

# Public Document Pack

## **Argyll and Bute Council** **Comhairle Earra Ghaidheal agus Bhoid**

Customer Services  
Executive Director: Douglas Hendry



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19 June 2013

### **SUPPLEMENTARY PACK 4**

**AUDIT COMMITTEE - COUNCIL CHAMBERS, KILMORY, LOCHGILPHEAD on FRIDAY, 21 JUNE 2013 at 11:15 AM**

I enclose herewith item **15 (UNAUDITED ACCOUNTS 2012 - 2013)** which was previously marked "to follow" on the Agenda for the above Meeting.

Douglas Hendry  
Executive Director – Customer Services

### **ITEMS TO FOLLOW**

- 15. UNAUDITED ACCOUNTS 2012 - 2013**  
Report by Head of Strategic Finance (Pages 1 - 114)

#### **AUDIT COMMITTEE**

Martin Caldwell (Chair)  
Councillor Maurice Corry  
Councillor Iain MacDonald  
Councillor Aileen Morton

Councillor Gordon Blair  
Sheila Hill  
Councillor Duncan MacIntyre

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**ARGYLL AND BUTE COUNCIL****COUNCIL****STRATEGIC FINANCE****27 JUNE 2013**

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**2012-13 UNAUDITED FINANCIAL STATEMENTS**

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**1. INTRODUCTION**

- 1.1 The balance on the General Fund has increased by £11.633m. The total balance on the General Fund Reserve is £46.205m. There are substantial sums earmarked and committed in the General Fund Reserve amounting to £36.066m. The free General Fund Reserve is £10.139m, this unallocated balance represents 4.1% of the Council's budgeted net expenditure for 2013-14.
- 1.2 The total usable reserves including the General Fund Reserve are £50.371m at 31 March 2013. There are unusable reserves (accounting reserves not backed by resources) of £130.640m at 31 March 2013.
- 1.3 During 2012-13 expenditure excluding Joint Boards and severance was underspent by £0.333m. Additional funding including council tax income of £0.518m and additional income from redistributed Joint Board reserves of £0.975m are partly offset by an overspend in severance costs of £0.830m. These result in an overall underspend against budget of £0.996m. Further detail on the year-end outturn position is contained in the revenue budget monitoring report.
- 1.4 The total Comprehensive Income and Expenditure comprises a surplus on the provision of services of £23.321m, a surplus on the revaluation of Long Term Assets of £2.183m and an actuarial loss on the pension fund assets/liability of £21.580m. This gives a total of £3.924m and is an accounting total surplus rather than an increase in available to the Council to spend.
- 1.5 The net worth of the Council has increased by £3.924m from £177.087m at 31 March 2012 to £181.011m at 31 March 2013. This is merely an increase in the accounting worth of the Council and does not represent an increase in the spending power of the Council. Whilst there are increases in long term and current assets these are offset by a significant increase in the pension fund liability of £20.772m.
- 1.6 Both the Roads and Lighting and Catering and Clearing Trading Accounts met the requirement for a 3 year rolling breakeven position.
- 1.7 Council tax income has increased from £47.309m in 2011-12 to £47.376m in 2012-13.

**2. RECOMMENDATIONS**

- 2.1 Members note the unaudited accounts.

### **3. DETAIL**

#### **3.1 Introduction**

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

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

3.1.3 From 2010-11 onwards Local Authorities are required to prepare financial statements following International Financial Reporting Standards (IFRS). Under these standards the financial statements comprise:

- Explanatory Foreword
- Statement of Responsibilities for the Statement of Accounts
- Statement of Governance and Internal Control
- Remuneration Report
- Movement in Reserves Statement for the period
- Comprehensive Income and Expenditure Statement for the period
- Balance Sheet as at the end of the period
- Cash Flow Statement for the period
- Notes, comprising a summary of significant accounting policies and other explanatory information (includes Council Tax and NDR Income Accounts), and
- Group Accounts

3.1.4 Where there is a significant change in accounting policy it is applied retrospectively by adjusting opening balances and comparative amounts for prior years as if the policy had always been applied. There are no such changes in accounting policy required for the 2012-13 year.

#### **3.2 Explanatory Foreword**

3.2.1 The Explanatory Foreword provides an overview of the key points in relation to the Financial Statements and a summary of the Council's financial performance for the year. It also highlights any significant changes in accounting policies.

#### **3.3 Statement of Responsibilities for the Statement of Accounts**

3.3.1 The Statement of Responsibilities for the Statement of Accounts specifies the Council's responsibilities and also the responsibilities of the Head of Strategic Finance in respect of the Financial Statements.

### **3.4 Statement of Governance and Internal Control**

3.4.1 In the Statement of Governance and Internal Control the Council states its view on the adequacy of its governance and internal control system. The statement concludes the system of governance and internal controls is operating effectively and outlines the reasons for that conclusion.

### **3.5 Remuneration Report**

3.5.1 The Remuneration Report gives details of the remuneration policy, remuneration and pension benefits of senior councillors and senior officers and any employee exit packages.

### **3.6 Statement of Movement in Reserves**

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

3.6.2 The total Council reserves have increased from £177.087m at 31 March 2012 to £181.011m at 31 March 2013, an increase of £3.924m. This is represented by a Surplus on Provision of Services of £23.321m partly offset by Other Comprehensive Income and Expenditure of £19.397m.

3.6.3 Unusable Reserves have decreased by £8.251m from £138.891m at 31 March 2012 to £130.640m at 31 March 2013. The main reasons for this are an increase in the Pension Reserve Liability of £20.772m, which is partly offset by a surplus on the revaluation of fixed assets of £2.183m and the transfer of £11.428m from the Comprehensive Income and Expenditure Statement for Capital Grants.

3.6.4 The Usable Reserves have increased from £38.196 at 31 March 2012 to £50.371m at 31 March 2013, an increase of £12.175m. The main reason for this is an increase in the General Fund Balance of £11.633m.

3.6.5 A number of adjustments are made between Council reserves to reflect the correct charge to Council Tax for the year. The net adjustment to the surplus per the Comprehensive Income and Expenditure Statement to reflect the impact on Council Tax is a debit of £11.688m. In summary this debit represents the difference between:

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

3.6.6 The net surplus on the Provision of Services on the Comprehensive Income and Expenditure Account of £23.321m less the adjustments to reflect impact on Council Tax of £11.688m equates to the increase on the balance on the General Fund of £11.633m.

### 3.7 **General Fund Reserve**

3.7.1 The balance on the General Fund at 31 March 2013 stands at £46.205m compared to £34.572m at 31 March 2012. An increase of £11.633m. The “free” General Fund Balance stands at £10.139m at 31 March 2012. This equates to 4.1% of the net revenue expenditure for 2013-14, the Council has a policy of maintaining a minimum unallocated balance in the General Fund Reserve equivalent to 1.5% of net revenue expenditure. There are a range of balances earmarked within the General Fund, these total £36.066m and are laid out in the table below:

<b>Earmarking Category</b>	<b>Balance at 31 March 2013 £'000</b>
Strategic Housing Fund (Council Tax on Second Homes)	10,183
Unspent Grants and Third Party Contributions	1,554
Unspent Budget Carried Forward	8,380
School Budget Carry Forwards	946
Unspent Budget Required for Existing Legal Commitments	230
CHORD	657
Revenue Contribution to Capital	3,000
Investment in Affordable Housing	9,500
Severance Costs	236
Reserve Committed for 2013-14 Budget	1,054
Reserve Committed for 2014-15 Budget	326
<b>Total Earmarked Balance at 31 March 2013</b>	<b>36,066</b>

3.7.2 £12.5m was earmarked as a contribution to capital to fund the Dunoon and Campbeltown schools, as agreed as part of the 2012-13 budget in February 2012. Subsequently Council agreed in August 2012 to transfer £9.5m towards investment in affordable housing, leaving £3m from reserves as a contribution to the school projects.

3.7.3 The Unspent Budget Carried Forward earmarked reserves totalling £8.380m include any earmarking of unspent budget which does not qualify for automatic carry-forward, which would include unspent grants and where there are existing legal commitments. Proposals to earmark unspent budget must be supported by a detailed business case, which would include the purpose of the earmarking linked to the objectives in the corporate and service plans. The amount earmarked at the 31 March 2013 consists of those proposals which are contained within the accompanying report entitled Earmarking of Funds within

General Fund.

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

	£m	£m
<b>Balance on General Fund 31 March 2012</b>		<b>34.572</b>
Release of sums previously earmarked to service budgets 2012-13		(2.620)
Budgeted Contribution to General Fund Balance 2012-13		3.760
		<u>35.712</u>
<b>Add outturn for 2012-13</b>		
Increase in council tax income	0.518	
Joint Boards Reserve Redistribution	0.975	
One-off Severance Costs for 2012-13	(0.830)	
Net underspend on departmental and other expenditure compared to budget	0.333	
		<u>0.996</u>
<b>Surplus against budget 2012-13</b>		<b>0.996</b>
<b>Contributions to Earmarked Reserves 2012-13:</b>		
Council Tax collection on second homes	1.695	
Joint Boards Requisition Redistribution	0.849	
Funds earmarked by departments from budgets	6.953	
		<u>9.497</u>
<b>Balance on General Fund 31 March 2013</b>		<b>46.205</b>

3.7.5 The release of sums already earmarked to service budgets of £2.620m consists of funds released to services of amounts previously earmarked for specific purposes, including unspent budget within the Devolved Management of Resources Scheme of Delegation for Schools, Strategic Housing Fund payment and unspent grant and third party contributions required for specific purposes.

### 3.8 Performance Against Budget

3.8.1 At the year-end expenditure excluding Joint Board requisitions and severance was underspent by £0.333m. The table below is a summary of the year-end actual expenditure for each department compared to the annual budget.

	(over) /underspend  £m	% age of annual budget  £m
Chief Executive's Unit	0.500	7.31%
Community Services	1.360	0.99%
Customer Services	1.191	3.69%
Development and Infrastructure Services	(1.481)	(4.73%)
Non-Departmental expenditure	<u>0.083</u>	<u>0.24%</u>
<b>Outturn Total</b>	<b>1.653</b>	
<b>Earmarked Reserves Approved February 2013</b>	<b><u>(1.320)</u></b>	
<b>TOTAL</b>	<b>0.333</b>	<b>0.38%</b>

3.8.2 The adjustment of £1.320m for the earmarked reserves approved in February 2013 is for amounts earmarked for departments for specific projects which were earmarked from the overall projected outturn for the Council revenue budgets and not from department specific underspends.

3.8.3 The underspend in the Chief Executives Unit relates to the Workforce Deployment element of Process for Change, where savings have been made in IT costs. In Community Services there was an overall underspend due to a reduction in demand for some services and vacancy savings across the department. The underspend in Customer Services is due to procurement savings and additional savings achieved in advance of the savings requirement for 2013-14. The overspend in Development and Infrastructure Services mainly relates to the additional costs associated with winter maintenance. The projected year-end position for the departments was forecast and monitored during 2012-13 and steps were taken to ensure that overall the departmental year-end variance position was not unfavourable.

### 3.9 Comprehensive Income and Expenditure Statement

3.9.1 The Council ended the year with an accounting surplus of £3.924m for 2012-13 compared to a deficit of £35.893m in 2011-12, this is the accounting surplus based on the IFRS compliant accounts rather than the movement in the General Fund Balance. The total Comprehensive Income and Expenditure comprises of a surplus on the provision of services of £23.321m, a surplus on the revaluation of Long Term Assets of £2.183m, reduced by an actuarial loss on the pension fund assets/liability of £21.580m.

3.9.2 The surplus on the provision of services of £23.321m compares to a surplus of £15.642m for 2011-12. The main factors contributing to these changes are as



follows:

- Taxation and Non-Specific Grant Income increased from £272.546m to £274.177m an increase of £1.631m (0.6%). This increase in income reflects a general year on year increase in General Government Grants.
- Financing and Investment Income and Expenditure increased from £15.316m in 2011-12 to £16.475m in 2012-13 an increase of £1.159m (7.6%). The increase is due to a fall in interest payable and similar charges and an increase in interest and investment income, offset by a decrease in the expected return on pension assets.
- Other Operating Income and Expenditure increased from £1.396m in 2011-12 to £2.974m in 2012-13 an increase of £1.578m (113%). This is due to an increase in the loss on disposal of long term assets.
- The Net Cost of Services has decreased from £240.192m in 2011-12 to £231.407m in 2012-13 a decrease of £8.785m (3.7%). This is a decrease in expenditure in accounting terms and does not necessarily represent a true decrease in spend on services by the Council.

### **3.10 Balance Sheet**

- 3.10.1 As indicated above the accounting net worth of the Council has increased by £3.924m from £177.087m at 31 March 2012 to £181.011m at 31 March 2012.
- 3.10.2 The value of long term assets has increased from £486.289m at 31 March 2012 to £500.601m at 31 March 2013, an increase of £14.312m (2.9%). This comprises the net of an overall upward revaluation of fixed assets, capital expenditure in the year, less the value of fixed assets disposed.
- 3.10.3 Total current assets have increased from £53.303m at 31 March 2012 to £63.646m at 31 March 2013 an increase of £10.343m. The main reason for this being a decrease in Cash and Cash Equivalents of £3.619m from £15.487m at 31 March 2012 to £11.868m at 31 March 2013, offset by an increase in short term investments of £15.0m.
- 3.10.4 Total current liabilities have increased from £40.865m at 31 March 2012 to £42.846m at 31 March 2013 an increase of £1.981m. Short term creditors have increased by £2.160m from £33.082 to £35.242m. In addition there has been a decrease in provisions of £0.648m, which relates to the settling of equal pay claims and severance costs associated with employees leaving the Council under redundancy and early retirement.
- 3.10.5 Overall, long term liabilities have increased from £321.640m at 31 March 2012 to £340.390m at 31 March 2013. The increase of £18.750m is primarily due to the increase in the IAS19 valuation of the pension scheme liability from £79.092m to £99.864m.

### **3.11 Cash Flow Statement**

3.11.1 The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the financial year. The Cash and Cash Equivalents balance at 31 March 2012 was £15.487m and decreased by £3.619m to £11.868m at 31 March 2013. The Net Cash Flows from Operating Activities have increased from £6.538m at 31 March 2012 to £27,191m at 31 March 2013, this increase of £20.653m represents an increase in the Councils expenditure being funded from taxation and grant income. Cash outflows for Investment Activities have increased from £21.570m during 2011-12 to £29.473m in 2012-13, as a result of an increase in the purchase of long term assets partly offset by a year on year reduction in the value of surplus cash investments made during the year. Cash flows from Financing Activities were a cash inflow of £0.073m during 2011-12 and a net cash outflow during 2012-13 of £1.337m, this change relates to £1.6m of other receipts from financing activities during 2011-12 which was in relation to Non Domestic Rates.

### **3.12 Notes to Accounts**

3.12.1 The Notes section gives further information and explanation to some of the key figures included in the accounts some of which are summarised below.

3.12.2 Note 8 refers to Significant Trading Organisations. Significant Trading Organisations must achieve a breakeven financial position over a rolling three year period. During 2012-13 the Roads and Lighting trading account achieved a surplus of £0.357m. It achieved a rolling breakeven position with a three year surplus of £1.315m. The Catering & Cleaning trading account returned a surplus of £0.052m for the year and a rolling breakeven position with a three year surplus of £0.680m. Any surplus or deficit on trading organisations is treated as part of the General Fund.

3.12.3 The significant future financial commitments arising from the Waste Management PPP and Schools NPDO PPP are summarised in notes 11 and 19.3. The Council is committed to future payments of £81.887m over the period to 2027 for the Waste PPP and £334.103m over the period to 2035 for the Schools NPDO PPP.

### **3.13 Council Tax Income Account**

3.13.1 Income taken to the General Fund for council tax in 2012-13 amounted to £47.376m compared to £47.309m in 2011-12. This is an increase of £0.067m (0.14%).

3.13.2 In 2012-13 council tax rates were frozen at 2011-12 levels of £1,178 for a band D dwelling. The total council tax levied excluding second homes increased by £0.416m (0.78%) from £53.622m in 2011-12 to £54.038m in 2012-13.

3.13.3 There was minimal change to discounts, valuation and provision for bad and doubtful debts which increased by £0.085m from £8.702m in 2011-12 to £8.787m in 2012-13. There was a reduction of £0.163m in the amount recovered from council tax on second homes from £1.817m in 2011-12 to £1.654m in 2012-13, this reduction in income recovered is in line with a

reduction in the total council tax levied on these properties.

### **3.14 Non Domestic Rate Income Account**

3.14.1 Non Domestic Rate Income amounted to a share of £26.479m for 2012-13 allocated from the national pool. This compares to £25.582m in 2011-12. Our own net income amounted to £27.255m and we transferred a contribution to the national pool of £0.776 for 2012-13. These figures compared to income of £25.888m and a contribution to the national pool of £0.306m for 2011-12. This increase in income reflects the general year on year increase in funding received from the Scottish Government.

