



**Audited Annual Accounts** for the year ending 31 March 2017

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## 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 is 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. Future population projections suggest a reduction in total population of 7.2% from 2010 to 2035 although mid-year estimates suggested a marginal increase between 2016 and 2017.

The population of Argyll and Bute has been declining, this decline is projected to continue and the population is also aging. 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.

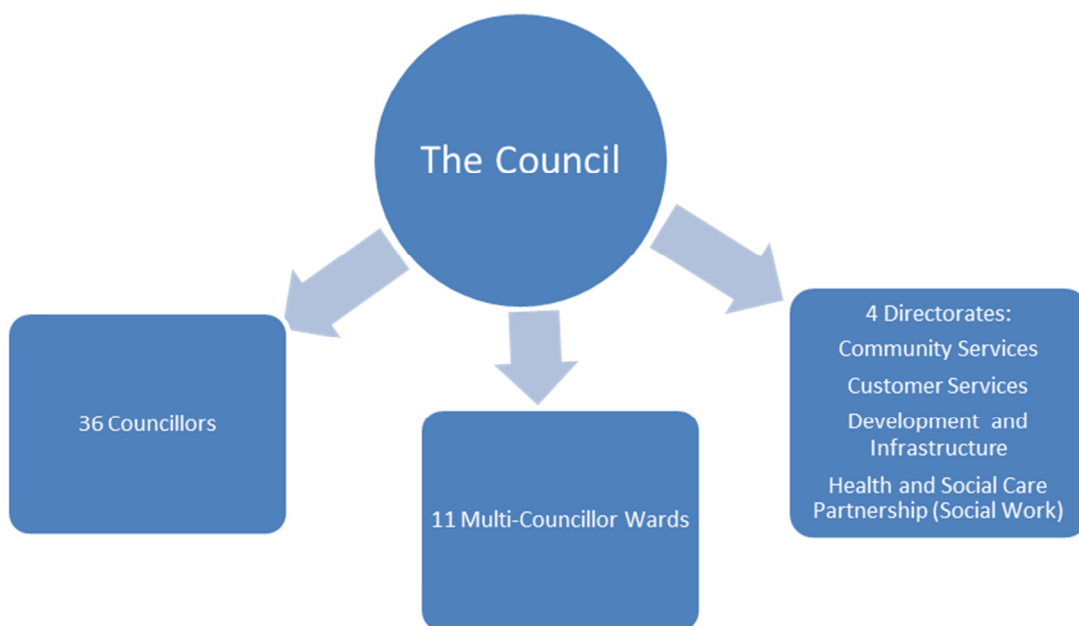
### Argyll and Bute: Key Challenges

- 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 and EU 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, four directorates: Community Services, Customer Services, Development and Infrastructure and Integration 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 strategic decisions is the responsibility of the Integration Joint Board.

Chief Executive's Unit	Community Services	Customer Services	Development and Infrastructure	Health and Social Care Partnership
<ul style="list-style-type: none"> <li>Strategic Finance</li> </ul>	<ul style="list-style-type: none"> <li>Education</li> <li>Community and Culture</li> </ul>	<ul style="list-style-type: none"> <li>Governance and Law</li> <li>Customer and Support Services</li> <li>Improvement and Human Resources</li> <li>Facility Services</li> </ul>	<ul style="list-style-type: none"> <li>Roads and Amenity Services</li> <li>Economic Development</li> <li>Planning and Regulatory Services</li> </ul>	<ul style="list-style-type: none"> <li>Adult Care</li> <li>Children and Families</li> <li>Health Services (NHS)</li> </ul>

## Annual Accounts 2016-17

The Annual Accounts set out the financial statements of the Council and its group for the year ended 31 March 2017. Its main purpose is to demonstrate the stewardship of public funds entrusted to the Council. The 2016-17 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 2016-17 and these can be accessed on the Council's website.

## 2. OBJECTIVES AND STRATEGY OF THE COUNCIL

### Community Plan and Single Outcome Agreement 2013-2023

Our geography, coupled with a declining population presents us with unique challenges and together with our community planning partners we have developed a Single Outcome Agreement (SOA), now referred to as the Local Outcome Improvement Plan (LOIP). The LOIP sets out the shared vision, priorities and objectives for Argyll and Bute over the next ten years. Our shared vision is:

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

The vision has six key outcomes:

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 Community Plan and Single Outcome Agreement can be accessed at the following web-link:

<https://www.argyll-bute.gov.uk/council-and-government/community-plan-and-single-outcome-agreement>



### Corporate Plan 2015-17

The corporate plan sets out what we as a council will contribute to achieving the outcomes within the Single Outcome Agreement. The period 2015-17 has brought, and will bring, challenges for us as we make choices around planning our future. We must accommodate a reducing budget, yet make the right choices to invest in our future. Our shared vision as set out in the SOA, corporate mission and strategic priorities provide us with clear direction and ensure that the Council is in a strong position to plan our future.

Our mission:

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

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

<https://www.argyll-bute.gov.uk/performance-reporting-and-best-value>

### 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. The change in name to Performance and Improvement Framework retains the essential nature of ensuring we are accountable and report strategic performance, but also that our focus is on improvement and supporting effective scrutiny.

Early implementation of the first stage of simplifying the planning process has already been put in place with the approval by the Council's Strategic Management Team (SMT), Policy Leads and PRS Committee to simplify the service outcomes, reduce their number and create a smaller number of business outcomes. This approach was applied to the service planning process for 2017-20 and approved by Council at the budget meeting in February 2017. The duration of plans will extend beyond the previous single year horizon to 3 year plans to provide consistency and improve the opportunity to deliver on key council outcomes and priorities.

The PIF approach will lead to updated scorecards, which will enable elected Members to focus on high level and strategic outcomes rather than low level activity measures. Officers will continue to monitor actions and measures and will continue to review operational performance and ensure that performance delivers on the priority outcomes.

The most important part of the PIF will be to identify outcome indicators that clearly show that the actions we take are making a difference and actively contributing to our strategic aims.

Continuous improvement is core to the organisation ensuring that it continues to meet the needs of service users and to respond to and plan for external change. A core element of the revised PIF is the review of the Council's approach to self-evaluation, and the creation of an Argyll and Bute Improvement Framework. Detailed analysis of existing quality frameworks is underway and a recommendation will be brought to adopt an approach to quality and improvement based on self-evaluation that is relevant to Argyll and Bute, which is proportionate in its approach and will deliver on improvements.

A link to the Council's new Performance Improvement Framework is below:

[https://www.argyll-bute.gov.uk/sites/default/files/performance\\_and\\_improvement\\_framework\\_with\\_appendices\\_-\\_final\\_030417.pdf](https://www.argyll-bute.gov.uk/sites/default/files/performance_and_improvement_framework_with_appendices_-_final_030417.pdf)

The Council also produces an Annual Report which provides residents with a summary of progress being made. The Annual Report for 2016-17 will be produced later this year; however, the 2015-16 Annual Report is available on the following web-link:

[https://www.argyll-bute.gov.uk/sites/default/files/council\\_annual\\_report\\_2015-16\\_-\\_final\\_2.pdf](https://www.argyll-bute.gov.uk/sites/default/files/council_annual_report_2015-16_-_final_2.pdf)

### **Budget Strategy**

One of the elements of the budget strategy agreed in December 2014 was Service Choices. Service Choices is our approach to plan for the estimated funding reductions by aligning the available budget to Members priorities. During 2015, the Council developed a number of service choices savings options that went out to public consultation prior to being considered by Members as part of setting the budget for 2016-17.

In common with other local authorities across Scotland, the level of reduction to the Council's revenue funding allocation for 2016-17 was higher than anticipated, however, our Council was well placed to deliver a balanced budget due to the options offered through Service Choices, in addition to the management and operational savings which had minimal impact on front line services.

The Council set a one year revenue budget for 2016-17 and a four year capital plan which focused on protecting core services and jobs, delivering what people want and building prosperity within the area. The budget has put us in a position to invest in creating economic growth. The package of measures agreed included an investment, from our financial reserves and capital funding, of some £75 million designed to attract more people to live and work here, securing employment and prosperity for our area.

In terms of looking beyond 2016-17, a three-year financial outlook covering the period 2017-18 to 2019-20 was kept up to date during the financial year and presented to Members at the Policy and Resources Committees in August, October and December 2016 as well as a further update at a Members Seminar held in January 2017. There was early identification of management efficiencies, agreed by Council in October, in advance of the 2017-18 budget setting process to assist in balancing the budget. A Transformation Board was also established focused on delivering change to improve service delivery and help balance the budget in future years.

### **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.
- 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. Detailed guidance is in place which provides detail on the risk management framework including risk identification and risk treatment.

The current Strategic Risks Register has been in place for a number of years. It is subject to regular review at various points throughout the financial year and is currently formally reported to Committee on an annual basis with latest version being approved at Policy and Resources Committee in August 2016.

As part of our annual risk management assurance arrangements, our internal audit partners, Grant Thornton, undertook a review during 2016-17 on the way in which strategic and operational risks are managed by the Council and the report noted that internal controls in place to support risk management are generally well designed and operating in practice. As a result, the level of assurance given for the audit was Substantial.

The Strategic Risk Register has 15 principal risks and these are currently being reviewed to ensure that they are still fit for purpose and the mitigating actions remain current. It is the intention to include a current status indicator for each risk, using the recognised 4T system being Treat, Tolerate, Transfer and Terminate. A report will be submitted to the August Policy and Resources Committee.

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 Planning and Performance Management Framework 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 Performance, Review and Scrutiny Committee on a quarterly basis.

Below is a small selection of performance outcomes linked to priorities that was presented quarterly during 2016-17. Further information will be contained in the Council's Annual Performance Report due to be published later in the year. The full performance reports for 2016-17 can be accessed at the following web link:

<https://www.argyll-bute.gov.uk/quarterly-performance-2016-2017>

#### Priority 1: The economy is diverse and thriving

- Q1 - The council's engagement and broad support provided to Scottish Sea Farms, along with Highlands and Islands Enterprise (HIE) to encourage £35million investment in Barcaldine will create up to 25 jobs and include spin off benefits such as the £0.900M order placed with Argyll based, Fusion Marine for fish farm pens.
- Q2 - A publication on transport and digital connectivity show the scale of change requires resources beyond the scope of the council and the wider Argyll economy or Community Planning Partners. The council is developing its Single Investment Plan, that will form part of the Rural Growth Deal and this will contain critical projects essential to deliver transformational economic change and help address population challenges.
- Q3 - Two new funds were launched to help local businesses and support population growth; Business Gateway Local Growth Accelerator Programme (BG LGAP) and the Rural Resettlement Fund make available more than £1 million to the Argyll and Bute economy. The BG LGAP, opened during Argyll Enterprise Week, is funded by the Council and the European Regional Development Fund and is worth almost £550k. The aim is to strengthen the local economy targeting small and medium sized businesses looking for growth. The Rural Resettlement Fund of £500k is aimed at families, individuals and businesses looking for new opportunities and settling in the area.
- Q3 - The launch of the new LEADER programme has already generated £0.600m of released funding to a diverse range of 14 projects with match funding providing a minimum of almost £1.2 million invested across Argyll and Bute. Projects to benefit include the Crinan Canal Active Travel and Tourist Towpath securing £0.123m; CHArts Place Partnership Plan securing £0.160m; and Argyll Food Producers: Developing and Growing Argyll Food Economy securing £0.045m.

#### Priority 2: We have infrastructure that supports sustainable growth

- Q1 - Three turf cutting events were held in June to celebrate the new schools that are being built in Argyll and Bute. The new £26 million high school in Campbeltown, the £36 million new high school in Oban and the new Kirn primary school.

- Q2 - The end of the £7 million Campbeltown Townscape Heritage Initiative which revitalised the town centre was celebrated with the official opening of fully refurbished Town Hall. The town's second £0.900m conservation regeneration scheme commenced in April 2016 and runs until March 2020. Steady progress is reported with the Small Grant Scheme interest under assessment.
- Q2 - 94% of this year's roads capital reconstruction budget worth £4.61 million has been delivered to date.
- Q4 - Dunoon and Rothesay are to benefit from over £1.5 million of Conservation Area Regeneration Scheme funding from Historic Environment Scotland. Rothesay's seafront will benefit from £500k of that funding for repairs and improvements and £1 million will fund regeneration work in Dunoon.

### **Priority 3: Education, skills and training maximises opportunities for all**

- Q1 - 22 Classroom and Additional Support Needs Assistants received certificates for the SQA Professional Development Award (PDA) in Education Support Assistance.
- Q2 - Number of adults accessing community based adult learning exceeds the target of 250 with 685 users.
- Q2 - Successful delivery of Employee Excellence and Recognition Awards Event.
- Q3 - The Education Service organised and delivered 62 targeted staff development courses which took place across key subject or service areas including Early Years, Gaelic, ICT, languages 1+2, leadership, educational central team and probationer training.
- Q4 – The days lost to sickness absence has deteriorated from 11.0 days in 2015-16 to 11.5 days in 2016-17, however, there was an improvement in the number of teachers days lost from 6.9 days to 5.9 days. The Council is actively managing the Council's absence position which should see an improvement in attendance.

### **Priority 4: Children and Young People have the best possible start**

- Q2 – Percentage of positive post school leaver destinations is at 92.7%, which is slightly higher than the National average.
- Q3 - 8,423 children's swimming lessons were completed this quarter against a target of 4,500.
- Q3 - The Implementation of the Development Milestone Tool 0-3 yrs. was completed on schedule.
- Q4 - 63 young people gained sports and leadership coaching awards this quarter against a target of 60. The young people will also gain qualifications in first aid before they become volunteers in extracurricular and community clubs.

### **Priority 5: People live active, healthier and independent lives**

- Q1 - The number of people accessing Council pools far exceeds the target of 75,000 with the actual figure 93,194 for this quarter.
- Q2 - The number of people accessing Council gyms exceeds the target of 6,667 with the actual figure 7,931 for this quarter.
- Q3 - At the Council meeting in November the business case for the Leisure and Libraries Trust was approved, a project team has now been set up and work started to progress the business case.

- Q4 - The target of 80% of housing clients leaving Housing support with a planned approach was not achieved across financial year 2016-17. However, 83% was achieved in Quarter 4 of 2016-17 with trends being monitored for and regular reviews held with delivery partners to meet the target for 2017-18.

### Priority 6: People live in safer and stronger communities

- Q2 - iCycle the one-stop shop for cycle training developed by Economic Development's Road Safety Unit <http://www.icycle.org.uk> successfully trained almost 600 P6/7 children, with 38 schools participating over the academic period. 92% of council premises have age related controls in place, an improvement on the previous two years.
- Q4 - The Council has recently won a three year contract (£3.7m) to provide financial and social inclusion on behalf of the Big Lottery Fund (BLF). This will be delivered in partnership between the Council and a range of voluntary sector partners spread across Argyll and Bute. The service is expected to go live during June 2017.

### Inspection of Education Function

Education Scotland notified the Chief Executive of the Council that an announced inspection of the Education functions of the Council by Education Scotland would take place week commencing the 19 September 2016. Following the conclusion of the inspection Education Scotland published their report on 21 March 2017, noting the key strengths and area for improvement for the Council. These were:

#### Key Strengths:

- The proportion of young people who move on from school to a positive destination;
- The contributions of the Early Years Team and the Educational Psychology Service in delivering a strong foundation and support for children's learning, and
- The positive and wide range of partnerships which help staff to meet learners' needs, particularly those of MOD families and refugees.

#### Main Points for Action:

- Significantly improve young people's attainment across the authority;
- Improve the use of data, ensuring greater rigour;
- Continue to improve the quality of educational provision with consistently higher levels of support and challenge from central officers and elected members;
- Improve relationships and communication, promoting a more positive ethos amongst all stakeholders; and
- Improve the quality of strategic leadership and direction at all levels within the Education Authority.

Within the conclusion of the report Education Scotland confirmed that they would provide support and monitor the council's progress towards improvement and carry out a further inspection visit within three months of the publication of the report to monitor progress and would undertake a further inspection within six month of the publication of the report.

Following the conclusion of the inspection, work was undertaken to prepare and implement a comprehensive improvement plan outlining the range of actions to be taken by Council and Education Services to respond to the main points for action arising from the inspection report. Following consideration and agreement of Community Services Committee, and further discussion at Council the improvement plan has been implemented and work continues by Education Services to achieve the range of actions and measures contained within the improvement plan following the conclusion of the initial inspection.

#### 4. FINANCIAL PERFORMANCE 2016-17

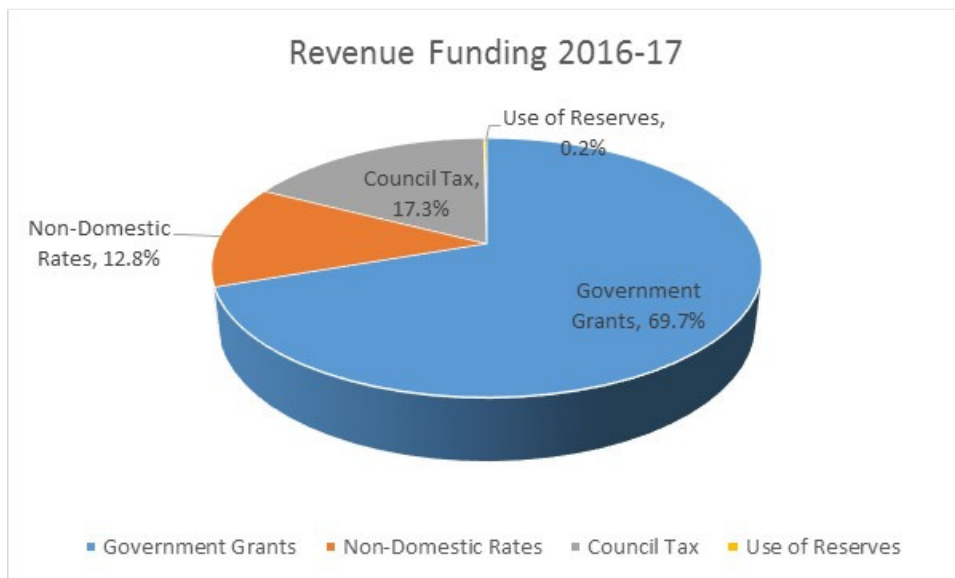
##### Revenue and Capital Expenditure

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 2016-17

The Council set a one year revenue budget in February 2016 which set the budget for 2016-17. The budget for 2016-17 was based on the Council Tax for Band D remaining at £1,178 for the ninth successive year. The budget was balanced with a small rounding surplus. Reserves were used to fund a one-off cost pressure in relation to the Broadband Pathfinder Project (£0.580m).

The funding at the beginning of financial year 2016-17 for revenue expenditure was £237.950m. This was funded from government grants (£165.730m), Council Tax (£41.200m), Non-domestic rates (£30.446m) and one-off use of Reserves (£0.580m).

