

Public Document Pack

Argyll and Bute Council
Comhairle Earra Ghaidheal agus Bhoid

Corporate Services
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2 December 2005

NOTICE OF MEETING

A meeting of the **AUDIT COMMITTEE** will be held in the **COUNCIL CHAMBER, KILMORY, LOCHGILPHEAD** on **FRIDAY, 9 DECEMBER 2005** at **2:30 PM**, which you are requested to attend.

Nigel Stewart
Director of Corporate Services

BUSINESS

1. **APOLOGIES**
2. **DECLARATIONS OF INTEREST (IF ANY)**
3. **MINUTES**
 - (a) AUDIT COMMITTEE 2 SEPT 05 (Pages 1 - 6)
 - (b) AUDIT COMMITTEE 29 SEPTEMBER 2005 (Pages 7 - 8)
4. **AUDIT OF ACCOUNTS 2004/2005: MEMBERS LETTER/AUDIT OF ACCOUNTS AND CERTIFIED ACCOUNTS**
Report by Head of Strategic Finance (Pages 9 - 86)
5. **PROGRESS REPORT ON INTERNAL AUDIT PLAN 2005 - 2006**
Report by Internal Audit Manager (Pages 87 - 90)
6. **ADAPTING TO THE FUTURE 2003 - 2004**
Report by Internal Audit Manager (Pages 91 - 96)
7. **MAINTAINING SCOTLAND'S ROADS**
Report by Internal Audit Manager (Pages 97 - 116)

8. **RECENT EXTERNAL AUDIT REPORTS 2004 - 2005**
Report by Internal Audit Manager (Pages 117 - 136)
9. **EXTERNAL & INTERNAL AUDIT REPORT FOLLOW UP 2004 - 2005**
Report by Internal Audit Manager (Pages 137 - 154)
10. **REVIEW AND CONSOLIDATION OF OUTSTANDING AUDIT RECOMMENDATIONS RELATED TO BUDGETARY CONTROL**
Report by Head of Strategic Finance (Pages 155 - 156)
11. **ASSET MANAGEMENT STRATEGY**
Report by Chief Asset Manager (Pages 157 - 160)
12. **HMIE ACTION PLAN**
Report by Internal Audit Manager (Pages 161 - 172)
13. **STRATHCLYDE PENSION FUND**
Report by Head of Strategic Finance (Pages 173 - 176)

AUDIT COMMITTEE

Councillor Donald MacMillan
Councillor Gary Mulvaney (Chair)
Ian M M Ross
Christopher Valentine

Councillor John McAlpine
Councillor Elaine Robertson
Councillor John Tacchi

Contact: Fiona McCallum

Tel. No. 01546 604401

**MINUTES of MEETING of AUDIT COMMITTEE held in the COUNCIL CHAMBER, KILMORY,
LOCHGILPHEAD
on FRIDAY, 2 SEPTEMBER 2005**

Present:

Gary Mulvaney (Chair)

Councillor Donald MacMillan
Ian M M Ross
Christopher Valentine

Councillor Elaine Robertson
Councillor John Tacchi

Also Present:

Councillor William Petrie

Attending:

Charles Reppke, Head of Democratic Services and Governance
Bruce West, Head of Strategic Finance
Stewart Turner, Head of Roads and Amenity Services
Ian Nisbet, Internal Audit Manager
Steve Keightley, KPMG
Jim Cumming, Audit Scotland
David Jamieson, Audit Scotland

Apologies:

Councillor John McAlpine

The Chair welcomed everyone to the meeting and extended a special welcome to David Jamieson and Jim Cumming from Audit Scotland.

The Chair ruled and the Committee agreed to consider agenda item 8 – Recent External Audit Reports 2004 – 2005 after the Minutes.

1. MINUTES

The Minutes of the Audit Committee of 3 June 2005 were approved as a correct record subject to the following amendment:

The decision at item 2 “Strathclyde Pension Fund – Further Information” should read

- 1) To note the contents of the report;
- 2) To note that an officer had been appointed to maintain a watching brief over the Strathclyde Pension Fund; and
- 3) To note that a further report would be brought to the Audit Committee in December 2005.

Christopher Valentine joined the meeting.

2. RECENT EXTERNAL AUDIT REPORTS 2004-2005

A report containing an Executive Summary and Action Plan for new reports issued by Audit Scotland since the last Audit Committee together with details of the progress made by management on implementing the report recommendations was considered.

Decision

- 1) To note the contents of the report and request that this be followed up by Internal Audit;
- 2) To note that as at 8 August 2005 out of the 7 recommendations contained in the Action Plan for the report entitled "Information Management Review", only one remained to be implemented and it was expected that this would be implemented by September 2005;
- 3) To note that Audit Scotland has issued a report in April 2005 entitled "Improving Customer Service Through Better Customer Contact" and that once an approach to identifying those report findings that require implementation was defined, Internal Audit would report back to the Audit Committee; and
- 4) To note that implementation of all 9 recommendations contained within the Action Plan for the report entitled "Web Overview" was progressing to timetable.

(Ref: Report by Internal Audit Manager dated 18 August 2005, submitted).

3. STRATHCLYDE PENSION FUND

A proposed response to a Consultation Document received from Glasgow City Council that reshapes representation within the Strathclyde Pension Fund was considered by the Strategic Policy Committee on 11 August 2005.

Decision

To note that

- 1) the Strategic Policy Committee had agreed the proposed response to the consultation document and that comments received from the Chair and Vice Chair of the Audit Committee had been noted; and
- 2) a further report would be brought to the next meeting of the Audit Committee.

(Ref: Extract of Minute of the Strategic Policy Committee of 11 August 2005, submitted and report to SPC by Head of Strategic Finance dated 3 August 2005, tabled).

4. PROGRESS REPORT ON INTERNAL AUDIT PLAN 2005-2006

The Committee were asked to give consideration to an interim progress report which had been prepared regarding the audit work performed by Internal Audit up to 22 July 2005.

Decision

The Audit Committee agreed

- 1) To approve the progress made with the Annual Audit Plan for 2005-2006;

and

- 2) To request that Internal Audit look at including the Licensing Section of the Council in future Audit Plans.

(Ref: Report by Internal Audit Manager dated 18 August 2005, submitted).

5. ADAPTING TO THE FUTURE 2003-2004

A report detailing progress by Community Services Department Management with the implementation of recommendations contained within the national report entitled "Adapting To The Future" which had been issued by the Accounts Commission – Audit Scotland was considered.

Decision

The Audit Committee agreed to note

- 1) the contents of the report and request this be followed up by Internal Audit;
- 2) that all 16 recommendations will be complete by November 2005; and
- 3) Councillor Robertson's concern that implementation of the report's recommendations would have an impact on professional staffs' time.

(Ref: Report by Internal Audit Manager dated 18 August 2005, submitted and report by Internal Audit Manager dated 2 September 2005, tabled).

6. MAINTAINING SCOTLAND'S ROADS

Audit Scotland issued a national report towards the end of November 2004 entitled "Maintaining Scotland's Roads" which contained the findings of a recent study of the steps taken by the Scottish Executive and Councils to monitor the conditions Scotland's roads network and to manage structural maintenance.

The Audit Committee at their meeting on 3 June 2005 requested that the Strategic Policy Committee give further consideration to their initial question on 4 March 2005 asking the Strategic Policy Committee if they were satisfied that the Council had the necessary resources to address the issues highlighted in the Audit Scotland National Report.

Decision

The Audit Committee agreed

- 1) To note the contents of the report and request this be followed up by Internal Audit;
- 2) To note the extract of the minute of the Strategic Policy Committee of 7 July 2005 which advised the Audit Committee that there was insufficient budget resource available to address the £38m backlog for structural maintenance and that a request had been made to the Scottish Executive through COSLA for further measures to be taken in an attempt to increase funding to address the roads maintenance backlog;

- 3) To note that the Head of Roads & Amenity Services will be preparing an updated report to Strategic Policy Committee in December 2005 and that a copy will be made available to the Audit Committee; and
- 4) To acknowledge that the speed of response to the Committee's request by the Head of Roads and Amenity Services was excellent.

(Ref: Report by Internal Audit Manager dated 22 July 2005, submitted and Extract of Minute of the Strategic Policy Committee of 7 July 2005, submitted).

7. EXTERNAL & INTERNAL AUDIT REPORT FOLLOW UP 2004-2005

A report setting out the results from a review performed by Internal Audit for recommendations due to be implemented by 30 June 2005 was considered.

Decision

- 1) To note the contents of the report and request this be followed up by Internal Audit;
- 2) To note that the recommendation contained on page 58 of the report (ref D4 – Review of Purchase of Equipment & Materials) had a revised implementation date of mid September 2005;
- 3) To note that the revised implementation date for the recommendation contained on page 61 of the report (ref H5 – Review of HRA Rents) should read “ongoing process”;
- 4) To note that the revised implementation date for the recommendation contained on page 70 of the report (ref B14 – 2002/03 Performance Audit – Management of Community Equipment and Adaptations) should read “December 2005”; and
- 5) To note that progress with the recommendations contained on page 55 of the report (Ref A1, A2 and A3 – Review of Budgetary Control) had moved on since the original audit. It was agreed to request that Internal Audit produce a revised action plan for these recommendations as the revised implementation dates contained within the report reflected the new processes put in place since the original audit.

(Ref: Report by Internal Audit Manager dated 8 August 2005, submitted).

Councillor MacMillan left the meeting.

8. FERRY SERVICES REVIEW

The Audit Committee at their meeting on 3 June 2004 requested that a report be brought to the next meeting detailing the monitoring arrangements that have been put in place to ensure the operators of the Jura-Lismore Ferries were adhering to the terms of their contracts.

A report prepared in response to the Audit Committee request was considered.

Decision

The Audit Committee agreed

- 1) To note that a customer feedback form was being produced to allow passengers to make comments/complaints and that this would be available to passengers travelling on the Cuan – Luing and Port Appin – Lismore ferries and will be displayed in the waiting rooms at Easdale and Ellenabeich;
- 2) To note that the Lismore service transferred back to Council control in April 2005 and is monitored by the Harbour Master in Oban;
- 3) To note that ASP Ship Management who operate the Islay – Jura service submits to the Council monthly details of the sailing information log book; and
- 4) To request that the Head of Roads and Amenity Services make available to the Audit Committee the financial cost of operating the ferry services.

(Ref: Report by Director of Operational Services, submitted).

9. ASSET MANAGEMENT STRATEGY

A report identifying the main elements of Asset Management Planning and progress to date was considered.

Decision

- 1) To note the contents of the report; and
- 2) To note that a Progress Report will be brought to the next meeting of the Audit Committee.

(Ref: Report by Chief Asset Manager dated 23 August 2005, submitted).

10. HMIE REPORT 2004-2005

The Educations functions of Argyll and Bute Council were inspected during the period December 2004 – January 2005 by HM Inspectorate of Education as part of a 5 year National Inspection Programme of all Local Authorities in Scotland. A report outlining service key strengths plus areas requiring improvement was considered.

Decision

The Audit Committee agreed

- 1) To note the contents of the report and request that this be followed up by Internal Audit;
- 2) To note that a further update will be provided to the Audit Committee on 9 December 2005; and
- 3) To congratulate all the staff in Community Services for a very good report from HMIE.

(Ref: Report by Internal Audit Manager dated 22 July 2005, submitted).

11. ICT INFORMATION SECURITY

A report detailing the Executive Summaries from two recent reports prepared for the Council by a Specialist Consultant commissioned to carry out reviews on Information Security and GSX – Code of Connection's state of readiness along with a report prepared by the Head of ICT and Financial Services for the Strategic Management Team which highlighted the current position relating to ICT security within the Council was considered.

Decision

To note the contents of the report and request this be followed up by Internal Audit in due course.

(Ref: Report by Internal Audit Manager, dated 22 July 2005, submitted and Report by Head of ICT and Financial Services dated 28 June 2005, submitted).

The Chair closed the meeting and reminded Members that a special meeting of the Audit Committee would take place on Thursday 29 September 2005 at 2.00 pm in Helensburgh to consider the External Auditors report on the 2004/5 Annual Accounts.

MINUTES of MEETING of AUDIT COMMITTEE held in the THE MARRIAGE ROOM, 25 WEST KING STREET, HELENSBURGH on THURSDAY, 29 SEPTEMBER 2005

Present: Councillor Gary Mulvaney (Chair)

Councillor Donald MacMillan	Councillor John Tacchi
Councillor John McAlpine	Ian Ross (V-Chair)
Councillor Elaine Robertson	

Also Present: Councillor Ronald Kinloch

Attending: Bruce West, Head of Strategic Finance
Kirsty McLean, Chief Executives Department
Sandra McGlynn, Democratic Services Officer
Angela Cassels, Audit Scotland
David Jamieson, Audit Scotland
Ian Bell, Audit Scotland

The Chair welcomed everyone to the meeting and extended a special welcome to Angela Cassels, David Jamieson and Ian Bell from Audit Scotland.

1. APOLOGIES FOR ABSENCE

There were no apologies for absence.

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

3. AUDIT OF ACCOUNTS 2004-2005

The Committee heard from Angela Cassels, Audit Scotland regarding the Statement of Auditing Standard 610 and the Independent Auditor's Report. She advised that her Auditor's report on the Council's financial statements concluded that the financial statements present fairly the Council's financial position at 31 March 2005 and its income and expenditure for the year then ended. In her view, there were six issues which required to be brought to the Council's attention which the Audit Committee discussed.

Decision

It was noted that the final Audit of Accounts would be submitted to the Council meeting in November once the Audit Certificate had been received and that the points raised within the Auditors Report would be followed up by the Head of Strategic Finance.

(Ref: Statement of Auditing Standards 610 letter and Independent Auditor's Report dated 30 September 2005, submitted)

**ARGYLL AND BUTE COUNCIL
STRATEGIC FINANCE**

**COUNCIL
14 NOVEMBER 2005**

**AUDIT OF ACCOUNTS 2004/2005 – REPORT TO MEMBERS, AUDIT
CERTIFICATE AND CERTIFIED ACCOUNTS**

1. INTRODUCTION

- 1.1 The external auditors, Audit Scotland, have completed their audit of the Council's Accounts for the year to 31 March 2005 and the Audit Certificate, Certified Accounts and Report to Members are attached. The Audit Certificate contains no qualifications.

An action plan covering the external auditors recommendations is attached as Appendix A to the Report to Members, together with the proposed responses to the Action Points. The Audit Committee's remit includes monitoring of action within agreed timescales.

2. RECOMMENDATION

- 2.1
- The Certified Accounts and the terms of the Audit Certificate and report to Members are noted.
 - To refer to the Audit Committee monitoring of the external auditors recommendations contained in the action plan.

3. DETAIL

- 3.1 The Certified Accounts, the Audit Certificate and the Report to Members are attached.
- 3.2 The Accounts were completed and submitted to Audit Scotland by the statutory date of 30 June 2005 and the audit has been completed within the timescale of 30 September 2005, set by Audit Scotland.
- 3.3 Member's attention is drawn to the Action Plan in Appendix A of the report to Members. Monitoring of action required will be carried out by Internal Audit and regular updates on compliance with the agreed points will be reported to the Audit Committee during 2006.
- 3.4 The Auditors' Certificate on the Council's financial statements for the year ended 31 March 2005 contains no qualification in that she is able to conclude that the Council's financial

statements present fairly its financial position as at 31 March 2005.

3.5 The Auditors' Executive Summary provides comments on the following –

- Financial Statements
- Corporate Governance
- Performance Management

It is important that Members consider the detailed comments within the Auditors' report and do not rely solely on the Executive Summary.

3.6 The surplus for the year has increased by £0.872 from £2.055m to £2.927. This results in a balance carried forward on the General Fund Reserve of £15.120m, an increase of £0.872. The committed sums included in the General Fund Reserve have increased by £0.153m from £6.941m to £7.094m. This leaves a free balance on the General Fund Reserve of £8.026m, compared to £7.307m per the unaudited accounts.

The increase in the surplus for the year of £0.872m can be analysed as follows:

▪ Correction to write-off of Deferred Charges	£0.559
▪ Adjustments in respect of Capital Financed from Current Revenue	£0.274
▪ Other minor adjustments	£0.039
▪ Total	£0.872

3.7 The completion of the audit of Accounts for the year 2004/05 within the timescale set by Audit Scotland means that the Council continues to be completely up-to-date in completion and audit of Accounts. In addition, there are no qualifications on the Audit Certificate.

3.8 The free General Fund Reserve stands at £8.026m. This is in excess of the proposals for 2% general contingency. The excess is £4.079m. The Council will need to consider proposals to utilise this as part of the upcoming budget process.

4. IMPLICATIONS

4.1 Policy: The completion of the accounts and the audit within set timescales complies with the Council's objectives on providing timeous and accurate information to the public.

- 4.2 Financial: The external auditors independent examination of the Council's financial records has resulted in a clear Audit Certificate. Surplus balances are held on both the General Fund and in the Housing Revenue Account. The Council should continue with prudent financial management.
- 4.3 Legal: The Accounts have been completed in accordance with all legislative and Code of Practice requirements.
- 4.4 Personnel: None
- 4.5 Equal Opportunities: None

Bruce West
Head of Strategic Finance
3 November 2005

ANNEX 1 – CHANGES BETWEEN UNAUDITED AND AUDITED ACCOUNTS

CONSOLIDATED REVENUE ACCOUNT AND NOTES

- The General Fund Services sub-total is no longer required, therefore Housing Revenue Account has been moved to beside Housing Services non-HRA and included in Net Cost of Service total.
- Interest and Investment Income is no longer included within the Net Cost of Services and is now disclosed separately.
- The capital element of finance lease payments has been included within Note 2 Asset Management Revenue Account and Note 3 Contributions to Capital Financing Account.
- The analysis of future payments for finance and operating leases has been removed and included within the notes to the balance sheet.
- Within Note 16 Related Party Transaction, Grants categorised as other government grants have reduced.

HOUSING REVENUE ACCOUNT

- A presentational change in relation to the contribution to the Capital Financing Account.
- A recalculation for the Housing Revenue Account share of FRS 17 costs.

CONSOLIDATED BALANCE SHEET AND NOTES

- On the face of the Balance Sheet, Intangible Assets has been moved above Tangible assets and this change has resulted in the Intangible Assets note changing to Note 1 which has a knock-on effect of the numbering of subsequent notes.
- Valuations 2.3 and 2.4 – “1999/2000” and “Valuations Inherited” inserted to show complete picture of valuations.
- The Summary of Capital Expenditure and Financing note was revised in line with the Statement of Recommended Practice (SORP).
- Inclusion of notes in relation to finance and operating leases.
- Long Term Debtors have been reduced with the exclusion of the loans early repayment figure.
- The Analysis of Net Assets Employed has been split to reflect the share between the general fund and the HRA.
- Loans Early Repayment Premium, previously included within Long Term Debtors has been moved to Capital Reserves with the Statement of Total Movement on Reserves.

MOVEMENT ON RESERVES AND CASH FLOW

- Due to Loans Early Repayment Premium being included within Capital Reserves, an additional note was required.
- The term “Earmarked Reserves” is no longer used and reserves previously termed as Capital Reserves and Earmarked Reserves have now been renamed Revenue Funds.
- Deferred Government grants figure changed, transfer from capital financing accounts of government grants wrongly categorised – Note 3 to reserves.
- As a result of the changes within the other primary statements, the Cash Flow has been amended to reflect these.

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31 October 2005

Bruce West
Head of Strategic Finance
Argyll and Bute Council
Council Offices
Kilmory
Lochgilphead
PA31 8RT

Dear Bruce

2004/05 Audit – Final Report to the Members

We have now completed our 2004/05 audit of the Council and I enclose for your information a copy of the final report to Members.

Please do not hesitate to contact me if you would like to discuss any issues further.

Yours sincerely

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

Angela Cassels
Assistant Director of Audit (Local Government)

Enc



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31 October 2005

Convenor and Members
Argyll and Bute Council
Headquarters
Kilmory
LOCHGILPHEAD
PA31 8RT

Controller of Audit
Audit Scotland
18 George Street
EDINBURGH

Ladies and Gentlemen

Report on the audit for the year ended 31 March 2005

I have now completed my audit of the Council's accounts for the year ended 31 March 2005.

As part of my responsibilities as external auditor to the Council I am required to submit, at the conclusion of each year's audit, a final report addressed both to the members of the Council and to the Controller of Audit.

This report aims to summarise all significant matters which have arisen during the course of the audit and which I feel are worthy of members' attention.

I have pleasure in attaching my final report on the Council's audit for the year to 31 March 2005, which will be submitted to the next meeting of the Council.

I should like to take this opportunity to thank the Chief Executive and his staff for their assistance during the course of the audit.

Yours faithfully

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

Angela Cassels
Assistant Director of Audit (Local Government)

Audit Scotland, on behalf of the Accounts Commission for Scotland, is responsible for:

- providing independent reports to the Commission and the wider public on how public money is spent, what it achieves and what improvements can be made
- providing independent reports to public sector bodies on their finances, their corporate governance and how they manage their performance and secure value for money
- providing an independent opinion on whether the annual financial statements of public sector bodies have been prepared in accordance with statutory requirements



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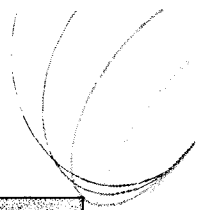
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Executive summary

1. This report summarises the main issues arising from the 2004/05 audit. Overall, financial stewardship within the Council during the year was satisfactory. Our conclusions on key aspects of the Council's performance are highlighted in the table below, based on the audit work undertaken during the year.

