plan 2018-2022 can be accessed at the following web-link:

https://www.argyll-bute.gov.uk/sites/default/files/corporate_plan_with_council_priorities.pdf

Service Plans

Service Plans set out the key service delivery aims for the financial year and are aligned to the Corporate Plan and Single Outcome Agreement. The service plans also detail the agreed measures, targets and timescales to achieve the required results.

Our Service Plans can be accessed at the following web-link:

https://www.argyll-bute.gov.uk/service-plans-overview

Performance Reporting

The Council had a well-established Planning and Performance Management Framework (PPMF) which underpinned the delivery of services according to strategic priority outcomes within allocated budgets. The PPMF was developed in 2009 and it further increased in complexity over the years. In 2016 the Performance Review and Scrutiny Committee and the Chief Executive requested a review of the PPMF to simplify the process, reduce duplication and to move the focus away from reporting what we can count to reporting what counts and supports improved scrutiny.

A new Performance and Improvement Framework (PIF) was introduced and approved by Council in April 2017. Previously, to help identify how the Corporate Outcomes were being delivered the Council used a suite of 63 Service Outcomes which were developed and owned by individual Heads of Service. As of the 2017-18 financial year a suite of 32 Business Outcomes owned and endorsed by the Strategic Management Team (SMT) were developed and used. The Business Outcomes now create a corporate overview, cutting across all services and departments. They help remove silo working and identify duplication and efficiencies. They also illustrate the "golden thread" from the individual Performance Review and Development (PRD) to the Argyll and Bute Outcome Improvement Plan.

The format of the Service Plans also changed from one year to three year plans, noting that the budget is currently set for one year. The Service Plans are built in Pyramid and illustrated as Service Scorecards, which when combined are the basis of the Departmental and Council Scorecards. As a result each Corporate Outcome is supported by a number of Business Outcomes, which in turn are supported by any number of success measures from across the Council.

To further tie together linkages between successes, progress and challenges new performance reporting templates have been developed. These are Quarterly for Departments and 6-monthly for the Council and were in use from FQ3 2017/18 onwards. The new templates identify Successes; Progress; Challenges and Improvements. For Departments this is done by Business Outcome and for the Council by Corporate Outcome.

Continuous Improvement approach is applied to the PIF. The current report illustrates that Business Outcomes 7 and 8 currently have no success measures aligned to them. A more appropriate and balanced suite of 21 Business Outcomes is being developed for implementation in 2019-20. These align to the ABOIP, Corporate Plan and the Council's political priorities. Once agreed HROD will work with Services and Departments with a view to improving the nature and number of success measures aligned to the Business Outcomes. This may result in an overall reduction of success measures but provide a clearer picture of the work, achievements and challenges through the use of more appropriate success measures. To allow time for this important piece of work to be undertaken the start of the Service Planning process is being brought forward to July 2018.

Budget Strategy

At the Council meeting on 11 February 2016, Members were asked to make a decision on all Service Choices policy options that were subject to public consultation irrespective of whether the saving was due to be delivered in 2016-17, 2017-18 or beyond. This was to assist in planning beyond 2016-17 and to allow for preparation time particularly in areas where significant redesign of services to deliver longer term savings was proposed. The increase in savings between 2016-17 and 2017-18 amounted to £2.522m rising to £3.823 in 2018-19. This budget strategy ensured that the Council were well placed to deliver a balanced budget in 2017-18.

Regular medium term budget outlook reports were reported to the Policy and Resources Committee and in assessing the potential budget gap, another option to assist in balancing the budget for 2017-18 was the setting of an efficiency saving target with officers identifying management/operational savings that had no policy implications, to meet the target. In terms of the target, 2% was deemed to be an acceptable level of efficiency saving.

Savings options identified for 2017-18 were reported to Council on 24 November 2016 and amounted to £1.403m (full year), with £1.377m deliverable in 2017-18. The savings options identified had no policy implications and officers implemented these as part of normal business.

The Scottish Government made a late announcement on 2 February 2017 to allocate additional funding to Councils for 2017-18. Due to the strategy already adopted for our Council, we were already in a balanced position, however, this additional funding allowed the Council to allocate additional funding to the Health and Social Care Partnership to assist in supporting transformational change and smoothing their projected budget gap.

In terms of looking beyond 2017-18, a three-year financial outlook covering the period 2018-19 to 2020-21 was kept up to date during the financial year and presented to Members at the Policy and Resources Committee on 17 August 2017, 19 October 2017, 8 December 2017 and a further update at the Members Seminar held on 25 January 2018. There was early identification of management efficiencies, agreed by Council on 26 October 2017, in advance of the 2018-19 budget setting process to assist in balancing the budget. The Transformation Board also identified a number of new policy savings that were reported to Council on 26 October 2017 and were subject to the Council's budget consultation exercise. The savings options were then considered by Council as part of balancing the 2018-19 budget.

Budget Monitoring

The Council has robust budget monitoring arrangements in place and a monitoring pack is prepared and presented to the Policy and Resources Committee every two months. The monitoring pack includes the following reports:

- Financial Monitoring Pack Summary - an executive summary.
- Revenue Budget Monitoring - this report provides a summary of the current revenue budget monitoring position to ensure net expenditure is contained within budget. It provides corporate and departmental information with comparisons on a forecast outturn and a year to date basis.
- Monitoring of Service Choices savings - this report provides an update on the implementation and delivery of the Service Choices policy savings options agreed by Council in February 2016. The savings options are reported as being delivered, on track to be delivered, still to be implemented, being developed or delayed. As the majority of Service Choices savings are now delivered and a number of new policy options were agreed at the Council meeting in February 2018, a new report will be created, similar to this report to monitor these new savings.
- Monitoring of Financial Risks - this report outlines the process and approach developed in carrying out a financial risks analysis and provides an update on the current assessment of financial risks.
- Capital Plan Monitoring - this report provides a summary of the current capital plan monitoring position. Information is provided in terms of monitoring year to date budget, current full year budget, future years total budget and funding and non-financial in terms of project performance.
- Treasury Monitoring - this report provides information on the current levels and recent transactions in relation to the capital financing limit, total borrowing, temporary borrowing and long term borrowing and investments.
- Reserves and Balances - this report summarises the overall level of reserves and balances and monitors the spending of the earmarked reserves, providing detailed information on the unspent budget earmarked balances.

Risk Strategy

The Council has a risk management strategy in place that is subject to regular review and has been assessed as "embedded and integrated" as per CIPFA benchmarking.

The Strategic Risk Register (SRR) and the Operational Risks Registers (ORR) have been subject to regular review and updated over the last few years with the format of both being subject to periodic change to reflect audit recommendations. Updates to the Performance Improvement Framework and the introduction of business outcomes and service plan challenges resulted in a need to further review the ORRs.

In early 2018 the Chief Internal Auditor reviewed the SRR and ORR process and proposed changes which were discussed and agreed by the Strategic Management Team (SMT). The Council's risk management manual has been revised to reflect these operational decisions, formalise the risk management process and provide guidance to officers on risk management. The SRR will be updated on a bi-annual basis by the SMT and ORRs will be updated on a quarterly basis by Departmental Management Teams (DMTs).

Financial risks are also considered as part of the budget process and medium term outlook and regularly reviewed as part of routine budget monitoring throughout the year. There are some Council wide financial risks in relation to shortfall on savings, employer's on-costs, energy costs and increases in general inflation. There are also a number of risks relevant to departments/services and mitigations are in place.

Treasury Strategy

The Council publishes an annual Treasury Management Strategy to coincide with the approval of the financial plans in February. This strategy links the Council's capital investment plans to its treasury management activities including borrowing and investment strategies.

3. PERFORMANCE AGAINST OUR PRIORITIES

The Performance and Improvement Framework (PIF) sets out the process for presentation of the Council's quarterly performance reports. Performance is reviewed by the Strategic Committees and then the Council and departmental performance reports and scorecards are presented to the Audit and Scrutiny Committee on a half-yearly basis. New performance reporting templates have been developed. These are quarterly for departments and 6-monthly for the Council and were in use from FQ3 2017/18 onwards. The new templates identify Successes; Progress; Challenges and Improvements. For Departments this is done by Business Outcome and for the Council by Corporate Outcomes.

Performance for FQ3 and FQ4, October 2017 to March 2018 was presented to the Audit and Scrutiny Committee on 19 June 2018. Key successes and challenges reported for this period are noted below and are linked to both Corporate Outcomes and Business Outcomes.

Corporate Outcome 1 – The Economy is diverse and thriving

Business Outcome 23 – Economic Growth Is Supported

The Economic Growth Team attended the BBC Good Food Show for the first time at the SECC in Glasgow to showcase Argyll and Bute food and drink businesses. The stand attracted more than 700 people with 9 Argyll and Bute Food and Drink businesses directly participating in the show with their products generating a lot of interest from show visitors.

Corporate Outcome 2 – We have Infrastructure that supports sustainable growth

Business Outcome 15 – Argyll and Bute Is Open for Business

There has been a significant step change in the percentage of Argyll and Bute covered by the digital network with 86.8% of premises now connected to the fibre network in Argyll and Bute. Of this, 78.1% of premises can access speeds greater than 24Mbps.

Corporate Outcome 3 - Education, skills and training maximise opportunities for all

Business Outcomes 19 - All children and young people are supported to realise their potential.

The Education Vision – Our Children Their Future, was awarded a silver award at the Council Employee Awards for Tackling Inequalities and Improving Health.

Corporate Outcome 5 - People live active, healthier and independent lives

Business Outcome 5 - Information and support are available for everyone

Currently the most followed Local Authority in Scotland on Instagram with 1886 followers having only launched in November 2017.

Business Outcome 26 – People Have A Choice Of Suitable Housing

Seventy-Five affordable housing units have been completed in 2017/18 with the assistance of the Argyll and Bute Council Strategic Housing Fund (SHF). The SHF has contributed £900,000 towards the delivery of the 75 units which creates a greater choice of housing options across the local authority area.

Successful award of £1.9m Housing Infrastructure Funding from the Scottish Government to enable the upgrade of Kirk Road, Dunbeg. This will in turn facilitate the delivery of 300 affordable houses in the area.

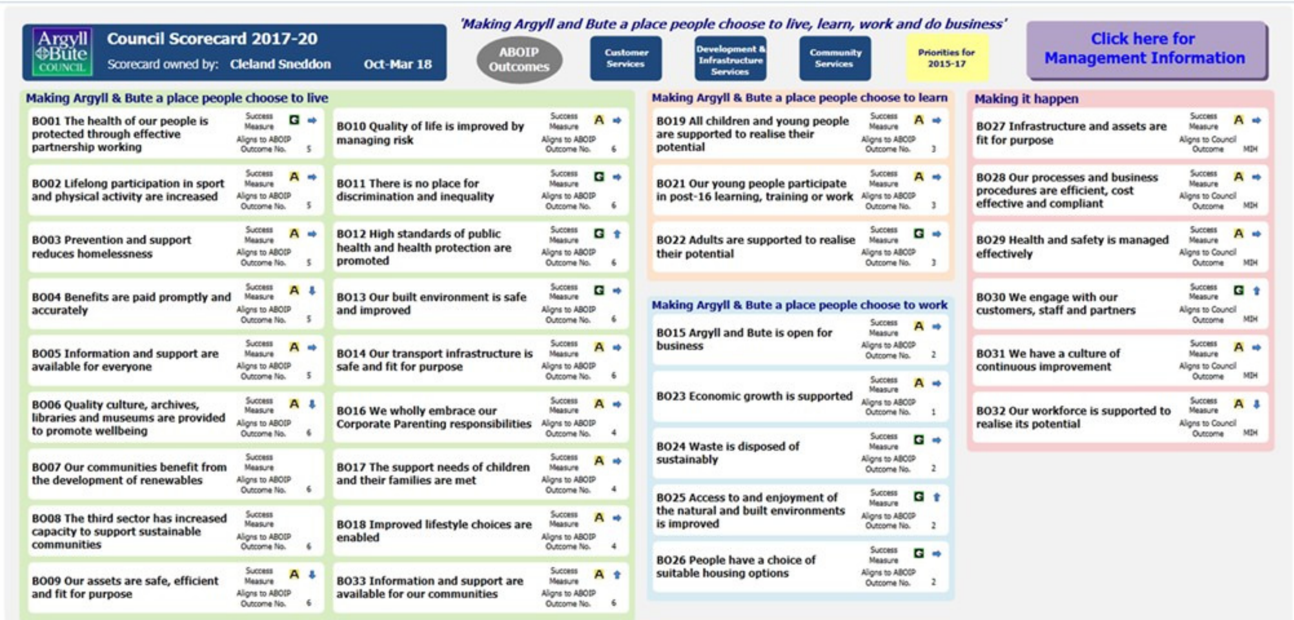
Corporate Outcome – Making It Happen (Enablers)

Business Outcome 28 - Our processes and business procedures are efficient, cost effective and compliant

The Energy and Building Services Team successfully concluded and arranged the sign off of a Heat Supply Agreement for the Heat from Sewer Project at Aqualibrium. This project is now likely to be the first Heat from Sewer project to be delivered in Scotland that has been funded by the Scottish Government. The project will ultimately deliver annual revenue savings for the heating at Aqualibrium.

Council Scorecard

The Councils scorecard illustrates progress against all 32 Business Outcomes. The progress is identified using the RAG (Red; Amber; Green) status to track performance. The 2 Business Outcomes with no success measures aligned have no RAG indication alongside them. Of the remaining Business Outcomes 9 are Green and 21 Amber.



In relation to the ABOIP's objective of "Argyll and Bute's Economic Success is built on a growing population", the regeneration work highlighted in the FQ3 and FQ4 report and noted below demonstrates ongoing progress.

- Oban Maritime Visitor Centre completed and handed over on 30 March 2018. Complimentary to the recent Oban berthing facility project, this completes the infrastructure required to promote Oban as the primary marine tourism destination for the West of Scotland.

- Inveraray Conservation Area Scheme was completed at the end of March 2018 whilst the new Rothesay Townscape Heritage regeneration project was launched.
- The Full Business Case was approved for phase 1 of the Gleaner site at Ardrishaig and all external funding secured; this is in relation to the Lochgilphead and Tarbert Regeneration Programme.
- Infrastructure improvements to Kirk Rd/Lorn Rd, Dunbeg as part of the Lorn Arc commenced in the final quarter of 2017-18 following securing £1.93m of Scottish Government Grant funding. These works will enable the building of 300 new houses and phases 2 and 3 of the European marine Science Park.
- The final funding element required for the ambitious £14m restoration of the Grade A Rothesay Pavilion was secured.

4. FINANCIAL PERFORMANCE 2017-18

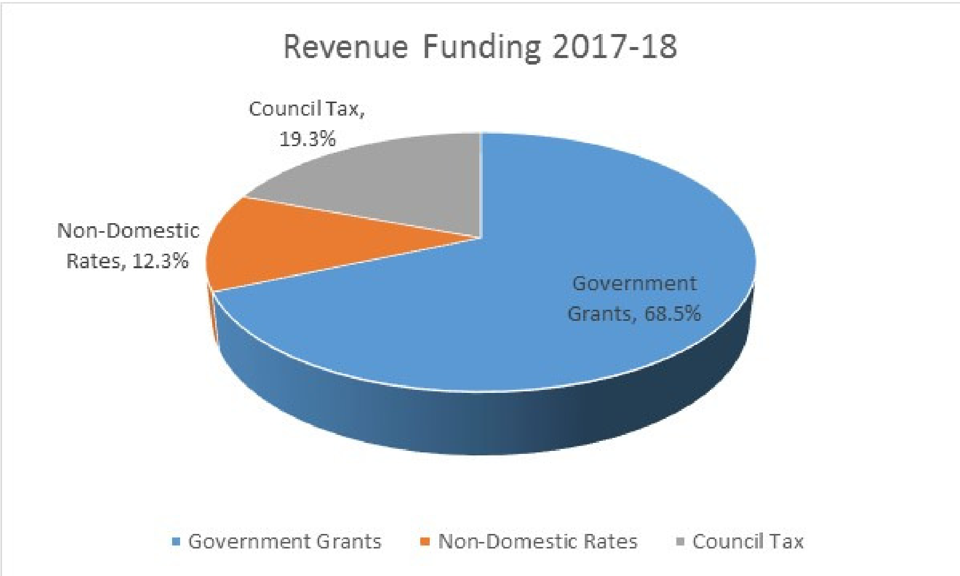
Revenue and Capital Expenditure

The financial resources of the Council are categorised into Revenue and Capital Expenditure. Expenditure on recurring day to day costs associated with providing the Council's services (e.g. salaries, supplies) is revenue, whereas spending on assets (e.g. buildings) that have a useful value to the Council over multiple years is referred to as capital. The financing of revenue and capital expenditure, in general, comes from different sources.

Annual Budget and Setting of Council Tax for 2017-18

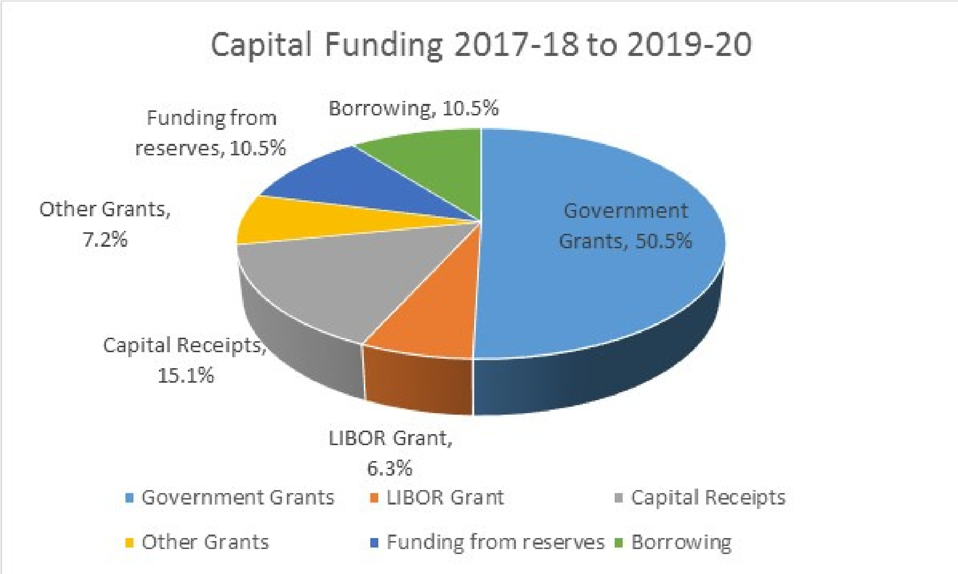
The Council set a one year revenue budget in February 2017 which set the budget for 2017-18. The budget was balanced with a small rounding surplus.

The funding at the beginning of financial year 2017-18 for revenue expenditure was £235.873m. This was funded from government grants (£161.449m), Council Tax (£45.476m) and Non-domestic rates (£28.948m).



The Council approved a capital programme amounting to £79.744m covering the years 2017-18 to 2019-20 in February 2017. The capital programme was based on assumptions on the level of General Capital Grant from the Scottish Government and the likely capital receipts over the period. The major capital projects included in the programme were CHORD, the replacement of Campbeltown Grammar School, Oban High School and Kirn Primary School and the refurbishment of Dunoon Primary Schools, Helensburgh Waterfront, and asset sustainability projects in respect of Roads Reconstruction and Property Refurbishment.

The capital budget between 2017-18 and 2020-21 is funded by government grants (£40.169m), borrowing (£8.379m), grants from other organisations (£5.781m) contributions from revenue (£8.397m), and receipts from sale of assets (£12.018m).



Revenue: Outturn against Budget

The performance against budget for financial year 2017-18 was an overall underspend of £2.567m (1.03%), after adjusting to reflect the new amounts earmarked by departments at the year end and taking account of the social work element of the Health and Social Care Partnership overspend. There was a net underspend of £0.958m in relation to departmental expenditure and a net underspend of £0.877m in relation to other central/non-departmental costs. The remainder of the underspend of £0.732m is in relation to funding and the over-recovery of Council Tax income. The main reasons for the year-end underspend are noted below:

- Additional savings were generated during the year as a consequence of deliberate decisions not to fill posts which became vacant during the year and had been identified for removal as part of savings options in future years.
- Non Profit Distributing Organisation (NPDO) costs were lower than expected due to insurance and utility cost savings arising as a result of the annual renegotiation of insurance costs and contract management arrangements which are in place.
- Savings in pensions costs due to a superannuation budget no longer required (removed from the 2018-19 budget) and lower than anticipated pension costs.
- Loans charges were underspent by £0.500m as a decision was taken to defer some of the special repayments of principal to allow some underspend to be transferred to the General Fund balance.
- Additional funding received as part of the budget announcement in 2018-19, but paid in 2017-18.

- Council tax income was better than expected partly due to better than expected collection of double Council Tax on empty homes and growth in the tax base. This has also been reflected in the 2018-19 budget.
- These underspends were partly offset by an overspend on winter maintenance, lower than expected income from planning fees and increased demand for Additional Support Needs and placements in residential schools.

Final Outturn Variance (Un-audited) 2017/18				
Department	**Actuals**	**Budget Adjusted for Earmarkings**	**Variance (Overspend) Underspend**	**% age**
Chief Executive's Unit	2,409,184	2,479,125	69,940	2.82%
Community Services	79,766,285	79,435,211	(331,073)	(0.42%)
Customer Services	40,037,393	41,343,626	1,306,233	3.16%
Development and Infrastructure Services	34,181,985	34,095,168	(86,817)	(0.26%)
Total Departmental Expenditure	**156,394,847**	**157,353,130**	**958,283**	**0.61%**
Integration Services	57,579,226	56,424,128	(1,155,098)	(2.05%)
Joint Boards	1,352,303	1,374,371	22,068	1.61%
Loans Charges	18,583,976	19,083,976	500,000	2.62%
Pension Costs	2,358,705	2,727,399	368,694	13.52%
Other	7,632,489	8,773,813	1,141,324	13.01%
Total Non-Departmental Expenditure	**87,506,699**	**88,383,687**	**876,988**	**0.99%**
Total Expenditure	**243,901,546**	**245,736,817**	**1,835,271**	**0.75%**
Total Funding	251,256,208	250,524,053	732,155	0.29%
UNDERSPEND			**2,567,426**	

Capital: Outturn against Budget

Net expenditure for the full financial year is £31.094m compared to a capital budget of £38.537m giving rise to an underspend for the year of £7.443m. The underspend is as a result of net slippage of projects between financial years, with a significant element being in respect of the CHORD projects, Street Lighting LED Replacement and Dunoon CARS. The slippage was as a result of actual timing of the works being carried out which was not known when the budget was profiled across the life of the projects.

In terms of project performance 82% were completed on time and within budget tolerances.

Health and Social Care Partnership (HSCP)

The Argyll and Bute Integration Joint Board (IJB) with responsibility for social work and a range of health services was established and came into effect on 1 April 2016. The Council approved the 2017-18 budget on 23 February 2017 and the amount approved for Social Work services transferring to the Integrated Joint Board for 2017-18 was £56.360m. This included £2.137m of one-off budget to assist the HSCP towards transformational change and the smoothing of the projected budget gap. The budget figures quoted in the previous outturn table include additional earmarked budget drawn down during financial year 2017-18.

In terms of the outturn position, there is an overspend on Social Work Services of £1.155m. The HSCP are required to repay this amount back to the Council, as per the Scheme of Integration, and a repayment plan was agreed by Policy and Resources Committee on 24 May 2018. Repayments are £0.100m in 2018-19, £0.300m in 2019-10 with the balance of £0.755m due in 2020-21 and the funding to the HSCP will be reduced by these amounts in these years. Within the accounts, the repayment is not recognised as a debtor as it is a commitment against future funding and as a result the overspend of £1.155m has a direct impact on the Council's General Fund balance until such times as it has been repaid.

Expenditure and Funding Analysis Statement

The expenditure and funding analysis was a new statement last year. It shows how the Council funding is spent across services. It also compares to the expenditure shown in the statement of comprehensive income and expenditure and details the differences between the two. The differences are as a result of accounting statutory adjustments that are required within the Statement of comprehensive income and expenditure, for example, depreciation, pension adjustments etc.

The service expenditure noted in the column headed "Net Expenditure Chargeable to the General Fund" can also be compared to the service expenditure noted in the Council's revenue budget monitoring, except for where there are items in the Comprehensive Income and Expenditure Account that are reported below the net cost of service.

Comprehensive Income and Expenditure Statement

The comprehensive income and expenditure statement shows the accounting cost of providing services rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

The Council is required to make various statutory accounting adjustments to the net cost of services as reported in the budgetary outturn in order to comply with the Code of Practice for Local Authority Accounting in the United Kingdom 2017-18 (the Code). These accounting adjustments include depreciation, loans fund principal repayment and accrued holiday leave not taken by 31 March 2018.

The comprehensive Income and Expenditure Statement presentation changed last year to reflect the management structure of the Council instead of CIPFA's SeRCOP (Service Reporting Code of Practice) structure, which enhances comparability with the presentation of management reports during the year.

Reconciliation of Comprehensive Income and Expenditure Statement to Budget Outturn

The table below, sets out a reconciliation of the Deficit on the provision of services of £15.441m as noted in the Comprehensive Income and Expenditure Statement to the revenue budgetary outturn of £2.567m (underspend).

	£000	£000
Deficit on Provision of Services		**15,441**
Remove statutory adjustments that don't feature in budget outturn:		
Depreciation	(21,378)	
Impairments of Asset charged to services	(7,581)	
Capital Funding	17,243	
CFCR	4,135	
Pension Adjustment	(14,776)	
Statutory Repayment of Debt	10,361	
Reapayment of Finance Leases	2,042	
Transfers to/from Other Statutory Reserves	629	
Other Adjustments	(2,938)	
		(12,263)
Movement In General Fund Balance		**3,178**
Adjust for earmarkings:		
Released sums earmarked to service budgets 2017-18	(10,602)	
Supplementary estimates agreed during 2017-18	(123)	
Budgeted Surplus in 2017-18 transferred to General Fund	193	
Contributions to earmarked reserves 2017-18	4,787	
		(5,745)
Revenue Budget Outturn		**(2,567)**

Balance Sheet

The balance sheet summarises the Council's assets as at 31 March 2018 and it is accompanied by explanatory notes. The net worth of the Council has increased to £285.205m compared to a net worth at 31 March 2017 of £151.564m. The main reason for this increase relates to an increase in the land and buildings value due to the valuation of four new schools added into the balance sheet, Campbeltown, Oban, Kirn and Dunoon refurbishment, a reduction in the pension liability offset by an increase in long term liabilities due to the leases for the two new schools that are financed through the Design, Build, Finance and Maintain (DBFM) model (Campbeltown and Oban).

Long Term Assets: total Long Term Assets includes property, plant and equipment as well as other intangible assets. They have increased by £106.348m from £509.123m as at 31 March 2017 to £615.471m as at 31 March 2018. The main reason for the increase is in relation to the valuation of four new schools, Campbeltown, Oban, Kirn and Dunoon refurbishment.

Current Assets: total Current Assets has increased by £11.068m from £77.672m as at 31 March 2017 to £88.740m at 31 March 2018. The main reason for this increase relates to a small increase in short term investments, cash held and debtors at the end of the year.

Current Liabilities: total current liabilities have decreased by £1.409m from £48.461m as at 31 March 2017 to £47.052m as at 31 March 2018. The main reason for this reduction is due to the repayment of external debt which had a life of less than one year. Further details on the current provisions are noted later within the commentary.