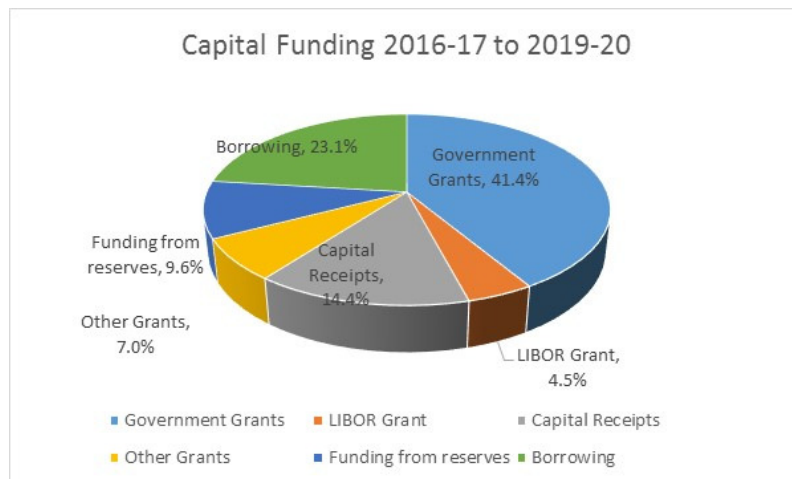


##### Capital Budget 2016-17 to 2019-20

The Council approved a capital programme amounting to £109m covering the years 2016-17 to 2019-20 in February 2016. 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 Council approved a revised capital programme in August 2016 to reflect an increase in the funding available of £5.615m. This increased funding was mainly due to additional grant of £5.000m funding by the Chancellor using LIBOR funds for the swimming pool element of the Helensburgh Waterfront Development in addition to an increase in the General Capital Grant advised for 2016-17 of £0.655m.

The capital budget between 2016-17 and 2019-20 is funded by government grants (£45.7m), borrowing (£25.5m), LIBOR grant (£5.0m), grants from other organisations (£7.7m) contributions from revenue (£10.7m), and receipts from sale of assets (£15.9m).



**Revenue: Outturn against Budget**

The performance against budget for financial year 2016-17 was an overall underspend of £3.243m (1.54%), after adjusting to reflect the new amounts earmarked by departments at the year end. There was a net underspend of £1.038m in relation to departmental expenditure and a net underspend of £1.344m in relation to other central/non-departmental costs. The remainder of the underspend of £0.861m is in relation to funding and the over-recovery of Council Tax income. The year-end underspend was largely expected and planned for during the year. For example:

- 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 Service Choices savings during 2017/18.
- 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, part of the contract management arrangements which are in place, and lower than expected energy prices.
- Loans charges were underspent as borrowing decisions were intentionally deferred resulting in savings on interest payments.
- Council tax income was better than expected partly due to better than expected collection of sums outstanding for previous years by sheriff officers due to enhanced contract management activity.



Final Outturn Variance (Audited)				
2016-17				
Department	Actuals	Budget	Variance	% age
		Adjusted for Earmarkings	(Overspend) Underspend	
Chief Executive's Unit	2,041,862	2,042,081	219	0.01%
Community Services	84,088,898	84,104,991	16,093	0.02%
Customer Services	38,280,640	39,167,488	886,848	2.26%
Development and Infrastructure Services	29,010,729	29,145,987	135,258	0.46%
<b>Total Departmental Expenditure</b>	<b>153,422,129</b>	<b>154,460,547</b>	<b>1,038,418</b>	<b>0.67%</b>
Integration Services	56,206,876	56,206,876	0	0.00%
Joint Boards	1,388,546	1,374,371	(14,175)	(1.03%)
Loans Charges	19,660,599	20,623,139	962,540	4.67%
Pension Costs	2,977,369	2,977,369	0	0.00%
Other	5,742,437	6,137,621	395,184	6.44%
<b>Total Non-Departmental Expenditure</b>	<b>85,975,827</b>	<b>87,319,376</b>	<b>1,343,549</b>	<b>1.54%</b>
<b>Total Expenditure</b>	<b>239,397,956</b>	<b>241,779,923</b>	<b>2,381,967</b>	<b>0.99%</b>
Total Funding	249,547,684	248,687,036	860,648	0.35%
<b>UNDERSPEND</b>			<b>3,242,615</b>	

**Capital: Outturn against Budget**

Net expenditure for the full financial year is £23.722m compared to a capital budget of £26.079m giving rise to an underspend for the year of £2.357m. 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, the NPDO Schools Solar PV Panel Installations and the Carbon Management Group Heating Conversion Project.

In terms of project performance 85% were completed on time and within budget tolerances.

**Health and Social Care Integration**

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. The Council approved the 2016-17 budget on 11 February 2016 and the amount approved for Social Work services transferring to the Integrated Joint Board for 2016-17 was £55.553m. This was based on the 2015-16 budget plus the estimated cost of the living wage, less the share of half of the £250m Integration Fund distributed by the Scottish Government, via Health. The actual cost of the living wage was £0.110m more than estimated and Council approved to transfer additional funding during the year.

In terms of the outturn position, as can be seen in the table within the revenue outturn against budget section on page 14, that Integration services over/underspend is zero. The Social Work services transferred to the Argyll and Bute Integrated Joint Board were overspent by £0.224m, however, this was mitigated by additional funding transferred from the Integrated Joint Board via NHS Highland at the end of the year. The difference between the funding of Social Care services as noted in the paragraphs above and the expenditure reporting in the External Funding Analysis is due to Social Work drawing down and spending previous approved earmarked reserves.

**Expenditure and Funding Analysis Statement**

The expenditure and funding analysis is a new statement this year. It shows how the Council funding is spent across services. It also compares to the expenditure shown in 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. There is a small difference within Community and Culture and Facility Services as investment income in the Expenditure and Funding Analysis Statement is reported below the net cost of services line along with interest payable and payment to the Valuation Joint Board.

### **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 2016-17 (the Code). These accounting adjustments include depreciation, loans fund principal repayment and accrued holiday leave not taken by 31 March 2017.

The comprehensive Income and Expenditure Statement presentation has changed 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 Budgetary Outturn**

The table below, sets out a reconciliation of the Deficit on the provision of services of £4.638m as noted in the Comprehensive Income and Expenditure Statement to the revenue budgetary outturn of £3.243m (underspend).

	£000	£000
<b>Deficit on Provision of Services</b>		<b>4,638</b>
Remove statutory adjustments that don't feature in budget outturn:		
Depreciation	(22,983)	
Impairments of Asset charged to services	(1,993)	
Capital Funding	11,375	
Pension Adjustment	(6,929)	
Statutory Repayment of Debt	14,040	
Transfers to/from Other Statutory Reserves	271	
Other Adjustments	509	
		(5,710)
<b>Movement In General Fund Balance</b>		<b>(1,072)</b>
Movement in Capital Adjustment Account		(360)
Adjust for earmarkings:		
Released sums earmarked to service budgets 2016-17	(8,614)	
Supplementary estimates agreed during 2016-17	(110)	
2016-17 budget rounding surplus paid back to General Fund	6	
Contributions to earmarked reserves 2016-17	6,907	
		(1,811)
<b>Revenue Budget Outturn</b>		<b>(3,243)</b>

## Balance Sheet

The balance sheet summarises the Council's assets as at 31 March 2017 and it is accompanied by explanatory notes. The net worth of the Council has decreased to £151.564m compared to a net worth at 31 March 2016 of £203.319m. The main reason for this decrease relates to the increase in the pension liability. This has arisen as a result of a significant decrease in the net discount rate over the period, partially offset by much greater than expected pension asset returns. A reduction in the net discount rate will increase the assessed value of liabilities as a higher value is placed on benefits paid in the future. A rise in the net discount rate will have an opposite effect of similar magnitude.

*Long Term Assets:* total Long Term Assets includes property, plant and equipment as well as other intangible assets. They have increased by £3.018m from £506.105m as at 31 March 2016 to £509.123m as at 31 March 2017. The main reason for the increase is in relation to the annual revaluation of investment properties.

*Current Assets:* total Current Assets has increased from £64.001m as at 31 March 2016 to £77.672m at 31 March 2017. The main reason for this increase relates to the increase in short term investments at the end of the year.

*Current Liabilities:* total current liabilities have decreased from £54.828m as at 31 March 2016 to £48.461m as at 31 March 2017. 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 increased by £74.811m from £311.959m as at 31 March 2016 to £386.770m as at 31 March 2017. The main reason for this increase relates to the pension liability which has increased by £55.336m as well as an increase to longer term borrowing as a result of securing borrowing when rates were at an all-time low. Further detail on the pension liability is noted later within the commentary.

### Provisions

The Council has provisions totalling £3.073m on the balance sheet, noted as follows:

- £0.007m Equal Pay Claims. 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. This provision has reduced to a small amount at the end of 2016-17 with this balance remaining as there may be further outstanding claims where the settlement amount cannot be estimated reliably enough to provide for the costs.
- £0.135m 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.
- £0.276 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 Service Choices process. The cost for any employee, whose contract has been terminated on or before 31 March 2017, had been incurred in year. For the employees who have confirmed acceptance of redundancy but have left or are leaving after 31 March 2017, a provision has been created.
- £1.120m 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.
- £0.469m Utilities. The utilities provision was created during 2011-12 to cover a potential liability in relation to discrepancies in charges for utility costs, £0.041m has been reversed during 2016-17 reducing the provision to £0.469m.
- £0.253m VAT Liability. The provision was created to reflect the potential liability the Council faces from the over claiming of VAT on staff mileage for the period 2012 to 2016 which will require to be repaid to HMRC. In May 2017 we received confirmation of the amount payable and the provision relates to this plus an estimated amount to cover any penalty that HMRC may impose.
- £0.723m 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 2012 (assuming a 5 year non-enforceable cut-off) where the Council has not been billed for the utilities.
- £0.083m 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 increase 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.

### Contingent Liabilities

There is a new contingent liability noted this year. The Limitation (Childhood Abuse)(Scotland) Bill is before the Scottish Parliament and if enacted will remove the limitation period for actions of damages

in respect of personal injuries resulting from childhood abuse. At this stage the extent of the Council's 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 2017.

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.

	2016-17	2015-16	2014-15
	£'000	£'000	£'000
Pension Liability	(149,777)	(94,441)	(144,738)

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:

	2016-17	2015-16	2014-15
	%	%	%
Rate of Inflation	2.4	2.2	2.4
Rate of Increase in Salaries	4.4	4.2	4.3
Rate of Increase in Pensions	2.4	2.2	2.4
Rate for Discounting Scheme Liabilities	2.6	3.5	3.2

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 placed on benefits paid in the future, the opposite is also true, a decrease in the discount rate will increase the liability.

At 31 March 2017 the change in financial assumptions (discount rate decreased to 2.6%) meant that the liability increased by £149.5m, "Other Experience" further increased the liability by £1m, this was offset by a return on assets of £102m. Therefore the above "re-measurements" total £48.5m which are the main reason for the increase in the Net Pension Liability position at 31 March 2017.

Further detail on the pension estimates are within Note 29 on pages 103 to 108.

### Borrowing

During 2016-17 the Council's External Borrowing Increased by £12.413m from £159.822m at 31 March 2016 to £172.235m at 31 March 2017. The increase was due to new borrowing from the Public Works Loans Board (PWLB) of £25m at historically low rates and an interest free loan of £0.4m from Salix in respect of the Street Lighting LED Project. This was offset by repayments of £8.9m to the PWLB and a reduction in temporary borrowing of £4m.

### 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 increased by £1.334m from £57.115m as at 31 March 2016 to £58.449m as at 31 March 2017. This is mainly as a result of the increase to the General Fund Balance of £1.072m in addition to a small increase to the Capital Fund outlined in Note 31.1 on page 113 and the Repair and Renewals Fund outlined in Note 32.2 on page 113.

In respect of the General Fund Balance movement, there were £8.614m of earmarked reserves released to services and spent during 2016-17 and a supplementary estimate of £0.110m drawn down to meet the increased cost of funding the Scottish Living Wage across Adult Social Care. The contributions to earmarked reserves amount to £6.907m and there was a small rounding surplus from the 2016-17 budget of £0.006m. The overall underspend on the revenue budget amounted to £3.243m of which £2.883m is transferred to the General Fund balance the remainder of £0.360m is an increase in unusable reserves. All these factors contribute to the increase in the General Fund balance as summarised within the table below:

	<b>£000</b>
Balance on General Fund 31 March 2016	52,417
Released sums earmarked to service budgets 2016-17	(8,614)
Supplementary Estimates agreed during 2016-17	(110)
Contributions to earmarked reserves 2016-17	6,907
Budgeted contribution to General Fund 2016-17	6
Overall budget underspend as above	2,883
<b>Balance on General Fund 31 March 2017</b>	<b>53,489</b>

The balance of unusable reserves has decreased by £53.089m from £146.204m as at 31 March 2016 to £93.115m as at 31 March 2017. The main reasons for this decrease relates to the 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 2016-17 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 and any 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. Two new automatic carry forwards have been put forward for approval this year in relation to carrying forward funding provided by the Scottish Government to implement new legislation or government initiatives and to carry forward savings for re-investment in energy efficiency to further reduce the Council's energy costs and carbon emission levels.

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 13 new unspent budget earmarked proposals for consideration:

- Strategic Finance CIPFA student fees, VAT training and equipment - £0.033m
- Soft Play area, CHORD redevelopment of Queen's Hall - £0.075m

- Specialist consultancy required for implementation of Leisure and Libraries Trust - £0.040m
- NDR appeals - £0.150m
- Monitoring of Construction Projects - £0.250m
- Replacement of IR5 system for room/resource bookings - £0.030m
- Asbestos Management - £0.270m
- Introduction of Local Windows Services Update Servers - £0.050m
- Improvement to Council's training facilities - £0.017m
- Unexpected additional cost construction of new pavilion at Hermitage Park - £0.100m
- Essential Maintenance at Inveraray Arches - £0.100m
- Underwriting development of Rothesay Pavilion - £1.000m
- New schools additional costs - £0.750m.

The General Fund balance at 31 March 2016 was £52.417m; of this a total of £43.272m was approved by Council to be earmarked for specific purposes. The new earmarked balance as at 31 March 2017 amounts to £41.519 and Note 5 on page 78 provides further detail of the movement.

The Council has agreed to hold a contingency balance equivalent to 2% of the Council budget for 2017-18. 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 Council also agreed that £4m would be set aside and used towards budget smoothing within the year 2019-20. The unallocated General Fund balance amounts to £3.299m.

### 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

In addition, the Council's Common Good Funds have been fully consolidated into the Group Accounts, Note 36 on page 115 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 £6.554m. This gives an overall net asset position for the Group of £158.118m, a decrease of £52.984m from the previous year. As with the single entity Balance Sheet, the decrease is mainly related to the increase in the pension liability due to the change in discount rate used.

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 £60.787m towards the Argyll and Bute Integration Joint Board in the 2016-17 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.

<b>Financial Indicator</b>	<b>2016-17</b>	<b>2015-16</b>	<b>Comment</b>
Unallocated General Fund Balance as a proportion of next year's Annual Budgeted Net Expenditure	3.39%	3.84%	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 £1.1m	Decrease £7.8m	Reflects the extent to which the Council is using its Unallocated General Fund Balance.
In-year collection rate	95.79%	95.97%	Reflects the Council's effectiveness in collecting Council Tax debt. Collections are down mainly due to the level of increased double charges applied for long term empty properties and penalties which are hard to collect (up by £197k), and due to the reduced level of council tax reduction being afforded (down by £198k.) This is offset by improved current year sheriff officer collections (up by £453k). Despite the collection percentage being down, income exceeded budget by £782k.
Ratio of Council Tax Income to Overall Level of Funding	17.47%	16.39%	Reflects the capacity of the Council to vary expenditure by raising Council Tax income. Argyll and Bute Council, in common with other local authorities has frozen Council Tax at 2007-2008 levels.
Actual Outturn compared to budgeted expenditure	£2.883m 1.16%	£1.612m 0.64%	A measure of how the final outturn compares to the budgeted position and is a reflection of the effectiveness of financial management.
Capital Financing Requirement (CFR) for the current year	£253.483m	£253.896m	Measurement of requirement to borrow for capital purposes.
External Debt Levels for the current year	£170.503m	£158.090m	Actual borrowing for capital investment levels.
Ratio of financing costs to net revenue stream	7.77%	7.56%	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

#### 2017-18 Budget

One of the elements of the budget strategy agreed in December 2014 was Service Choices. Service Choices was an approach to plan for the estimated funding reductions by aligning the available budget to Members priorities. During 2015, the Council developed a number of service choices savings options that went out to public consultation prior to being considered by Members as part of setting the budget for 2016-17. Some of the savings were deliverable in 2016-17 and some were from 2017-18 or beyond. This budget created a solid foundation to work from and for the 2017-18 budget most of the savings required to balance the budget had already been agreed as part of the service choices decisions in February 2016. Efficiency savings for 2017-18 were also agreed in October 2016, in advance of the budget setting and this also reduced the budget gap.

Despite only receiving a one year settlement for Scottish Government, the Council agreed a revenue budget for 2017-18 and two year indicative budgets for 2018-19 and 2019-20. The Council also agreed updates to the capital plan covering the period to 2019-20.

#### Medium to Longer Term Financial Strategy

Creating a financial outlook is challenging as a number of assumptions need to be made anticipating changes to the base budget in relation to employee costs, non-pay inflation, cost and demand pressures and fees and charges as well as assumptions on the Council's funding position. When forecasting the funding there are a number of variables to consider including the overall level of public sector budgets, the amount the Scottish Government decides to allocate to fund Local Government, the impact of population reductions on Argyll and Bute and scope for any future Council Tax increases.

The Council accepts the current financial climate we are in. The Council are in a period of one year settlements which doesn't give it 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, continues to put financial pressure on Councils.

A three-year financial outlook covering the period 2017-18 to 2019-20 was kept up to date during the financial year and presented to Members at the Policy and Resources Committees in August, October and December 2016 as well as a further update at a Members Seminar held in January 2017. There continues to be a challenging economic position and the council expects to face further significant financial changes in the coming years with continuing growth in demand for services alongside a climate of funding reductions. The indicative budgets for 2018-19 and 2019-20 estimate a budget gap of £9.300m by 2019-20 and it is anticipated that a significant scale of saving is likely to continue over the medium to longer term.

The council has recognised the need to develop a medium to longer term financial strategy. The purpose of the medium to longer term financial strategy will be to set out a plan to demonstrate how the council will respond to the demands and pressures whilst ensuring that there is a sustainable council that meets the needs of its communities and one that can take advantage of opportunities that arise.

The medium to longer term financial strategy will be underpinned by a set of principles that support the longer term financial sustainability of the council. These principles are summarised as follows and were agreed by Council in February 2017. The financial strategy will be developed during 2017.

- Resources aligned with the Local Outcome Improvement Plan (LOIP)
- Direct provision versus commissioned services (make or buy)
- Digital transformation
- Shared Services
- Commercial activities (via trading accounts)
- Arm's Length External Organisations (ALEOs)

## Management Commentary

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- Commercial sponsorship
- Investment opportunities
- Volunteering for core services
- Fully centralised procurement
- Engaging Trade Unions in full partnership
- Shared and improved asset utilisation
- Management structure
- Work patterns and shift arrangements.

Strategic workforce planning is a key element of the medium to longer term financial strategy and work has commenced on this theme with a view to ensuring that the Council has a workforce that can support the organisation in the future to meet its medium to longer term financial challenges. It is envisaged that this element of the strategy will be considered by Members in the autumn.