### **3.15 Capital Expenditure and Borrowing**

3.15.1 Details of capital expenditure are as follows:

	£'m
Gross Capital Expenditure	35.140
Less: Capital Receipts	0.394
Government Grants and Other Contributions	11.428
Revenue Contributions	1.650
	21.668
Balance Funded from Borrowing	21.668

3.15.2 The capital financing requirement at 31 March 2013 was £258.398m. This was financed as follows:

	£'m
Long Term Borrowing	159.871
Short Term Borrowing	1.097
Schools NPDO Finance Lease Liability	81.152
Internal Funds	16.278
	258.398

The external borrowing of the Council at 31 March 2013 amounted to £160.968m. The majority of this was financed by the Public Works Loan Board (£108.066m), with the remainder coming mainly from the money market.

3.15.3 During the year the Council completed £0.296m of new external borrowing. This was used to finance capital expenditure incurred during the year. The Council also repaid loans of £0.088m.

### **3.16 Group Accounts**

3.16.1 For 2012-13 the Council is required to prepare Group Accounts. The Group Accounts comprise of a Statement of Movement in Reserves, a Comprehensive Income and Expenditure Statement, a Balance Sheet and notes. The group accounts incorporate Common Good Funds as subsidiaries and Police, Fire and Valuation Joint Board as associates.

- 3.16.2 The Police and Fire Reform (Scotland) Act 2012 creates a single Police Service of Scotland and a single Scottish Fire and Rescue Service from 1 April 2013, from this date the Joint Boards have ceased to operate. There will be no requirement to consolidate the Police and Fire figures into the Group Accounts in 2013-14.

For further information please contact Bruce West, Head of Strategic Finance  
01546-604151.

**Bruce West**  
**Head of Strategic Finance**  
**20 June 2012**



## **Unaudited Financial Statements**

for the year ended 31 March 2013

## LANGUAGE OPTIONS

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

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

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

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

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

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

یہ دستاویز اگر آپ کو کسی دیگر زبان یا دیگر شکل میں درکار ہو، یا اگر آپ کو ترجمان کی خدمات چاہئیں تو برائے مہربانی ہم سے رابطہ کیجئے۔

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

**Strategic Finance**  
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**PA31 8RT**

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## Explanatory Foreword by the Head of Strategic Finance

### INTRODUCTION

The Annual Accounts demonstrate the Council's stewardship of the public funds it controls. The financial results for 2012-13 are set out on pages 28 to 34. Note 1 to the Financial Statements on pages 34 to 47 sets out the Summary of Significant Accounting Policies adopted by the Council to ensure that the Financial Statements give a "true and fair view" of our financial performance.

### THE FINANCIAL STATEMENTS

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

The financial statements comprise:

- Statement of Movement in Reserves for the period
- Statement of Comprehensive Income and Expenditure for the period
- Balance Sheet as at the end of the period
- Cash Flow Statement for the period
- Notes, comprising a summary of significant accounting policies and other explanatory information

### FINANCIAL PERFORMANCE

#### Statement of Movement in Reserves

The total Council reserves have increased from £177.087m at 31 March 2012 to £181.011m at 31 March 2013, an increase of £3.924m. This is represented by a Surplus on Provision of Services of £23.321m partly offset by a deficit in Other Comprehensive Income and Expenditure of £19.397m.

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

Unusable Reserves have decreased by £8.251m from £138.891m at 31 March 2012 to £130.640m at 31 March 2013. The main reasons for this are an increase in the Pension Reserve Liability of £20.772m, partly offset by a surplus on the revaluation of fixed assets of £2.183m and the transfer of £11.428m from the Comprehensive Income and Expenditure Statement for Capital Grants.

The Usable Reserves have increased from £38.196m at 31 March 2012 to £50.371m at 31 March 2013, an increase of £12.175m. The main reason for this is an increase in the General Fund Balance of £11.633m.

A number of adjustments are made between Council reserves to reflect the correct charge to Council Tax for the year. The net adjustment to the surplus per the Comprehensive Income and Expenditure Statement to reflect the impact on Council Tax is a debit of £11.688m. In summary this debit represents the difference between:

- Principal repayment to the loans fund and the depreciation or amortisation of property, plant and equipment, government grants and any gain/loss on sale of assets.
- Cash paid as pension contributions and the costs charged in accordance with IAS19.

## Explanatory Foreword by the Head of Strategic Finance

- Statutory provision relating to amounts due on early repayment of loans and the charges in accordance with the Code.
- Capital element of finance lease payments on the schools NPDO contract and other finance leases and the amounts paid under the contracts.

The net surplus on the Provision of Services on the Comprehensive Income and Expenditure Statement of £23.321m less the adjustments to reflect impact on Council Tax of £11.688m equates to the increase on the balance on the General Fund of £11.633m.

### General Fund Reserve

The balance on the General Fund at 31 March 2013 stands at £46.205m compared to £34.572m at 31 March 2012, an increase of £11.633m. The "free" General Fund Balance stands at £10.139m at 31 March 2013. This equates to 4.1% of the net revenue expenditure for 2013-14, the Council has a policy of maintaining an unallocated balance in the General Fund Reserve equivalent to 1.5% of budgeted net revenue expenditure. There are a range of balances earmarked within the General Fund, these total £36.066m and are laid out in note 5 on page 51. The main balances include £10.183m for the Strategic Housing Fund generated from Council Tax on second homes, £3.0m earmarked as a revenue contribution to capital as a contribution to Dunoon and Campbeltown Schools, £9.5m contribution to investment in affordable housing and £8.380m earmarked from service budget underspends to support corporate and service improvement plans.

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

	£m	£m
<b>Balance on General Fund 31 March 2012</b>		<b>34.572</b>
Release of sums previously earmarked to service budgets 2012-13		(2.620)
Budgeted Contribution to General Fund Balance 2012-13		3.760
		<b>35.712</b>
<b>Add outturn for 2012-13:</b>		
Increase in Council Tax income	0.518	
Joint Boards Reserve Redistribution	0.975	
One off Severance Costs for 2012-13	(0.830)	
Net underspend on departmental and other expenditure compared to budget	0.333	
<b>Surplus against budget 2012-13</b>		<b>0.996</b>
<b>Contributions to Earmarked Reserves 2012-13:</b>		
Council Tax collection on second homes	1.695	
Joint Board Requisition Redistribution	0.849	
Funds earmarked by departments from budgets	6.953	
		<b>9.497</b>
<b>Balance on General Fund 31 March 2013</b>		<b>46.205</b>

The release of sums already earmarked to service budgets of £2.620m consists of funds released to services of amounts previously earmarked for specific purposes, for example unspent budget within

## Explanatory Foreword by the Head of Strategic Finance

the Devolved Management of Resources Scheme of Delegation for Schools, Strategic Housing Fund payments and unspent grant and third party contributions required for specific purposes.

### Performance against budget

At the year-end, expenditure excluding Joint Board requisitions and severance was underspent by £0.333m. The table below is a summary of the year-end actual expenditure for each department compared to the annual budget.

	(over) /underspend £m	% of annual budget £m
Chief Executive's Unit	0.500	7.31%
Community Services	1.360	0.99%
Customer Services	1.191	3.69%
Development and Infrastructure Services	(1.481)	(4.73%)
Non-Departmental expenditure	<u>0.083</u>	<u>0.24%</u>
<b>Outturn Total</b>	<b>1.653</b>	
Earmarked reserves approved February 2013	<b><u>(1.320)</u></b>	
<b>TOTAL</b>	<b>0.333</b>	<b>0.38%</b>

The Council took the decision in February 2013 to earmark £1.320m of the projected 2012-13 budget underspend, this amount was earmarked from the overall projected outturn position for the Council revenue budget and not from department specific underspends.

The underspend in the Chief Executives Unit relates to the Workforce Deployment element of Process for Change, where savings have been made in IT costs. In Community Services there was an overall underspend due to a reduction in demand for some services and vacancy savings across the department. The underspend in Customer Services is due to procurement savings and additional savings achieved in advance of the savings requirement for 2013-14. The overspend in Development and Infrastructure Services mainly relates to the additional costs associated with winter maintenance. The projected year-end position for the departments was forecast and monitored during 2012-13 and steps were taken to ensure that overall the departmental year-end variance position was not unfavourable.

### Comprehensive Income and Expenditure Statement

The Council ended the year with an accounting surplus of £3.924m for 2012-13 compared to a deficit of £35.893m in 2011-12, this is the accounting surplus based on the IFRS compliant accounts rather than the movement in the General Fund Balance. The total Comprehensive Income and Expenditure for 2012-13 represents the increase in the net worth of the Council from £177.087m at 31 March 2012 to £181.011m at 31 March 2013. This is an increase in the net worth of the Council in accounting terms and does not represent an increase in the spending power of the Council.

The total Comprehensive Income and Expenditure comprises a surplus on the provision of services of £23.321m and a surplus on the revaluation of Long Term Assets of £2.183m; these are partly offset by an actuarial loss on the pension fund assets/liability of £21.580m.

The surplus on the provision of services of £23.321m compares to a surplus of £15.642m for 2011-12. The main factors contributing to these changes are as follows:

## Explanatory Foreword by the Head of Strategic Finance

- Taxation and Non-Specific Grant Income increased from £272.546m to £274.177m an increase of £1.631m (0.6%). This increase in income reflects a general year on year increase in General Government Grants.
- Financing and Investment Income and Expenditure increased from £15.316m in 2011-12 to £16.475m in 2012-13 an increase of £1.159m (7.6%). The increase is due to a fall in interest payable and similar charges and an increase in interest and investment income, offset by a decrease in the expected return on pension assets.
- Other Operating Income and Expenditure increased from £1.396m in 2011-12 to £2.974m in 2012-13 an increase of £1.578m (113%). This is due to an increase in the loss on disposal of long term assets.
- The Net Cost of Services has decreased from £240.192m in 2011-12 to £231.407m in 2012-13 a decrease of £8.785m (3.7%). This is a decrease in expenditure in accounting terms and does not necessarily represent a true decrease in spend on services by the Council.

### Balance Sheet

As indicated above the accounting net worth of the Council has increased by £3.924m from £177.087m at 31 March 2012 to £181.011m at 31 March 2013.

The value of long term assets has increased from £486.289m at 31 March 2012 to £500.601m at 31 March 2013, an increase of £14.312m (2.9%). This comprises the net of an overall upward revaluation of fixed assets, capital expenditure in the year, less the value of long term assets disposed.

Total current assets have increased from £53.303m at 31 March 2012 to £63.646m at 31 March 2013 an increase of £10.343m. The main reason for this being a decrease in Cash and Cash Equivalents of £3.619m from £15.487m at 31 March 2012 to £11.868m at 31 March 2013, offset by an increase in short term investments of £15.000m.

Total current liabilities have increased from £40.865m at 31 March 2012 to £42.846m at 31 March 2013 an increase of £1.981m. Short term creditors have increased by £2.160m from £33.082m to £35.242m. In addition there has been a decrease in provisions of £0.648m, which relates to the settling of equal pay claims and severance costs associated with employees leaving the Council under redundancy and early retirement.

Overall, long term liabilities have increased from £321.640m at 31 March 2012 to £340.390m at 31 March 2013. The increase of £18.750m is primarily due to the increase in the IAS19 valuation of the pension scheme liability from £79.092m to £99.864m.

### Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the financial year. The Cash and Cash Equivalents balance at 31 March 2012 was £15.487m and decreased by £3.619m to £11,868m at 31 March 2013. The Net Cash Flows from Operating Activities have increased from £6.538m at 31 March 2012 to £27,191m at 31 March 2013, this increase of £20.653m represents an increase in the Councils expenditure being funded from taxation and grant income. Cash outflows for Investment Activities have increased from £21.570m during 2011-12 to £29,473m in 2012-13, as a result of an increase in the purchase of long term assets partly offset by a year on year reduction in the value of surplus cash investments made during the year. Cash flows from Financing Activities were a cash inflow of £0.073m during 2011-12 and a net cash outflow during 2012-13 of £1.337m, this change relates to £1.6m of other receipts from financing activities during 2011-12 which was in relation to Non Domestic Rates.

## Explanatory Foreword by the Head of Strategic Finance

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### **Pension Liability**

As noted above the IAS19 valuation of the pension scheme liability has increased from £79.092m at 31 March 2012 to £99.864m at 31 March 2013. This pension liability represents the best estimate of the current value of pension benefits that will have to be funded by the Council. The liability relates to benefits earned by existing or previous employees up to 31 March 2013.

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.

Hymans Robertson (Independent Actuaries) were instructed by Glasgow City Council, the administering authority to the Strathclyde Pension Fund, to undertake calculations in respect of the Local Government Pension Scheme on behalf of Argyll and Bute Council as at 31 March 2013. Their calculations have been carried out in accordance with Guidance Note 36: Accounting for Retirement Benefits under IAS19, issued by the Institute and the Faculty of Actuaries.

### **Significant Trading Organisations**

Councils are required to identify their Significant Trading Organisations. Significant Trading Organisations must achieve a breakeven financial position over a rolling three year period. Information on the financial performance of Significant Trading Organisations is given in the Accounts and this is laid out in note 8 of the Notes to the Core Financial Statements on page 56. During 2012-13 the Roads and Lighting trading account achieved a surplus of £0.357m. It achieved a rolling breakeven position with a three year surplus of £1.315m. The Catering & Cleaning trading account returned a surplus of £0.052m for the year, and it achieved a rolling breakeven position with a three year surplus of £0.680m. Any surplus or deficit on trading organisations is treated as part of the General Fund.

### **Capital Expenditure and Borrowing**

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

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

The Council approved a set of prudential indicators for 2012-13 and managed capital expenditure and borrowing within these approved limits.

## Explanatory Foreword by the Head of Strategic Finance

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

	<b>£'m</b>
Gross Capital Expenditure	35.140
Less: Capital Receipts	0.394
Government Grants and Other Contributions	11.428
Revenue Contributions	1.650
Balance Funded from Borrowing	<b>21,668</b>

The capital financing requirement at 31 March 2013 was £258.398m. This was financed as follows:

	<b>£'m</b>
Long Term Borrowing	159.871
Short Term Borrowing	1.097
Schools NPDO Finance Lease Liability	81.152
Internal Funds	16.278
	<b>258.398</b>

The external borrowing of the Council at 31 March 2013 amounted to £160.968m. The majority of this was financed by the Public Works Loan Board (£108.066m), with the remainder coming mainly from the money market.

During the year the Council completed £0.296m of new external borrowing. This was used to finance capital expenditure incurred during the year. The Council also repaid loans of £0.088m.

### PROVISIONS AND CONTINGENT LIABILITIES

The Council has a number of significant balances held as provisions on the balance sheet, including:

- Severance costs – a number of employees have either taken or been offered a redundancy package as part of the Council Modernisation programme. A provision of £0.469m has been created in 2012-13 for the termination benefits for employees who have accepted redundancy but are not planned to leave until after 31 March 2013. Termination costs for all Council employees who have accepted redundancy by 31 March 2013 have been accounted for in 2012-13 or in previous years.
- Equal Pay - the Council settled most of the remaining outstanding claims during 2012-13. A provision was held for claims where settlement offers were made and a reliable estimate could be made of the liability. There is a provision of £0.032m remaining and there are a few further outstanding claims where the settlement amount cannot be estimated reliably enough to provide for the costs.
- Utilities Provision – a total of £1.013m has been provided for to cover the cost of a potential liability in relation to discrepancies in charges for utility costs.

## Explanatory Foreword by the Head of Strategic Finance

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### GROUP ACCOUNTS

Group Accounts have been prepared and show a change from a net liability position of £38.220m at 31 March 2012 to a net liability of £77.498m at 31 March 2013. This reduction in net assets is primarily due to an increase in the pension liability for the Council and the Strathclyde Police Joint Board. In terms of the overall position of the Group Accounts being a net liability compared to the net asset position of the single entity accounts, this is a result of the Police and Fire Pension Schemes being unfunded and reflects the proper accounting treatment as determined by IAS19. The technical accounting treatment has no impact on the underlying basis for meeting the Police and Fire Boards' pension liabilities.

Further information regarding these pension deficits can be found in Note 6 to the Group Accounts on page 99.

The formation of the new single police and fire and rescue services took place on 1 April 2013, from that date Strathclyde Police Joint Board and Strathclyde Fire and Rescue Board ceased operating.

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

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

### FUTURE OUTLOOK

The outlook for all public sector organisations is challenging. The Council has undertaken a three year programme of service reviews which set targets to identify savings of between 15% and 20% from service budgets. These reviews have been a key element in identifying the savings to balance the Council budget.

Looking forward the Council faces a significant challenge as a result of overall levels of public sector funding and population projections for Argyll and Bute. Combined with changing demographics the Council is likely to see a period where expenditure pressures increase at a level in excess of the income available to the Council. This is reflected in the Council's long term financial forecasts which over the period to 2019-20 indicate an average annual savings requirement of £5.8m. The budget for 2013-14 represented progress towards the overall long term savings required but will utilise £1.1m of reserves to manage the phasing of the savings agreed as part of the 2013-14 budget.



## Explanatory Foreword by the Head of Strategic Finance

The 3 year capital plan has been agreed by the Council for the period to 2015-16, the table below summarises the capital budget plans for the 3 years to 2015-16:

	<b>2013-14</b> £m	<b>2014-15</b> £m	<b>2015-16</b> £m
<b>Total Capital Expenditure</b>	<b>35.045</b>	<b>41.826</b>	<b>24.716</b>
<b><i>Funded by:</i></b>			
Borrowing	19.586	24.252	11.389
Capital Grant	9.043	13.705	13.077
Contribution from Smoothing Funds	-	3.000	-
Contribution from Revenue Budget	4.216	0.869	-
Capital Receipts	2.200	-	0.250

Capital funding has been declining and will continue to decline and this will have an increasing impact on the level of capital investment that the Council will be able to afford going forward. This reduction in funding will increase the importance of asset management to ensure the funding is directed towards the assets required for service delivery and that the existing assets deployed in service delivery continue to meet service needs.