Financial statements
<ul style="list-style-type: none"> • The financial statements present fairly the Council's financial position. • The statement on the system of internal financial control complies with accounting requirements and is not inconsistent with audit findings. • Final accounts preparation procedures and working papers were generally good, although changes were made as a result of the audit. • The Council did not prepare group accounts on a voluntary basis during 2004/05.
Financial position
<ul style="list-style-type: none"> • Balances held on the general fund at 31 March 2005 amount to £15.120 million. Members have deferred consideration of proposals to utilise the unallocated element of general fund balances until the budget cycle. • The total housing revenue account balance carried forward at 31 March 2005 amounts to £1.015 million. • All of the significant trading operations have reported a break-even position during 2004/05 and an overall surplus of £0.032 million. However, the Leisure trading account income was increased by £27,000 for 2004/05 to meet FRS 17 pension costs, contrary to proper accounting practice. • The significant slippage against the capital programme is to be managed within the Council capital plan.
Corporate governance
<ul style="list-style-type: none"> • The Council has good systems for financial management and our reports have generally been positive on the financial stewardship and governance of the council. • Risk management is developing in accordance with the council's Corporate Governance and Risk Management Policy. • The Council's audit committee is invested with sufficient authority to act with independence and offers adequate opportunity for scrutiny of financial performance.
Financial strategy
<ul style="list-style-type: none"> • The Council has put in place a medium term financial strategy which models income and expenditure over a three year period and is updated annually. • There is a lack of clarity over the sustainability of services and initiatives over the longer term. Projected budget models have identified future funding gaps at a Council-wide level.
Anti-fraud and corruption arrangements
<ul style="list-style-type: none"> • The Council has appropriate arrangements in place to prevent and detect fraud and corruption. • The Council has taken part in the National Fraud Initiative. However, although the benefits section has adopted a clear approach to the investigation of data matches, this has not been the case for the payroll section.



Internal control
<ul style="list-style-type: none"> • Reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal financial control system in the year to 31 March 2005. • Remedial action has been taken in regard to most of the matters raised in management reports issued last year, which covered the main financial systems and general computer environment. • The Council's asset management strategy, which provides an action plan and timetable for the integration of asset management into service planning and performance management, is being taken forward.
Best value
<ul style="list-style-type: none"> • A full best value audit is being carried out at the Council and is due to be reported early in 2006.
Performance management
<ul style="list-style-type: none"> • The Council is currently in the process of implementing a new performance management framework • Incorporating the framework into the planning and reporting cycles requires considerable commitment and effort at every level. • The Council is still some way off from being able to demonstrate that the framework is effective in driving the continuous improvement in Council services.
Performance indicators
<ul style="list-style-type: none"> • Six statutory performance indicators were concluded to be unreliable. • These indicators have been discussed with officers and an action plan has been agreed to ensure reliable figures are reported in 2005/06.
Use of resources
<ul style="list-style-type: none"> • We consider that the Council has demonstrated compliance with a number of aspects of the code of practice in relation to its dealings with arms length external organisations and has some effective arrangements in place, although there is room for improvement.

2. Detailed action plans covering the issues raised during the audit have been discussed with management throughout the year. Key issues for the attention of members are outlined in the action plan included in this report.



Introduction

3. The members and officers of the Council are responsible for the management and governance of the organisation. As external auditors, we review and report on the arrangements in place and seek to gain assurance that:
 - the financial statements have been prepared in accordance with statutory requirements and that proper accounting practices have been observed;
 - the Council's system of recording and processing transactions provides an adequate basis for the preparation of the financial statements and the effective management of the authority's assets and interests;
 - the Council has adequate corporate governance arrangements which reflect the three fundamental principles of openness, integrity and accountability;
 - the systems of internal control provide an appropriate means of preventing or detecting material mis-statement, error, fraud or corruption;
 - the Council has proper arrangements for securing best value in its use of resources and is complying with its community planning duties; and
 - arrangements have been made to collect, record and publish statutory performance information.

4. This report summarises the most significant issues arising from our work during 2004/05. A number of more detailed reports to management, including agreed action plans, have also been submitted to officers throughout the year.



Financial statements

Auditor's report

5. The financial statements present fairly the Council's financial position at 31 March 2005 and income and expenditure during the year.
6. Last year the auditor's report drew attention to a failure to comply with a statutory requirement in relation to supporting people grant. This was because no local authorities were able to comply with the requirement to ensure that all providers of housing support services had made an application to register with the Care Commission before 1 October 2003. In July 2004 the Lord Advocate confirmed that he was prepared to grant an amnesty against prosecution to all housing support service providers as long as they applied for registration prior to 30 September 2004. The Council, and its providers, did apply for registration prior to this date.
7. The Smoking, Health and Social Care Act was approved in August 2005 and provided retrospective approval to treat grant payments made between October 2003 and 30 September 2004 as having been validly made. There has, therefore, been no failure to comply with a statutory requirement in 2004/05.

Financial position

8. The consolidated general fund revenue account shows a surplus for the year of £2.927 million, against a budget where the Council was planning to use brought-forward balances to fund a projected deficit of £0.894 million when the 2004/05 council tax was set. The main variances relating to 2004/05 activities are increased income from local taxation of £2.053 million; savings in loan charges of £1.322 million and overall savings by departments of £0.930 million.
9. When the current year's surplus is added to the balance of £12.193 million brought forward at 1 April 2004, the cumulative surplus balance at 31 March 2005 is £15.120 million. The budget for 2005/06 was approved on the basis of a 2004/05 "free reserve" carry-forward balance of £5.849million. The 2005/06 budget includes a deficit for the year of £1.975million with retention of closing balances, excluding ring fenced monies held, of £3.874 million.
10. All Councils hold reserves which consist of both earmarked amounts set aside to support future years' expenditure and contingencies for unexpected events or emergencies. The Controller of Audit's '*Overview of the local authority audits 2004*' recognises that the appropriate level of balances is for councils to determine, taking account of local circumstances, but stresses the need for clear strategies for managing such funds which set out their purpose and intended use. In the absence of clear strategies, there are risks that funds are accumulated unnecessarily or that pressure to restrict rises in council tax or rent levels results in an inadequate cushion held to deal with emergencies.



11. At 31 March 2005 the Council had total reserves of £16.940 million:

Reserve	31/03/04 £'000	31/03/05 £'000
General Fund	12.193	15.120
Repairs and Renewal Fund	1.637	1.820
Total	13.830	16.940

12. The general fund balance at 31 March 2005 is £15.120 million, being 8.0% of general fund net expenditure. Funding to be carried forward for specific purposes which is earmarked within the general fund stands at £7.094 million. The unallocated general fund balance, therefore, stands at £8.026 million. As part of the budget proposals, the Council accepted in principle to provide for a general contingency at 2% of net operating expenditure. Based on the 2004/05 accounts, this equals £3.774 million. The unallocated general fund balance exceeds this by £4.252 million. Members have deferred consideration of proposals to utilise the unallocated element of general fund balances until the 2006/07 budget cycle.
13. The Local Government in Scotland Act 2003 replaced compulsory competitive tendering regulations with a duty to maintain and disclose trading accounts for significant trading operations, which are required to break-even over a three-year rolling period. Note 6 to the consolidated revenue account highlights that all trading accounts are reporting a cumulative surplus. However, Leisure trading account income was increased by £27,000 in order to match FRS 17 pension costs, contrary to proper accounting practice. Although there is no impact on the overall financial position of the Council, the Leisure trading account should report a trading deficit of £27,000 for 2004/05. This adjustment will be recognised for 2005/06 in identifying any trading operation failing to meet the statutory requirement to break-even over a rolling three year period.
14. Capital expenditure totalled £28.861 million against an approved budget of £37.627 million. The Council's three-year capital programme is reviewed annually. The underspend has arisen due to slippage on a number of projects included in the programme; in particular Argyll Air Services, Bruichladdich Pier, Cuan Ferry Slipways, Campbeltown Community Project and Campbeltown New Quay. These five projects account for £10.5 million of the slippage.
15. I have noted slippage in a number of councils' capital programmes during 2004/05, as I have carried out the audit of the nine councils for which I have audit responsibility. Because of the change to the prudential regime for funding capital expenditure, from the previous annual cash limited capital consent issued by the Scottish Executive, all councils are in the early stages of managing capital programmes, more, flexibly, over longer time frames than previously. Although slippage in any one year is, therefore, not unreasonable, I will be monitoring closely the council's progress from year-to-year in managing its capital investment and delivering its full programme of improvements in assets. Continuing slippage in the longer term will require the Council to review its programme and capacity to deliver.
16. At 31 March 2005 the housing revenue account (HRA) shows a surplus for the year of £0.520 million, together with interest earned on balances of £0.021 million. The surplus arose primarily because of savings on capital financing costs of £1.1 million. The surplus brought forward from 2003/04 was £0.474 million, resulting in a balance carried forward of £1.015 million.



Issues arising

17. The Council's unaudited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June. Final accounts preparation procedures and working papers were generally good and this enabled the audit to progress smoothly.
18. Some adjustments were made to the figures included in the unaudited accounts made available for public inspection. In particular:
 - capital funded from revenue relating to the HRA was excluded from the accounts presented for audit;
 - deferred charges balance for wheeled bins have now been written-off fully to the consolidated revenue account;
 - the capital element of finance lease payments were not fully reflected in the accounts presented for audit; and
 - FRS 17 pensions adjustments were not fully reflected in the accounts presented for audit.

The sum of the adjustments increased the surplus on the general fund revenue account by £872,000 to £2.927 million.
19. Further matters arising from the audit of the financial statements also require to be brought to the attention of members and these are summarised below.

Pension liabilities

20. Accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. Financial Reporting Standard 17 (Retirement Benefits) is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future. This involves substituting the actual payments made during the year by the Council for its employer contributions, with an estimate of the amount that the Council would be liable for if it had to pay out pensions benefits arising from employee services in the current period.
21. Note 16 to the consolidated balance sheet highlights that the Council's estimated pension liabilities at 31 March 2005 exceeded its share of assets in the Strathclyde Pension Fund by £81.535 million. The movement from a liability of £31.363 million at 31 March 2004 is primarily due to there being a requirement to change the discount rate to be used in calculating the 2004/05 liability. A revaluation of the pension scheme is currently being carried out which it is anticipated will lead to increased annual pension contributions payable by all member bodies. These increased contributions will be financed through the consolidated revenue account.
22. The Council uses the actuary Hymans Robertson to produce information on the pension fund entries in the Council's financial statement required by Financial Reporting Standard (FRS) 17 retirement benefits. As a result of some research of actuaries used by English local authorities, Audit Scotland became aware, towards the end of September 2005, that some of the FRS 17 'retirement benefits' figures commissioned from Hymans Robertson may have been calculated in a different way from that expected by Audit Scotland. This has no impact on the figures reported in the balance sheet, neither the net cost of services nor the surplus for the year recorded in the consolidated revenue account, although some figures which are

reversed out of the accounts could change. In addition, no value has been put on any change that could be necessary. I have concluded that this would not materially affect the ability of the reader of the accounts to understand the council's financial position, and I have taken no further action in relation to the accounts or the audit opinion.

23. The Council also has an obligation to meet a proportion of the expenditure of the joint boards of which it is a constituent member. Four of these boards, Strathclyde Fire Board, Strathclyde Police Board, Dunbartonshire & Argyll & Bute Valuation Joint and Strathclyde Passenger Transport Authority (funding the SPTE) had an excess of liabilities over assets at 31 March 2005 due to the accrual of pension liabilities. The Council will be due to meet joint board pension liabilities as they fall due.

Asset management and valuation

24. The final report on the previous year's audit commented on the lack of procedures to review non-operational assets, and to document and review assets for impairment. These are two important processes which contribute to a proper system of asset management and valuation. No review of non-operational assets took place in 2004/05, and our enquiries have established that the Council has been awaiting finalisation of the asset reconciliation, prior to services confirming which assets actively contribute to service objectives. In respect of the review of impairment of assets, we noted that a year-end exercise did take place, and no impairment was identified. However, officers have confirmed that during 2005/06, they intend to develop a set of documented procedures for routinely identifying significant asset impairment during the year.
25. It is essential, where capital expenditure has been incurred during the year that the relevant asset is formally revalued to ensure any non-enhancing expenditure is identified and excluded from the fixed assets balance. Whilst we are aware that the Council conduct a five yearly cyclical revaluation process, there is no method of ensuring that assets, which have been subject to capital works, are revalued in the same year. It may, therefore, be up to five years before non-enhancing expenditure is identified and removed from the accounts. (This issue was identified during the previous year's audit and our enquiries have established that procedures have yet to be devised.) Officers have confirmed that, during 2005/06, they intend to set a level of expenditure or percentage of expenditure to current asset value, beyond which, a revaluation will be triggered in respect of the relevant asset.

Trading accounts

26. 2004/05 is the second year of reporting the results of trading accounts. All trading accounts are reporting a cumulative surplus, although as outlined in paragraph 13, our enquiries have established that the Leisure trading account income was increased by £27,000 to match FRS 17 pension costs, contrary to proper accounting practice. Although there is no impact on the overall financial position of the Council, the Leisure trading account should report a trading deficit of £27,000 for 2004/05. This adjustment will be recognised for 2005/06 in identifying any trading operation failing to meet the statutory requirement to break-even over a rolling three year period.
27. One of the tests of whether trading accounts are required is whether the service is charged on a basis other than a straightforward recharge of cost. Our enquiries have established that a number of significant year-end income adjustments were made to the Waste Management trading account and the Catering and Cleaning trading account. These recharges are based on actual cost of service provision. Specifically:



- former client costs of some £1.08 million in relation to waste management, street sweeping and the skip service which are now charged to the trading account, were recharged at the year-end based on actual expenditure;
 - former non-statutory catering, cleaning and janitorial services costs of some £2.1 million were recharged during 2004/05 on the basis of actual costs plus 10%, based on a long standing arrangement with the client; and
 - actual support service costs of £675,00 were recharged at the year-end from the Catering and Cleaning trading account to the client department based on historic percentage allocations.
28. It is important that trading operations set charges for all activities delivered to the client on the basis of full budgeted cost. If some activities are recharged at cost or if some costs are not included in charge out rates but just recharged at the year-end, it is impossible to assess whether the trading operation is trading efficiently, and whether the Council is obtaining best value. Officers have confirmed that these issues will be addressed during 2005/06.

Control accounts

29. During the audit, we identified that a significant number of control accounts are being maintained and operated for the purpose of recording income and expenditure in relation to various grant claims and initiatives. Although these amounts have been accounted for in the financial ledger, they have not been included within the suite of ledger codes which facilitate their inclusion within the consolidated revenue account (CRA). As a result, both gross income and gross expenditure are currently understated by some £3.881 million (although they aggregate to a nil effect on the surplus shown in the CRA). The Council has agreed that they will review the control accounts and ensure that all income and expenditure is recorded gross in the consolidated revenue account.

Former tenants rent arrears

30. Within the housing rents system, there is a process in place whereby former tenants rent arrears are billed via the corporate debtors system, whilst also remaining in the housing rents system. As a result, former tenants arrears have been double counted in the debtors figure shown in the balance sheet, resulting in a gross overstatement of £148,848. However, this double counting is off-set because two provisions had been made in respect of the debt, each being approximately 95% (£145,405) of the value of the gross debt. This effectively cancels the original error, leaving only a net debtors overstatement of some £3,000. Officers have agreed that this debtor balance and corresponding provision will be included only once in next year's accounts.

Schools public private partnership (PPP)

31. In order to improve school assets across the Council area, the Council is progressing funding through a PPP schools project. As members will be aware, the original outline business case (OBC) for the non-profit distributing organisation (NPDO), the organisation which has been established to undertake the schools project, included the refurbishment of 26 of the Council's 93 schools and rebuilding two schools. However, following a detailed consultation exercise in 2004, the project was amended to include only 17 schools, and further amended at the Council meeting of 31 January 2005 to remove another seven schools, leaving ten schools within the project.



32. Argyll and Bute Council is the only Council undertaking a schools PPP project using an NPDO model. My letters of 16 June 2005, 25 July 2005 and 26 August 2005 confirm that the process followed to determine whether the body should account for the transaction on or off its balance sheet was in accordance with the current underlying guidance (subject to certain reservations detailed in the letters).
33. The Head of Strategic Finance has previously confirmed that his final view on the accounting treatment is that the transaction should be accounted for as off Argyll and Bute Council's balance sheet. In my view, the Head of Strategic Finance's final judgement on the accounting treatment is reasonable, subject to the reservations set out in my letter of 26 August 2005. Financial close on nine of the schools was achieved on 9 September 2005, with further negotiation continuing on the other school. The proposed project is a major development for the Council and I will continue to monitor this area as part of the audit process.

Legality

34. Each year we request written confirmation from the Head of Strategic Finance that the Council's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in audit programmes and checklists. The Head of Strategic Finance has confirmed that, to the best of his knowledge and belief and having made appropriate enquiries of the Chief Executive and senior management team, the financial transactions of the Council were in accordance with the relevant legislation and regulations governing its activities.

The Freedom of Information (Scotland) Act 2002

35. This Act came into force on 1 January 2005 and provides citizens with the right to obtain information and documents held by public authorities in Scotland. In the first eight months of the Act, the Council has received 120 requests for information ranging from the straight-forward to the extremely complex and time-consuming. To date, the Council has been able to adequately fulfil its responsibilities under the new Act.

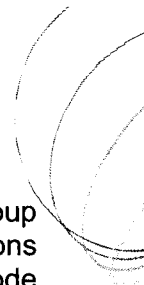
Statement on the system of internal financial control

36. The 2004/05 financial statements include a statement on the system of internal financial control which highlights the Head of Strategic Finance's view that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal financial control system, but that work is ongoing to further enhance the control environment and address weaknesses in the areas of risk and asset management. The statement complies with accounting requirements and is not inconsistent with our audit findings.

Looking ahead

Group accounts

37. The 2004 *Code of Practice on Local Authority Accounting in the United Kingdom* introduced modified arrangements for the preparation of group accounts. Councils were encouraged to adopt the new arrangements in 2004/05, but they are mandatory from 2005/06 (with the publication of comparative figures for the previous year). In view of the significant challenge presented by the new requirements, the Council decided not to adopt them this year but to work towards compliance in 2004/05.



38. A six-step process is underway to compile a comprehensive list of organisations where group relationships exist. The planned process, if successfully completed, incorporates the actions required to ensure that the group accounts disclosures are in accordance with the code for 2005/06.

Whole of Government Accounts

39. HM Treasury is in the process of introducing Whole of Government Accounts (WGA) covering the whole of the public sector and treating government as if it were a single entity by eliminating all significant transactions between public sector bodies. Local government is being included in this process in a phased manner:
- an initial 'dry run' this year, after finalisation of the 2004/05 financial statements, and focusing on establishing the systems required for full participation
 - a second dry run in 2005/06, involving fuller data collection and a requirement for the data to be subject to audit
 - production of audited WGA accounts in 2006/07, including prior year comparative figures
40. Involvement in the WGA process, particularly when viewed in conjunction with the new arrangements for group accounts, will place an additional burden on the Council's finance staff. Preparations for the WGA process should begin as soon as possible, with early activity to assess resource requirements.



Corporate governance

Overview

41. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. Last year we reported that although the Council had many aspects of a sound corporate governance framework in place, further improvement was still required in relation to identifying service areas where trading accounts should be prepared and asset management.

Risk management

42. Risk management is incomplete but developing. A strategic risk management group has been set up, which meets on a quarterly basis and is intended to support the development and implementation of corporate risk management. The group has met on a number of occasions undertaking an initial high level review of the strategic risk register. The group has also agreed a form of risk matrix and register and is examining the constitution of loss control groups within service areas.

Audit committee


43. The Council's compliance with the *Guidance Note on Audit Committee Principles in Local Authorities in Scotland* was assessed to establish whether audit committee principles and other scrutiny arrangements are being operated effectively. Our assessment concluded that the arrangements in place appear to be very effective. The audit committee is very supportive of both internal and external audit and the arrangements contribute well to the overall control environment.

Internal audit

44. Internal audit plays a key role in the Council's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. In July 2004 Audit Scotland published a national report on *A job worth doing: raising the standard of internal audit in Scottish Councils*. Overall, the Council was placed within the highest performance band.
45. Our audit planning memorandum for 2004/05 which was submitted to members of the audit committee in March 2005 set out that we planned to place reliance on the work of internal audit in relation to payroll, purchasing, creditors payments, budgetary control, treasury management, capital accounting / capital contracts and statutory performance indicators. Our review of the work performed by internal audit in these areas was found to be satisfactory and accordingly, reliance has been placed on their work.

Financial strategy

46. Local authorities administer large sums of public expenditure within a complex financial and policy environment, often as key partners in delivering central government policy objectives. Difficult decisions must be made in balancing demands for improvements in both the volume of services delivered and in the performance of those services within constraints on financial resources. A council's financial strategy is critical to help ensure that national priorities, local corporate objectives and service improvements are delivered.