### Rural Deal

The Single Investment Plan for Argyll and Bute has been developed in order to align future infrastructure investment with strategic economic priorities to help drive a step change in economic activity in the area. Argyll and Bute Community Planning Partners have developed a series of strategic plans and the Single Investment Plan is a distillation of these which aims to highlight and advocate for the important opportunities and challenges within Argyll and Bute. It is also intended that the Single Investment Plan will form the foundation for an economic case for additional funding being directed towards Argyll and Bute to facilitate the delivery of priority infrastructure projects. The Council intends to pursue a regional growth deal with Scottish and UK governments and to progress projects included within that deal to a full business case in line with the Treasury's Five case Model methodology. Discussions are taking place with government officials on the potential for such a deal.

### Argyll, Lomond and the Islands Regeneration Initiative

The Council agreed, in February 2016, to establish the new flagship "Argyll, Lomond and the Islands Regeneration Initiative". This initiative encompasses all existing and new strategies and plans in relation to population and economic growth into a single and cohesive programme. The focus is supporting the Local Outcome Improvement Plan's overarching vision to build the economy through a growing population. Three new investments were agreed, totalling £4.5m: Inward Investment Fund, Rural Resettlement Fund and the Lochgilphead and Tarbert Regeneration Fund.

Inward Investment Fund - the Council agreed to allocate £1m towards this Fund to promote economic growth in Argyll and Bute through attracting significant inward investment to the area. It is proposed that the fund is focused on a smaller number of larger strategic investments that have real transformational opportunity. To date we have allocated a £0.040m grant that was matched by both HIE and Discover Space UK creating a fund of £0.120m towards developing the proposition and attraction of investors for a space port at Machrihanish. A bid for a potential grant for feasibility work in relation to the space port was submitted to the UK Government on the 28<sup>th</sup> of April.

Rural Resettlement Fund - the Council agreed to allocate £0.5m to this Fund which is intended to be focused on people. This fund will seek to either incentivise people to settle in Argyll and Bute or create/promote opportunities to do so. This may include businesses where individuals are prepared to move to Argyll and Bute to start up or relocate their business. The specific objective of this fund is growing our population with the benefits of creating economic activity and increasing the Council's Grant Aided Expenditure. The fund was launched at Argyll Enterprise Week in October 2016. As of 11 May 2017 we have received 19 applications, approved 12, assessing 1 and 6 were either withdrawn or rejected due to not meeting the criteria. Total awarded is £0.056m. Officers are about to launch a further marketing campaign with a key focus on social media.

Lochgilphead and Tarbert Regeneration Fund - the Council agreed to award £3m to this Fund to build on the regeneration work in Campbeltown and it is deemed that the main objective of this fund is to promote the regeneration and/or economic development of Lochgilphead, Tarbert and surrounding areas. 11 short listed projects were approved by the Mid Argyll, Kintyre and Islay area committee on 7 December 2016. The next stage is the completion of outline business cases for the projects and scoring of the projects with the highest scoring projects to be moved onto delivery.

### Leisure and Libraries Trust

Like all Local Authorities across Scotland, the Council is facing significant budgetary pressure that continues to increase on an annual basis. These pressures are exacerbated particularly within the Leisure and Library Services, where there is an expectation that these services need to improve to satisfy growing customer expectations. Delivering these services through a Charitable Trust creates the opportunity for a new delivery model that can help to reduce these pressures on the Council's services. This route is well established in Scotland, with only a handful of the 32 Local Authorities not adopting this approach. The Council, at its meeting on 24 November 2016 approved the business case for the creation of a Charitable Trust to deliver leisure and library services in Argyll and Bute.

By reviewing the extent of the possible Non Domestic Rates and Value Added Tax savings and understanding the opportunities for improving the delivery of these services, there is an expectation that the provision of these services in a more efficient manner will reduce the financial burden on the Council. It is anticipated that the Leisure Trust will be operational from October 2017 with part year savings of £0.270m in 2017-18 rising to full year savings of £0.541m in 2018-19 and beyond.

In addition to the direct financial savings to the Council, a number of other key benefits associated with the transfer of services to a Charitable Trust have been identified including:

- A single focused body with clarity of outcomes
- Independence and the ability to diversify
- Increased access to other funding streams
- Commercial revenue growth
- Improved financial performance.

### External Funding levered in to Argyll and Bute

The Council is committed to levering in external funding to the area. Since 2014, the Economic Development and Strategic Transformation (EDST) team has secured over £15m in external funding, with £6m of this total secured in 2017 with a decision on a further £2m of Heritage Lottery Fund (HLF) funding expected in June. EDST has been successful with 3 out of 3 bids for Regional capital Grant Funding, 2 out of 2 bids for Conservation Area Regeneration Scheme (CARS) funding in Dunoon and Rothesay, £0.800m of Sustrans funding, £1m European Regional Development Fund (ERDF) funding for the Pavilion in Rothesay and £0.250m ERDF funding for business growth. A number of smaller bids have also been successful. Future bids from a range of external funders are being planned for this financial year.

### Transformation Work

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 has now been established to take forward further transformational change. Their main focus is delivering change to improve service delivery and to help balance the budget in 2018-19 and beyond.

The main work streams as part of the transformation programme include the following.

Transformation Packages challenging services to achieve savings via four operating principles; business cost reduction, income maximisation, service re-design and self-funding. All frontline services have been split into service packages that are not subject to specific government protections. The Transformation Board have then identified a minimum savings target along with the operating principle(s) anticipated to deliver the savings. However this is not prescriptive, services are challenged to consider how the saving may be achieved and if additional methods of delivering savings can be identified. The percentage targets vary taking into account the opportunities provided in each service package by the four operating principles and also the need to achieve the anticipated budget reductions over the next 2 financial years and beyond.

Innovation Fund – this was created to fund innovative projects identified by staff and two projects have received funding to date as noted below. A further four pitches will be made to the Transformation Board in June 2017.

- Warp It - Warp It – is a piece of web based software which aids the redistribution of surplus new and used items such as furniture and stationery and is managed by the centralised purchasing team. The main benefits of using this system are:
  - Cost avoidance – reusing items instead of buying new
  - Maximise the usage of National and Council Contracts
  - Cash savings from effective negotiation with suppliers where contracts are not in place.
  - Time saving to staff
  - Improved use of Council's Purchasing Cards
- Print management solutions – is the roll out of the Uniflow print system where individual printers are being replaced with multi-functional devices using the Uniflow print system reducing the cost of purchasing hardware and toners.

Asset Management and Investment Fund – the purpose of this fund is to generate income for the Council by seeking out investment opportunities that will provide the Council with a commercially advantageous financial return. The fund is currently invested in an enhanced cash fund while opportunities for investments are explored.

Catering and Cleaning Innovation – A number of service transformation options have been identified by the Catering and Cleaning Services to deliver savings and additional income. There are eight main workstreams with savings of £0.777m being realised over 2018-19 and 2019-20.

Digital Transformation – Eleven projects have been identified which will be taken forward in 4 tranches. There are also a range of further digital initiatives identified at our Chief and Senior Officer event in March 2017. Work is already underway on some of these initiatives.

### Shared Services and Partnership Working

The Council has increasingly explored and undertaken innovative approaches to partnership working and shared services in a manner that can support community development, create economic activity, secure the future of our built environment, reduce costs whilst maintaining or improving service levels, generate income and secure employment.

A range of examples include working with;

- Conservation groups to lever in funding to secure a sustainable future for historic buildings and environments important to the identity and sense of place for our communities e.g. St Peters Seminary, Dunoon Conservation Area Regeneration Initiative, and Rothesay Town Heritage bid.
- Shared service agreements with community groups for the provision of Customer Service Points on Colonsay, Jura and Tiree including for Passport Service Interviews at all Customer Service Points to reduce need for travel to secure a passport.
- Public sector partners and community development trusts for the development of community plans through 'charrettes' or 'planning for real' which influence the Local Development Plan and other strategic plans e.g. Dunoon, Scottish Canals, Tiree Development Trust.
- Partnership working with agencies and industry to support the growth of key economic sectors e.g. Argyll and Bute Renewables Alliance, Argyll and the Isles Tourism Cooperative Ltd, Oban as a University Town.
- Commercial provision of services including grounds maintenance (Scottish Canals), Building Standards verifications (Babcock), LGV and HGV vehicle maintenance and repair, Planning Services for Loch Lomond and the Trossachs National Park.
- Housing; pilot to create a 'Simplified Planning Zone' for self-build, close working with agencies and housing associations to deliver significant but challenging housing sites e.g. Dunbeg, Ganavan and Inveraray.
- Joint working with Transport Scotland on winter roads maintenance including sharing of depots, fleet and salt stores.

The council continues to explore new initiatives of sharing and or selling professional services and equipment in a manner that safeguards council employment and or supports our strategic priorities.

### Highways Network Assets

Last year we reported that the 2016-17 Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code) had introduced changes, due to take effect from 1 April 2016, to measure the Highways Network Asset at current value, i.e. Depreciated Replacement Cost. At its meeting on March 8th, the CIPFA/LASAAC Code Board decided not to proceed with the introduction of the Highways Network Asset Code into the financial reporting requirements for local authorities. The Board decided that, currently and in particular in the absence of central support for key elements of the valuation, the benefits are outweighed by the costs of implementation for local authorities. The Board determined that it will give further consideration to this issue only if provided with clear evidence that benefits outweigh costs for local authorities.

CIPFA/LASAAC Local Authority Accounting Code Board is responsible for the development of the Code of Practice on Local Authority Accounting in the United Kingdom which specifies the financial reporting requirements for local authorities.

We will continue to keep a watching brief on this matter for future years.

### 7. CONCLUSION

The Council has continued to demonstrate sound financial management in 2016-17 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.

Handwritten signature of Aileen Morton.

Cllr Aileen Morton  
**Leader**

Handwritten signature of Cleland Sneddon.

Cleland Sneddon  
**Chief Executive**

Handwritten signature of Kirsty Flanagan.

Kirsty Flanagan  
**Head of Strategic Finance**

**26 September 2017**

## 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.

*I confirm that these Annual Accounts were approved for signature on the 26 September by the Audit and Scrutiny Committee at its meeting on 19 September 2017.*

Signed on behalf of Argyll and Bute Council:



**Councillor Aileen Morton**  
Leader  
26 September 2017

## 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 2016-17 (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 2017.*



**Kirsty Flanagan**  
Head of Strategic Finance  
26 September 2017

## BACKGROUND / SCOPE OF RESPONSIBILITY

The governance framework includes the systems, processes and culture by which the Council is controlled, and engages with its communities. It allows the Council to monitor the achievement of its strategic objectives. Argyll and Bute Council conducts its business in accordance with the law and proper standards. The Council has a duty to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to the economic, efficient and effective use of public money.

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 Argyll and Bute 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.

## 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 2016-17 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 2015-17 sets out our mission “To make Argyll and Bute a place people choose to live, learn, work and do business”. The Corporate Plan supports the Local Outcome Improvement Plan and Delivery Plan. The focus of the priorities is to ensure that more jobs and more people are attracted into Argyll & Bute and progress against outcomes and targets is monitored on a regular basis by the Community Planning Partnership.

We have a Planning and Performance Management Framework (PPMF) that ensures performance is integral to the work of the Council. The PPMF details the structure and process for performance management at all levels. Plans specify the outcomes to be achieved aligned to success measures, as well as risks to be reduced. During the year the PPMF was reviewed and following Council approval was updated to the Performance Improvement Framework (PIF) with an enhanced focus on strategic outcomes to support improved scrutiny by elected members.

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 Performance Review and Scrutiny Committee, which meets four times a year has a key role in reviewing and scrutinising how we are meeting our strategic objectives. The new Council has agreed in May 2017 to develop an Audit and Scrutiny Committee as part of its review of political management arrangements.



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

We updated our constitution in June 2016 to define the roles and responsibilities of the administration, committees, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication. The new Council has considered a report from the Short Life Working Group (SLWG) on Political Management arrangements and will require to make decisions as to how they will undertake their business as Councillors and adjustments will then be made to the Council constitution to give effect to any changes required.

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).

New auditing arrangements are in place for best value, i.e., a new approach to auditing Best Value was agreed in June 2016 whereby 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 what we do and how we do it:

- we involve and listen to our customers and communities
- we take pride in delivering best value services
- we are open, honest, fair and inclusive
- we respect and value everyone

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 Committee undertakes the core functions identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities. Both the Audit Committee and the Performance Review and Scrutiny Committee receive regular reports on the risk management framework. The Performance Review and Scrutiny Committee have drafted a handbook which will be considered in detail upon agreement of political management arrangements.

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.

The Counter Fraud Investigation Team is the single point of contact for the DWP regarding Housing Benefit cases. It is responsible for fraud investigation relating to Council Tax discounts and exemptions and the overall Council Tax reduction scheme and assists internal audit in broader counter fraud activities.

### **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. The majority of elected members now have personal development plans in place and dedicated days are set aside for member training and seminars on key issues. Following the election in May, all Members of the new Council were offered and provided with a full induction programme.

The Audit Committee and Performance Review and Scrutiny Committees each held development days in 2016-17, and have agreed work plans for improvement. The Audit Committee self-assessed its effectiveness, and identified key actions which were taken forward during 2016-17, including the development of protocols for co-ordination of work with the PRS Committee, and the development of a materiality matrix.

#### 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 that 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 Community Services 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 four 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.

It also supports community engagement at grass roots level by providing support to local partnerships which feed into the activities of the Area Community Planning Groups and 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 each partner assuming a lead role for one 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

Argyll and Bute Council has put in place appropriate management and reporting arrangements to enable it to satisfy itself that its approach to corporate governance is adequate and effective in practice. The 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
- 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 Finance Officer, to ensure that public funds are properly accounted for. In recognition of the significant role that the Chief Finance 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.

## AUDIT SCOTLAND FOLLOW-UP AUDIT

In December 2015, the Accounts Commission published their findings on the Controller of Audit's Statutory Report on the Council with regards to Best Value and focused on the Council's;

- Political management arrangements.
- Scrutiny
- Roles and relationships, including between members and officers

In January 2016, the Council considered these findings and agreed to the development of an Improvement Plan. A report by council officers was submitted to the Council on 20 April 2017 with a note of actions relating to 6 key themes:

1. Establish a more open and transparent culture and style of working: The Council have reduced the number of private items presented to Council and a Short Life Working Group was established to review the Political Management Arrangements and will report to Council in April 2017.
2. Standards: Refresher training was provided at a Members Seminar held on 6 June 2016 and group discipline and leadership is a standing item for discussion with the Chief Executive meetings Group Leaders.
3. Taking a more innovative approach to dealing with financial challenges: The Tarbert and Lochgilphead Regeneration Fund, the Rural Resettlement Fund and the Inward Investment Fund are all set up and operational. The Transformation Working Group and now become a board with extended representation from all Departments with a set of defined work streams in order to bring forward transformation change and savings from 2017-18 onwards. There is regular reporting of the Council's medium term budget outlook to Committee.
4. Community engagement: A community led action planning toolkit has been developed for launch in April 2017. Five Gaelic projects successfully bid for funding in a pilot participatory budget project, the funding was made available by the Scottish Government to strengthen and grow Gaelic in Argyll and Bute.

5. Local empowerment: Project Leads have been identified to take forward the key components of the Community Empowerment (Scotland) Act 2015. Asset Transfer requests went live on 23 January 2017 and participation requests are due to go live.
6. Accessible training and development for elected members: Workplan developed to deliver updated induction programme for inception of new Council which will have supporting materials from all services.

Most of the actions within the Improvement Plan are now complete and the Council noted the progress made and agreed that the outstanding action in relation to local empowerment would be monitored via the Community Empowerment Action Group.

A copy of the Improvement Plan reported to Council on 20 April 2017 is available on the following link:

<https://www.argyll-bute.gov.uk/moderngov/documents/s117928/Appendix%201%20-%20Improvement%20Plan%20update%20for%20Council%20April%202017%20final.pdf>

### 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

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

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

### RISK MANAGEMENT

The Council's Risk Management and Business Continuity Strategies are well developed. The Chief Executive submits an annual report on Audit and Risk Management to the Audit Committee. The Strategic risk register is currently subject to review in respect of content and format. A well-developed preparation methodology remains in place.

SMT will continue to review risks on a regular basis and ensure that active mitigations are in place.

Operational Risk Registers are reviewed on a regular basis and updated where required to inform performance scorecards. Results from the annual CIPFA benchmarking exercise demonstrated that we maintained an overall embedded and integrated rating.

During 2016-17, the Audit Committee considered an updated assurance map, which highlighted the Council's key risks, and the source and level of assurance that the Council receives on those risks, based on the three lines of defence model. Internal audit plans for 2017-18, where appropriate take cognisance of the areas where additional assurance is required.

A Risk Management Strategy has been developed by Argyll and Bute Health and Social Care Partnership. Further work is required in respect of shared risk 2016-17 have been targeted to provide the Audit Committee on areas where additional assurance is required.

### **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 Committee endorses the preparation methodology and annual internal audit plans and monitor the performance of Internal Audit in completing the plan.

The Chief Internal Auditor provides the Audit Committee with an annual report on internal audit activity in the Council and this states that substantial assurance can be taken in 2016-17 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 Chairman and Vice Chairman are independent lay members of the Audit Committee.

Internal Audit presented 3 out of 30 reports with a limited level of assurance during the year. Management have accepted 100% of recommendations and have a robust follow-up system to track actions arising ensuring timely implementation through the SMT meeting programme.

### **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 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. A risk based audit plan was carried out in 2016-17 and the internal audit report for the year concluded that the Integration Joint Board has a framework of controls in place that provides reasonable assurance over the effective and efficient achievement of the organisation's objectives and the management of key risks, governance, processes and the overall control environment.

Progress has been made in the first year of the operation of the Integration Joint Board to ensure appropriate governance and information sharing arrangements are in place, further improvement and development of governance arrangements is ongoing to safeguard the future success of the partnership.

### ISSUES FOR FURTHER DEVELOPMENT

The review of governance and internal control has identified the following areas for consideration during 2017-18, particularly in the context of continuous improvement within the Council:

- In recognition that significant challenges lie ahead for local government finance the Council is developing its medium to longer term financial strategy. This will ensure that we have a sustainable budget for the future and that reduced budget/resources are aligned to support council priorities and delivery of the Local Outcome Improvement Plan.
- The Council has already delivered a number of savings via transformation and innovation but acknowledge that further work is required and have created a Transformation Board to take forward further transformation activities and it is hoped that savings will be delivered from 2017-18 onwards.
- Strategic workforce planning is a key element of the medium to longer term financial strategy and work has commenced on this theme with a view to ensuring that the Council has a workforce that can support the organisation in the future to meet its medium to longer term financial challenges. It is envisaged that this element of the strategy will be considered by Members in the autumn.
- The Current Strategic Risk Register has been in place for a number of years. A review will be carried out to ensure that the risks are still fit for purpose and the mitigating actions remain current. It is the intention to include a current status indicator for each risk, using the recognised 4T system being Treat, Tolerate, Transfer and Terminate. There will also be further development of the risk management arrangements to ensure that they remain embedded within Council business.
- The Health and Social Care Partnership has been in place for one year and a review of the current monitoring and reporting arrangements will be carried out. We will also ensure that good governance and scrutiny arrangements are further developed and maintained in respect of the Health and Social Care Partnership.
- The Local Scrutiny Plan notes the recent Strategic inspection of the Council's education functions which identified areas of strength as well as areas which require improvement. We will work with Education Scotland who will provide support and monitor progress towards improvement on the agreed actions.
- The Best Value review noted Community Engagement and Local Empowerment as key themes. The Council will develop delivery plans for the Local Outcome Improvement Plan and ensuring these reflect Council priorities. We will also undertake training for community groups on the Community-Led Action Planning Toolkit and ensuring that the development of Community-Led Action Plans feed into Area Community Planning Groups.
- The Local Scrutiny Plan (LSP) sets out the planned scrutiny activity in Argyll and Bute Council during financial year 2017/18 and is based on a shared risk assessment undertaken by a Local Area Network (LAN).