Long Term Liabilities: total long term liabilities have decreased by £14.816m from £386.770m as at 31 March 2017 to £371.954m as at 31 March 2018. The main reason for this decrease relates to a reduction in the pension liability offset by the finance lease liabilities for the two new schools under the DBFM model. Further detail on the pension liability is noted later within the commentary.

Provisions

The Council has provisions totalling £3.113m on the balance sheet, noted as follows:

- £0.153m Equal Pay Claims. The provision relates to a number of equal pay claims that are closer to being resolved.
- £0.138m cash not yet collected, due to be paid to the Strategic Housing Fund. The Council reduced the discount on council tax from second homes to 10% during 2005-06 and this provision relates to the cash not yet collected.
- £0.292 redundancy costs. Liabilities have arisen in respect of employees who will be made redundant as a result of restructuring and also as part of the savings options processes. The cost for any employee, whose contract has been terminated on or before 31 March 2018, had been incurred in year. For the employees who have confirmed acceptance of redundancy but have left or are leaving after 31 March 2018, a provision has been created.
- £1.161m landfill sites. A provision for landfill sites was created in 2014-15 reflecting the Council's liability for restoration and ongoing maintenance in respect of landfill sites operated by the Council, at Glengorm, Gartbreck and Gott Bay. These have been provided for based on the net present value of estimated future costs.
- £0.370m Utilities. The utilities provision was created during 2011-12 to cover a potential liability in relation to discrepancies in charges for utility costs, £0.099m has been reversed during 2017-18 reducing the provision to £0.370m.
- £0.073m VAT Liability. The provision relates to two potential VAT liabilities. One is in relation to a VAT penalty that may still be imposed as a result of over claiming VAT on staff mileage for the period 2012 to 2016. The other is in relation to a potential penalty related to an error in the treatment of commercial waste collections services we carry out on behalf of private waste contractors. Both these issues are with HMRC and we hope to reach a conclusion in the near future.
- £0.886m in respect of NPDO payments and utilities. This provision has been created for two purposes. Firstly, the Council withholds sums from the Unitary Charge paid to ABC Schools which relate to disputed performance deductions. These sums are then negotiated after the event and a commercial position reached. The second element relates to NPDO utilities and the provision is based on periods, beyond 2013 (assuming a 5 year non-enforceable cut-off) where the Council has not been billed for the utilities.
- £0.031m in respect of Kinship Care payments. In October 2016, the Government issued guidance which required that Local Authorities increased the rates that they paid to kinship carers to match the rates paid to foster carers. It applied to specific groups of children and the provision relates to a small group of children whose status has still to be verified and may be entitled to the increased funding from October 2016.
- £0.005m in respect of Standby payments. Following discussions with staff there was an agreement on standby/callouts. This provision is in relation to backdated payments possibly due to several senior Social Work managers for covering Social Work standby and callouts. The position has yet to be resolved.
- £0.004m in respect of a disputed invoice. Argyll and Bute Council have relinquished the system purchased to monitor the internal homecare service and an invoice has been issued by the company for the licence costs up to 31/08/2018. Argyll and Bute Council are disputing their liability from 01/09/2017 as the contract had been terminated.

Contingent Liabilities

The contingent liabilities are included within Note 34. There are contingent liabilities in respect of a small number of equal pay claims where there is insufficient information to allow the potential cost of these claims to be provided for. There was a recent legal case in respect of holiday pay and at this stage the extent of any liability is unknown. There was a contingent liability noted in last year's accounts and this remains in respect of the Limitation (Childhood Abuse)(Scotland) Act 2017 removing the limitation period for actions of damages in respect of personal injuries resulting from childhood abuse. At this stage the extent of any potential liability is unknown.

Pension Liability

The Council is required to account for its share of the Strathclyde Pension Fund assets and liabilities. The information included in the Accounts is provided by the Pension Fund actuaries following the annual valuation of the Fund. The 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 2018.

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 pension liability can fluctuate significantly year on year. The table below shows the pension liability over the last three years.

	2017-18 £'000	2016-17 £'000	2015-16 £'000
Pension Liability	(68,251)	(149,777)	(94,441)

Most of the changes each year can be attributed to the change in financial and demographic assumptions. The following table shows the movement in financial assumptions over the last three years:

	2017-18 %	2016-17 %	2015-16 %
Rate of Inflation	2.4	2.4	2.2
Rate of Increase in Salaries	3.6	4.4	4.2
Rate of Increase in Pensions	2.4	2.4	2.2
Rate for Discounting Scheme Liabilities	2.7	2.6	3.5

Of the four financial assumptions above, the change in discount rate has the most significant financial impact on the pension liability. An increase in the net discount rate will decrease the assessed value of liabilities as a lower value is place on benefits paid in the future, the opposite is also true, a decrease in the discount rate will increase the liability.

At 31 March 2018 the change in financial assumptions (discount rate increased to 2.7%) meant that the liability decreased by around £33m. In addition “Other Experience” reduced the liability by a further £57m and there was a net return on assets of £5m. (“Other Experience” is a measure of the difference between actual experience and that expected based upon a set of actuarial assumptions, during the period between two actuarial valuation dates, as determined in accordance with a particular cost method.)

Further detail on the pension estimates are within Note 30.

Borrowing

During 2017-18 the Council’s External Borrowing increased by £8.000m from £170.5m at 31 March 2017 to £178.5m at 31 March 2018. The increase was due to new borrowing from the Public Works Loans Board (PWLB) of £20.0m at historically low rates, offset by repayments of £8.9m to the PWLB and a reduction in temporary borrowing of £3.1m.

Statement of Movement in Reserves

This Statement shows the movement on the different reserves held by the Council, analysed into usable reserves (resource backed reserves which can be used to fund expenditure) and unusable reserves (required purely for accounting purposes and are not backed by resources).

The balance of usable reserves has decreased by £2.297m from £58.449m as at 31 March 2017 to £56.152m as at 31 March 2018. This is mainly as a result of the decrease to the General Fund Balance of £3.178m in addition to a small increase to the Capital Fund outlined in Note 33.1 and the Repair and Renewals Fund outlined in Note 33.2.

In respect of the General Fund Balance movement, there were £10.602m of earmarked reserves released to services and spent during 2017-18 and a supplementary estimate of £0.123m drawn down to meet the increased cost of the settled pay award. The contributions to earmarked reserves amount to £4.787m and there was a small surplus from the 2017-18 budget of £0.193m. The overall underspend on the revenue budget amounted to £2.567m. All these factors contribute to the increase in the General Fund balance as summarised within the table below:

	£000
Balance on General Fund 31 March 2017	53,489
Released sums earmarked to service budgets 2017-18	(10,602)
Supplementary Estimates agreed during 2017-18	(123)
Contributions to earmarked reserves 2017-18	4,787
Budgeted contribution to General Fund 2017-18	193
Overall budget underspend as above	2,567
Balance on General Fund 31 March 2018	**50,311**

The balance of unusable reserves has increased by £135.938m from £93.115m as at 31 March 2017 to £229.053m as at 31 March 2018. The main reasons for this increase relates to the increase in the revaluation reserve due mainly as a result of the two new schools offset by a decrease in the pension fund reserve which matches the pensions liability which is explained earlier in the commentary.

General Fund Balance

The General Fund Balance includes balances that the Council has agreed to earmark for specific purposes. Some of these earmarked balances were due to be spent during 2017-18 and some of them will be held over and spent in later years. The Council has agreed a policy where balances will automatically be carried forward in respect of Strategic Housing Fund, CHORD, balances unspent with the Devolved Management of Resources Scheme of Delegation for schools, unspent grants and unspent contributions from external bodies, unspent budget that relates to existing policy commitments arising from a previous Council decision or where they are required to meet an existing legal commitment, Scottish Government legislation commitments and savings for re-investment in energy efficiency to further reduce the Council's energy costs and carbon emission levels. One new automatic carry forward category has been put forward for approval this year in relation additional fees and charges income generated from Piers and Harbours operations to meet the costs of the prudential borrowing required to develop and maintain the Council's harbour assets and infrastructure.

Outwith the situations noted above there will be no automatic carry forward of unspent budget and any request for carry forward will be reported to Council for approval and supported by a business case. There are 10 new unspent budget earmarked proposals for consideration:

- Kilmory Car Park enhancements - £0.138m.
- Living Wage Consolidation Team - £0.094m
- Transformation and Budget Reconstruction Team - £0.050m
- Workforce Investment Leadership Development - £0.077m
- Inveraray Arches Re-tender - £0.050m
- Continuation of Transformation Project Managers in DIS - £0.060m.
- Housing Case Management System - £0.024m
- Cardross Crematorium - £0.103m
- Dalinlongart Forestry Plan - £0.011m
- Oban Strategic Development Framework - £0.075m.

The General Fund balance at 31 March 2017 was £53.489m; of this a total of £41.519m was approved by Council to be earmarked for specific purposes. The new earmarked balance as at 31 March 2018 amounts to £43.717m and Note 5 provides further detail of the movement.

The Council has agreed to hold a contingency balance equivalent to 2% of the Council budget for 2018-19. This contingency is held to provide a working balance to help cushion the impact of uneven cash flows and cushion the impact of unexpected events. The unallocated General Fund balance amounts to £1.868m.

Capital Finance

The resources to fund the Council's capital plan has a number of sources, there are grants from the Scottish Government and other bodies, capital receipts from the disposal of assets, contributions from reserves and the revenue budget, borrowing funded by the loans charges budget and in respect of the replacement schools revenue funding from the Scottish Futures Trust.

Group Accounts

Argyll and Bute Council Group comprise the following entities:

- Argyll and Bute Council
- Dunbartonshire and Argyll & Bute Valuation Joint Board
- Strathclyde Partnership for Transport

- Strathclyde Concessionary Travel Scheme Joint Committee
- Live Argyll (Leisure Trust)

In addition, the Council's Common Good Funds have been fully consolidated into the Group Accounts, Note 37 gives further details on the Council's Common Good Funds.

The effect of inclusion of the Associates and Common Good Funds on the Group Balance Sheet is to increase both reserves and net worth by £10.329m. This gives an overall net asset position for the Group of £295.534m, an increase of £137.417m from the previous year. As with the single entity Balance Sheet, the increase is mainly due to annual revaluations and new schools as well as a reduction in the pension liability.

The Argyll and Bute Integration Joint Board was established as a body corporate by order of Scottish Ministers on 27 June 2015. The partnership between Argyll and Bute Council and NHS Highland has been established in accordance with the provisions of the Public Bodies (Joint Working)(Scotland) Act 2014 and associated Regulations. The Integration Joint Board has responsibility for all health and social care functions relating to adults and children and will oversee the Strategic Planning and budgeting of these, together with corresponding service delivery for the residents of Argyll and Bute. Argyll and Bute Council contributed £57.579m towards the Argyll and Bute Integration Joint Board in the 2017-18 financial year. All transactions are accounted for and shown within the single entity statements and therefore there is no material impact on the group accounts.

5. KEY FINANCIAL INDICATORS

The following financial indicators have been developed to assist the reader in assessing the performance by the Council over the last financial year and the affordability of its ongoing commitments.

Financial Indicator	2017-18	2016-17	Comment
Unallocated General Fund Balance as a proportion of next year's Annual Budgeted Net Expenditure	2.79%	3.38%	Reflects the level of funding available to manage financial risk/unplanned expenditure. This includes the 2% contingency. There are sufficient reserves to meet any unplanned expenditure.
Movement in the Unallocated General Fund Balance	Decrease £1.4m	Decrease £1.1m	Reflects the extent to which the Council is using its Unallocated General Fund Balance (excluding contingency).
In-year collection rate	95.80%	95.79%	Reflects the Council's effectiveness in collecting Council Tax debt, and although slightly below Scottish average, is pleasing given that we are in the lowest quartile of cost for council tax collection. Reason for being below average is due mainly to level of double charges applied for long term empty properties which is hard to collect. Income exceeded budget by £0.692m.
Ratio of Council Tax Income to Overall Level of Funding	18.64%	17.47%	Reflects the capacity of the Council to vary expenditure by raising Council Tax income. Council Tax increased by 3% in 2017-18.
Actual Outturn compared to budgeted expenditure	£2.567m	£2.883m	A measure of how the final outturn compares to the budgeted position

Financial Indicator	2017-18	2016-17	Comment
	1.03%	1.16%	and is a reflection of the effectiveness of financial management.
Capital Financing Requirement (CFR) for the current year	£306.433m	£253.483m	Measurement of requirement to borrow for capital purposes.
External Debt Levels for the current year	£178.488m	£170.503m	Actual borrowing for capital investment levels.
Ratio of financing costs to net revenue stream	7.40%	7.85%	Measures the percentage of income that has been committed towards meeting the costs of borrowing. The more income needed to fund financing costs the less available to meet other revenue expenditure.

6. PLANS FOR THE FUTURE

2018-19 Budget Strategy

As previously noted, a three-year financial outlook covering the period 2018-19 to 2020-21 was kept up to date during the financial year and presented to Members at the Policy and Resources Committee on 17 August 2017, 19 October 2017, 8 December 2017 and a further update at the Members Seminar held on 25 January 2018.

In view of future savings requirements, a Transformation Board was established to take forward further transformational change. A significant area of work for the Board during 2017-18 was to challenge services to deliver savings from 2018-19 onwards. Phase 1 was for front line services to consider savings via four operating principles: business cost reduction, income maximisation, service re-design and self-funding. Each service was given a savings target taking into consideration savings already delivered via service choices.

Officers worked on identifying savings for their service to match the minimum target set by the Transformation Board. The aim was for the savings options to be transformational in nature and these options would be viewed as the first stages of an ongoing programme. Some of the savings options identified by the Transformation Board had no policy implications, did not result in voluntary or compulsory redundancy and were in effect management/operational savings that management will go ahead and implement as part of normal business during 2018-19, these were noted by Council on 26 October 2017. Other options, which did have policy implications were the subject of public and Trade Union consultations.

In addition to the service savings, a detailed review of the current loan charges assumptions was carried out and £2.2m was removed from the base budget in order rebalance the Council's debt and to protect front line services. The savings came from a number of factors, including lower interest rates, use of cash balances and delays in borrowing.

Similar to 2017-18, there was a late announcement by the Scottish Government on 31 January 2018 that it was their intention to allocate additional funding to Council's for 2018-19, this was agreed by Parliament on 21 February 2018. Due to our budget strategy and the savings options already identified by services, our draft budget was in a balanced position for 2018-19, however, this additional money allowed the Council some flexibility and they were able to reflect on the views of the public from the budget consultation and agree savings and allocate resource accordingly. In looking to the medium term, rather than focusing on 2018-19 only, the savings options agreed increase in value across 2018-19 to 2020-21 and therefore contributes to the financial challenges facing the Council from 2019-20 onwards. The budget strategy for 2019-20 and beyond is based on the work of the Transformation Board which is outlined later in this commentary.

In terms of capital expenditure the Council invested an additional £13.448m into the capital plan over 2018-19 and 2019-20 , by using £8.240m of reserves, the revenue budget surplus in 2018-19 of £2.408m and £2.800m of additional borrowing (in 2019-20). These additional monies will be used for roads capital improvement works, property high risks areas, Live Argyll properties and additional IT infrastructure.

Medium to Longer Term Financial Strategy

Creating a financial outlook is challenging, as a number of assumptions need to be made anticipating changes. The Council accepts the current financial climate we are in. The Council is in a period of one year settlements which doesn't provide any degree of certainty into the medium term. The ring fencing of monies limits what we can do and additional policy and legislative implications, not always fully funded, puts financial pressures on councils. Furthermore progress with Brexit negotiations are ongoing but uncertainty still remains as to what the economic implications are.

In 2017-18 the Council developed a medium to longer term financial strategy designed to ensure the Council addresses the challenges it faces effectively. It covers the period 2018-19 to 2020-21 in detail and provides high level estimates for the period 2021 to 2028. The principal objectives of the financial strategy are:

- Outline Argyll and Bute Council's high level financial position over the years 2018-2028 based on a range of assumptions.
- Highlight the key issues that have been considered in developing the strategy.
- Ensure that available resources are focused on delivery of the Council's key priorities.
- Plan for a sustainable revenue budget and capital investment programme which will support the Council's key priorities.
- Ensure that the Council is fully aware of the financial challenges and uncertainties that it faces and is in a strong position to continue to deliver the best possible quality and range of services within available resources.
- Increase the wider community's understanding of the Council's financial position and the challenges it is facing over the next ten years in balancing its budget.

The financial strategy can be accessed on the following web link:

https://www.argyll-bute.gov.uk/moderngov/documents/s120989/Financial%20Strategy%20v3.pdf

Rural Growth Deal

Argyll and Bute Council and key stakeholders are in the process of negotiating a Rural Growth Deal with the Scottish and UK Governments which will follow similar principles to the City Deals either agreed or in development for other Local Authority areas in Scotland. The focus of the deal has to be delivering innovative and inclusive economic growth for Argyll and Bute.

Following discussions with the UK and Scottish Governments, a draft vision, key themes and potential projects have been developed/identified which we believe support economic transformation. These will form the basis for continued negotiation for the Rural Growth Deal. The vision and themes will continue to evolve as further information is gathered and consultation with our key stakeholders continues, and further project proposals will be developed.

The emerging overarching vision of the Rural Growth Deal is “Argyll, the natural place to live, learn, visit and do business”.

The intention is to have finalised Rural Growth Deal proposals approved by Members in October prior to submission to the respective Governments for their consideration. Following this, it is hoped that a Heads of Terms Agreement will be negotiated with both Governments.

Transformation Board

The Council is committed to driving forward change through transformation and innovation. The Council has previously demonstrated that it is able to work in innovative ways in order to improve service delivery, make savings or generate income.

A Transformation Board was established to take forward further transformational change. The Board is chaired by the Executive Director of Customer Services and membership consists of a number of senior managers across the Council as well as Trade Union representation.

The Transformation Board has identified a number of areas which they would propose to explore for future years and this was reported to Council in February 2018.

Reconstructing the Council Budget: Beginning in March 2018, Heads of Service will be tasked with looking at all of the activities currently undertaken by their service, and categorising these into 3 broad types.

- Duties – activities which the Council must provide (e.g. Education)
- Powers – activities which the Council may provide (e.g. Economic Development)
- Others – activities which support the Council as an organisation or the carrying out of powers/duties (e.g. Strategic Finance)

Services will be asked to define a minimum level of service to comply with statutory duties, or to exercise statutory powers, and how this minimum level could then be built on. The purpose of this work is to enable the Council to take informed decisions, link budget more clearly to political priorities whilst having regard to the future availability of finance and the requirement to identify substantial reduction in expenditure for 2019-20 and beyond about the future shape of the organisation.

Review of Fleet Management: The Council operates a fleet of around 600 vehicles which are mainly based at 5 mainland workshops and 6 island locations. Review work is being undertaken of current practices including an overview of existing management controls and systems, the cost of providing the service, vehicle acquisition and funding policy, internal charging mechanisms and service levels provided to users. Fleet utilisation will be analysed and a policy prepared in relation to purchasing, whole life costing and disposal processes. Consideration is also being given to industry standard budgeting methods and more pro-active reviews of management information. Potential savings options resulting from this work will be reviewed by the Board.

Procurement: The procurement and commissioning team through their work with the Transformation Board are benchmarking with other local authorities the level of centralisation of their procurement function and the financial cost savings benefits as a result of this centralisation. The benchmarking exercise will allow us to review what we are currently delivering via procurement support and savings and what could further be achieved by redesigning our systems, processes, procedures and methods of purchasing and contract management across council services.

Adult Learning/Youth Work: These services are delivered on a pan Argyll basis and provide learning and development opportunities for adults and young people outwith the classroom environment. Work will be undertaken to propose re-designed delivery options at less cost.

Music Tuition: The Music Tuition service focuses on three groups of instruments, piping, woodwind and brass and is offered free for one year to all P4/5 pupils. Thereafter, the service can be purchased unless a pupil is in an exempt for payment category of receiving free school meals or SQA candidate. Work will be carried out to provide options to reduce the cost of provision for this non-statutory service which is unique in offering subsidised tuition outwith routine class timetabling.

One Council Approach to Property: The “One Council Approach” was approved and endorsed by the Council at its budget meeting on 22 February 2018 providing £0.260m over a 2 year period with that sum being on a self-financing basis after that point. The proposal was for a change in approach to the management of the Council’s land and buildings from a static or reactive position, where properties are considered to be held or owned by individual service, to a proactive property development service. This means that all heritable property owned by the Council will be held corporately and not by individual “holding” departments, as has been the case to date, to enable the Council to take a more consistent and strategic corporate view across all heritable property it owns. The Council also needs to become more commercial in relation to all forms of asset management by maximising opportunities to proactively save money, generate income, invest, reform and generally become more entrepreneurial in relation to the use of land and property. This closely aligns to the Council’s corporate plan.

Our journey towards achieving this is called the ‘One Council Approach’ and we seek to create a model which creates a single property team to take the strategic lead for assets across the organisation on a consistent and informed basis. This approach seeks to drive value from non-operational properties while assisting services to utilise operational properties more effectively.

The One Council Approach is designed to:

- Help focus operational services on “services not buildings”;
- Stimulate commercial opportunities through review of all assets – disposals, development or rental;
- Stimulate transfers to third sector to generate or save resource;
- Provide consistent and informed property management services;
- Focus on property development on all land – services to focus on operational activities;
- Stimulate property investment opportunities using skills and knowledge of diverse property team;
- Provide members and senior management with transparency on the Council’s properties, their commercial performance and commercial return;
- Ensure that windfall returns for properties held by services are not released to them and lost in their general expenditure, but are clearly identified, captured and held at the centre to be used in support of Council priorities to provide more flexibility in budgeting.

Loans Charges

A detailed review of loans charges was carried out during 2017-18 and £2.2m was removed from the 2018-19 base budget in order rebalance the Council’s debt and to protect front line services. The loans charges budget is a particularly complex area, with many assumptions and different approaches. For example, length of repayment periods in respect of capital advances, borrowing decisions, use of cash balances and cash flow. The review in 2017-18 took into consideration:

- The current maturity profile of the principal repayments.
- The anticipated level of new advances (based on the current capital plan), the timing of the advances and the type of asset being procured to determine the annual repayment to be charged to revenue.
- The current external loans to determine the interest which is payable in respect of these loans.
- The likely levels of new borrowing and the interest rates which may be payable.
- The estimated level of investments and the estimated rate of return.

This is an area that officers will continue to keep under review. There is scope to carry out a review on useful asset life and what the repayment period should be – this is something that the Council now have discretion over. Our Council policy on useful asset life has been in place since 1975 and we would need to justify any reason for changing this. Increasing the period of repayment would lower the level of loans charges.

Waste Strategy

Argyll and Bute Council is both waste collection and waste disposal authority. Waste collection is carried out by council staff with assistance from third sector groups for recycled materials. Waste disposal is dealt with by 3 separate models across the council. These are:

- Island sites which are operated directly by the council.
- A 25 year PPP contract covering the mainland other than Helensburgh and Lomond – this runs until 2026.
- Helensburgh and Lomond where collected waste is disposed of at third party sites outside Argyll and Bute.

Waste to landfill is environmentally unsound and legislation and guidelines have been put in place to reduce material to landfill. One of the measures introduced nationally is a landfill tax which currently costs the council £88.95 per tonne (2018-19). National guidance is expected with regards to the ban on biodegradable waste going to landfill from 2021. The landfill sites operated by the council and those returning to the council in 2026 will have an ongoing maintenance requirement. This will include monitoring for leachate and gas, restoration works and environmental compliance as well as general health and safety.

A revised waste strategy is required to deal with the known requirements over the coming years and also to shape service delivery over the next 25 year period. Whilst the current delivery model is working and was contained within budget for 2016-17 and 2017-18 this is not a sustainable position in the longer term. Work is ongoing on revising the waste strategy and this is due to go out to consultation towards the end of 2018-19.

Health and Social Care Partnership (HSCP)

The Argyll and Bute Integration Joint Board (IJB) with responsibility for social work and a range of health services was established and came into effect of 1 April 2016. It was clear at the beginning of financial year 2017-18 that there were challenges in balancing the HSCP budget and a financial recovery plan was put in place. The Chair of the IJB provided assurance to the Council's Chief Executive during 2017-18 that plans were in place to address the projected overspend. The final outturn of the HSCP for 2017-18 was an overspend of £2.528m: £1.155m for Social Work and £1.373m for Health related services.

The IJB have not balanced their budget for 2018-19 and at their latest meeting held on 30 May 2018 a remaining budget gap of £1.6m was reported after taking into consideration the payback arrangements agreed with NHS Highland and the Council in respect of the 2017-18 overspend. There is a high financial risk associated with the 2018-19 IJB budget and the scale of the savings planned to be delivered lead to a high risk in terms of deliverability of these savings. Plans have been put in place for 2018-19 including revision of the financial recovery plan. This includes three main themes: reviewing expenditure, controls and authorisation escalation and workforce costs. A budget challenge process is to be carried out across the partnership to ensure that the base budget is set at correct levels and budget holders are signed up to deliver on budget.

There is a risk to the Council that the HSCP are not in a position to repay their 2017-18 overspend. A further risk is that the HSCP don't balance their budget in 2018-19, overspend again and the outstanding balance increases.

Due to the accounting treatment for the HSCP overspend and the impact that this has on the Council's General Fund balance, the Council will be monitoring and reporting the Social Work position more closely and will integrate into the Council's revenue budget monitoring report during 2018-19.

7. CONCLUSION

The Council has continued to demonstrate sound financial management in 2017-18 by delivering services within the resources available. The operating environment going forward remains very challenging from the combined effect of reduced resources and increasing demand and expectation for our services. The council, despite these challenges, remains financially sound and is well placed to deliver services to the people of Argyll and Bute in the future.

8. ACKNOWLEDGEMENTS

We would take this opportunity to acknowledge the significant effort in producing the Annual Accounts and to record our thanks to both Elected Members and staff for their continued hard work and support.

Cllr Aileen Morton	Cleland Sneddon	Kirsty Flanagan
Leader	**Chief Executive**	**Head of Strategic Finance**

29 June 2018

Statement of Responsibilities for the Annual Accounts

THE AUTHORITY'S RESPONSIBILITIES

The Council is required:

- to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs (Section 95 of the Local Government (Scotland) Act 1973). 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.
- to ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003).
- to approve the Annual Accounts for signature.

THE HEAD OF STRATEGIC FINANCE'S RESPONSIBILITIES

The Head of Strategic Finance is responsible for the preparation of the Council's Annual Accounts in accordance with proper practices as required by legislation and as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code).

In preparing the Annual 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 legislation;
- complied with the Local Authority Accounting Code of Practice 2017-18 (in so far as it is compatible with legislation).

The Head of Strategic Finance has also:

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

I certify that the Annual Accounts give a true and fair view of the financial position of the Council and its group at the reporting date and the transactions of the Council and its group for the year ended 31 March 2018.

Kirsty Flanagan

Head of Strategic Finance

29 June 2018

BACKGROUND / SCOPE OF RESPONSIBILITY

The governance framework includes the systems, processes and culture by which the Council is controlled and engages with communities and allows the Council to monitor the achievement of strategic objectives. The 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 which its functions are exercised, having regard to the economic, efficient and effective use of public money.

The system of internal control is a key part of the framework, and is designed to manage risk to an acceptable level.

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). This Statement explains how the Council has complied with the standard and meets the requirements of current good practice.