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47. We undertook a review of financial strategy across a number of councils audited by Audit Scotland, and found that most councils had strong financial stewardship arrangements in place with an emphasis on the traditional areas of control, probity, accountability and compliance. We found little evidence, however, that across Scotland, financial strategy was a significant driver in the improvement agenda or played a key role in reviewing the way that services are delivered.
48. From our local review, the Council has sound arrangements in place in many areas for determining financial strategy although some key arrangements have yet to be developed. Overall conclusions are that the Council:
- operates a budgeting system that is independent of the Council's corporate objectives. Although the annual service plans include a limited amount of financial detail, there is no attempt to align resources to priorities;
 - has developed an approach to ensuring the sustainability of its spending decisions although this focuses on the short to medium term, but is limited in relation to longer term sustainability. This development will be strengthened by the implementation of the new asset management strategy which was approved by the Council in April 2005;
 - has demonstrated a relatively pro-active approach to assisting elected members and managers to be effective financial managers and has recognised the need to enhance budget monitoring procedures and to provide budget holder training; and
 - has sound foundations of budgetary control and treasury management on which to build and develop the financial strategy.
49. Examples of particularly good practice already in place within the Council include:
- regular, and structured, reporting of material revenue budget variances to both senior management and members;
 - usable reserves which are held for a clear purpose in support of the overall financial strategy;
 - bi-annual monitoring of progress toward targets established in the corporate plan;
 - the establishment of a community planning partnership which operates both across the whole of Argyll and Bute, as well as on an area basis, obtaining views and feedback from residents and incorporates these into area plans through the identification of key themes and priorities; and
 - quarterly reporting of service performance to the strategic management team
 - the Council's Constitution, which was approved by the Council on 29 June 2005, incorporates the Council's financial and security regulations which provide the framework for managing the Council's financial affairs.
50. Areas where we consider that arrangements could be further improved include the need for:
- clearer links between the overall corporate plan and the individual service plans, and costing of objectives at a service plan level and reporting thereon;
 - a more consistent approach to budget setting and monitoring which is practical for all service areas. We acknowledge that there is currently a plan to roll out the principles of a approach in operation within the Community Services Department and we further recognise that these arrangements need to take account of the different nature of operations within each department; and



- timely implementation of the recently approved asset management strategy to ensure capital investment decisions are soundly based.
51. A number of reports have been produced recently highlighting good practice in financial strategy, including the Controller of Audit's *'Overview of the local authority accounts 2004'*, the Audit Commission's *'Improvement through better financial management'* and CIPFA's framework/model on *'Improving financial management in public services'*. These documents provide useful benchmarks on best practice and the Council should review its own progress against these benchmarks on a regular basis.

Anti-fraud and corruption arrangements

52. At the corporate level, the Council has appropriate arrangements in place to prevent and detect fraud and corruption. During 2004/05, internal audit has identified no major issues in relation to fraud and other irregularities. Housing benefit and council tax benefit frauds amounting to £144,850 and £49,998 respectively have been identified and pursued.
53. During 2004/05 the National Fraud Initiative, which has operated for a number of years in England and Wales, was introduced in Scotland. This initiative involves the collection of a range of datasets, such as employees, pensioners and housing benefit recipients, from a number of bodies to compare them for inconsistencies and anomalies that may indicate error or fraud. These cases are then reported to individual bodies for investigation. Over the years, the National Fraud Initiative has accrued savings of £160 million in England and Wales.
54. The NFI 2004/05 results (data matches) were distributed to the Council on CD-Rom in late January 2005 and the Council is required to follow up the matches, as appropriate, and provide savings returns reporting progress made as at 31 May 2005, 30 September 2005 and 31 December 2005. The Council's involvement in NFI 2004/05 was monitored during the course of the audit.
55. A clear approach for investigating matches and reporting findings was implemented by the unified benefits section. This included prioritising 'red' matches with a secondary focus on 'yellow' matches. They also maintained appropriate documentation to support the investigative work carried out and implemented a timetable which worked towards the interim return and final return deadlines. There is, however, no evidence that a similar approach was adopted by the payroll section. Our enquiries have established that although payroll submitted a 'nil' return for the interim submission, this was due to lack of work performed rather than a review highlighting no fraudulent activity. The final return was due on 30 September 2005 and our follow-up enquiries have also established that no further work has been performed since the interim return deadline. I will continue to take an interest in the progress of this initiative.

Systems of internal control

56. As outlined in paragraph 44, reliance was placed on the work of internal audit in 2004/05 to evaluate a number of key systems in place within the Council. The internal audit manager concluded that *'reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal financial control system in the year to 31 March 2005'*.
57. In addition to placing reliance on internal audit work, the 2004/05 audit involved a review of a number of the Council's systems and follow-up of progress on actions agreed in previous years. The main findings from the more significant areas examined are summarised in the following paragraphs.



Issues from previous years

58. Recommendations made in previous years' audit reports are monitored by internal audit who follow-up the recommendations made with the appropriate designated officer. The audit committee is presented with an update at each meeting showing recommendations implemented and outstanding. I am pleased to report that remedial action has been taken in regard to most of the matters raised in management reports issued last year which covered the main financial systems and general computer environment.

Establishment of significant trading operations

59. Section 10 of the Local Government in Scotland Act 2003 requires local authorities to maintain and disclose trading accounts for significant trading operations. This legislation removed the requirement for compulsory competitive tendering for specified services and encouraged a best value approach to service delivery. The legislation recognises competition as an important, but not definitive, element in achieving best value from trading activities.
60. Last year I reported that the identification of trading operations for 2003/04 and 2004/05 was approved by the Strategic Policy Committee. The Council's criteria and tests of significance identified only the roads maintenance and building services functions as significant trading operations. The Council chose to prepare the following additional voluntary trading accounts in respect of certain trading operations which are grouped for disclosure to reflect the way in which the services are managed:
- waste management;
 - leisure operations; and
 - catering and cleaning service.
61. Though we are now in our second year of trading accounts Audit Scotland are of the view that across Scotland, trading accounts are being approached in a mechanistic and compliance way, and not as the result of a proper best value review of delivery options. I have also made comment at paragraphs 26 to 28 above, on the lack of rigour in the operation of the trading activities. In Argyll and Bute Council, in the context of a strategic review, a programme to review best value in relation to the significant trading operations is being developed.

Asset management

62. Last year I reported that there was inadequate control over the management of the Council's property assets. Our follow-up enquiries have established that the Council's asset management strategy, which provides an action plan and timetable for the integration of asset management into service planning and performance management, is being taken forward. Completeness checks and some property condition surveys are currently being undertaken across the Council. Asset use and options appraisal will be considered once the completeness checks are finalised. Work has also been completed on the schools estate asset management plan and the roads maintenance and asset management plan and the council has assessed the level of backlog maintenance in both areas.

Business continuity planning

63. As part of our 2004/05 audit we carried out a review of the Council's arrangements for business continuity planning. Our review identified that the Strategic Risk Management and Governance Group are supervising the development of a business continuity plan. The group

is aware of the need to expand the scope of the current exercise which is focusing on the risks associated with a pandemic influenza epidemic, to cover other operational risks and to minimise the impact should these risks occur. Our report made a number of recommendations to improve business continuity planning within the Council, including:

- the scope of the current business continuity exercise should be expanded to include other risks;
- the Council should ensure that sufficient resources are assigned to the project to complete the tasks identified in the project plan to the agreed timetable; and
- during the course of a business continuity planning exercise the Council may identify issues affecting several departments; these issues should be addressed across the Council rather than individual departments developing their own plans in isolation.

64. A timetable for implementing the recommendations arising from the review has been agreed.

Information management

65. During 2004/05 we reviewed aspects of the Council's controls relating to the arrangements for management information to facilitate effective data protection and preparedness for the introduction of freedom of information legislation. The report arising from our review made a number of recommendations to strengthen the Council's governance and internal control structures, including:

- the Council's Data Protection Policy should be reviewed and updated with the requirements of the Data Protection Act;
- the Council should clarify its policy relating to freedom of information; and
- representation on the Freedoms of Information Working Group should be extended to include all Council services.

66. I am pleased to record that positive action has already been taken on most of the matters arising from the review.

Looking ahead

67. In the coming years the Council faces significant challenges which include:

- concluding the housing stock transfer project in partnership with Communities Scotland and the Scottish Executive;
- concluding the schools estate non-profit distributing organisation (NPDO), public private partnership (PPP) project and modernising the remaining schools estate through the schools estate strategy. Based on retaining the existing number of buildings, the strategy identifies a funding gap of £102.3m over 10 years after the NPDO work has been completed;
- maintenance and upgrade of the existing transport infrastructure within Argyll and Bute. The total backlog maintenance for Argyll and Bute's roads network is calculated at over £38 million;
- responding to cost pressures and the need to resource sustainable performance improvements while meeting new demands for services. Significant efficiencies are required to meet additional costs in demand led services and the challenge of funding settlements, against the back drop of the Efficient Government agenda. Specific cost



pressures may arise from the consequences of the single status pay agreement and the need to fund increased pension costs;

- development of a robust asset management planning process, linked to capital expenditure strategies and plans, to ensure best value in the use of the Council's assets and that spending plans are affordable, prudent and sustainable;
- the introduction of proportional representation for the 2007 elections and potential changes to the remuneration of members. There is a risk that current political governance structures may not be the most appropriate in the future and there is a need to ensure effective succession planning in relation to both members and senior officers; and
- working with partners to ensure sound governance and accountability arrangements for the new Community Health Partnerships.

68. These areas, and the controls put in place by management to address the issues, are likely to be subject to ongoing review during the 2005/06 audit.



Performance management

Best Value

69. The Local Government in Scotland Act 2003 established best value and community planning as statutory duties for local authorities. In response, the Accounts Commission introduced new arrangements for the audit of Best Value based on a cyclical approach involving a full review by a specialist team once every three years. In the intervening years, short follow-up reviews are carried out by the local auditor.
70. The Council received a full best value audit this year which is due to be reported early in 2006. A more detailed review of the Council's performance management arrangements was also undertaken and the results of this work are reported below. No follow-up work was undertaken on community planning as this area is the subject of a national study to be reported this winter.

Performance management and improvement

71. The delivery of high quality and cost effective public services is a cornerstone of current government policy. Performance management and improvement involves raising the standards and quality of performance, achieving greater efficiency in the use of public funds and becoming more responsive to the needs and aspirations of both individual service users and the communities that each council serves. The development of the community planning agenda will start to generate a number of performance indicators to reflect partnership activity. Councils' performance management systems will need to be robust to handle changing requirements.
72. We undertook a review of performance management across a number of councils which are audited by Audit Scotland, and found that most councils recognise the importance of an effective system of performance management and the implementation of a performance management framework is a corporate priority.
73. The Council is currently in the process of implementing a new performance management framework which was approved by the Strategic Policy Committee in December 2004. The framework is being introduced as a phased project over an extended period (2 years) to enable "lessons to be learned" as the process develops. The intention is to unify the planning and performance reporting processes across the Council and to develop a balanced scorecard system of performance measures across all services. Although the basic framework has been developed, much work has still to be done in incorporating the process into the planning and reporting cycles. Overall, we consider that the Council is still some way off from being able to demonstrate that the framework is effective in driving the continuous improvement in Council services.
74. Examples of particularly good practice already in place within the Council include:
 - the preparation of a comprehensive combined "budget setting pack" for 2005/06 which enabled corporate, service and area plans to be approved by the Council at the same time as capital and revenue budgets;
 - the Council continues to have an active wide-ranging community planning partnership in place to implement the objectives under the community plan. An effective citizens panel also exists and is consulted twice a year as part of a questionnaire exercise;



- the Council has a Policy and Strategy Team in place which has undertaken consultation and training exercises with heads of service in developing new service plans and performance reports under the revised framework;
- a corporate asset management planning strategy (AMPS) has recently been approved, along with a 2 year action plan and timetable for implementation. This will enable the authority to achieve improved efficiencies and management of its assets, leading to integrated asset management and service planning;
- a performance development and review (PDR) system has been developed and is being used by services. The system enables service objectives to be translated into the work plans of individual employees, thereby ensuring the Council's workforce are focussed in achieving corporate and service objectives;
- a corporate risk management strategy was approved by the senior management team (SMT) in December 2004. A risk and governance manager has been appointed to oversee the process and a risk management group (comprising of representatives from all services) has been tasked with implementing the strategy. The group is currently conducting a detailed review of service risks following initial progress in identification of high level risks; and
- the Council has an informative website which provides access to committee reports and is a useful source of information relating to current policies and initiatives. Copies of the corporate, area and service plans are held online, in addition to a range of financial information.

75. Areas where we consider that arrangements could be further improved include:

- there is a general lack of formal scrutiny of performance by members in relation to interim monitoring of service performance against plans. Whilst we are aware that the corporate plan action plan is monitored and reported to members bi-annually, effective scrutiny by members of council performance requires that they receive regular and detailed updates on council performance at service level;
- the corporate plan was set in 2003 for the period 2003/07. Our review of the plan identified that it focuses on area related issues and specific service initiatives, as opposed to fundamental aspects of service provision. In order for the corporate plan to act as a driver for service improvement, it should focus also on aspects of core service delivery and reflect the views of the local population;
- service plans make no reference to the corporate plan. In order to demonstrate alignment with the objectives of the corporate plan, there should be a clear reference made to corporate objectives when defining service activities. Our review also established that a number of services have difficulty aligning their service objectives with corporate objectives due to the limitations identified within the corporate plan;
- corporate plan targets are not easily measurable and are not expressed in "SMART" terms; and
- service and area plans make no reference to finance or resource requirements. Although these plans were approved as part of the same "pack" which was used in setting 3 year revenue budgets for years 2005/06 to 2007/08, the revenue budgets were set at a higher level. In order that finance and resource allocations are adequately targeted against corporate objectives, it is essential that individual service objectives and activities are fully costed. This would also assist in providing a sound basis for identifying efficiency savings where required.



76. Performance management frameworks have been subject to frequent comment in the best value reports published to date. The Council's arrangements in this key area, therefore, will be subject to scrutiny on an ongoing basis.

Performance indicators

77. The Council has a statutory duty to collect, record and publish specified performance indicators and, so far as is practicable, ensure they are accurate and complete. The Accounts Commission issue a direction each year detailing the indicators that require to be published and external auditors review councils' arrangements for collection, and return details of the indicators, including an opinion on their reliability, to Audit Scotland headquarters to enable compilation of national reports on performance.
78. For 2004/2005 the Council were required to report on 65 statutory performance indicators covering 10 services. For 2004/2005, six indicators have been classified as unreliable. These relate to: housing indicator 1; social work children's services indicators 12 and 13; libraries indicators 6 and 7; and roads and lighting indicator 4.
79. These indicators have been discussed with officers and an action plan has been agreed to ensure reliable figures are reported, where possible, in 2005/06.
80. Audit Scotland produces a number of pamphlets containing comparative information and all authorities are encouraged to use this information to identify scope for improvement and to contribute to their programme of service reviews. Each year the Council analyses its own performance against a group of peer councils, with the results of the review reported quarterly to elected members and senior management as part of the developing performance management framework.

Following the public pound

81. Councils fund arms-length and external organisations for a range of purposes and these arrangements are often more complex than standard purchase contracts for goods and services, involving the transfer of public funds from the direct control of a council to another body. In practice these can range from relatively small grants to voluntary organisations to payments to trusts set up by councils to manage all their leisure facilities.
82. In response to concerns about the need to maintain control and accountability over public funds, COSLA and the Accounts Commission jointly published the '*Code of Guidance on Funding External Bodies and Following the Public Pound*' in 1996. In 2003 Audit Scotland reviewed councils' compliance with the code and found that the quality of information available was mixed. A follow-up review was undertaken this year to:
- map how much councils spend on arms-length and external organisations, and why
 - establish the extent to which councils comply with the code
 - facilitate the sharing of identified good practice
83. A national report covering all councils will be published at the end of the year. A local report is currently with officers for comment. The report identified that the Council provided £1,363,894 of revenue funding to a total of 242 arms length external organisations (ALEOs). No capital funding or loans were made to any ALEOs. Our overall conclusion from the review is that we consider that the Council has demonstrated compliance with a number of aspects of the code of practice in relation to its dealings with arms length external organisations.
84. The Council has effective arrangements in place for:



- standard grant application forms and contracts;
- detailed service level agreements, of a standard format. These include target outcomes for objectives which are drawn up in respect of higher level funding agreements; and
- adequate vetting and regular monitoring procedures.

85. Areas for improvement which would benefit from renewed management attention include:

- the decision to award funding is purely a “political” one. There is no pre-determined, clear or transparent scoring methodology or option appraisal process which ensures that the Council’s objectives are best served by a particular organisation or to ensure an optimum balance of funded organisations which serve individual sub-objectives;
- officers involved in dealing with ALEOs currently receive no training in this area;
- many organisations do not require to adhere to a given timetable for achievement of objectives;
- there is no central quality control operated to oversee the monitoring process;
- there is no central point of knowledge in relation to grants in the Council; and
- a number of key areas could be clarified through additional policy initiatives: the standing orders do not currently outline the approvals process; there is no policy outlining situations where it is appropriate for officers or members to act on an ALEO, and; there is no policy which outlines minimum skills requirements for staff acting on ALEO boards.

Issues from previous years

86. Recommendations made in previous years’ performance audit reports on commissioning community care services for older people, youth justice, community equipment and adaptations and supporting people arrangements have been monitored by management and incorporated into service plans as appropriate.

Looking ahead

87. In 2001 the McCrone Committee made recommendations about terms and conditions for teachers in Scotland, with the aim of revitalising the profession, making it a more attractive career option and addressing recruitment difficulties. These recommendations are being implemented over a number of years and are underpinned by an investment of £2.15 billion. The 2004/05 audit included a review of how this investment has been utilised across Scotland and the results of this work will be outlined in a national report to be published in the autumn. Phase 2 of the study will take place during 2005/06, concentrating on the more qualitative aspects of the agreement, and will be reported in autumn 2006.

88. Particular challenges facing the Council in the coming years include:

- responding to the Efficient Government agenda. The Council is currently developing its overall approach to efficient government savings and is exploring joint working opportunities with other Highlands and Islands authorities;
- improving the approach to performance management and public performance reporting to support continuous improvement; and
- developing community planning and other partnerships to achieve demonstrable improvements in outcomes and services to the community.

89. These areas are likely to be subject to ongoing review during the 2005/06 audit.

Action plan

No.	Issue, risk & recommendation	Responsible officer	Response & agreed action	Action date
14.	<p>Capital expenditure: The capital programme outturned significantly below budget with a total underspend of £8.766 million. The underspend has arisen due to slippage on a number of projects included in the programme</p> <p><i>Risk: The Council's 3-year capital programme may not meet local corporate objectives and deliver service improvements as a result of slippage.</i></p> <p>Recommendation: Consideration should be given to identifying actions which would prevent or minimise significant unspent programme expenditure at the year end.</p>	Head of Strategic Finance	<p>A revised process for monitoring the capital plan is already in place. This monitors project progress, benefits and risks as well as financial outturn. A traffic light approach is adopted where "red" projects require a supplementary report to be made by the relevant head of service</p> <p>Slippage will occur and the approach to monitoring should now identify that early care needs to be taken when considering action / alternative action to ensure it does not create resource / capacity problems, leading to increased costs and impacting adversely on other projects. In managing the overall capital plan the Council needs to consider VFM as much as it does the timing of individual projects. External factors such as market capacity can have an effect on capital projects which the Council cannot control.</p>	Already actioned

No.	Issue, risk & recommendation	Responsible officer	Response & agreed action	Action date
24.	<p>Asset management and valuation: No review of non-operational assets took place in 2004/05 and the Council has been unable to demonstrate that assets have been systematically reviewed for impairment.</p> <p><i>Risk: The categorisation and valuation of fixed assets in the balance sheet may be mis-stated.</i></p> <p>Recommendation: Services should be required to confirm which assets actively contribute to service objectives. In addition, the practical steps for demonstrating annually that assets have been systematically reviewed for impairment should be documented and implemented.</p>	Head of Strategic Finance	Review of non-operational assets to be undertaken and procedures established for impairment reviews.	31 March 2006
26.	<p>Trading accounts: One of the tests of whether trading accounts are required is whether the service is charged on a basis other than a straightforward recharge of cost. However, a number of significant year-end income adjustments were made to the Waste Management Trading Account and the Catering and Cleaning Trading Account which represent recharges based on actual cost of service provision.</p> <p><i>Risk: Internal recharges at the end of the year are inconsistent with the concept of trading and do not represent proper accounting practice</i></p> <p>Recommendation: all credits to trading accounts should be made in respect of charges for services provided and no credits should be made in respect of year end internal recharges of cost.</p>	Head of Strategic Finance	Review of charging basis for trading services to be carried out to ensure that all trading service recharges are on a trading basis.	31 March 2006

No.	Issue, risk & recommendation	Responsible officer	Response & agreed action	Action date
52.	<p>National Fraud Initiative: No evidence exists that a planned, prioritised approach has been taken by the payroll section to review the data matches provided by the NFI.</p> <p><i>Risk: The Council has not the appropriate steps to identify inconsistencies and anomalies within data matches that may indicate fraud or other irregularity.</i></p> <p>Recommendation: A clear approach for investigating matches reported by the NFI should be implemented by the payroll section.</p>	Head of ICT and Financial Services	An approach is now being agreed with all pension anomalies to be investigated and reported by end of November. Housing Benefit/Payroll anomalies to be investigated and referred to Benefits section by end of December. An approach to other lower risk categories will also be formulated within this time period.	31 December 2005
70.	<p>Performance management: The Council is in the process of implementing a performance management framework. The Framework has still to be incorporated into the planning and reporting cycles</p> <p><i>Risk: The Council may be unable to demonstrate that the framework is effective in driving the continuous improvement in services.</i></p> <p>Recommendation: Implementation of the Performance Management Framework is to be monitored.</p>	Policy and Strategy Manager	<p>The performance management framework will be implemented in phases, as agreed in the project plan approved by the SMT and SPC.</p> <p>Evaluation of each phase will be conducted in line with the project plan. Regular progress reports will be submitted to the SMT.</p>	<p>Project plan approved by SMT and SPC by 12/05</p> <p>Implementation starts by 03/06</p>

No.	Issue, risk & recommendation	Responsible officer	Response & agreed action	Action date
72.	<p>Performance management: Service and area plans make no reference to finance or resource requirements.</p> <p><i>Risk: Finance and resource allocations are not targeted against corporate objectives</i></p> <p>Recommendation: Individual service objectives and activities should be fully costed.</p>	Head of Strategic Finance	A project to align service and budget planning exercises is already underway. This will be expected to cover links to the corporate plan.	In place for 2007/08 budget cycle
76.	<p>Statutory performance indicators: Six indicators have been classified as unreliable.</p> <p><i>Risk: The Council fails to meet its statutory duty to collect, record and publish accurate specified performance indicators.</i></p> <p>Recommendation: The Council's procedures for compiling these indicators are to be reviewed to ensure reliable figures are reported in 2005/06.</p>	Heads of Service	<p>An action plan has been produced by Internal Audit (Appendix 3 of the Internal Audit Report on the Review of Performance Indicators 2004/05). This addresses the unreliability of the two Children's Services PIs and the Roads and Lighting PI.</p> <p>In view of the imminent housing stock transfer no action is being taken with regard to the Housing PI.</p> <p>With regard to the two Cultural PIs, action has already been taken to ensure their reliability in future financial years.</p>	In place by March 2006

No.	Issue, risk & recommendation	Responsible officer	Response & agreed action	Action date
80.	<p>Following the public pound: There is no pre-determined, clear or transparent scoring methodology or option appraisal process which ensures that the Council's objectives are met with the decision to award funding to a particular organisation</p> <p><i>Risk: The Council fails to maintain accountability over public funds.</i></p> <p>Recommendation: Corporate procedures are put in place to ensure compliance with the requirements of the Code of Guidance on Following the Public Pound.</p>	Head of Strategic Finance	A working party is to be established with representatives from Strategic Finance, Democratic Services and Governance and Community Regeneration. This working party will work towards implementing the recommendations within Audit Scotland's "Following the Public Pound" report (July 2005).	Full implementation by March 2008



**ACCOUNTS FOR THE PERIOD
1 APRIL 2004 TO 31 MARCH 2005**

Argyll and Bute Council
Comhairle Earra Ghàidheal agus Bhòid

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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.