- A new Performance and Improvement Framework (PIF) was introduced and approved by Council in April 2017. There will continue to be ongoing development of performance management and improving performance scrutiny.
- One of the themes from the Best Value review was to “Establish a more open and transparent culture and style of working”. We will further enhance and improve the tone of our correspondence to further develop a climate of openness with our customers. The Council is continuing to improve its political management arrangements and governance within the Council. The new Council will consider a report from the Short Life Working Group on Political Management arrangements and will require to make decisions as to how they will undertake their business as Councillors. Adjustments will then be made to the Council constitution to give effect to any changes required.
- As any new legislation is brought into effect the Council will implement as it applies to and affects the provision of Council Services.

### 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 2016-17 and that there are no significant weaknesses. This assurance is limited, however, to the work undertaken during the year and the evidence available at the time of preparing this statement.



Cllr Aileen Morton  
**Leader**



Cleland Sneddon  
**Chief Executive**



Kirsty Flanagan  
**Head of Strategic Finance**

**26 September 2017**



## 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 2016-17 the salary for the Leader of Argyll and Bute Council is £33,761. 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 £25,320 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 £23,914 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 £19,939.

In 2016-17 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 2016-17 was £0.286m. 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 2016-17.

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:

<b>Members Allowances</b>	<b>2016-17 Actual £'000</b>	<b>2015-16 Actual £'000</b>
Basic Councillor Salaries	402	392
Leader and Provost's Salary	59	58
Senior Councillor Salaries	227	231
Other Expenses and Allowances paid to Members	88	135
<b>Total Allowances</b>	<b>776</b>	<b>816</b>

The annual return of councillors' salaries and expenses for 2016-17 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>.

## The Remuneration Report

### 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	2016-17				2015-16
		Salary, Fees and Allowances £	Taxable Expenses £	Non-cash Expenses & Benefits-in-kind £	Total Remuneration £	Total Remuneration £
Councillor Rory Colville	Lead Councillor for Education and Lifelong Learning (From 23/04/16), Chair of Mid Argyll, Kintyre and the Islands Area Committee	23,914	-	-	23,914	23,272
Councillor Maurice Corry	Lead Councillor for Health and Social Care Integration from 21/01/16 to 30/06/16	10,960	-	-	10,960	3,892
Councillor Robin Currie	Lead Councillor for Community & Culture and Strategic Housing (responsible for Gaelic from 23/04/15)	23,914	348	-	24,262	23,976
Councillor Mary Jean Devon	Lead Councillor for Health and Social Care Integration (from 23/04/15 to 05/01/16), Lead Councillor for Children and Families to 23/04/15	-	-	-	-	19,565
Councillor Kieron Green	Lead Councillor for Health and Social Care Integration from 30/06/16	12,954	-	-	12,954	-
Councillor David Kinniburgh	Depute Provost from 21/01/16, Chair of Planning, Protective Services and Licensing Committee, additional responsibility for Planning Services, Historic and Sustainable Environment from 23/04/15	23,914	-	-	23,914	23,687
Councillor Alistair MacDougall	Lead Councillor for Strategic Transportation from 23/04/15, Lead Councillor for Gaelic (from 28/09/14 to 23/04/15)	23,914	-	-	23,914	23,687

Senior Members	Responsibility	2016-17				2015-16
		Salary, Fees and Allowances £	Taxable Expenses £	Non-cash Expenses & Benefits-in-kind £	Total Remuneration £	Total Remuneration £
The Late Councillor Duncan MacIntyre	Lead Councillor for European Affairs, Sustainable Economic Growth and Strategic Transportation to 23/04/15	-	-	-	-	3,464
Councillor Robert E MacIntyre	Chair of Bute and Cowal Area Committee to 29/09/16	11,459	-	-	11,459	19,749
Councillor Roddy McCuish	Chair of Oban, Lorn and the Isles Area Committee (from 25/09/14)	19,939	-	-	19,939	19,749
Councillor Alex McNaughton	Chair of Bute and Cowal Area Committee from 29/09/16	8,438	-	-	8,438	-
Councillor Aileen Morton	Lead Councillor for Sustainable Economic Growth from 23/04/15, Lead Councillor for Education, Lifelong Learning and Strategic IT Services to 23/04/15	23,914	-	-	23,914	23,981
Councillor Ellen Morton	Depute Leader, Lead Councillor for Roads, Amenity Services, Infrastructure, Asset Management and Special Projects	23,914	-	-	23,914	23,687
Councillor Gary Mulvaney	Chair of Helensburgh and Lomond Area Committee	19,939	-	-	19,939	19,749
Councillor Douglas Philand	Depute Provost to 21/01/16, Lead Councillor for Adult Care to 23/04/15	-	-	-	-	3,464

Senior Members	Responsibility	2016-17				2015-16
		Salary, Fees and Allowances £	Taxable Expenses £	Non-cash Expenses & Benefits-in-kind £	Total Remuneration £	Total Remuneration £
Councillor Len Scoullar	Provost and Lead Councillor for Island Affairs	25,320	641	-	25,961	25,629
Councillor Dick Walsh	Leader, Lead Councillor for Strategic Finance, (IT Services, Improvement, HR and Customer Support, Facility Services, Governance and Law)	33,761	1,333	-	35,094	35,600

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 £	2016-17 Number of Officers	2015-16 Number of Officers
£50,000 - £54,999	80	68
£55,000 - £59,999	13	12
£60,000 - £64,999	6	8
£65,000 - £69,999	2	2
£70,000 - £74,999	13	13
£75,000 - £79,999	1	-
£80,000 - £84,999	2	2
£85,000 - £89,999	-	-
£90,000 - £94,999	1	-
£95,000 - £99,999	2	2
£100,000 - £104,999	-	1
£105,000 - £109,999	-	-
£110,000 - £114,999	-	-
£115,000 - £119,999	-	-
£120,000 - £124,999	1	1
<b>Total</b>	<b>121</b>	<b>109</b>

## 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 2016-17 there were no employees earning more than £150,000.

The following table sets out the remuneration disclosures for 2016-17 for senior officers:

Post Holder	Salary (Including Fees and Allowances) £	Taxable Expenses £	Total Remuneration 2016-17 £	Total Remuneration 2015-16 £
<b>Chief Executive</b> (from 9-5-16), <b>Executive Director of Community Services</b> (to 8-5-16) - Cleland Sneddon <i>(Full year equivalent as Chief Executive)</i>	115,244 <i>118,251</i>	4,903 -	<b>120,147</b> <i>118,251</i>	<b>100,259</b> -
<b>Chief Executive</b> - Sally Loudon (to 8-5-16) <i>(Full year equivalent)</i>	21,340 <i>119,903</i>	- -	<b>21,340</b> <b>119,903</b>	<b>123,530</b> -
<b>Executive Director of Customer Services</b> - Douglas Hendry	98,362	297	<b>98,659</b>	<b>97,704</b>
<b>Acting Executive Director of Community Services</b> - Ann Marie Knowles (from 13-5-16) <i>(Full year equivalent)</i>	77,451 <i>97,799</i>	- -	<b>77,451</b> <b>97,799</b>	- -
<b>Executive Director of Development and Infrastructure Services</b> - Pippa Milne	97,799	68	<b>97,867</b>	<b>96,925</b>
<b>Head of Strategic Finance (Section 95 Financial Officer)</b> - Kirsty Flanagan (from 1-10-15) <i>(Full year equivalent)</i>	72,978 -	612 -	<b>73,590</b> -	<b>33,146</b> <b>71,012</b>
<b>Head of Children and Families (Section 3 Social Work Officer)</b> - Louise Long (from 15-7-15) <i>(Full year equivalent)</i>	72,418 -	929 -	<b>73,347</b> -	<b>48,892</b> <b>71,012</b>
<b>Head of Adult Care (Section 3 Social Work Officer)</b> - James Robb (to 14-7-15) <i>(Full year equivalent)</i>	- -	- -	- -	<b>63,596</b> <b>71,012</b>

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 Community Services.

The Chief Executive's salary (Sally Loudon) in 2016-17 included £2,906 (2015-16 - £4,189) of remuneration for acting as Returning Officer in these years.

During 2015-16 James Robb, Head of Adult Care and the Council's Section 3 Social Work Officer, left the organisation and the responsibility of Section 3 Social Work Officer was transferred to Louise Long, Head of Children and Families.

During 2015-16, Kirsty Flanagan was appointed to the role of Head of Strategic Finance (effective 1 October 2015).

## 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 2016-17 are as follows:

Whole time pay	Contribution Rate 2016-17
On earnings up to and including £20,500	5.50%
On earnings above £20,500 and up to £25,000	7.25%
On earnings above £25,000 and up to £34,400	8.50%
On earnings above £34,400 and up to £45,800	9.50%
On earnings above £45,800	12.00%

From 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 1/49<sup>th</sup> 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 1/60<sup>th</sup> of final pensionable salary and years of pensionable service. (Prior to 2009 the accrual rate guaranteed a pension based on 1/80<sup>th</sup> and a lump sum based on 3/80<sup>th</sup> 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 2017 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			Accrued pension benefits	
	For year to 31 March 2017 £	For year to 31 March 2016 £		As at 31 March 2017 £	Difference from 31 March 2016 £
Councillor Rory Colville	4,617	4,489	Pension	3,615	608
			Lump Sum	1,529	64
Councillor Maurice Corry	3,889	3,440	Pension	1,577	319
			Lump Sum	-	-
Councillor Robin Currie	4,617	4,572	Pension	3,476	597
			Lump Sum	801	32
Councillor Mary Jean Devon	3,259	4,314	Pension	3,317	384
			Lump Sum	1,452	18
Councillor Kieron Green	3,292	-	Pension	1,599	-
			Lump Sum	-	-
Councillor David Kinniburgh	4,617	4,572	Pension	3,538	620
			Lump Sum	1,480	71
Councillor Roddy McCuish	3,850	3,811	Pension	3,439	479
			Lump Sum	1,517	37
Councillor Aileen Morton	4,617	4,572	Pension	2,051	554
			Lump Sum	-	-
Councillor Ellen Morton	4,617	4,572	Pension	3,784	601
			Lump Sum	1,622	59
Councillor Gary Mulvaney	3,849	3,811	Pension	3,204	497
			Lump Sum	1,380	46

Councillors Len Scoullar, Dick Walsh, Douglas Philand, The Late Duncan MacIntyre, Robert E McIntyre, Alex McNaughton and Alistair MacDougall are not members of Strathclyde Pension Fund.

## SENIOR EMPLOYEES' PENSION BENEFITS

The pension entitlements for senior employees for the year to 31 March 2017 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.

During 2016-17, £4,114 (2015-16 - £23,233) was contributed to the former Chief Executive's (Sally Louden) pension. Her accrued pension benefits at 31 March 2016 were a pension of £38,777 and a lump sum of £74,049.

Senior Officers	In-year pension contributions			Accrued pension benefits	
	For year to 31 March 2017 £	For year to 31 March 2016 £		As at 31 March 2017 £	Difference from 31 March 2016 £
<b>Chief Executive</b> - Cleland Sneddon	22,214	18,498	Pension	44,430	10,020
			Lump Sum	84,582	15,989
<b>Acting Executive Director of Community Services</b> - Ann Marie Knowles	17,719	-	Pension	40,611	11,799
			Lump Sum	82,918	22,130
<b>Executive Director of Customer Services</b> - Douglas Hendry	18,717	18,498	Pension	46,033	2,433
			Lump Sum	97,129	962
<b>Executive Director of Development and Infrastructure Services</b> - Pippa Milne	18,717	18,498	Pension	40,070	2,375
			Lump Sum	79,236	785
<b>Head of Strategic Finance (Section 95 Financial Officer)</b> - Kirsty Flanagan	13,859	11,512	Pension	16,792	1,631
			Lump Sum	20,735	205
<b>Head of Children and Families (Section 3 Social Work Officer)</b> - Louise Long	13,859	13,697	Pension	6,593	1,531
			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:

No	2015/16			Exit Package Cost Band	No	2016/17		
	Cash Value					Cash Value		
	Compulsory Redundancies	Other Departures	Total Cash Value Cost			Compulsory Redundancies	Other Departures	Total Cash Value Cost
£	£	£	£	£	£	£		
66	306,493	87,436	393,929	£0 - £20,000	45	106,794	225,776	332,570
7	88,677	99,844	188,521	£20,001 - £40,000	5	-	137,480	137,480
8	207,961	178,207	386,168	£40,001 - £60,000	4	44,304	123,899	168,203
1	60,480	-	60,480	£60,001 - £80,000	2	-	127,484	127,484
1	82,076	-	82,076	£80,001 - £100,000	3	98,802	168,669	267,471
1	103,865	-	103,865	£100,001 - £150,000	-	-	-	-
<b>84</b>	<b>849,552</b>	<b>365,487</b>	<b>1,215,039</b>		<b>59</b>	<b>249,900</b>	<b>783,308</b>	<b>1,033,208</b>

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 £1.033m 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 2017 of £0.250m, 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 34 on page 114 provides more information on the exit packages agreed in the last two financial years.



Cllr Aileen Morton  
**Leader**



Cleland Sneddon  
**Chief Executive**

**26 September 2017**

## Expenditure and Funding Analysis

2015-16			Service	2016-17		
Net Expenditure Chargeable to the General Fund £'000	Adjustments between the Funding and Accounting Basis (Note 30) £'000	Net Expenditure in the Comprehensive Income and Expenditure Statement £'000		Net Expenditure Chargeable to the General Fund £'000	Adjustments between the Funding and Accounting Basis (Note 30) £'000	Net Expenditure in the Comprehensive Income and Expenditure Statement £'000
2,167	185	2,352	<b>Chief Executive and Strategic Finance</b>	2,041	100	2,141
			<b>Community Services:</b>			
368	29	397	Executive Director of Community Services	310	15	325
12,737	2,623	15,360	Community and Culture	11,170	2,021	13,191
71,056	26,347	97,403	Education	72,298	8,690	80,988
			<b>Customer Services</b>			
12,706	(137)	12,569	Executive Director of Customer Services	12,932	(182)	12,750
7,687	2,014	9,701	Customer and Support Services	8,310	2,408	10,718
12,097	7,151	19,248	Facility Services	11,907	2,291	14,198
2,014	169	2,183	Governance and Law	2,083	94	2,177
3,408	242	3,650	Improvement and HR	3,177	124	3,301
			<b>Development and Infrastructure Services</b>			
1,246	103	1,349	Executive Director of Development & Infrastructure Services	1,268	54	1,322
4,257	508	4,765	Economic Development	3,886	566	4,452
3,149	375	3,524	Planning and Regulatory Services	3,003	224	3,227
21,326	8,169	29,495	Roads and Amenity Services	20,855	9,858	30,713
57,770	2,900	60,670	<b>Health and Social Care Integration</b>	56,208	3,184	59,392
119	342	461	<b>Other Non-Departmental Costs</b>	(48)	518	470
<b>212,107</b>	<b>51,020</b>	<b>263,127</b>	<b>Net Cost of Services</b>	<b>209,400</b>	<b>29,965</b>	<b>239,365</b>

## Expenditure and Funding Analysis

(218,457)	(25,245)	(243,702)	Other Income and Expenditure	(210,472)	(24,255)	(234,727)
<b>(6,350)</b>	<b>25,775</b>	<b>19,425</b>	<b>(Surplus) / Deficit</b>	<b>(1,072)</b>	<b>5,710</b>	<b>4,638</b>
<b>(46,067)</b>			<b>Opening General fund Balance</b>	<b>(52,417)</b>		
(6,350)			Plus (Surplus) or Deficit on General Fund Balance	(1,072)		
<b>(52,417)</b>			<b>Closing General Fund Balance at 31 March 2017</b>	<b>(53,489)</b>		

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.

# Statement of Comprehensive Income and Expenditure

2015-16			Service	Note	2016-17		
Gross Expenditure £'000	Gross Income (Note 6.2) £'000	Net Expenditure £'000			Gross Expenditure £'000	Gross Income (Note 6.2) £'000	Net Expenditure £'000
2,489	137	2,352	<b>Chief Executive and Strategic Finance</b>		2,268	127	2,141
			<b>Community Services:</b>				
397	-	397	Executive Director of Community Services		325	-	325
20,663	5,303	15,360	Community and Culture		19,057	5,866	13,191
100,864	3,461	97,403	Education		84,614	3,626	80,988
			<b>Customer Services</b>				
14,772	2,203	12,569	Executive Director of Customer Services		15,001	2,251	12,750
35,208	25,507	9,701	Customer and Support Services		36,081	25,363	10,718
32,203	12,955	19,248	Facility Services		27,223	13,025	14,198
2,548	365	2,183	Governance and Law		2,551	374	2,177
3,700	50	3,650	Improvement and HR		3,379	78	3,301
			<b>Development and Infrastructure Services</b>				
1,349	-	1,349	Executive Director of Development & Infrastructure Services		1,322	-	1,322
7,459	2,694	4,765	Economic Development		5,519	1,067	4,452
6,056	2,532	3,524	Planning and Regulatory Services		5,797	2,570	3,227
64,082	34,587	29,495	Roads and Amenity Services		65,894	35,181	30,713
72,161	11,491	60,670	<b>Health and Social Care Integration</b>		136,580	77,188	59,392
482	21	461	<b>Other Non-Departmental Costs</b>		1,557	1,087	470
<b>364,433</b>	<b>101,306</b>	<b>263,127</b>	<b>Net Cost of Services</b>	6.3	<b>407,168</b>	<b>167,803</b>	<b>239,365</b>

## Statement of Comprehensive Income and Expenditure

		<b>Other Operating Income and Expenditure:</b>	
	323	Net (Gain)/loss on Disposal of Long Term Assets	266
	1,373	Other Operating Income and Expenditure	1,339
	<b>1,696</b>	<b>Total Other Operating Income and Expenditure</b>	<b>1,605</b>
		<b>Financing and Investment Income and Expenditure:</b>	
	16,994	Interest Payable and Similar charges	16,133
	(2,514)	Interest and Investment Income	(3,627)
	4,730	Net Pension Interest Expense	3,367
	<b>19,210</b>	<b>Total Financing and Investment Income and Expenditure</b>	<b>15,873</b>
		<b>Taxation and Non-Specific Grant Income:</b>	
	(176,473)	General Government Grants	(166,251)
	(16,922)	Government Capital Grants and Other Capital Contributions	(11,375)
	(27,840)	Non-domestic Rates Redistribution	(30,446)
	-	Non-domestic Rates TIF	(82)
	(43,373)	Council Tax Income	(44,051)
	<b>(264,608)</b>	<b>Total Taxation and Non-Specific Grant Income</b>	<b>(252,205)</b>
	<b>19,425</b>	<b>Deficit on Provision of Services</b>	<b>4,638</b>
	(578)	(Surplus)/Deficit on revaluation of Long Term Assets	(1,290)
	(61,209)	Other Post Employment Benefits (Pensions)	48,407
	<b>(61,787)</b>	<b>Other Comprehensive Income and Expenditure</b>	<b>47,117</b>
	<b>(42,362)</b>	<b>Total Comprehensive Income and Expenditure</b>	<b>51,755</b>

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.