A copy of the Code may be obtained from the Head of Governance and Law, Argyll and Bute Council, Kilmory, Lochgilphead, PA31 8RT and is also available on the Council's website.

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. The six key principles of our governance arrangements in 2017/18 are described in the Code, along with our supporting principles and key aspects of our arrangements to ensure compliance. Key features of our arrangements are summarised below.

1. Focusing on the purpose of the Council and on outcomes for the community, and creating and implementing a vision for the local area

Our Corporate Plan sets out our, and our Community Planning Partner's, vision for Argyll and Bute's economic success to be built on a growing population. It also defines our mission "To make Argyll and Bute a place people choose to live, learn, work and do business" and establishes our outcomes, priorities and approach to delivering on our shared ambition with our community partners.

We have a Performance Improvement Framework (PIF) that ensures performance is integral to the work of the Council. The PIF is focused not just on measuring what we do but on measuring the difference we make in terms of our outcomes.

Councillors and senior managers review and scrutinise the Council's performance at all levels to ensure our services are having the desired impact on our communities and customers. At a strategic level, performance is scrutinised through our strategic committees and, more locally, at our area committees. The Audit and Scrutiny Committee, which meets four times a year, has a key role in reviewing and scrutinising how we are meeting our strategic objectives as well as promoting good internal control, financial and risk management, governance and performance management, in order to provide reasonable assurance of effective and efficient operation, and compliance with laws and regulations, including the Council's Financial and Security Regulations, Contract Standing Orders and accounting codes of practice.

2. Members and officers working together to achieve a common purpose with clearly defined functions and roles

We updated our constitution in April 2018 to define the roles and responsibilities of the administration, committees, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication.

The constitution includes collective and individual roles and responsibilities of the Leader, Provost, Policy Lead Councillors, other councillors and officers. It also includes a protocol for the role of the Monitoring Officer (the Executive Director for Customer Services).

Best Value will be now be assessed over the five year audit appointment, as part of the annual audit work. A Best Value Assurance Report (BVAR) for each Council will be considered by the Accounts Commission at least once during this five year period. The BVAR report for Argyll and Bute is not planned in the period covered by this scrutiny plan.

3. Promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour;

We have four values, which underpin all that we do and provide a sound basis to achieve transformation to ensure we meet the challenges of the future and deliver quality services. These values are that we have a workforce which is:

- Caring
- Committed
- Collaborative
- Creative

We have developed and communicated an Ethical Framework within the Council's Constitution, which defines standards of behaviour for members and staff. Protocols for Member/Officer relations are also detailed within the Constitution.

The Councillor's Code of Conduct is set out at a national level, applying to all members in Scottish local authorities. A register of members' interests is being developed for inclusion on the Council's website.

The code of conduct and protocols are supported by training and development programmes for elected members by offering PRD plans and on the basis of these we construct training and development programs and seminars.

4. Taking informed and transparent decisions which are subject to effective scrutiny, and managing risk; ensuring effective counter fraud and anti-corruption arrangements are developed and maintained

We review and update our standing orders, standing financial instructions, scheme of delegation and supporting procedure notes/manuals - these clearly define how decisions are taken and the processes and controls in place to manage risks. We ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful. The Monitoring Officer advises on compliance with our policy framework, ensuring that decision making is lawful and fair.

Our financial management arrangements conform to the CIPFA Statement on the Role of the Chief Financial Officer and we ensure that our independent Audit and Scrutiny Committee undertakes the core functions identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities. The Audit and Scrutiny Committee receive an annual risk management overview report and have developed a Scrutiny Framework and Manual to support the performance of scrutiny reviews which will be rolled out in 2018/19.

The anti-fraud strategy was reviewed and there are effective arrangements for whistle-blowing and for receiving and investigating complaints from the public and partners.

5. Developing the capacity and capability of members and officers to be effective

Elected Member Development

We have signed up to the Improvement Service's Continuing Professional Development Framework for elected members. We are in contact with all elected members about progressing and maintaining their personal development plans and work on this continues apace to ensure that their training needs and aspirations are quickly identified and solutions provided where possible. This work complements the elected member seminar programme which is in place for 2018/19 and which also picks up, where possible, any particular training needs highlighted through the PDP process. Following the election in May, all Members of the new Council were provided with a full induction programme.

The Audit and Scrutiny Committee held a development day in 2017/18 focusing primarily on the development of scrutiny but also to introduce new members of the Committee to some of the fundamental principles of internal audit and risk management.

Officer Development

The Council supports officer development through a structured approach, driven by the values set out in the Corporate Plan, supported by a behavioural competency framework and underpinned by a systematic approach to identifying core and mandatory training requirements in all council job descriptions.

The Council has Argyll and Bute Manager and Leadership Programmes, which ensures that all employees who have management responsibilities are knowledgeable and effective in delivering services within the priority management policies and procedures of the council, including finance, performance and people management. The Leadership Programme ensures that senior and aspiring leaders in the organisation have support to develop their leadership behaviours and to improve their overall impact and performance across the organisation.

The Council is committed to delivering a programme of annual Performance Review and Development, which in turn informs the Corporate Training Programme that is delivered annually.

6. Engaging with local people and other stakeholders to ensure robust public accountability

We have established clear channels of communication with the community and other stakeholders through our Communication Strategy. Key mechanisms include;

Annual Budget Consultation

The Council undertakes a wide ranging budget consultation exercise each year, using a range of channels including written, face to face, online, Community Councils and through partner organisations and community groups in the Community Planning Partnership. The results of the consultation are then used to inform the members' budget decision making process and are reported to the Council as part of the budget reports pack.

Consultation Diary

The Council has developed a consultation section on its website which hosts all consultations run by the Council, both current and historic. This includes a section which makes public the results and/or outcome of the consultation and the resultant decisions that have been taken, showing how they have been informed by the consultation process.

Public Performance Reporting

The Council makes all performance information available to the public on the performance pages of the website. This includes information on performance scorecards, budgets and other service related information. This ensures the Council is openly accountable to the public for its performance against agreed policies and standards.

Community Engagement

The Council supports good community engagement with the resourcing of Community Development Officers in the Community Planning and Community Development Service and the work of the Youth Forum staff in Youth Services. Both teams have resources and expertise to support children and young people, hard to reach groups and remote communities to have a voice in local service planning, delivery and evaluation, as well as best community engagement practice for any other requirement.

Local Community Development Officers have also been supporting community groups, organisations and individuals, particularly those who do not traditionally engage in community issues, to participate in local area community planning groups.

The Area Governance section of the Council supports community engagement by providing the staff resource to support three Area Community Planning Groups which act as a forum to enable local groups and organisations to participate in community planning at a local area level throughout Argyll & Bute. The fourth (Helensburgh and Lomond) is supported by Scottish Fire and Rescue on a partnership basis as agreed by the management committee.

It also supports community engagement by resourcing Community Council Liaison activities, including a training programme, which helps to build the capacity of Community Councils.

The Council produced a Community-Led Action Planning Toolkit in partnership with Scottish Community Development Centre (SCDC). Communities are being supported to consider use of the online toolkit in developing action plans that the community can lead on to address issues and needs in their communities. There are a number of existing community-led action plans and these are recognised as important community contributions to Area Community Planning.

A strong Community Planning Partnership (CPP) is in place with partners leading each of the outcomes. This enhances the shared sense of accountability and ownership of working towards realising the priorities of the CPP.

Council/Committee Meetings

Meetings are always held in public, unless one of the statutory exemptions in the Local Government (Scotland) Act 1973, schedule 7A applies to the content of the report. When this is the case papers are adjusted to ensure that the maximum amount of content is in the public domain.

GOVERNANCE ROLES AND RESPONSIBILITIES

The Council has appropriate management and reporting arrangements to enable it to satisfy itself that its approach to corporate governance is adequate and effective in practice. The legislative framework of local government defines a number of posts which are primary to the governance arrangements in the Council. These include the Chief Executive, fulfilling the role of Head of Paid Service. As Monitoring Officer, the Executive Director of Customer Services has responsibility for:overseeing the implementation of the Code of Corporate Governance and monitoring its operation; and

- 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, as Chief Financial Officer, to ensure that public funds are properly accounted for. In recognition of the significant role that the Chief Financial Officer has in relation to financial performance and the financial control environment, CIPFA has set out key principles that define the core activities and behaviours that belong to the role. These include, being a key member of the Leadership Team, being actively involved in and influencing decision making, and leading the delivery of good financial management across the whole organisation.

FINANCIAL SUSTAINABILITY

Creating a financial outlook is challenging, as a number of assumptions need to be made anticipating changes. The Council accepts the current financial climate we are in. The Council is in a period of one year settlements which doesn't provide any degree of certainty into the medium term. The ring fencing of monies limits what we can do and additional policy and legislative implications, not always fully funded, puts financial pressures on councils. Furthermore progress with Brexit negotiations are ongoing but uncertainty still remains as to what the economic implications are.

In 2017/18 the Council developed a medium to longer term financial strategy designed to ensure the Council addresses the challenges it faces effectively. It covers the period 2018/19 to 2020/21 in detail and provides high level estimates for the period 2021 to 2028. The principal objectives of the financial strategy are:

- Outline Argyll and Bute Council's high level financial position over the years 2018-2028 based on a range of assumptions.
- Highlight the key issues that have been considered in developing the strategy.
- Ensure that available resources are focused on delivery of the Council's key priorities.
- Plan for a sustainable revenue budget and capital investment programme which will support the Council's key priorities.
- Ensure that the Council is fully aware of the financial challenges and uncertainties that it faces and is in a strong position to continue to deliver the best possible quality and range of services within available resources.
- Increase the wider community's understanding of the Council's financial position and the challenges it is facing over the next ten years in balancing its budget.

The Council's Transformation Board has, to date, focused on identifying savings across front line delivery services based on four operating principles of business cost reduction, income maximisation, service redesign and self-funding. The Transformation Board are continuing their transformation journey and in February 2018, as part of the budget pack, reported on their transformation activities for 2018/19 and beyond including a comprehensive root and branch review of the delivery of services to inform the future shape of the Council for 2019/20 and beyond.

INTERNAL FINANCIAL CONTROL

The system of internal financial 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 officers within the Council and the named bodies mentioned below.

In particular the system includes:

- comprehensive budgeting systems;
- regular reviews by the Council and the named bodies (mentioned below) of periodic and annual financial reports which indicate financial performance against forecast;
- setting targets to measure financial and other performance;
- the preparation of regular financial reports which indicate actual expenditure against forecast;
- clearly defined capital expenditure guidelines;
- project management disciplines;
- guidance relating to financial processes, procedures and regulations; and
- an effective Internal Audit Section.

Internal controls cannot eliminate risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

This annual review also covers the other bodies whose activities are incorporated into our Group Accounts and reliance is placed on the formal audit opinion contained in the financial statements of each individual body.

- Dunbartonshire and Argyll and Bute Valuation Board
- Strathclyde Partnership for Transport
- Strathclyde Concessionary Travel Scheme Joint Committee
- Live Argyll
- Argyll and Bute Integration Joint Board

RISK MANAGEMENT

The Council's Risk Management processes are well developed. In particular the:

- Head of Strategic Finance submits an annual risk management overview report to the Audit and Scrutiny Committee.
- Strategic Risk Register is updated twice a year and approved by the strategic management team (SMT).
- Operational Risk Registers are updated quarterly by departmental management teams.

The Council's risk management manual and risk registers were refined in early 2018 and further improvements to the risk management process were agreed by the SMT. Key improvements were:

- risks are no longer categorised as 'supply' or 'demand'
- risks are aligned to the service plan challenges
- key actions, with timescales, for risks to be 'treated' are documented
- all red risks identified in operational risk registers are escalated to the SMT for consideration

Internal Audit will perform an audit of risk management in 2018/19 to provide assurances that the revised processes are operating effectively.

INTERNAL AUDIT

Argyll and Bute Council and its Group bodies have internal audit functions, which operate to Public Sector Internal Audit Standards (PSIAS). The work of internal audit is informed by an analysis of the risk to which the Council and its Group bodies are exposed, with annual internal audit plans prepared based on that analysis. The Council's Audit and Scrutiny Committee endorses the preparation methodology and annual internal audit plan and monitors the performance of Internal Audit in completing the plan.

The Chief Internal Auditor provides the Audit and Scrutiny Committee with an annual report on internal audit activity in the Council and this states substantial assurance can be taken that the systems of governance and internal control are operating effectively.

Internal audit provides Members and management of the Council with independent assurance on risk management, internal control and corporate governance processes. External Audit has and continues to place reliance on the work of internal audit. The Chair of the Audit and Scrutiny Committee is an independent lay member.

During 2017/18, 1 of the 26 audit reports presented to the Audit & Scrutiny Committee had an overall audit opinion of 'limited' assurance. Management have accepted 100% of audit recommendations and a robust follow-up system is in place with progress reports presented to the SMT on a monthly basis.

During 2017/18 the following developments were made within internal audit:

- A new Chief Internal Auditor was appointed in October 2017.
- Introduction of new working practices, reporting templates and a revised internal audit charter and manual.
- Introduction of team development days to ensure internal audit continues to develop the necessary skills and knowledge to carry out their role effectively.
- Audit reports are presented to the Audit and Scrutiny Committee in their entirety, replacing the previous process to remove recommendations classified as 'low' priority.
- Audit reports are presented to the SMT.
- Introduction of a new Scrutiny Framework and Scrutiny Manual to provide governance over the roll out of scrutiny during 2018/19.

HEALTH AND SOCIAL CARE INTEGRATION

The Argyll and Bute Integration Joint Board has been established as a separate legal entity from either Argyll and Bute Council and NHS Highland, with a separate board of governance. The Integration Joint Board comprises eight voting members with four Elected Members nominated by Argyll and Bute Council and four Board members of NHS Highland. In addition there are a number of non-voting appointees representing other sectors and stakeholder groups, such as the Third Sector, Independent Sector, Patients and Service Users, Carers and Staff. The arrangements for the operation, remit and governance of the Integration Joint Board are set out in the Integration Scheme. The Integration Scheme also outlines the scope and functions of services that are delegated, the clinical and care governance, financial and operational management arrangements.

From 1 April 2016 the Integration Joint Board, via a process of delegation from the Council and Health Board has responsibility, supported by the Chief Officer, for the planning, resourcing and operational delivery of all integrated health and social care services within Argyll and Bute. The overarching strategic vision, mission and values of the Integration Joint Board are set out in the Strategic Plan and Strategic Objectives are aligned to deliver on the National Outcomes for Adults, Older People and Children.

The Council places reliance on the internal controls in place for the operation of the Integration Joint Board and similarly the IJB places reliance on the procedures, processes, policies and operational systems of Argyll and Bute Council and NHS Highland. The Integration Joint Board operates within an established procedural framework. The roles and responsibilities of Board members and officers are defined within Standing Orders, the Integration Scheme, Financial Regulations and Standing Financial Instructions.

The Integration Joint Board has proportionate internal audit arrangements in place to provide independent assurance on risk management, corporate governance and the system of internal control. The Chief Internal Auditor provides the Audit Committee with an annual report on internal audit activity for the Integration Joint Board. The annual report includes an independent opinion on the adequacy and effectiveness of the systems of governance and internal control. The report for 2017-18 concludes that the Integration Joint Board has a framework of controls in place that provide reasonable assurance regarding the organisation's governance framework, internal controls, effective and efficient achievement of objectives and the management of key risks.

UPDATE ON AREAS FOR DEVELOPMENT IN 2016/17 ANNUAL GOVERNANCE STATEMENT

The 2016/17 Annual Governance Statement identified a number of areas for further development. A summary update for each area is provided in the table below.

Area	2017/18 Update
Financial Strategy	A medium to long term financial strategy (2018/19 – 2027/28) was approved by the Policy and Resources Committee in October 2017. The strategy will be subject to annual review to reflect any changes to underlying assumptions.
Transformation Board	The Transformation Board focus of attention in 2017/18 was on identifying savings across front line delivery services based on four operating principles of business cost reduction, income maximisation, service redesign and self-funding. Some of the savings options identified were efficiency in nature and were reported to Council in October. Others were agreed by the Council in February 2018 to be delivered from 2018/19. The Transformation Board are continuing their transformation journey and in February 2018, as part of the budget pack, reported on their transformation activities for 2018/19 and beyond.
Strategic Workforce Planning	The Strategic Workforce Plan 2018-22 was approved by Council in April 2018. The plan aligns with the Council's Corporate Plan, Transformation Agenda and medium to long term financial strategy. The plan highlights the overall challenges facing the organisation in terms of workforce and identifies key risks in specific service areas for future workforce needs. The plan will be monitored through updates to the Policy and Resources Committee.
Strategic Risk Register and Risk Management Arrangements	The strategic risk register was reviewed and updated by the SMT and reported to the Policy and Resources Committee in August 2017. Risk management arrangements were updated in early 2018 as per the 'Risk Management' section of this Annual Governance Statement.
Health & Social Care Partnership	During the year the frequency of information reporting to the IJB has been reviewed including performance, staff and clinical governance information. In addition a new subcommittee to support the financial governance of the IJB was established. These areas will continue to be kept under review to ensure they meet the requirements of the partnership.

Area	2017/18 Update
Education	In partnership with Education Scotland, the Education Service had a follow through inspection in September 2017 with the published report available in December 2017. The report indicated that the Education Service had made positive improvements across the five main action points. A return visit is planned for May 2018.
Community Engagement and Local Empowerment	Training has been completed and there is continued opportunity for matters relating to community led action plans to feature in Area Community Planning meetings.
Local Scrutiny Plan	The Council's 2018/19 Local Scrutiny Plan was reported to the Audit & Scrutiny Committee in June 2018. It confirms that the Local Area Network has not identified any additional risk areas for the Council where specific scrutiny is required.
Performance and Improvement Framework	Since the approval of the PIF in 2017 there have been specific improvements implemented including alignment of quarterly reporting templates with the Business Outcomes, further revision of the Business Outcomes to simplify them further and engagement with the Chair of the Audit and Scrutiny Committee which resulted in a new mechanism for presenting performance information to members and to enable more effective scrutiny.
Open and Transparent Culture	In 2018/19 internal audit will be carrying out an audit of organisational culture. This will include input from both Council Officers and Elected Members.
New Legislation	The SMT continues to review new legislation as a standing agenda item.
Political Management Arrangements	Council considered the report and introduced revised Political management arrangements adopting many but not all of the suggestions form the SLWG. The constitution has been through its annual review in April 2018 and some minor adjustments were made. The Council continues to proactively review its Constitution including its political management arrangements.

ISSUES FOR FURTHER DEVELOPMENT

The review of governance and internal control has identified the following areas for consideration during 2018/19, particularly in the context of continuous improvement within the Council:

- Implementation of the new approach to scrutiny with scrutiny reviews reported to the Audit and Scrutiny committee.
- Full implementation of the requirements of GDPR and the new Data Protection Act.
- Improving efficiency and accuracy in payroll processing through full roll out of electronic payslips, greater automation of payroll processing
- Establishing a control hub within Roads and Amenity Services with responsibility for programming, delivering and monitoring roads and amenity activities.
- Implementation of new capital monitoring processes and a revised capital prioritisation process.
- Extend equality impact assessments to include a socio-economic impact assessment to ensure that all major decisions taken by the Council have regard to the Fairer Scotland duty.

- The Council have requested a review of the Integration Scheme with a particular focus on risk sharing arrangements, this review will be carried out in partnership with NHS Highland.
- 2018-19 will be the last year of the current Strategic Planning period and the IJB are required to consult and engage on the next 3 year Strategic Plan, this will require to be agreed by Argyll and Bute Council and NHS Highland.

ASSURANCE

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

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

It is the Council's view that the systems for governance and internal control are operating effectively within Argyll and Bute Council and the aforementioned bodies during 2017-18 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.

BACKGROUND

The Local Authority Accounts (Scotland) Amendment Regulations 2014 (SSI No.2014/200) require local authorities in Scotland to prepare a Remuneration Report as part of the annual statutory accounts. All information disclosed in the tables in this Remuneration Report has been audited by Audit Scotland. All other sections within the Remuneration Report have been reviewed by Audit Scotland to ensure it is consistent with the Financial Statements.

REMUNERATION POLICY AND ARRANGEMENTS

Councillors

The remuneration of councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007 (SSI No 2007/183), further amended by Regulations 2013 (SSI No 2013/351). The Regulations provide for the grading of councillors for the purposes of remuneration arrangements, as the Leader of the Council, the Civic Head (Provost), senior councillors or councillors. The Leader of the Council and the Provost cannot be the same person for the purposes of payment of remuneration. A senior councillor is a councillor who holds a significant position of responsibility in the Council's political management structure.

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

The Regulations also provide for the banding of local authorities – Argyll and Bute is in Band B, the Council has determined the level of remuneration for councillors within that banding. The salary that is to be paid to the Leader of the Council is set out in the Regulations. For 2017-18 the salary for the Leader of Argyll and Bute Council is £33,857. The Regulations permit the council to remunerate one Civic Head. The Regulations set out the maximum salary that may be paid to that Civic Head. The Council's Civic Head is The Provost and their remuneration is set at £25,392 which is the maximum allowed for Local Authorities in Band B.

The Regulations also set out the remuneration that may be paid to senior councillors in addition to the Leader and Civic Head and the total number of senior councillors the Council may have. The maximum yearly amount that may be paid to a senior councillor is 75% of the total yearly amount payable to the Leader of the Council. The total yearly amount payable by the Council for remuneration of all its senior councillors shall not exceed £0.296m. The Council is able to exercise local flexibility in the determination of the precise number of senior councillors up to a maximum of 14 and their salary within these maximum limits. The Council's policy is to pay a salary of £23,982 to each appointed spokesperson and the Chair of the Protective Services and Licensing Committee. Chairs of Area Committees without a spokesperson's remit are paid a salary of £19,955.

In 2017-18 Argyll and Bute Council had 10 senior councillors in the administration (excluding the Provost and the Leader). The total salary remuneration for senior councillors (including the Provost and the Leader) during 2017-18 was £0.283m. The Regulations also permit the Council to pay contributions or other payments as required to the Local Government Pension Scheme in respect of those councillors who elect to become councillor members of the pension scheme.

Senior Employees

The salary of senior employees is set by reference to national arrangements as well as local decisions on management structures and their associated remuneration levels. The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services (Chief Officials) sets the salary levels for the Chief Executives of Scottish Local Authorities and also sets out the spinal column salary points for Chief Officers which local authorities can utilise in setting the salary levels for posts within their authority. Circular CO/148 sets the amount of salary for the Chief Executive of Argyll and Bute Council for 2017-18.

The salaries of Executive Directors are paid at (SCP) 43 with Heads of Service being paid at (SCP) 29.

COUNCILLORS' REMUNERATION

Councillors' payments are made in accordance with the Local Government (Scotland) Act 2004 (Remuneration) Regulations 2007 and The Local Government (Allowances and Expenses) (Scotland) Regulations 2007.

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

Members Allowances	2017-18 Actual £'000	2016-17 Actual £'000
Basic Councillor Salaries	408	402
Leader and Provost's Salary	58	59
Senior Councillor Salaries	225	227
Other Expenses and Allowances paid to Members	88	88
Total Allowances	**779**	**776**

The annual return of councillors' salaries and expenses for 2017-18 is available for any member of the public to view at all Council libraries and public offices during normal working hours. It is also available on the Council's website at **http://www.argyll-bute.gov.uk/council-and-government/councillors-and-community-councillors**.

SENIOR COUNCILLORS' REMUNERATION

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

Senior Members	Responsibility	2017-18 Salary, Fees and Allowances £	2017-18 Taxable Expenses £	2017-18 Total Remuneration £	2016-17 Total Remuneration £
Councillor Rory Colville	**Policy Lead for Corporate Services** from 18 May 2017 *(Lead Councillor for Education and Lifelong Learning, Chair of Mid Argyll, Kintyre & the Islands Area Committee - previous Administration)*	23,715	-	**23,715**	**23,272**
Councillor Maurice Corry	*Lead Councillor for Health and Social Care Integration from 21/01/16 to 30/06/16 - previous Administration*	-	-	**-**	**10,960**
Councillor Robin Currie	**Policy Lead for Communities, Housing, Islands and Gaelic and Chair of Mid Argyll, Kintyre & the Islands Area Committee** from 18 May 2017 *(Lead Councillor for Community & Culture and Strategic Housing - previous Administration)*	23,669	56	**23,725**	**24,262**
Councillor Bobby Good	**Chair of Bute & Cowal Area Committee** from 18 May 2017	17,155	-	**17,155**	**-**
Councillor Kieron Green	**Policy Lead for Health and Social Care** from 18 May 2017 *(Lead Councillor for Health and Social Care Integration - previous Administration)*	23,669	-	**23,669**	**12,954**
Councillor David Kinniburgh	**Policy Lead for Planning and Regulatory Services** from 18 May 2017 *(Depute Provost and Chair of Planning, Protective Services and Licensing Committee - previous Administration)*	23,669	-	**23,669**	**23,914**

Senior Members	Responsibility	2017-18 Salary, Fees and Allowances £	2017-18 Taxable Expenses £	2017-18 Total Remuneration £	2016-17 Total Remuneration £
Councillor Alistair MacDougall	*Lead Councillor for Strategic Transportation - previous Administration*	3,175	-	**3,175**	23,914
Councillor Robert E MacIntyre	*Chair of Bute and Cowal Area Committee to 29/09/16 - previous Administration*	-	-	**-**	11,459
Councillor Roddy McCuish	**Depute Provost and Policy Lead for Roads and Amenity Services** from 18 May 2017 *(Chair of Oban, Lorn and the Isles Area Committee - previous Administration)*	23,141	177	**23,318**	19,939
Councillor Alex McNaughton	*Chair of Bute and Cowal Area Committee from 29/09/16 - previous Administration*	2,647	-	**2,647**	8,438
Councillor Yvonne McNeilly	**Policy Lead for Education** from 18 May 2017	20,495	-	**20,495**	-
Councillor Aileen Morton	**Leader and Policy Lead for Economic Development** from 18 May 2017	28,175	-	**28,175**	-
	Lead Councillor for Sustainable Economic Growth - previous Administration	3,684	-	**3,684**	23,914

Senior Members	Responsibility	2017-18 Salary, Fees and Allowances £	2017-18 Taxable Expenses £	2017-18 Total Remuneration £	2016-17 Total Remuneration £
Councillor Ellen Morton	**Chair of Helensburgh & Lomond Area Committee** from 18 May 2017 *(Depute Leader, Lead Councillor for Roads, Amenity Services, Infrastructure, Asset Management and Special Projects - previous Administration)*	20,362	-	**20,362**	**23,914**
Councillor Gary Mulvaney	**Depute Leader and Policy Lead for Strategic Finance and Capital Regeneration Programme** from 18 May 2017 *(Chair of Helensburgh and Lomond Area Committee - previous Administration)*	23,141	-	**23,141**	**19,939**
Councillor Elaine Robertson	**Chair of Oban, Lorn & the Isles Area Committee** from 18 May 2017	16,678	-	**16,678**	**-**
Councillor Len Scoullar	**Provost** from 18 May 2017 *(Provost and Lead Councillor for Island Affairs - previous Administration)*	25,024	-	**25,024**	**25,961**
Councillor Dick Walsh	*Leader and Lead Councillor for Strategic Finance, (IT Services, Improvement, HR and Customer Support, Facility Services, Governance and Law) - previous Administration*	4,482	-	**4,482**	**35,094**

Senior Councillors' remuneration in the above tables does not include non-taxable expenses.