The Council in common with many other organisations is facing a period of significant financial challenge. However it moves forward from a sound financial base in terms of reserves and control of expenditure and with clear plans to maintain financial sustainability. The financial position will be monitored on an on-going basis during 2013-14 and the revenue budget and capital plan reviewed for 2014-15.

Bruce West  
Head of Strategic Finance  
**27 June 2013**

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**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. 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.
- Approve the audited Statement of Accounts at a meeting of the Council within two months of receipt of the audit certificate.

**THE HEAD OF STRATEGIC FINANCE'S RESPONSIBILITIES**

The Head of Strategic Finance is responsible for the preparation of the Council's Statement of Accounts, which in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code of Practice), are required to show a true and fair view of the financial position of the Council as at 31 March 2013 and its income and expenditure for the year ended on that date.

In preparing this Statement of Accounts, the Head of Strategic Finance has:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Local Authority Code of Practice 2012-13.

The Head of Strategic Finance has also:

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

This Statement of Accounts show a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31 March 2013.

Bruce West  
Head of Strategic Finance  
**27 June 2013**

## Statement of Governance and Internal Control

### BACKGROUND

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

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

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

### THE GOVERNANCE FRAMEWORK

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

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

### GOVERNANCE ROLES AND RESPONSIBILITIES

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

### INTERNAL FINANCIAL CONTROL

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

## Statement of Governance and Internal Control

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

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

The system of internal 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 above named bodies. In particular the system includes:

- Comprehensive budgeting systems;
- Regular reviews by the Council and the above named bodies 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.

### RISK MANAGEMENT

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

### INTERNAL AUDIT

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

The Chief Internal Auditor provides the Audit Committee with an annual report on internal audit activity in the Council. The report includes an independent opinion on the adequacy and effectiveness of the Council's systems of governance and internal control and concludes that systems for internal control were effective during 2012-13 with no identified material weaknesses.

## Statement of Governance and Internal Control

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### ISSUES FOR FURTHER DEVELOPMENT

The review of governance and internal control has identified the following areas for consideration during 2013-14, particularly in the context of continuous improvement within the Council:

- The continued development and support of the Corporate Improvement Plan;
- Continued development of performance management throughout the Council by means of Pyramid, the Council's Performance Management System;
- The implementation of performance self-assessment using the Public Service Improvement Framework (PSIF);
- Risk management and business continuity will continue to be developed and embedded within the Council Departments;
- To maintain the quality of services in a time of budget constraints and continued implementation of agreed budget savings; and
- Ensure delivery of key objectives through continued close working with Community Planning Partners (CPP).

### ASSURANCE

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

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

It is the Council's view that the systems for governance and internal control are operating effectively within Argyll and Bute Council and the aforementioned bodies during 2012-13 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.

Roddy McCuish  
**Leader**

Sally Loudon  
**Chief Executive**

Bruce West  
**Head of Strategic Finance**

**27 June 2013**

## The Remuneration Report

### BACKGROUND

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

### REMUNERATION POLICY AND ARRANGEMENTS

#### Councillors

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

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

The Regulations also provide for the banding of local authorities – Argyll and Bute is in Band B, the Council has determined the level of remuneration for councillors within that banding. The salary that is to be paid to the Leader of the Council is set out in the Regulations. For 2012-13 the salary for the Leader of Argyll and Bute Council is £32,470. The Regulations permit the council to remunerate one Civic Head. The Regulations set out the maximum salary that may be paid to that Civic Head. The Council's Civic Head is The Provost and their remuneration is set at £24,353 which is the maximum allowed for Local Authorities in Band B.

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

In 2012-13 Argyll and Bute Council had 12 senior councillors. The total salary remuneration for senior councillors during 2012-13 was £264,247. The Regulations also permit the Council to pay contributions or other payments as required to the Local Government Pension Scheme in respect of those councillors who elect to become councillor members of the pension scheme.

#### Senior Employees

The salary of senior employees is set by reference to national arrangements. The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services sets the salaries for the Chief Executives of Scottish local authorities. Circular CO/144 sets the amount of salary for the Chief Executive of Argyll and Bute Council for the period 2008 to 2013. The salaries of the Executive Directors and Heads of Service are based on a fixed percentage of the Chief Executive's salary in two bandings. Executive Directors receive 80% of the amount of the Chief Executive's salary and Heads of Service 75% of Executive Director's salary. This equates to Chief Officers Salary Scale Point (SCP) 43 for Executive Directors and SCP 29 for Heads of Service.

## COUNCILLORS' REMUNERATION

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

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

Members Allowances	2012-13	2011-12
	Actual £'000	Actual £'000
Basic Councillor Salaries	362	345
Senior Councillor Salaries (Includes Salary of Leader and Provost)	322	335
Other Expenses and Allowances paid to Members	169	161
<b>Total Allowances</b>	<b>853</b>	<b>841</b>

The annual return of councillors' salaries and expenses for 2012-13 is available for any member of the public to view at all Council libraries and public offices during normal working hours. It is also available on the Council's website at <http://www.argyll-bute.gov.uk/council-and-government/councillors-and-community-councillors>.

## SENIOR COUNCILLORS' REMUNERATION

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

Senior Members	2012-13				2011-12
	Salary, Fees and Allowances £	Taxable Expenses £	Non-cash Expenses & Benefits-in-kind £	Total Remuneration £	Total Remuneration £
<b>Provost</b> (from 22/05/12) - Councillor Isobel Strong	19,933	-	-	19,933	-
<b>Leader</b> (from 22/05/12 to 14/02/13), <b>Depute Leader and Lead Councillor for European Affairs</b> (from 14/02/13) - Councillor Roddy McCuish	25,907	216	-	26,123	-
<b>Depute Provost and Lead Councillor for Human Resources and Sport</b> (from 22/05/12 to 21/03/13), <b>Depute Provost and Area Leader for Mid Argyll, Kintyre and the Islands</b> (from 21/03/13) - Councillor Douglas Philand	19,933	-	-	19,933	-
<b>Leader and Lead Councillor for Strategic Finance</b> (from 14/02/13), <b>Lead Councillor for Strategic Finance and European Affairs</b> (from 22/05/12 to 14/02/13) - Councillor James Robb	20,693	-	-	20,693	-
<b>Lead Councillor for Education and Lifelong Learning</b> (from 22/05/12 to 21/03/13) - Councillor Michael Breslin	19,216	-	-	19,216	-
<b>Lead Councillor for Education and Lifelong Learning</b> (from 21/03/13) - Councillor Richard Trail ( <i>First payment in 2013-14</i> )	-	-	-	-	-
<b>Lead Councillor for Energy, Development, Infrastructure and Tourism</b> (from 22/5/12 to 23/8/12), <b>Depute Leader</b> (from 22/5/12 to 14/02/13), <b>Lead Councillor for Environment, Development and Infrastructure</b> (from 23/8/12) - Councillor John Semple	19,933	1,125	-	21,058	-
<b>Lead Councillor - Bute and Cowal Area Committee</b> (from 22/05/12), <b>Leader of the Opposition</b> (from 6/12/10 to 3/5/12) - Councillor Robert MacIntyre	19,203	-	-	19,203	19,962
<b>Lead Councillor for Planning and Regulatory Services</b> (from 22/05/12) - Councillor Sandy Taylor	19,933	-	-	19,933	-
<b>Lead Councillor for Housing</b> (from 22/5/12 to 21/3/13), <b>Lead Councillor for Community, Culture and Strategic Housing</b> (from 21/3/13) - Councillor George Freeman	19,933	398	-	20,331	-



## The Remuneration Report



Senior Members	2012-13				2011-12
	Salary, Fees and Allowances £	Taxable Expenses £	Non-cash Expenses & Benefits-in-kind £	Total Remuneration £	Total Remuneration £
<b>Lead Councillor for Adult Care</b> (from 22/5/12) - Councillor Anne Horn	19,933	-	-	19,933	-
<b>Lead Councillor for Roads and Amenity Services</b> (from 22/5/12 to 23/8/12), <b>Lead Councillor for Renewables and Tourism</b> (from 23/8/13) - Councillor Donald Kelly	19,933	-	-	19,933	-
<b>Lead Councillor for Children and Families</b> (from 22/5/12)- Councillor Mary Jean Devon	19,933	-	-	19,933	-
<b>Lead Councillor for Community, Culture, Customer and Communication</b> (from 22/5/12 to 21/3/13), <b>Lead Councillor for Support and Customer Services</b> (from 21/3/13) - Councillor Louise Glen-Lee	19,933	570	-	20,503	-
<b>Provost</b> (to 3/5/12)- Councillor William Petrie	3,164	-	-	3,164	24,353
<b>Lead Councillor for the Opposition</b> (from 22/5/12), <b>Leader</b> (to 3/5/12)- Councillor Dick Walsh	20,828	-	-	20,828	33,035
<b>Education and Lifelong Learning Spokesperson</b> (from 6/12/10 to 3/5/12) - Councillor Ellen Morton	3,164	-	-	3,164	24,353
<b>Rural and Island Affairs, Housing and Gaelic Spokesperson</b> (from 6/12/10 to 3/5/12) - Councillor Robin Currie	3,164	113	-	3,277	24,353
<b>Enterprise, Energy, Culture and Tourism Spokesperson</b> (from 6/12/10 to 3/5/12) - Councillor Neil MacKav	3,164	-	-	3,164	24,353
<b>Social Services Spokesperson</b> (from 6/12/10 to 3/5/12) - Councillor Andrew Nisbet	3,164	-	-	3,164	24,353
<b>Transport and Infrastructure Spokesperson</b> (to 3/5/12)- Councillor Duncan MacIntyre	3,164	-	-	3,164	24,353
<b>Third Sector and Communities Spokesperson</b> (from 6/12/10 to 3/5/12) - Councillor Rorv Colville	3,164	-	-	3,164	24,353
<b>Chair - Helensburgh and Lomond Area Committee</b> (from 6/12/10 to 3/5/12)- Councillor Vivien Dance	2,593	-	-	2,593	19,962
<b>European Issues Spokesperson</b> (from 6/12/10 to 3/5/12) - Councillor Len Scoullar	3,164	74	-	3,238	24,418
<b>Environment Spokesperson</b> (to 3/5/12) - Councillor Bruce Marshall	3,164	-	-	-	24,553
<b>Chair - Mid Argyll, Kintyre &amp; Islands Area Committee</b> (to 3/5/12) - Councillor Donald MacMillan	2,593	-	-	2,593	19,962
<b>Chair - Protective Services and Licensing Committee</b> (to 3/5/12) - Councillor Daniel Kelly	3,164	-	-	3,164	24,668

## EMPLOYEES' REMUNERATION

The Local Authority Accounts (Scotland) Regulations 1985 (Amended 2011) requires local authorities to provide an analysis of the number of employees whose remuneration in the year was £50,000 or more, including those classified as senior employees who are subject to separate disclosure requirements. The definition of remuneration includes all sums paid to or receivable by an employee, expense allowances chargeable to tax and the monetary value of benefits received other than in cash. This definition therefore includes all payments made 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, that was £50,000 or more in bands of £5,000 was:

Range £	2012-13 Number of Officers	2011-12 Number of Officers
£50,000 - £54,999	18	25
£55,000 - £59,999	20	20
£60,000 - £64,999	1	3
£65,000 - £69,999	13	14
£70,000 - £74,999	1	1
£75,000 - £79,999	3	2
£80,000 - £84,999	-	-
£85,000 - £89,999	-	-
£90,000 - £94,999	3	3
£95,000 - £99,999	-	-
£100,000 - £104,999	-	-
£105,000 - £109,999	-	-
£110,000 - £114,999	-	-
£115,000 - £119,999	1	1
<b>Total</b>	<b>60</b>	<b>69</b>

As a result of the Council modernisation programme a number of officers received redundancy payments during 2011-12.

## SENIOR EMPLOYEES' REMUNERATION

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

In 2012-13 there were no employees earning more than £150,000.

The following table sets out the remuneration disclosures for 2012-13 for senior officers:

Post Holder	Salary (Including Fees and Allowances)	Taxable Expenses	Benefits other than in cash	Total Remuneration 2012/13	Total Remuneration 2011-12
	£	£	£	£	£
<b>Chief Executive</b> - Sally Loudon	116,472	2,309	-	<b>118,781</b>	<b>120,326</b>
<b>Executive Director of Community Services</b> - Cleland Sneddon	92,770	4,277	-	<b>97,047</b>	<b>97,113</b>
<b>Executive Director of Customer Services</b> - Douglas Hendry	92,516	757	-	<b>93,273</b>	<b>93,119</b>
<b>Executive Director of Development and Infrastructure Services</b> - Alexander MacTaggart	92,770	-	-	<b>92,770</b>	<b>92,770</b>
<b>Head of Strategic Finance (Section 95 Financial Officer)</b> - Bruce West	68,539	633	-	<b>69,172</b>	<b>69,359</b>
<b>Head of Adult Care (Section 3 Social Work Officer)</b> - James Robb (from 12-11-11)	68,728	-	-	<b>68,728</b>	<b>68,728</b>
<b>Head of Children and Families (Section 3 Social Work Officer)</b> - Dougie Dunlop (to 11-11-11) <i>(Full year equivalent)</i>	-	-	-	-	<b>48,191</b>
<b>Head of Improvement and HR (Direct Report to Chief Executive)</b> - Jane Fowler	68,728	-	-	<b>68,728</b>	<b>(68,728)</b>
					<b>68,728</b>

The Chief Executive's salary of £116,472 includes £3,251 of remuneration for acting as Returning Officer during 2012-13 and £4,796 of remuneration for the role is included for 2011-12.

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

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

During 2011-12 Dougie Dunlop left the organisation and James Robb, Head of Adult Care, took over the role of Section 3 Social Work Officer, no additional remuneration was given for taking over this role.

## PENSION BENEFITS

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

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

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

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

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

The tiers and members contribution rates for 2012-13 remain at the 2011-12 rates and are as follows:

Whole time pay	Contribution Rate 2012-13
On earnings up to and including £18,000	5.50%
On earnings above £18,000 and up to £22,000	7.25%
On earnings above £22,000 and up to £30,000	8.50%
On earnings above £30,000 and up to £40,000	9.50%
On earnings above £40,000	12.00%

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

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

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

## SENIOR COUNCILLORS' PENSION BENEFITS

The pension entitlements for senior councillors for the year to 31 March 2013 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 2013 £	For year to 31 March 2012 £		As at 31 March 2013 £	Difference from 31 March 2012 £
<b>Leader</b> (from 22/05/12 to 14/02/13), <b>Depute Leader and Lead Councillor for European Affairs</b> (from 14/02/13) - Councillor Roddy McCuish	5,570	3,118	Pension <i>Lump Sum</i>	1,772 1,403	486 153
<b>Leader and Lead Councillor for Strategic Finance</b> (from 14/02/13), <b>Lead Councillor for Strategic Finance and European Affairs</b> (from 22/05/12 to 14/02/13) - Councillor James Robb	4,564	3,118	Pension <i>Lump Sum</i>	1,823 1,444	411 71
<b>Lead Councillor for Education and Lifelong Learning</b> (from 22/05/12 to 21/03/13) - Councillor Michael Breslin	3,897	-	Pension <i>Lump Sum</i>	301 -	301 -
<b>Lead Councillor for Energy, Development, Infrastructure and Tourism</b> (from 22/5/12 to 23/8/12), <b>Depute Leader</b> (from 22/5/12 to 14/02/13), <b>Lead Councillor for Environment, Development and Infrastructure</b> (from 23/8/12) - Councillor John Semple	4,417	3,118	Pension <i>Lump Sum</i>	1,889 1,496	426 77
<b>Lead Councillor for Planning and Regulatory Services</b> (from 22/05/12) - Councillor Sandy Taylor	4,010	-	Pension <i>Lump Sum</i>	316 -	316 -
<b>Lead Councillor for Adult Care</b> (from 22/5/12) - Councillor Anne Horn	4,417	3,118	Pension <i>Lump Sum</i>	2,066 2,486	392 89
<b>Lead Councillor for Roads and Amenity Services</b> (from 22/5/12 to 23/8/12), <b>Lead Councillor for Renewables and Tourism</b> (from 23/8/13) - Councillor Donald Kelly	4,417	3,118	Pension <i>Lump Sum</i>	1,680 1,330	395 81

Senior Members	In-year pension contributions			Accrued pension benefits	
	For year to 31 March 2013 £	For year to 31 March 2012 £		As at 31 March 2013 £	Difference from 31 March 2012 £
<b>Lead Councillor for Children and Families</b> (from 22/5/12)- Councillor Mary Jean Devon	4,417	3,118	Pension <i>Lump Sum</i>	1,578 1,249	385 93
<b>Lead Councillor for Community, Culture, Customer and Communication</b> (from 22/5/12 to 21/3/13), <b>Lead Councillor for Support and Customer Services</b> (from 21/3/13) - Councillor Louise Glen-Lee	4,417	1,147	Pension <i>Lump Sum</i>	483 -	483 -
<b>Lead Councillor for Education and Lifelong Learning</b> (from 21/03/13) - Councillor Richard Trail	2,723	-	Pension <i>Lump Sum</i>	235 -	235 -
<b>Lead Councillor for Housing</b> (from 22/5/12 to 21/3/13), <b>Lead Councillor for Community, Culture and Strategic Housing</b> (from 21/3/13) - Councillor George Freeman	4,417	3,118	Pension <i>Lump Sum</i>	2,173 1,721	440 40
<b>Education and Lifelong Learning Spokesperson</b> (from 6/12/10 to 3/5/12) - Councillor Ellen Morton	3,333	4,678	Pension <i>Lump Sum</i>	1,857 1,470	343 2
<b>Social Services Spokesperson</b> (from 6/12/10 to 3/5/12) - Councillor Andrew Nisbet	611	4,678	Pension <i>Lump Sum</i>	1,629 1,191	296 106
<b>Third Sector and Communities Spokesperson</b> (from 6/12/10 to 3/5/12) - Councillor Rory Colville	3,333	4,678	Pension <i>Lump Sum</i>	1,761 1,394	338 14
<b>Rural and Island Affairs, Housing and Gaelic Spokesperson</b> (from 6/12/10 to 3/5/12) - Councillor Robin Currie	3,333	4,678	Pension <i>Lump Sum</i>	1,549 708	330 2
<b>European Issues Spokesperson</b> (from 6/12/10 to 3/5/12) - Councillor Len Scoullar	3,333	4,678	Pension <i>Lump Sum</i>	1,977 1,566	1,629 (14)
<b>Chair - Helensburgh and Lomond Area Committee</b> (from 6/12/10 to 3/5/12)-Councillor Vivien Dance	3,223	3,834	Pension <i>Lump Sum</i>	1,662 1,316	325 19
<b>Environment Spokesperson</b> (to 3/5/12) - Councillor Bruce Marshall	3,333	4,678	Pension <i>Lump Sum</i>	1,864 1,476	343 1

## SENIOR EMPLOYEES' PENSION BENEFITS

The pension entitlements for senior employees for the year to 31 March 2013 are shown in the table below, together with the contribution made by the Council to each senior employee's pension during the year.