31 March 2016		Note	31 March 2017	
£'000	£'000		£'000	£'000
		<b>Long Term Assets</b>		
		<b>Property Plant &amp; Equipment</b>	14	
258,485		- Other Land and Buildings		250,590
10,687		- Vehicles, Plant, Furniture and Equipment		9,207
201,164		- Infrastructure Assets		200,944
1,868		- Community Assets		2,271
2,817		- Surplus Assets		2,907
15,486		- Assets Under Construction		24,366
	<b>490,507</b>	<b>Total Property Plant &amp; Equipment</b>		<b>490,285</b>
	1,539	Heritage Assets	15	1,671
	577	Intangible Assets	16	728
	8,094	Investment Property	17	11,021
	491	Long Term Investments	25	492
	4,897	Long-Term Debtors	20	4,926
	<b>506,105</b>	<b>Total Long Term Assets</b>		<b>509,123</b>
		<b>Current Assets</b>		
555		Inventories		529
18,106		Short Term Debtors (Net of Impairment)	21	16,063
2,381		Assets Held for Sale	22	691
35,019		Short Term Investments		52,500
7,940		Cash and Cash Equivalents	23	7,889
	<b>64,001</b>	<b>Total Current Assets</b>		<b>77,672</b>
		<b>Current Liabilities</b>		
(18,303)		Short-term Borrowing	25	(14,298)
(31,915)		Short-term Creditors	24	(29,770)
-		Capital Grant Receipts in Advance	28	(567)
(2,675)		Provisions	27	(1,818)
(1,935)		Other Short Term Liabilities	26	(2,008)
	<b>(54,828)</b>	<b>Total Current Liabilities</b>		<b>(48,461)</b>
		<b>Long-term Liabilities</b>		
(141,519)		Borrowing Repayable within a Period in Excess of 12 Months	25	(157,937)
(74,809)		Other Long-term liabilities	26	(72,801)
(1,190)		Provisions	27	(1,255)
-		Capital Grant Receipts in Advance	28	(5,000)
(94,441)		Other Long-term liabilities (Pensions)	29	(149,777)
	<b>(311,959)</b>	<b>Total Long-term Liabilities</b>		<b>(386,770)</b>
	<b>203,319</b>	<b>Total Assets less Liabilities</b>		<b>151,564</b>



31 March 2016		Note	31 March 2017	
£'000	£'000		£'000	£'000
		<b>Unusable Reserves</b>		
54,847		- Revaluation Reserve	56,033	
194,492		- Capital Adjustment Account	195,007	
(4,165)		- Financial Instruments Adjustment Account	(3,836)	
(94,441)		- Pensions Reserve	(149,777)	
(4,529)		- Accumulated Absences Account	(4,312)	
	<b>146,204</b>			<b>93,115</b>
		<b>Usable Reserves</b>		
4,027		- Capital Funds	4,064	
671		- Repairs and Renewals Funds	896	
52,417		- General Fund Balance	53,489	
	<b>57,115</b>			<b>58,449</b>
	<b>203,319</b>	<b>Total Reserves</b>		<b>151,564</b>

The Balance Sheet is a snapshot of the value as at the 31 March 2017 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 2017 and the Audited Annual Accounts were authorised for issue on 26 September 2017.

*Kirsty Flanagan*

**Kirsty Flanagan**  
**Head of Strategic Finance**  
**26 September 2017**

## Statement of Movement in Reserves

Movements in 2016-17	Usable Reserves (Note 32)				Unusable Reserves (Note 31)						Total Reserves	
	General Fund Balance	Repairs and Renewals Fund		Capital Funds	Total Usable Reserves	Revaluation Reserve	Capital Adjustment Account	Pensions Reserve	Financial Instrument Adjustment Account	Accumulated Absences Account		Total Unusable Reserves
		£'000	£'000									
<b>Balance at 31 March 2016</b>	<b>(52,417)</b>	<b>(671)</b>	<b>(4,027)</b>	<b>(57,115)</b>	<b>(54,847)</b>	<b>(194,492)</b>	<b>94,441</b>	<b>4,165</b>	<b>4,529</b>	<b>(146,204)</b>	<b>(203,319)</b>	
(Surplus)/Deficit on Provision of Services	4,638			4,638						-	4,638	
Other Comprehensive Income and Expenditure					(1,290)		48,407				47,117	
<b>Total Comprehensive Income and Expenditure</b>	<b>4,638</b>	<b>-</b>	<b>-</b>	<b>4,638</b>	<b>(1,290)</b>	<b>-</b>	<b>48,407</b>	<b>-</b>	<b>-</b>	<b>47,117</b>	<b>51,755</b>	
<b>Adjustments between accounting basis and funding basis under regulations:</b>												
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 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 Statement	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	-	

## Statement of Movement in Reserves

Statutory Repayment of Debt - Loans Fund Advances	12,105			<b>12,105</b>		(12,105)				(12,105)	-
Statutory Repayment of Debt - NPDO Finance	1,935			<b>1,935</b>		(1,935)				(1,935)	-
<b>Total Statutory Adjustments</b>	<b>(5,981)</b>	-	(1,613)	<b>(7,594)</b>	<b>104</b>	<b>1,107</b>	<b>6,929</b>	<b>(329)</b>	<b>(217)</b>	<b>7,594</b>	<b>-</b>
<b>Net (Increase)/Decrease before Transfers to Other Statutory Reserves</b>	<b>(1,343)</b>	-	(1,613)	<b>(2,956)</b>	<b>(1,186)</b>	<b>1,107</b>	<b>55,336</b>	<b>(329)</b>	<b>(217)</b>	<b>54,711</b>	<b>51,755</b>
<i>Other Transfers required by Statute</i>											
Transfer to/from Other Statutory Reserves	271	(225)	1,576	1,622		(1,622)				(1,622)	-
<b>(Increase)/Decrease in Year</b>	<b>(1,072)</b>	<b>(225)</b>	<b>(37)</b>	<b>(1,334)</b>	<b>(1,186)</b>	<b>(515)</b>	<b>55,336</b>	<b>(329)</b>	<b>(217)</b>	<b>53,089</b>	<b>51,755</b>
<b>Balance at 31 March 2017 Carried Forward</b>	<b>(53,489)</b>	<b>(896)</b>	<b>(4,064)</b>	<b>(58,449)</b>	<b>(56,033)</b>	<b>(195,007)</b>	<b>149,777</b>	<b>3,836</b>	<b>4,312</b>	<b>(93,115)</b>	<b>(151,564)</b>

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.

## Statement of Movement in Reserves

Comparative Movements in 2015-16	Usable Reserves (Note 32)				Unusable Reserves (Note 31)						
	General Fund Balance	Repairs and Renewals Fund		Capital Funds	Total Usable Reserves	Revaluation Reserve	Capital Adjustment Account	Pensions Reserve	Financial Instrument Adjustment Account	Accumulated Absences Account	Total Unusable Reserves
		£'000	£'000								
<b>Balance at 31 March 2015</b>	(46,067)	(669)	(3,742)	(50,478)	(55,224)	(209,599)	144,738	4,516	5,090	(110,479)	
(Surplus)/Deficit on Provision of Services	19,425			19,425						-	
Other Comprehensive Expenditure and Income					(578)		(61,209)			(61,787)	
<b>Total Comprehensive Expenditure and Income</b>	<b>19,425</b>	<b>-</b>	<b>-</b>	<b>19,425</b>	<b>(578)</b>	<b>-</b>	<b>(61,209)</b>	<b>-</b>	<b>-</b>	<b>(61,787)</b>	
<b>Adjustments between accounting basis and funding basis under regulations:</b>											
Adjustment between CAA and Revaluation Reserve for depreciation that is related to the revaluation balance rather than historic cost.				-	955	(955)					-
Amortisation of Intangible Assets	(118)			(118)		118					118
Depreciation and of Non-current Assets	(20,700)			(20,700)		20,700					20,700
Impairment of Non-current Assets	(25,006)			(25,006)		25,006					25,006
Capital Grants and Contributions credited to the Comprehensive Income and Expenditure	16,922			16,922		(16,922)					(16,922)
Capital Expenditure Charged to the General Fund	743			743		(743)					(743)
Net Gain or Loss on Sale of Non-current Assets	(323)		(652)	(975)		975					975
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	351			351				(351)			(351)
Employee Benefits	561			561					(561)		(561)
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under pension scheme regulations	(10,912)			(10,912)			10,912				10,912

## Statement of Movement in Reserves

Statutory Repayment of Debt - Loans Fund Advances	10,792			<b>10,792</b>		(10,792)				<b>(10,792)</b>	-
Statutory Repayment of Debt - NPDO Finance	1,877			<b>1,877</b>		(1,877)				<b>(1,877)</b>	-
<b>Total Statutory Adjustments</b>	<b>(25,813)</b>	-	(652)	<b>(26,465)</b>	<b>955</b>	<b>15,510</b>	<b>10,912</b>	<b>(351)</b>	<b>(561)</b>	<b>26,465</b>	-
<b>Net (Increase)/Decrease before Transfers to Other Statutory Reserves</b>	<b>(6,388)</b>	-	(652)	<b>(7,040)</b>	<b>377</b>	<b>15,510</b>	<b>(50,297)</b>	<b>(351)</b>	<b>(561)</b>	<b>(35,322)</b>	<b>(42,362)</b>
<i>Other Transfers required by Statute</i>											
Transfer to/from Other Statutory Reserves	38	(2)	367	<b>403</b>		(403)				<b>(403)</b>	-
<b>(Increase)/Decrease in Year</b>	<b>(6,350)</b>	<b>(2)</b>	<b>(285)</b>	<b>(6,637)</b>	<b>377</b>	<b>15,107</b>	<b>(50,297)</b>	<b>(351)</b>	<b>(561)</b>	<b>(35,725)</b>	<b>(42,362)</b>
<b>Balance at 31 March 2016 Carried Forward</b>	<b>(52,417)</b>	<b>(671)</b>	<b>(4,027)</b>	<b>(57,115)</b>	<b>(54,847)</b>	<b>(194,492)</b>	<b>94,441</b>	<b>4,165</b>	<b>4,529</b>	<b>(146,204)</b>	<b>(203,319)</b>

This Statement shows the movement in the 2015-16 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.

2015-16 £'000		Note	2016-17 £'000
19,425	<b>Net Deficit on the Provision of Services</b>		4,638
(35,867)	Adjustments to net surplus or deficit on the provision of services for non-cash movements		(19,151)
4,640	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		3,777
<b>(11,802)</b>	<b>Net Cash OutFlow from Operating Activities</b>	38	<b>(10,736)</b>
9,799	Investing Activities	39	18,915
17,909	Financing Activities	40	(8,128)
<b>15,906</b>	<b>Net Decrease in Cash and Cash Equivalents</b>		<b>51</b>
(23,846)	Cash and Cash Equivalents at the beginning of the Reporting Period		(7,940)
<b>(7,940)</b>	<b>Cash and Cash Equivalents at the end of the Reporting Period</b>	23	<b>(7,889)</b>

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 1.1 General Principles

The Annual Accounts summarise the Council's transactions for the 2016-17 financial year and its position at the year-end of 31 March 2017. 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 2016-17), 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 2.6% (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 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 or 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 second 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 2017 for 2017/18).

- Amendments to the reporting of pension fund scheme transaction costs.
- Amendments to the reporting of investment concentration (see paragraph 6.5.5.1 (m) of the 2017-18 Code).

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 two 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 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 2017 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 2016-17 financial statements in respect of the holiday pay accrual is £4.312m.

#### **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 2017 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.	<p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.</p> <p>It is estimated that the annual depreciation charge for buildings would increase by £2.4m for every year that useful lives had to be reduced.</p>															
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.	<p>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:</p> <table border="1" data-bbox="1223 895 2136 1406"> <thead> <tr> <th data-bbox="1223 895 1641 1062">Sensitivities at 31 March 2017</th> <th data-bbox="1641 895 1888 1062">Approximate % Increase to Employer Obligation</th> <th data-bbox="1888 895 2136 1062">Approximate monetary amount £'000</th> </tr> </thead> <tbody> <tr> <td data-bbox="1223 1062 1641 1150">0.5% decrease in real discount rate</td> <td data-bbox="1641 1062 1888 1150">10%</td> <td data-bbox="1888 1062 2136 1150">81,288</td> </tr> <tr> <td data-bbox="1223 1150 1641 1238">1 year increase in member life expectancy</td> <td data-bbox="1641 1150 1888 1238">3-5%</td> <td data-bbox="1888 1150 2136 1238">26,759 - 40,644</td> </tr> <tr> <td data-bbox="1223 1238 1641 1326">0.5% increase in salary increase rate</td> <td data-bbox="1641 1238 1888 1326">3%</td> <td data-bbox="1888 1238 2136 1326">26,759</td> </tr> <tr> <td data-bbox="1223 1326 1641 1406">0.5% increase in pension increase rate</td> <td data-bbox="1641 1326 1888 1406">7%</td> <td data-bbox="1888 1326 2136 1406">52,139</td> </tr> </tbody> </table>	Sensitivities at 31 March 2017	Approximate % Increase to Employer Obligation	Approximate monetary amount £'000	0.5% decrease in real discount rate	10%	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
Sensitivities at 31 March 2017	Approximate % Increase to Employer Obligation	Approximate monetary amount £'000															
0.5% decrease in real discount rate	10%	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															

## Notes to the Financial Statements



Arrears	At 31 March 2017, the Council had a balance of sundry debtors of £2.930m. A review of significant balances suggested an allowance of 23.9% (£0.703m) 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 £0.290m.
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### 5. TRANSFERS TO/FROM EARMARKED RESERVES

The Council has ring-fenced £41.519m of the balance on the General Fund as follows:

Ring-fenced Balances	Balance 1 April 2016 £'000	Funds Used £'000	Contributions to/from Funds £'000	New Earmarking agreed 2016-17 £'000	New Earmarking at end of 2016-17 £'000	Balance 31 March 2017 £'000
Revenue from Additional Council Tax on Second Homes (Strategic Housing Fund)	6,581	(2,359)	-	-	1,955	6,177
Unspent Grants	874	(575)	-	-	245	544
Contributions Carried Forward	277	(91)	-	-	105	291
Unspent Budget Carried Forward	7,079	(1,996)	(400)	172	2,865	7,720
School Budget Carry Forwards	1,209	(1,210)	-	-	1,034	1,033
Unspent Budget Required for Existing Legal Commitments	1,186	(144)	-	-	-	1,042
CHORD	96	-	-	-	144	240
Revenue Contribution to Capital (Dunoon and Campbeltown Schools)	2,805	-	-	-	-	2,805
Investment in Affordable Housing	5,000	-	-	-	-	5,000
Severance Costs	3,500	(1,179)	-	-	-	2,321
Helensburgh Waterfront	5,579	-	-	-	-	5,579
Argyll, Lomond and the Islands Regeneration Initiative	4,500	(47)	-	-	-	4,453
Asset Management	2,492	-	-	-	-	2,492
Energy Efficiency Fund	175	(82)	-	-	43	136
Transformation	100	(17)	-	-	-	83
Scottish Government Initiatives	-	(79)	410	-	343	674
Other	1,819	(835)	(56)	-	1	929
<b>Total Ring-fenced</b>	<b>43,272</b>	<b>(8,614)</b>	<b>(46)</b>	<b>172</b>	<b>6,735</b>	<b>41,519</b>
Contingency	4,743	-	(72)	-	-	4,671
Budget Smoothing in 2019-20	-	-	-	4,000	-	4,000
Unallocated	4,402	-	(1,103)	-	-	3,299
<b>Total General Fund Balance</b>	<b>52,417</b>	<b>(8,614)</b>	<b>(1,221)</b>	<b>4,172</b>	<b>6,735</b>	<b>53,489</b>

The contingency balance of £4.671m is 2% of the Council's budgeted net expenditure for 2017-18.



### 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	2016-17 £'000	2015-16 £'000
<b>Expenditure</b>		
Employee benefits expenses	140,953	141,889
Other services expenses	187,725	189,149
Contribution to Argyll and Bute Integration Joint Board	60,787	-
Depreciation, amortisation, impairment	17,703	33,395
Interest payments	19,500	21,724
Precepts and levies	1,316	1,282
Other operating expenditure	23	91
Net Loss/(Gain) on the disposal of assets	266	323
<b>Total Expenditure</b>	<b>428,273</b>	<b>387,853</b>
<b>Income</b>		
Fees, charges and other service income (External) - <i>Note 6.2</i>	(75,988)	(70,328)
Fees, charges and other service income (Internal) - <i>Note 6.2</i>	(31,028)	(30,978)
Income to fund social care services (Argyll and Bute Integration Joint Board)	(60,787)	-
Interest and investment income	(3,627)	(2,514)
Income from council tax and non-domestic rates	(74,579)	(71,213)
Government grants and contributions	(177,626)	(193,395)
<b>Total Income</b>	<b>(423,635)</b>	<b>(368,428)</b>
<b>Deficit on the Provision of Services</b>	<b>4,638</b>	<b>19,425</b>

**6.2 Income Analysis based on Management Structure**

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

2015-16			Service	2016-17		
Fees, Charges & Other Service Income				Fees, Charges & Other Service Income		
External £'000	Internal £'000	Total £'000		External £'000	Internal £'000	Total £'000
-	137	137	<b>Chief Executive and Strategic Finance</b>	-	127	127
			<b>Community Services:</b>			
5,229	75	5,304	Community and Culture	5,792	74	5,866
3,032	430	3,462	Education	3,263	363	3,626
			<b>Customer Services</b>			
29	2,174	2,203	Executive Director of Customer Services	37	2,215	2,252
25,137	369	25,506	Customer and Support Services	25,017	346	25,363
5,048	7,908	12,956	Facility Services	5,130	7,895	13,025
365	-	365	Governance and Law	373	-	373
45	5	50	Improvement and HR	78	-	78
			<b>Development and Infrastructure Services</b>			
1	145	146	Executive Director of Development & Infrastructure Services	4	122	126
2,376	318	2,694	Economic Development	749	192	941
2,525	7	2,532	Planning and Regulatory Services	2,534	36	2,570
15,324	19,117	34,441	Roads and Amenity Services	15,912	19,269	35,181
			<b>Health and Social Care Integration</b>			
11,197	293	11,490	Social Care Services	16,012	389	16,401
20	-	20	<b>Other Non-Departmental Income</b>	1,087	-	1,087
<b>70,328</b>	<b>30,978</b>	<b>101,306</b>	<b>Total Income analysed on a management structure basis</b>	<b>75,988</b>	<b>31,028</b>	<b>107,016</b>

## Notes to the Financial Statements

### 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 is a new requirement under the 2016-17 Accounting Code of Practice. In previous year's 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.