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

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Introduction

This foreword is intended as a comment on Argyll and Bute Council's financial position as presented within the Statement of Accounts for the financial year 2004/2005.

Accounting Policies

The Statement of Accounting Policies sets out the basis upon which the Financial Statements have been prepared, and explains the accounting treatment of both general and specific items. The Council continues to adopt the accounting practices recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authorities (Scotland) Accounts Advisory Committee (LA(S)AAC). The annual accounts for 2004/2005 have been prepared in compliance with the 2004 Statement of Recommended Practice (SORP). The format of the Consolidated Revenue Account reflects the requirements of the Best Value Accounting Code of Practice (BVACOP).

The Financial Statements

Consolidated Revenue Account

shows the income raised by the Council during the year and how it was spent on services, financing costs and contributions to/from reserves. The surplus or deficit is carried to the Statement of Total Movement on Reserves. The notes to the Consolidated Revenue Account provide additional information on some costs and income included within the Consolidated Revenue Account.

Housing Revenue Account

reflects the statutory requirement to separately account for local authority housing provision, as defined in the Housing (Scotland) Act 1987. It shows the major elements of housing revenue expenditure and capital financing costs, and how these are met by rents, housing support grant and other income. The surplus or deficit is carried to the Statement of Total Movement on Reserves.

Council Tax Income Account

explains how the council tax income shown for the financial year in the Consolidated Revenue Account is made up.

Non-domestic Rate Income Account

shows the build up of non-domestic rate income, the contribution to or from the national pool and the resulting net income for the financial year to the Council that is shown in the Consolidated Revenue Account.

Consolidated Balance Sheet

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

Statement of Total Movement in Reserves

gives details of the balances on each reserve at the start of the financial year, movements during the financial year by source and the balance at the end of the financial year as shown in the Balance Sheet.

Consolidated Cash Flow Statement

summarises the inflows and outflows of cash arising from transactions with third parties on both day to day revenue transactions and on capital activities.

Statement of Responsibilities

This statement sets out the main financial responsibilities of the Council and the Head of Strategic Finance.

Statement on the System of Internal Financial Control

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

Major Changes in Accounting Practice

From 2004/2005 Councils can no longer hold deferred charges as assets on their balance sheet. Where appropriate Councils can capitalise, subject to certain criteria, intangible assets. This change brings consistency with FRS 10 Accounting for Goodwill and Intangible Assets. During 2004/2005 the Council charged to revenue all remaining deferred charges. Intangible assets relating to computer software have been capitalised at cost and depreciated over 5 years.

General Fund

The following table summarises how the surplus for the year has arisen. For the purpose of comparison, the budget for 2004/2005 has been taken as the original approved budget plus any supplementary estimates agreed by Committee. Adjustments to budget have also been made in respect of additional revenue support grant and items transferred from revenue to capital.

Savings on Budget:	£'m
Savings in Loan Charges	1.322
Increased Collections on Local Taxes	2.053
Overall Savings by Departments Against Budget	0.930
Sub-Total	4.305
Use of earmarked funds	(0.484)
Budgeted contribution from reserve	(0.894)
Surplus for Year Per Accounts	2.927

The General Fund Reserve at 31 March 2004 amounted to £12.193m of which £6.344m was earmarked. This left a "free" balance of £5.849m. The "free" Reserve now stands at £8.026m, the earmarked Reserve stands at £7.094m and the overall Reserve stands at £15.120m.

	£'m
"Free" Reserve at 31 March 2004	5.849
Surplus From Loan Charges, Local Tax Income and Departmental Savings	2.177
"Free" Reserve at 31 March 2005	8.026
Funding to be Carried Forward and Earmarked in Reserve	(0.484)
Total Reserve Per Accounts	7.542

Significant Trading Organisations

Councils are now required to identify their Significant Trading Organisations. Significant Trading Organisations must achieve a breakeven financial position over a rolling three year period. This rolling three year period will not commence until 2005/2006 (i.e. the first full three financial years following 31 March 2003). Information on the financial performance of Significant Trading Organisations must be given in the Accounts and this is laid out in note 6 of the Consolidated Revenue Account. During 2004/2005 the Council's Significant Trading Organisations achieved a surplus of £0.032m. The surplus is part of the General Fund. All the Significant Trading Organisations met their financial objective for 2004/2005.

Housing Revenue Account

The HRA balance stands at £1.015m at 31 March 2005 and is an increase of £0.541m from the 31 March 2004 balance of £0.474m. The main factors giving rise to the increase in the balance are as follows:

	£'m
Contribution to Capital Financing Account	(0.274)
(Increase) in Repairs and Maintenance	(0.285)
(Increase) in Supervision and Management	(0.186)
Reduction in Capital Financing	1.110
Bad Debts Written Off	(0.051)
Other Variations in Expenditure	0.007
Decreased / (Increased) Expenditure	0.321
(Reduction) in Rental Income	(0.209)
Decrease in Bad Debt Provision	0.017
Other Variations in Income	0.401
Deduct Budgeted Deficit	(0.010)
(Decreased) / Increased Income	0.199
Surplus for Year	0.520
Contribution to General Fund	-
Interest Earned on Balance	0.021
Increase to HRA Balance	0.541

The saving in capital financing costs arises largely from advancing the amortisation of credit balances of the HRA in the loans fund related to accumulated capital receipts. This has been actioned in preparation of the proposed transfer of the housing stock. It will create a surplus in the HRA to meet the proportion of loans early redemption premium estimated at around £1.9m that will be charged to the HRA on the date of transfer of the housing stock.

Capital Expenditure and Borrowing

Local authority capital expenditure and borrowing is now regulated by the Prudential Code, a regime of self regulation. Under the Prudential Code 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 2004/2005 and managed capital expenditure and borrowing within these approved limits.

Capital expenditure was incurred across a range of services enhancing the value, useful life or working capacity of the Council's assets. This included investments in schools, offices, other premises and facilities, information technology and roads. The composite programme includes additional consent in relation to Public Transport Funded projects that the Council secured in competition, securing much needed additional investment in the Council area. Details of capital expenditure are as follows:

	£'m
Gross Capital Expenditure	28.861
Less:	
Capital Receipts	5.651
Government Grants and Other Contributions	11.353
Revenue Contributions	0.315
Contribution from Useable Capital Receipts Reserve	0.359
Net Capital Expenditure	11.183

The external borrowing of the Council at 31 March 2005 amounted to £198.288m. The majority of this was financed by the Public Works Loan Board (£171.560m), with the remainder coming mainly from the money market. During the year the Council completed £3.252m of new external borrowing. This was used to finance capital expenditure incurred during the year. No debt rescheduling exercises were carried out during 2004/2005.

Property Valuations

In accordance with the 2004 Statement of Recommended Practice (SORP) all properties are required to be formally revalued at intervals of not more than five years. A five year rolling programme of revaluation of all land and buildings, started in 1999/2000, was completed during 2003/2004. This five year rolling programme has recommenced with 2004/2005 being the new first year.

Pensions Liability

Pension costs have been recognised in accordance with FRS17. As a result of this a liability of £81.535m is recorded in the Council's balance sheet. This represents the Council's share of the deficit on Strathclyde Pension Fund. This liability is offset by a Pensions Funds reserve of an equivalent amount.

Hymans Robertson (Independent Actuaries) were instructed by Glasgow City Council, the administering authority to the Strathclyde Pension Fund, to undertake calculations in respect of the Local Government Pension Scheme on behalf of Argyll and Bute Council as at 31 March 2005. Their calculations have been carried out in accordance with Guidance Note 36: Accounting for Retirement Benefits under FRS17 issued by the Institute and the Faculty of Actuaries.

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

- Strathclyde Police Board
- Strathclyde Fire Board
- Dunbartonshire and Argyll & Bute Valuation Board

Further information regarding these deficits can be found in the annual report and accounts of the relevant bodies.

Statement on the System of Internal Financial Control

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

Other Significant Matters

The Council has secured funding under the new housing partnership programme. This funding has been utilised to carry out an option appraisal and feasibility study for a large scale voluntary transfer of the housing stock. The Council is now evaluating the business plan of Argyll Community Housing Association prior to seeking Scottish Executive approval and moving to the consultation and ballot stages later in 2005.

In common with other Councils a significant investment in school buildings is required. The Council has been successful in securing revenue support towards a Public Private Partnership for school buildings. The Council is developing a Pathfinder Non-Profit Distributing Organisation (NPDO) approach for the PPP. The Council approved a full business case in May 2005. Financial close will be in 2 stages. Stage 1 covering 9 schools on 4 sites is imminent and stage 2 covering a further school is expected later in 2005/2006.

Conclusion

The Council ends the year with an improved general fund balance. Improvements in council tax collection, savings in loan charges and containment of expenditure in departments have contributed to this position.

The Council will continue to pursue initiatives to secure additional funding. Budgetary control will continue to have a high profile to ensure effective financial control within services.

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

Bruce West
Head of Strategic Finance
21 June 2005

The Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (the SORP) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The format of the Consolidated Revenue Account reflects the requirements of the Best Value Accounting Code of Practice (BVACOP).

1. ACCRUALS OF INCOME AND EXPENDITURE

Revenue transactions have been recorded on an income and expenditure basis, actual or estimated sums having been included in respect of known debtors and creditors at the year-end.

Customer and client receipts in the form of sales, fees, charges and rents have been accrued in the period to which they relate.

Employee costs have been charged to the period within which the employees worked.

Interest payable on external borrowing and internal interest have been accrued in the period to which they relate on the basis of the overall economic effect of the borrowing.

The cost of supplies and services has been accounted for in the period during which they were received or consumed.

All revenue grants are matched with the expenditure to which they relate. Grants made to finance the general activities of a local authority or to compensate for loss of income are credited to the revenue account of the financial year to which they relate. Specific government grants are accounted for on an accruals basis when the conditions for receipt have been complied with.

2. OVERHEADS

The cost of all Central Support Departments is fully allocated over user departments. Allocations have been based on actual or estimated activity levels, time or floor areas.

3. PENSIONS

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:

3.1 Teachers

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

3.2 Other Employees

Other employees, subject to certain qualifying criteria, are eligible to join the Local Government Pension Scheme.

Financial Reporting Standard 17 (FRS17) - "Retirement Benefits" was fully implemented in last year and the full impact continues to be demonstrated within this year's account.

The employer's contributions to the scheme are assessed every three years by a consulting actuary and are calculated to ensure the actuarial solvency of the fund. The cost of pensions to the Council is the actual contribution paid in the year as determined by the actuary.

3.3 Pension Reserve

A pension reserve has been established in accordance with the full implementation of FRS17. Where the payments made for the year in accordance with the scheme requirements do not match the change in the authority's recognised asset or liability for the same period, the recognised cost of pensions will not match the amount required to be raised in taxation. This is represented by an appropriation to or from the pensions reserve, which equals the net change in the pensions liability recognised in the Consolidated Revenue Account.

3.4 Disclosure of Effect of Change in Discount Rate for Liabilities

In assessing liabilities for retirement benefits at 31 March 2004 for the 2003/2004 Statement of Accounts, the actuary was required by the SORP to use a discount rate of 3.5% real (6.1% actual). For the 2004/2005 Statement of Accounts, a rate based on the current rate of return on a high-quality corporate bond of equivalent currency and term to scheme liabilities is to be used. The actuary has advised that a rate of 3.2% real (5.9% actual) is appropriate. Application of this rate has resulted in an increase in liabilities measured at today's prices of £4.6m, adjusted for by an increase in actuarial losses recognised for the year in the Statement of Total Movements on Reserves.

4. CAPITAL ACCOUNTING

4.1 Accounting Policy Statement

The accounts have been drawn up in accordance with the Code of Practice on Local Authority Accounting in Great Britain, which is recognised as representing proper accounting practices. Services have been charged for the assets based on their value rather than on the financing costs of debt outstanding on the asset.

4.2 Intangible Assets

Intangible assets are capitalised at cost. Revaluations are not carried out on intangible assets. Intangible assets are depreciated to the revenue account over their estimated economic life. Currently intangible assets comprise computer software which is depreciated over a period of 5 years. Depreciation is calculated on a straight line basis.

4.3 Tangible Fixed Assets

Infrastructure and community assets are included in the balance sheet at historical cost, net of depreciation where appropriate. Operational and non-operational assets are included at the lower of net current replacement cost or net realisable value.

All expenditure on the acquisition, creation or enhancement of fixed assets has been capitalised on an accruals basis.

The receipts arising from the disposal of fixed assets have been dealt with on an accruals basis, and the Net Book Value of the asset disposed of, written off against the Fixed Asset Restatement Account.

4.4 Depreciation on Tangible Fixed Assets

All assets, other than Land, Non-operational Buildings and Community Assets, are being depreciated over their useful economic lives. This policy complies with the requirements of Financial Reporting Standard 15 (FRS15) - "Tangible Fixed Assets".

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

Operational Buildings – Other	-	20 – 50 years
Operational Buildings – Dwellings	-	30 years
Infrastructure	-	40 years
Vehicles	-	4 – 20 years
Plant and Equipment	-	3 – 10 years
Vessels	-	25 years

4.5 Charges for the use of Tangible and Intangible Fixed Assets

General fund service revenue accounts, central support services and trading services are charged with a capital charge for all fixed assets used in the provision of the service. Such charges cover the annual provision for depreciation, where appropriate, plus a capital financing charge determined by applying a specified notional rate of interest to the net amount at which the asset is included in the balance sheet. Capital charges in the HRA cover the statutory capital financing charges. The notional interest rate is 3.5% for assets other than infrastructure and community assets, where it is 4.8%. Interest payable, including interest payable under finance leases, and provision for depreciation are charged to an Asset Management Revenue Account.

However, in order to disclose the authority's corporate net operating expenditure, capital charges to services need to be reversed out and replaced by depreciation and external interest payable for financing. This reconciliation is performed in the Asset Management Revenue Account.

Net operating expenditure contains accounting entries that should not have an impact on Council Tax. Consequently, after the disclosure of net operating expenditure, a second reconciliation is needed to reverse out charges in respect of depreciation and amortised government grants deferred and to replace them with Minimum Revenue Provision as represented by the cost of financing borrowing. This is accomplished in the line "Contributions to Capital Financing Account" in the Consolidated Revenue Account.

4.6 Deferred Charges

Deferred charges represent capitalised expenditure that does not result in, or remain matched with, tangible fixed assets.

Expenditure is written off to the service revenue account in the year in which that expenditure is incurred on the basis that no long-term benefit accrues directly to the authority from the expenditure.

Net operating expenditure contains accounting entries that are not revenue based and should not have an impact on Council Tax. Consequently, after the disclosure of net operating expenditure, a reconciliation is needed to reverse out capital financed deferred charges. This is done by an adjustment in the Capital Financing Account.

One exception to this is where expenditure is incurred in the provision of wheeled bins in write off to service revenue account over a ten year period, on the basis that the bins will have a useful life of ten years and will provide benefit to the Council in the operation of refuse collection services for that period. This has been reviewed within 2004/05 and the balance written off fully to the revenue account in order to comply with the SORP.

4.7 Government Grants

Grants and other contributions relating to fixed assets are credited to a government grants deferred account and released to the asset management revenue account in line with depreciation.

4.8 Finance Leases

Rental payments under finance leases are apportioned between the finance (interest) charge and the reduction of the outstanding obligation. The former is charged to the Asset Management Account, the latter to the Capital Financing Account.

5. STOCK & WORK IN PROGRESS

Stock has been valued at the lower of cost and net realisable value.

Work in progress is reflected in the Revenue Accounts and Balance Sheets of the appropriate trading activities at cost plus and, where appropriate, a proportion of overheads are charged together with attributable profits and allowances for future losses.

6. RESERVE FUNDS

Repairs and Renewals Funds have been established in accordance with the Local Government (Scotland) Act 1975. The Council has Repairs and Renewals Funds in relation to Vehicles and Plant, Education and Historic Land Contamination in respect of the Council Waste PPP.

7. OPERATING LEASES

Where a lease is classified as an "operating lease" as defined by Statement of Standard Accounting Practice 21 (SSAP 21) - "Accounting for Leases and Hire Purchase Contracts", the annual rentals are charged to the appropriate Revenue Account.

8. LOANS FUND

8.1 Loans Fund Operation

In accordance with the Local Government (Scotland) Act 1975 Schedule 3 (12), the Council administers a Loans Fund. All loans raised by the Council are paid into the fund and are pooled. Interest and expenses of the Loans Fund have been calculated and allocated to the revenue account on the basis of debt outstanding on each account at the start of the financial year with a pro-rata adjustment in respect of new advances. Redemption of debt has been calculated and provided for in the Revenue Account on an annuity basis. Interest on revenue balances is allocated on the basis of monthly balances held on the respective accounts.

8.2 Repurchase of Borrowing

Gains or losses on restructured debt are recognised over the life of the replacement borrowing. Where debt is redeemed early and not replaced the gain or loss is recognised in that year.

9. PUBLIC PRIVATE PARTNERSHIP

The accounting treatment of the waste management Public Private Partnership is in accordance with FRS5 - "Reporting the Substance of Transactions" and Treasury guidance.

10. POST BALANCE SHEET EVENTS

Where a material post balance sheet event occurs which:

- ◆ Provides additional evidence relating to conditions existing at the balance sheet date; or
- ◆ Indicates that application of the going concern concept to a material part of the authority is not appropriate,

changes will be made to the amounts included within the Statement of Accounts as well as details of the nature of the post balance sheet event.

11. PROVISIONS

Provisions are recognised in the Statement of Accounts where they meet the following criteria:

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

12. PROVISIONS FOR BAD AND DOUBTFUL DEBTS

Due account has been taken of the likelihood of the collection of outstanding debt, including local tax collection, and, where appropriate, debtor balances have been reduced to reflect this.

13. VALUE ADDED TAX (VAT)

VAT is included in income and expenditure accounts only where it is irrecoverable.

14. GROUP ACCOUNTS

From 2005/2006 councils will be required to prepare group accounts. Transitional arrangements are in place for 2004/2005 that do not require disclosures in the 2004/2005 financial statements. The Council has exercised its right to use the transitional arrangements for group accounts in 2004/2005. Accordingly group accounts are not included in the financial statements, however full compliance with the requirements for group accounts will be in place for 2005/2006.

2003/04		2004/05		
Actual Net Expenditure £'000	Note	Actual Gross Expenditure £'000	Actual Gross Income £'000	Actual Net Expenditure £'000
		Council Services		
74,190	Education Services	99,964	19,362	80,602
11,347	Environmental Services	23,273	9,729	13,544
7,350	Cultural and Related Services	11,769	3,508	8,261
3,139	Planning and Development Services	5,183	2,220	2,963
30,444	Social Work Services	77,477	41,535	35,942
1,937	Housing Services (Non-HRA)	26,241	24,075	2,166
(515)	Housing Services (HRA)	13,782	14,470	(688)
19,873	Roads and Transport Services	32,911	11,686	21,225
948	Trading Services	2,834	1,703	1,131
	Central Services			
2,798	- Central Services to the Public	3,857	1,130	2,727
3,460	- Corporate and Democratic Core	3,487	77	3,410
5,108	- Non-distributed Costs	2,368	4	2,364
636	- Other Operating Income and Expenditure	581	178	403
8,207	Strathclyde Police Joint Board	8,467	-	8,467
4,580	Strathclyde Fire Joint Board	5,010	-	5,010
173,502	Net Cost of Services	317,204	129,677	187,527
3,496	Asset Management Revenue Account			3,792
(639)	Interest and Investment Income			(735)
1,266	Pensions interest costs and expected return on pension assets			(1,861)
177,625	Net Operating Expenditure			188,723
(248)	Contribution to/(from) Other Funds			153
45	Contribution to/(from) HRA Balance			520
(210)	Reconciling amount for loans fund repayment	3		(334)
343	Capital Financed from Current Revenue	3		315
(4,942)	Contribution to/(from) the pensions reserve			(1,088)
172,613	Amount to be met from Government Grants and Local Taxation			188,289
109,147	General Government Grants			116,677
37,419	Income from Council Tax			40,394
32,533	Non-domestic Rates Redistribution			34,145
6,486	Net General Fund Surplus / (Deficit)			2,927
5,707	Balance on General Fund Brought Forward			12,193
12,193	Balance on General Fund Carried Forward	4		15,120

1. Joint Boards

Payments are made to Police, Fire, Passenger Transport and Valuation Joint Boards and to the Authorities Buying Consortium. Details of all amounts paid to Joint Boards and where these amounts appear within the Consolidated Revenue Account are shown below:

2003/04		2004/05
£'000	Joint Board	£'000
398	Strathclyde Passenger Transport (within Roads and Transport Services total)	407
8,207	Strathclyde Police Joint Board	8,467
4,580	Strathclyde Fire Joint Board	5,010
1,132	Dunbartonshire and Argyll & Bute Valuation Joint Board (within Central Services to the Public total)	1,190
27	Authorities Buying Consortium (within Other Operating Income and Expenditure total)	26
14,344	Total Joint Boards	15,100

2. Asset Management Revenue Account

This account shows the (deficit)/surplus arising from the capital charges made to the service accounts for the use of assets and the cost to the Council of financing these assets.