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

Senior Officers	In-year pension contributions			Accrued pension benefits	
	For year to 31 March 2013 £	For year to 31 March 2012 £		As at 31 March 2013 £	Difference from 31 March 2012 £
<b>Chief Executive - Sally Loudon</b>	22,318	22,248	Pension	37,031	4,599
			<i>Lump Sum</i>	71,517	-
<b>Executive Director of Community Services - Cleland Sneddon</b>	17,877	17,792	Pension	28,259	1,540
			<i>Lump Sum</i>	66,252	-
<b>Executive Director of Customer Services - Douglas Hendry</b>	17,828	17,828	Pension	37,033	1,535
			<i>Lump Sum</i>	92,624	-
<b>Executive Director of Development and Infrastructure Services - Alexander MacTaggart</b>	17,877	17,792	Pension	12,526	1,540
			<i>Lump Sum</i>	19,052	-
<b>Head of Strategic Finance (Section 95 Financial Officer) - Bruce West</b>	13,200	13,200	Pension	28,346	1,137
			<i>Lump Sum</i>	71,358	-
<b>Head of Adult Care (Section 3 Social Work Officer) - James Robb (from 12-11-11)</b>	13,236	13,174	Pension	24,884	1,143
			<i>Lump Sum</i>	60,936	-
<b>Head of Improvement and HR (Direct report to Chief Executive) - Jane Fowler</b>	13,236	13,174	Pension	20,353	1,140
			<i>Lump Sum</i>	47,343	-

## 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	2011/12				Exit Package Cost Band	No	2012/13			
	Cash Value			Notional CAY Value £			Cash Value			Notional CAY Value £
	Compulsory Redundancies £	Other Departures £	Total Cash Value Cost £				Compulsory Redundancies £	Other Departures £	Total Cash Value Cost £	
89	229,520	308,113	537,633	81,661	£0 - £20,000	130	269,434	370,421	639,855	71,928
26	149,137	593,154	742,291	129,121	£20,001 - £40,000	8	24,338	199,709	224,047	42,159
24	202,360	987,862	1,190,222	131,085	£40,001 - £60,000	4	42,686	137,919	180,605	5,658
15	66,162	958,650	1,024,812	42,544	£60,001 - £80,000	3	-	214,941	214,941	47,779
5	80,599	363,919	444,518	37,760	£80,001 - £100,000	-	-	-	-	-
5	122,020	530,534	652,554	-	£100,001 - £150,000	-	-	-	-	-
3	158,297	207,892	366,189	48,313	£150,001 - £200,000	-	-	-	-	-
<b>167</b>	<b>1,008,095</b>	<b>3,950,124</b>	<b>4,958,221</b>	<b>470,484</b>		<b>145</b>	<b>336,458</b>	<b>922,990</b>	<b>1,259,448</b>	<b>167,524</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 pensions 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 Remuneration Report

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The total cost of £1.259m in the table above 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 2013 of £0.909m, 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 33 on page 84 provides more information on the exit packages agreed in the last two financial years.

Roddy McCuish  
**Leader**

Sally Loudon  
**Chief Executive**

**27 June 2013**

## Statement of Movement in Reserves

	Usable Reserves (Note 31)				Unusable Reserves (Note 30)						Total Reserves £'000	
	General Fund Balance £'000	Repairs and Renewals Fund £'000	Capital Funds £'000	Total Usable Reserves £'000	Revaluation Reserve £'000	Capital Adjustment Account £'000	Pensions Reserve £'000	Financial Instrument Adjustment Account £'000	Accumulated Absences Account £'000	Unusable Reserves £'000		
												£'000
<b>Movements in 2012-13</b>												
<b>Balance at 31 March 2012</b>	<b>(34,572)</b>	<b>(532)</b>	<b>(3,092)</b>	<b>(38,196)</b>	<b>(55,337)</b>	<b>(172,873)</b>	<b>79,092</b>	<b>5,634</b>	<b>4,593</b>	<b>(138,891)</b>	<b>(177,087)</b>	
(Surplus)/Deficit on Provision of Services	(23,321)			(23,321)	(2,183)		21,580			-	(23,321)	
Other Comprehensive Income and Expenditure										19,397	19,397	
<b>Total Comprehensive Income and Expenditure</b>	<b>(23,321)</b>	<b>-</b>	<b>-</b>	<b>(23,321)</b>	<b>(2,183)</b>	<b>-</b>	<b>21,580</b>	<b>-</b>	<b>-</b>	<b>19,397</b>	<b>(3,924)</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				-	2,295	(2,295)					-	
Amortisation of Intangible Assets	(131)			(131)		131				131	-	
Depreciation of Non-current Assets	(19,357)			(19,357)		19,357				19,357	-	
Impairment of Non-current Assets	(1,305)			(1,305)		1,305				1,305	-	
Capital Grants and Contributions credited to the Comprehensive Income and Expenditure Statement	11,428			11,428		(11,428)				(11,428)	-	
Capital Expenditure Charged to the General Fund	1,650			1,650		(1,650)				(1,650)	-	
Net Gain or Loss on Sale of Non-current Assets	(2,077)		(394)	(2,471)		2,471				2,471	-	
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	372			372				(372)		(372)	-	
Employee Benefits	(119)			(119)					119	119	-	
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under pension scheme regulations	808			808			(808)			(808)	-	

## Statement of Movement in Reserves

Statutory Repayment of Debt - Loans Fund Advances	18,639								(18,639)	-
Statutory Repayment of Debt - Finance Leases	25								(25)	-
Statutory Repayment of Debt - NPDO Finance	1,424								(1,424)	-
<b>Total Statutory Adjustments</b>	<b>11,357</b>	<b>-</b>	<b>(394)</b>	<b>10,963</b>	<b>2,295</b>	<b>(808)</b>	<b>(372)</b>	<b>119</b>	<b>(10,963)</b>	<b>-</b>
<b>Net (Increase)/Decrease before Transfers to Other Statutory Reserves</b>	<b>(11,964)</b>	<b>-</b>	<b>(394)</b>	<b>(12,358)</b>	<b>112</b>	<b>20,772</b>	<b>(372)</b>	<b>119</b>	<b>8,434</b>	<b>(3,924)</b>
<b>Other Transfers required by Statute</b>										
Transfer to/from Other Statutory Reserves	331	(318)	170	183					(183)	-
<b>(Increase)/Decrease in Year</b>	<b>(11,633)</b>	<b>(318)</b>	<b>(224)</b>	<b>(12,175)</b>	<b>112</b>	<b>20,772</b>	<b>(372)</b>	<b>119</b>	<b>8,251</b>	<b>(3,924)</b>
<b>Balance at 31 March 2013 Carried Forward</b>	<b>(46,205)</b>	<b>(850)</b>	<b>(3,316)</b>	<b>(50,371)</b>	<b>(55,225)</b>	<b>99,864</b>	<b>5,262</b>	<b>4,712</b>	<b>(130,640)</b>	<b>(181,011)</b>

This Statement shows the movement in the 2012-13 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) or 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 Comprehensive Income and Expenditure

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. 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.

2011-12			Note	2012-13		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
			<b>Service</b>			
102,771	7,013	95,758	Education Services	105,251	6,767	98,484
31,336	26,615	4,721	Housing Services (Non-HRA)	31,079	27,234	3,845
12,143	2,449	9,694	Cultural and Related Services	12,918	2,351	10,567
25,535	4,739	20,796	Environmental Services	21,559	4,542	17,017
25,411	6,735	18,676	Roads and Transport Services	24,913	7,018	17,895
7,425	4,435	2,990	Trading Services	7,086	4,373	2,713
10,452	5,845	4,607	Planning and Development Services	8,251	4,054	4,197
64,775	9,549	55,226	Social Work	66,738	9,425	57,313
		-	Central Services:			
3,945	17	3,928	- Corporate and Democratic Core	4,041	103	3,938
8,373	1	8,372	- Non Distributed Costs	1,816	5	1,811
2,606	1,189	1,417	- Central Services to the Public	3,050	1,279	1,771
9,168	-	9,168	Strathclyde Police Joint Board	7,308	-	7,308
4,839	-	4,839	Strathclyde Fire and Rescue Joint Board	4,548	-	4,548
<b>308,779</b>	<b>68,587</b>	<b>240,192</b>	<b>Net Cost of Services</b>	<b>298,558</b>	<b>67,151</b>	<b>231,407</b>

## Statement of Comprehensive Income and Expenditure

					2,077
<b>Other Operating Income and Expenditure:</b>					(57)
Net (Gain)/loss on Disposal of Long Term Assets	442				954
(Surplus)/deficit on trading undertakings	(46)			7	
Other Operating Income and Expenditure	1,000				
<b>Total Other Operating Income and Expenditure</b>	<b>1,396</b>				<b>2,974</b>
<b>Financing and Investment Income and Expenditure:</b>					
Interest Payable and Similar charges	19,602				17,512
Interest and Investment Income	(354)				(1,019)
Pension Interest Cost and Expected Return on Pensions Assets	(3,932)				(18)
<b>Total Financing and Investment Income and Expenditure</b>	<b>15,316</b>				<b>16,475</b>
<b>Taxation and Non-Specific Grant Income:</b>					
General Government Grants	(187,818)				(188,864)
Government Capital Grants and Other Capital Contributions	(11,837)		13		(11,458)
Non-domestic Rates Redistribution	(25,582)				(26,479)
Council Tax Income	(47,309)				(47,376)
<b>Total Taxation and Non-Specific Grant Income</b>	<b>(272,546)</b>				<b>(274,177)</b>
<b>(Surplus)/Deficit on Provision of Services</b>	<b>(15,642)</b>				<b>(23,321)</b>
(Surplus)/Deficit on revaluation of Long Term Assets	(5,619)				(2,183)
Actuarial (Gains)/Losses on Pension Assets/Liabilities	57,154				21,580
<b>Other Comprehensive Income and Expenditure</b>	<b>51,535</b>				<b>19,397</b>
<b>Total Comprehensive Income and Expenditure</b>	<b>35,893</b>				<b>(3,924)</b>

## Balance Sheet

31 March 2012		Note	31 March 2013	
£'000	£'000		£'000	£'000
		<b>Long Term Assets</b>		
296,463		Property Plant & Equipment 15		
6,784		- Other Land and Buildings	294,052	
153,761		- Vehicles, Plant, Furniture and Equipment	8,822	
1,338		- Infrastructure Assets	163,822	
5,117		- Community Assets	1,466	
11,723		- Surplus Assets	3,506	
		- Assets Under Construction	17,400	
	<b>475,186</b>	Property Plant & Equipment		<b>489,068</b>
	1,324	Heritage Assets 16		1,324
	332	Intangible Assets 17		203
	5,647	Investment Property 18		6,397
	3,800	Long-Term Debtors 21		3,609
	<b>486,289</b>	<b>Total Long Term Assets</b>		<b>500,601</b>
		<b>Current Assets</b>		
516		Inventories	631	
15,147		Short Term Debtors (Net of Impairment) 22	14,439	
2,153		Assets Held for Sale 23	1,708	
20,000		Short Term Investments	35,000	
15,487		Cash and Cash Equivalents 24	11,868	
	<b>53,303</b>	<b>Total Current Assets</b>		<b>63,646</b>
		<b>Current Liabilities</b>		
(3,225)		Short-term Borrowing 26	(3,739)	
(33,082)		Short-term Creditors 25	(35,242)	
(278)		Capital Grant Receipts in Advance	(116)	
(2,831)		Provisions 28	(2,183)	
(1,449)		Other Short Term Liabilities 27	(1,566)	
	<b>(40,865)</b>	<b>Total Current Liabilities</b>		<b>(42,846)</b>
		<b>Long-term Liabilities</b>		
(160,210)		Borrowing Repayable within a Period in Excess of 12 Months 26	(159,871)	
(81,919)		Other Long-term liabilities 27	(80,354)	
(419)		Provisions 28	(301)	
(79,092)		Other Long-term liabilities (Pensions) 29	(99,864)	
	<b>(321,640)</b>	<b>Total Long-term Liabilities</b>		<b>(340,390)</b>
	<b>177,087</b>	<b>Total Assets less Liabilities</b>		<b>181,011</b>

## Balance Sheet



31 March 2012			Note	31 March 2013	
£'000	£'000			£'000	£'000
		<b>Unusable Reserves</b>	30		
55,337		- Revaluation Reserve		55,225	
172,873		- Capital Adjustment Account		185,253	
(5,634)		- Financial Instruments Adjustment Account		(5,262)	
(79,092)		- Pensions Reserve		(99,864)	
(4,593)		- Accumulated Absences Account		(4,712)	
	<b>138,891</b>				130,640
		<b>Usable Reserves</b>	31		
3,092		- Capital Funds		3,316	
532		- Repairs and Renewals Funds		850	
34,572		- General Fund Balance		46,205	
	<b>38,196</b>				50,371
	<b>177,087</b>	<b>Total Reserves</b>			<b>181,011</b>

The Balance Sheet shows the value as at the Balance Sheet date 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 in two categories:

- The first category of reserves are usable reserves, i.e. those 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 second category of reserves are those 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".

Bruce West  
Head of Strategic Finance  
27 June 2013

## 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.

2011-12 £'000		Note	2012-13 £'000
<b>(15,642)</b>	<b>Net (Surplus) or Deficit on the Provision of Services</b>		<b>(23,321)</b>
(354)	Adjustments to net surplus or deficit on the provision of services for non-cash movements		(13,025)
9,458	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		9,155
<b>(6,538)</b>	<b>Net Cash Flows from Operating Activities</b>	36	<b>(27,191)</b>
21,570	Investing Activities	37	29,473
(73)	Financing Activities	38	1,337
<b>14,959</b>	<b>Net Increase or Decrease in Cash and Cash Equivalents</b>		<b>3,619</b>
(30,446)	Cash and Cash Equivalents at the beginning of the Reporting Period		(15,487)
<b>(15,487)</b>	<b>Cash and Cash Equivalents at the end of the Reporting Period</b>	24	<b>(11,868)</b>



## Notes to the Financial Statements

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2012-13 financial year and its position at the year-end of 31 March 2013. The Council is required to prepare an annual Statement of Accounts by the Local Authority Accounts (Scotland) Regulations 1985, which section 12 of the Local Government in Scotland Act 2003 require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2012-13 and the Service Reporting Code of Practice for Local Authorities 2012-13 (SeRCOP), supported by International Financial Reporting Standards (IFRS).

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

#### 1.2 Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the 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.

## Notes to the Financial Statements

### 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 Changes in Accounting Policies, Estimates and Errors

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the 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.

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

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

### 1.5 Charges to Revenue for Non-Current Assets

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

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

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

### 1.6 Employee Benefits

#### 1.6.1 Benefits Payable during Employment

Short-term benefits, such as wages and salaries, paid annual and sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees, 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.