EMPLOYEES' REMUNERATION

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

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

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

Range £	2017-18 Number of Officers	2016-17 Number of Officers
£50,000 - £54,999	71	80
£55,000 - £59,999	22	13
£60,000 - £64,999	9	6
£65,000 - £69,999	1	2
£70,000 - £74,999	9	13
£75,000 - £79,999	3	1
£80,000 - £84,999	3	2
£85,000 - £89,999	-	-
£90,000 - £94,999	-	1
£95,000 - £99,999	3	2
£100,000 - £104,999	-	-
£105,000 - £109,999	-	-
£110,000 - £114,999	-	-
£115,000 - £119,999	1	-
£120,000 - £124,999	-	1
£125,000 - £129,999	1	
Total	**123**	**121**

Argyll Bute COUNCIL

SENIOR EMPLOYEES' REMUNERATION

The table below provides details of the remuneration paid to the Council's Senior Employees (defined by the regulations) as those forming part of the Council's senior management team, or holding certain statutory posts and any additional employee whose salary is over £150,000.

In 2017-18 there were no employees earning more than £150,000.

The following table sets out the remuneration disclosures for 2017-18 for senior officers:

Post Holder	Salary (Including Fees and Allowances) £	Taxable Expenses £	Total Remuneration 2017-18 £	Total Remuneration 2016-17 £
Chief Executive (from 9-5-16), **Executive Director of Community Services** (to 8-5-16) - Cleland Sneddon	124,765	5,071	**129,836**	**120,147**
(Full year equivalent as Chief Executive)	-	-	-	***118,251***
Chief Executive - Sally Loudon (to 8-5-16)	-	-	-	**21,340**
(Full year equivalent)	-	-	-	***119,903***
Executive Director of Customer Services - Douglas Hendry	99,214	604	**99,818**	**98,659**
Acting Executive Director of Community Services - Ann Marie Knowles (from 13-5-16)	98,769	-	**98,769**	**77,451**
(Full year equivalent)	-	-	-	***97,799***
Executive Director of Development and Infrastructure Services - Pippa Milne	98,769	425	**99,194**	**97,867**
Head of Strategic Finance (Section 95 Financial Officer) - Kirsty Flanagan	73,646	611	**74,257**	**73,590**
Head of Children & Families (Section 3 Social Work Officer) - Louise Long (to 07-05-17))	8,318	299	**8,617**	**73,347**
(Full year equivalent)	*71,723*	-	***71,723***	-
Head of Children & Families (Section 3 Social Work Officer) - Alex Taylor (from 03-04-17)	71,853	6,278	**78,131**	-
(Full year equivalent)	*72,443*	-	***72,443***	-

During 2016-17 the Chief Executive, Sally Loudon, left the organisation and Cleland Sneddon (Executive Director of Community Services) was appointed Chief Executive. Ann Marie Knowles was appointed Acting Executive Director of Community Services.

The Chief Executive's salary in 2017-18 included £5,047 of remuneration for acting as Returning Officer. In 2016-17 the former Chief Executive's (Sally Loudon) salary included £2,906 of remuneration for acting as Returning Officer.

During 2017-18 Louise Long, Head of Children & Families and the Council's Section 3 Social Work Officer, left the organisation and the responsibility of Section 3 Social Work Officer was transferred to Alex Taylor, Head of Children and Families.

PENSION BENEFITS

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

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

Local government employees had a final salary pension scheme prior to 1 April 2015. This means that pension benefits are based on the final year's pay and the number of years that person has been a member of the scheme. As of 1 April 2015, local government employees are now part of a defined benefit pension scheme worked out on a career average basis. Benefits accumulated are calculated using pensionable pay each scheme year, rather than final salary. All benefits accumulated prior to 1 April 2015 are protected.

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

The tiers and members contribution rates for 2017-18 are as follows:

Whole time pay	Contribution Rate 2017-18
On earnings up to and including £20,700	5.50%
On earnings above £20,700 and up to £25,300	7.25%
On earnings above £25,300 and up to £34,700	8.50%
On earnings above £34,700 and up to £46,300	9.50%
On earnings above £46,300	12.00%

From 1 April 2015, if a person works part-time their contribution is worked out on their part-time pay rate for the job. Prior to this, if a person worked part-time, their contribution rate was worked out on the whole-time pay rate for the job with actual contributions paid on actual pay earned.

There is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for a lump sum up to the limit set by the Finance Act 2004.

From 1 April 2015, benefits are calculated on the basis of a revalued annual pension built up of 1/49th of pensionable pay each year, plus inflation to keep up with the cost of living. Prior to this date, the accrual rate guaranteed a pension based on 1/60th of final pensionable salary and years of pensionable service. (Prior to 2009 the accrual rate guaranteed a pension based on 1/80th and a lump sum based on 3/80th of final pensionable salary and years of pensionable service).

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

SENIOR COUNCILLORS' PENSION BENEFITS

The pension entitlements for senior councillors for the year to 31 March 2018 are shown in the table below, together with the contribution made by the Council to each senior councillor's pension during the year.

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

Senior Members	In-year pension contributions For year to 31 March 2018 £	In-year pension contributions For year to 31 March 2017 £		Accrued pension benefits As at 31 March 2018 £	Accrued pension benefits Difference from 31 March 2017 £
Councillor Rory Colville	4,578	4,617	Pension	4,248	633
			Lump Sum	*1,590*	*61*
Councillor Maurice Corry (left Scheme 04-05-17)	432	3,889	Pension	-	-
			Lump Sum	-	-
Councillor Robin Currie	4,569	4,617	Pension	4,092	616
			Lump Sum	*830*	*29*
Councillor Kieron Green	4,569	3,292	Pension	-	-
			Lump Sum	-	-
Councillor Bobby Good	3,310	-	Pension	-	-
			Lump Sum	-	-
Councillor David Kinniburgh	4,569	4,617	Pension	4,175	637
			Lump Sum	*1,544*	*64*
Councillor Roddy McCuish	4,467	3,850	Pension	4,159	720
			Lump Sum	*164*	*(1,353)*
Councillor Yvonne McNeilly	3,955	-	Pension	-	-
			Lump Sum	-	-
Councillor Aileen Morton	6,150	4,617	Pension	2,860	809
			Lump Sum	-	-
Councillor Ellen Morton	3,931	4,617	Pension	4,299	515
			Lump Sum	*1,656*	34
Councillor Gary Mulvaney	4,467	3,849	Pension	3,830	626
			Lump Sum	*1,447*	67
Councillor Elaine Robertson	3,750	-	Pension	3,512	445
			Lump Sum	*1,383*	*33*

Councillors Len Scoullar, Dick Walsh, Robert E McIntyre, Alex McNaughton and Alistair MacDougall are not members of Strathclyde Pension Fund.

Councillors Bobby Good, Kieron Green and Yvonne McNeilly are members of Strathclyde Pension Fund, however the Pension Fund has been unable to provide us with figures for their accrued pension benefits.

SENIOR EMPLOYEES' PENSION BENEFITS

The pension entitlements for senior employees for the year to 31 March 2018 are shown in the table below, together with the contribution made by the Council to each senior employee's pension during the year.

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

Senior Officers	In-year pension contributions			Accrued pension benefits	
	For year to 31 March 2018 £	For year to 31 March 2017 £		As at 31 March 2018 £	Difference from 31 March 2017 £
Chief Executive - Cleland Sneddon	24,052	22,214	Pension	47,456	3,026
			Lump Sum	*85,527*	*945*
Acting Executive Director of Community Services - Ann Marie Knowles	18,904	17,719	Pension	43,256	2,645
			Lump Sum	*83,845*	*927*
Executive Director of Customer Services - Douglas Hendry	18,904	18,717	Pension	48,684	2,651
			Lump Sum	*98,215*	*1,086*
Executive Director of Development and Infrastructure Services - Pippa Milne	18,904	18,717	Pension	42,653	2,583
			Lump Sum	*80,122*	*886*
Head of Strategic Finance (Section 95 Financial Officer) - Kirsty Flanagan	13,997	13,859	Pension	18,556	1,764
			Lump Sum	*20,967*	*232*
Head of Children and Families (Section 3 Social Work Officer) - Alex Taylor	13,794	-	Pension	*38,090*	10,278
			Lump Sum	*81,785*	*20,998*
Head of Children and Families (Section 3 Social Work Officer) - Louise Long	1,988	13,859	Pension	-	-
			Lump Sum	-	-

EMPLOYEE EXIT PACKAGES

The numbers of exit packages with cost per band for compulsory and other redundancies are set out in the table below:

	2016/17					2017/18		
	Cash Value					Cash Value		
No	Compulsory Redundancies £	Other Departures £	Total Cash Value Cost £	Exit Package Cost Band	No	Compulsory Redundancies £	Other Departures £	Total Cash Value Cost £
45	106,794	225,776	**332,570**	£0 - £20,000	14	10,698	112,397	**123,095**
5	0	137,480	**137,480**	£20,001 - £40,000	8	29,049	212,841	**241,890**
4	44,304	123,899	**168,203**	£40,001 - £60,000	-	-	-	**-**
2	0	127,484	**127,484**	£60,001 - £80,000	1	-	60,783	**60,783**
3	98,802	168,669	**267,471**	£80,001 - £100,000	4	97,457	284,867	**382,324**
-	-	-	-	£100,001 - £150,000	2	-	248,562	**248,562**
59	**249,900**	**783,308**	**1,033,208**		**29**	**137,204**	**919,450**	**1,056,654**

Exit package costs include redundancy payments, pension strain and compensatory lump sum payments for all retirees. The costs should also include the capitalised cost of compensatory added years ("CAY"), which will be payable to the pension fund until the retiree ceases to claim their pension. For employees with pensions provided by the Strathclyde Pension Fund (the provider for all employees other than teachers) the notional cost of added years is noted separately in the table as costs are based on an assessment by the pension's provider of the present value of all future payments to the retiree. These amounts are not based on actual costs but instead use actuarial assumptions on pensioner longevity and other factors and as such will be subject to change and will not reflect the actual costs incurred.

The Cash Value costs noted in the table represent the actual costs incurred by the Council for the agreed exit packages. The capitalised added years pension element for members of the Teachers' Pension Scheme is included in the cash value cost as payment is made in advance to the teachers' pension fund to settle this liability.

The total cost of £1.057m in the previous table includes exit packages that have been agreed and charged to the Council's Comprehensive Income and Expenditure Statement in the current year. These costs include all exit packages agreed by 31 March in each year, this does not necessarily mean that these payments have been made, for example an employee could have subsequently been re-deployed to an alternative post within the Council. The Council's Balance Sheet includes a provision at 31 March 2018 of £0.272m, this represents the amount which has yet to be paid out by the Council, this amount is included within the bands above.

The supplementary Termination Benefits Note 35 on page 117 provides more information on the exit packages agreed in the last two financial years.

Argyll & Bute COUNCIL

2016-17 Net Expenditure Chargeable to the General Fund £'000	2016-17 Adjustments between the Funding and Accounting Basis (Note 31) £'000	2016-17 Net Expenditure in the Comprehensive Income and Expenditure Statement £'000	Service	2017-18 Net Expenditure Chargeable to the General Fund £'000	2017-18 Adjustments between the Funding and Accounting Basis (Note 31) £'000	2017-18 Net Expenditure in the Comprehensive Income and Expenditure Statement £'000
2,041	100	2,141	**Chief Executive and Strategic Finance**	2,409	316	2,725
			Community Services:			
310	15	325	Executive Director of Community Services	189	43	232
11,170	2,021	13,191	Community and Culture	4,469	1,951	6,420
72,298	8,690	80,988	Education	72,841	14,956	87,797
			Customer Services			
12,932	(182)	12,750	Executive Director of Customer Services	6,314	18	6,332
8,310	2,408	10,718	Customer and Support Services	8,082	1,838	9,920
11,907	2,291	14,198	Facility Services	11,656	2,032	13,688
2,083	94	2,177	Governance and Law	2,043	253	2,296
3,177	124	3,301	Improvement and HR	3,081	344	3,425
			Development and Infrastructure Services			
1,268	54	1,322	Executive Director of Development & Infrastructure Services	1,479	145	1,624
3,886	566	4,452	Economic Development	4,202	766	4,968
3,003	224	3,227	Planning and Regulatory Services	8,021	814	8,835
20,855	9,858	30,713	Roads and Amenity Services	20,134	10,808	30,942
56,208	3,184	59,392	**Health and Social Care Integration**	57,579	3,955	61,534
(48)	518	470	**Other Non-Departmental Costs**	8,189	423	8,612
209,400	**29,965**	**239,365**	**Net Cost of Services**	**210,688**	**38,662**	**249,350**

(210,472)	(24,255)	(234,727)	Other Income and Expenditure	(207,510)	(26,399)	(233,909)
(1,072)	**5,710**	**4,638**	**(Surplus) / Deficit**	**3,178**	**12,263**	**15,441**
(52,417)			**Opening General fund Balance**	**(53,489)**		
(1,072)			Plus (Surplus) or Deficit on General Fund Balance	3,178		
(53,489)			**Closing General Fund Balance at 31 March 2017**	**(50,311)**		

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement on pages 52 to 53.

2016-17 Gross Expenditure £'000	2016-17 Gross Income (Note 6.2) £'000	2016-17 Net Expenditure £'000	Service	Note	2017-18 Gross Expenditure £'000	2017-18 Gross Income (Note 6.2) £'000	2017-18 Net Expenditure £'000
2,268	127	2,141	**Chief Executive and Strategic Finance**		2,897	172	2,725
			Community Services:				
325	-	325	Executive Director of Community Services		232	-	232
19,057	5,866	13,191	Community and Culture		7,630	1,210	6,420
84,614	3,626	80,988	Education		93,319	5,522	87,797
			Customer Services				
15,001	2,251	12,750	Executive Director of Customer Services		9,167	2,835	6,332
36,081	25,363	10,718	Customer and Support Services		34,842	24,922	9,920
27,223	13,025	14,198	Facility Services		26,360	12,672	13,688
2,551	374	2,177	Governance and Law		2,652	356	2,296
3,379	78	3,301	Improvement and HR		3,456	31	3,425
			Development and Infrastructure Services				
1,322	-	1,322	Executive Director of Development & Infrastructure Services		1,763	139	1,624
5,519	1,067	4,452	Economic Development		6,412	1,444	4,968
5,797	2,570	3,227	Planning and Regulatory Services		14,042	5,207	8,835
65,894	35,181	30,713	Roads and Amenity Services		67,599	36,657	30,942
136,580	77,188	59,392	**Health and Social Care Integration**		137,580	76,046	61,534
1,557	1,087	470	**Other Non-Departmental Costs**		9,149	537	8,612
407,168	**167,803**	**239,365**	**Net Cost of Services**	6.3	**417,100**	**167,750**	**249,350**

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	Other Operating Income and Expenditure:		
266	Net (Gain)/loss on Disposal of Long Term Assets		3,544
1,339	Other Operating Income and Expenditure	7	1,430
1,605	**Total Other Operating Income and Expenditure**		**4,974**
	Financing and Investment Income and Expenditure:		
16,133	Interest Payable and Similar charges		16,021
(3,627)	Interest and Investment Income		(970)
3,367	Net Pension Interest Expense		4,033
15,873	**Total Financing and Investment Income and Expenditure**		**19,084**
	Taxation and Non-Specific Grant Income:		
(166,251)	General Government Grants		(162,798)
(11,375)	Government Capital Grants and Other Capital Contributions	12	(17,243)
(30,446)	Non-domestic Rates Redistribution		(29,615)
(82)	Non-domestic Rates TIF		(192)
-	Non-domestic Rates BRIS		(39)
(44,051)	Council Tax Income		(48,080)
(252,205)	**Total Taxation and Non-Specific Grant Income**		**(257,967)**
4,638	**Deficit on Provision of Services**	6.1	**15,441**
(1,290)	(Surplus)/Deficit on revaluation of Long Term Assets		(52,780)
48,407	Other Post Employment Benefits (Pensions)	30.2	(96,302)
47,117	**Other Comprehensive Income and Expenditure**		**(149,082)**
51,755	**Total Comprehensive Income and Expenditure**		**(133,641)**

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Expenditure and Funding Analysis on pages 50 to 51.

Balance Sheet

31 March 2017				31 March 2018	
£'000	£'000		Note	£'000	£'000
		Long Term Assets			
		Property Plant & Equipment	14		
250,590		- Other Land and Buildings		323,341	
9,207		- Vehicles, Plant, Furniture and Equipment		8,419	
200,944		- Infrastructure Assets		200,363	
2,271		- Community Assets		2,324	
2,907		- Surplus Assets		1,156	
24,366		- Assets Under Construction		68,743	
	490,285	**Total Property Plant & Equipment**			**604,346**
	1,671	Heritage Assets	15		1,804
	728	Intangible Assets	16		633
	11,021	Investment Property	17		2,260
	492	Long Term Investments	26		492
	4,926	Long-Term Debtors	21		5,936
	509,123	**Total Long Term Assets**			**615,471**
		Current Assets			
529		Inventories		539	
16,063		Short Term Debtors (Net of Impairment)	22	20,655	
691		Assets Held for Sale	23	2,118	
52,500		Short Term Investments		55,002	
7,889		Cash and Cash Equivalents	24	10,426	
	77,672	**Total Current Assets**			**88,740**
		Current Liabilities			
(14,298)		Short-term Borrowing	26	(8,477)	
(29,770)		Short-term Creditors	25	(32,334)	
(567)		Capital Grant Receipts in Advance	29	(21)	
(1,818)		Provisions	28	(1,813)	
(2,008)		Other Short Term Liabilities	27	(4,407)	
	(48,461)	**Total Current Liabilities**			**(47,052)**
		Long-term Liabilities			
(157,937)		Borrowing Repayable within a Period in Excess of 12 Months	26	(172,429)	
(72,801)		Other Long-term liabilities	27	(124,974)	
(1,255)		Provisions	28	(1,300)	
(5,000)		Capital Grant Receipts in Advance	29	(5,000)	
(149,777)		Other Long-term liabilities (Pensions)	30	(68,251)	
	(386,770)	**Total Long-term Liabilities**			**(371,954)**
	151,564	**Total Assets less Liabilities**			**285,205**

Balance Sheet

31 March 2017 £'000	31 March 2017 £'000		Note	31 March 2018 £'000	31 March 2018 £'000
		Unusable Reserves	32		
56,033		- Revaluation Reserve		108,720	
195,007		- Capital Adjustment Account		196,126	
(3,836)		- Financial Instruments Adjustment Account		(3,506)	
(149,777)		- Pensions Reserve		(68,251)	
(4,312)		- Accumulated Absences Account		(4,036)	
	93,115				229,053
		Usable Reserves	33		
4,064		- Capital Funds		4,326	
896		- Repairs and Renewals Funds		1,515	
53,489		- General Fund Balance		50,311	
	58,449				56,152
	151,564	**Total Reserves**			285,205

The Balance Sheet is a snapshot of the value as at the 31 March 2018 of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported as follows:

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

The Unaudited Annual Accounts were issued on 29 June 2018.

Kirsty Flanagan

Head of Strategic Finance

29 June 2018

Movements in 2017-18	General Fund Balance	Repairs and Renewals Fund	Capital Funds	Total Usable Reserves	Revaluation Reserve	Capital Adjustment Account	Pensions Reserve	Financial Instrument Adjustment Account	Accumu-lated Absences Account	Total Unusable Reserves	Total Reserves
	Usable Reserves (Note 33)				Unusable Reserves (Note 32)						
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2017	**(53,489)**	**(896)**	**(4,064)**	**(58,449)**	**(56,033)**	**(195,007)**	**149,777**	**3,836**	**4,312**	**(93,115)**	**(151,564)**
(Surplus)/Deficit on Provision of Services	15,441			**15,441**						**0**	**15,441**
Other Comprehensive Income and Expenditure					(52,780)		(96,302)			**(149,082)**	**(149,082)**
Total Comprehensive Income and Expenditure	**15,441**	**-**	**-**	**15,441**	**(52,780)**	**-**	**(96,302)**	**-**	**-**	**(149,082)**	**(133,641)**
Adjustments between accounting basis and funding basis under regulations:											
Adjustment between CAA and Revaluation Reserve for depreciation that is related to the revaluation balance rather than historic cost					93	(93)				**-**	**-**
Amortisation of Intangible Assets				**-**		-				**-**	**-**
Depreciation of Non-current Assets	(21,378)			**(21,378)**		21,378				**21,378**	**-**
Impairment of Non-current Assets	(7,581)			**(7,581)**		7,581				**7,581**	**-**
Capital Grants and Contributions credited to the Comprehensive Income and Expenditure Statement	17,243			**17,243**		(17,243)				**(17,243)**	**-**
Capital Expenditure Charged to the General Fund	4,135			**4,135**		(4,135)				**(4,135)**	**-**
Net Gain or Loss on Sale of Non-current Assets	(3,544)		(5,677)	**(9,221)**		9,221				**9,221**	**-**
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	330			**330**				(330)		**(330)**	**-**
Employee Benefits	276			**276**					(276)	**(276)**	**-**
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under pension scheme regulations	(14,776)			**(14,776)**			14,776			**14,776**	**-**

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Movements in 2017-18	Usable Reserves (Note 33)				Unusable Reserves (Note 32)						
	General Fund Balance	Repairs and Renewals Fund	Capital Funds	Total Usable Reserves	Revaluation Reserve	Capital Adjustment Account	Pensions Reserve	Financial Instrument Adjustment Account	Accumu-lated Absences Account	Total Unusable Reserves	Total Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Statutory Repayment of Debt - Loans Fund Advances	10,361			**10,361**		(10,361)				**(10,361)**	**-**
Statutory Repayment of Debt - Finance Leases	34			**34**		(34)				**(34)**	**-**
Statutory Repayment of Debt - NPDO Finance	2,008			**2,008**		(2,008)				**(2,008)**	**-**
Total Statutory Adjustments	**(12,892)**	**-**	**(5,677)**	**(18,569)**	**93**	**4,306**	**14,776**	**(330)**	**(276)**	**18,569**	**-**
Net (Increase)/Decrease before Transfers to Other Statutory Reserves	**2,549**	**-**	**(5,677)**	**(3,128)**	**(52,687)**	**4,306**	**(81,526)**	**(330)**	**(276)**	**(130,513)**	**(133,641)**
Other Transfers required by Statute											
Transfer to/from Other Statutory Reserves	629	(619)	5,415	5,425		(5,425)				**(5,425)**	**-**
(Increase)/Decrease in Year	**3,178**	**(619)**	**(262)**	**2,297**	**(52,687)**	**(1,119)**	**(81,526)**	**(330)**	**(276)**	**(135,938)**	**(133,641)**
Balance at 31 March 2018 Carried Forward	**(50,311)**	**(1,515)**	**(4,326)**	**(56,152)**	**(108,720)**	**(196,126)**	**68,251**	**3,506**	**4,036**	**(229,053)**	**(285,205)**

This Statement shows the movement in the 2017-18 financial year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The '(Surplus)/Deficit on the provision of services' line shows the true economic cost of providing the Council's services, more details of which are shown in Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting purposes. The 'Net (Increase)/Decrease before Transfers to Other Statutory Reserves' line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

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Comparative Movements in 2016-17	Usable Reserves (Note 33)				Unusable Reserves (Note 32)						
	General Fund Balance	Repairs and Renewals Fund	Capital Funds	Total Usable Reserves	Revaluation Reserve	Capital Adjustment Account	Pensions Reserve	Financial Instrument Adjustment Account	Accumu-lated Absences Account	Total Unusable Reserves	Total Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2016	**(52,417)**	**(671)**	**(4,027)**	**(57,115)**	**(54,847)**	**(194,492)**	**94,441**	**4,165**	**4,529**	**(146,204)**	**(203,319)**
(Surplus)/Deficit on Provision of Services	4,638			**4,638**						-	**4,638**
Other Comprehensive Expenditure and Income					(1,290)		48,407			**47,117**	**47,117**
Total Comprehensive Expenditure and Income	**4,638**	**-**	**-**	**4,638**	**(1,290)**	**-**	**48,407**	**-**	**-**	**47,117**	**51,755**
Adjustments between accounting basis and funding basis under regulations:											
Adjustment between CAA and Revaluation Reserve for depreciation that is related to the revaluation balance rather than historic cost.				-	104	(104)				-	-
Amortisation of Intangible Assets	(111)			**(111)**		111				**111**	-
Depreciation and of Non-current Assets	(22,872)			**(22,872)**		22,872				**22,872**	-
Impairment of Non-current Assets	(1,993)			**(1,993)**		1,993				**1,993**	-
Capital Grants and Contributions credited to the Comprehensive Income and Expenditure	11,375			**11,375**		(11,375)				**(11,375)**	-
Capital Expenditure Charged to the General Fund	229			**229**		(229)				**(229)**	-
Net Gain or Loss on Sale of Non-current Assets	(266)		(1,613)	**(1,879)**		1,879				**1,879**	-
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	329			**329**				(329)		**(329)**	-
Employee Benefits	217			**217**					(217)	**(217)**	-
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under pension scheme regulations	(6,929)			**(6,929)**			6,929			**6,929**	-

Comparative Movements in 2016-17	Usable Reserves (Note 33)				Unusable Reserves (Note 32)						
	General Fund Balance	Repairs and Renewals Fund	Capital Funds	Total Usable Reserves	Revaluation Reserve	Capital Adjustment Account	Pensions Reserve	Financial Instrument Adjustment Account	Accumu-lated Absences Account	Total Unusable Reserves	Total Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Statutory Repayment of Debt - Loans Fund Advances	12,105			**12,105**		(12,105)				**(12,105)**	**-**
Statutory Repayment of Debt - NPDO Finance	1,935			**1,935**		(1,935)				**(1,935)**	**-**
Total Statutory Adjustments	**(5,981)**	**-**	**(1,613)**	**(7,594)**	**104**	**1,107**	**6,929**	**(329)**	**(217)**	**7,594**	**-**
Net (Increase)/Decrease before Transfers to Other Statutory Reserves	**(1,343)**	**-**	**(1,613)**	**(2,956)**	**(1,186)**	**1,107**	**55,336**	**(329)**	**(217)**	**54,711**	**51,755**
Other Transfers required by Statute											
Transfer to/from Other Statutory Reserves	271	(225)	1,576	**1,622**		(1,622)				**(1,622)**	**-**
(Increase)/Decrease in Year	**(1,072)**	**(225)**	**(37)**	**(1,334)**	**(1,186)**	**(515)**	**55,336**	**(329)**	**(217)**	**53,089**	**51,755**
Balance at 31 March 2017 Carried Forward	**(53,489)**	**(896)**	**(4,064)**	**(58,449)**	**(56,033)**	**(195,007)**	**149,777**	**3,836**	**4,312**	**(93,115)**	**(151,564)**

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This Statement shows the movement in the 2016-17 financial year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The '(Surplus)/Deficit on the provision of services' line shows the true economic cost of providing the Council's services, more details of which are shown in Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting purposes. The 'Net (Increase)/Decrease before Transfers to Other Statutory Reserves' line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

Cash Flow Statement

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

2016-17 £'000		Note	2017-18 £'000
4,638	**Net Deficit on the Provision of Services**		**15,441**
(19,151)	Adjustments to net surplus or deficit on the provision of services for non-cash movements		(29,635)
3,777	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		4,986
(10,736)	**Net Cash OutFlow from Operating Activities**	39	**(9,208)**
18,915	Investing Activities	40	11,438
(8,128)	Financing Activities	41	(4,767)
51	**Net (Increase)/Decrease in Cash and Cash Equivalents**		**(2,537)**
(7,940)	Cash and Cash Equivalents at the beginning of the Reporting Period		(7,889)
(7,889)	**Cash and Cash Equivalents at the end of the Reporting Period**	24	**(10,426)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 General Principles

The Annual Accounts summarise the Council's transactions for the 2017-18 financial year and its position at the year-end of 31 March 2018. The Council must ensure that its Annual Accounts are prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014, which section 12 of the Local Government in Scotland Act 2003 require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

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

1.2 Accruals of Income and Expenditure

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

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

1.3 Cash and Cash Equivalents

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

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

1.4 Prior Period Adjustments, Changes in Accounting Policies, Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

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

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

1.5 Charges to Revenue for Non-Current Assets

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

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

The council is not required to raise council tax to cover depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with loans fund principal charges.

Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance loans fund principal, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

1.6 Employee Benefits

1.6.1 Benefits Payable during Employment

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave, paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees. These benefits are recognised as an expense in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end and which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the Surplus or Deficit on the provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

1.6.2 Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the authority recognised costs for a restructuring.

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

1.6.3 Post-Employment Benefits

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

a) Teachers

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

b) Local Government Pension Scheme

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

- The liabilities of the Strathclyde Pension Fund attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 2.7% (based on the indicative rate of return on a "high quality corporate bond of equivalent term and currency to the liability" (as measured by the yield on iboxx Sterling Corporates Index, AA over 15 years)).
- The assets of the Strathclyde Pension Fund attributable to the Council are included in the balance sheet at their fair value:
    - Quoted securities – current bid price
    - Unquoted securities – professional estimate
    - Unitised securities – current bid price
    - Property – market value
- The change in the net pension's liability is analysed into the following components:
    - Current service cost – the increase in liabilities as a result of years' service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
    - Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years, charged to the Non Distributed Costs in the Comprehensive Income and Expenditure Statement.
    - Net interest on the net defined benefit liability (asset), i.e. net interest expenses for the Council – The change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period, taking into account any changes in the net defined liability (asset) during the period as a result of contribution and benefit payments.
    - Re-measurements comprising

- The return on plan assets – Excluding amounts included in the net interest on the net defined benefit liability (asset), charged to the Pension Reserve as Other Comprehensive Income and Expenditure.
- 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, charged to the Pensions Reserve
- Contributions paid to the Strathclyde Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

Statutory provisions limit the Council to raising council tax to cover the amounts payable by the Council to the Pension Fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any amounts payable to the fund but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

1.6.4 Post Employment Discretionary Benefits

The 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.

1.7 Events after the Reporting Period

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

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

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

1.8 Financial Liabilities

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

For most of the borrowings that the 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 Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

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

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

1.9 Financial Assets

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following the techniques:

- Instruments with quoted market prices – the market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis
- Equity shares with no quoted market prices – independent appraisal of company valuations.

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

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

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

1.10 Government Grants and Contributions

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

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

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

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

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

1.11 Heritage Assets

The main heritage assets held by the Council are two art collections and a historic jail and courthouse which is operated as a "living" museum. The "Argyll Collection" is an art collection which was set up to provide the young people of Argyll and Bute with direct access to a wide range of quality art recognising that they had limited access to museums and galleries. In addition the Council holds other works of art which are held at various libraries and the Campbeltown Museum. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below. The Council's main heritage assets are accounted for as follows:

The Art Collections

The collections cover a range of media including acrylic, charcoal, embroidery, engraving, etching, gouache, lithography, oil, pastel, pencil, procion dye, screenprint, monoprint, watercolour, woodcut, ceramic, bronze and woodcarving. These items are reported in the Balance Sheet at insurance valuation which is based on market values. These valuations are updated periodically. The assets within the art collections are deemed to have indeterminate lives and a high residual value, hence the Council does not consider it appropriate to charge depreciation.

Acquisitions are made by purchase or donation. Acquisitions are initially recognised at cost and donations are recognised at valuation with valuations provided by external valuers and with reference to appropriate commercial markets using the most relevant and recent information from sales at auctions.

Inveraray Jail and Courthouse and "Other" Historic Buildings

The building is owned by Argyll and Bute Council and leased out to an organisation which runs it as a "living museum". The building is valued in accordance with its property, plant and equipment policy. Other buildings included in this category are McCaig's Folly in Oban and Castle Lodge in Dunoon.

Archaeology and "Other" Museum Exhibits

The Council does not consider that reliable cost or valuation information can be obtained for archaeological items and "other" museum exhibits outwith the art collections. This is because of the diverse nature of the assets held and lack of comparable values. Consequently, the Council does not recognise these assets on the Balance Sheet.

Heritage Assets – General

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration of breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment (see note 1.19.3 in this summary of significant accounting policies). The proceeds of any disposals are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory requirements relating to capital expenditure and receipts (see note 1.19.4 in this summary of significant accounting policies).

1.12 Intangible Assets

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

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

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

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

1.13 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.

1.14 Inventories

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

1.15 Investment Properties

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

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

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

1.16 Leases

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

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

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

1.16.1 The Council as Lessee

a) Finance Leases

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

Lease payments are apportioned between:

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

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

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

b) Operating Leases

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

1.16.2 The Council as Lessor

a) Finance Leases

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

Lease rentals receivable are apportioned between:

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

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

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

b) Operating Leases

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

1.17 Overheads and Support Services

The costs of overheads and support services are not charged to service segments in accordance with the Council's arrangements for accountability and financial performance.

1.18 Assets Held for Sale

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

- The property is available for immediate sale in its present condition.
- The sale must be highly probable; and an active programme to locate a buyer and complete the plan must have been initiated.

- The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value.
- The sale should be expected to qualify for recognition as a completed sale within one year (although events or circumstances may extend the period to complete the sale beyond one year).

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

1.19 Property, Plant and Equipment

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

1.19.1 Recognition

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

1.19.2 Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

- Infrastructure, community assets and assets under construction – depreciated historical cost
- Council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).
- School buildings – current value, but because of their specialist nature, are measured at depreciated cost which is used as an estimate of current value.
- Surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective.

- All other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

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

Assets included in the balance sheet at current value are re-valued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Surplus or Deficit on the Provision of Services where they arise from the reversal of an impairment loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

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

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

1.19.3 Impairment

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

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

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

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

1.19.4 Disposals and Non-current Assets Held for Sale

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

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

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

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

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

1.19.5 Depreciation

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

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

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

1.20 Private Finance Initiative (PFI) and Similar Contracts

PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes and as ownership of the fixed assets will pass to the Council at the end of the contracts for no additional charge, the Council carries the fixed assets used under the contracts on the balance sheet.

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

Fixed assets recognised on the Balance Sheet are re-valued and depreciated in the same way as Property, Plant and Equipment owned by the Council.

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

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

- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).
- Lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

1.21 Provisions, Contingent Liabilities and Contingent Assets

1.21.1 Provisions

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

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

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

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

1.21.2 Contingent Liabilities

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

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

1.21.3 Contingent Assets

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

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

1.22 Reserves

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

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments and retirement benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies above and Note 31 to the accounts.

1.23 VAT

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

1.24 Accounting for the Carbon Reduction Commitment Scheme

The council is required to participate in the Carbon Reduction Commitment Energy Efficiency Scheme. This scheme is currently in the third year of its second phase, which ends on 31 March 2019. The council is required to purchase allowances, either prospectively or retrospectively, and surrender them on the basis of emissions, i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the authority is recognised and reported in the costs of the authority's services and is apportioned to services on the basis of energy consumption.

2. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

The Council is required to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This requirement applies to the following new or amended accounting standards that come into effect for financial years commencing on or before 1 January of the financial year in question (i.e. on or before 1 January 2018 for 2018/19). For this disclosure the standards introduced by the 2018/19 code include:

- IFRS 9 Financial Instruments
- IFRS 15 *Revenue from Contracts with Customers* including amendments to IFRS 15 and clarifications to IFRS 15 *Revenue from Contracts with Customers*
- Amendments to IAS 12 *Income Taxes*: Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to IAS 7 *Statement of Cash Flows*: Disclosure Initiative

For this disclosure there are no new standards, introduced by the 2017/18 Code, which will impact on the 2017/18 Financial Statements.

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

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

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

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

Holiday Pay Accrual: Unused holiday entitlement earned at 31 March 2018 but not taken at that date has been quantified on the basis of a 5% sample of all non-term time Council employees. The calculation in respect of unused holidays for term time staff in schools is based on actual leave entitlement as at 31 March and no estimation is required for these staff. The liability shown in the 2017-18 financial statements in respect of the holiday pay accrual is £4.036m.

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

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

The items in the Council's Balance Sheet at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follow:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £1.2m for every year that useful lives had to be reduced.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pension's liability of changes in individual assumptions can be measured. The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out as follows:

Sensitivities at 31 March 2018	Approximate % Increase to Employer Obligation	Approximate monetary amount £'000
0.5% decrease in real discount rate	9%	81,288
1 year increase in member life expectancy	3-5%	26,759 – 40,644
0.5% increase in salary increase rate	3%	26,759
0.5% increase in pension increase rate	7%	52,139

Arrears	At 31 March 2018, the Council had a balance of sundry debtors of £3.001m. A review of significant balances suggested an allowance of 22.8% (£0.684m) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate an increase of the allowance by 10% would increase the bad debt provision required by £0.300m.

5. TRANSFERS TO/FROM EARMARKED RESERVES

The Council has ring-fenced £43.717m of the balance on the General Fund.

Ring-fenced Balances	Balance 1 April 2017 £'000	Funds Used £'000	Contributions to/from Funds £'000	Earmarking agreed 2017-18 £'000	Earmarking at end of 2017-18 £'000	Balance 31 March 2018 £'000
Revenue from Additional Council Tax on Second Homes	6,177	(2,190)	-	-	1,913	5,900
Unspent Grants	544	(247)	122	-	904	1,323
Contributions Carried Forward	291	(133)	-	-	26	184
Unspent Budget Carried Forward	7,720	(2,816)	(149)	-	682	5,437
School Budget Carry Forwards	1,033	(848)	-	-	566	751
Unspent Budget Required for Existing Legal Commitments	1,042	-	(122)	-	-	920
CHORD	240	-	-	-	93	333
Revenue Contribution to Capital (Dunoon and Campbeltown Schools)	2,805	(2,805)	-	-	-	-
Investment in Affordable Housing	5,000	-	-	-	-	5,000
Severance Costs	2,321	(1,083)	-	-	-	1,238
Helensburgh Waterfront	5,579	-	-	-	-	5,579
Argyll, Lomond and the Islands Regeneration Initiative	4,453	-	(4,453)	-	-	-
Asset Management	2,492	15	-	-	-	2,507
Energy Efficiency Fund	136	-	-	-	-	136
Transformation	83	-	-	-	-	83
Scottish Government Initiatives	674	(258)	-	-	150	566
Lochgilphead and Tarbert Regeneration	-	(5)	3,000	-	-	2,995
Inward Investment Fund	-	-	960	-	-	960
Rural Resettlement Fund	-	(165)	493	-	-	328
Piers and Harbours Investment Fund	-	-	-	-	107	107
Other	929	(68)	(425)	8,588	346	9,370
Total Ring-fenced	**41,519**	**(10,603)**	**(574)**	**8,588**	**4,787**	**43,717**
Contingency	4,671	-	55	-	-	4,726
Budget Smoothing in 2019-20	4,000	-	(4,000)	-	-	-
Unallocated	3,299	-	(1,431)	-	-	1,868
Total General Fund Balance	**53,489**	**(10,603)**	**(5,950)**	**8,588**	**4,787**	**50,311**

The contingency balance of £4.726m is 2% of the Council's budgeted net expenditure for 2018-19.

Argyll Bute COUNCIL

6. SUPPLEMENTARY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME AND EXPENDITURE

6.1 Expenditure and Income Analysed by Nature

The Council's expenditure and income is analysed as follows:

Expenditure/Income	2017-18 £'000	2016-17 £'000
Expenditure		
Employee benefits expenses	148,394	140,953
Other services expenses	182,057	187,725
Contribution to Argyll and Bute Integration Joint Board	57,579	60,787
Depreciation, amortisation, impairment	29,070	17,703
Interest payments	20,054	19,500
Precepts and levies	1,281	1,316
Other operating expenditure	149	23
Net Loss/(Gain) on the disposal of assets	3,544	266
Total Expenditure	**442,128**	**428,273**
Income		
Fees, charges and other service income (External) - *Note 6.2*	(78,302)	(75,988)
Fees, charges and other service income (Internal) - *Note 6.2*	(31,869)	(31,028)
Income to fund social care services (Argyll and Bute Integration Joint Board)	(57,579)	(60,787)
Interest and investment income	(970)	(3,627)
Income from council tax and non-domestic rates	(77,926)	(74,579)
Government grants and contributions	(180,041)	(177,626)
Total Income	**(426,687)**	**(423,635)**
Deficit on the Provision of Services	**15,441**	**4,638**

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Argyll Bute COUNCIL

6.2 Income Analysis based on Management Structure

Income received by the Council on its management structure is analysed below:

2016-17				2017-18		
Fees, Charges & Other Service Income				Fees, Charges & Other Service Income		
External £'000	Internal £'000	Total £'000	Service	External £'000	Internal £'000	Total £'000
-	127	127	**Chief Executive and Strategic Finance**	41	131	172
			Community Services:			
5,792	74	5,866	Community and Culture	1,150	59	1,209
3,263	363	3,626	Education	4,998	524	5,522
			Customer Services			
37	2,215	2,252	Executive Director of Customer Services	513	2,322	2,835
25,017	346	25,363	Customer and Support Services	24,598	324	24,922
5,130	7,895	13,025	Facility Services	5,025	7,647	12,672
373	-	373	Governance and Law	356	-	356
78	-	78	Improvement and HR	31	-	31
			Development and Infrastructure Services			
4	122	126	Executive Director of Development & Infrastructure Services	2	137	139
749	192	941	Economic Development	1,253	192	1,445
2,534	36	2,570	Planning and Regulatory Services	5,175	32	5,207
15,912	19,269	35,181	Roads and Amenity Services	16,519	20,138	36,657
			Health and Social Care Integration			
16,012	389	16,401	Social Care Services	18,104	363	18,467
1,087	-	1,087	**Other Non-Departmental Income**	537	-	537
75,988	**31,028**	**107,016**	**Total Income analysed on a management structure basis**	**78,302**	**31,869**	**110,171**

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6.3 Net Cost of Service Analysis based on Service Reporting Code of Practice (SeRCOP)

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is based in the Council's Management Structure, this was a new requirement under the 2016-17 Accounting Code of Practice. In previous years the Comprehensive Income and Expenditure Account's Net Cost of Service analysis has been based on CIPFA's Service Reporting Code of Practice (SeRCOP). This note provides an additional analysis based on SeRCOP to aid comparability across previous accounting years.

2016-17				2017-18		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	Service	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
113,276	6,922	106,354	Education Services	121,657	9,072	112,585
33,782	27,428	6,354	Housing Services (Non-HRA)	33,015	26,083	6,932
12,064	2,143	9,921	Cultural and Related Services	12,195	1,389	10,806
23,724	4,724	19,000	Environmental Services	24,027	5,193	18,834
25,391	6,850	18,541	Roads and Transport Services	26,046	6,968	19,078
8,716	5,637	3,079	Trading Services	8,786	6,042	2,744
7,806	2,724	5,082	Planning and Development Services	7,427	2,149	5,278
140,978	78,165	62,813	Social Work	141,384	76,379	65,005
			Central Services:			
4,717	167	4,550	- Corporate and Democratic Core	4,629	178	4,451
1,985	4	1,981	- Non Distributed Costs	1,687	2	1,685
2,989	1,299	1,690	- Central Services to the Public	3,261	1,309	1,952
375,428	**136,063**	**239,365**	**Net Cost of Services**	**384,114**	**134,764**	**249,350**

Notes to the Financial Statements

7. OTHER OPERATING INCOME AND EXPENDITURE

The expenditure of £1.430m shown in the Other Operating Income and Expenditure line on the Statement of Comprehensive Income and Expenditure can be analysed as follows:

Other Operating Income and Expenditure	2017-18 Actual £'000	2016-17 Actual £'000
Dunbartonshire and Argyll & Bute Valuation Joint Board Requisition	1,281	1,316
Equal Pay Settlements and Legal Costs	152	15
Other Operating Income and Expenditure not attributable to Services	(3)	8
Total	**1,430**	**1,339**

8. AGENCY INCOME

The Council have an on-going agency agreement with Scottish Water to collect domestic water and sewerage charges. During 2017-18 income from this agreement amounted to £0.309m (2016-17 £0.309m).

The Council also acts as agent for the Scottish Government in the collection of non-domestic rate income. Further information on the collection of non-domestic rate income can be found on pages 124 to 125.

9. COMMUNITY CARE AND HEALTH (SCOTLAND) ACT 2002

From 1 April 2016 health and social care services were fully integrated as part of the new Health and Social Care Partnership.

During 2017-18 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 2017-18 income received by the Council from this source amounted to £6.192m and the related expenditure was £8.450m. This can be analysed as follows.

Purpose of Services	Income £'000	Expenditure £'000
Care of the Elderly	2,488	3,851
Provision of Services for People with Learning Disabilities	2,412	3,075
Provision of Services for People with Mental Health Needs	1,292	1,524
Total	**6,192**	**8,450**

10. FEES PAYABLE TO AUDIT SCOTLAND

In 2017-18 the following fees relating to external audit and inspection were incurred:

Auditor's Remuneration	2016-17 £'000	2015-16 £'000
Fees payable to Audit Scotland with regard to external audit services carried out by the appointed Auditor	256	262
Total Remuneration	**256**	**262**

The fee for 2017-18 includes £3,300 for the audit of the Council's charitable trusts.

Notes to the Financial Statements

11. WASTE MANAGEMENT PUBLIC PRIVATE PARTNERSHIP

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

The Council has paid a service charge of £5.045m (2016-17 £5.042m) which represents the value of the service provided from 1 April 2017 to 31 March 2018. Under the agreement the Council is committed to paying the following sums:

Future Repayment Periods	£'000
2018 - 2019	5,984
2019 - 2022	25,017
2022 - 2027	23,207
Total	**54,208**

The average service charge equates to £5.328m per annum over the life of the contract.

12. GRANT INCOME

The Council credited the following grants to the Comprehensive Income and Expenditure Statement in 2017-18:

Grant Income	2017-18 £'000	2016-17 £'000
Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	162,798	166,251
Non Domestic Rates	29,615	30,446
Specific Capital Grant	45	76
General Capital Grant	12,747	9,465
Coastal Communities Fund		600
SUSTRANS		-
Scottish Government - Regeneration Capital Grant Fund		300
Strathclyde Partnership for Transport (SPT)		171
Other Grants	2,812	746
Other Government Capital Grants	1,639	17
Total	**209,656**	**208,072**
Credited to Services		
Scottish Government Specific Grants	3,107	365
General Capital Grant - Private Sector Housing Improvement Grants	1,000	1,409
General Capital Grant - Economic Development	744	157
Housing Benefit Subsidy	22,468	22,983
Other Revenue Government Grants	2,782	1,569
Total	**30,101**	**26,483**

13. RELATED PARTIES

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

The aim of the Financial Reporting Standard dealing with Related Parties is to highlight instances where influence and control has been exercised over an external organisation by the Council, and where an elected member, their close family or someone in their household, has the ability to exercise the influence or control. Elected members and Senior Officers have completed a signed declaration on Related Party Interests and these have been used to compile this disclosure.

13.1 Scottish Government

The Scottish Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework, within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in Note 12 – Grant Income on page 83.

13.2 Members

Members of the council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2017-18 is shown in the Remuneration Report on page 40.

During the year there were two organisations in which members had a significant interest and where the total of transactions exceeded £10,000.

Transactions in which Members have a significant interest	Expenditure £'000
Trident Taxis	10
South Kintyre Development Trust	88

Notes to the Financial Statements

13.3 Other Related Bodies

This category relates to transactions with entities which are controlled or significantly influenced by the Authority.

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

Related Bodies	Expenditure £'000
Transactions with related bodies during the year totalled	3,503
Of these, transactions with the following exceeded £10,000:	
Dunbritton Housing Association Ltd	941
Oban and Lorn Community Enterprise - Atlantis Leisure	459
Fyne Homes Ltd	456
Argyll Community Housing Association (ACHA)	382
Kintyre Alcohol and Drugs Advisory Service (KADAS)	162
Dunoon and Cowal Youth Project	146
West Highland Housing Association Ltd	144
Argyll and the Isles Tourism Ltd	97
Islay and Jura Community Enterprise	94
South Kintyre Development Trust	88
Mid Argyll Community Enterprise	74
Scotland Excell	72
Fyne Futures	71
Convention of Scottish Local Authorities (COSLA)	70
Argyll and Bute Citizens Advice Bureaux	60
Bute Advice	57
Kintyre Recycling	56
Oban Addiction Support and Information Services (OASIS)	26
RE-JIG (Recycling)	18
Duke of Edinburgh Award Scheme	12
Mull & Iona Community Trust (MICT)	12
Total	**3,497**

Given the relationships the Council has with other organisations and partners it is possible that some related party transactions may exist. However, the purpose of the requirement to complete the disclosure is to provide additional information to the users of the Annual Accounts and, by declaring possible instances, there is no suggestion that any inappropriate transactions have taken place.

14. PROPERTY, PLANT AND EQUIPMENT

14.1 Movement in Property, Plant and Equipment

Movements in 2017-18	Other Land & Buildings £'000	Vehicles Plant & Equipment £'000	Infra-structure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total 2017-18 £'000
Cost or Valuation							
At 1 April 2017	**273,916**	**34,148**	**269,553**	**2,280**	**2,911**	**24,366**	**607,174**
Additions	4,158	1,429	5,820	53	-	23,866	35,326
Additions financed under a new leasing arrangement	23,527	607	-	-	-	32,480	56,614
Revaluation increases/(decreases) recognised in the Revaluation Reserve	38,937	-	-	-	44		38,981
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(7,980)	-	-	-	(169)	-	(8,149)
Derecognition - Disposals	(4)	(486)	-	-			(490)
Assets reclassified (to)/from Held for Sale	(203)	-	-	-	-	-	(203)
Other movements in cost or valuation	11,602	51	306		(1,626)	(11,969)	(1,636)
At 31 March 2018	**343,953**	**35,749**	**275,679**	**2,333**	**1,160**	**68,743**	**727,617**
Depreciation and Impairments							
At 1 April 2017	**(23,326)**	**(24,941)**	**(68,609)**	**(9)**	**(4)**	**-**	**(116,889)**
Depreciation Charge for 2017-18	(11,611)	(2,863)	(6,707)	-	(43)	-	(21,224)
Depreciation written out to the Revaluation Reserve	13,748	-	-	-	1	-	13,749
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	481	-	-	-	22	-	503
Derecognition - Disposals	-	474		-		-	474
Other movements in depreciation and impairment	96	-	-		20	-	116
At 31 March 2018	**(20,612)**	**(27,330)**	**(75,316)**	**(9)**	**(4)**	**-**	**(123,271)**
Balance Sheet amount at 31 March 2018	**323,341**	**8,419**	**200,363**	**2,324**	**1,156**	**68,743**	**604,346**
Balance Sheet amount at 1 March 2017	**250,590**	**9,207**	**200,944**	**2,271**	**2,907**	**24,366**	**490,285**

Argyll & Bute COUNCIL

Comparative Movements in 2016-17	Other Land & Buildings £'000	Vehicles Plant & Equipment £'000	Infra-structure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total 2016-17 £'000
Cost or Valuation							
At 1 April 2016	**277,214**	**31,517**	**263,226**	**1,870**	**2,821**	**15,486**	**592,134**
Additions	12,826	1,463	5,805	397	-	6,256	26,747
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(6,006)	-	-	-	345	116	(5,545)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(4,734)	-	-	-	(17)	-	(4,751)
Derecognition - Disposals	(75)	(408)	-	-	-	(41)	(524)
Assets reclassified (to)/from Held for Sale	(195)	-	-	-	-	-	(195)
Other movements in cost or valuation	(5,114)	1,576	522	13	(238)	2,549	(692)
At 31 March 2017	**273,916**	**34,148**	**269,553**	**2,280**	**2,911**	**24,366**	**607,174**
Depreciation and Impairments							
At 1 April 2016	**(18,729)**	**(20,830)**	**(62,062)**	**(2)**	**(4)**	**-**	**(101,627)**
Depreciation Charge for 2016-17	(11,781)	(4,485)	(6,547)	-	(60)	-	(22,873)
Depreciation written out to the Revaluation Reserve	6,778	-	-	-	22	-	6,800
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	294	-	-	-	27	-	321
Derecognition - Disposals	-	374	.	-	-	-	374
Other movements in depreciation and impairment	112	-	-	(7)	11	-	116
At 31 March 2017	**(23,326)**	**(24,941)**	**(68,609)**	**(9)**	**(4)**	**-**	**(116,889)**
Balance Sheet amount at 31 March 2017	**250,590**	**9,207**	**200,944**	**2,271**	**2,907**	**24,366**	**490,285**
Balance Sheet amount at 31 March 2016	**258,485**	**10,687**	**201,164**	**1,868**	**2,817**	**15,486**	**490,507**

14.2 Valuation of Property, Plant and Equipment

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

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

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured is re-valued at least every five years. Assets identified as Corporate Surplus Assets are valued in accordance with IFRS 13 - Fair Value Measurement. The Balance Sheet value of Corporate Surplus assets at 31 March 2018 was £1.156m. Corporate Surplus assets are valued at their fair value on 31 March each year. Level 3 inputs were used for most Corporate Surplus asset valuations.

Revaluations of council owned Land and Property were carried out at 31 March 2018 in accordance with the Council's rolling programme of revaluations. The revaluations have been carried out by external valuers, Ryden LLP. Valuations of land and buildings were carried out in accordance with the methodologies and basis for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

The following table shows the progress of the Council's rolling programme for the revaluation of Other Land and Buildings:

Valued at Fair Value as at:	Other Land & Buildings £'000
31 March 2018	194,237
31 March 2017	26,224
31 March 2016	41,969
31 March 2015	26,383
31 March 2014	34,528
Total Cost or Valuation	**323,341**

14.3 Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:

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

14.4 Summary of Capital Expenditure and Financing

Capital expenditure involves the creation of assets, the benefit of which will be available to future rates and council taxpayers. It is financed from borrowing, capital receipts and capital grants. The cost of the asset is effectively borne over a period of years. In 2017-18 total spending on capital projects was £92.311m.