2003/04		2004/05
£'000		£'000
13,697	Charge for Depreciation/Impairment	14,367
619	Gain on Early Settlement of Borrowing	-
14,819	External Interest Payable	14,870
(25,018)	Capital Charges	(24,602)
-	Capital Element of Finance Lease Payments	(133)
(621)	Release of Government Grant	(710)
3,496	Net Expenditure / (Income)	3,792

3. Contributions to Capital Financing Account

This shows the amount of revenue resources used to finance capital expenditure during the year and the repayment of the principal instalment from the Loans Fund, offset by depreciation/impairment charges (net of Government Grants credit) and the amount of deferred charges written off to revenue.

2003/04		2004/05
£'000		£'000
16	Capital Financed from Current Revenue - General Fund	41
327	Capital Financed from Current Revenue - HRA	274
343	Capital Expenditure Financed from Current Revenue	315
13,498	Principal Loans Fund Instalment	13,749
125	Capital Element of Finance Lease Payments	133
(13,697)	Depreciation/Impairment	(14,367)
(757)	Deferred Charges Written off to Revenue	(559)
621	Release of Government Grant	710
(210)	Reconciling amount for loans fund repayment	(334)
133	Total Contribution to Capital Financing Account	(19)

4. General Fund Balance Carried Forward

The following committed sums are included within the General Fund balance carried forward of £15.120m:-

	£'000
Waste Management PPP	1,640
Corporate Property Strategy	30
Modernising Government Fund	96
Digital Communities	277
Area Budgets	14
Governance and Risk Unit	34
E-Procurement Project	50
Three Islands Partnership	44
Community Safety Partnership	151
Local Action Fund	61
Social Work Funding	1,603
School budgets carried forward as per revised Devolved Management of Schools, Scheme of Delegation	410
IT Top Slice	210
Change Management	77
Sums Committed to Meet the Cost of Teachers Early Retirement	164
Reserve Committed for 2005/2006 budget	1,975
Provision for capital financed from current revenue still to be utilised	190
MGF2 - Young Scot Project	68
Total Committed Funds	7,094

5. Finance and Operating Leases

5.1 Finance Leases

The authority holds various vehicles under finance leases. The finance lease payment for the year amounted to £146,702.

2003/04		2004/05
£'000		£'000
147	Vehicles	147
147	Total	147

5.2 Operating Leases

The Council uses land, buildings, vehicles, plant and equipment financed under the terms of an operating lease. The amounts paid under these arrangements in 2004/05 were as follows:

2003/04		2004/05
£'000		£'000
95	Land and Buildings	129
892	Vehicles	883
313	Plant and Equipment	250
1,300	Total	1,262

6. 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:

6.1 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 & Bute excluding Trunk Roads (which are the responsibility of the Scottish Executive). The Trading objective is to breakeven over a three year period.

	2004/05 Actual	2004/05 Target	3 Year Target	3 Year Actual Performance
	£'000	£'000	£'000	£'000
Turnover	11,241	9,925	33,980	-
Expenditure	11,224	9,888	33,865	-
Surplus/(Deficit)	17	37	115	-

6.2 Waste Management Trading Account

The Council runs its Waste Management Service on the basis of agreements concluded between the Service Managers, the relevant Council Departments and external organisations. The Service includes Waste Collection, Street Sweeping and Skip Services. The Trading objective is to breakeven over a three year period.

	2004/05 Actual £'000	2004/05 Target £'000	3 Year Target £'000	3 Year Actual Performance £'000
Turnover	5,266	5,037	14,850	-
Expenditure	5,255	5,029	14,837	-
Surplus/(Deficit)	11	8	13	-

6.3 Leisure Trading Account

The Council runs its Leisure Trading Service on the basis of an agreement concluded between the Service Managers and the Community Services Department. The Service is responsible for the running of all Council owned Swimming Pools, Halls and Sport Centres. The Trading objective is to breakeven over a three year period.

	2004/05 Actual £'000	2004/05 Target £'000	3 Year Target £'000	3 Year Actual Performance £'000
Turnover	2,742	2,692	7,987	-
Expenditure	2,742	2,692	7,977	-
Surplus/(Deficit)	-	-	10	-

6.4 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, Council Offices as well as providing a Cleaning service to external clients such as Police Stations and Outdoor Centres. The Trading objective is to breakeven over a three year period.

	2004/05 Actual £'000	2004/05 Target £'000	3 Year Target £'000	3 Year Actual Performance £'000
Turnover	7,479	6,637	20,365	-
Expenditure	7,478	6,620	20,345	-
Surplus/(Deficit)	1	17	20	-

6.5 Building Maintenance Trading Account

The Council runs its Building Maintenance Service on the basis of agreements concluded between the Service Managers, the relevant Council Departments and external organisations. The Service provides Building Maintenance to all Council owned buildings as well as providing a service to external clients such as the Fire Brigade. The Trading objective is to breakeven over a three year period.

	2004/05 Actual £'000	2004/05 Target £'000	3 Year Target £'000	3 Year Actual Performance £'000
Turnover	2,695	2,097	6,013	-
Expenditure	2,692	2,095	6,000	-
Surplus/(Deficit)	3	2	13	-

7. Local Government Act 1986 - Separate Publicity Account

The Council is required under Section 5 of the Act to maintain a separate account for publicity. Expenditure of £0.630m was incurred during 2004/05 and is included within service expenditure as follows:

2003/04 £'000		2004/05 £'000
333	Staff advertising	363
42	Leaflets and publications	35
69	Statutory notices	99
134	Other	133
578	Total	630

8. Agency Income

The Council received £0.026m from the Authorities Buying Consortium as part of a general return of reserves to member Councils to assist in funding participation in the West of Scotland collaborative buying initiative. There is also an ongoing agency agreement with Scottish Water to collect domestic water and sewerage charges. During 2004/05 income from these agreements amounted to £0.281m.

2003/04 £'000		2004/05 £'000
1	Scottish Veteran Garden City Association and Margaret Blackwood Housing Association	-
180	Scottish Water	255
-	Authorities Buying Consortium	26
181	Agency Income	281

9. Local Authorities (Goods and Services) Act 1970

The Council is empowered by this Act to provide goods and services to other public bodies. Income from these services amounted to £1.281m. The goods and services provided during the year were as follows:

Name of Body	Purpose of work	Income £'000	Expenditure £'000
North Lanarkshire Council	Cleaning and Catering - Kilbowie OC	145	130
Strathclyde Police	Cleaning of Police Stations	101	90
Strathclyde Fire	Maintenance of Fire Stations	569	481
Various Public Bodies	Grounds Maintenance	66	59
Various Councils	Provision Of Science Packs And Health Packs	8	15
Various Councils	Provision of Auxiliary Support	16	16
Lomond & Argyll Primary NHS Trust	Provision of Care for the Elderly	116	116
West Dunbartonshire Council	Provision Of Special Education Needs	260	248
		1,281	1,155

10. Health Act 1999 Pooled Funds and Similar Arrangements

The Council has a joint working arrangement with NHS Argyll and Clyde whereby it provides certain types of care of the elderly and services for those with learning disabilities or mental health problems. During 2004/05 income from this source amounted to £3.623m and the related expenditure was £4.700m. These sums can be analysed as follows:

Purpose of Service	Income £'000	Expenditure £'000
Care of the elderly	1,501	2,091
Provision of services for people with learning disabilities	1,580	2,028
Provision of services for people with mental health needs	542	581
	3,623	4,700

11. Teachers Pensions - Administered by Scottish Public Pensions Agency

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

2003/04		2004/05
2,989	Amount paid over (£'000)	3,927
	Rate of contribution (%) :	
7.40%	1 April - 30 September	12.50%
12.50%	1 October to 31 March	12.50%
445	Amount of added years awarded by the Council (£'000)	1,013
-	Discretionary payments made by the council (£'000)	-

From 1 April 1999 the Council became responsible for the "Strain on the Fund" costs resulting from early retirements, and during 2004/05 these amounted to £452,750.

12. Members' Allowances

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

2003/04		2004/05
£'000		£'000
210	Basic Allowance	219
215	Special Responsibility Allowance	234
425	Total Allowances	453

13. Officers' Emoluments

The number of employees whose remuneration, excluding pension contributions was £40,000 or more in bands of £10,000 were:

2003/04		2004/05
No	Remuneration Band	No
32	£40,000 - £49,999	64
18	£50,000 - £59,999	24
3	£60,000 - £69,999	3
4	£70,000 - £79,999	4
-	£80,000 - £89,999	-
1	£90,000 - £99,999	1
-	£100,000 - £109,999	-
1	£110,000 - £119,999 *	-

* This comprises salary and redundancy payments for an employee who left the Council's service during 2003/04.

14. 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 £4.170m which represents the value of the service provided from 1 April 2004 to 31 March 2005. Under the agreement the Council is committed to paying the following sums:

Period	£'000
2005/07	9,935
2007/12	25,497
2012/17	28,265
2017/22	31,396
2022/27	29,980
Total	125,073

This equates to £5.685m per annum over the life of the contract.

15. Fees Payable to Audit Scotland

In 2004/05 the following fees relating to external audit and inspection were incurred:

2003/04 £'000		2004/05 £'000
235	Fees payable to Audit Scotland with regard to external audit services carried out by the appointed auditor	272
235		272

16. Related Party Transactions

During the year transactions with related parties arose as follows:

	Income £'000	Expenditure £'000
Central Government and Agencies:		
Revenue Grants:		
Revenue Support Grant	116,677	
Non-domestic Rates	34,145	
Housing Benefits / Support Grant	14,984	
Council Tax Benefit Subsidy	10,467	
Other Government Grants	28,720	
	204,993	
Capital Grants:		
European Grants	1,929	
Sportscotland	862	
AIE - Campbeltown Community Project	429	
School Buildings Improvements Fund	1,541	
Other Government Capital Grants	6,884	
	11,645	

Related Bodies:

Transactions with related bodies during the year totalled		17,885
Of these, transactions with the following exceeded £10,000:		
Joint Boards (see note 1 for further details)		15,100
Strathclyde Passenger Transport - Concessionary Fares		1,964
Argyll, the Islands, Loch Lomond, Stirling and the Trossachs Tourist Board		177
Bute Council on Alcohol		44
COSLA		78
Dunoon and Cowal Youth Project		16
Islay and Jura Community Enterprise		75
Mid Argyll Community Enterprises		21
NHS Argyll and Clyde		54
Oban and Lorn Enterprises - Atlantis Leisure		308
Oban Youth and Community Association		17

Other Related Party Transactions:

Transactions in which members have a significant interest		85
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17. Pension – Local Government Superannuation (Scotland) Scheme

As stated in note 3 of the Statement of Accounting Policies, the Council participates in the Local Government Pension Scheme administered by the City of Glasgow Council's Strathclyde Pension Fund. This Fund provides members with defined benefits relating to pay and service. The contributions are based on rates determined by the Fund's professionally qualified actuary and based on triennial valuations of the Fund. The following transactions have been made during the year in relation to the Local Government Pension Scheme :

2003/04		2004/05
£'000		£'000
	Net Cost of Services:	
6,054	Current Service Cost	9,165
23	Past Service Cost	45
773	Settlements and Curtailments	616
3,783	Provision for Teachers Premature Retirement Scheme	1,111
	Net Operating Expenditure:	
9,014	Interest Cost	13,546
(7,748)	Expected Return on Employer Assets	(15,407)
	Amounts to be met from Government Grants and Local Taxation:	
(4,942)	Movement on Pension Reserve	(1,088)
	Actual amount charged against Council Tax for pensions in the year:	
6,957	Employers Contributions Payable to the Scheme	7,988

Further details on pension assets and liabilities are provided in Note 16 to the Balance Sheet and Note 7 to the Statement of Total Movement on Reserves.

2003/04 Actual £'000		2004/05 Actual £'000	2004/05 Budget £'000
	Expenditure		
4,549	Repairs and Maintenance	4,755	4,470
4,230	Supervision and Management	4,814	4,628
4,382	Capital Financing Costs	3,193	4,303
684	Void House Rents	579	563
115	Bad Debt Write Off	51	-
501	Other expenditure	390	307
327	Contribution to Capital Financing Account	274	-
56	Pensions Interest Cost and Expected Return on Pensions Assets	(76)	-
(60)	Transfers to / (from) the Pension Reserve	(30)	-
14,784	Total Expenditure	13,950	14,271
	Income		
13,714	Rent of houses (gross)	13,435	13,625
88	Non-dwelling Rents	83	102
149	Housing Support Grant	111	103
78	Decrease in Provision for Bad or Doubtful Debts	17	-
939	Other Income	824	431
14,968	Total Income	14,470	14,261
184	(Deficit) / Surplus for Year Prior to CFCR	520	(10)
327	Contribution to Capital Financing Account	274	-
511	(Deficit) / Surplus for Year after CFCR	794	(10)
423	Balance on Housing Revenue Account Brought Forward	474	474
10	Interest Earned on Balance	21	-
184	(Deficit) / Surplus for Year	520	(10)
(143)	Contribution to General Fund	-	-
474	Balance on Housing Revenue Account Carried Forward	1,015	464

1. Gross Rent Income

This is the total rent income for the year. Average annual rent charges were £44.27 per week in 2004/05 (2003/04 £42.65)

2. Housing Stock

2003/04		2004/05
No		No
198	Sheltered Housing	198
3,001	Other Houses	2,897
1,556	Tenement Flats	1,512
1,277	Other Flats	1,099
6,032	Total Housing Stock	5,706

3. Rent Arrears and Bad Debts

Rent arrears at 31/3/2005 were £0.275m (31/3/2004 - £0.324m) and this equated to an average rent arrears per house of £46 (2003/04 - £54).

In accordance with the latest assessment of potential recovery and in order to reflect due prudence, the provision for bad debts, in respect of rent arrears, has been adjusted to £0.173m (2003/04 - £0.189m); this represents a decrease of £0.016m. The share of the sundry debtor account provision for bad debts has decreased by £0.001m.

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

2003/04		2004/05
Actual		Actual
£'000		£'000
46,151	Gross Council Tax Levied and Contributions in Lieu	48,163
	Less:	
(253)	Council Tax Benefits (Net of Government Grant)	-
(7,530)	Other Discounts and Reductions	(8,046)
(1,786)	Provision for Bad and Doubtful Debts	(1,201)
36,582	Total for 2004/05	38,916
837	Adjustment to Previous Years' Community Charge and Council Tax	1,478
37,419	Transfers to General Fund	40,394

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 2004/05 was as follows:

Band	Valuation Band	% Band D	£ per year
A	Under £27,000	67%	717
B	£27,000 - £35,000	78%	836
C	£35,000 - £45,000	89%	956
D	£45,000 - £58,000	100%	1,075
E	£58,000 - £80,000	122%	1,314
F	£80,000 - £106,000	144%	1,553
G	£106,000 - £212,000	167%	1,792
H	Over £212,000	200%	2,150

2. Calculation of the Council Tax Base 2004/05

Council Tax Base	A	B	C	D	E	F	G	H	Total
Total Number of Properties	8,127	9,511	9,361	5,508	6,660	3,444	2,296	216	45,123
Less - Exemptions / Deductions	1,019	690	1,125	411	524	173	121	31	4,094
- Adjustment for Single Chargepayers	904	964	734	404	348	147	82	5	3,588
Effective Number of Properties	6,204	7,857	7,502	4,693	5,788	3,124	2,093	180	37,441
Band D Equivalent Factor (ratio)	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	
Band D Equivalent Number of Properties	4,136	6,111	6,668	4,693	7,074	4,512	3,488	360	37,042
Add Contribution in lieu in respect of Class 18 dwellings (Band D Equivalent)									-
Nominal Tax Yield									37,042
Less Provision for Non-Collection - 4.94%									1,853
Council Tax Base 2004/05 - Number of Band D equivalents									35,189

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

2003/04		2004/05
Actual		Actual
£'000		£'000
27,691	Gross rates levied	34,106
	Less:	
(2,182)	Reliefs and other deductions	(4,494)
(300)	Payment of interest	(5)
(389)	Provision for bad and doubtful debts	190
24,820	Net Non-domestic Rate Income	29,797
2	Adjustments for years prior to introduction of national non-domestic rate pool	2
7,711	Contribution from / (to) national non-domestic rate pool	4,346
32,533	Guaranteed Rate Income	34,145

NOTES TO THE NON-DOMESTIC RATE INCOME ACCOUNT

1. Analysis of Rateable Values

2003/04		2004/05
£		£
3,392,020	Industrial and freight transport subjects	3,383,850
36,355,931	Miscellaneous including Telecomms, Rail, Gas and Electricity Companies	33,247,591
	Commercial subjects:	
9,519,550	Shops	9,579,410
4,517,005	Offices	4,703,535
6,596,840	Hotels, Boarding Houses etc.	6,399,955
5,462,395	Others	5,586,700
7,951,411	Formula valued subjects	7,705,885
73,795,152	Total Rateable Value	70,606,926

2. Non-Domestic Rate Charge

2003/04		2004/05
Pence		Pence
47.8p	Rate Per Pound	48.8p
0.6	Supplementary Rate Per Pound for Properties over £25,000	0.3

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.

2003/04 £'000	Note	2004/05 £'000
Fixed Assets		
22	1	28
		<i>Intangible Fixed Assets</i>
		<i>Tangible Fixed Assets</i>
	2.1	Operational Assets
64,724		- Council Dwellings 68,370
162,223		- Other Land and Buildings 177,024
4,862		- Vehicles, Plant and Equipment 5,956
63,163		- Infrastructure Assets 75,771
329		- Community Assets 1,690
	2.2	Non-operational Assets
212		- Vehicles, Plant and Equipment Under Construction 327
9,800		- Infrastructure Under Construction 9,244
3,014		- Buildings Under Construction 5,391
13,487		- Non-operational Land and Buildings 14,035
321,836		357,836
559	6	Deferred Charges -
1,464	7	Long Term Debtors 1,419
323,859		359,255
Current Assets		
652		Stock and Work in Progress 678
11,270	8	Debtors 18,055
-		Investments -
850		Cash and Bank 13,128
336,631		391,116
Current Liabilities		
(3,702)	9.2	Short Term Borrowing (4,517)
(34,347)		Creditors (44,433)
(3,670)		Bank Overdraft (3,850)
294,912		338,316
(192,574)	9.2	Long Term Borrowing (193,771)
(700)		Deferred Liability - Finance Leases (567)
(424)	10	Provisions (388)
(26,794)	16.1	Liability Related to Defined Benefit Pension Scheme (81,535)
74,420		62,055
Total Assets less Current Liabilities		
<i>Financed by:</i>		
83,220		Fixed Asset Restatement Account 104,772
296		Capital Financing Account 6,168
359		Useable Capital Receipts Reserve 467
13,238		Deferred Government Grants and Contributions 23,881
(10,203)		Deferred (Premiums) / Discounts (9,653)
(26,794)		Pensions Reserve (81,535)
12,193		General Fund Balance 15,120
474		Housing Revenue Account Balance 1,015
1,637		Repairs and Renewals Funds 1,820
74,420		62,055
Total Net Worth		



Bruce West
 Head of Strategic Finance
 21 June 2005

1. Movement in Intangible Assets

	Purchased Software Licences £'000
Original cost at 31/03/04	22
Other	-
Net Book Value at 31/03/04	22
Movement in 2004/05	
Expenditure in Year	10
Disposals	-
Depreciation	(4)
Net Book Value at 31/03/05	28

2.1 Movement in Operational Fixed Assets

	Council Dwellings £'000	Other Land & Buildings £'000	Vehicles Plant & Equipment £'000	Infrastructure Assets £'000	Community Assets £'000	Total 2004/05 £'000	Total 2003/04 £'000
Certified Valuation at 31/03/04	64,724	182,407					
Accumulated Depreciation		(20,184)					
Accumulated Impairment							
Net Book Value at 31/03/04	64,724	162,223	4,862	63,163	329	295,301	295,310
<i>Movement in 2004/05</i>							
Expenditure in Year	3,401	3,800	2,695	1,586	335	11,817	10,287
Assets Acquired Under Finance Leases						-	801
Disposals	(2,617)		(90)			(2,707)	(3,445)
Revaluations	5,020	17,747			992	23,759	5,152
Transfers (to) / from Non Operational Assets		777		14,193	34	15,004	916
Depreciation	(2,158)	(7,523)	(1,511)	(3,171)		(14,363)	(13,697)
Net Book Value at 31/03/05	68,370	177,024	5,956	75,771	1,690	328,811	295,324

The opening balance for Vehicles Plant and Equipment has been reduced by £0.022m to reflect the value of intangible fixed assets now shown separately on the face of the balance sheet.