#### 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 when the Authority is demonstrably committed to either terminating the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In

## Notes to the Financial Statements

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 4.5% (based on the indicative rate of return on a “high quality corporate bond of equivalent term and currency to the liability” (as measured by the yield on iboxx Sterling Corporates Index, AA over 15 years)).
- The assets of the Strathclyde Pension Fund attributable to the Council are included in the balance sheet at their fair value:
  - Quoted securities – current bid price
  - Unquoted securities – professional estimate
  - Unitised securities – current bid price
  - Property – market value
- The change in the net pension's liability is analysed into seven components:
  - Current service cost – the increase in liabilities as a result of year's service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
  - Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
  - Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Finance and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

## Notes to the Financial Statements

- Expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long term return – credited to the Finance and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- Gains/losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited/credited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve
- Contributions paid to the Strathclyde Pension Fund – cash paid as employer’s contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

### 1.6.4 Post Employment Discretionary Benefits

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

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period – The Statement of Accounts is 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 Statement of Accounts.

### 1.8 Exceptional Items

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

## Notes to the Financial Statements

### 1.9 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.

### 1.10 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.

## Notes to the Financial Statements

### 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

## Notes to the Financial Statements

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

## Notes to the Financial Statements

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.



## Notes to the Financial Statements

### 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 charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2012-13 – Scotland (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

#### 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.

## Notes to the Financial Statements

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

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

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

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

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

### 1.19.3 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)

## Notes to the Financial Statements

- Where there is no balance in the Revaluation Reserve, the carrying amount of the asset is written down against the relevant service lines in the Comprehensive Income and Expenditure Statement

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

### 1.19.4 Disposals

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an *Asset Held for Sale*. The asset is 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 Non Distributed 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.

## Notes to the Financial Statements

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.
- Annual Finance Cost – this is calculated by applying the implicit interest rate in the lease to the opening lease liability for the period, this is debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator.
- Lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

### 1.21 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 the 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.

## Notes to the Financial Statements

### 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 30 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.

## 2. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

For 2012-13, the only accounting policy change that requires to be reported relates to the June 2011 amendments to the accounting standard *IAS19 Employee Benefits*. The change of accounting policy is effective from 1 April 2013 and there is no impact of this change on the accounts covering the 2012-13 financial year.

The key change relates to the expected return on scheme assets. The expected return on assets is currently credited to the Surplus or Deficit on the Provision of Services; however from 2013 this is effectively replaced with an equivalent figure using the discount rate.

While the overall impact is expected to be cost neutral, there will be a redistribution of costs within the Comprehensive Income and Expenditure Statement. By way of illustrating the impact of the accounting change upon the current year, there would be an increase in pension cost and expected return on assets of £3.413m (as assessed by the actuaries of Strathclyde Pension Fund) chargeable to the Surplus or Deficit on the Provision of Services, with a compensating reduction of £3.413m in actuarial (gains) or losses on pension assets and liabilities chargeable to Other Comprehensive Income and Expenditure.

## 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.

## Notes to the Financial Statements

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**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.

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the 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 2013 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions															
<p>Property, Plant and Equipment</p>	<p>Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives.</p>	<p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.</p> <p>It is estimated that the annual depreciation charge for buildings would increase by £1.3m for every year that useful lives had to be reduced.</p>															
<p>Pensions Liability</p>	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.</p>	<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="895 103 1406 1016"> <thead> <tr> <th data-bbox="895 598 1059 1016">Sensitivities at 31 March 2013</th> <th data-bbox="895 333 1059 598">Approximate % Increase to Employer Obligation</th> <th data-bbox="895 103 1059 333">Approximate monetary amount £'000</th> </tr> </thead> <tbody> <tr> <td data-bbox="1059 598 1147 1016">0.5% decrease in real discount rate</td> <td data-bbox="1059 333 1147 598">12%</td> <td data-bbox="1059 103 1147 333">63,168</td> </tr> <tr> <td data-bbox="1147 598 1235 1016">1 year increase in member life expectancy</td> <td data-bbox="1147 333 1235 598">3%</td> <td data-bbox="1147 103 1235 333">15,726</td> </tr> <tr> <td data-bbox="1235 598 1323 1016">0.5% increase in salary increase rate</td> <td data-bbox="1235 333 1323 598">5%</td> <td data-bbox="1235 103 1323 333">27,094</td> </tr> <tr> <td data-bbox="1323 598 1406 1016">0.5% increase in pension increase rate</td> <td data-bbox="1323 333 1406 598">9%</td> <td data-bbox="1323 103 1406 333">45,980</td> </tr> </tbody> </table>	Sensitivities at 31 March 2013	Approximate % Increase to Employer Obligation	Approximate monetary amount £'000	0.5% decrease in real discount rate	12%	63,168	1 year increase in member life expectancy	3%	15,726	0.5% increase in salary increase rate	5%	27,094	0.5% increase in pension increase rate	9%	45,980
Sensitivities at 31 March 2013	Approximate % Increase to Employer Obligation	Approximate monetary amount £'000															
0.5% decrease in real discount rate	12%	63,168															
1 year increase in member life expectancy	3%	15,726															
0.5% increase in salary increase rate	5%	27,094															
0.5% increase in pension increase rate	9%	45,980															

## Notes to the Financial Statements



Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Arrears	At 31 March 2013, the Council had a balance of sundry debtors of £2.925m. A review of significant balances suggested an allowance of 27% (£0.791m) 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 £0.293m



## Notes to the Financial Statements

### 5. TRANSFERS TO/FROM EARMARKED RESERVES

The Council has ring-fenced £36.066m of the balance on the General Fund as follows:

Ring-fenced Balances	Balance 1 April 2012 £'000	Funds Used £'000	Contributions to Funds £'000	Balance 31 March 2013 £'000
Revenue from Additional Council Tax on Second Homes (Strategic Housing Fund)	8,689	(201)	1,695	10,183
Unspent Grants	477	(260)	1,069	1,286
Contributions Carried Forward	277	(34)	25	268
Unspent Budget Carried Forward	5,244	(2,289)	5,425	8,380
School Budget Carry Forwards	1,221	(1,221)	946	946
Unspent Budget Required for Existing Legal Commitments	148	(73)	155	230
CHORD	475	-	182	657
Revenue Contribution to Capital (Dunoon and Campbeltown Schools)	12,500	(9,500)	-	3,000
Investment in Affordable Housing	-	-	9,500	9,500
Severance Costs	423	(187)	-	236
Reserve Committed for 2013-14 Budget	-	-	1,054	1,054
Reserve Committed for 2014-15 Budget	-	-	326	326
<b>Total Ring-fenced</b>	<b>29,454</b>	<b>(13,765)</b>	<b>20,377</b>	<b>36,066</b>
Unallocated	5,118	-	5,021	10,139
<b>Total General Fund Balance</b>	<b>34,572</b>	<b>(13,765)</b>	<b>25,398</b>	<b>46,205</b>

The unallocated balance of £10.139m is 4.1% of the Council's budgeted net expenditure for 2013-14.

**6. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS**

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

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

**6.1 Departmental Information for the year ended 31 March 2013**

The income and expenditure of the Council's principal departments recorded in the budget reports for the 2012-13 year is as follows:

Departmental Income and Expenditure 2012-13	Community Services £'000	Development and Infrastructure Services £'000	Customer Services £'000	Chief Executive's Unit £'000	Total £'000
Fees, Charges and Other Service Income	(16,177)	(38,760)	(19,438)	186	(74,189)
Government Grants	(2,317)	(62)	(24,310)	-	(26,689)
<b>Total Income</b>	<b>(18,494)</b>	<b>(38,822)</b>	<b>(43,748)</b>	<b>186</b>	<b>(100,878)</b>
Employee Expenses	83,892	21,936	14,961	5,530	126,319
Other Operating Expenses	67,684	48,514	59,147	328	175,673
<b>Total Operating Expenses</b>	<b>151,576</b>	<b>70,450</b>	<b>74,108</b>	<b>5,858</b>	<b>301,992</b>
<b>Net Cost of Services</b>	<b>133,082</b>	<b>31,628</b>	<b>30,360</b>	<b>6,044</b>	<b>201,114</b>

Departmental Income and Expenditure 2011-12 Comparative Figures						
	Community Services £'000	Development and Infrastructure Services £'000	Customer Services £'000	Chief Executive's Unit £'000	Total £'000	
Fees, Charges and Other Service Income	(16,138)	(41,949)	(19,532)	(160)	(77,779)	
Government Grants	(2,519)	(458)	(23,665)	-	(26,642)	
<b>Total Income</b>	<b>(18,657)</b>	<b>(42,407)</b>	<b>(43,197)</b>	<b>(160)</b>	<b>(104,421)</b>	
Employee Expenses	84,217	22,247	15,903	5,468	127,835	
Other Operating Expenses	65,916	53,216	60,234	715	180,081	
<b>Total Operating Expenses</b>	<b>150,133</b>	<b>75,463</b>	<b>76,137</b>	<b>6,183</b>	<b>307,916</b>	
<b>Net Cost of Services</b>	<b>131,476</b>	<b>33,056</b>	<b>32,940</b>	<b>6,023</b>	<b>203,495</b>	

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

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

	2012-13 £'000	2011-12 £'000
<b>Cost of Services in Service Analysis</b>	<b>201,114</b>	<b>203,495</b>
Add Services not included in Main Analysis	16,212	21,400
Add Amounts not Reported to Management	14,853	16,560
Remove Amounts Reported to Management not Included in Comprehensive Income and Expenditure Statement	(772)	(1,263)
<b>Net Cost of Services in Comprehensive Income and Expenditure Statement</b>	<b>231,407</b>	<b>240,192</b>

## Notes to the Financial Statements

### 6.3 Reconciliation to Subjective Analysis

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

2012-13	Service Analysis £'000	Services not in Analysis £'000	Not Reported to Management £'000	Not Included in I&E £'000	Total Net Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, Charges and Other Service Income	(74,189)	(375)	-	538	(74,026)	(354)	(74,380)
Surplus or Deficit on Associated and Joint Ventures	-	-	-	-	-	(57)	(57)
Interest and Investment Income	-	-	-	-	-	(1,037)	(1,037)
Income from Council Tax	-	-	-	-	-	(47,376)	(47,376)
Government Grants and Contributions	(26,689)	-	-	-	(26,689)	(226,801)	(253,490)
<b>Total Income</b>	<b>(100,878)</b>	<b>(375)</b>	<b>-</b>	<b>538</b>	<b>(100,715)</b>	<b>(275,625)</b>	<b>(376,340)</b>
Employee Expenses	126,319	1,785	1,293	-	129,397	-	129,397
Other Service Expenses	175,673	1,571	3,781	(2)	181,023	-	181,023
Depreciation, Amortisation and Impairment	-	-	9,779	-	9,779	-	9,779
Interest Payments	-	-	-	-	-	17,512	17,512
Precepts, Levies and Requisitions	-	13,231	-	(1,308)	11,923	1,308	13,231
Gain or Loss on Disposal of Assets	-	-	-	-	-	2,077	2,077
<b>Total Operating Expenses</b>	<b>301,992</b>	<b>16,587</b>	<b>14,853</b>	<b>(1,310)</b>	<b>332,122</b>	<b>20,897</b>	<b>353,019</b>
<b>Surplus or Deficit on the Provision of Services</b>	<b>201,114</b>	<b>16,212</b>	<b>14,853</b>	<b>(772)</b>	<b>231,407</b>	<b>(254,728)</b>	<b>(23,321)</b>

## Notes to the Financial Statements

2011-12 Comparative Figures	Service Analysis £'000	Services not in Analysis £'000	Not Reported to Management £'000	Not Included in I&E £'000	Total Net Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, Charges and Other Service Income	(77,779)	(345)	-	418	(77,706)	(327)	(78,033)
Surplus or Deficit on Associated and Joint Ventures	-	-	-	-	-	(46)	(46)
Interest and Investment Income	-	-	-	-	-	(4,286)	(4,286)
Income from Council Tax	-	-	-	-	-	(47,309)	(47,309)
Government Grants and Contributions	(26,642)	-	-	-	(26,642)	(225,237)	(251,879)
<b>Total Income</b>	<b>(104,421)</b>	<b>(345)</b>	<b>-</b>	<b>418</b>	<b>(104,348)</b>	<b>(277,205)</b>	<b>(381,553)</b>
Employee Expenses	127,835	4,758	20	-	132,613	-	132,613
Other Service Expenses	180,081	1,585	2,295	(354)	183,607	-	183,607
Depreciation, Amortisation and Impairment	-	-	14,245	-	14,245	-	14,245
Interest Payments	-	-	-	-	-	19,602	19,602
Precepts, Levies and Requisitions	-	15,402	-	(1,327)	14,075	1,327	15,402
Gain or Loss on Disposal of Assets	-	-	-	-	-	442	442
<b>Total Operating Expenses</b>	<b>307,916</b>	<b>21,745</b>	<b>16,560</b>	<b>(1,681)</b>	<b>344,540</b>	<b>21,371</b>	<b>365,911</b>
<b>Surplus or Deficit on the Provision of Services</b>	<b>203,495</b>	<b>21,400</b>	<b>16,560</b>	<b>(1,263)</b>	<b>240,192</b>	<b>(255,834)</b>	<b>(15,642)</b>

## Notes to the Financial Statements

### 7. OTHER OPERATING INCOME AND EXPENDITURE

The expenditure of £0.954m shown in the Other Operating Income and Expenditure line on the Statement of Comprehensive Income and Expenditure consists of the requisition paid to Dunbartonshire and Argyll & Bute Joint Valuation Board of £1.308m offset by £0.354m of backdated VAT income received as a result of claims being made under the "Fleming" case law principle.

### 8. SIGNIFICANT TRADING ORGANISATIONS

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

#### 8.1 Roads and Lighting Trading Account

The Council runs its Roads and Lighting Service on the basis of agreements concluded between the Service Managers, the relevant Council Departments and external organisations. The Service maintains the road network throughout Argyll and Bute excluding Trunk Roads (which are the responsibility of the Scottish Government). The Roads and Lighting Trading account returned a surplus of £0.357m in 2012-13. The trading objective is to break-even over a three year period, the trading account has achieved this objective with a 3 year surplus.

Roads and Lighting Trading Account	2010-11	2011-12	2012-13	3 year Cumulative £'000
	Actual £'000	Actual £'000	Actual £'000	
Turnover	19,406	19,944	18,202	57,552
Expenditure	18,805	19,587	17,845	56,237
<b>Net Surplus/(Deficit)</b>	<b>601</b>	<b>357</b>	<b>357</b>	<b>1,315</b>

#### 8.2 Catering and Cleaning Trading Account

The Council runs its Catering and Cleaning Service on the basis of agreements concluded between the Service Managers, the relevant Council Departments and external organisations. The Service provides Catering and Cleaning to all Schools and Council Offices as well as providing a Cleaning Service to external clients such as Police Stations and Outdoor Centres. The Catering and Cleaning Trading account returned a surplus of £0.052m in 2012-13. The trading objective is to break-even over a three year period, the trading account has achieved this objective with a 3 year surplus.

Catering and Cleaning Trading Account	2010-11	2011-12	2012-13	3 year Cumulative £'000
	Actual £'000	Actual £'000	Actual £'000	
Turnover	8,643	6,831	6,284	21,758
Expenditure	8,337	6,509	6,232	21,078
<b>Net Surplus/(Deficit)</b>	<b>306</b>	<b>322</b>	<b>52</b>	<b>680</b>

## Notes to the Financial Statements

### 9. AGENCY INCOME

The Council have an ongoing agency agreement with Scottish Water to collect domestic water and sewerage charges. During 2012-13 income from this agreement amounted to £0.244m.

Agency Income	2012-13 Actual £'000	2011-12 Actual £'000
Scottish Water	244	266
<b>Total</b>	<b>244</b>	<b>266</b>

### 10. COMMUNITY CARE AND HEALTH (SCOTLAND) ACT 2002

During 2012-13, under the Community Care and Health (Scotland) Act 2002, the Council continued to develop services which centred on joint working with the Argyll & Bute Community Health Partnership (CHP) and NHS Highland within the Argyll and Bute Health and Social Care Partnership.

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

During 2012-13 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 2012-13 income received by the Council from this source amounted to £5.064m and the related expenditure was £6.557m. This can be analysed as follows:

Purpose of Services	Income £'000	Expenditure £'000
Care of the Elderly	2,194	3,108
Provision of Services for People with Learning Disabilities	2,134	2,739
Provision of Services for People with Mental Health Needs	736	710
<b>Total</b>	<b>5,064</b>	<b>6,557</b>

## 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 £5.176m (2011-12 £4.893m) which represents the value of the service provided from 1 April 2012 to 31 March 2013. Under the agreement the Council is committed to paying the following sums:

Future Repayment Periods	£'000
2013 - 2014	5,418
2014 - 2019	28,245
2019 - 2024	31,824
2024 - 2027	16,400
<b>Total</b>	<b>81,887</b>

This equates to £5.328m per annum over the life of the contract.