		2017-18 £'000	2016-17 £'000
Opening Capital Financing Requirement		**253,483**	**253,896**
Capital Investment:			
Property Plant and Equipment:	Other Land and Buildings	4,158	12,826
	Vehicles, Plant, Furniture and Equipment	1,429	1,463
	Infrastructure Assets	5,820	5,805
	Community Assets	53	397
	Assets Under construction	23,866	6,256
Property Plant and Equipment acquired under Finance Leases:	Other Land and Buildings - DBFM Schools	56,007	-
	Vehicles, Plant, Furniture and Equipment	607	-
Heritage Assets		133	32
Intangible Assets		238	282
Total Capital Investment		**92,311**	**27,061**
Sources of Finance:			
Capital Receipts		(5,677)	(1,613)
Government Grants		(17,243)	(11,375)
Capital Financed from Current Revenue		(4,135)	(229)
Repayment of External Loans		(10,361)	(12,105)
Capital Element of Finance Lease Payments		(34)	-
Capital Element of Schools NPDO Payments		(2,008)	(1,935)
Capital Receipts transferred to Capital Fund		5,677	1,613
Capital Receipts Used from Capital Fund		(5,415)	(1,576)
Other		(165)	(254)
Total Funding		**(39,361)**	**(27,474)**
Closing Capital Financing Requirement		**306,433**	**253,483**

14.5 Commitments under Capital Contracts

At 31 March 2018, the Council had commitments on capital contracts of £33.429m. This expenditure will be funded from a combination of government grants, borrowing and income from selling assets and contributions from Revenue Accounts. Similar commitments at 31 March 2017 were £32.449m. The major commitments are:

	£'000
Dunoon Queens Hall	10,760
Dunoon Primary School Refurbishment	7,524
Campbeltown New Quay Expansion	5,563
Kirk Road, Dunbeg	1,872
Rothesay Pavilion	1,118
Oban High School Replacement	943
Kirn Primary School Replacement	565
Clyde Cottage Nursery Extension	482
Campbeltown Flood Scheme	404
Artificial Pitches	358
Kilcreggan Primary School Early Learning Upgrade	355
Lismore Point & Port Appin Repairs	290

15. HERITAGE ASSETS

The main heritage assets held by the Council are two art collections and Inveraray Jail and Courthouse. The Council holds other heritage assets which are not valued and shown on the balance sheet. Further details on the council's heritage assets policy can be found in note 1.11 on page 66.

Reconciliation of the carrying value of heritage assets held by the Council:

Movements in 2017-18	Art Collections £'000	Heritage Property £'000	Total £'000
Cost or Valuation			
Net Book Value at 1 April 2017	**1,316**	**355**	**1,671**
Additions	-	133	133
Disposals	-	-	-
Revaluations	-	-	-
Impairment Losses/(Reversals) recognised in the Revaluation Reserve	-		-
Transfer from Assets Under Construction	-		-
At 31 March 2018	**1,316**	**488**	**1,804**

16. INTANGIBLE ASSETS

Intangible assets comprise software licences and carbon reduction commitment allowances purchased in advance. Purchased software licences are shown at cost and this cost is charged to the relevant service lines within the Comprehensive Income and Expenditure Statement over the economic life of the licences, assessed as five years.

The carbon reduction commitment allowances relate to allowances purchased in advance as part of the Carbon Reduction Energy Efficiency Scheme (Phase 2). These allowances will be surrendered in October of each year on the basis of emissions, i.e. carbon dioxide produced as energy is used.

The movement in intangible assets during the year was:

Movements in 2017-18	Carbon Reduction Commitment Allowance £'000	Purchased Software Licences £'000	Total Intangible Assets £'000
Cost or Valuation			
At 1 April 2017	**282**	**1,499**	**1,781**
Additions	172	66	238
Disposals	(230)	-	(230)
Reclassifications	-	51	51
At 31 March 2018	**224**	**1,616**	**1,840**
Depreciation and Impairments			
At 1 April 2017	**-**	**(1,053)**	**(1,053)**
Charge for 2017-18	-	(154)	(154)
Disposals	-	-	-
At 31 March 2018	**-**	**(1,207)**	**(1,207)**
Balance Sheet amount at 31 March 2018	**224**	**409**	**633**
Balance Sheet amount at 31 March 2017	**282**	**446**	**728**

Comparative Movements in 2016-17	Carbon Reduction Commitment Allowance £'000	Purchased Software Licences £'000	Total Intangible Assets £'000
Cost or Valuation			
At 1 April 2016	**242**	**1,277**	**1,519**
Additions	282	-	282
Disposals	(242)	-	(242)
Reclassifications	-	222	222
At 31 March 2017	**282**	**1,499**	**1,781**
Depreciation and Impairments			
At 1 April 2016	-	**(942)**	**(942)**
Charge for 2016-17	-	(111)	(111)
Disposals	-		-
At 31 March 2017	**-**	**(1,053)**	**(1,053)**
Balance Sheet amount at 31 March 2017	**282**	**446**	**728**
Balance Sheet amount at 31 March 2016	**242**	**335**	**577**

17. INVESTMENT PROPERTY

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

The value of investment property is initially measured at cost and thereafter measured at fair value. The fair value of investment property reflects market conditions at 31 March 2018. Revaluations of investment properties were carried out at 31 March 2018 by external valuers, Ryden LLP.

17.1 Movement in Investment Property

The movement in investment property during 2017-18 was:

Movements in 2017-18	Investment Properties £'000
Cost or Valuation	
At 1 April 2017	**11,021**
Acquisitions	-
Disposals	(8,905)
Net Gains/Losses from fair value adjustments	111
Transfers	33
At 31 March 2018	**2,260**

17.2 Investment Property Income and Expenditure

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

	2017-18 £'000	2016-17 £'000
Rental Income from Investment Property	192	214
Direct operating expenses arising from investment property	(62)	(101)
Net gain/(loss)	**130**	**113**

18. SCHOOLS BUILT UNDER PUBLIC PRIVATE PARTNERSHIP CONTRACTS (PPP)

Argyll and Bute Council have two schemes:

Schools Non-Profit Distributing Organisation (NPDO)

During 2007-08 two secondary schools, two joint campuses and one primary campus, developed as part of the non-profit distributing 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.

Schools Hub Design, Build, Finance and Maintain Contract (DBFM)

Campbeltown and Oban High Schools have been built under this type of arrangement which reached Financial Close in March 2016.

Campbeltown Grammar School Construction Phase 1 was completed on 19 February 2018 and provided a new secondary school for pupils aged between 12 and 18. The new school has capacity for 500 pupils and replaces the existing Campbeltown Grammar School on the current school site at Hutcheon Road, Campbeltown. Phase 2 includes the demolition of the existing school buildings, provision of a car park, landscaping and 3G artificial turf pitch and is scheduled to complete in November 2018.

Oban High School Construction Phase 1 was completed on 5 April 2018 and provided a new secondary school for pupils between 12 and 18. The new school has capacity for 1300 pupils and replaces the existing Oban High School, on the current school site at Soroba Road, Oban. Phase 2 includes the demolition of the existing school buildings, provision of a car park, landscaping and a pedestrian footway with lighting from the new school facilities to the grass pitches owned by the Council at Glencruitten, Oban and is scheduled to complete in January 2019.

18.1 Assets Held under Schools NPDO and DBFM Contracts

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 2018 and depreciation to date are included as part of Operational Land and Buildings.

As noted above two schools were completed under the Schools DBFM Contract. Campbeltown Grammar has been included within Other Land and Buildings at its actual construction cost. Oban High School has been included within Assets Under Construction at its actual construction cost.

Movements in 2017-18	Buildings Under Construction £'000	Schools DBFM - Other Land & Buildings £'000	Schools NPDO - Other Land & Buildings £'000	Total Schools Built under PFI Contracts £'000
Cost or Valuation				
At 1 April 2017	**-**	**-**	**93,567**	**93,567**
Additions at Cost	32,480	23,527	(75)	55,932
Revaluations	-	-	37,190	37,190
At 31 March 2018	**32,480**	**23,527**	**130,682**	**186,689**
Depreciation and Impairments				
At 1 April 2017	**-**	**-**	**(6,805)**	**(6,805)**
Charge for 2017-18	-	-	(1,706)	(1,706)
Revaluations	-	-	8,505	8,505
At 31 March 2018	**-**	**-**	**(6)**	**(6)**
Balance Sheet amount at 31 March 2018	**32,480**	**23,527**	**130,676**	**186,683**
Balance Sheet amount at 31 March 2017	**-**	**-**	**86,762**	**86,762**

18.2 Schools NPDO Finance Lease Liability

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

Movements in 2017-18	Schools DBFM £'000	Schools NPDO £'000	Total Schools Finance Lease Liability £'000
Balance at 1 April 2017	-	(74,059)	(74,059)
Additions	(56,007)	-	(56,007)
Repayments	-	2,008	2,008
Schools NPDO Finance Lease Liability at 31 March 2018	**(56,007)**	**(72,051)**	**(128,058)**
Split:			
Obligations payable within 1 year	(2,240)	(2,117)	(4,357)
Obligations payable after 1 year	(53,767)	(69,934)	(123,701)
Schools NPDO Finance Lease Liability at 31 March 2018	**(56,007)**	**(72,051)**	**(128,058)**

18.3 Payments due to Operator under Schools NPDO Contract

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

Future Repayment Periods	Repayment of Liability £'000	Lifecycle Costs £'000	Payment of Interest £'000	Service Charges £'000	Total Payments £'000
2018 - 2020	4,385	-	14,413	10,359	29,157
2020 - 2025	14,888	928	31,888	28,087	75,791
2025 - 2030	22,156	2,839	23,166	32,205	80,366
2030 - 2035	30,622	3,124	9,825	33,193	76,764
Total	**72,051**	**6,891**	**79,292**	**103,844**	**262,078**

18.4 Payments due to Operator under Schools DBFM Contract

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

Future Repayment Periods	Repayment of Liability £'000	Service Charges & Interest £'000	Total Payments £'000
2018 - 2024	11,201	13,753	24,954
2024 - 2029	11,201	14,760	25,961
2029 - 2034	11,201	15,541	26,742
2034 - 2039	11,202	16,425	27,627
2039 - 2044	11,202	16,627	27,829
Total	**56,007**	**77,106**	**133,113**

19. OPERATING LEASES

19.1 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 2017-18 were as follows:

	2017-18 £'000	2016-17 £'000
Land and Buildings	229	198
Vehicles	270	367
Plant and Equipment	168	162
Total	**667**	**727**

19.2 Assets Held Under Operating Leases

The Council was committed at 31 March 2018 to making payments of £0.535m under operating leases comprising the following elements:

	Other Land and Buildings £'000	Vehicles, Plant and Equipment £'000
Leases expiring within 1 year	135	29
Leases expiring between 1 and 5 years	44	214
Leases expiring after 5 years	112	1
Value at 31 March 2017	**291**	**244**

20. FINANCE LEASES

20.1 Finance Leases – Amounts Paid to Lessors

During 2017-18 the council purchased a new cremator for Cardross Crematorium under a finance lease arrangement. The amount paid under this arrangement in 2017-18 was as follows:

	2017-18 £'000	2016-17 £'000
Plant and Equipment	34	-
Total	**34**	**-**

20.2 Assets Held Under Finance Leases

Assets purchased under a finance leases are included within the assets of the council and depreciated over the life of the asset as follows:

Movements in 2017-18	Vehicles, Plant and Equipment £'000
Value at 1 April 2017	**-**
Additions	607
Depreciation	(27)
Value at 31 March 2018	**580**

20.3 Finance Lease Liability

The Council was committed at 31 March 2018 to making payments of £0.573m under finance leases comprising the following elements:

Movements in 2017-18	£'000
Balance at 1 April 2017	**-**
Additions	(607)
Repayments	34
Finance Lease Liability at 31 March 2018	**(573)**
Split:	
Obligations payable within 1 year	(50)
Obligations payable between 1 and 5 years	(174)
Obligations payable after 5 years	(349)
Finance Lease Liability at 31 March 2018	**(573)**

21. LONG TERM DEBTORS

	31st March 2018 £'000	31st March 2017 £'000
House Loans	18	27
Waste PPP Historic Contamination Fund	750	750
Charging Orders - Care Home Fees	1,214	1,103
Strategic Housing Fund Loans to Registered Social Landlords	3,854	2,946
Other Long Term Debtors	100	100
Total Long Term Debtors	**5,936**	**4,926**

22. DEBTORS

		31 March 2018		31 March 2017	
		£'000	£'000	£'000	£'000
Arrears of Local Taxation	Council Tax	15,898		14,563	
	Less: Provision for Bad Debts	(13,179)		(12,002)	
			2,719		2,561
Housing Benefits Overpayments		1,063		1,192	
Less: Provision for Bad Debts		(883)		(1,030)	
			180		162
Debtor Accounts		3,001		2,930	
Less: Provision for Bad Debts		(684)		(703)	
			2,317		2,227
Net Debtor to Scottish Government for Non Domestic Rates			2,121		945
VAT Recoverable from HMRC			3,657		3,016
Strategic Housing Fund Loans due within 1 Year			570		584
Other Debtors			9,091		6,568
Total Debtors			**20,655**		**16,063**

23. ASSETS HELD FOR SALE

The movement in assets held for sale during 2017-18 was:

Movements	2017-18 £'000	2016-17 £'000
Balance outstanding at start of year	**691**	**2,381**
Assets newly classified as held for sale (Property, Plant and Equipment)	1,681	134
Revaluation losses	-	(45)
Revaluation gains	46	-
Impairment losses	-	-
Assets declassified as held for sale (Property, Plant and Equipment)	-	-
Assets Sold	(300)	(1,779)
Balance outstanding at year-end	**2,118**	**691**

24. CASH AND CASH EQUIVALENTS

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

	31 March 2018 £'000	31 March 2017 £'000
Cash held by the Authority	49	57
Cash in transit	269	125
Short term deposits with banks	914	1,722
Short term deposits in Money Market Funds	14,000	9,500
Bank Current Accounts (Overdraft)	(4,806)	(3,515)
Total Cash and Cash Equivalents	**10,426**	**7,889**

25. CREDITORS

	31 March 2018 £'000	31 March 2017 £'000
Accrued Payrolls and Superannuation	6,279	6,288
Accrued Employer's National Insurance Contributions and PAYE	2,899	2,397
Accrual for Short Term Accumulating Absences	4,036	4,312
Creditors System Liability	2,806	4,382
Accrued Expenditure	5,365	4,442
Other Creditors	10,949	7,949
Total Creditors	**32,334**	**29,770**

26. FINANCIAL INSTRUMENTS DISCLOSURES

26.1 Types of Financial Instruments

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

	31 March 2018		31 March 2017	
	Long Term £'000	Current £'000	Long Term £'000	Current £'000
Investments and Lending				
Loans and Receivables	6,428	86,083	5,418	76,452
Borrowing				
Financial Liabilities at amortised cost	297,433	45,188	230,736	46,077

26.2 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 2018 for loans from the PWLB were taken from the appropriate interest rate notice and for other loans receivable and payable from market rates obtained by our treasury advisors.
- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values are calculated as follows:

	31 March 2018		31 March 2017	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Lending				
Loans and Receivables	92,511	92,617	81,870	82,079
Borrowing				
Financial Liabilities	342,621	420,465	276,813	276,813

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

26.3 Gains and Losses on Financial Instruments

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

26.4 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.

26.5 Credit Risk

Credit risk arises from the short-term lending of surplus funds to banks, money market funds, 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 banks and money market funds 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 2018 £'000	Historical Experience of Non-payment adjusted for Market Conditions at 31 March 2018 %	Estimated Maximum Exposure to Default and Uncollectibility £'000
Deposits with Banks and Money Market Funds	14,914	-	-

The information in respect of the Council's debtors can be found in note 21 and 22 on page 98. The Debtor Accounts represents the amounts owed by the Council's customers; Other Debtors include prepaid expenditure, accrued income and money owed to the Council in respect of projects being carried out under partnerships where the Council is the lead partner. The bad debt provision shown in note 21 represents the Council's assessment of the likely recoverability of the debt outstanding.

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

26.6 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 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:

Maturity analysis of financial liabilities	31 March 2018 £'000	31 March 2017 £'000
Less than one year	45,188	46,077
Between one and two years	10,757	7,460
Between two and five years	24,345	18,698
More than five years	262,331	203,578
	342,621	**275,813**

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.

26.7 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 2018, with all other variables held constant:

Impact on tax-payer	31 March 2018 £'000
Increase on interest payable on variable rate borrowings	3
Increase in interest receivable on variable rate lending	-
Increases in government grant receivable for "loan charges"	-
Net effect on Statement of Comprehensive Income & Expenditure	**3**

Other accounting presentational changes	31 March 2018 £'000
A decrease in the "fair value" of fixed rate borrowing (disclosure confined to the notes to the financial statements)	46,977

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

26.8 Price Risk

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

26.9 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.

26.10 Short-Term Deposits

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

	31 March 2018 £'000	31 March 2017 £'000
Banks and Money Market Funds	14,914	11,222

26.11 Soft Loans

There were two loans paid out during 2017-18 on which no interest is being charged, both are repayable by 31 March 2019.

26.12 Short-Term Borrowing

The Common Good and the various Trust Funds administered by the Council had monies temporarily invested with the Council's loans fund during the year. The amounts at 31 March 2018 are shown in the table below. Further details of the nature and amounts of the funds of the Common Good and Trust Funds are shown in notes 36 and 37 on pages 117 to 118.

	31 March 2018 £'000	31 March 2017 £'000
Common Good	117	110
Trust Funds	738	728

27. OTHER LIABILITIES

Other liabilities consist of liabilities which by arrangement are payable at some point in the future or paid off by an annual sum over a period of time. Other liabilities total £129.381m as at 31 March 2018 and comprise the following:

Movements in 2017-18	Opening Balance 31 March 2017 £'000	Movement in Year £'000	Closing Balance 31 March 2018 £'000
Finance Lease Liability (See note 20.3)	-	(573)	(573)
Schools Finance Lease Liability (See note 18.2)	(74,059)	(53,999)	(128,058)
Land Contamination	(750)	-	(750)
Total Other Liabilities	**(74,809)**	**(54,572)**	**(129,381)**
Split:			
Short Term Liabilities (due within 1 year)			(4,407)
Long Term Liabilities (due after 1 year)			(124,974)
Total Other Liabilities			**(129,381)**

28. PROVISIONS

	Opening Balance 31 March 2017 £'000	Additional Provision £'000	Amounts Used £'000	Unused Amounts Reversed £'000	Closing Balance at 31 March 2018 £'000
VAT Misdeclaration Provision	(253)	(24)	205		(72)
Equal Pay Claims	(7)	(146)	-	-	(153)
Income due to Registered Social Landlords	(135)	(3)	-	-	(138)
Reorganisation Redundancy Costs	(69)	(50)	50	-	(69)
Service Choices Redundancy Costs	(207)	(222)	207	-	(222)
Landfill Sites - Restoration and Aftercare Costs	(1,120)	(42)	-	-	(1,162)
Utlities Provision	(469)	-	-	99	(370)
Other Provisions	(813)	(166)	52	-	(927)
Total Provisions	**(3,073)**	**(653)**	**514**	**99**	**(3,113)**
Split:					
Short Term Provisions (due within 1 year)					(1,813)
Long Term Provisions (due after 1 year)					(1,300)
Total Other Liabilities					**(3,113)**

A provision was created at the end of 2005-06 in relation to employees in catering, cleaning and home care services who had not accepted the Council's equal pay settlement. the increase in provision of £0.146m relates to claims that are highly likely to be settled within the next year. There may be further outstanding claims where the settlement amount cannot be estimated reliably enough to provide for the costs.

The Council reduced the discount on council tax from second homes to 10% during 2005-06. The additional council tax income invoiced during 2017-18 amounted to £1.913m; this amount is to be paid to registered social landlords to invest in social housing. A provision for cash not yet collected has been created amounting to £0.138m.

In line with expectations, liabilities have arisen in respect of employees who will be made redundant as a result of operational restructuring and Service Choices. The Council has significant budget savings to make over the next 5 years and there has been a complete service provision review, Service Choices. As a result of Service Choices and other savings agreed as part of the budget process for 2018-19, a number of posts will be removed resulting in increased redundancy costs. In line with normal practice, the Council invited all employees to express an interest in voluntary redundancy and a number of employees have subsequently either taken or have been offered a redundancy package. For the employees who have confirmed acceptance of redundancy but have left or are leaving after 31 March 2018, a provision of £0.222m has been created during 2017-18. For further information refer to note 35 - Termination Benefits on page 117.

A provision for landfill sites was created in 2014-15 reflecting the Council's liability for restoration and ongoing maintenance in respect of landfill sites operated by the Council, at Glengorm, Gartbreck and Gott Bay. The landfills sites were revalued at 31 March 2018 and the provision for restoration and aftercare increased to £1.161m. These have been provided for based on the net present value of estimated future costs.

The utilities provision was created during 2011-12 to cover a potential liability in relation to discrepancies in charges for utility costs, £0.099m has been reversed during 2017-18 resulting in a total provision of £0.370m.

The "other" provisions includes funds to cover legal expenses in respect of recent court cases which the council will have to incur and also an amount in relation to the schools NPDO service charges which have been withheld from the operator. These amounts will require to be settled during 2018-19.

29. CAPITAL GRANTS RECEIVED IN ADVANCE

	Opening Balance 31 March 2017 £'000	Capital Grants Received £'000	Amounts Used £'000	Closing Balance 31 March 2018 £'000
Ministry of Defence LIBOR Funding - Helensburgh &	(5,000)		-	(5,000)
Grant in Aid - Gaelic School Capital Fund	(567)		546	(21)
Total Other Liabilities		**-**	**546**	**(5,021)**
Split:				
Capital Grant Receipts in Advance (due within 1 year)				(21)
Capital Grant Receipts in Advance (due after 1 year)				(5,000)
Total Other Liabilities				**(5,021)**

The Chancellor of the Exchequer, in his Spring 2016 Budget, awarded Argyll and Bute Council LIBOR funding of £5m. The Ministry of Defence (MOD) are acting on behalf of Her Majesty's Treasury (HMT) with regard to all matters relating to this funding.

The purpose of the grant is to provide a contribution to the costs of the provision of the new Helensburgh Leisure Centre on condition that serving personnel and their families are offered favourable admission terms. This is because the LIBOR funds are to be used to recognise the contribution made by the Armed Forces Community to the nation.

30. DEFINED BENEFIT PENSION SCHEMES

Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

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

Teachers

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

Local Government Pension Scheme

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

The principal risks to the authority of the scheme are the longevity assumptions, statutory changes to the scheme, changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund the amounts due by statute as described in the accounting policies note.

30.1 Accrued Pensions Contribution

Due to the timing of salary processing, not all employee and employer contributions have been paid to the pension schemes by the 31 March 2018. These payments have been accrued and are included within the creditors figure on the balance sheet. These have been paid during April 2018. The amounts are as follows:

- Local Government Pension Scheme – £1.374m
- Teachers' scheme – £0.754m

30.2 Transactions in Respect of the Local Government Pensions Scheme

The latest formal valuation of the Strathclyde Pension Fund for funding purposes was at 31 March 2017. 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 2018 remains substantially stable with new entrants replacing any leavers.

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

	2017-18 £'000	2016-17 £'000
Comprehensive Income and Expenditure Statement:		
Cost of Services:		
Service cost comprising:		
Current Service Cost	24,125	17,268
Past Service Cost (Including Curtailments)	492	782
Net Cost of Services	**24,617**	**18,050**
Net Interest Expense	4,033	3,367
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**28,650**	**21,417**
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement		
Return on Assets (excluding amounts included in net interest)	(5,493)	(101,991)
Other Experience (see note (i) below)	(57,368)	866
Change in Financial Assumptions	(33,441)	149,532
Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	**(67,652)**	**69,824**
Statement of Movement in Reserves: Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	**(14,776)**	**(6,929)**
Actual Amount charged against the General Fund Balance for pensions in the year: Employer's Contributions Payable to the Scheme	**13,874**	**14,488**

(i) A measure of the difference between actual experience and that expected based upon a set of actuarial assumptions, during the period between two actuarial valuation dates, as determined in accordance with a particular cost method. (ASOP No. 4)

30.3 Assets and Liabilities in Relation to Post-Employment Benefits

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

	2017-18 £'000	2016-17 £'000
Defined Benefit Obligation at 1 April	**786,341**	**612,214**
Current Service Cost	24,125	17,268
Past Service Costs including Curtailments	492	782
Interest Cost	20,550	21,467
Contributions by Scheme Participants	3,802	3,786
Re-measurement Gains and (Losses)	(90,809)	150,398
Estimated Benefits Paid	(20,294)	(19,574)
Defined Benefit Obligation at 31 March	**724,207**	**786,341**

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

	2017-18 £'000	2016-17 £'000
Fair Value of Employer Assets at 1 April	**636,564**	**517,773**
Re-measurement Gains and (Losses):		
Expected Rate of Return on Pension Fund Assets	5,493	101,991
Actuarial Gains and Losses	-	-
Interest Income on Plan Assets	16,517	18,100
Employers Contributions	13,874	14,488
Contributions by Scheme Participants	3,802	3,786
Estimated Benefits Paid	(20,294)	(19,574)
Fair Value of Employer Assets at 31 March	**655,956**	**636,564**

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.

30.4 Pensions Assets and Liabilities Recognised in the Balance Sheet

Local Government Pension Scheme	2017-18 £'000	2016-17 £'000
Present Value of Funded Liabilities	(695,392)	(756,727)
Present Value of Unfunded Liabilities	(28,815)	(29,614)
Fair Value of Employer Assets	655,956	636,564
(Deficit) in the Scheme	**(68,251)**	**(149,777)**

The liabilities show the underlying commitments that the authority has in the long run to pay post-employment (retirement) benefits.

30.5 Analysis of Pension Fund's Assets

Argyll and Bute Council's share of the Pension Fund's assets at 31 March 2018 comprised:

	2017-18 £'000	2016-17 £'000
Cash and Cash Equivalents	20,806	23,976
Equity Instruments (by industry type)		
Consumer	-	60,206
Manufacturing	-	47,786
Energy and Utilities	-	18,918
Financial Institutions	-	44,299
Health and Care	-	25,891
Information Technology	-	36,616
Other	188,389	-
Sub-total Equity Instruments	188,389	233,716
Bonds (by sector)		
Corporate	1	6
Government	-	-
Sub-total Bonds	1	6
Real Estate		
UK Property	77,716	76,781
Overseas Property	-	-
Sub-total Real Estate	77,716	76,781
Private Equity (All)	58,126	52,484
Investment Funds and Unit Trusts		
Equities	208,573	204,664
Bonds	68,548	35,740
Commodities	-	428
Infrastructure	-	-
Other	33,546	8,631
Sub-total Investment Funds and Unit Trusts	310,667	249,463
Derivatives		
Forward Foreign Exchange Contracts	-	85
Other	251	52
Sub-total Derivatives	251	137
Total Assets	**655,956**	**636,563**

Fair Value of Pension Fund Assets	2017-18 £'000	2016-17 £'000
Equity Securities		
Quoted in an Active Market	178,447	233,595
Not Quoted in an Active Market	9,942	121
Sub-total Equity Securities	**188,389**	**233,716**

30.6 Basis for Estimating Assets and Liabilities

The Council's share of the liabilities of Strathclyde Pension Fund 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:

Mortality assumptions		2017-18 Years	2016-17 Years
Longevity at 65 for current pensioners:	Men	21.4	22.1
	Women	23.7	23.6
Longevity at 65 for future pensioners:	Men	23.4	24.8
	Women	25.8	26.2
Financial Assumptions		**2017-18 %**	**2016-17 %**
Rate of Inflation (CPI)		2.4%	2.4%
Rate of Increase in Salaries		3.6%	4.4%
Rate of Increase in Pensions (CPI)		2.4%	2.4%
Rate for discounting scheme liabilities		2.7%	2.6%
Long-term Expected Rate of Return on Assets in the Fund		**2017-18 %**	**2016-17 %**
Equity Investments		2.7%	2.6%
Bonds		2.7%	2.6%
Property		2.7%	2.6%
Cash		2.7%	2.6%

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.