2.2 Movement in Non-Operational Fixed Assets

	Vehicles Plant & Equipment Under Construction £'000	Infrastructure Under Construction £'000	Buildings Under Construction £'000	Non Operational Land & Buildings £'000	Total 2004/05 £'000	Total 2003/04 £'000
Certified Valuation at 31/03/04						
Accumulated Depreciation				-		
Accumulated Impairment				-		
Net Book Value at 31/03/04	212	9,800	3,014	13,487	26,513	17,694
<i>Movement in 2004/05</i>						
Expenditure in Year	115	13,637	3,253	28	17,033	9,580
Disposals				(90)	(90)	(660)
Revaluations				545	545	816
Transfers (to) / from Operational Assets		(14,193)	(876)	65	(15,004)	(916)
Depreciation					-	-
Net Book Value at 31/03/05	327	9,244	5,391	14,035	28,997	26,514

2.3 Valuation of Operational Fixed Assets

Council dwellings were revalued at 31 March 2005 by the District Valuer for Scotland South West, W.R Duthie, F.R.I.C.S., on the basis of Existing Use Value for Social Housing as defined in Practice Statement 4.1 of the Royal Institute of Chartered Surveyors (RICS) Appraisal and Valuation Manual, the definition of which is as follows:

"Existing Use Value for Social Housing is defined as an opinion of the best price at which the sale of an interest in property would have been completed unconditionally for cash consideration on the date of the valuation."

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

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

	Council Dwellings	Other Land & Buildings	Vehicles Plant & Equipment	Infrastructure Assets	Community Assets	Total 2004/05
	£'000	£'000	£'000	£'000	£'000	£'000
Valued at historical cost			5,956	75,771	1,690	83,417
Valued at current value in:						
2004/2005	68,370	97,785				166,155
2003/2004		16,395				16,395
2002/2003		29,377				29,377
2001/2002		50				50
2000/2001		32,112				32,112
1999/2000		1,247				1,247
Valuations inherited at 01/04/96		58				58
Total	68,370	177,024	5,956	75,771	1,690	328,811

2.4 Valuation of Non-Operational Fixed Assets

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

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

	Vehicles Plant & Equipment Under Construction	Infrastructure Under Construction	Buildings Under Construction	Non Operational Land & Buildings	Total 2004/05
	£'000	£'000	£'000	£'000	£'000
Valued at historical cost	327	9,244	5,391		14,962
Valued at current value in:					
2004/2005				721	721
2003/2004				3,135	3,135
2002/2003				3,118	3,118
2001/2002				5,175	5,175
2000/2001				1,096	1,096
1999/2000				778	778
Valuations inherited at 01/04/96				12	12
Total	327	9,244	5,391	14,035	28,997

2.5 Fixed Assets Information on Assets Held at 31/03/05

	2004/05		2004/05
	No.		No.
OPERATIONAL BUILDINGS		OPERATIONAL EQUIPMENT	
Administrative Buildings	52	Vehicles and Heavy Plant	311
Depots	34		
Social Work Homes for the Elderly	7	INFRASTRUCTURE ASSETS	
Social Work Children's Homes	5	Highways (miles)	1,406
Hostels	6	Bridges	954
Primary Schools	78	Car Parks	138
Secondary Schools	10	Vessels	5
Special Schools	3		
Nursery Schools	3	COMMUNITY ASSETS	
Halls	8	Parks/Play Areas	60
Sports Centres	1	Civic Regalia (Provosts' Chains)	4
Swimming Pools	4	Civic Regalia (Baillies' Chains)	1
Museums and Libraries	10	Cemeteries	125
Community Centres	8	War Memorials	54
Crematoria	1	Works of Art	299
Public Conveniences	77		
Travelling Persons Sites	3	COUNCIL DWELLINGS	5,706
Airports	1		

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

3. Summary of Capital Expenditure and Financing

	31 March 2005	31 March 2004
	£'000	£'000
Opening Capital Financing Requirement	226,322	227,091
Capital Investment		
Operational Assets - Expenditure	11,848	10,287
Operational Assets - Finance Leases	-	801
Non-Operational Assets	17,003	9,580
Deferred Charges	-	898
Intangible Assets	10	-
Total Capital Investment	28,861	21,566
Sources of Finance:		
Capital Receipts	(5,651)	(5,499)
Government Grants	(11,353)	(2,108)
Capital Financed from Current Revenue	(315)	(343)
Repayment of External Loans	(13,749)	(13,595)
Capital Element of Finance Lease Payments	(133)	(125)
Capital Receipts from Useable Capital Receipts Reserve	(359)	(400)
Other	(5)	(265)
Total Funding	(31,565)	(22,335)
Closing Capital Financing Requirement	223,618	226,322

4. Assets Held Under Finance Leases

The following values of assets are held under finance leases by the authority, accounted for as part of Tangible Fixed Assets:

	Vehicles, Plant and Equipment £'000
Value at 1 April 2004	700
Additions	-
Depreciation	(133)
Disposals	-
Value at 31 March 2005	567

Outstanding obligations to make payments under these finance leases (excluding finance costs) at 31 March 2005, accounted for as part of long-term liabilities, are as follows:

	Vehicles, Plant and Equipment £'000
Obligations payable in 2005/2006	133
Obligations payable between 2006/2007 and 2009/2010	434
Obligations payable after 2009/2010 onwards	-
Total liabilities at 31 March 2005	567

5. Assets Held Under Operating Leases

The authority was committed at 31 March 2005 to making payments of £1.308m under operating leases in 2005/2006, comprising the following elements:

5. Assets Held Under Operating Leases

	Other Land and Buildings £'000	Vehicles, Plant and Equipment £'000
Leases expiring in 2005/2006	23	134
Leases expiring between 2006/2007 and 2009/2010	51	825
Leases expiring after 2009/2010 onwards	54	221
	128	1,180

6. Movement in Deferred Charges

	Balance at 1 April 2004 £'000	Expenditure in year £'000	Written off to revenue in year £'000	Balance at 31 March 2005 £'000
Wheeled Bins	559	-	(559)	-
Total Deferred Charges	559	-	(559)	-

7. Long Term Debtors

	31 March 2005 £'000	31 March 2004 £'000
House Loans	601	679
Waste PPP Historic Contamination Fund	818	785
Total Long Term Debtors	1,419	1,464

7. Long Term Debtors Cont'd

At the start of the PPP contract during the 2001/02 financial year, a joint bank account was set up with Shanks Group PLC. Only Shanks Group PLC can draw on this fund during the 25 year contract period, Argyll and Bute Council are required to keep the bank account balance "topped" up at £0.750m. At the end of the 25 year contract period the £0.750m will be available to Argyll and Bute Council.

The movement in the bank account balance during the year can be analysed as follows:

	£'000
Balance at 1 April 2004	785
Contribution to General Fund	-
"Top-up" payments during the year	-
Withdrawals by Shanks Group PLC	-
Interest earned on bank account	33
Balance at 31 March 2005	818

8. Debtors

		2004/05	£'000	2003/04	£'000
Arrears of Local Taxation	Council Tax	11,983		11,683	
	less: provision for bad debts	<u>(9,741)</u>		<u>(11,091)</u>	
			2,242		592
	Community Charge	7,636		7,697	
	less: provision for bad debts	<u>(7,636)</u>		<u>(7,697)</u>	
			-		-
	Non-domestic Rates	1,573		1,513	
	less: provision for bad debts	<u>(920)</u>		<u>(1,327)</u>	
			653		186
House Rents		275		324	
less: provision for bad debts		<u>(173)</u>		<u>(189)</u>	
			102		135
Debtor Accounts		2,833		2,742	
less: provision for bad debts		<u>(392)</u>		<u>(411)</u>	
			2,441		2,331
Government Grants			-		1,420
VAT Recoverable			2,775		2,349
Other Debtors			9,842		4,257
Total Debtors			18,055		11,270

9. Analysis of Borrowing

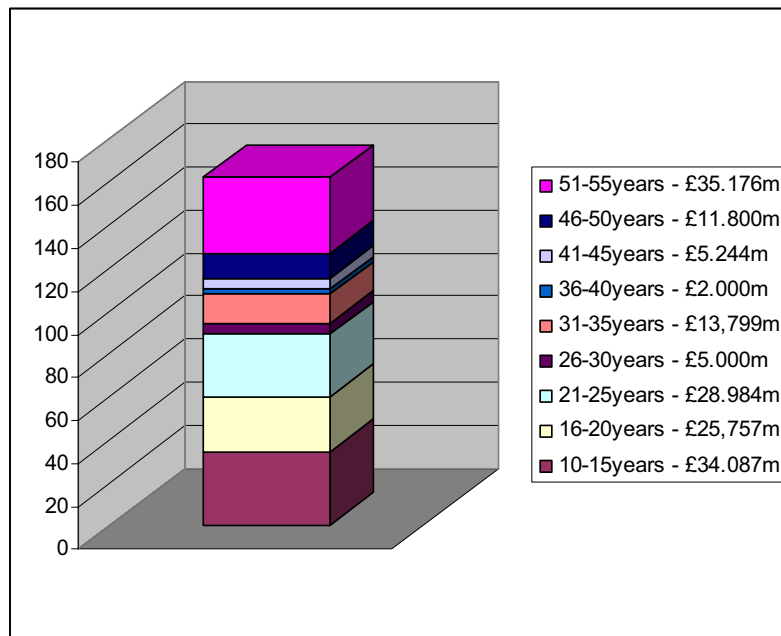
9.1 Source of Loan

	31 March	31 March
	2005	2004
	£'000	£'000
Public Works Loan Board	171,560	169,178
Money Market	25,755	25,755
EIB	437	830
Other Loans	536	513
Total Outstanding Loans	198,288	196,276

9. Analysis of Borrowing Cont'd
9.2 Maturity of Loans

	31 March 2005	31 March 2004
	£'000	£'000
Borrowings repayable on demand or within 12 months	4,517	3,702
Borrowings repayable on demand or within 12 months	4,517	3,702
1 - 2 years	4,012	4,054
2 - 5 years	4,263	8,272
6 - 10 years	23,638	14,294
Over 10 years (see graph)	161,858	165,954
Total Long and Medium Term Loans	193,771	192,574
Total Outstanding Loans	198,288	196,276

The following graph shows an additional analysis of how the £161.858m of long term loans over 10 years, shown in the table above, is repayable.



10. Provisions

Liabilities have continued to arise in respect of the former Strathclyde Regional Council's operations. Cost sharing arrangements are in place with the other eleven authorities that make up the former Strathclyde Region. Argyll and Bute Council's share of liabilities, which materialise in the future, will be approximately 4.75%. At present, potential liabilities in respect of insurance claims and various legal actions could cost the Council £0.088m. Full provision for this amount has been made.

Liabilities have also arisen in respect of employees who will be made redundant as a result of restructuring. According to the SORP's (Statement of Recommended Practice) guidance on Provisions for Restructuring Costs: -

"The authority must also have raised valid expectations in those affected by announcing the features of the plan or actually starting to implement it. Allowable costs are restricted to costs that would not have been incurred if the restructuring had not taken place, less any costs associated with on-going activities."

This provision complies with the requirements of Financial Reporting Standard 12 - "Provisions, Contingent Liabilities and Contingent Assets" and meets the following criteria:

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

10. Provisions Cont'd

	Opening Balance £'000	Movement in Year £'000	Closing Balance £'000
SRC Insurance Claims	(100)	12	(88)
Reorganisation Redundancy Costs	(324)	24	(300)
Total Provisions	(424)	36	(388)

11. Analysis of Net Assets Employed

	As at 31 March 2005		
	General Fund £'000	HRA £'000	Total £'000
Assets			
Intangible Fixed Assets	28	-	28
Tangible Fixed Assets	289,438	68,370	357,808
Deferred Charges	-	-	-
Long Term Debtors	1,419	-	1,419
Stock and Work in Progress	678	-	678
Debtors	17,764	291	18,055
Investments	-	-	-
Cash at Bank and in Hand	13,128	-	13,128
Liabilities			
Short Term Borrowing	(3,684)	(833)	(4,517)
Creditors	(43,193)	(1,240)	(44,433)
Bank Overdraft	(3,850)	-	(3,850)
Long Term Borrowing	(158,028)	(35,743)	(193,771)
Deferred Liability Under Finance Leases	(567)	-	(567)
Provisions	(388)	-	(388)
Liability Related to Defined Benefit Pension Scheme	(78,192)	(3,343)	(81,535)
Total Net Assets Employed	34,553	27,502	62,055

12. Contingent Gains and Liabilities

The Council has inherited a number of applications for equal pay at various stages of completion at Industrial Tribunals. The final outcomes of these applications are unknown at this time, although there is the possibility that the Council may lose at least some of these cases. There is also potential for other equal pay claims whose costs will be met by the Council. No financial provision has been made in the 2004/05 Accounts given the uncertainties that surround both the final outcomes and the settlement levels.

The Council has entered into a Public Private Partnership with Shanks Group PLC for the waste management of landfill sites. Under this agreement, the Council retains an element of residual responsibility in respect of specific environmental rectification, which may be necessary in certain circumstances. The Council is of the view that any future liabilities arising from these circumstances should be covered by grants funding.

13. Commitments Under Capital Contracts

At 31 March 2005, the Council had commitments on capital contracts of £8.262m. This expenditure will be funded from a combination of government grants, borrowing, income from selling assets and contributions from Revenue Accounts.

	£'000
ICT and Financial Services	138
Community Services	2,346
Infrastructure and Transport	4,878
Operational Services	900
	8,262

14. Trust Funds and Other Third Party Funds

The Council acts as sole or custodian trustee for 75 trust funds and 6 common good funds. In neither case do the funds represent assets of the Council, and as such have not been included in the Consolidated Balance Sheet.

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

	Income £'000	Expenditure £'000	Assets £'000	Liabilities £'000
Campbeltown Common Good Fund	27	20	770	770
Oban Common Good Fund	50	32	825	825
Inveraray Common Good Fund	-	-	1	1
Lochgilphead Common Good Fund	-	-	5	5
Dunoon Common Good Fund	-	1	6	6
Rothesay Common Good Fund	11	6	135	135
Argyll Education Trust	22	9	238	238
GM Duncan Trust	3	1	78	78
McDougall Trust	21	-	497	497
Various Other Trust Funds	19	2	423	423
Total Trust Funds	153	71	2,978	2,978

Purpose of Common Good Funds:

These funds are held for the benefit of residents of the former Burghs within Argyll and Bute.

Purpose of Trust Funds:

GM Duncan Trust: for the provision of fuel, clothing and foodstuffs for the needy of Campbeltown. McDougall Trust: for the provision of sheltered housing on the Ross of Mull. 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. Further information on the Common Good and Trust Funds, administered by Argyll and Bute Council, can be obtained from Strategic Finance within the Chief Executive's Unit.

15. European Monetary Union

As at 31 March 2005, the Council had incurred no expenditure and had made no commitments in respect of the costs associated with the introduction of the Euro. Prior to entry into full Euro trading, a significant review of all systems will require to be undertaken. Consequently an estimate of costs is not available at this stage.

16. Pension Assets and Liabilities - FRS 17 Disclosure

In accordance with Financial Reporting Standard No 17 - Retirement Benefits (FRS 17) the Council is required to disclose certain information concerning assets, liabilities, income and expenditure related to pension schemes for its employees.

The Council participates in two formal schemes: the Local Government Pension Scheme, administered by Glasgow City Council, and the Teachers Scheme administered by the Scottish Executive. The Council is not required to record information related to the Teachers' Scheme as the liability for payment of pensions rests ultimately with the Scottish Executive. In addition, the Council has liabilities for discretionary payments outside the main schemes.

Due to the timing of salary processing, not all employee and employer contributions have been paid to the Pension Schemes by the 31 March 2005. These payments have been accrued and are included within the creditors figure on the balance sheet. These will be paid within April. The amounts are as follows:

Local Government Pension Scheme - £805,579
Teacher's Scheme - £478,399

16.1 Local Government Pension Scheme

The Local Government Pension Scheme is a funded scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level estimated to balance the pensions liabilities and investment assets. The Strathclyde Pensions Fund Office oversees the operation of this scheme.

The latest formal valuation of the Strathclyde Pension Fund for funding purposes was at 31 March 2002. An actuarial valuation is being carried out as at 31 March 2005, this will be reflected in future years. Hymans Robertson has 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 2006 remains substantially stable with new entrants replacing any leavers. The assumptions used by Hymans Robertson (Independent Actuaries) at 31 March 2005 are as follows:

	31 March 2005	31 March 2004
	% per annum	% per annum
Price Increases	2.9%	2.9%
Salary Increases	4.4%	4.4%
Pension Increases	2.9%	2.9%
Discount Rate	5.4%	6.5%

Assets of the employer's share of the fund are valued at fair value, principally market value for investments, and consist of:

	Return within 2004/2005	Fund Value at 31 March 2005	Expected Return 2005/2006
Assets (Employer Share)	% per annum	£'000	% per annum
Equities	7.7%	178,580	7.7%
Bonds	5.1%	32,306	4.8%
Properties	6.5%	23,146	5.7%
Cash	4.0%	7,680	4.8%
Total	7.1%	241,712	7.0%

The net pension asset / (liability) of Argyll and Bute Council as at 31 March 2005 is as follows:

	31 March 2005	31 March 2004
	£'000	£'000
Estimated Employer Assets	241,712	217,495
Present Value of Scheme Liabilities	302,810	231,472
Present Value of Unfunded Liabilities	20,437	17,386
Total Value of Liabilities	323,247	248,858
Net Pension Asset / (Liability)	(81,535)	(31,363)

The Net Pension Liability on the face of the balance sheet for 2003/04 is £26.794m, whereas in the note above the liability at 31 March 2004 is £31.363m. As noted in Point 3.4 of the Statement of Accounting Policies, for the 2004/2005 Statement of Accounts, a rate based on the current rate of return on a high-quality corporate bond of equivalent currency and term to scheme liabilities has been used. Application of this rate has resulted in an increase in liabilities measured at today's prices of £4.569m. The change in the liabilities does not require a prior period adjustment, however, the note above represents the comparative Net Pension Liability using the revised discount rate.

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

- Strathclyde Police Board
- Strathclyde Fire Board
- Dunbartonshire and Argyll & Bute Valuation Board

Further information regarding these deficits can be found in the annual report and accounts of the relevant bodies.

Capital Reserves	Note 1	Note 2	Useable Capital Receipts Reserve	Note 3 Deferred Gov't Grants	Note 4 Deferred (Premiums) Discounts	Total
	Fixed Asset Restatement Account £'000	Capital Financing Account £'000	£'000	£'000	£'000	£'000
Balance at 1 April 2004	83,220	296	359	13,238	(10,203)	86,910
Net Surplus/(Deficit) for year		(19)		10,643	550	11,174
Prior year adjustments	41	(41)				-
Unrealised gains/(loss) from revaluation of fixed assets	24,304					24,304
Impairment gains/(losses) arising from revaluations						-
Capital Receipts transferred to/from Useable Capital Receipts Reserve		359	(359)			-
Other Adjustments	4	(47)				(43)
Effects of disposals of fixed assets:						
Cost or value of assets disposed of	(2,797)					(2,797)
Proceeds of disposals		5,620	467			6,087
Net Surplus/(Deficit)	(2,797)	5,620	467			3,290
Balance at 31 March 2005	104,772	6,168	467	23,881	(9,653)	125,635

Revenue Reserves and Funds (Note 5)

	General Fund	HRA Balance	Note 5 Repairs and Renewals Funds	Total
	£'000	£'000	£'000	£'000
Balance at 1 April 2004	12,193	474	1,637	14,304
Net Surplus/(Deficit) for year	2,927	520	183	3,630
Revenue Interest		21		21
Other Adjustments / Reserve Transfers				-
Balance at 31 March 2005	15,120	1,015	1,820	17,955

Pension Reserve

	£'000
Balance at 1 April 2004	(26,794)
Effect of Change of Discount Rate	(4,569)
Revised Opening Balance 1 April 2004	(31,363)
Reversal of Provision for Teachers Premature Retirement Scheme 2003/2004	3,783
Transfer to Revenue	(1,088)
Actuarial Gain / (Loss) in Pension Plan	(52,867) Note 7
Balance at 31 March 2005	(81,535)

1. Fixed Asset Restatement Account

This account reflects the difference between the book value of assets prior to the implementation of the new system of Capital Accounting and the revalued amounts. Any subsequent revaluations are also recorded here. It is not a revaluation reserve and does not represent resources available to the authority. It cannot be used in any way to finance revenue or capital expenditure and can only be reduced by either writing out the book value of assets or a downward revaluation.

	General Fund £'000	HRA Balance £'000	Total £'000
Balance at 1 April 2004			83,220
Surplus on revaluations, etc	19,284	5,020	24,304
Disposal of Fixed Assets	(180)	(2,617)	(2,797)
Prior year adjustment	41		41
Other Adjustments	4		4
Balance at 31 March 2005			104,772

2. Capital Financing Account

The Capital Financing Account contains the amounts which are required by statute to be set aside from capital receipts for the repayment of external loans as well as the amount of capital expenditure financed from revenue and capital receipts. It also contains the difference between amounts provided for depreciation and that required to be charged to revenue to repay the principal element of external loans. As with the Fixed Asset Restatement Account it does not represent resources available to the authority.