### 12. FEES PAYABLE TO AUDIT SCOTLAND

In 2012-13 the following fees relating to external audit and inspection were incurred:

Auditor's Remuneration	2012-13 £'000	2011-12 £'000
Fees payable to Audit Scotland with regard to external audit services carried out by the appointed Auditor	253	266
<b>Total Remuneration</b>	<b>253</b>	<b>266</b>



## Notes to the Financial Statements

### 13. GRANT INCOME

The Council credited the following grants to the Comprehensive Income and Expenditure Statement in 2012-13:

Grant Income	2012-13 £'000	2011-12 £'000
<b>Credited to Taxation and Non Specific Grant Income</b>		
Revenue Support Grant	188,864	187,818
Non Domestic Rates	26,479	25,582
Specific Capital Grant	97	98
General Capital Grant	8,746	11,005
European Regional Development Fund (ERDF)	852	414
SUSTRANS	161	140
Sport Scotland	316	-
Other Grants	445	68
Other Government Capital Grants	841	112
<b>Total</b>	<b>226,801</b>	<b>225,237</b>
<b>Credited to Services</b>		
Scottish Government Specific Grants	375	385
General Capital Grant - Private Sector Housing Improvement Grants	1,074	1,517
Housing Benefit Subsidy	23,355	22,843
Council Tax Benefit Subsidy	5,913	5,972
Other Revenue Government Grants	1,800	1,898
<b>Total</b>	<b>32,517</b>	<b>32,615</b>

### 14. 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 completed a signed declaration on Related Party Interests and these have been used to compile this disclosure.

#### 14.1 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 the subjective analysis in Note 6 on reporting for resource allocation decisions and also in Note 13 – Grant Income.

## Notes to the Financial Statements

### 14.2 Members

Members of the council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2012-13 is shown in the Remuneration Report on page 17.

### 14.3 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	1,155
<i>Of these, transactions with the following exceeded £10,000:</i>	
Argyll, the Isles, Loch Lomond, Stirling and the Trossachs Tourist Board	149
Scotland Excel	69
Convention of Scottish Local Authorities (COSLA)	61
Cowal Council on Alcohol and Drugs	103
Helensburgh Addiction Rehabilitation Team	76
Kintyre Alcohol and Drugs Advisory Service	24
Argyll and Bute Citizens Advice Bureaux	55
Mid Argyll Community Enterprise	41
Oban Addiction Support and Information Services (OASIS)	42
Oban and Lorn Community Enterprise - Atlantis Leisure	517
<b>Total</b>	<b>1,137</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 Financial Statements and, by declaring possible instances, there is no suggestion that any inappropriate transactions have taken place.

**Notes to the Financial Statements**

**15. PROPERTY, PLANT AND EQUIPMENT**  
**15.1 Movement in Property, Plant and Equipment**

Movements in 2012-13	Other Land & Buildings £'000	Vehicles Plant & Equipment £'000	Infra-structure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total 2012-13 £'000
<b>Cost or Valuation</b>							
<b>At 1 April 2012</b>	<b>319,897</b>	<b>19,940</b>	<b>199,895</b>	<b>1,340</b>	<b>5,506</b>	<b>11,723</b>	<b>558,301</b>
Additions	6,989	4,872	8,889	128	(2)	14,262	35,138
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(11,871)	-	-	-	148	-	(11,723)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(2,004)	-	-	-	(918)	-	(2,922)
Derecognition - Disposals	(1,229)	(2,621)	-	-	(1,068)	-	(4,918)
Derecognition - Other	-	-	-	-	-	-	-
Assets reclassified (to)/from Held for Sale	(110)	-	-	-	(60)	-	(170)
Other movements in cost or valuation	2,609	-	5,926	-	50	(8,585)	-
<b>At 31 March 2013</b>	<b>314,281</b>	<b>22,191</b>	<b>214,710</b>	<b>1,468</b>	<b>3,656</b>	<b>17,400</b>	<b>573,706</b>
<b>Depreciation and Impairments</b>							
<b>At 1 April 2012</b>	<b>(23,434)</b>	<b>(13,156)</b>	<b>(46,134)</b>	<b>(2)</b>	<b>(389)</b>	<b>-</b>	<b>(83,115)</b>
Depreciation Charge for 2012-13	(11,627)	(2,821)	(4,754)	-	(155)	-	(19,357)
Depreciation written out to the Revaluation Reserve	13,846	-	-	-	60	-	13,906
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	629	-	-	-	238	-	867
Derecognition - Disposals	335	2,608	-	-	60	-	3,003
Other movements in depreciation and impairment	22	-	-	-	36	-	58
<b>At 31 March 2013</b>	<b>(20,229)</b>	<b>(13,369)</b>	<b>(50,888)</b>	<b>(2)</b>	<b>(150)</b>	<b>-</b>	<b>(84,638)</b>
<b>Balance Sheet amount at 1 April 2013</b>	<b>294,052</b>	<b>8,822</b>	<b>163,822</b>	<b>1,466</b>	<b>3,506</b>	<b>17,400</b>	<b>489,068</b>
<b>Balance Sheet amount at 1 April 2012</b>	<b>296,463</b>	<b>6,784</b>	<b>153,761</b>	<b>1,338</b>	<b>5,117</b>	<b>11,723</b>	<b>475,186</b>

## Notes to the Financial Statements

### 15.2 Valuation of Property, Plant and Equipment

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

- Infrastructure, community assets and assets under construction are valued at historical cost
- 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 at fair value is re-valued at least every five years. This includes Other Land and Buildings and Surplus Assets.

Revaluations of council owned Land and Property were carried out at 31 March 2013 in accordance with the Council's rolling programme of revaluations. The revaluations have been carried out by Hugh Blake, M.R.I.C.S, Estates Manager for Argyll and Bute Council. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

The following statement shows the progress of the Council's rolling programme for the revaluation of Property, Plant and Equipment:

Valued at Fair Value as at:	Other Land & Buildings £'000	Corporate Surplus Assets £'000
31 March 2013	138,833	707
31 March 2012	19,572	534
31 March 2011	51,680	829
31 March 2010	63,059	1,071
31 March 2009	20,908	365
<b>Total Cost or Valuation</b>	<b>294,052</b>	<b>3,506</b>

## Notes to the Financial Statements

### 15.3 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

### 15.4 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 2012-13 total spending on capital projects was £35.140m.

	2012-13 £'000	2011-12 £'000
<b>Opening Capital Financing Requirement</b>	<b>256,617</b>	<b>264,977</b>
<b>Capital Investment:</b>		
Property Plant and Equipment:		
Other Land and Buildings	6,989	4,818
Vehicles, Plant, Furniture and Equipment	4,872	3,166
Infrastructure Assets	8,889	8,938
Community Assets	128	66
Surplus Assets	(2)	61
Assets Under construction	14,262	8,422
Heritage Assets	-	8
Intangible Assets	2	96
<b>Total Capital Investment</b>	<b>35,140</b>	<b>25,575</b>
<b>Sources of Finance:</b>		
Capital Receipts	(394)	(190)
Government Grants	(11,428)	(11,479)
Capital Financed from Current Revenue	(1,650)	(124)
Repayment of External Loans	(18,679)	(20,584)
Capital Element of Finance Lease Payments	(25)	(157)
Capital Element of Schools NPDO Payments	(1,424)	(1,412)
Capital Receipts transferred to Capital Fund	394	190
Capital Receipts Used from Capital Fund	(94)	-
Other	(59)	(179)
<b>Total Funding</b>	<b>(33,359)</b>	<b>(33,935)</b>
<b>Closing Capital Financing Requirement</b>	<b>258,398</b>	<b>256,617</b>

## Notes to the Financial Statements

### 15.5 Commitments under Capital Contracts

At 31 March 2013, the Council had commitments on capital contracts of £7.162m. 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 2012 were £11.206m. The major commitments are:

	£'000
Roads Reconstruction (Various Locations)	2,332
School Building Improvements (Various Locations)	1,495
Vehicle Purchase Orders	1,484
Campbeltown Infrastructure Marine Works	265
Kintyre Renewables Hub	250
PC Replacement Programme	242
Beachmeanach Bridge	146

### 16. HERITAGE ASSETS

Financial Reporting Standard (FRS) 30 – *Heritage Assets* was adopted in 2011-12 as part of the 2011-12 Code of Practice.

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 40.

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

Movements in 2012-13	Art Collections £'000	Heritage Property £'000	Total £'000
<b>Cost or Valuation</b>			
<b>Net Book Value at 1 April 2012</b>	<b>1,148</b>	<b>176</b>	<b>1,324</b>
Additions	-	-	-
Disposals	-	-	-
Revaluations	-	-	-
Depreciation	-	-	-
<b>At 31 March 2013</b>	<b>1,148</b>	<b>176</b>	<b>1,324</b>

## Notes to the Financial Statements

### 17. INTANGIBLE ASSETS

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

Movements in 2012-13	Purchased Software Licences 2012-13 £'000
<b>Cost or Valuation</b>	
<b>At 1 April 2012</b>	<b>811</b>
Additions	2
Disposals	-
Reclassifications	-
<b>At 31 March 2013</b>	<b>813</b>
<b>Depreciation and Impairments</b>	
<b>At 1 April 2012</b>	<b>(479)</b>
Charge for 2012-13	(131)
Disposals	-
<b>At 31 March 2013</b>	<b>(610)</b>
<b>Balance Sheet amount at 1 April 2013</b>	<b>203</b>
<b>Balance Sheet amount at 1 April 2012</b>	<b>332</b>

## Notes to the Financial Statements

### 18. 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 2013. Revaluations of investment properties were carried out at 31 March 2013 by Hugh Blake, M.R.I.C.S, Estates Manager for Argyll and Bute Council.

#### 18.1 Movement in Investment Property

The movement in investment property during 2012-13 was:

Movements in 2012-13	Investment Properties £'000
<b>Cost or Valuation</b>	
<b>At 1 April 2012</b>	<b>5,647</b>
Acquisitions	-
Disposals	-
Net Gains/Losses from fair value adjustments	750
Transfers	-
<b>At 31 March 2013</b>	<b>6,397</b>

#### 18.2 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:

	2012-13 £'000	2011-12 £'000
Rental Income from Investment Property	95	91
Direct operating expenses arising from investment property	-	-
<b>Net gain/(loss)</b>	<b>95</b>	<b>91</b>



## Notes to the Financial Statements

### 19. 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.

#### 19.1 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 2012-13	Land & Buildings £'000
<b>Cost or Valuation</b>	
At 1 April 2012	87,573
Additions	-
Revaluations	5,606
<b>At 31 March 2013</b>	<b>93,179</b>
<b>Depreciation and Impairments</b>	
At 1 April 2012	(5,855)
Charge for 2012-13	(1,466)
Revaluations	7,316
<b>At 31 March 2013</b>	<b>(5)</b>
<b>Balance Sheet amount at 1 April 2013</b>	<b>93,174</b>
<b>Balance Sheet amount at 1 April 2012</b>	<b>81,718</b>

## Notes to the Financial Statements

### 19.2 Schools NPDO Finance Lease Liability

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

Movements in 2012-13	£'000
<b>Balance at 1 April 2012</b>	<b>(82,576)</b>
Repayments	1,424
<b>Schools NPDO Finance Lease Liability at 31 March 2013</b>	<b>(81,152)</b>
Split:	
Obligations payable within 1 year	(1,548)
Obligations payable after 1 year	(79,604)
<b>Schools NPDO Finance Lease Liability at 31 March 2013</b>	<b>(81,152)</b>

### 19.3 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
2013 - 2015	3,281	-	16,221	8,299	27,801
2015 - 2020	10,205	-	37,601	24,289	72,095
2020 - 2025	14,888	939	31,953	28,403	76,183
2025 - 2030	22,156	2,871	23,215	32,568	80,810
2030 - 2035	30,622	3,159	9,866	33,567	77,214
<b>Total</b>	<b>81,152</b>	<b>6,969</b>	<b>118,856</b>	<b>127,126</b>	<b>334,103</b>

## 20. FINANCE AND OPERATING LEASES

### 20.1 Finance Leases – Amounts Paid to Lessors

The Authority holds various vehicles under finance leases. The finance lease payment for the year amounted to £0.039m.

	2012-13 £'000	2011-12 £'000
Vehicles	39	304
<b>Total</b>	<b>39</b>	<b>304</b>

## Notes to the Financial Statements

### 20.2 Operating Leases – Amounts Paid to Lessors

The Council uses land, buildings, vehicles, plant and equipment financed under the terms of an operating lease. The amounts paid under these arrangements in 2012-13 were as follows:

	2012-13 £'000	2011-12 £'000
Land and Buildings	278	107
Vehicles	559	884
Plant and Equipment	53	108
<b>Total</b>	<b>890</b>	<b>1,099</b>

### 20.3 Assets Held Under Finance Leases

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

Movements in 2012-13	Vehicles, Plant and Equipment £'000
<b>Value at 1 April 2012</b>	<b>42</b>
Additions	-
Depreciation	(24)
<b>Value at 31 March 2013</b>	<b>18</b>

Outstanding obligations to make payments under these finance leases (excluding finance costs) as at 31 March 2013, accounted for as part of other liabilities are as follows:

Finance Lease Liability	Vehicles, Plant and Equipment £'000
Obligations payable within 1 year	18
Obligations payable between 1 and 5 years	-
Obligations payable after five years	-
<b>Total Liabilities at 31 March 2013</b>	<b>18</b>

### 20.4 Assets Held Under Operating Leases

The Council was committed at 31 March 2013 to making payments of £0.516m under operating leases comprising the following elements:

	Other Land and Buildings £'000	Vehicles, Plant and Equipment £'000
Leases expiring within 1 year	10	38
Leases expiring between 1 and 5 years	65	202
Leases expiring after 5 years	191	10
<b>Value at 31 March 2013</b>	<b>266</b>	<b>250</b>

## Notes to the Financial Statements

### 21. LONG TERM DEBTORS

	31st March 2013 £'000	31st March 2012 £'000
House Loans	76	85
Waste PPP Historic Contamination Fund	750	750
Charging Orders - Care Home Fees	870	965
Strategic Housing Fund Loans to Registered Social Landlords	1,813	1,900
Other Long Term Debtors	100	100
<b>Total Long Term Debtors</b>	<b>3,609</b>	<b>3,800</b>

### 22. DEBTORS

		31 March 2013		31 March 2012	
		£'000	£'000	£'000	£'000
Arrears of Local Taxation	Council Tax	12,091		11,949	
	Less: Provision for Bad Debts	(10,007)		(9,756)	
			2,084		2,193
	Community Charge	7,550		7,550	
	Less: Provision for Bad Debts	(7,550)		(7,550)	
			-		-
Housing Benefits Overpayments		823		877	
	Less: Provision for Bad Debts	(589)		(657)	
			234		220
Debtor Accounts		2,925		4,243	
	Less: Provision for Bad Debts	(791)		(804)	
			2,134		3,439
VAT Recoverable from HMRC			1,610		3,323
Other Debtors			8,377		5,972
<b>Total Debtors</b>			<b>14,439</b>		<b>15,147</b>

## Notes to the Financial Statements

### 23. ASSETS HELD FOR SALE

The movement in assets held for sale during 2012-13 was:

Movements in 2012-13	2012-13 £'000	2011-12 £'000
<b>Balance outstanding at start of year</b>	<b>2,153</b>	<b>1,722</b>
Assets newly classified as held for sale (Property, Plant and Equipment)	177	2,820
Revaluation losses	-	(2,273)
Revaluation gains	-	-
Impairment losses	-	-
Assets declassified as held for sale (Property, Plant and Equipment)	(65)	-
Assets Sold	(557)	(116)
<b>Balance outstanding at year-end</b>	<b>1,708</b>	<b>2,153</b>

### 24. CASH AND CASH EQUIVALENTS

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

	31 March 2013 £'000	31 March 2012 £'000
Cash held by the Authority	62	64
Cash in transit	2,813	105
Short term deposits with banks	14,032	17,962
Bank Current Accounts (Overdraft)	(5,039)	(2,644)
<b>Total Cash and Cash Equivalents</b>	<b>11,868</b>	<b>15,487</b>

### 25. CREDITORS

	31 March 2013 £'000	31 March 2012 £'000
Accrued Payrolls and Superannuation	5,418	5,677
Accrued Employer's National Insurance Contributions and PAYE	2,264	2,292
Accrual for Short Term Accumulating Absences	4,712	4,593
Creditors System Liability	6,121	6,949
Accrued Expenditure	5,899	5,164
Other Creditors	10,828	8,407
<b>Total Creditors</b>	<b>35,242</b>	<b>33,082</b>

## Notes to the Financial Statements

### 26. FINANCIAL INSTRUMENTS DISCLOSURES

#### 26.1 Types of Financial Instruments

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

	31 March 2013		31 March 2012	
	Long Term £'000	Current £'000	Long Term £'000	Current £'000
<b>Investments and Lending</b>				
Loans and Receivables	3,609	61,307	3,800	50,634
<b>Borrowing</b>				
Financial Liabilities at amortised cost	240,225	40,548	242,148	37,737

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

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

- Estimated interest rates at 31 March 2013 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 2013		31 March 2012	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
<b>Lending</b>				
Loans and Receivables	64,916	64,995	47,611	47,611
<b>Borrowing</b>				
Financial Liabilities	280,773	319,270	283,085	310,004

The fair value of the Authority's lending is the same as the carrying value at 31 March 2013 because the lending was at variable interest rates whilst the fair value is more than the carrying amount at 31 March 2013 because the Council's lending figure includes a number of loans where the interest rate receivable is higher than the rates available for similar loans at the balance sheet date. The commitment to receive interest above current market rates increases the amount that the Council would receive if it agreed to early repayment of the loans.