30.7 Asset and Liability Matching (ALM) Strategy

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

30.8 Impact on the Authority's Cash Flow

The objectives of the Fund are to keep employers' contributions at as constant a rate as possible. The Fund has agreed a strategy to achieve a funding rate of 100% in the longer term. The Scheme is a multi-employer defined benefit plan and employers' contributions have been determined so that employee and employer rates are standard across all participating Local Authorities. Employer's contributions have been set at 19.3% for 2018-2019.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2019 is £12.094m. This is based on an assumed pensionable payroll of £62.663m.

The assumed weighted average duration of the defined benefit obligation for the Council falls into the "Medium" duration category which is between 17 and 23 years (this is different from the mortality assumptions quoted in the table above in "Basis for Estimating Assets and Liabilities").

30.9 Teachers Pensions – Administered By Scottish Public Pensions Agency

Teachers employed by the Authority are members of the Scottish Teachers' Superannuation Scheme, administered by the Scottish Public Pensions Agency. The Scheme is an unfunded statutory public service pension scheme with benefits underwritten by the UK Government. The scheme is financed by payments from employers and from those current employees who are members of the scheme and paying contributions at progressively higher marginal rates based on pensionable pay, as specified by the regulations.

The rate of employer contributions is set with reference to a funding valuation undertaken by the scheme actuary. The last four yearly valuation was undertaken as at 31 March 2016 and this has set contribution rates from 1 April 2019.

The Authority has no liability for other employers' obligations to the multi-employer scheme. As the scheme is unfunded there can be no deficit or surplus to distribute on the wind-up of the scheme or withdrawal from the scheme.

The scheme is an unfunded multi-employer defined benefit scheme. It is accepted that the scheme can be treated for accounting purposes as a defined contribution scheme in circumstances where the Authority is unable to identify its share of the underlying assets and liabilities of the scheme.

The employer contribution rate from 1 September 2015 was 17.2% of pensionable pay. While the employee rate applied is variable it provides an actuarial yield of 9.6% of pensionable pay.

At the last valuation a shortfall of £1.3 billion was identified in the notional fund which will be repaid by a supplementary rate of 4.5% of employers' pension contributions for fifteen years from 1 April 2015. This contribution is included in the 17.2% employers' contribution rate.

As a proportion of the total contributions into the Teachers' Pension Scheme during the year ended 31 March 2018, the Authority's own contributions equate to 1.49%

	2017-18	2016-17
Amount Paid Over (£'000)	5,841	5,729
Rate of Contribution (%)	17.20%	17.20%
Amount of Added Years Awarded by the Council (£'000)	528	528

The contributions due to be paid to the Teacher's Scheme by Argyll and Bute Council in the next financial year are estimated to be £5.917m.

31. NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

This note provides a reconciliation of the main adjustments to Net Expenditure Chargeable to the General Fund to arrive at the amounts in the Comprehensive Income and Expenditure Statement.

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments between Funding and Accounting Basis 2017-18				
	Adjustments for Capital Purposes Note (i) £'000	Net change for Pension Adjustments Note (ii) £'000	Capital element of Schools NPDO payment Note (iii) £'000	Other Adjustments Note (iv) £'000	Total Adjustments £'000
Chief Executive and Strategic Finance	2	314	-	-	316
Community Services:					
Executive Director of Community Services	-	43	-	-	43
Community and Culture	1,709	288	-	(46)	1,951
Education	13,160	1,904	-	(108)	14,956
Customer Services					
Executive Director of Customer Services	1,935	90	(2,007)	-	18
Customer and Support Services	907	934	-	(3)	1,838
Facility Services	1,086	946	-	-	2,032
Governance and Law	-	253	-	-	253
Improvement and HR	-	344	-	-	344
Development and Infrastructure Services					
Executive Director of Development & Infrastructure Services	-	145	-	-	145
Economic Development	426	340	-	-	766
Planning and Regulatory Services	39	792	-	(17)	814
Roads and Amenity Services	9,036	1,790	-	(18)	10,808
Health and Social Care Integration	770	3,230	-	(45)	3,955
Other Non-Departmental Costs	-	463	-	(40)	423
Net Cost of Services	**29,070**	**11,876**	**(2,007)**	**(277)**	**38,662**
Other Income and Expenditure	(28,306)	2,900	-	(993)	(26,399)
Difference between General Fund Surplus and Comprehensive Income and Expenditure Statement Deficit	**764**	**14,776**	**(2,007)**	**(1,270)**	**12,263**

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts (Comparative Year)	Adjustments between Funding and Accounting Basis 2016-17				
	Adjustments for Capital Purposes Note (i) £'000	Net change for Pension Adjustments Note (ii) £'000	Capital element of Schools NPDO payment Note (iii) £'000	Other Adjustments Note (iv) £'000	Total Adjustments £'000
Chief Executive and Strategic Finance	-	100	-	-	100
Community Services:					
Executive Director of Community Services	-	15	-	-	15
Community and Culture	1,750	270	-	1	2,021
Education	8,286	607	-	(203)	8,690
Customer Services					
Executive Director of Customer Services	1,731	22	(1,935)	-	(182)
Customer and Support Services	2,088	322	-	(2)	2,408
Facility Services	1,966	325	-	-	2,291
Governance and Law	-	94	-	-	94
Improvement and HR	-	124	-	-	124
Development and Infrastructure Services					
Executive Director of Development & Infrastructure Services		54	-	-	54
Economic Development	457	109	-	-	566
Planning and Regulatory Services	2	218	-	4	224
Roads and Amenity Services	9,249	616	-	(7)	9,858
Health and Social Care Integration	2,091	1,093	-	-	3,184
Other Non-Departmental Costs	-	528	-	(10)	518
Net Cost of Services	**27,620**	**4,497**	**(1,935)**	**(217)**	**29,965**
Other Income and Expenditure from the Expenditure and Funding Analysis	(26,087)	2,432	-	(600)	(24,255)
Difference between General Fund Surplus and Comprehensive Income and Expenditure Statement Deficit	**1,533**	**6,929**	**(1,935)**	**(817)**	**5,710**

(i) Adjustments for Capital Purposes

This column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

- Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.
- Financing and investment income and expenditure – the statutory charges for capital financing (loans fund advances) and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

(ii) Net change for the Pensions Adjustments

Net change for the removal of pension contributions and the addition of IAS 19 *Employee Benefits* pension related expenditure and income:

- For services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- For Financing and investment income and expenditure – the net interest on the defined benefit liability is charged to the Comprehensive Income and Expenditure Statement.

(iii) Capital element of schools NPDO payment

- This is the capital cost of the annual payment to the schools NPDO operator and represents repayment of the balance sheet liability rather than a charge to Comprehensive Income and Expenditure Statement.

(iv) Other differences

- For Financing and investment income and expenditure the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.
- For services and adjustment is made for the accrual of holiday pay and other similar entitlements, this is required under generally accepted accounting principles but the impact on the General Fund is mitigated by statute which allows the impact to be reversed out through the Movement in Reserves Statement.

32. UNUSABLE RESERVES

Movements in the Authority's unusable reserves are detailed in the Statement of Movement in Reserves on pages 56 to 57.

32.1 Revaluation Reserve

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

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

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

32.2 Capital Adjustment Account

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

The Account contains accumulated gains and losses on Investment Properties.

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

32.3 Financial Instruments Adjustment Account

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

32.4 Pensions Reserve

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

32.5 Accumulated Absences Account

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

33. USABLE RESERVES

Movements in the Authority's usable reserves are detailed in the Statement of Movement in Reserves on pages 56 to 57.

33.1 Capital Funds

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

Usable Capital Receipts Reserve

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

Capital Fund

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

The movement in the Usable Capital Receipts Reserve and Capital Fund are as follows:

Movements in 2017-18	Usable Capital Receipts Reserve £'000	Capital Fund £'000	Total Capital Funds £'000
Balance at 1 April 2017	**2,782**	**1,282**	**4,064**
Proceeds of Disposals	14	5,663	5,677
Transfer to Capital Adjustment Account	-	(5,425)	(5,425)
Contribution to Capital Fund From Revenue	-	-	-
Interest Earned	6	4	10
Balance at 31 March 2018	**2,802**	**1,524**	**4,326**

33.2 Repairs and Renewals Fund

The movement in the Education Repairs and Renewals Fund is as follows:

Movements in 2017-18	Balance at 31 March 2017 £'000	Contribution from Revenue £'000	Interest Earned £'000	Contribution to Revenue £'000	Balance at 31 March 2018 £'000
Education	896	792	2	(175)	1,515
Total	**896**	**792**	**2**	**(175)**	**1,515**

34. CONTINGENT LIABILITIES

The Council settled a number of equal pay claims during 2016-17, however there are a small number remaining where the outcome of the applications are unknown and there is insufficient information to allow the potential cost of these claims to be provided for. There is also the potential for other equal pay claims whose costs may be met by the Council.

In a recent legal case, the European Court of Justice ruled that if a worker's remuneration includes contractual commission; their holiday pay must also take account of that commission. All pay elements such as overtime, standby/emergency call outs and commission should be included in the calculation of holiday pay. At this stage the extent of the Council's potential liability is unknown.

The Limitation (Childhood Abuse) (Scotland) Act 2017 Section 1 removes the limitation period for actions of damages in respect of personal injuries resulting from childhood abuse. At this stage the extent of any potential liability is unknown.

There are other legal challenges which are on-going and may result in future liabilities.

35. TERMINATION BENEFITS

A number of savings options as a result of service reviews and other savings have been agreed at Council budget meetings to balance the Council budget. A number of these savings options were reliant on a reduction in the Councils staffing levels. The Council had forewarning of the level of savings required to balance the budget and had previously asked all Council employees to express an interest in voluntary redundancy. As a result of the budget savings options approved by the Council a number of employees have had their redundancy application accepted.

Redundancy costs as part of the programme of service reviews have been incurred by the Council since the 2010-11 financial year in relation to the budget savings agreed. In each year provision was made within the financial year for the costs of all employees who had accepted redundancy as at 31 March ending that year, including accounting for costs for employees who confirmed redundancy by 31 March but left or were leaving after this date. The total cost accounted for in 2017-18 was £1.057m for 29 employees and in 2016-17 was £1.033 for 59 employees. These costs are detailed further in the Remuneration Report on page 49.

Therefore termination costs for all Council employees who have accepted redundancy by 31 March 2018 have been accounted for in 2017-18, or in previous financial years.

The reduction in the staffing establishment includes posts from all services across the Council and reductions were in line with the service review and other savings agreed by the Council. There are likely to be further redundancy costs incurred as the Council is required to make further savings to balance the budget in future years.

36. TRUST FUNDS AND OTHER THIRD PARTY FUNDS

The Council acts as sole or custodian trustee for 57 trust funds. The funds do not represent assets of the Council, and as such have not been included in the Balance Sheet.

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

	Income	Expenditure	Net Assets	Reserves
	£'000	£'000	£'000	£'000
Argyll Education Trust	14	6	496	496
GM Duncan Trust	-	3	78	78
MacDougall Trust	26	-	760	760
Various Other Trust Funds	3	21	489	489
Total Trust Funds	**43**	**30**	**1,823**	**1,823**

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. MacDougall 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.

A number of the trust funds administered by Argyll and Bute Council are charitable trusts and as such are required to comply with current Office of the Scottish Charities Regulator (OSCR) financial reporting requirements. Arrangements have been put in place to ensure that all charities administered by Argyll and Bute Council comply and will continue to comply with these requirements.

37. COMMON GOOD FUNDS

The Council administers the Common Good Accounts for the former Burghs of Oban, Campbeltown, Rothesay, Dunoon, Lochgilphead, Inveraray, Cove and Kilcreggan. 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 2018. 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.

37.1 Common Good Income and Expenditure Account for the year ended 31 March 2018

2016-17 Actual £'000		2017-18 Actual £'000
207	Expenditure	191
(84)	Income	(128)
123	**(Surplus)/Deficit for the Year**	**63**

37.2 Common Good Balance Sheet at 31 March 2018

2016-17 Actual £'000		2017-18 Actual £'000
3,882	Tangible Fixed Assets	3,751
2,307	Investments	2,345
194	Current Assets	217
(12)	Current Liabilities	(5)
6,371	**Total Assets less Liabilities**	**6,308**
3,888	Revaluation Reserve	3,755
2,483	Common Good Fund	2,553
6,371	**Total Net Worth**	**6,308**

38. Tax Incremental Financing (TIF) Projects

The council entered into an agreement with the Scottish Government in May 2014 in respect of the Lorn Arc Tax Incremental Finance (TIF) scheme. This agreement essentially allows for the repayment of debt arising from infrastructure investment from incremental Non-Domestic Rates (NDR) revenue. The assets to be funded by the TIF project largely comprise public realm and infrastructure improvements within the Lorn Arc area of Oban. The project is for 25 years, with the first material capital investment incurred during the financial year ending 31 March 2015.

During the TIF project period, the council is entitled to retain the TIF revenue from its NDR revenue, a pro-rate amount of NDR equal to the amount (if any) by which the collected amount exceeds the collectable amount. The council is required to apply 100% of the TIF revenue towards repayment of the TIF debt. Following repayment in full, and until the end of the project period, the council is entitled to retain 50% of the TIF revenue for further infrastructure investment.

Net capital expenditure incurred in the year to 31 March 2018, to be funded from borrowing, in respect of TIF assets totalled £Xm. This is reflected in the “Summary of Capital Expenditure and Financing” outlined within note 14.4 on page x. The total TIF debt to be repaid over the project period, in respect of investment to 31 March 2018, has been calculated in accordance with finance circular No. 4/2014 at £Xm.

There is a retention of £Xm of TIF income during 2017-18 to repay the notional borrowing for TIF. Principal sums accumulated by 2017-18 amount to £Xm and cumulative interest £Xm resulting in a net cumulative surplus of £Xm which will be used to pay down TIF debt per the TIF agreement.

39. CASH FLOW STATEMENT – OPERATING ACTIVITIES

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

	2017-18 £'000	2016-17 £'000
Net (Surplus)/Deficit on Provision of Services	**15,441**	**4,638**
Adjustments to Net (Surplus)/Deficit on the Provision of Service for Non Cash Movements:		
Statutory Adjustments through Statement of Movement in Reserves	(12,892)	(5,981)
Transfer to/from Other Statutory Reserves	629	271
Increase/(Decrease) in Inventories	10	(26)
Increase/(Decrease) in Debtors	1,916	(2,670)
(Increase)/Decrease in Creditors and Provisions	(3,943)	2,146
Other Revenue Adjustments	(15,355)	(12,891)
	(29,635)	**(19,151)**
Adjustments for items included in the Net (Surplus)/Deficit on the Provision of Services that are Investing and Financing Activities:		
Non Cash Capital	7,028	5,712
Capital Element of Finance Lease Payments	(2,042)	(1,935)
	4,986	**3,777**
Net Cash Flows from Operating Activities	**(9,208)**	**(10,736)**
The cash flows for Operating Activities include the following items:		
Interest Paid on Borrowings	7,656	8,973
Interest Paid on Finance Leases	7,509	7,697
Interest Received on Bank Deposits	(595)	(571)
Net Cash Outflow from Servicing of Finance	**14,570**	**16,099**

40. CASH FLOW STATEMENT – INVESTING ACTIVITIES

The cash flows for Investing Activities include the following items:

	2017-18 £'000	2016-17 £'000
Purchase of Property, Plant and Equipment, Investment Property and Intangible and Heritage Assets	29,347	20,294
Investments made/(disposed of) during year	2,502	17,481
Proceeds from the Sale of Property, Plant and Equipment and Investment Property	(3,027)	(1,613)
Other Receipts from Investing Activities	(17,384)	(17,247)
Net Cash Outflow from Investing Activities	**11,438**	**18,915**

41. CASH FLOW STATEMENT – FINANCING ACTIVITIES

The cash flows for Financing Activities include the following items:

	2017-18 £'000	2016-17 £'000
Cash Receipts of Short and Long Term Borrowing	(40,145)	(28,502)
Other Receipts from Financing Activities	1,176	2,349
Cash Payments for the Reduction of the Outstanding Liabilities relating to Finance Leases and on Balance Sheet PFI Contracts	2,042	1,935
Repayments of Short and Long Term Borrowing	32,160	16,090
Other Payments from Financing Activities	-	-
Net Cash (Inflow)/Outflow from Financing Activities	**(4,767)**	**(8,128)**

Council Tax Income Account

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

2016-17 Actual £'000		2017-18 Actual £'000
54,804	Gross Council Tax Levied and Contributions in Lieu excluding RSL Second Home Additional Income	59,856
	Add Back:	
1,858	RSL Second Home Discount Additional Income	1,913
	Less:	
(12,003)	Other Discounts and Reductions	(12,564)
(1,055)	Provision for Bad and Doubtful Debts	(1,171)
43,604	**Total**	**48,034**
447	Adjustment to Previous Years' Community Charge and Council Tax	46
44,051	**Transfers to General Fund**	**48,080**

Notes to the Council Tax Income Account

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 2017-18 was as follows:

Band	Valuation Band	% Band D	£ per year
A	Up to £27,000	67%	808.89
B	£27,001 - £35,000	78%	943.71
C	£35,001 - £45,000	89%	1,078.52
D	£45,001 - £58,000	100%	1,213.34
E	£58,001 - £80,000	131%	1,594.19
F	£80,001 - £106,000	163%	1,971.68
G	£106,001 - £212,000	196%	2,376.12
H	Over £212,000	245%	2,972.68

2. CALCULATION OF THE COUNCIL TAX BASE 2017-18

Council Tax Base	A	B	C	D	E	F	G	H	Total
Total Number of Properties	7,642	10,007	9,448	6,056	7,421	4,140	2,819	247	47,780
Less - Exemptions / Deductions	1,087	819	1,073	517	612	246	169	47	4,570
- Adjustment for Single Chargepayers	861	1,042	745	433	435	207	111	6	3,840
Effective Number of Properties	**5,694**	**8,146**	**7,630**	**5,106**	**6,374**	**3,687**	**2,539**	**194**	**39,370**
Band D Equivalent Factor (%)	67%	78%	89%	100%	131%	163%	196%	245%	
Band D Equivalent Number of Properties	**3,796**	**6,336**	**6,782**	**5,106**	**7,790**	**5,326**	**4,232**	**388**	**39,756**
Add Contribution in lieu in respect of Class 18 dwellings (Band D Equivalent)									508
Nominal Tax Yield									**40,264**
Less Provision for Non-Collection - 1.26%									506
Council Tax Base 2017-18 - Number of Band D equivalents									**39,758**

Non Domestic Rate Income Account

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

2016-17 Actual £'000		2017-18 Actual £'000
43,853	Gross rates levied and Contributions in Lieu	50,975
	Less:	
(10,283)	Reliefs and other deductions	(14,407)
-	Payment of Interest	-
(336)	Provision for Bad and Doubtful Debts	(390)
33,234	**Total Net Non-Domestic Rate Income**	**36,178**
(2,365)	Adjustments for years prior to introduction of National Non-domestic Rates Pool	-
-	Business Rate Incentivisation Scheme (BRIS) NDR Income Retained	(39)
(82)	Tax Incremental Finance (TIF) Scheme NDR Income Retained	(192)
30,787	**Contribution to National Non-Domestic Rate Pool**	**35,947**
(341)	Difference between Distributable and Contributable NDR Income amounts	(6,332)
30,446	**Distribution from Non-Domestic Rate Pool credited to Comprehensive Income and Expenditure Statement**	**29,615**

Notes to the Non Domestic Rate Income Account

1. ANALYSIS OF RATEABLE VALUES

	2017-18 £	2016-17 £
Industrial and freight transport subjects	8,723,960	8,735,000
Miscellaneous including Telecomms, Rail, Gas and Electricity Companies	75,167,172	70,346,799
Commercial subjects:		
Shops	14,247,025	14,315,325
Offices	5,924,725	5,995,360
Hotels, Boarding Houses etc.	8,479,050	8,521,950
Others	1,996,230	1,982,280
Total Rateable Value	**114,538,162**	**109,896,714**

2. NON-DOMESTIC RATE CHARGE

	2017-18 Pence	2016-17 Pence
Rate Per Pound	46.6p	48.4p
Supplementary Rate Per Pound for Properties over £35,000	2.6p	2.6p

3. CALCULATION OF RATE CHARGE FOR EACH PROPERTY

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

INTRODUCTION

The Code of Practice on Local Authority Accounting in the United Kingdom 2017-18: Based on International Financial Reporting Standards, 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" of the financial performance and position of the Council's Group.

THE GROUP ACCOUNTS

The Group Accounts comprise the following financial statements:

- ***Group Statement of Comprehensive Income and Expenditure:*** this statement shows the accounting cost in the year of providing the Council's services and its share of the results of its associates in accordance with International Financial Reporting Standards, rather than the amount to be funded from taxation. Local authorities raise taxation to cover expenditure in accordance with regulations, and this is different from the accounting cost. The taxation position is shown in the Statement of Movement in Reserves on pages 56 to 57.
- ***Group Balance Sheet:*** The Balance sheet is a snapshot of the value at the 31 March 2018 of the assets and liabilities recognised by the Council and its share of the net assets or liabilities of its associates and Common Good funds. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. The net investment or liability in its associates is matched by its share of the reserves of the associates (i.e. its group reserves).
- ***Group Statement of Movement in Reserves:*** this statement shows the movement in the year on the reserves held by the Council plus its share of the reserves of its associates. The Common Good reserves are also fully consolidated into the Group Accounts. The Council's reserves are analysed into those which are "Usable Reserves" (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Council's share of the reserves of Associates is an unusable reserve (i.e. it cannot be used to fund expenditure or reduce taxation). The Council's Statement of Movement in Reserves on pages 56 to 57 gives a more detailed analysis of the movement in the Council's usable and unusable reserves during 2017-18.

Group Statement of Comprehensive Income and Expenditure

2016-17 Gross Expenditure £'000	2016-17 Gross Income £'000	2016-17 Net Expenditure £'000	Service	2017-18 Gross Expenditure £'000	2017-18 Gross Income £'000	2017-18 Net Expenditure £'000
2,268	127	2,141	Chief Executive and Strategic Finance	2,852	127	2,725
103,996	9,492	94,504	Community Services	104,029	9,580	94,449
84,235	41,091	43,144	Customer Services	76,477	40,816	35,661
78,532	38,818	39,714	Development and Infrastructure Services	87,162	40,793	46,369
136,580	77,188	59,392	Health and Social Care Integration	137,580	76,046	61,534
1,761	1,087	674	Other Non-Departmental Costs	9,191	388	8,803
3,170	3,300	(130)	Associates and Joint Ventures Accounted for on an Equity Basis	5,648	6,849	(1,201)
410,542	**171,103**	**239,439**	**Net Cost of Services**	**422,939**	**174,599**	**248,340**
			Other Operating Income and Expenditure:			
		266	Net (Gain)/loss on Disposal of Fixed Assets			3,544
		1,339	Other Operating Income and Expenditure			1,430
		1,605	**Total Other Operating Income and Expenditure**			**4,974**
			Financing and Investment Income and Expenditure:			
		16,133	Interest Payable and Similar charges			15,893
		(4,008)	Interest and Investment Income			(970)
		3,367	Net Pension Interest Expense			4,033
		15,492	**Total Financing and Investment Income and Expenditure**			**18,956**
			Taxation and Non-Specific Grant Income:			
		(166,251)	General Government Grants			(162,798)
		(11,375)	Government Capital Grants and Other Capital Contributions			(17,243)
		(30,528)	Non-domestic Rates Redistribution and Retained Non-domestic Rates (TIF & BRIS)			(29,846)
		(44,051)	Council Tax Income			(48,080)
		(252,205)	**Total Taxation and Non-Specific Grant Income**			**(257,967)**
		4,331	**(Surplus)/Deficit on Provision of Services**			**14,303**
		(1,290)	(Surplus)/Deficit on revaluation of Fixed Assets			(52,780)
		48,407	Other Post Employment Benefits (Pensions)			(96,302)
		1,536	Share of Other Comprehensive Income and Expenditure of Associates and Common Good Funds			(2,637)
		48,653	**Other Comprehensive Income and Expenditure**			**(151,719)**
		52,984	**Total Comprehensive Income and Expenditure**			**(137,416)**

Group Balance Sheet

31 March 2017			31 March 2018	
£'000	£'000		£'000	£'000
		Long Term Assets		
		Property Plant & Equipment		
250,590		- Other Land and Buildings	323,341	
9,207		- Vehicles, Plant, Furniture and Equipment	8,419	
200,944		- Infrastructure Assets	200,363	
6,155		- Community Assets	6,075	
2,907		- Surplus Assets	1,156	
24,366		- Assets Under Construction	68,743	
	494,169	**Total Property Plant & Equipment**		**608,097**
	1,671	Heritage Assets		1,804
	728	Intangible Assets		633
	11,021	Investment Property		2,260
	4,926	Long-Term Debtors		5,936
	2,798	Long-Term Investments		2,837
	3,114	Investment in Associates and Joint Ventures		5,330
	518,427	**Total Long Term Assets**		**626,897**
		Current Assets		
529		Inventories	539	
16,075		Short Term Debtors (Net of Impairment)	20,669	
691		Assets Held for Sale	2,118	
52,500		Short Term Investments	55,002	
7,960		Cash and Cash Equivalents	10,512	
	77,755	**Total Current Assets**		**88,840**
		Current Liabilities		
(14,188)		Short-term Borrowing	(8,360)	
(29,782)		Short-term Creditors	(32,339)	
(567)		Capital Grant Receipts in Advance	(21)	
(1,818)		Provisions	(1,813)	
(2,008)		Other Short Term Liabilities	(4,407)	
	(48,363)	**Total Current Liabilities**		**(46,940)**
		Long-term Liabilities		
(157,937)		Borrowing Repayable within a Period in Excess of 12 Months	(172,429)	
(72,801)		Other Long-term liabilities	(124,974)	
(1,255)		Provisions	(1,300)	
(5,000)		Capital Grant Receipts in Advance	(5,000)	
(149,777)		Other Long-term liabilities (Pensions)	(68,251)	
(2,931)		Liabilities in Associates and Joint Ventures	(1,309)	
	(389,701)	**Total Long-term Liabilities**		**(373,263)**
	158,118	**Total Assets less Liabilities**		**295,534**

Group Balance Sheet

31 March 2016 £'000	31 March 2016 £'000		31 March 2018 £'000	31 March 2018 £'000
		Unusable Reserves		
56,033		- Revaluation Reserve	108,720	
195,007		- Capital Adjustment Account	196,126	
(3,836)		- Financial Instruments Adjustment Account	(3,506)	
(149,777)		- Pensions Reserve	(68,251)	
(4,312)		- Accumulated Absences Account	(4,036)	
	93,115			229,053
		Usable Reserves		
4,064		- Capital Funds	4,326	
896		- Repairs and Renewals Funds	1,515	
53,489		- General Fund Balance	50,311	
	58,449			56,152
	183	**Group Reserves**		4,021
	6,371	**Common Good Reserves**		6,308
	158,118	**Total Reserves**		**295,534**

The Unaudited Annual Accounts were issued on 29 June 2018.