	General Fund £'000	HRA Balance £'000	Sub Total £'000	Total £'000
Balance at 1 April 2004				296
Appropriations:				
Capital Financed from Current Revenue	41	274	315	
Repayment of External Loans	13,749		13,749	
Capital Element of Finance Lease Payments	133		133	
Depreciation Write-off	(12,209)	(2,158)	(14,367)	
Deferred Government Grants Write-off	710	-	710	
Deferred Charges Write-off	(559)	-	(559)	(19)
Proceeds of Disposals				5,620
Capital Receipts transferred from Useable Capital Receipts Reserve				359
Prior year adjustment				(41)
Other Adjustments				(47)
Balance at 31 March 2005				6,168

3. Deferred Government Grants

The Deferred Government Grants Account represents the balance of grants applied to the financing of fixed assets, awaiting amortisation to the asset management revenue account to match depreciation on the relevant assets. As with the Fixed Asset Restatement Account it does not represent resources available to the authority.

	£'000
Balance at 1 April 2004	13,238
Grants received during the year to finance capital projects	11,353
Credit to revenue account during the year	(710)
Balance at 31 March 2005	23,881

4. Deferred (Premiums) / Discounts

The "Loans Early Repayment Premium" represents the premium paid to the Public Works Loans Board and other external bodies upon the early redemption of debt. As part of a loans restructuring exercise, debt at a relatively high interest rate was replaced by new debt at a more attractive rate of interest. These costs associated with the early redemption of debt are charged to the Council's loans fund over the period of the new debt borrowed.

	£'000
Balance at 1 April 2004	(10,203)
New (Premiums) / Discounts	-
Debit / (Credit) to Asset Management Revenue Account	550
Balance at 31 March 2005	(9,653)

5. Repairs and Renewals Funds

	Balance at 31 March 2004 £'000	Contribution from CRA £'000	Interest Earned £'000	Appropriation to CRA £'000	Balance at 31 March 2005 £'000
Revenue Funds:					
Repairs and Renewals - Education	809	570	28	(462)	945
Repairs and Renewals - Vehicles	43	12	2		57
Repairs and Renewals - Land Contamination	785		33		818
	1,637	582	63	(462)	1,820

6. Revenue Reserves and Funds

Revenue reserves are made up of the annual movements in the Consolidated Revenue Account and Housing Revenue Account and also Repairs and Renewals Funds. Revenue reserves can be used to meet both capital and revenue expenditure.

7. Public Private Partnership Surplus

The General Fund balance includes a surplus of £0.028m. This relates to the Waste Management PPP where there was a surplus of funding over expenditure in the 2004/2005 financial year. The following analysis provides more detail on how the surplus for the year was arrived at:

Expenditure	£'000
Payment under the contract:	
Service Cost	4,170
Landfill Tax	609
Historic Contamination	-
Total Expenditure	4,779
Funding	
Argyll and Bute Council Revenue Budget	1,263
Level Playing Field Support	1,290
Strategic Waste Fund - Direct Grant	827
Strategic Waste Fund - Revenue Support Grant (from 1st October 2004)	827
Capital Virement	600
Total Funding	4,807
2004/05	28

8. Actuarial Gain / (Loss) in Pension Plan

The Pension Reserve includes an Actuarial Loss in the Pension Plan. The following analysis provides more detail on how this loss was arrived at, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2005. Comparative figures are also noted for the previous two financial years:

	2002/2003		2003/2004		2004/2005	
	£'000	%	£'000	%	£'000	%
Differences between the Expected and Actual Return on Assets	(34,762)	(33.44%)	19,563	14.15%	8,174	3.38%
Differences between actuarial assumptions about liabilities and actual experience	(14,501)	(10.01%)	(512)	(0.32%)	(3,449)	(1.07%)
Changes in the demographic and financial assumptions used to estimate liabilities					(57,592)	
Actuarial Gain / (Loss) in Pension Plan	(49,263)		19,051		(52,867)	

2003/04 Actual £'000	REVENUE ACTIVITIES	Note	2004/05 Actual £'000
	<i>Cash outflows</i>		
106,820	Cash Paid for and on Behalf of Employees		118,583
107,460	Other Operating Cash Payments		113,093
7,243	Housing Benefit Paid Out		6,968
995	National Non-domestic Rate Payments to National Pool		-
222,518	Total Cash Outflows		238,644
	<i>Cash inflows</i>		
6,623	Rents (after rebates)		6,292
36,059	Council Tax Income		33,511
30,078	Non-domestic Rate Receipts		33,085
	Community Charge		719
126,569	Revenue Support Grant		117,175
21,278	DWP Grants for Benefits		19,835
7,759	Other Government Grants	1	28,187
23,935	Cash Received for Goods and Services		24,065
3,784	Other Operating Cash Receipts		2,514
256,085	Total Cash Inflows		265,383
33,567	Net Cash Inflow / (Outflow) From Revenue Activities	2	26,739
	SERVICING OF FINANCE		
	<i>Cash outflows</i>		
14,782	Interest paid		13,400
22	Interest element of finance lease		14
14,804	Total Cash Outflows		13,414
	<i>Cash inflows</i>		
372	Interest received		491
372	Total Cash Inflows		491
(14,432)	Net Cash Inflow / (Outflow) From Servicing of Finance		(12,923)
	CAPITAL ACTIVITIES		
	<i>Cash outflows</i>		
11,342	Purchase of Fixed Assets		20,274
4,606	Other Capital Cash Payments		1
15,948	Total Cash Outflows		20,275
	<i>Cash inflows</i>		
5,783	Sale of Fixed Assets		5,526
2,099	Capital Grants Received		10,592
344	Other Capital Cash Receipts		560
8,226	Total Cash Inflows		16,678
(7,722)	Cash Inflow (Outflow) From Capital		(3,597)

Continued on next page.

Continued from previous page.

2003/04 Actual £'000		Note	2004/05 Actual £'000
MANAGEMENT OF LIQUID RESOURCES			
<u>2,000</u>	Liquid Resources		<u>-</u>
<u>13,413</u>	Net Cash Inflow / (Outflow) Before Financing		<u>10,219</u>
FINANCING			
<i>Cash outflows</i>			
43,073	Repayments of Amounts Borrowed		6,365
125	Capital element of finance lease		133
<u>43,198</u>	Total Cash Outflows		<u>6,498</u>
<i>Cash inflows</i>			
21,846	New Loans Raised		8,377
<u>21,846</u>	Total Cash Inflows		<u>8,377</u>
<u>(21,352)</u>	Net Cash Inflow / (Outflow) From Financing		<u>1,879</u>
<u>(7,939)</u>	Net Increase / (Decrease) in Cash	3	<u>12,098</u>

1. Other Government Grants

2003/04 £'000		2004/05 £'000
149	Housing Support Grant	198
-	Private Sector Housing Grant	1,839
342	Public Transport Grant	430
112	Pre-school Education Grants	163
-	Pre-school Gaelic Education Grants	40
1,974	National Priorities Action Fund	2,352
136	Special Education	143
255	Gaelic Education Grants	284
1,261	Other Educational Grants	1,239
-	Education Maintenance Allowance	162
-	Supporting People	16,048
390	Children's Change Fund	663
470	DWP Other Grants	722
475	Social Inclusion Partnership	507
1,792	Strategic Waste Fund	1,137
-	Associated Schools Group	46
-	Discipline Task Group	178
-	Youth Crime	3
403	Other Grants (e.g. Civil Defence)	2,033
7,759	Total "Other Government Grants"	28,187

2. Net Cash Flow Reconciliation

2003/04 £'000		2004/05 £'000
6,486	Surplus/(Deficit) for Year	2,927
511	Add back: Transfer to HRA Balance	794
6,997		3,721
(205)	Movements in Reserves	183
20,790	Adjustments Not Involving Movement in Funds	21,749
91	(Increase)/Decrease in Stocks	(26)
385	(Increase)/Decrease in Debtors	(6,017)
5,509	Increase/(Decrease) in Creditors	7,129
33,567	Revenue Activities Net Cash Flow	26,739

3. Analysis of Net Debt

	As at 31 March 2005 £'000	As at 31 March 2004 £'000	Cash Flow £'000
Cash at Bank and in Hand	13,128	850	12,278
Bank Overdraft	(3,850)	(3,670)	(180)
Net Increase / (Decrease) in Cash	9,278	(2,820)	12,098
Debt due within one year	(4,517)	(3,702)	(815)
Debt due after one year	(193,771)	(192,574)	(1,197)
(Increase) / Decrease in Debt Financing	(198,288)	(196,276)	(2,012)
Movement in Debt in Period			10,086
Capital Element of Finance Lease			133
Net Cash Flow on Debt and Capital Element of Finance Leases			10,219

4. Reconciliation of Movement in Cash to Net Debt

2003/04		2004/05
£'000		£'000
(7,939)	Increase / (Decrease) in Cash in Period	12,098
21,227	(Increase) / Decrease in Debt Financing	(2,012)
13,288	Movement in Debt in Period	10,086
(212,384)	Net Debt as at 1 April 2004	(199,096)
(199,096)	Net Debt as at 1 April 2005	(189,010)

THE AUTHORITY'S RESPONSIBILITIES

The Authority is required:

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

THE HEAD OF STRATEGIC FINANCE'S RESPONSIBILITIES

The Head of Strategic Finance is responsible for the preparation of the authority's statement of accounts, which in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code of Practice), is required to present fairly, the financial position of the authority as at 31 March 2005 and its income and expenditure for the year ended on that date.

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

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

The Head of Strategic Finance has also:

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

This statement of accounts presents fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2005.



Bruce West
Head of Strategic Finance
21 June 2005

This statement is given in respect of the statement of accounts for Argyll and Bute Council. I acknowledge my responsibility for ensuring that an effective system of internal financial control is maintained and operated in connection with the resources concerned.

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

The system of internal 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 managers within the Council. In particular the system includes:

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

Argyll and Bute Council has 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 is exposed, and annual internal audit plans are based on the analysis. The Council's Audit Committee endorses the analysis of risk and the internal audit plans. At least annually, the Internal Audit Manager provides the Audit Committee with a report on internal audit activity in the Council. The report includes the Internal Audit Manager's independent opinion on the adequacy and effectiveness of the Council's systems of internal financial control.

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

- the work of Directors and managers within the Council;
- the work of internal auditors as described above; and
- the external auditors in their annual audit letter and other reports.

During 2004/05 and the previous year Internal Audit has identified a number of areas of potential weakness in the systems of financial control. They are:-

- Revisions to the Contract Standing Orders to overcome the inadequacy of capital control guidelines were originally to be completed by 31 July 2004. Management is currently addressing this issue and revised Standing Orders are expected now to be completed and approved by the full Council in June 2005.
- Capital project management disciplines were to be improved. Management has taken some steps to address this issue, but has not yet fully completed and approved a guidance handbook of procedures. The latest estimate is that it is expected to be completed by July 2005.
- A Risk Management Strategy has been now approved by the Strategic Management Team (SMT) and a Risk Register compiled. They are to be further developed and implemented during 2005/2006.
- An Information Management and Technology Strategy is now in place and has been approved by the SMT, this is to be further developed and implemented during 2005/2006.
- The Council has now approved an Asset Management Strategy. This is to be further developed and implemented during 2005/2006.
- A number of weaknesses were identified in the accounting for property assets in 2003/2004. These have been progressed in 2004/2005 with those remaining weaknesses planned to be addressed throughout 2005/2006.

In addition attention is drawn to the following matter:

- Although significant resource is allocated towards budgetary control improvements, the continued development of linkages between budget and service planning processes with a corresponding review of procedures and training, will lead to better overall budget management.

In summary, the year-end outcome has resulted in a generally satisfactory position and internal audit's annual report allows me to take comfort that other than as outlined above, reasonable assurance can be placed on the adequacy and effectiveness of the Council's Internal Financial Control System.



Bruce West
Head of Strategic Finance
21 June 2005

To the members of Argyll and Bute Council and the Accounts Commission for Scotland

I certify that I have audited the financial statements on pages 6 to 38 under the Local Government (Scotland) Act 1973. The financial statements have been prepared in accordance with the accounting policies set out on pages 6 to 8.

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and the Code of Audit Practice approved by the Accounts Commission and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by Audit Scotland, dated July 2001.

Respective responsibilities of the Head of Strategic Finance and Auditor

As described on page 39 the Head of Strategic Finance of the Council is responsible for the preparation of the financial statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom, a Statement of Recommended Practice ('the SORP'). My responsibilities, as independent auditor, are established by statute and the Code of Audit Practice approved by the Accounts Commission, and guided by the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements present fairly the financial position of the Council at 31 March 2005 and its income and expenditure for the year. I also report if, in my opinion, the Council has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the Statement on the System of Internal Financial Control on page 40 complies with the requirements of the SORP. I report if, in my opinion, the statement does not comply with the requirements or if it is misleading or inconsistent with other information I am aware of from my audit. I am not required to consider whether the statement covers all risks and controls, or form an opinion on the effectiveness of the Council's corporate governance procedures or risk and control procedures.

I read the other information published with the financial statements and consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of Audit Opinion

I conducted my audit in accordance with Part VII of the Local Government (Scotland) Act 1973 and the Code of Audit Practice, which requires compliance with relevant United Kingdom Auditing Standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Head of Strategic Finance in the preparation of the financial statements and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

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

Opinion

In my opinion the financial statements present fairly the financial position of the Council as at 31 March 2005 and its income and expenditure for the year then ended.



Angela Cassels BA CPFA
Assistant Director of Audit (Local Government)
Audit Scotland
7th Floor, Plaza Tower
East Kilbride

30 September 2005

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ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE

AUDIT COMMITTEE
9 DECEMBER 2005

PROGRESS REPORT ON INTERNAL AUDIT PLAN 2005 - 2006

1. SUMMARY

An interim progress report has been prepared covering the audit work performed by Internal Audit up to the 11th of November 2005. The objective of the report is to advise members of the progress of the Annual Audit Plan. (See Appendix 1).

2. RECOMMENDATION

2.1 The Audit Committee is asked to approve the progress made with the Annual Audit Plan for 2005 - 2006.

3. BACKGROUND

3.1 The progress report contained in Appendix 1, lists the audits scheduled for the financial year 2005 –2006 and are ordered by section and level of completion.

3.2 As at the 11th of November 2005, of 18 core financial systems audits set out in the audit plan, 11 have been completed with reports issued. Of the remaining 7 audits, 3 have been started leaving 4 audits still to be commenced.

3.3 A total of 13 non-financial audit areas were identified for this years audit plan. As at the 11th of November 2005, 4 audits have been completed with reports issued. Of the remaining 9 audits, 3 have been started of which one is close to completion. The remaining 6 audits have yet to be commenced.

3.4 As set out in the Annual Audit Plan a total of 80 days have been set aside for Other Areas – Follow Up Work. As at the 11th of November 2005, a total of 62 days have been expended. A total of 80 days have been set aside in the audit plan for Special Investigations / Contingency audit work. As at the 11th of November, a total of 41 days have been expended on Special Investigation work.

4. SUMMARY OF AUDIT ACTIVITIES FOR 2005 - 2006

4.1 Having successfully used the services of a contract auditor for Council Performance Indicator audit work in July 2005, Internal Audit has engaged 2 contract auditors for the period October to the end of December 2005. This additional resource allied to our own staff input will allow Internal Audit to maintain progress with the Annual Audit Plan. (See Appendix 1).

4.2 During October 2005, Internal Audit received notice that the section had achieved a Silver Award in the inaugural year of the Council's Excellence Awards. The category for which Internal Audit entered was, "Securing A Workforce for the Future". Internal Audit is included with 2 other competitors for the Gold Award; the winner will be announced at an Awards Dinner in Oban

on the evening of 12th December 2005.

CONCLUSION

Progress is being made on audits planned for 2005 – 2006.

6. IMPLICATIONS

- | | | |
|-----|----------------------|---|
| 5.1 | Policy: | Update on audit plan for 2005 – 06. |
| 5.2 | Financial: | The audit plan is based on existing budgeted provision. |
| 5.3 | Personnel: | None |
| 5.4 | Legal: | None |
| 5.5 | Equal Opportunities: | None |

For further information please contact Ian Nisbet, Internal Audit Manager (01546 604216)

Ian Nisbet
Internal Audit Manager 25 November 2005.
25Novprogreport25Nov

APPENDIX 1

Assessment of audit days: 2005-2006 strategic plan

AUDIT WORK SCHEDULE AT 11TH NOVEMBER 2005	Year Last Audited	Risk Ranking	Estimated Audit Days 2005-2006	Expended Audit Days 2005 - 2006	Balance
CORE FINANCIAL SYSTEMS					
COMPLETE					
Stock taking	2005	2	25	20	5
Government & European Grants	2003	1	30	23	7
Purchasing	2004	2	25	29	-4
Cash & Income Banking	2004	2	30	25	5
Budgetary preparation & control (KPMG)	2005	1	20	15	5
Capital Accounting	2005	1	20	21	-1
Capital Contracts	2005	1	20	16	4
Contract Hire & Operating Leases	2003	2	20	17	3
Creditor Payments	2004	2	25	27	-2
Debtor Accounts	2004	2	20	15	5
Tendering Procedures	2004	1	30	23	7
STARTED					
Following Public Pound Voluntary Organisations	2005	2	20	2	18
Unified Benefits System	2004	2	30	2	28
Payroll	2004	2	30	3	28
NOT STARTED					
Council Tax & NDR	2003	2	30	0	30
Housing Rents	2005	2	20	0	20
General Ledger Operations	2005	2	25	0	25
Treasury management	2005	2	20	0	20
SECTION TOTAL			440	238	202
NON- FINANCIAL AUDITS					
COMPLETE					
Council Wide Corporate Governance	2004	1	30	26	4
Council Wide Pls	2004	1	60	56	4
Strategic Asset Management	2004	1	30	21	9
Property Asset Management	NEW	1	30	22	8
STARTED					
Community Services - Care Services	NEW	2	30	11	19
Development Services Transport & Infrastructure (KPMG/IA)	NEW	1	30	2	28
Corporate Services - ICT - Security (KPMG/IA)	NEW	2	25	2	23
NOT STARTED					
Chief Executives Unit - Best Value	2004	1	30	0	30
Community Services - NPDO Contract Monitoring (KPMG)	2003	1	30	0	30
Partnership Working	2004	1	30	0	30
Recruitment & Retention of Staff	NEW	2	25	0	25
Business Continuity Planning	NEW	1	30	0	30
New Legislation	NEW	1	30	0	30
Section Total			410	140	270
TOTAL DIRECT AUDIT DAYS			850	379	471
SPECIAL INVESTIGATIONS CONTINGENCY					
Community Services	-	-	80	41	39
Section Total			80	41	39
OTHER AREAS					
Risk assessment, strategic plan, annual plans	-	-	20	10	10
Follow-up External & Internal Audit Recommendations			60	52	8
Section Total			80	62	18
TOTAL			1010	482	528

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ADAPTING TO THE FUTURE 2003 – 2004.

1. SUMMARY

The Accounts Commission - Audit Scotland issued a national report towards the end of August 2004 entitled, "Adapting to the future". As there were no implementation dates assigned to the report recommendations, Internal Audit in conjunction with Community Services management prepared an Action Plan with agreed implementation dates.

2. RECOMMENDATIONS

2.1 The contents of this report are noted and to be followed up by Internal Audit.

3. DETAILS

3.1 The Action Plan for this report lists 21 recommendations. As at the 8th of November 2005, it can be reported that 9 recommendations have been addressed. (See Appendix 1).

3.2 As indicated previously by Community Services' management the remaining 12 recommendations will be addressed through a feasibility study. To achieve this and other requirements, a decision was taken by the Joint Strategy Group comprised of both Community Services and NHS representatives to engage a consultant. After a tendering exercise, AGE Ltd was awarded a consultancy contract. As part of their brief, Age Ltd was tasked to address the 12 remaining recommendations.

3.3 At a meeting on the 15th of November 2005, Internal Audit in co-operation with Community Services management met with AGE Ltd to discuss in detail the agreed feasibility study issues they were to address. At the same meeting it was requested of AGE Ltd that their final report include an Action Plan that prioritised issues, detailed resource requirements and assigned achievable dates for each recommended action.

3.4 Internal Audit was also able to provide AGE Ltd with findings from a recent audit, which addressed the wider issues raised by the Audit Scotland national report. The findings were centred around the impact on Council resources of implementing good practice and the identification of risk and liability issues particular to the Council. AGE Ltd is due to issue their final report in January 2006.

4. CONCLUSIONS

Progress by AGE Ltd in addressing the feasibility study recommendations will be monitored by Internal Audit and reported to the Audit Committee.

5. IMPLICATIONS

5.1	Policy:	None
5.2	Financial:	None
5.3	Personnel:	None
5.4	Legal:	None
5.5	Equal Opportunities:	None

For further information please contact Ian Nisbet, Internal Audit Manager (01546 604216)

Ian Nisbet
Internal Audit Manager 25 November 2005
25Novfinalreport25Nov

Main Report - Action Plan: Adapting to the future

No	Recommendation	Responsible Officer	Community Services Management Response	Implementation Progress as at 8th of November 2005.
	Person-centred services Councils and NHS bodies should			
1	Jointly publish comprehensive information on community equipment and adaptations, covering: <ul style="list-style-type: none"> • What help is available • Who to contact • Eligibility criteria • Who needs to pay and how much • What service people can expect, using information such as local targets for response times. 	Jim Robb Head of Integrated Development.	A joint meeting was held with Occupational Therapy staff on May 11 th to re-write practice guidance and produce information leaflets. This exercise will be concluded by the end of May 2005.	May 2005. Complete. The leaflet has now been produced and arrangements are now in place for the Sensory Impairment Team to transcribe on demand into large print and on to tape.
2	The information in 1 above should be published in different formats and in other languages as needed by local communities	Jim Robb Head of Integrated Development.	Information above will be produced in large print and audio tape and other languages as required.	June 2005. Complete. The leaflet has now been produced and arrangements are now in place for the Sensory Impairment Team to transcribe on demand into large print and on to tape.
3	There should be a review regarding the level of demand for out-of-hours services.	Jim Robb Head of Integrated Development.	Overall service requires to be reviewed. Feasibility study proposed and being presented at next Joint Strategy meeting. Out of hours services would be examined within the study.	This has been included within the agreed brief for the feasibility study being conducted by AGE Ltd.
	How are services organised Councils and NHS bodies should			
4	Work towards joint information systems that provide good management information on the community equipment and adaptation services within their partnership area.	Jim Robb Head of Integrated Development.	Re-implementation of Carefirst should provide more robust information. IT provision will be examined within a feasibility study as to best joint systems.	This has been included within the agreed brief for the feasibility study being conducted by AGE Ltd.