## Notes to the Financial Statements

### 26.3 Gains and Losses on Financial Instruments

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

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

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

### 26.5 Credit Risk

Credit risk arises from the short-term lending of surplus funds to banks, building societies and other local authorities as well as credit exposures to the Council's customers. It is the policy of the Council to place deposits only with a limited number of high quality UK banks 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 2013 £'000	Historical Experience of Non-payment adjusted for Market Conditions at 31 March 2013 %	Estimated Maximum Exposure to Default and Uncollectibility £'000
Deposits with Banks	14,032	-	-

The information in respect of the Council's debtors can be found in note 21 and 22. 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 22 represents the Council's assessment of the likely recoverability of the debt outstanding.

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

### 26.6 Liquidity Risk

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

## Notes to the Financial Statements

The maturity analysis of financial liabilities is as follows:

	31 March 2013 £'000	31 March 2012 £'000
<b>Maturity analysis of financial liabilities</b>		
Less than one year	40,548	37,737
Between one and two years	9,901	1,424
Between two and five years	38,485	41,058
More than five years	191,839	199,666

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

### 26.7 Market Risk

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

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

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

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

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

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

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



## Notes to the Financial Statements

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 2013, with all other variables held constant:

	31 March 2013 £'000
<b>Impact on tax-payer</b>	
Increase on interest payable on variable rate borrowings	7
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>7</b>

	31 March 2013 £'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)	23,159

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

### 26.8 Price Risk

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

### 26.9 Foreign Exchange Risk

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

### 26.10 Short-Term Deposits

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

	31 March 2013 £'000	31 March 2012 £'000
Banks	14,032	17,962

### 26.11 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 2013 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 34 and 35 on pages 85 to 86.

	31 March 2013 £'000	31 March 2012 £'000
Common Good	100	100
Trust Funds	1,246	1,234

## Notes to the Financial Statements

### 27. OTHER LIABILITIES

Other liabilities consist of liabilities which by arrangement are payable at some point in the future or paid off by an annual sum over a period of time. Other liabilities total £81.920m as at 31 March 2013 and comprise the following:

Movements in 2012-13	Opening Balance 31 March 2012 £'000	Movement in Year £'000	Closing Balance 31 March 2013 £'000
Finance Lease Liability (See note 20.3)	(42)	24	(18)
Schools NPDO Finance Lease Liability (See note 19.2)	(82,576)	1,424	(81,152)
Land Contamination	(750)	-	(750)
<b>Total Other Liabilities</b>	<b>(83,368)</b>	<b>1,448</b>	<b>(81,920)</b>
Split:			
Short Term Liabilities (due within 1 year)			(1,566)
Long Term Liabilities (due after 1 year)			(80,354)
<b>Total Other Liabilities</b>			<b>(81,920)</b>

### 28. PROVISIONS

	Opening Balance 31 March 2013 £'000	Additional Provision £'000	Amounts Used £'000	Unused Amounts Reversed £'000	Closing Balance at 31 March 2012 £'000
SRC Insurance Claims	(195)		5	9	(181)
Equal Pay Claims	(191)		159		(32)
Income due to Registered Social Landlords	(82)		22		(60)
Reorganisation Redundancy Costs	(1,779)	(469)	1,339		(909)
Care Charges Provision	(7)			7	-
Utilities Provision	(781)	(232)			(1,013)
Other Provisions	(215)	(149)	70	5	(289)
<b>Total Provisions</b>	<b>(3,250)</b>	<b>(850)</b>	<b>1,595</b>	<b>21</b>	<b>(2,484)</b>
Split:					
Short Term Provisions (due within 1 year)					(2,183)
Long Term Provisions (due after 1 year)					(301)
<b>Total Other Liabilities</b>					<b>(2,484)</b>

Liabilities have continued to arise in respect of the former Strathclyde Regional Council's operations. Cost sharing arrangements are in place with the other eleven authorities that make up the former Strathclyde Region. Argyll and Bute Council's share of liabilities, which materialise in the future, will be approximately 4.75%. At present, potential liabilities in respect of insurance claims and various legal actions could cost the Council £0.181m. Additional provision has also been made for asbestos related cases, full provision for the amounts notified have been made.

## Notes to the Financial Statements

A provision was created at the end of 2005-06 in relation to the 9% of female employees in catering, cleaning and home care services who had not accepted the Council's equal pay settlement. The Council is nearing agreement on the final settlement for Equal Pay claims, a number of claims were settled during 2012-13 and the provision for these claims was utilised to fund the costs. There are 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 2012-13 amounted to £1.732m; this amount is to be paid to registered social landlords to invest in social housing. A provision for cash not yet collected, due to be paid to registered social landlords, has been created amounting to £0.060m.

As with previous years, liabilities have arisen in respect of employees who will be made redundant as a result of restructuring. The Council has had significant budget savings to make and there will be an ongoing requirement to make savings in future years. The Council invited all employees to express an interest in voluntary redundancy. As a result of service review and other savings agreed as part of the budget process for 2011-12 to 2013-14 a number of employees have subsequently either taken or have been offered a redundancy package. The additional costs for employees terminated on or before 31 March 2013 were incurred in-year. For the employees who have confirmed acceptance of redundancy but have left or are leaving after 31 March 2013, a provision of £1.339m has been created during 2012-13. For further information refer to note 33 - Termination Benefits.

The utilities provision of £0.781m was created during 2011-12 to cover a potential liability in relation to discrepancies in charges for utility costs, an additional amount of £0.232m has been added to this during 2012-13 resulting in a total provision of £1.013m.

The "other" provisions include 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 2013-14.

### 29. DEFINED BENEFIT PENSION SCHEMES

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

#### **Teachers**

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

#### **Local Government Pension Scheme**

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

#### **29.1 Accrued Pensions Contribution**

Due to the timing of salary processing, not all employee and employer contributions have been paid to the Pensions Schemes by the 31 March 2013. These payments have been accrued and are included within the creditors figure on the balance sheet. These have been paid during April 2013. The amounts are as follows:

## Notes to the Financial Statements

- Local Government Pension Scheme – £1.094m
- Teachers' scheme – £0.640m

### 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 2011. 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 2013 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:

	2012-13 £'000	2011-12 £'000
<b>Comprehensive Income and Expenditure Statement:</b>		
<b>Cost of Services:</b>		
Current Service Cost	10,659	10,438
Past Service Cost/(Gain)	33	-
Settlements and Curtailments	1,337	2,931
<b>Net Cost of Services</b>	<b>12,029</b>	<b>13,369</b>
<b>Financing and Investment Income and Expenditure</b>		
Interest Cost	22,006	22,516
Expected Return on Scheme Assets	(22,024)	(26,448)
<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	<b>12,011</b>	<b>9,437</b>
<b>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>		
Actuarial (Gains) and Losses	21,580	57,154
<b>Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement</b>	<b>33,591</b>	<b>66,591</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	808	4,289
<b>Actual Amount charged against the General Fund Balance for pensions in the year:</b>		
Employer's Contributions Payable to the Scheme	12,819	13,726

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2013 is a loss of £124.489m (£102.909m loss in 2011-12).

## Notes to the Financial Statements

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

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

	2012-13 £'000	2011-12 £'000
<b>Defined Benefit Obligation at 1 April</b>	<b>459,779</b>	<b>408,953</b>
Current Service Cost	10,659	10,438
Interest Cost	22,006	22,516
Contributions by Scheme Participants	3,265	3,374
Actuarial (Gains) and Losses	55,858	27,423
Estimated Unfunded Benefits Paid	(1,707)	(1,811)
Estimated Benefits Paid	(16,256)	(14,045)
Losses on Curtailments	1,337	2,931
Past Service Costs (Gains)	33	-
<b>Defined Benefit Obligation at 31 March</b>	<b>534,974</b>	<b>459,779</b>

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

	2012-13 £'000	2011-12 £'000
<b>Fair Value of Employer Assets at 1 April</b>	<b>380,687</b>	<b>382,726</b>
Expected Rate of Return	22,024	26,448
Actuarial Gains and (Losses)	34,278	(29,731)
Employers Contributions	12,819	13,726
Contributions by Scheme Participants	3,265	3,374
Estimated Unfunded Benefits Paid	(1,707)	(1,811)
Estimated Benefits Paid	(16,256)	(14,045)
<b>Fair Value of Employer Assets at 31 March</b>	<b>435,110</b>	<b>380,687</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.

The actual return on scheme assets in the year was £56.363m (2011-12: £4.105m).

### 29.4 Scheme History

Local Government Pension Scheme	2008-09 £'000	2009-10 £'000	2010-11 £'000	2011-12 £'000	2012-13 £'000
Present Value of Scheme Liabilities	(289,681)	(462,085)	(408,953)	(459,779)	(534,974)
Fair Value of Assets	257,164	354,116	382,726	380,687	435,110
<b>(Deficit) in the Scheme</b>	<b>(32,517)</b>	<b>(107,969)</b>	<b>(26,227)</b>	<b>(79,092)</b>	<b>(99,864)</b>

The liabilities show the underlying commitments that the authority has in the long run to pay post-employment (retirement) benefits. The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2014 is £10.477m.

## Notes to the Financial Statements

### 29.5 Basis for Estimating Assets and Liabilities

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

The principal assumptions used by the actuary have been:

	2012-13	2011-12
	%	%
<b>Long Term expected rate of return on assets in the scheme:</b>		
Equity Investments	4.5%	6.3%
Bonds	4.5%	3.9%
Property	4.5%	4.4%
Cash	4.5%	3.5%

	2012-13	2011-12
	Years	Years
<b>Mortality assumptions</b>		
Longevity at 65 for current pensioners:		
Men	21.0	21.0
Women	23.4	23.4
Longevity at 65 for future pensioners:		
Men	23.3	23.3
Women	25.3	25.3

	2012-13	2011-12
	%	%
<b>Financial Assumptions</b>		
Rate of Inflation (CPI)	2.8%	2.5%
Rate of Increase in Salaries	5.1%	4.8%
Rate of Increase in Pensions (CPI)	2.8%	2.5%
Rate for discounting scheme liabilities	4.5%	4.8%

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

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

	2012-13	2011-12
	%	%
Equity Investments	76.0%	77.0%
Bonds	14.0%	11.0%
Property	7.0%	7.0%
Cash	3.0%	5.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

## Notes to the Financial Statements

### 29.6 History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2012-13 can be analysed into the following categories:

Local Government Pension Scheme Scheme	2008-09 %	2009-10 %	2010-11 %	2011-12 %	2012-13 %
Experience gains and losses on assets	-35.55%	22.60%	0.64%	-7.81%	0.79%
Experience gains and losses on liabilities	12.35%	-0.21%	-0.55%	-0.04%	0.00%

### 29.7 Teachers Pensions – Administered By Scottish Public Pensions Agency

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

	2012-13 £'000	2011-12 £'000
Amount Paid Over (£'000)	5,026	5,152
Rate of Contribution (%)	14.90%	14.90%
Amount of Added Years Awarded by the Council (£'000)	527	519

## Notes to the Financial Statements

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### 30. UNUSABLE RESERVES

Movements in the Authority's unusable reserves are detailed in the Statement of Movement in Reserves on pages 28 to 29.

#### 30.1 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.

#### 30.2 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.

#### 30.3 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.

#### 30.4 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.



## Notes to the Financial Statements

### 30.5 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.

### 31. USABLE RESERVES

Movements in the Authority's usable reserves are detailed in the Statement of Movement in Reserves on pages 28 to 29.

#### 31.1 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 2012-13	Usable Capital Receipts Reserve £'000	Capital Fund £'000	Total Capital Funds £'000
<b>Balance at 1 April 2012</b>	<b>2,823</b>	<b>269</b>	<b>3,092</b>
Proceeds of Disposals	-	394	394
Transfer to Capital Adjustment Account	(90)	(94)	(184)
Contribution to Loans Fund Charges	-	-	-
Interest Earned	11	2	13
<b>Balance at 31 March 2013</b>	<b>2,744</b>	<b>571</b>	<b>3,315</b>

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

Movements in 2012-13	Balance at 31 March 2012 £'000	Contribution from Revenue £'000	Interest Earned £'000	Contribution to Revenue £'000	Balance at 31 March 2013 £'000
Education	463	382	2	(66)	781
Vehicles	69	-	-	-	69
<b>Total</b>	<b>532</b>	<b>382</b>	<b>2</b>	<b>(66)</b>	<b>850</b>

## Notes to the Financial Statements

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### 32. CONTINGENT LIABILITIES

The outlook for all public sector organisations is challenging the Council has had significant savings to make over the last few years and will continue to have significant budget savings to make from 2013-14 onwards. Over the last 3 years a programme of service reviews was undertaken to identify savings of between 15% and 20% from service budgets and an approach is being developed to ensure that the savings required over the next 7 years are delivered. As part of the requirement for savings all Council employees were asked to express an interest in voluntary redundancy. Termination costs for all employees who have since been accepted for redundancy have been accounted for either in 2012-13, or previous financial years. All of the savings required are yet to be identified therefore although all known severance costs have been provided for it is possible that there may be further redundancies required to meet future savings from the revenue budget.

During the 2006-07 financial year the Council transferred its housing stock to Argyll Community Housing Association (ACHA). Some council houses involved in the transfer had been built on land not owned by the Council. The transfer agreement requires the Council to purchase this land and transfer it to ACHA at nil cost. Some of the outstanding land title issues were resolved during 2012-13 however there are still some landowners where a price has yet to be negotiated and therefore a reliable estimate cannot be made of the obligation at this stage.

The Council settled a number of equal pay claims during 2012-13, 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. Some claims which had previously been provided for were settled during 2012-13 (see Note 28).

### 33. TERMINATION BENEFITS

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

Redundancy costs as part of the programme of service reviews have been incurred by the Council since the 2010-11 financial year in relation to the budget savings agreed. In each year provision was made within the financial year for the costs of all employees who had accepted redundancy as at 31 March ending that year, including accounting for costs for employee who confirmed redundancy by 31 March but left or were leaving after this date. The total cost accounted for in 2011-12 was £4.958m for 167 employees and in 2012-13 was £1.259m for 145 employees. These costs are detailed further in the Remuneration Report on page 26.

Therefore termination costs for all Council employees who have accepted redundancy by 31 March 2013 have been accounted for in 2012-13, or in previous financial years. There is only one group of employees where there is insufficient information to allow for redundancy costs to be estimated reliably, therefore no actual financial provision can be made for these costs. An amount of £0.236m has been earmarked within the General Fund balance to accommodate these costs as and when the outstanding issues have been resolved.

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.

## Notes to the Financial Statements

### 34. TRUST FUNDS AND OTHER THIRD PARTY FUNDS

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

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

	Income £'000	Expenditure £'000	Net Assets £'000	Reserves £'000
Argyll Education Trust	12	5	399	399
GM Duncan Trust	1	1	87	87
MacDougall Trust	2	-	607	607
Various Other Trust Funds	4	1	537	537
<b>Total Trust Funds</b>	<b>19</b>	<b>7</b>	<b>1,630</b>	<b>1,630</b>

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

### 35. 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 2013. 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.

#### 35.1 Common Good Income and Expenditure Account for the year ended 31 March 2013

2011-12 Actual £'000		2012-13 Actual £'000
80	Expenditure	195
(79)	Income	(87)
<b>1</b>	<b>(Surplus)/Deficit for the Year</b>	<b>108</b>

## Notes to the Financial Statements

### 35.2 Common Good Balance Sheet at 31 March 2013

2011-12 Actual £'000		2012-13 Actual £'000
243	Tangible Fixed Assets	243
1,766	Investments	2,647
158	Current Assets	137
(2)	Current Liabilities	(2)
<b>2,165</b>	<b>Total Assets less Liabilities</b>	<b>3,025</b>
370	Revaluation Reserve	446
1,795	Common Good Fund	2,579
<b>2,165</b>	<b>Total Net Worth</b>	<b>3,025</b>

## Notes to the Financial Statements

### 36. 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:

	2012-13 £'000	2011-12 £'000
<b>Net (Surplus)/Deficit on Provision of Services</b>	<b>(23,321)</b>	<b>(15,642)</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	11,357	14,996
Transfer to/from Other Statutory Reserves	331	(19)
Increase/(Decrease) in Inventories	276	413
Increase/(Decrease) in Debtors	(890)	3,048
(Increase)/Decrease in Creditors and Provisions	(3,109)	2,264
Other Revenue Adjustments	(20,990)	(21,056)
	<b>(13,025)</b>	<b>(354)</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	10,604	11,027
Capital Element of Finance Lease Payments	(1,449)	(1,569)
	<b>9,155</b>	<b>9,458</b>
<b>Net Cash Flows from Operating Activities</b>	<b>(27,191)</b>	<b>(6,538)</b>
<b>The cash flows for Operating Activities include the following items:</b>		
Interest Paid on Borrowings	9,855	8,673
Interest Paid on Finance Leases	8,286	8,535
Interest Received on Bank Deposits	(746)	(260)
<b>Net Cash Outflow from Servicing of Finance</b>	<b>17,395</b>	<b>16,948</b>

### 37. CASH FLOW STATEMENT – INVESTING ACTIVITIES

The cash flows for Investing Activities include the following items:

	2012-13 £'000	2011-12 £'000
Purchase of Property, Plant and Equipment, Investment Property and Intangible and Heritage Assets	26,465	13,273
Investments made during year	15,000	20,000
Proceeds from the Sale of Property, Plant and Equipment and Investment Property	(394)	(313)
Other Receipts from Investing Activities	(11,598)	(11,390)
<b>Net Cash Outflow from Investing Activities</b>	<b>29,473</b>	<b>21,570</b>

## Notes to the Financial Statements

### 38. CASH FLOW STATEMENT – FINANCING ACTIVITIES

The cash flows for Financing Activities include the following items:

	2012-13 £'000	2011-12 £'000
Cash Receipts of Short and Long Term Borrowing	(296)	(209)
Other Receipts from Financing Activities	97	(1,600)
Cash Payments for the Reduction of the Outstanding Liabilities relating to Finance Leases and on Balance Sheet PFI Contracts	1,449	1,569
Repayments of Short and Long Term Borrowing	87	167
Other Payments from Financing Activities	-	-
<b>Net Cash Outflow from Financing Activities</b>	<b>1,337</b>	<b>(73)</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.