2015-16			Service	2016-17		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
130,339	7,198	123,141	Education Services	113,276	6,922	106,354
36,436	28,612	7,824	Housing Services (Non-HRA)	33,782	27,428	6,354
13,111	2,189	10,922	Cultural and Related Services	12,064	2,143	9,921
22,618	4,375	18,243	Environmental Services	23,724	4,724	19,000
24,726	6,712	18,014	Roads and Transport Services	25,391	6,850	18,541
8,092	4,691	3,401	Trading Services	8,716	5,637	3,079
11,626	5,288	6,338	Planning and Development Services	7,806	2,724	5,082
77,788	11,660	66,128	Social Work	80,191	17,378	62,813
			Central Services:			
5,199	146	5,053	- Corporate and Democratic Core	4,717	167	4,550
2,354	29	2,325	- Non Distributed Costs	1,985	4	1,981
2,987	1,249	1,738	- Central Services to the Public	2,989	1,299	1,690
<b>335,276</b>	<b>72,149</b>	<b>263,127</b>	<b>Net Cost of Services</b>	<b>314,641</b>	<b>75,276</b>	<b>239,365</b>

## Notes to the Financial Statements

### 7. OTHER OPERATING INCOME AND EXPENDITURE

The expenditure of £1.339m 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	2016-17 Actual £'000	2015-16 Actual £'000
Dunbartonshire and Argyll & Bute Valuation Joint Board Requisition	1,316	1,282
Equal Pay Settlements and Legal Costs	15	52
Other Operating Income and Expenditure not attributable to Services	8	39
<b>Total</b>	<b>1,339</b>	<b>1,373</b>

### 8. AGENCY INCOME

The Council have an on-going agency agreement with Scottish Water to collect domestic water and sewerage charges. During 2016-17 income from this agreement amounted to £0.309m (2015-16 £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 121 to 122.

### 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 2016-17 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 2016-17 income received by the Council from this source amounted to £6.495m and the related expenditure was £8.985m. This can be analysed as follows.

Purpose of Services	Income £'000	Expenditure £'000
Care of the Elderly	2,746	4,327
Provision of Services for People with Learning Disabilities	2,447	3,093
Provision of Services for People with Mental Health Needs	1,302	1,565
<b>Total</b>	<b>6,495</b>	<b>8,985</b>

### 10. FEES PAYABLE TO AUDIT SCOTLAND

In 2016-17 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
<b>Total Remuneration</b>	<b>256</b>	<b>262</b>

The fee for 2016-17 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 £5.042m (2015-16 £4.890m) which represents the value of the service provided from 1 April 2016 to 31 March 2017. Under the agreement the Council is committed to paying the following sums:

Future Repayment Periods	£'000
2017 - 2018	5,748
2018 - 2023	31,002
2023 - 2027	23,207
<b>Total</b>	<b>59,957</b>

This 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 2016-17:

Grant Income	2016-17 £'000	2015-16 £'000
<b>Credited to Taxation and Non Specific Grant Income</b>		
Revenue Support Grant	166,251	176,473
Non Domestic Rates	30,446	27,840
Specific Capital Grant	76	131
General Capital Grant	9,465	13,514
Coastal Communities Fund	600	-
SUSTRANS	-	109
Scottish Government - Regeneration Capital Grant Fund	300	675
Strathclyde Partnership for Transport (SPT)	171	537
Other Grants	746	1,810
Other Government Capital Grants	17	146
<b>Total</b>	<b>208,072</b>	<b>221,235</b>
<b>Credited to Services</b>		
Scottish Government Specific Grants	365	370
General Capital Grant - Private Sector Housing Improvement Grants	1,409	1,977
General Capital Grant - Economic Development	157	-
Housing Benefit Subsidy	22,983	23,280
Other Revenue Government Grants	1,569	1,372
<b>Total</b>	<b>26,483</b>	<b>26,999</b>

## Notes to the Financial Statements

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### 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 2016-17 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	17
MacDougall's Garage	33

## 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	3,420
<i>Of these, transactions with the following exceeded £10,000:</i>	
Visit Scotland	111
Scotland Excel	73
Convention of Scottish Local Authorities (COSLA)	72
West Highland Housing Association Ltd	540
Argyll Community Housing Association (ACHA)	1,067
Link Group Ltd	60
Fyne Homes Ltd	216
Oban Addiction Support and Information Services (OASIS)	21
Argyll and Bute Citizens Advice Bureau	44
Kintyre Recycling	179
RE-JIG (Recycling)	15
Fyne Futures	147
SEEMIS	166
South Kintyre Development Trust	61
Islay and Jura Community Enterprise	94
Mid Argyll Community Enterprise	78
Oban and Lorn Community Enterprise - Atlantis Leisure	459
<b>Total</b>	<b>3,403</b>

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.

## Notes to the Financial Statements

### 14. PROPERTY, PLANT AND EQUIPMENT

#### 14.1 Movement in Property, Plant and Equipment

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
<b>Cost or Valuation</b>							
<b>At 1 April 2016</b>	<b>277,214</b>	<b>31,517</b>	<b>263,226</b>	<b>1,870</b>	<b>2,821</b>	<b>15,486</b>	<b>592,134</b>
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)
<b>At 31 March 2017</b>	<b>273,916</b>	<b>34,148</b>	<b>269,553</b>	<b>2,280</b>	<b>2,911</b>	<b>24,366</b>	<b>607,174</b>
<b>Depreciation and Impairments</b>							
<b>At 1 April 2016</b>	<b>(18,729)</b>	<b>(20,830)</b>	<b>(62,062)</b>	<b>(2)</b>	<b>(4)</b>	<b>-</b>	<b>(101,627)</b>
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
<b>At 31 March 2017</b>	<b>(23,326)</b>	<b>(24,941)</b>	<b>(68,609)</b>	<b>(9)</b>	<b>(4)</b>	<b>-</b>	<b>(116,889)</b>
<b>Balance Sheet amount at 1 April 2017</b>	<b>250,590</b>	<b>9,207</b>	<b>200,944</b>	<b>2,271</b>	<b>2,907</b>	<b>24,366</b>	<b>490,285</b>
<b>Balance Sheet amount at 1 April 2016</b>	<b>258,485</b>	<b>10,687</b>	<b>201,164</b>	<b>1,868</b>	<b>2,817</b>	<b>15,486</b>	<b>490,507</b>



## Notes to the Financial Statements

Comparative Movements in 2015-16	Other Land & Buildings £'000	Vehicles Plant & Equipment £'000	Infra-structure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total 2014-15 £'000
<b>Cost or Valuation</b>							
<b>At 1 April 2015</b>	<b>299,883</b>	<b>28,824</b>	<b>245,190</b>	<b>1,671</b>	<b>4,228</b>	<b>30,223</b>	<b>610,019</b>
Additions	4,716	3,075	5,017	199	49	14,390	27,446
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(8,181)	-	-	-	323	274	(7,584)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(27,772)	-	(51)	-	221	-	(27,602)
Derecognition - Disposals	(724)	(636)	(4,983)	-	(312)	(2)	(6,657)
Assets reclassified (to)/from Held for Sale	9,292	-	-	-	(1,688)	-	7,604
Other movements in cost or valuation	-	254	18,053	-	-	(29,399)	(11,092)
<b>At 31 March 2016</b>	<b>277,214</b>	<b>31,517</b>	<b>263,226</b>	<b>1,870</b>	<b>2,821</b>	<b>15,486</b>	<b>592,134</b>
<b>Depreciation and Impairments</b>							
<b>At 1 April 2015</b>	<b>(18,566)</b>	<b>(17,736)</b>	<b>(61,205)</b>	<b>(2)</b>	<b>(236)</b>	<b>-</b>	<b>(97,745)</b>
Depreciation Charge for 2015-16	(11,330)	(3,718)	(5,789)	-	(119)	-	(20,956)
Depreciation written out to the Revaluation Reserve	-	-	-	-	186	-	186
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	3,302	-	-	-	1	-	3,303
Derecognition - Disposals	7,614	624	4,932	-	114	-	13,284
Other movements in depreciation and impairment	251	-	-	-	50	-	301
<b>At 31 March 2016</b>	<b>(18,729)</b>	<b>(20,830)</b>	<b>(62,062)</b>	<b>(2)</b>	<b>(4)</b>	<b>-</b>	<b>(101,627)</b>
<b>Balance Sheet amount at 1 April 2016</b>	<b>258,485</b>	<b>10,687</b>	<b>201,164</b>	<b>1,868</b>	<b>2,817</b>	<b>15,486</b>	<b>490,507</b>
<b>Balance Sheet amount at 1 April 2015</b>	<b>281,317</b>	<b>11,088</b>	<b>183,985</b>	<b>1,669</b>	<b>3,992</b>	<b>30,223</b>	<b>512,274</b>

## Notes to the Financial Statements

### 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 2017 was £2.907m. 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 2017 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 2017	30,054
31 March 2016	49,179
31 March 2015	35,769
31 March 2014	34,676
31 March 2013	100,912
<b>Total Cost or Valuation</b>	<b>250,590</b>

## Notes to the Financial Statements

### 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 2016-17 total spending on capital projects was £27.061m.

	2016-17 £'000	2015-16 £'000
<b>Opening Capital Financing Requirement</b>	<b>253,896</b>	<b>257,556</b>
<b>Capital Investment:</b>		
Property Plant and Equipment:		
Other Land and Buildings	12,826	4,716
Vehicles, Plant, Furniture and Equipment	1,463	3,075
Infrastructure Assets	5,805	5,017
Community Assets	397	199
Surplus Assets	-	49
Assets Under construction	6,256	14,390
Heritage Assets	32	25
Intangible Assets	282	277
<b>Total Capital Investment</b>	<b>27,061</b>	<b>27,748</b>
<b>Sources of Finance:</b>		
Capital Receipts	(1,613)	(652)
Government Grants	(11,375)	(16,922)
Capital Financed from Current Revenue	(229)	(743)
Repayment of External Loans	(12,105)	(10,792)
Capital Element of Finance Lease Payments	-	-
Capital Element of Schools NPDO Payments	(1,935)	(1,877)
Capital Receipts transferred to Capital Fund	1,613	652
Capital Receipts Used from Capital Fund	(1,576)	(367)
Other	(254)	(707)
<b>Total Funding</b>	<b>(27,474)</b>	<b>(31,408)</b>
<b>Closing Capital Financing Requirement</b>	<b>253,483</b>	<b>253,896</b>

## Notes to the Financial Statements

### 14.5 Commitments under Capital Contracts

At 31 March 2017, the Council had commitments on capital contracts of £32.449m. 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 2016 were £11.458m. The major commitments are:

	£'000
Dunoon Queens Hall	9,602
Dunoon Primary School - Refurbishment	8,571
Kirn Primary School - Replacement	6,025
Oban Maritime Visitor Facility	1,600
Oban Transit Berthing Facility	1,500
Oban High School - Replacement	1,163
Rothesay Pavilion	675
Dunclutha House	520
Sandbank Primary School - Gaelic Early Learning Facility	497
Glengorm Wind Turbine	375
Riverside Leisure Facility	240
Craignish Primary School - Pre 5 Facility	235

### 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 2016-17	Art Collections £'000	Heritage Property £'000	Total £'000
<b>Cost or Valuation</b>			
<b>Net Book Value at 1 April 2016</b>	<b>1,316</b>	<b>223</b>	<b>1,539</b>
Additions	-	32	32
Disposals	-	-	-
Revaluations	-	-	-
Impairment Losses/(Reversals) recognised in the Revaluation Reserve	-	-	-
Transfer from Assets Under Construction	-	100	100
<b>At 31 March 2017</b>	<b>1,316</b>	<b>355</b>	<b>1,671</b>

## Notes to the Financial Statements

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

Comparative Movements in 2015-16	Carbon Reduction Commitment Allowance	Purchased Software Licences	Total Intangible Assets
	£'000	£'000	£'000
<b>Cost or Valuation</b>			
<b>At 1 April 2015</b>	234	1,237	1,471
Additions	242	35	277
Disposals	(234)	-	(234)
Reclassifications	-	5	5
<b>At 31 March 2016</b>	242	1,277	1,519
<b>Depreciation and Impairments</b>			
<b>At 1 April 2015</b>	-	(824)	(824)
Charge for 2015-16	-	(118)	(118)
Disposals	-	-	-
<b>At 31 March 2016</b>	-	(942)	(942)
<b>Balance Sheet amount at 1 April 2016</b>	242	335	577
<b>Balance Sheet amount at 1 April 2015</b>	234	413	647

## 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 2017. Revaluations of investment properties were carried out at 31 March 2017 by external valuers, Ryden LLP.

### 17.1 Movement in Investment Property

The movement in investment property during 2016-17 was:

Movements in 2016-17	Investment Properties £'000
<b>Cost or Valuation</b>	
<b>At 1 April 2016</b>	8,094
Acquisitions	-
Disposals	-
Net Gains/Losses from fair value adjustments	2,645
Transfers	282
<b>At 31 March 2017</b>	11,021

## Notes to the Financial Statements

### 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:

	2016-17 £'000	2015-16 £'000
Rental Income from Investment Property	214	220
Direct operating expenses arising from investment property	(101)	(89)
<b>Net gain/(loss)</b>	<b>113</b>	<b>131</b>

### 18. 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.

#### 18.1 Assets Held under Schools NPDO Contract

Five schools were constructed under the Schools NPDO Contract; Hermitage Academy, Dunoon Grammar, Lochgilphead Joint Campus, Rothesay Joint Campus and Oban Primary Campus. The construction costs of the buildings, adjusted for revaluations on 31 March 2013 and depreciation to date are included as part of Other Land and Buildings as follows:

Movements in 2016-17	Other Land & Buildings £'000
<b>Cost or Valuation</b>	
<b>At 1 April 2016</b>	<b>93,206</b>
Additions	361
Revaluations	-
<b>At 31 March 2017</b>	<b>93,567</b>
<b>Depreciation and Impairments</b>	
<b>At 1 April 2016</b>	<b>(5,105)</b>
Charge for 2016-17	(1,700)
Revaluations	-
<b>At 31 March 2017</b>	<b>(6,805)</b>
<b>Balance Sheet amount at 1 April 2017</b>	<b>86,762</b>
<b>Balance Sheet amount at 1 April 2016</b>	<b>88,101</b>

## Notes to the Financial Statements

### 18.2 Schools NPDO Finance Lease Liability

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

Movements in 2016-17	£'000
<b>Balance at 1 April 2016</b>	<b>(75,994)</b>
Repayments	1,935
<b>Schools NPDO Finance Lease Liability at 31 March 2017</b>	<b>(74,059)</b>
Split:	
Obligations payable within 1 year	(2,008)
Obligations payable after 1 year	(72,051)
<b>Schools NPDO Finance Lease Liability at 31 March 2017</b>	<b>(74,059)</b>

### 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
2017 - 2020	6,392	-	21,896	15,081	43,369
2020 - 2025	14,888	922	31,847	27,888	75,545
2025 - 2030	22,156	2,819	23,135	31,977	80,087
2030 - 2035	30,622	3,102	9,800	32,958	76,482
<b>Total</b>	<b>74,058</b>	<b>6,843</b>	<b>86,678</b>	<b>107,904</b>	<b>275,483</b>

## 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 2016-17 were as follows:

	2016-17 £'000	2015-16 £'000
Land and Buildings	198	198
Vehicles	367	195
Plant and Equipment	162	171
<b>Total</b>	<b>727</b>	<b>564</b>

### 19.2 Assets Held Under Operating Leases

The Council was committed at 31 March 2017 to making payments of £0.528m under operating leases comprising the following elements:

	Other Land and Buildings £'000	Vehicles, Plant and Equipment £'000
Leases expiring within 1 year	14	71
Leases expiring between 1 and 5 years	103	273
Leases expiring after 5 years	67	-
<b>Value at 31 March 2017</b>	<b>184</b>	<b>344</b>



**20. LONG TERM DEBTORS**

	31st March 2017 £'000	31st March 2016 £'000
House Loans	27	37
Waste PPP Historic Contamination Fund	750	750
Charging Orders - Care Home Fees	1,103	1,179
Strategic Housing Fund Loans to Registered Social Landlords	2,946	2,831
Other Long Term Debtors	100	100
<b>Total Long Term Debtors</b>	<b>4,926</b>	<b>4,897</b>

**21. DEBTORS**

		31 March 2017		31 March 2016	
		£'000	£'000	£'000	£'000
Arrears of Local Taxation	Council Tax	14,563		13,970	
	Less: Provision for Bad Debts	(12,002)		(11,383)	
			2,561		2,587
Housing Benefits Overpayments		1,192		1,266	
Less: Provision for Bad Debts		(1,030)		(1,027)	
			162		239
Debtor Accounts		2,930		2,834	
Less: Provision for Bad Debts		(703)		(684)	
			2,227		2,150
Net Debtor to Scottish Government for Non Domestic Rates			945		-
VAT Recoverable from HMRC			3,016		2,999
Strategic Housing Fund Loans due within 1 Year			584		1,005
Other Debtors			6,568		9,126
<b>Total Debtors</b>			<b>16,063</b>		<b>18,106</b>

## Notes to the Financial Statements

### 22. ASSETS HELD FOR SALE

The movement in assets held for sale during 2016-17 was:

Movements	2016-17 £'000	2015-16 £'000
<b>Balance outstanding at start of year</b>	<b>2,381</b>	<b>25</b>
Assets newly classified as held for sale (Property, Plant and Equipment)	134	2,907
Revaluation losses	(45)	-
Revaluation gains	-	26
Impairment losses	-	(564)
Assets declassified as held for sale (Property, Plant and Equipment)	-	(13)
Assets Sold	(1,779)	-
<b>Balance outstanding at year-end</b>	<b>691</b>	<b>2,381</b>

### 23. CASH AND CASH EQUIVALENTS

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

	31 March 2017 £'000	31 March 2016 £'000
Cash held by the Authority	57	64
Cash in transit	125	254
Short term deposits with banks	1,722	688
Short term deposits in Money Market Funds	9,500	10,750
Bank Current Accounts (Overdraft)	(3,515)	(3,816)
<b>Total Cash and Cash Equivalents</b>	<b>7,889</b>	<b>7,940</b>

### 24. CREDITORS

	31 March 2017 £'000	31 March 2016 £'000
Accrued Payrolls and Superannuation	6,288	6,421
Accrued Employer's National Insurance Contributions and PAYE	2,397	2,149
Accrual for Short Term Accumulating Absences	4,312	4,529
Creditors System Liability	4,382	4,865
Accrued Expenditure	4,442	4,226
Other Creditors	7,949	9,725
<b>Total Creditors</b>	<b>29,770</b>	<b>31,915</b>

### 25. FINANCIAL INSTRUMENTS DISCLOSURES

#### 25.1 Types of Financial Instruments

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

	31 March 2017		31 March 2016	
	Long Term £'000	Current £'000	Long Term £'000	Current £'000
<b>Investments and Lending</b>				
Loans and Receivables	5,418	76,452	5,388	61,065
<b>Borrowing</b>				
Financial Liabilities at amortised cost	230,736	46,077	197,073	71,408

#### 25.2 Fair Value of Assets and Liabilities Carried at Amortised Cost

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

- Estimated interest rates at 31 March 2017 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 2017		31 March 2016	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
<b>Lending</b>				
Loans and Receivables	81,870	82,079	66,453	66,521
<b>Borrowing</b>				
Financial Liabilities	276,813	357,378	268,481	326,205

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.

### 25.3 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.

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

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

### 25.5 Credit Risk

Credit risk arises from the short-term lending of surplus funds to banks, 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 2017 £'000	Historical Experience of Non-payment adjusted for Market Conditions at 31 March 2017 %	Estimated Maximum Exposure to Default and Uncollectibility £'000
Deposits with Banks and Money Market Funds	11,222	-	-

The information in respect of the Council's debtors can be found in note 20 and 21 on page 95. The Debtor Accounts represents the amounts owed by the Council's customers; Other Debtors include prepaid expenditure, accrued income and money owed to the Council in respect of projects being carried out under partnerships where the Council is the lead partner. The bad debt provision shown in note 21 represents the Council's assessment of the likely recoverability of the debt outstanding.