Kirsty Flanagan
Head of Strategic Finance
29 June 2018

Movements in 2017-18	Argyll and Bute Council: Usable Reserves: General Fund Balance £'000	Repairs and Renewals Fund £'000	Capital Funds £'000	Total Usable Reserves £'000	Total Unusable Reserves £'000	Total Reserves of the Council £'000	Council's Share of Reserves of Associates £'000	Total Common Good Reserves £'000	Total Reserves £'000
Balance at 31 March 2017	**(53,489)**	**(896)**	**(4,064)**	**(58,449)**	**(93,115)**	**(151,564)**	**(183)**	**(6,371)**	**(158,118)**
Surplus/(Deficit) on Provision of Services	15,441	-	-	**15,441**	-	**15,441**	(1,201)	63	**14,303**
Other Comprehensive Income and Expenditure	-	-	-	-	(149,082)	**(149,082)**	(2,637)	-	**(151,719)**
Total Comprehensive Income and Expenditure	**15,441**	**-**	**-**	**15,441**	**(149,082)**	**(133,641)**	**(3,838)**	**63**	**(137,416)**
Total Statutory Adjustments (See Page 56 to 57)	**(12,892)**	**-**	**(5,677)**	**(18,569)**	**18,569**	**-**	**-**	**-**	**-**
Net (Increase)/Decrease before Transfers to Other Statutory Reserves	**2,549**	**-**	**(5,677)**	**(3,128)**	**(130,513)**	**(133,641)**	**(3,838)**	**63**	**(137,416)**
Other Transfers required by Statute									
Transfer to/from Other Statutory Reserves	629	(619)	5,415	**5,425**	(5,425)	-	-	-	-
(Increase)/Decrease in Year	**3,178**	**(619)**	**(262)**	**2,297**	**(135,938)**	**(133,641)**	**(3,838)**	**63**	**(137,416)**
Balance at 31 March 2018 Carried Forward	**(50,311)**	**(1,515)**	**(4,326)**	**(56,152)**	**(229,053)**	**(285,205)**	**(4,021)**	**(6,308)**	**(295,534)**

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Comparative Movements in 2016-17	General Fund Balance	Repairs and Renewals Fund	Capital Funds	Total Usable Reserves	Total Unusable Reserves	Total Reserves of the Council	Council's Share of Reserves of Associates	Total Common Good Reserves	Total Reserves
	Argyll and Bute Council								
	Usable Reserves								
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2016	(52,417)	(671)	(4,027)	(57,115)	(146,204)	(203,319)	(1,589)	(6,194)	(211,102)
Surplus/(Deficit) on Provision of Services	4,638	-	-	**4,638**	-	**4,638**	(130)	(177)	4,331
Other Comprehensive Expenditure and Income	-	-	-	-	47,117	**47,117**	1,536	0	48,653
Total Comprehensive Expenditure and Income	**4,638**	**0**	**0**	**4,638**	**47,117**	**51,755**	**1,406**	**(177)**	**52,984**
Total Statutory Adjustments (See Page 58 to 59)	**(5,981)**	**-**	**(1,613)**	**(7,594)**	**7,594**	**-**	**-**	**-**	**-**
Net (Increase)/Decrease before Transfers to Other Statutory Reserves	**(1,343)**	**-**	**(1,613)**	**(2,956)**	**54,711**	**51,755**	**1,406**	**(177)**	**52,984**
Other Transfers required by Statute									
Transfer to/from Other Statutory Reserves	271	(225)	1,576	**1,622**	(1,622)	-	-	-	-
(Increase)/Decrease in Year	**(1,072)**	**(225)**	**(37)**	**(1,334)**	**53,089**	**51,755**	**1,406**	**(177)**	**52,984**
Balance at 31 March 2017 Carried Forward	**(53,489)**	**(896)**	**(4,064)**	**(58,449)**	**(93,115)**	**(151,564)**	**(183)**	**(6,371)**	**(158,118)**

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1. GROUP ACCOUNTING POLICIES

The group accounts are prepared in accordance with the policies set out in Note 1 to the Financial Statements on pages 61 to 121.

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

2. COMBINING ENTITIES

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

The Associates which have been incorporated are:

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

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

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

The accounting period for all entities is 31 March 2018.

3. NON MATERIAL INTEREST IN OTHER ENTITIES

The Council has an interest in Scotland Excel. Scotland Excel took up the activities of the Authorities Buying Consortium and similar bodies across the Scottish local authority sector on 1 April 2008. Renfrewshire Council prepare the financial statements for Scotland Excel in its role as lead authority. Scotland Excel is a not-for-profit organisation funded mainly by the 28 participating Scottish local authorities. Argyll and Bute Council contributed £0.072m towards Scotland Excel in the 2017-18 financial year.

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

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

4. ARGYLL AND BUTE INTEGRATION JOINT BOARD

The Argyll and Bute Integration Joint Board was established as a body corporate by order of Scottish Ministers on 27 June 2015. The partnership between Argyll and Bute Council and NHS Highland has been established in accordance with the provisions of the Public Bodies (Joint Working)(Scotland) Act 2014 and associated Regulations. The Integration Joint Board has responsibility for all health and social care functions relating to adults and children and will oversee the Strategic Planning and budgeting of these, together with corresponding service delivery for the residents of Argyll and Bute. Argyll and Bute Council contributed £57.579m towards the Argyll and Bute Integration Joint Board in the 2017-18 financial year.

Argyll and Bute Council and NHS Highland are required to treat the IJB as a Joint Venture in their annual accounts and recognise a share of the overall surplus or deficit of the IJB for the year. All transactions are accounted for and shown within the single entity statements and therefore there is no material impact on 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 increase both reserves and net worth by £10.329m. This gives an overall net asset position for the Group of £295.534m.

All associates have prepared their accounts on a ‘going concern’ basis. 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 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 £0.594m or 1.62% of the Board’s estimated net running costs during 2017-18 and accounted for £5.265m of the Balance Sheet Assets within the Group Balance Sheet. The accounts of the Board are subject to independent audit and are available from the Treasurer to Strathclyde Partnership for Transport, Consort House, 12 West George Street, Glasgow G2 1HN.

Strathclyde Concessionary Travel Scheme Joint Board

This body comprises the 12 local authorities within the West of Scotland which oversees the operations of the concessionary fares scheme for public transport within its area. The costs of the scheme are met by a combination of funding from the 12 constituent councils and direct grant funding from the Scottish Government. During 2017-18 the Council contributed £0.173m or 4.14% of the net annual running costs and accounted for £0.065m of the Balance Sheet Assets within the Group Balance Sheet. The accounts of the Board are subject to independent audit and are available from the Treasurer to Strathclyde Concessionary Travel Scheme, Consort House, 12 West George Street, Glasgow G2 1HN.

Live Argyll

Live Argyll started trading 1 October 2017. The Trust is a charitable company registered in Scotland and provides leisure facilities within the Argyll and Bute area to the general public and operates sports centres, leisure centres, swimming pools, halls and community education centres owned by the Council.

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 2017-18 Argyll and Bute Council contributed £1.281m towards estimated running costs and accounted for £1.128m of Balance Sheet Liabilities within the Group Balance Sheet. The accounts of the Board are subject to independent audit and are available from the Treasurer to Dunbartonshire and Argyll and Bute Valuation Joint Board, Council Offices, Garshake Road, Dumbarton G82 3PU.

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

	2017-18 £'m	2016-17 £'m
Argyll and Bute Council has a 48.1% share of:		
Gross Income	2.704	2.758
Net (Surplus)/Deficit	0.549	0.460
Long Term Assets	0.642	0.664
Current Assets	0.684	0.597
Liabilities due within one year	(0.121)	(0.100)
Liabilities due over one year		-
Pension Liability	(3.515)	(7.254)
Capital and Revenue Reserves	(2,310)	(6.093)

8. REPORTING AUTHORITY ADJUSTMENTS

A number of adjustments are required to the Council's Statement of Comprehensive Income and Expenditure (pages 52 to 53) 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 37 of the Notes to the Financial Statements on page 118 have been fully consolidated into the Group Accounts. This adjustment increases the net assets and reserves of Argyll and Bute Council's Group by £6.308m.

8. GROUP CASH FLOW STATEMENT

The impact of the incorporation of the associates has no effect upon the Cash Flow statement for Argyll and Bute Council on page 60. 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.

Glossary of Terms

Existing Use Value. The market value of a particular Council property, less the difference between the average rental income between public and private sector properties.

Expected Rate of Return on Pension Assets. The average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

Fair Value. This is the price at which an asset could be exchanged in an arm's length transaction less any grants receivable towards the purchase or use of the asset.

Financial Asset. A right to future economic benefits controlled by the Council that is represented by cash, an equity instrument of another entity, a contractual right to receive cash from another entity or a financial right to exchange financial instruments under conditions that are potentially favourable to the Council.

Financial Instrument. Any contract that gives rise to a financial asset of one entity and financial liability or equity instrument of another.

Financial Instruments Adjustment Account. This holds the accumulated difference between the financing costs included in the Income and Expenditure Account and the accumulated financing costs required in accordance with regulations to be charged to the General Fund Balance.

Financial Liability. An obligation to transfer economic benefits controlled by the Council that is represented by a contractual obligation to deliver cash or another financial asset to another entity or a contractual obligation to exchange financial instruments under conditions which are potentially unfavourable to the Council.

Financial Reporting Standard (FRS). Financial Reporting Standards are issued by the Accounting Standard Board and define proper accounting practice for a given transaction or event.

Fixed Assets. Tangible assets that yield benefits to the local authority and the services it provides for a period of more than one year.

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. This is charged or credited to Non Distributed costs in the Comprehensive Income and Expenditure Statement.

General Fund Balance. This contains the net surplus on the provision of Council services combined with any balances from previous years and any contributions to other funds or reserves made during the year.

Group Accounts. The purpose of group accounts is to show the Council's interest in organisations and companies within the Financial Statements. The Council's shares of the assets and liabilities of these other entities are shown in the Group Movement in Reserves Statement, Comprehensive Income and Expenditure Statement and Group Balance Sheet.

Government Grants. Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an authority in return for past, or future, compliance with certain conditions relating to the activities of the authority.

Heritage Assets. Assets which are intended to be preserved in trust for future generations because of their cultural, environmental and historical associations and are held by the Council of the maintenance of heritage.

International Accounting Standards (IAS). International Accounting Standards are issued by the International Accounting Standards Board and define proper accounting practice for a given transaction or event. IAS's take precedence over other accounting standards in the hierarchy of technical accounting standards.

International Public Sector Accounting Standards (IPSAS), a set of accounting standards issued by the IPSAS Board for use by public sector entities around the world in the preparation of financial statements.

Impairment. A reduction in the value of fixed or financial asset below the valuation held on the balance sheet.

Infrastructure Assets. Fixed assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

Intangible Assets. Non-financial assets which do not have physical substance but are identifiable and are controlled by the Council.

Interest Cost (Pensions). The expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

Inventories. Inventories may comprise the following: goods or other assets purchased for re-sale; consumable stores; raw materials and components purchased for incorporation into products for sale; products and services in intermediate stages of completion; long term contract balances; and finished goods.

Liquid Resources. Current asset investments that are readily disposable by the authority without disrupting its business and are either readily convertible to known amounts of cash at or close to the carrying amount, or traded on the active market.

Glossary of Terms

Materiality. Information is included where the information is of such significance as to justify its inclusion, and omission or misstatement could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements.

National Non-Domestic Rates Pool. All non-domestic rates collected by local authorities are remitted to the national pool and, thereafter, distributed to Councils by the Scottish Government.

Net Book Value. The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less cumulative amounts provided for depreciation.

Net Realisable Value. The open market value of the asset in its existing use, or open market value in the case of non-operational assets, less the expenses to be incurred in realising the asset.

Non-Current Assets. Non-current assets are not expected to be realised within 12 months and are held to provide future economic benefits to the Council.

Non-operational assets. Are assets held by a local authority but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

Officers' Remuneration. All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are subject to UK Income Tax).

Operating Leases. A lease other than a finance lease, i.e. a lease which does not transfer the risks and rewards of ownership to the lessee.

Operating Assets. All items which derive from events or transactions that fall within the ordinary activities of the authority and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

Past Service Costs (Pensions). The increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Pensions Reserve. The Pensions Reserve absorbs the timing differences arising from different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions.

Prior Period Adjustments. Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Public Private Partnerships (PPP). Those partnerships enable the council to purchase services from the private sector and pay a fee based on pre-defined output criteria. The private sector uses this fee to repay loans taken out to finance the building or refurbishment of the assets.

Residual Value. The net realisable value of an asset at the end of its useful life.

Related Party Transactions. A related party transaction is the transfer of assets or liabilities, or the performance of services by, to or for a related party irrespective of whether a charge is made.

Renewal and Repairs fund. This contains funds credited at the Council's discretion from the General Fund and is available for use on capital or revenue expenditure on council assets.

Revaluation Reserve. Records unrealised gains arising since 1 April 2007 from holding fixed assets not yet realised through sales.

Service Expenditure Analysis (SEA). An analysis which groups together expenditure on services within headings or divisions as defined in the Service Reporting Code of Practice (SeRCOP).

Specific Government Grants. These are grants received from Central Government in respect of a specific purpose or service.

Unusable Reserves. Those reserves which hold unrealised gains and losses where amounts would only become available to provide services if the assets are sold and reserves that hold timing differences.

Usable Reserve. Those reserves which the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use.

Useful Life. The period over which the local authority will derive benefits from the use of a fixed asset.

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ARGYLL AND BUTE COUNCIL **AUDIT AND SCRUTINY COMMITTEE**

STRATEGIC FINANCE **19 JUNE 2018**

INTERNAL AUDIT REPORTS TO AUDIT AND SCRUTINY COMMITTEE – SERVICE LEVEL AGREEMENT ICT REPORT

1. EXECUTIVE SUMMARY

1.1 Agenda item 5 to the June Audit and Scrutiny Committee reported six reports were being reported to the Audit and Scrutiny Committee and agenda item 4 highlighted that the 2017/18 audit plan was complete bar one report (Service Level Agreement (SLA) ICT) for which the fieldwork was complete but it was in the process of being cleared with management.

1.2 After the committee pack was submitted to committee members the SLA ICT report was cleared with management and has therefore been submitted as a separate agenda item.

1.3 The below table provides a summary of the conclusions for the SLA ICT audit. The full report is included as an appendix to this report.

Audit Name	Level of Assurance	High Actions	Medium Actions	Low Actions
SLA ICT	Substantial	0	1	1

1.4 Internal Audit provides a level of assurance upon completion of audit work. A definition for each assurance level is documented in each audit report.

2. RECOMMENDATIONS

2.1 Audit and Scrutiny Committee to review and endorse the SLA ICT report.

2.2 Audit and Scrutiny Committee confirm the completion of the 2017/18 internal audit plan.

3. DETAIL

3.1 A high level summary of the SLA ICT report is noted below:

SLA ICT: This audit has a substantial level of assurance as internal control, governance and the management of risk are broadly sound. SLAs were in place for all five ICT support services reviewed. These were comprehensive and detailed the responsibilities of each party to the SLA. Where not detailed in the SLA, costs and durations are agreed in a contract variation. Two SLAs detailed the costs and durations and two contract variations are in place, the remaining support service is operating outwith a formal contract variation. Performance monitoring is in place which is proportionate to the level of risk associated with the contracts and consistent with the Council's Procurement Manual. Payments made are consistent with SLAs, contract variations and quotations. There is no central administration of SLAs and contract variations to ensure they are filed and managed in a consistent manner.

3. CONCLUSION

3.1 Management has accepted the SLA ICT report submitted and have agreed responses and timescales in the respective action plans.

4. IMPLICATIONS

4.1 Policy - None

4.2 Financial - None

4.3 Legal - None

4.4 HR - None

4.5 Equalities - None

4.6 Risk - None

4.7 Customer Service – None

Laurence Slavin
Chief Internal Auditor
19 June 2018

For further information contact:
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APPENDICES

1. SLA ICT audit report

Argyll and Bute Council

Internal Audit Report

June 2018

FINAL

ICT Service Level Agreements

Audit Opinion: ***Substantial***

	High	Medium	Low
Number of Findings	***0***	***1***	***1***

Contents

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1. Executive Summary

Introduction

1. As part of the 2017/18 internal audit plan, approved by the Audit & Scrutiny Committee in March 2017, we have undertaken an audit of Argyll and Bute Council's (the Council) system of internal control and governance in relation to ICT Service Level Agreements (SLAs).

2. The audit was conducted in accordance with the Public Sector Internal Audit Standards (PSIAS) with our conclusions based on discussions with council officers and the information available at the time the fieldwork was performed.

3. The contents of this report have been agreed with the appropriate council officers to confirm factual accuracy and appreciation is due for the cooperation and assistance received from all officers over the course of the audit.

Background

4. In late 2016 Grant Thornton, on behalf of Internal Audit, undertook an IT needs assessment to inform future IT audit plans. The information obtained during this exercise was documented and risk assessed to identify areas of concern to the Council. One of the risk areas identified was SLAs.

5. SLAs provide clarity about what is required of a contractor and is a legally enforceable part of a contract. Therefore, at the outset of the operational period of a contract, the responsible manager needs to ensure that robust processes are in place for the management, monitoring and evaluation of performance with corrective action taken as necessary.

6. The Council's procurement team informally define a contract as being a legally enforceable agreement between the commissioner and the other party where the other party agrees to provide services in return for payment. They define an SLA as an element within a contract that defines the performance standards the provider is obliged to meet. Whilst procurement have a central register of the Council's external contracts, which includes those with embedded SLAs, there is no central register of SLAs which are not embedded in contracts.

7. The Council's Information and Communications Technology (ICT) service have SLAs in place for services provided to external bodies, for example for ICT support services provided to LiveArgyll. ICT do not have SLAs in place for the internal service provided to Council departments, instead these are allocated an ICT client liaison officer (CLO) who performs the client management role for that department. Governance is provided through the ICT Steering Board which reports to the Strategic Management Team (SMT).

Scope

8. The scope of the audit was to ensure appropriate procedures are in place to manage SLAs effectively with contractor performance monitored and evaluated regularly. This was done through the sampling of the following SLAs:

- Oracle – support provided by PDG for financial management and payables
- CareFirst – support provided by OLM for social work
- ResourceLink - support provided by NGAHR for human resources and payroll
- CIVICA – support provided by CIVICA for document management
- Live Argyll – support provided by the Council for all ICT infrastructure.

9. It also considered whether there may be benefit in a more centralised approach to the management of SLAs as outlined in the terms of reference agreed with the Head of Customer and Support Services on 15 May 2018.

Audit Opinion

10. We provide an overall audit opinion for all the audits we conduct. This is based on our judgement on the level of assurance which we can take over the established internal controls, governance and management of risk as evidenced by our audit work. Full details of the five possible categories of audit opinion are provided in Appendix 2 to this report.

11. Our overall audit opinion for this audit is that we can take a substantial level of assurance. This means that internal control, governance and the management of risk is sound. However, there are minor areas of weakness which put some system objectives at risk and specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.

Key Findings

12. We have highlighted one medium priority recommendation and one low priority recommendations where we believe there is scope to strengthen the control and governance environment. These are summarised below:

    - A retrospective contract variation should be requested from OLM in relation to the CareFirst application.
    - Consideration should be given to the potential benefits of centralising the administration of SLAs including the creation of a centralised SLA database.

13. Full details of the audit findings, recommendations and management responses can be found in Section 3 of this report and in the action plan at Appendix 1.

2. Objectives and Summary Assessment

14. Exhibit 1 sets out the control objectives identified during the planning phase of the audit and our assessment against each objective.

Exhibit 1 – Summary Assessment of Control Objectives

	Control Objective	Assessment	Summary Conclusion
1	There is adequate guidance and training provided to staff to support the negotiation and creation of SLAs.	High	There is a comprehensive Procurement Manual which provides guidance on key areas and CLOs have completed relevant LEON training.
2	SLAs are in place that document	Substantial	SLAs were provided for all service

	appropriate and measurable performance elements.		providers that documented appropriate measures for monitoring of performance.
3	Services provided under SLAs are appropriately monitored to ensure quality of service, that payments are only made for delivered services, and appropriate action is taken when services are not delivered as agreed.	Reasonable	SLAs and/or formal contract variations are in place for all but one system that was reviewed. Performance monitoring is in place which is proportionate to the level of risk associated with the contracts. Payments made were consistent with SLAs, contract variations and quotes.
4	The Council has adequate procedures in place to provide corporate visibility of all contracts (including SLAs) in place at any point in time and also forward plans for review or renewal.	Substantial	Services provided to the Council are subject to long-term contracts and are currently operating within contract variations renewed every two to three years. SLAs are embedded within each contract. There is no central management of SLAs in place.

15. Further details of our conclusions against each control objective can be found in Section 3 of this report.

3. Detailed Findings

There is adequate guidance and training provided to staff to support the negotiation and creation of SLAs

16. The Procurement Manual, available to all staff on the HUB, provides appropriate guidance and complements and expands on instructions provided in the Council's Constitution. It is comprehensive and provides guidance on initial planning stage through advertising or renewal, contract and supplier management, performance review and exit strategy.

17. CLOs have completed mandatory procurement training modules on the Council's online learning environment "LEON". There is a trained and dedicated procurement team with whom the CLOs work closely when contracts and their variations are due for renewal.

SLAs are in place that document appropriate and measurable performance elements

18. There were SLAs in place for all five ICT related contracts reviewed. They were comprehensive, providing descriptions of the services to be provided, hours of availability, response target times, responsibilities of both parties to the SLA, exclusions to service provision (e.g. bank holidays) and escalation process.

19. Copies of the current SLA or contract variation were provided for four of the five systems reviewed. There is currently no formal contract variation in place to support the services provided by OLM in relation to the CareFirst application. Current payments to OLM are based on the offer and acceptance of a quote for support service, however no formal evidence of this quote could be provided by Social Work. ICT should be engaged in this process and a retrospective formal contract variation should be requested from OLM to ensure the existing

service provision is consistent with the original contract and that future payments are consistent with the costs agreed in the contract variation.

Action Plan 1

20. The Oracle SLA details the effective date and duration of the SLA and the associated costs. Costs are not stipulated for the ICT support provided by the Council to Live Argyll as these are provided at zero cost. For ResourceLink and CIVICA systems, review dates and current costs are detailed in separate contract variations that are agreed by relevant personnel. As the CareFirst agreement is operating without a formal contract variation we are unable to provide assurance that costs and duration were agreed and documented.

21. Where appropriate, performance standards are documented in each of the SLAs. These confirm that support calls will be answered, prioritised and appropriately resolved in a timely manner.

Services provided via an SLA are appropriately monitored to ensure quality of service, that payments are only made for delivered services, and appropriate action is taken when services are not delivered as agreed

22. The Procurement Manual provides clear guidelines on the setting up of contracts to ensure that performance levels can be monitored. A formal process for performance monitoring of high risk contracts is outlined in the Procurement Manual with a high risk contract defined as "*Where the failure or delivery would affect the strategic outcomes or have a significant effect on the delivery which relates to the risk analysis in the sourcing strategy*". The ICT systems reviewed are considered medium risk and therefore the performance monitoring applied to them is of a less rigorous nature requiring a minimum of one review meeting per annum to discuss quality, service, delivery and cost. This is considered an acceptable approach as it applies a proportionate risk based approach to contract / SLA management.

23. The table below sets out the current performance monitoring arrangements for each of the five SLAs reviewed and confirms they exceed the minimum requirement as established by the Procurement Manual.

Supplier	System	Performance Monitoring Arrangements
NGHAR	ResourceLink	NGHAR provide access to an extranet site allowing the Council to review the status of logged calls. Outstanding items are discussed at ResourceLink change management meetings and escalated to management where required.
OLM	CareFirst	OLM do not provide performance reports as a matter of course however they are available on request. Quarterly meetings between OLM and the Council have recently commenced allowing outstanding support requests to be discussed. These requests are infrequent.
PDG	Oracle	PDG have monthly review support meetings with the ICT CLO. Performance is reviewed as part of that meeting.
CIVICA	CIVICA	CIVICA have regular account meetings with ICT where performance is discussed.
A&B Council	Live Argyll	There are regular meetings between Live Argyll and the Council's special projects team at which performance is discussed.

24. Payments made to suppliers are consistent with the terms set out in the SLAs and contract variations and allow for inflationary uplift where relevant. The Council's procurement system

"PECOS" is used to process most of the payments to the support providers and this ensures appropriate management review and authorisation is in place. Other payments have been processed via the Council's creditors team with appropriate manual authorisation controls in place.

The Council has adequate procedures in place to provide visibility of all SLAs in place and enable effective management of review and renewal

25. The Live Argyll operating license is for a ten year term, however any proposed material deviations from the services agreed in the SLA will be considered on a case by case basis. The other four SLAs reviewed are subject to long-term contracts with three currently operating within contract variations and one to be put in place. Contract variations are renewed every two to three years with option to extend for a further year where relevant.

26. There is no centralised database of SLAs that the Council has committed to. SLAs embedded in contracts are maintained in a central contract database however there are other SLAS which are not embedded in contracts. Management should consider centralising the administration of SLAs including the creation of a centralised SLA database. This would help ensure a standard approach to performance monitoring, ensure contract renewals are managed effectively and provide greater transparency over committed expenditure which may assist in future budget decisions.

Action Point 2

Appendix 1 – Action Plan

	No.	Finding	Risk	Agreed Action	Responsibility / Due Date
Medium	1	**OLM / CareFirst Contract Variation** There is no formal contract variation in place with OLM to provide support for the CareFirst system. ICT should be engaged in this process and a retrospective formal contract variation should be obtained to ensure the existing service provision is consistent with the original contract and that future payments are consistent with the costs agreed in the contract variation.	Lack of formal agreement may lead to misunderstandings over terms and conditions, payment amounts and review dates.	A formal contract variation will be obtained from OLM which covers the current contracted period and is consistent with the terms and conditions of the original contract.	ICT Project & Liaison Manager 31 October 2018
Low	2	**Centralised Administration of SLAs** Management should consider centralising the administration of SLAs including the creation of a centralised SLA database. This would help ensure a standard approach to performance monitoring, ensure contract renewals are managed effectively and provide greater transparency over committed expenditure which may assist in future budget decisions.	The Council may not achieve value for money for services provided through a SLA.	Consideration will be given to the potential benefits of centralising the management of SLAs and a report with a recommendation will be submitted to the Strategic Management Team for their consideration.	Procurement & Commissioning Manager 31 October 2018

In order to assist management in using our reports a system of grading audit findings has been adopted to allow the significance of findings to be ascertained. The definitions of each classification are as follows:

Grading	Definition
High	A major observation on high level controls and other important internal controls or a significant matter relating to the critical success of the objectives of the system. The weakness may therefore give rise to loss or error.
Medium	Observations on less significant internal controls and/or improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system. The weakness is not necessarily substantial however the risk of error would be significantly reduced if corrective action was taken.
Low	Minor recommendations to improve the efficiency and effectiveness of controls or an isolated issue subsequently corrected. The weakness does not appear to significantly affect the ability of the system to meet its objectives.

Appendix 2 – Audit Opinion

Level of Assurance	Definition
High	Internal control, governance and the management of risk are at a high standard. Only marginal elements of residual risk have been identified with these either being accepted or dealt with. A sound system of control designed to achieve the system objectives is in place and being applied consistently.
Substantial	Internal control, governance and the management of risk is sound. However, there are minor areas of weakness which put some system objectives at risk and specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Reasonable	Internal control, governance and the management of risk are broadly reliable. However, whilst not displaying a general trend, there are a number of areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk.
Limited	Internal control, governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and placing system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
No Assurance	Internal control, governance and the management of risk is poor. Significant residual risk and/or significant non-compliance with basic controls exists leaving the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.