2011-12 Actual £'000		2012-13 Actual £'000
53,622	Gross Council Tax Levied and Contributions in Lieu excluding RSL Second Home Additional Income	54,038
	Add Back:	
1,817	RSL Second Home Discount Additional Income	1,654
	Less:	
(7,621)	Other Discounts and Reductions	(7,793)
(1,081)	Provision for Bad and Doubtful Debts	(994)
<b>46,737</b>	<b>Total</b>	<b>46,905</b>
572	Adjustment to Previous Years' Community Charge and Council Tax	471
<b>47,309</b>	<b>Transfers to General Fund</b>	<b>47,376</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 2012-13 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 2012-13

Council Tax Base	A	B	C	D	E	F	G	H	Total
Total Number of Properties	7,712	9,751	9,323	5,936	7,242	3,998	2,698	236	46,896
<b>Less</b> - Exemptions / Deductions	983	766	1,007	506	608	245	174	48	4,337
- Adjustment for Single Chargepayers	856	986	729	443	406	190	100	6	3,716
<b>Effective Number of Properties</b>	<b>5,873</b>	<b>7,999</b>	<b>7,587</b>	<b>4,987</b>	<b>6,228</b>	<b>3,563</b>	<b>2,424</b>	<b>182</b>	<b>38,843</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>3,915</b>	<b>6,221</b>	<b>6,744</b>	<b>4,987</b>	<b>7,612</b>	<b>5,146</b>	<b>4,040</b>	<b>364</b>	<b>39,029</b>
<b>Add</b> Contribution in lieu in respect of Class 18 dwellings (Band D Equivalent)									497
<b>Nominal Tax Yield</b>									<b>39,526</b>
<b>Less</b> Provision for Non-Collection - 3.25%									1,284
<b>Council Tax Base 2012-13 - Number of Band D equivalents</b>									<b>38,242</b>



## Non Domestic Rate Income Account

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

2011-12 Actual £'000		2012-13 Actual £'000
34,770	Gross rates levied and Contributions in Lieu	36,757
	Less:	
(8,598)	Reliefs and other deductions	(9,427)
-	Payment of Interest	-
(284)	Provision for Bad and Doubtful Debts	(75)
<b>25,888</b>	<b>Net Non-Domestic Rate Income</b>	<b>27,255</b>
(306)	Contribution (to)/from national non-domestic rate pool	(776)
<b>25,582</b>	<b>Transfers to General Fund</b>	<b>26,479</b>

## Notes to the Non Domestic Rate Income Account

### 1. ANALYSIS OF RATEABLE VALUES

	2012-13 £	2011-12 £
Industrial and freight transport subjects	6,286,330	6,262,945
Miscellaneous including Telecomms, Rail, Gas and Electricity Companies	51,996,975	52,744,894
Commercial subjects:		
Shops	12,958,360	12,980,910
Offices	5,033,860	5,033,860
Hotels, Boarding Houses etc.	6,628,775	6,529,025
Others	2,095,090	2,102,185
<b>Total Rateable Value</b>	<b>84,999,390</b>	<b>85,653,819</b>

### 2. NON-DOMESTIC RATE CHARGE

	2012-13 Pence	2011-12 Pence
Rate Per Pound	45.0p	42.6p
Supplementary Rate Per Pound for Properties over £35,000	0.8p	0.7p

### 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.

## Group Statement of Movement in Reserves

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

Movements in 2012-13	Argyll and Bute Council							Council's Share of Reserves of Associates £'000	Total Common Good Reserves £'000	Total Reserves £'000
	Usable Reserves			Total Usable Reserves £'000	Total Unusable Reserves £'000	Total Reserves of the Council £'000	Total Reserves of Associates £'000			
	General Fund Balance £'000	Repairs and Renewals Fund £'000	Capital Funds £'000							
				Total Usable Reserves £'000	Total Reserves of the Council £'000	Total Reserves of Associates £'000	Total Reserves £'000			
Balance at 31 March 2012	(34,572)	(532)	(3,092)	(38,196)	(138,891)	(177,087)	217,454	(2,147)	38,220	
Surplus/(Deficit) on Provision of Services	(23,321)	-	-	(23,321)	-	(23,321)	13,228	(107)	(10,200)	
Other Comprehensive Income and Expenditure	-	-	-	-	19,397	19,397	30,851	(770)	49,478	
<b>Total Comprehensive Income and Expenditure</b>	<b>(23,321)</b>	<b>-</b>	<b>-</b>	<b>(23,321)</b>	<b>19,397</b>	<b>(3,924)</b>	<b>44,079</b>	<b>(877)</b>	<b>39,278</b>	
Total Statutory Adjustments (See Page 29)	11,357	-	(394)	10,963	(10,963)	-	-	-	-	
Net (Increase)/Decrease before Transfers to Other Statutory Reserves	(11,964)	-	(394)	(12,358)	8,434	(3,924)	44,079	(877)	39,278	
<b>Other Transfers required by Statute</b>										
Transfer to/from Other Statutory Reserves	331	(318)	170	183	(183)	-	-	-	-	
<b>(Increase)/Decrease in Year</b>	<b>(11,633)</b>	<b>(318)</b>	<b>(224)</b>	<b>(12,175)</b>	<b>8,251</b>	<b>(3,924)</b>	<b>44,079</b>	<b>(877)</b>	<b>39,278</b>	
Balance at 31 March 2013 Carried Forward	(46,205)	(850)	(3,316)	(50,371)	(130,640)	(181,011)	261,533	(3,024)	77,498	

The Council's Statement of Movement in Reserves on 28 to 29 gives a more detailed analysis of the movement in the Council's usable and unusable reserves during 2012-13.

## 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 28 to 29.

2011-12			Note	2012-13		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
102,771	7,013	95,758	Service	105,251	6,767	98,484
31,336	26,615	4,721	Education Services	31,079	27,234	3,845
12,143	2,449	9,694	Housing Services (Non-HRA)	12,918	2,351	10,567
25,535	4,739	20,796	Cultural and Related Services	21,559	4,542	17,017
25,411	6,735	18,676	Environmental Services	24,913	7,018	17,895
7,425	4,435	2,990	Roads and Transport Services	7,086	4,373	2,713
10,452	5,845	4,607	Trading Services	8,251	4,054	4,197
64,775	9,549	55,226	Planning and Development Services	66,738	9,425	57,313
3,945	17	3,928	Social Work	4,041	103	3,938
8,373	1	8,372	Central Services:	1,816	5	1,811
2,777	1,189	1,588	- Corporate and Democratic Core	3,248	1,279	1,969
9,168	-	9,168	- Non Distributed Costs	7,308	-	7,308
4,839	-	4,839	- Central Services to the Public	4,548	-	4,548
45,036	30,707	14,329	Strathclyde Police Joint Board	42,797	29,569	13,228
			Strathclyde Fire and Rescue Joint Board			
			Associates Accounted for on an Equity Basis			
<b>353,986</b>	<b>99,294</b>	<b>254,692</b>	<b>Net Cost of Services</b>	<b>341,553</b>	<b>96,720</b>	<b>244,833</b>

## Group Statement of Comprehensive Income and Expenditure

						2,077
						(57)
						954
						<b>2,974</b>
						17,512
						(1,324)
						(18)
						<b>16,170</b>
						(188,864)
						(11,458)
						(26,479)
						(47,376)
						<b>(274,177)</b>
						<b>(10,200)</b>
						(2,183)
						21,580
						30,851
						<b>50,248</b>
						<b>40,048</b>

## Group Balance Sheet



31 March 2012			31 March 2013	
£'000	£'000		£'000	£'000
		<b>Long Term Assets</b>		
296,463		Property Plant & Equipment	294,052	
6,784		- Other Land and Buildings	8,822	
153,761		- Vehicles, Plant, Furniture and Equipment	163,822	
1,581		- Infrastructure Assets	2,373	
5,117		- Community Assets	3,506	
11,723		- Surplus Assets	17,400	
	<b>475,429</b>	- Assets Under Construction		
	1,324	Property Plant & Equipment		<b>489,975</b>
	332	Heritage Assets		1,324
	5,647	Intangible Assets		203
	3,800	Investment Property		6,397
	1,766	Long-Term Debtors		3,609
	2,557	Long-Term Investments		1,983
		Investment in Associates		2,646
	<b>490,855</b>	<b>Total Long Term Assets</b>		<b>506,137</b>
		<b>Current Assets</b>		
516		Inventories	631	
15,154		Short Term Debtors (Net of Impairment)	14,445	
2,153		Assets Held for Sale	1,708	
20,000		Short Term Investments	35,000	
15,538		Cash and Cash Equivalents	11,899	
	<b>53,361</b>	<b>Total Current Assets</b>		<b>63,683</b>
		<b>Current Liabilities</b>		
(3,126)		Short-term Borrowing	(3,640)	
(33,101)		Short-term Creditors	(35,244)	
(278)		Capital Grant Receipts in Advance	(116)	
(2,831)		Provisions	(2,183)	
(1,449)		Other Short Term Liabilities	(1,566)	
	<b>(40,785)</b>	<b>Total Current Liabilities</b>		<b>(42,749)</b>
		<b>Long-term Liabilities</b>		
(160,210)		Borrowing Repayable within a Period in Excess of 12 Months	(159,871)	
(81,919)		Other Long-term liabilities	(80,354)	
(419)		Provisions	(301)	
(79,092)		Other Long-term liabilities (Pensions)	(99,864)	
(220,011)		Liabilities in Associates	(264,179)	
	<b>(541,651)</b>	<b>Total Long-term Liabilities</b>		<b>(604,569)</b>
	<b>(38,220)</b>	<b>Total Assets less Liabilities</b>		<b>(77,498)</b>

## Group Balance Sheet



31 March 2012			31 March 2013	
£'000	£'000		£'000	£'000
55,562		<b>Unusable Reserves</b>	55,225	
172,873		- Revaluation Reserve	185,253	
(5,634)		- Capital Adjustment Account	(5,262)	
(79,092)		- Financial Instruments Adjustment Account	(99,864)	
(4,593)		- Pensions Reserve	(4,712)	
	<b>139,116</b>	- Accumulated Absences Account		130,640
		<b>Usable Reserves</b>		
3,092		- Capital Funds	3,316	
532		- Repairs and Renewals Funds	850	
34,572		- General Fund Balance	46,205	
	<b>38,196</b>			50,371
	<b>(217,454)</b>	<b>Group Reserves</b>		(261,533)
	<b>1,922</b>	<b>Common Good Reserves</b>		3,024
	<b>(38,220)</b>	<b>Total Reserves</b>		<b>(77,498)</b>

The Balance sheet is a snapshot of the value at the 31 March 2013 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).

Bruce West  
Head of Strategic Finance  
27 June 2013

## Notes to the Group Financial Statements

### 1. INTRODUCTION

The Code of Practice on Local Authority Accounting in the United Kingdom 2012-13: 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.

### 2. GROUP ACCOUNTING POLICIES

The group accounts are prepared in accordance with the policies set out in Note 1 to the Financial Statements on pages 35 to 47.

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

### 3. COMBINING ENTITIES

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

The Associates which have been incorporated are:

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

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

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

The accounting period for all entities is 31 March 2013.

### 4. NON MATERIAL INTEREST IN OTHER ENTITIES

The Council has an interest in Scotland Excel. Scotland Excel took up the activities of the Authorities Buying Consortium and similar bodies across the Scottish local authority sector on 1 April 2008. Renfrewshire Council prepare the financial statements for Scotland Excel in its role as lead authority. Scotland Excel is a not-for-profit organisation funded mainly by the 28 participating Scottish local authorities. Argyll and Bute Council contributed £0.068m towards Scotland Excel in the 2012-13 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



## Notes to the Group Financial Statements

opportunity; plan for a sustainable transport system; and integrate across boundaries with other partnerships.

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

### 5. NATURE OF COMBINATION

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

### 6. FINANCIAL IMPACT OF CONSOLIDATION

The effect of inclusion of the Associates and Common Good Funds on the Group Balance Sheet is to decrease both reserves and net worth by £258.509m. This gives an overall net liability position for the Group of £77.498m. This reduced net asset position is due to the IAS19 Pension Liability within the Associates' Single Entity Accounts. This can be summarised as follows:

	Pension Liability per Associates Accounts £'m	Argyll and Bute Council's Group Share £'m
Strathclyde Joint Police Board	5,125.615	213.226
Strathclyde Fire and Rescue Joint Board	1,285.840	49.891
Dunbartonshire and Argyll and Bute Valuation Joint Board	3.810	1.812
<b>Total Pension Liability of Associates</b>	<b>6,415.265</b>	<b>264.929</b>

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

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

### 7. FURTHER DETAILS ON CONSOLIDATION

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

#### Strathclyde Police Joint Board

Strathclyde Police Joint Board is the statutory corporate body established under the Strathclyde Combined Police Area Amalgamation Order 1975 and provides a comprehensive range of policing services on behalf of the 12 constituent Councils in the West of Scotland. During 2012-13 the Council contributed £7.278m or 4.16% of the Board's estimated running costs and accounted for £217.385m

## Notes to the Group Financial Statements

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of Balance Sheet Liabilities within the Group Balance Sheet. The accounts of the Board are subject to independent audit and can be obtained from the Treasurer to Strathclyde Police Joint Board, Glasgow City Chambers, Glasgow G2 1DU.

### **Strathclyde Fire and Rescue Joint Board**

This is the statutory body responsible for supervising the activities of Strathclyde Fire and Rescue Service. Strathclyde Fire and Rescue provides fire and emergency cover for the 12 constituent Councils in the West of Scotland. The Council contributed £4.548m to the Boards revenue costs in 2012-13 or 3.88% and has accounted for £45.727m as its representative share of the Balance Sheet Liabilities within the Group Balance Sheet. The accounts of the Board are subject to independent audit scrutiny and available from the Treasurer to Strathclyde Fire and Rescue Joint Board, South Lanarkshire Council, Almada Street, Hamilton ML3 0AA.

### **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 2012-13 and accounted for £2.588m 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 2012-13 the Council contributed £0.160m or 4.14% of the net annual running costs and accounted for £0.058m of the Balance Sheet Assets within the Group Balance Sheet. The accounts of the Board are subject to independent audit and are available from the Treasurer to Strathclyde Concessionary Travel Scheme, Consort House, 12 West George Street, Glasgow G2 1HN.

### **Dunbartonshire and Argyll and Bute Valuation Joint Board**

This body was formed in October 1995 at local government reorganisation by a Statutory Instrument and is responsible for the maintenance of the electoral, council tax and non-domestic rates registers for Argyll and Bute, West Dunbartonshire and East Dunbartonshire Councils. The Board's running costs are met by the three Councils. During 2012-13 Argyll and Bute Council contributed £1.308m towards estimated running costs and accounted for £1.067m 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.

## Notes to the Group Financial Statements

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:-

	2012/13 £'m	2011/12 £'m
Argyll and Bute Council has a 47.5% share of:		
Gross Income	2.751	2.551
Net Surplus (Deficit)	(0.091)	(0.153)
Long Term Assets	0.873	0.822
Current Assets	0.876	0.808
Liabilities due within one year	(0.158)	(0.165)
Liabilities due over one year	-	-
Pension Liability	(3.810)	(2.823)
Capital and Revenue Reserves	(2.219)	(1.358)

### 8. REPORTING AUTHORITY ADJUSTMENTS

A number of adjustments are required to the Council's Statement of Comprehensive Income and Expenditure (pages 30 to 31) 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 35 of the Notes to the Financial Statements on pages 85 to 86 have been fully consolidated into the Group Accounts. This adjustment increases the net assets and reserves of Argyll and Bute Council's Group by £3.024m.

### 9. GROUP CASH FLOW STATEMENT

The impact of the incorporation of the associates has no effect upon the Cash Flow statement for Argyll and Bute Council on page 34. 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.

### 10. SCOTTISH POLICE AND FIRE REFORM

The Police and Fire Reform (Scotland) Act 2012 creates a single Police Service of Scotland and a single Scottish Fire and Rescue Service to serve local communities and meet the demands and challenges of the 21<sup>st</sup> century.

The formation of the new single police and fire and rescue services took place from 1 April 2013, from that date Strathclyde Police Joint Board and Strathclyde Fire and Rescue Board has ceased operating.

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