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

### 25.6 Liquidity Risk

The Council's main source of borrowing is the Treasury's Public Works Loans Board (PWLB). There is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments. The Council has safeguards in place to ensure that a significant proportion of its borrowings does not mature for repayment at any one time in the future to reduce the financial impact of re-borrowing at a time of unfavourable interest rates. The Council's policy is to ensure that not more than 30% of the loans are due to mature within any financial year 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 2017 £'000	31 March 2016 £'000
Less than one year	46,077	71,408
Between one and two years	7,460	31,872
Between two and five years	18,698	30,020
More than five years	206,578	135,181
	<b>278,813</b>	<b>268,481</b>

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

### 25.7 Market Risk

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

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

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

It is the policy of the Council to limit its exposure to variable rate borrowing to a maximum of 30% of what it borrows.

During periods of falling rates and where it is economically advantageous to do so, the Council will consider the repayment and restructuring of fixed interest rate debt.

The Council takes the daily advice from its specialist treasury advisers and actively monitors changes in interest rates to inform decisions on the lending of surplus funds, new borrowings and restructuring of existing borrowings.

Any potential for a financial impact on the Council is also significantly limited by the Scottish Government’s grant distribution mechanism that automatically adjusts for changes in interest rates in the government grant support the Council receives for “loan charges”.

To illustrate the impact of changes in interest rates upon the Council, the following table shows the financial effect if rates had been 1% higher at 31 March 2017, with all other variables held constant:

Impact on tax-payer	31 March 2017 £'000
Increase on interest payable on variable rate borrowings	36
Increase in interest receivable on variable rate lending	-
Increases in government grant receivable for “loan charges”	-
<b>Net effect on Statement of Comprehensive Income &amp; Expenditure</b>	<b>36</b>

## Notes to the Financial Statements

	31 March 2017 £'000
<b>Other accounting presentational changes</b>	
A decrease in the "fair value" of fixed rate borrowing (disclosure confined to the notes to the financial statements)	43,188

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

### 25.8 Price Risk

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

### 25.9 Foreign Exchange Risk

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

### 25.10 Short-Term Deposits

The short-term 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 2017 £'000	31 March 2016 £'000
Banks and Money Market Funds	11,222	11,438

### 25.11 Soft Loans

There were no soft loans paid out during 2016-17 and there were no amounts outstanding at 31 March 2017 from previous year's soft loans advanced.

### 25.12 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 2017 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 35 and 36 on pages 114 to 115.

	31 March 2017 £'000	31 March 2016 £'000
Common Good	110	110
Trust Funds	728	695

## Notes to the Financial Statements

### 26. OTHER LIABILITIES

Other liabilities consist of liabilities which by arrangement are payable at some point in the future or paid off by an annual sum over a period of time. Other liabilities total £74.809m as at 31 March 2017 and comprise the following:

Movements in 2016-17	Opening Balance 31 March 2016 £'000	Movement in Year £'000	Closing Balance 31 March 2017 £'000
Schools NPDO Finance Lease Liability (See note 18.2)	(75,994)	1,935	(74,059)
Land Contamination	(750)	-	(750)
<b>Total Other Liabilities</b>	<b>(76,744)</b>	<b>1,935</b>	<b>(74,809)</b>
Split:			
Short Term Liabilities (due within 1 year)			(2,008)
Long Term Liabilities (due after 1 year)			(72,801)
<b>Total Other Liabilities</b>			<b>(74,809)</b>

### 27. PROVISIONS

	Opening Balance 31 March 2016 £'000	Additional Provision £'000	Amounts Used £'000	Unused Amounts Reversed £'000	Closing Balance at 31 March 2017 £'000
Equal Pay Claims	(77)	-	70	-	(7)
Income due to Registered Social Landlords	(148)	-	13	-	(135)
Reorganisation Redundancy Costs	(81)	(44)	56	-	(69)
Service Choices Redundancy Costs	(937)	(207)	726	211	(207)
Landfill Sites - Restoration and Aftercare Costs	(1,042)	(78)	-	-	(1,120)
Utilities Provision	(510)	-	-	41	(469)
Other Provisions	(1,070)	(112)	49	67	(1,066)
<b>Total Provisions</b>	<b>(3,865)</b>	<b>(441)</b>	<b>914</b>	<b>319</b>	<b>(3,073)</b>
Split:					
Short Term Provisions (due within 1 year)					(1,818)
Long Term Provisions (due after 1 year)					(1,255)
<b>Total Other Liabilities</b>					<b>(3,073)</b>

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. 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 2016-17 amounted to £1.858m; 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 £0.135m.

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

## Notes to the Financial Statements

Choices. As a result of Service Choices and other savings agreed as part of the budget process for 2017-18, 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 2017, a provision of £0.207m has been created during 2016-17. For further information refer to note 34 - Termination Benefits on page 114.

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 landfill sites were revalued at 31 March 2017 and the provision for restoration and aftercare increased to £1.120m. 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, £0.041m has been reversed during 2016-17 resulting in a total provision of £0.469m.

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 2017-18. Also included within "other" provisions is £0.253m for a potential liability the Council faces from the over claiming of VAT on staff mileage for the period 2012 to 2016 which will require to be repaid to HMRC.

### 28. CAPITAL GRANTS RECEIVED IN ADVANCE

	Opening Balance 31 March 2016 £'000	Capital Grants Received £'000	Amounts Used £'000	Closing Balance 31 March 2017 £'000
Ministry of Defence LIBOR Funding - Helensburgh & Grant in Aid - Gaelic School Capital Fund	-	(5,000)	-	(5,000)
	-	(584)	17	(567)
<b>Total Other Liabilities</b>		<b>(5,584)</b>	<b>17</b>	<b>(5,567)</b>
Split:				
Capital Grant Receipts in Advance (due within 1 year)				(567)
Capital Grant Receipts in Advance (due after 1 year)				(5,000)
<b>Total Other Liabilities</b>				<b>(5,567)</b>

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.



### 29. 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.

#### 29.1 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 2017. These payments have been accrued and are included within the creditors figure on the balance sheet. These have been paid during April 2017. The amounts are as follows:

- Local Government Pension Scheme – £1.311m
- Teachers' scheme – £0.738m

#### 29.2 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 2014. 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 2017 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:

	2016-17 £'000	2015-16 £'000
<b>Comprehensive Income and Expenditure Statement:</b>		
<b>Cost of Services:</b>		
<i>Service cost comprising:</i>		
Current Service Cost	17,268	19,689
Past Service Cost (Including Curtailments)	782	398
<b>Net Cost of Services</b>	<b>18,050</b>	<b>20,087</b>
Net Interest Expense	3,367	4,730
<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	<b>21,417</b>	<b>24,817</b>
<b>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>		
Return on Assets (excluding amounts included in net interest)	(101,991)	3,039
Other Experience (see note (i) below)	866	(8,403)
Change in Financial Assumptions	149,532	(55,845)
<b>Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement</b>	<b>69,824</b>	<b>(36,392)</b>
<b>Statement of Movement in Reserves:</b>		
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(6,929)	(10,912)
<b>Actual Amount charged against the General Fund Balance for pensions in the year:</b>		
Employer's Contributions Payable to the Scheme	14,488	13,905

(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)

### 29.3 Assets and Liabilities in Relation to Post-Employment Benefits

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

	2016-17 £'000	2015-16 £'000
<b>Defined Benefit Obligation at 1 April</b>	<b>612,214</b>	<b>651,859</b>
Current Service Cost	17,268	19,689
Past Service Costs including Curtailments	782	398
Interest Cost	21,467	20,918
Contributions by Scheme Participants	3,786	3,812
Re-measurement Gains and (Losses)	150,398	(64,248)
Estimated Benefits Paid	(19,574)	(20,214)
<b>Defined Benefit Obligation at 31 March</b>	<b>786,341</b>	<b>612,214</b>

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

	2016-17 £'000	2015-16 £'000
<b>Fair Value of Employer Assets at 1 April</b>	<b>517,773</b>	<b>507,121</b>
<b>Re-measurement Gains and (Losses):</b>		
Expected Rate of Return on Pension Fund Assets	101,991	(3,039)
Actuarial Gains and Losses	-	-
Interest Income on Plan Assets	18,100	16,188
Employers Contributions	14,488	13,905
Contributions by Scheme Participants	3,786	3,812
Estimated Benefits Paid	(19,574)	(20,214)
<b>Fair Value of Employer Assets at 31 March</b>	<b>636,564</b>	<b>517,773</b>

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.

## 29.4 Pensions Assets and Liabilities Recognised in the Balance Sheet

	2016-17 £'000	2015-16 £'000
<b>Local Government Pension Scheme</b>		
Present Value of Funded Liabilities	(756,727)	(585,370)
Present Value of Unfunded Liabilities	(29,614)	(26,844)
Fair Value of Employer Assets	636,564	517,773
<b>(Deficit) in the Scheme</b>	<b>(149,777)</b>	<b>(94,441)</b>

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

## 29.5 Analysis of Pension Fund's Assets

Argyll and Bute Council's share of the Pension Fund's assets at 31 March 2017 comprised:

	2016-17 £'000	2015-16 £'000
Cash and Cash Equivalents	23,976	17,842
Equity Instruments (by industry type)		
Consumer	60,206	48,561
Manufacturing	47,786	38,791
Energy and Utilities	18,918	15,256
Financial Institutions	44,299	35,726
Health and Care	25,891	20,888
Information Technology	36,616	29,562
Sub-total Equity Instruments	233,716	188,784
Bonds (by sector)		
Corporate	6	1
Government	-	-
Sub-total Bonds	6	1
Real Estate		
UK Property	76,781	55,624
Overseas Property	-	-
Sub-total Real Estate	76,781	55,624
Private Equity (All)	52,484	50,365
UK		
Investment Funds and Unit Trusts		
Equities	204,664	134,395
Bonds	35,740	63,194
Commodities	428	176
Infrastructure	-	-
Other	8,631	7,267
Sub-total Investment Funds and Unit Trusts	249,463	205,032
Derivatives		
Forward Foreign Exchange Contracts	85	-
Other	53	125
Sub-total Derivatives	138	125
<b>Total Assets</b>	<b>636,564</b>	<b>517,773</b>

Fair Value of Pension Fund Assets	2016-17 £'000	2015-16 £'000
Equity Securities		
Quoted in an Active Market	233,595	188,376
Not Quoted in an Active Market	121	408
<b>Sub-total Equity Securities</b>	<b>233,716</b>	<b>188,784</b>

### 29.6 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	2016-17 Years	2015-16 Years
Longevity at 65 for current pensioners:		
Men	22.1	22.1
Women	23.6	23.6
Longevity at 65 for future pensioners:		
Men	24.8	24.8
Women	26.2	26.2
Financial Assumptions	2016-17 %	2015-16 %
Rate of Inflation (CPI)	2.4%	2.2%
Rate of Increase in Salaries	4.4%	4.2%
Rate of Increase in Pensions (CPI)	2.4%	2.2%
Rate for discounting scheme liabilities	2.6%	3.5%
Long-term Expected Rate of Return on Assets in the Fund	2016-17 %	2015-16 %
Equity Investments	2.6%	3.5%
Bonds	2.6%	3.5%
Property	2.6%	3.5%
Cash	2.6%	3.5%

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

### 29.7 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.

### 29.8 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 2017-2018.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2018 is £12.032m. This is based on an assumed pensionable payroll of £62.341m.

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").

### 29.9 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 2012. The next valuation was 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 2017, the Authority's own contributions equate to 1.49%

	2016-17	2015-16
Amount Paid Over (£'000)	5,729	5,353
Rate of Contribution (%)	17.20%	17.20%
Amount of Added Years Awarded by the Council (£'000)	528	526

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 £5.759m.

## Notes to the Financial Statements

### 30. 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 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
<b>Chief Executive and Strategic Finance</b>	-	100	-	-	100
<b>Community Services:</b>					
Executive Director of Community Services	-	15	-	-	15
Community and Culture	1,750	270	-	1	2,021
Education	8,286	607	-	(203)	8,690
<b>Customer Services</b>					
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
<b>Development and Infrastructure Services</b>					
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
<b>Health and Social Care Integration</b>	2,091	1,093	-	-	3,184
<b>Other Non-Departmental Costs</b>	-	528	-	(10)	518
<b>Net Cost of Services</b>	<b>27,620</b>	<b>4,497</b>	<b>(1,935)</b>	<b>(217)</b>	<b>29,965</b>
Other Income and Expenditure	(26,087)	2,432	-	(600)	(24,255)
<b>Difference between General Fund Surplus and Comprehensive Income and Expenditure Statement Deficit</b>	<b>1,533</b>	<b>6,929</b>	<b>(1,935)</b>	<b>(817)</b>	<b>5,710</b>

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts (Comparative Year)	Adjustments between Funding and Accounting Basis 2015-16				
	Adjustments for Capital Purposes Note (i)	Net change for Pension Adjustments Note (ii)	Capital element of Schools NPDO payment Note (iii)	Other Adjustments Note (iv)	Total Adjustments
	£'000	£'000	£'000	£'000	£'000
<b>Chief Executive and Strategic Finance</b>	-	185	-	-	185
<b>Community Services:</b>					
Executive Director of Community Services	-	29	-	-	29
Community and Culture	2,142	492	-	(11)	2,623
Education	25,763	1,105	-	(521)	26,347
<b>Customer Services</b>					
Executive Director of Customer Services	1,700	40	(1,877)	-	(137)
Customer and Support Services	1,433	581	-	-	2,014
Facility Services	6,590	561	-	-	7,151
Governance and Law	-	169	-	-	169
Improvement and HR	-	242	-	-	242
<b>Development and Infrastructure Services</b>					
Executive Director of Development & Infrastructure Services		103	-	-	103
Economic Development	283	225	-	-	508
Planning and Regulatory Services	2	380	-	(7)	375
Roads and Amenity Services	7,052	1,112	-	5	8,169
<b>Health and Social Care Integration</b>	1,015	1,921	-	(36)	2,900
<b>Other Non-Departmental Costs</b>	-	333	-	9	342
<b>Net Cost of Services</b>	<b>45,980</b>	<b>7,478</b>	<b>(1,877)</b>	<b>(561)</b>	<b>51,020</b>
Other Income and Expenditure from the Expenditure and Funding Analysis	(28,290)	3,434	-	(389)	(25,245)
<b>Difference between General Fund Surplus and Comprehensive Income and Expenditure Statement Deficit</b>	<b>17,690</b>	<b>10,912</b>	<b>(1,877)</b>	<b>(950)</b>	<b>25,775</b>



## Notes to the Financial Statements

### (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.

### 31. UNUSABLE RESERVES

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

#### 31.1 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.

#### 31.2 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.

#### 31.3 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.

#### 31.4 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.

### 31.5 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.

### 32. USABLE RESERVES

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

#### 32.1 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 2016-17	Usable Capital Receipts Reserve £'000	Capital Fund £'000	Total Capital Funds £'000
<b>Balance at 1 April 2016</b>	<b>2,776</b>	<b>1,251</b>	<b>4,027</b>
Proceeds of Disposals	-	1,613	1,613
Transfer to Capital Adjustment Account	-	(1,622)	(1,622)
Contribution to Capital Fund From Revenue	-	36	36
Interest Earned	6	4	10
<b>Balance at 31 March 2017</b>	<b>2,782</b>	<b>1,282</b>	<b>4,064</b>

#### 32.2 Repairs and Renewals Fund

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

Movements in 2016-17	Balance at 31 March 2016 £'000	Contribution from Revenue £'000	Interest Earned £'000	Contribution to Revenue £'000	Balance at 31 March 2017 £'000
Education	671	334	2	(111)	896
<b>Total</b>	<b>671</b>	<b>334</b>	<b>2</b>	<b>(111)</b>	<b>896</b>

### 33. 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) Bill is before the Scottish Parliament and if enacted will remove the limitation period for actions of damages in respect of personal injuries resulting from childhood abuse. At this stage the extent of the Council's potential liability is unknown.

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

### 34. 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 Council's 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 2015-16 was £1.215m for 84 employees and in 2016-17 was £1.033m for 59 employees. These costs are detailed further in the Remuneration Report on page 48.

Therefore termination costs for all Council employees who have accepted redundancy by 31 March 2016 have been accounted for in 2016-17, 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.

### 35. 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 £'000	Expenditure £'000	Net Assets £'000	Reserves £'000
Argyll Education Trust	13	3	482	482
GM Duncan Trust	-	3	81	81
MacDougall Trust	24	-	724	724
Various Other Trust Funds	4	1	507	507
<b>Total Trust Funds</b>	<b>41</b>	<b>7</b>	<b>1,794</b>	<b>1,794</b>

## Notes to the Financial Statements

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.

### 36. 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 2017. 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.

#### 36.1 Common Good Income and Expenditure Account for the year ended 31 March 2017

2015-16 Actual £'000		2016-17 Actual £'000
202	Expenditure	207
(287)	Income	(84)
<b>(85)</b>	<b>(Surplus)/Deficit for the Year</b>	<b>123</b>

#### 36.2 Common Good Balance Sheet at 31 March 2017

2015-16 Actual £'000		2016-17 Actual £'000
4,017	Tangible Fixed Assets	3,882
2,006	Investments	2,307
175	Current Assets	194
(4)	Current Liabilities	(12)
<b>6,194</b>	<b>Total Assets less Liabilities</b>	<b>6,371</b>
4,022	Revaluation Reserve	3,888
2,172	Common Good Fund	2,483
<b>6,194</b>	<b>Total Net Worth</b>	<b>6,371</b>

### 37. 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 2017, to be funded from borrowing, in respect of TIF assets totalled £0.724m. This is reflected in the "Summary of Capital Expenditure and Financing" outlined within note 14.4 on page 89. The total TIF debt to be repaid over the project period, in respect of investment to 31 March 2017, has been calculated in accordance with finance circular No. 4/2014 at £1.035million.

There is a retention of £0.082m of TIF income during 2016-17 to repay the notional borrowing for TIF. Principal sums accumulated by 2016-17 amount to £0.036m and cumulative interest £0.038m resulting in a net cumulative surplus of £0.008m which will be used to pay down TIF debt per the TIF agreement.

## Notes to the Financial Statements

### 38. 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:

	2016-17 £'000	2015-16 £'000
<b>Net (Surplus)/Deficit on Provision of Services</b>	<b>4,638</b>	<b>19,425</b>
<b>Adjustments to Net (Surplus)/Deficit on the Provision of Service for Non Cash Movements:</b>		
Statutory Adjustments through Statement of Movement in Reserves	(5,981)	(25,813)
Transfer to/from Other Statutory Reserves	271	38
Increase/(Decrease) in Inventories	(26)	221
Increase/(Decrease) in Debtors	(2,670)	605
(Increase)/Decrease in Creditors and Provisions	2,146	1,437
Other Revenue Adjustments	(12,891)	(12,355)
	<b>(19,151)</b>	<b>(35,867)</b>
<b>Adjustments for items included in the Net (Surplus)/Deficit on the Provision of Services that are Investing and Financing Activities:</b>		
Non Cash Capital	5,712	6,517
Capital Element of Finance Lease Payments	(1,935)	(1,877)
	<b>3,777</b>	<b>4,640</b>
<b>Net Cash Flows from Operating Activities</b>	<b>(10,736)</b>	<b>(11,802)</b>
<b>The cash flows for Operating Activities include the following items:</b>		
Interest Paid on Borrowings	8,973	8,656
Interest Paid on Finance Leases	7,697	7,903
Interest Received on Bank Deposits	(571)	(534)
<b>Net Cash Outflow from Servicing of Finance</b>	<b>16,099</b>	<b>16,025</b>

### 39. CASH FLOW STATEMENT – INVESTING ACTIVITIES

The cash flows for Investing Activities include the following items:

	2016-17 £'000	2015-16 £'000
Purchase of Property, Plant and Equipment, Investment Property and Intangible and Heritage Assets	20,294	21,082
Investments made/(disposed of) during year	17,481	5,510
Proceeds from the Sale of Property, Plant and Equipment and Investment Property	(1,613)	(652)
Other Receipts from Investing Activities	(17,247)	(16,141)
<b>Net Cash Outflow from Investing Activities</b>	<b>18,915</b>	<b>9,799</b>

## Notes to the Financial Statements

### 40. CASH FLOW STATEMENT – FINANCING ACTIVITIES

The cash flows for Financing Activities include the following items:

	2016-17 £'000	2015-16 £'000
Cash Receipts of Short and Long Term Borrowing	(28,502)	(16,541)
Other Receipts from Financing Activities	2,349	744
Cash Payments for the Reduction of the Outstanding Liabilities relating to Finance Leases and on Balance Sheet PFI Contracts	1,935	1,877
Repayments of Short and Long Term Borrowing	16,090	31,829
Other Payments from Financing Activities	-	-
<b>Net Cash (Inflow)/Outflow from Financing Activities</b>	<b>(8,128)</b>	<b>17,909</b>



## 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.

2015-16 Actual £'000		2016-17 Actual £'000
54,498	Gross Council Tax Levied and Contributions in Lieu excluding RSL Second Home Additional Income	54,804
	Add Back:	
1,892	RSL Second Home Discount Additional Income	1,858
	Less:	
(12,377)	Other Discounts and Reductions	(12,003)
(934)	Provision for Bad and Doubtful Debts	(1,055)
<b>43,079</b>	<b>Total</b>	<b>43,604</b>
294	Adjustment to Previous Years' Community Charge and Council Tax	447
<b>43,373</b>	<b>Transfers to General Fund</b>	<b>44,051</b>

## 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 2016-17 was as follows:

Band	Valuation Band	% Band D	£ per year
A	Up to £27,000	67%	785.33
B	£27,001 - £35,000	78%	916.22
C	£35,001 - £45,000	89%	1,047.11
D	£45,001 - £58,000	100%	1,178.00
E	£58,001 - £80,000	122%	1,439.78
F	£80,001 - £106,000	144%	1,701.56
G	£106,001 - £212,000	167%	1,963.33
H	Over £212,000	200%	2,356.00

### 2. CALCULATION OF THE COUNCIL TAX BASE 2016-17

Council Tax Base	A	B	C	D	E	F	G	H	Total
Total Number of Properties	7,674	9,986	9,453	6,044	7,390	4,113	2,809	243	47,712
<b>Less</b> - Exemptions / Deductions	1,064	822	1,095	535	618	251	172	49	4,606
- Adjustment for Single Chargepayers	857	1,032	740	429	439	202	114	6	3,819
<b>Effective Number of Properties</b>	<b>5,753</b>	<b>8,132</b>	<b>7,618</b>	<b>5,080</b>	<b>6,333</b>	<b>3,660</b>	<b>2,523</b>	<b>188</b>	<b>39,287</b>
Band D Equivalent Factor (ratio)	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	
<b>Band D Equivalent Number of Properties</b>	<b>3,836</b>	<b>6,325</b>	<b>6,772</b>	<b>5,080</b>	<b>7,740</b>	<b>5,287</b>	<b>4,205</b>	<b>376</b>	<b>39,621</b>
<b>Add</b> Contribution in lieu in respect of Class 18 dwellings (Band D Equivalent)									505
<b>Nominal Tax Yield</b>									<b>40,126</b>
<b>Less</b> Provision for Non-Collection - 1.40%									561
<b>Council Tax Base 2016-17 - Number of Band D equivalents</b>									<b>39,565</b>

## 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.

2015-16 Actual £'000		2016-17 Actual £'000
42,309	Gross rates levied and Contributions in Lieu	42,248
	Less:	
(10,877)	Reliefs and other deductions	(11,137)
-	Payment of Interest	-
(241)	Provision for Bad and Doubtful Debts	(242)
<b>31,191</b>	<b>Total Net Non-Domestic Rate Income</b>	<b>30,869</b>
-	Tax Incremental Finance (TIF) Scheme NDR Income Retained	(82)
<b>31,191</b>	<b>Contribution to National Non-Domestic Rate Pool</b>	<b>30,787</b>
(3,351)	Difference between Distributable and Contributable NDR Income amounts	(341)
<b>27,840</b>	<b>Distribution from Non-Domestic Rate Pool credited to Comprehensive Income and Expenditure Statement</b>	<b>30,446</b>

## 1. ANALYSIS OF RATEABLE VALUES

	2016-17 £	2015-16 £
Industrial and freight transport subjects	8,735,000	7,677,100
Miscellaneous including Telecomms, Rail, Gas and Electricity Companies	70,346,799	58,701,043
Commercial subjects:		
Shops	14,315,325	13,418,530
Offices	5,995,360	5,577,590
Hotels, Boarding Houses etc.	8,521,950	6,599,075
Others	1,982,280	1,993,560
<b>Total Rateable Value</b>	<b>109,896,714</b>	<b>93,966,898</b>

## 2. NON-DOMESTIC RATE CHARGE

	2016-17 Pence	2015-16 Pence
Rate Per Pound	48.4p	48.0p
Supplementary Rate Per Pound for Properties over £35,000	2.6p	1.3p

## 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 2016-17: 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 2017 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 2016-17.

## Group Statement of Comprehensive Income and Expenditure

2015-16			Service	2016-17		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
2,489	137	2,352	Chief Executive and Strategic Finance	2,268	127	2,141
121,924	8,764	113,160	Community Services	103,996	9,492	94,504
88,431	41,080	47,351	Customer Services	84,235	41,091	43,144
78,946	39,813	39,133	Development and Infrastructure Services	78,532	38,818	39,714
72,161	11,491	60,670	Health and Social Care Integration	136,580	77,188	59,392
678	21	657	Other Non-Departmental Costs	1,761	1,087	674
2,824	2,795	29	Associates Accounted for on an Equity Basis	3,170	3,300	(130)
<b>367,453</b>	<b>104,101</b>	<b>263,352</b>	<b>Net Cost of Services</b>	<b>410,542</b>	<b>171,103</b>	<b>239,439</b>
			<b>Other Operating Income and Expenditure:</b>			
		323	Net (Gain)/loss on Disposal of Fixed Assets			266
		1,373	Other Operating Income and Expenditure			1,339
		<b>1,696</b>	<b>Total Other Operating Income and Expenditure</b>			<b>1,605</b>
			<b>Financing and Investment Income and Expenditure:</b>			
		17,000	Interest Payable and Similar charges			16,133
		(2,801)	Interest and Investment Income			(4,008)
		4,730	Net Pension Interest Expense			3,367
		<b>18,929</b>	<b>Total Financing and Investment Income and Expenditure</b>			<b>15,492</b>
			<b>Taxation and Non-Specific Grant Income:</b>			
		(176,473)	General Government Grants			(166,251)
		(16,922)	Government Capital Grants and Other Capital Contributions			(11,375)
		(27,840)	Non-domestic Rates Redistribution			(30,446)
		-	Non-domestic Rates - TIF			(82)
		(43,373)	Council Tax Income			(44,051)
		<b>(264,608)</b>	<b>Total Taxation and Non-Specific Grant Income</b>			<b>(252,205)</b>
		<b>19,369</b>	<b>(Surplus)/Deficit on Provision of Services</b>			<b>4,331</b>
		(578)	(Surplus)/Deficit on revaluation of Fixed Assets			(1,290)
		(61,209)	Other Post Employment Benefits (Pensions)			48,407
		(950)	Share of Other Comprehensive Income and Expenditure of Associates and Common Good Funds			1,536
		<b>(62,737)</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>48,653</b>
		<b>(43,368)</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>52,984</b>

31 March 2016			31 March 2017	
£'000	£'000		£'000	£'000
		<b>Long Term Assets</b>		
		<b>Property Plant &amp; Equipment</b>		
258,485		- Other Land and Buildings	250,590	
10,687		- Vehicles, Plant, Furniture and Equipment	9,207	
201,164		- Infrastructure Assets	200,944	
5,885		- Community Assets	6,155	
2,817		- Surplus Assets	2,907	
15,486		- Assets Under Construction	24,366	
	<b>494,524</b>	<b>Total Property Plant &amp; Equipment</b>		<b>494,169</b>
	1,539	Heritage Assets		1,671
	577	Intangible Assets		728
	8,094	Investment Property		11,021
	4,897	Long-Term Debtors		4,926
	2,497	Long-Term Investments		2,798
	2,973	Investment in Associates and Joint Ventures		3,114
	<b>515,101</b>	<b>Total Long Term Assets</b>		<b>518,427</b>
		<b>Current Assets</b>		
555		Inventories	529	
18,155		Short Term Debtors (Net of Impairment)	16,075	
2,381		Assets Held for Sale	691	
35,019		Short Term Investments	52,500	
7,991		Cash and Cash Equivalents	7,960	
	<b>64,101</b>	<b>Total Current Assets</b>		<b>77,755</b>
		<b>Current Liabilities</b>		
(18,232)		Short-term Borrowing	(14,188)	
(31,915)		Short-term Creditors	(29,782)	
-		Capital Grant Receipts in Advance	(567)	
(2,675)		Provisions	(1,818)	
(1,935)		Other Short Term Liabilities	(2,008)	
	<b>(54,757)</b>	<b>Total Current Liabilities</b>		<b>(48,363)</b>
		<b>Long-term Liabilities</b>		
(141,519)		Borrowing Repayable within a Period in Excess of 12 Months	(157,937)	
(74,809)		Other Long-term liabilities	(72,801)	
(1,190)		Provisions	(1,255)	
-		Capital Grant Receipts in Advance	(5,000)	
(94,441)		Other Long-term liabilities (Pensions)	(149,777)	
(1,384)		Liabilities in Associates and Joint Ventures	(2,931)	
	<b>(313,343)</b>	<b>Total Long-term Liabilities</b>		<b>(389,701)</b>
	<b>211,102</b>	<b>Total Assets less Liabilities</b>		<b>158,118</b>

31 March 2016			31 March 2017	
£'000	£'000		£'000	£'000
54,847	146,204	<b>Unusable Reserves</b>		
194,492		- Revaluation Reserve	56,033	
(4,165)		- Capital Adjustment Account	195,007	
(94,441)		- Financial Instruments Adjustment Account	(3,836)	
(4,529)		- Pensions Reserve	(149,777)	
		- Accumulated Absences Account	(4,312)	
				93,115
	57,115	<b>Usable Reserves</b>		
4,027		- Capital Funds	4,064	
671		- Repairs and Renewals Funds	896	
52,417		- General Fund Balance	53,489	
				58,449
	1,589	<b>Group Reserves</b>		183
	6,194	<b>Common Good Reserves</b>		6,371
	<b>211,102</b>	<b>Total Reserves</b>		<b>158,118</b>

The Unaudited Annual Accounts were issued on 29 June 2017 and the Audited Annual Accounts were authorised for issue on 26 September 2017.

*Kirsty Flanagan*

Kirsty Flanagan  
 Head of Strategic Finance  
 26 September 2017



## Group Statement of Movement in Reserves

Movements in 2016-17	Argyll and Bute Council						Council's Share of Reserves of Associates	Total Common Good Reserves	Total Reserves
	Usable Reserves				Total Unusable Reserves	Total Reserves of the Council			
	General Fund Balance	Repairs and Renewals Fund	Capital Funds	Total Usable Reserves					
	£'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 Income and Expenditure	-	-	-	-	47,117	47,117	1,536	-	48,653
<b>Total Comprehensive Income and Expenditure</b>	<b>4,638</b>	<b>-</b>	<b>-</b>	<b>4,638</b>	<b>47,117</b>	<b>51,755</b>	<b>1,406</b>	<b>(177)</b>	<b>52,984</b>
<b>Total Statutory Adjustments (See Page 56 to 57)</b>	<b>(5,981)</b>	<b>-</b>	<b>(1,613)</b>	<b>(7,594)</b>	<b>7,594</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net (Increase)/Decrease before Transfers to Other Statutory Reserves</b>	<b>(1,343)</b>	<b>-</b>	<b>(1,613)</b>	<b>(2,956)</b>	<b>54,711</b>	<b>51,755</b>	<b>1,406</b>	<b>(177)</b>	<b>52,984</b>
<i>Other Transfers required by Statute</i>									
Transfer to/from Other Statutory Reserves	271	(225)	1,576	1,622	(1,622)	-	-	-	-
<b>(Increase)/Decrease in Year</b>	<b>(1,072)</b>	<b>(225)</b>	<b>(37)</b>	<b>(1,334)</b>	<b>53,089</b>	<b>51,755</b>	<b>1,406</b>	<b>(177)</b>	<b>52,984</b>
<b>Balance at 31 March 2017 Carried Forward</b>	<b>(53,489)</b>	<b>(896)</b>	<b>(4,064)</b>	<b>(58,449)</b>	<b>(93,115)</b>	<b>(151,564)</b>	<b>(183)</b>	<b>(6,371)</b>	<b>(158,118)</b>

## Group Statement of Movement in Reserves

Comparative Movements in 2015-16	Argyll and Bute Council						Council's Share of Reserves of Associates	Total Common Good Reserves	Total Reserves
	Usable Reserves				Total Unusable Reserves	Total Reserves of the Council			
	General Fund Balance	Repairs and Renewals Fund	Capital Funds	Total Usable Reserves					
	£'000	£'000	£'000	£'000	£'000	£'000			
Balance at 31 March 2015	(46,067)	(669)	(3,742)	(50,478)	(110,479)	(160,957)	(314)	(6,463)	(167,734)
Surplus/(Deficit) on Provision of Services	19,425	-	-	19,425	-	19,425	29	(85)	19,369
Other Comprehensive Expenditure and Income	-	-	-	-	(61,787)	(61,787)	(1,304)	354	(62,737)
<b>Total Comprehensive Expenditure and Income</b>	<b>19,425</b>	<b>0</b>	<b>0</b>	<b>19,425</b>	<b>(61,787)</b>	<b>(42,362)</b>	<b>(1,275)</b>	<b>269</b>	<b>(43,368)</b>
<b>Total Statutory Adjustments (See Page 58 to 59)</b>	<b>(25,813)</b>	<b>-</b>	<b>(652)</b>	<b>(26,465)</b>	<b>26,465</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net (Increase)/Decrease before Transfers to Other Statutory Reserves</b>	<b>(6,388)</b>	<b>-</b>	<b>(652)</b>	<b>(7,040)</b>	<b>(35,322)</b>	<b>(42,362)</b>	<b>(1,275)</b>	<b>269</b>	<b>(43,368)</b>
<i>Other Transfers required by Statute</i>									
Transfer to/from Other Statutory Reserves	38	(2)	367	403	(403)	-	-	-	-
<b>(Increase)/Decrease in Year</b>	<b>(6,350)</b>	<b>(2)</b>	<b>(285)</b>	<b>(6,637)</b>	<b>(35,725)</b>	<b>(42,362)</b>	<b>(1,275)</b>	<b>269</b>	<b>(43,368)</b>
<b>Balance at 31 March 2016 Carried Forward</b>	<b>(52,417)</b>	<b>(671)</b>	<b>(4,027)</b>	<b>(57,115)</b>	<b>(146,204)</b>	<b>(203,319)</b>	<b>(1,589)</b>	<b>(6,194)</b>	<b>(211,102)</b>

## Notes to the Group Financial Statements

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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 74.

- 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 2017.

### 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 £0.073m towards Scotland Excel in the 2016-17 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 £60.787m towards the Argyll and Bute Integration Joint Board in the 2016-17 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 £6.554m. This gives an overall net asset position for the Group of £158.118m.

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 £0.606m or 1.62% of the Board's estimated net running costs during 2016-17 and accounted for £2.003m 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 2016-17 the Council contributed £0.176m or 4.14% of the net annual running costs and accounted for £0.070m of the Balance Sheet Assets within the Group Balance Sheet. The accounts of the Board are subject to independent audit and are available from

## Notes to the Group Financial Statements

the Treasurer to Strathclyde Concessionary Travel Scheme, Consort House, 12 West George Street, Glasgow G2 1HN.

### Dunbartonshire and Argyll and Bute Valuation Joint Board

This body was formed in October 1995 at local government reorganisation by a Statutory Instrument and is responsible for the maintenance of the electoral, council tax and non-domestic rates registers for Argyll and Bute, West Dunbartonshire and East Dunbartonshire Councils. The Board's running costs are met by the three Councils. During 2016-17 Argyll and Bute Council contributed £1.316m towards estimated running costs and accounted for £2.931m 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:-

	2016-17 £'m	2015-16 £'m
Argyll and Bute Council has a 48.1% share of:		
Gross Income	2.758	2.832
Net (Surplus)/Deficit	0.460	0.416
Long Term Assets	0.664	0.752
Current Assets	0.597	0.727
Liabilities due within one year	(0.100)	(0.120)
Liabilities due over one year	-	-
Pension Liability	(7.254)	(4.236)
Capital and Revenue Reserves	(6.093)	(2.877)

## 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 36 of the Notes to the Financial Statements on page 115 have been fully consolidated into the Group Accounts. This adjustment increases the net assets and reserves of Argyll and Bute Council's Group by £6.371m.

## 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.

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

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

#### Opinion on financial statements

I certify that I have audited the financial statements in the annual accounts of Argyll and Bute Council and its group for the year ended 31 March 2017 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Expenditure and Funding Analysis, the group and council-only Statements of Comprehensive Income and Expenditure, Statements of Movement in Reserves, Balance Sheets and Cash-Flow Statements, the council-only Council Tax Income Account, and the Non-Domestic Rate Income Account and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the 2016/17 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2016/17 Code of the state of affairs of the council and its group as at 31 March 2017 and of the deficit on the provision of services of the council and its group for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016/17 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

#### Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the council and its group in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### Responsibilities of the Head of Strategic Finance for the financial statements

As explained more fully in the Statement of Responsibilities, the Head of Strategic Finance is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Head of Strategic Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's responsibilities for the audit of the financial statements**

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Accounts Commission. Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors. An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the council and its group and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Strategic Finance and the overall presentation of the financial statements.

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK&I) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

### **Other information in the annual accounts**

The Head of Strategic Finance is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with my audit of the financial statements in accordance with ISAs (UK&I), my responsibility is to read all the financial and non-financial information in the annual accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

## **REPORT ON OTHER REQUIREMENTS**

### **Opinion on other prescribed matters**

I am required by the Accounts Commission to express an opinion on the following matters:

In my opinion, the auditable part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

In my opinion, based on the work undertaken in the course of the audit

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

## Independent Auditor's Report

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### Matters on which I am required to report by exception

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the auditable part of the Remuneration Report are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

### David McConnell

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**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.

**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.