APPENDIX 1

No	Recommendation	Responsible Officer	Community Services Management Response	Implementation Progress as at 8th of November 2005.
5	Clarify partnership arrangements for the assessment and provision of community equipment and adaptations ensuring that all relevant partners are involved; and formalise these arrangements in agreed policies and procedures.	Jim Robb Head of Integrated Development.	Feasibility study will identify required policies and procedures.	This has been included within the agreed brief for the feasibility study being conducted by AGE Ltd.
6	Ensure all relevant staff across the respective partner organisations are aware of the agreed policies and procedures.	Jim Robb Head of Integrated Development.	Training for staff would be carried out when policies and procedures are in place.	This has been included within the agreed brief for the feasibility study being conducted by AGE Ltd.
7	Ensure that community equipment and adaptation services are developed as part of their overall community care strategy.	Jim Robb Head of Integrated Development.	Community care strategies will be reviewed to ensure community equipment and adaptations services are included as part of the feasibility study.	This has been included within the agreed brief for the feasibility study being conducted by AGE Ltd.
8	Develop protocols, which maximise the ability of staff from different partnership organisations to access equipment and adaptations and reduce the waiting time for users.	Jim Robb Head of Integrated Development.	Protocols would be developed following the feasibility study.	This has been included within the agreed brief for the feasibility study being conducted by AGE Ltd.
	How are services organised Councils and NHS bodies should			
9	Jointly review budgets for community equipment and adaptations and HIG's to ensure that they are set at a realistic level to meet need.	Jim Robb Head of Integrated Development.	Budgets will be regularly reviewed through Joint Strategy group.	Regular monitoring by each partner has commenced.
10	Monitor the performance on equipment and adaptation services by collecting and using robust management information on: <ul style="list-style-type: none"> • Cost • Activity, including waiting times • Quality of services, including users' views. 	Jim Robb Head of Integrated Development.	Robust systems for collecting information will be identified from recommendations of feasibility study.	This has been included within the agreed brief for the feasibility study being conducted by AGE Ltd.
11	Record and monitor activity and expenditure associated with third parties, such as Care and Repair, RSLs and voluntary organisations, as charges in these areas are likely to impact significantly on future service delivery and resourcing.	Jim Robb Head of Integrated Development.	A charge monitoring system will be set up to address this recommendation.	This is a multi organisation recommendation. Care & Repair have started to monitor activity and expenditure. AGE Ltd as part of their feasibility study will evaluate what has been prepared and advise on co-operation with the other parties.
12	Develop joint performance indicators so that the service can be evaluated across a partnership area.	Jim Robb Head of Integrated Development.	Following feasibility study- joint performance indicators will be developed.	This has been included within the agreed brief for the feasibility study being conducted by AGE Ltd.

APPENDIX 1

No	Recommendation	Responsible Officer	Community Services Management Response	Implementation Progress as at 8th of November 2005.
13	Councils and schools should ensure that there is training on the inclusion of pupils with SEN and for class and subject teachers and SNAs, in particular, that there is effective development and training to support the needs of pupils with SEBD.	Ronald Gould Head of Secondary Education	Wilma Lawn QIO ASN. An annual needs analysis informs the provision of our in-service training for teachers and SEN assistants relating to pupils with SEN or SEBD. The annual strategy is included in the education policy file Supporting Children: Supporting Effective Learning.	Complete.
14	Once trend information is available, benchmark with other partnerships using like-for-like performance measures to drive forward continuous improvement.	Jim Robb Head of Integrated Development.	Benchmarking with other similar local authorities will take place once information available.	Complete.
15	Work together to assess need for major adaptations in the future.	Jim Robb Head of Integrated Development.	Develop close working links with Housing, RSLs, Care & Repair to monitor trends to assist in assessing for future adaptations.	As response above at point 11. Care & Repair have started to monitor trends. AGE Ltd as part of their feasibility study will evaluate what has been prepared and advise on co-operation with the other parties.
	Managing Risk Councils and NHS bodies should			
16	Ensure stock control systems are in place to track and locate equipment.	Jim Robb Head of Integrated Development.	Robust systems for managing equipment will be identified by feasibility study.	This has been included within the agreed brief for the feasibility study being conducted by AGE Ltd.
17	Ensure that written instructions on using equipment and adaptations are always provided for users and carers, and trained staff always demonstrate their use.	Jim Robb Head of Integrated Development.	A joint meeting was held with Occupational Therapy staff to re-write practise guidance and produce information leaflets on May 11 th . The whole exercise should be concluded by October 2005.	Instructions have been written and have been issued within the Oban area. They will be rolled out after AGE Ltd has assessed the instructions and any required amendments have been made.
18	Consider how best to provide advice and support to people in private housing market who install major adaptations.	Jim Robb Head of Integrated Development.	A joint meeting was held with Occupational Therapy staff to re-write practise guidance and produce information leaflets on May 11 th . The whole exercise should be concluded by October 2005.	An information leaflet has been completed and a comparison exercise has commenced comparing the re-written guidance elements with other Scottish Council guidance documentation for good practice.

APPENDIX 1

No	Recommendation	Responsible Officer	Community Services Management Response	Implementation Progress as at 8th of November 2005.
19	Agree and implement formal policies and procedures that include: <ul style="list-style-type: none"> • Recall of faulty equipment • Maintenance and repair arrangements • Recycling, including infection control procedures • Emergency arrangements. 	Jim Robb Head of Integrated Development.	Robust systems for managing equipment will be identified by feasibility study.	This has been included within the agreed brief for the feasibility study being conducted by AGE Ltd.
20	Ensure management information systems contribute to the effective management of risk.	Jim Robb Head of Integrated Development.	Robust systems for managing equipment will be identified by feasibility study.	This has been included within the agreed brief for the feasibility study being conducted by AGE Ltd.
21	Review user needs once equipment and adaptations have been supplied.	Jim Robb Head of Integrated Development.	Methods of monitoring and evaluation of service require to be identified following feasibility study.	This has been included within the agreed brief for the feasibility study being conducted by AGE Ltd.

ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE

AUDIT COMMITTEE
9 DECEMBER 2005

MAINTAINING SCOTLAND'S ROADS

1. SUMMARY

Audit Scotland issued a national report towards the end of November 2004 entitled, "Maintaining Scotland's Roads". The national report did not have any implementation dates assigned to its 9 recommendations. In response the Head of Roads & Amenity Services prepared an action plan incorporating the reports recommendations and added a further 3 to reflect dependent issues. All 12 recommendations were then assigned an implementation date. The Head of Service commenced reporting to the Audit Committee and Strategic Policy Committee (SPC) in December 2004. Set out below is the updated position.

2. RECOMMENDATIONS

2.1 The contents of this report are noted and to be followed up by Internal Audit.

3. DETAILS

3.1 As at the 31st of October 2005, of the 12 recommendations reported by the Head of Roads & Amenity Services to the SPC in December 2004, only 2 now remain to be implemented. Of these, one has an implementation date of December 2005 and the other March 2006. Management have reported to Internal Audit that implementation for both recommendations remains ongoing. See Appendix 1.

3.2 The Audit Committee was informed at the last meeting that the Head of Roads & Amenity Services would shortly be preparing a report update for the SPC on progress made; this is provided in Appendix 2. The update report details the results of the 2004 – 2005 Scottish Roads Maintenance Condition Survey (SRMCS) together with an Action Plan for 2006.

3.3 The report states that the Scottish Executive has recognised that road maintenance is under funded and from the financial year 2006 – 2007 an additional £60 million has been awarded to Scotland's Councils through additional GAE contribution.

4. CONCLUSIONS

Progress with the implementation of the report's recommendations will continue to be reported by Internal Audit.

5. IMPLICATIONS

- | | | |
|-----|------------|------|
| 5.1 | Policy: | None |
| 5.2 | Financial: | None |
| 5.3 | Personnel: | None |
| 5.4 | Legal: | None |

5.5 Equal Opportunities: None

For further information please contact Ian Nisbet, Internal Audit Manager (01546 604216)

Ian Nisbet

Internal Audit Manager 31 October 2005.

31octfinalreport31oct

Maintaining Scotland's Roads Action Plan

APPENDIX 1

No.	Recommendations	Current Position	Proposed Action	Timescale	Update as at 31 st October 2005
1	Report on the condition of roads and maintenance backlog.	Reported to SPC 9th Dec 2004	Continue to report on annual basis.	December 2005	Completed
2	Determine the size of the structural maintenance backlog.	SCOTS figures shown in Appendix 2	Determine the cost, in accordance with Scottish Executive approved techniques.	March 2005	Complete
3	Establish a long-term strategy for road maintenance in the overall context of transportation and roads asset management strategies.	May 2004 - Roads Asset Management Plan produced; requires annual update	Implement further action in association with Asset Management Unit.	December 2005	Ongoing
4	Meet the recommendations stated in "Delivering Best Value in Highway Maintenance – Code of Practice for Maintenance Management".	Road Asset Maintenance Plan introduced by Council in May 2004.	Continue to monitor.	-	-
5	Review budget setting procedures ensuring appropriate priority to structural maintenance to achieve long-term value for money.	4 year capital resurfacing programme compiled	Review Audit Scotland's recommendation.	March 2005	Complete
6	Conduct an option appraisal for procuring and financing road maintenance services.	No action.	Undertake recommendation.	March 2006	Ongoing
7	Improve inventory information on the roads assets.	Completed Feb 2005	Maintain inventory each financial year.	March 2005	Complete
8	Use asset management system linked to GIS and financial system.	On Going – Lighting information in place and Roads to be input 18/04/2005	Refine the Roads Maintenance Management System.	May 2005	Complete
9	Consider joint working with other Councils	Collaborative buying contracts with neighbouring Councils, for Bitumen Products and Coated and Uncoated Roadstone, have been undertaken.	Maintain each financial year.	March 2005.	Complete but an ongoing practice
10	Review unit costs of various service elements.	Re costed Feb 2005 – complete for March 2005	Maintain each financial year	March 2005	Complete
11	Develop a framework of performance indicators and outcome targets against which to measure the performance of the road maintenance system.	The performance indicators within the plan have been reviewed. See Appendix 3	Review Performance Indicators in light of Audit Scotland's Report.	April 2005	Complete
12	Complete the Best Value Road Maintenance Service Checklist.	On Going – on target	Complete recommendation.	May 2005	Complete

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ARGYLL & BUTE COUNCIL

STRATEGIC POLICY COMMITTEE

OPERATIONAL SERVICES

3 NOVEMBER 2005

MAINTAINING SCOTLAND'S ROADS - 2005 Update

1. SUMMARY

This report provides the details and results of the 2004-2005 Scottish Roads Maintenance Condition Survey (SRMCS) together with an update of the "Maintaining Scotland's Roads" action plan.

2. RECOMMENDATIONS

The Committee is asked to:-

- 2.1 Note the results and detail of the 2004-2005 SRMCS.
- 2.2 Note the update to the Maintaining Scotland's Roads action plan including the 2004-2005 performance indicators.
- 2.3 Instruct the Head of Roads and Amenity Services to prepare programmes of work for financial year 2005 – 2006 for approval by Area Committees.

3. BACKGROUND

- 3.1 For background to Maintaining Scotland's Roads refer to Strategic Policy Committee papers:-

Maintaining Scotland's Roads – Update of Action Plan	5 th May 2005
Maintaining Scotland's Roads	9 th Dec 2004

4. DETAIL

- 4.1 The results of the survey classify the road network into three categories.

Green -	roads considered to be in an acceptable condition
Amber -	roads considered to require further investigations to establish if treatment is required.
Red -	roads considered to have deteriorated to a point at which repairs to prolong future life should be considered.

The following table indicates the condition of the Scottish road network as at March 2005.

	Red	Amber	Green	Relative Condition (Red + Amber)
Scotland	11	31	58	42%
Argyll & Bute (20 th)	17	31	52	48%

The results show a marginal improvement of 1% on the March 2004 figures but this is below the Scottish average improvement of 2%. For further detail of results and comparisons of previous years figures see Appendix A.

- 4.2 The Maintaining Scotland's Roads action plan for Argyll and Bute has been updated a copy can be found in Appendix B. Part of the plan included Performance Indicators and targets the results of which are enclosed in Appendix C.
- 4.3 The Scottish Executive has recognised that road maintenance is under funded and from financial year 2006–2007 an additional £60 million has been awarded to Scotland's Councils through additional GAE contribution. Argyll & Bute's share is approximately £1.6 million. A works programme is being prepared and it is proposed to present to Area Committees in December. The Roads Maintenance and Asset Management Plan will be used as the basis for formulating these programmes.

5. IMPLICATIONS

- 5.1 Policy – None
- 5.2 Financial – In order to improve the condition of Argyll and Bute's roads, substantial investment will be required.
- 5.3 Personnel – Addition labour will be required to deliver the expanded programmes of work.
- 5.4 Equal Opportunities – None.
- 5.5 Legal – None.

For further information, please contact Stewart Turner (Tel: 01546 604611).

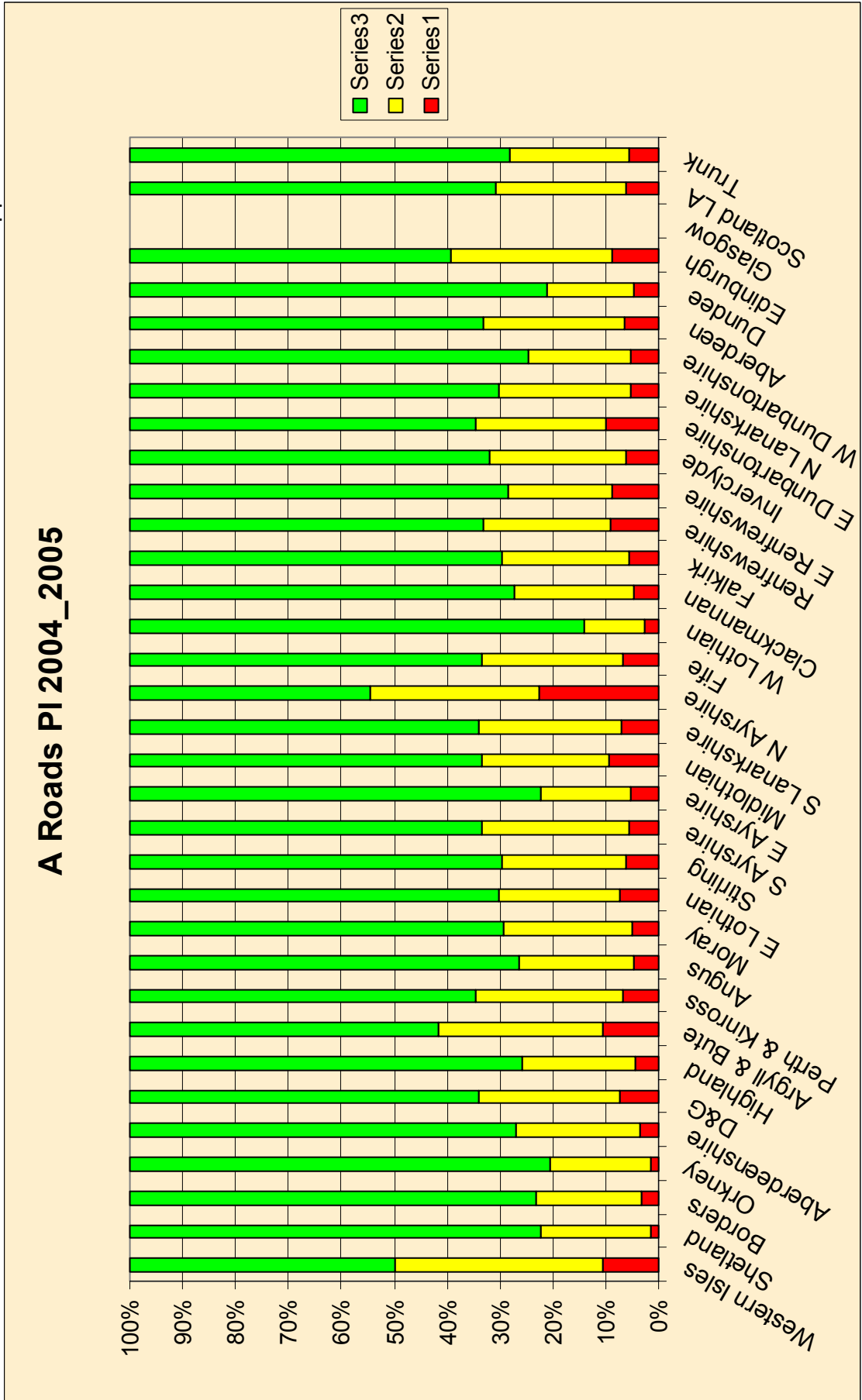
Andrew R Law
 Director of Operational Services
 17 November 2004

KEY: As the appendices are extracts from a read only document they could not be amended for this report.

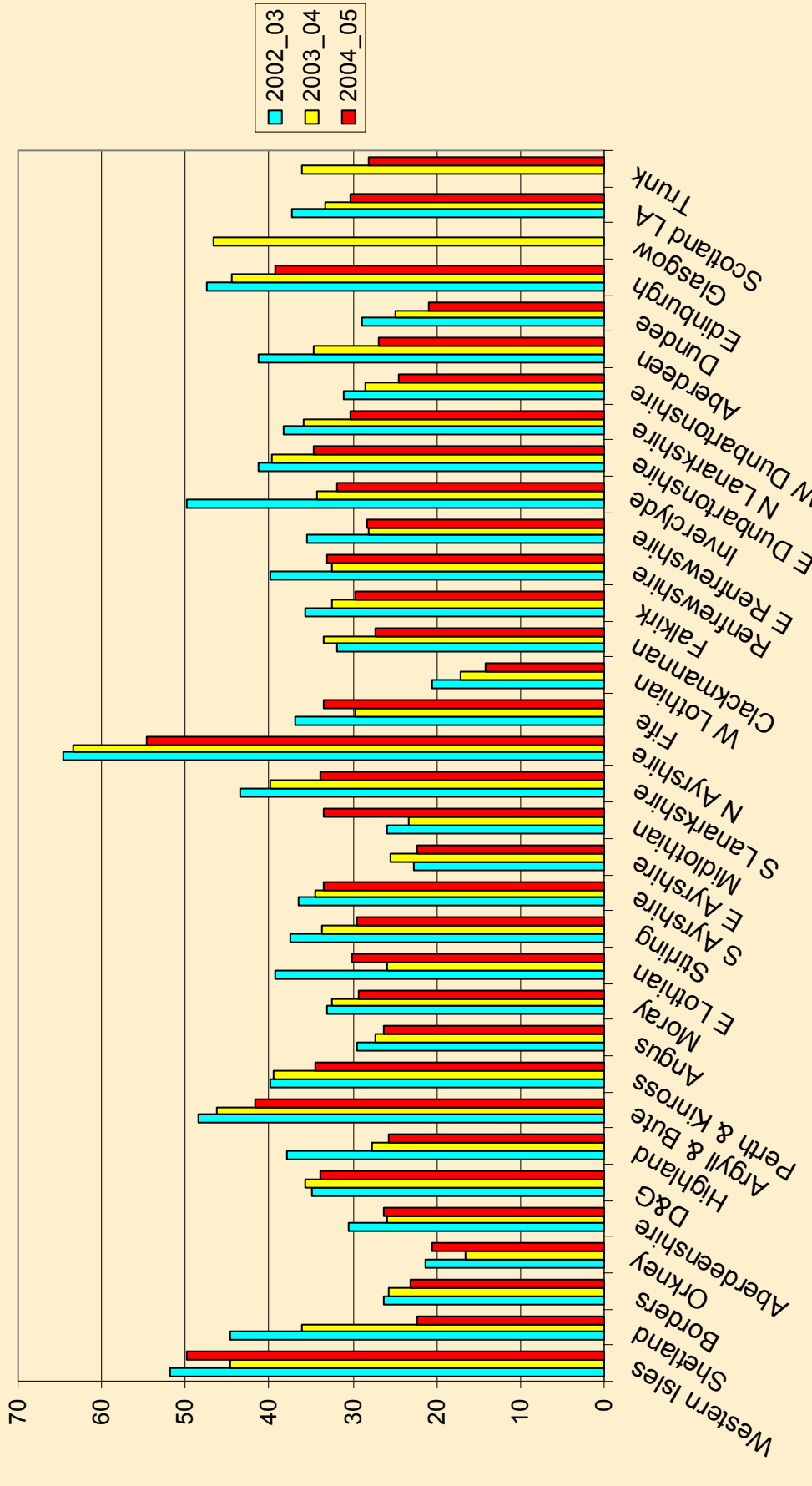
The Key for A Roads PI 2004 – 2005 should read:

- Series 3 = Green;
- Series 2 = Amber; and
- Series 1 = Red.

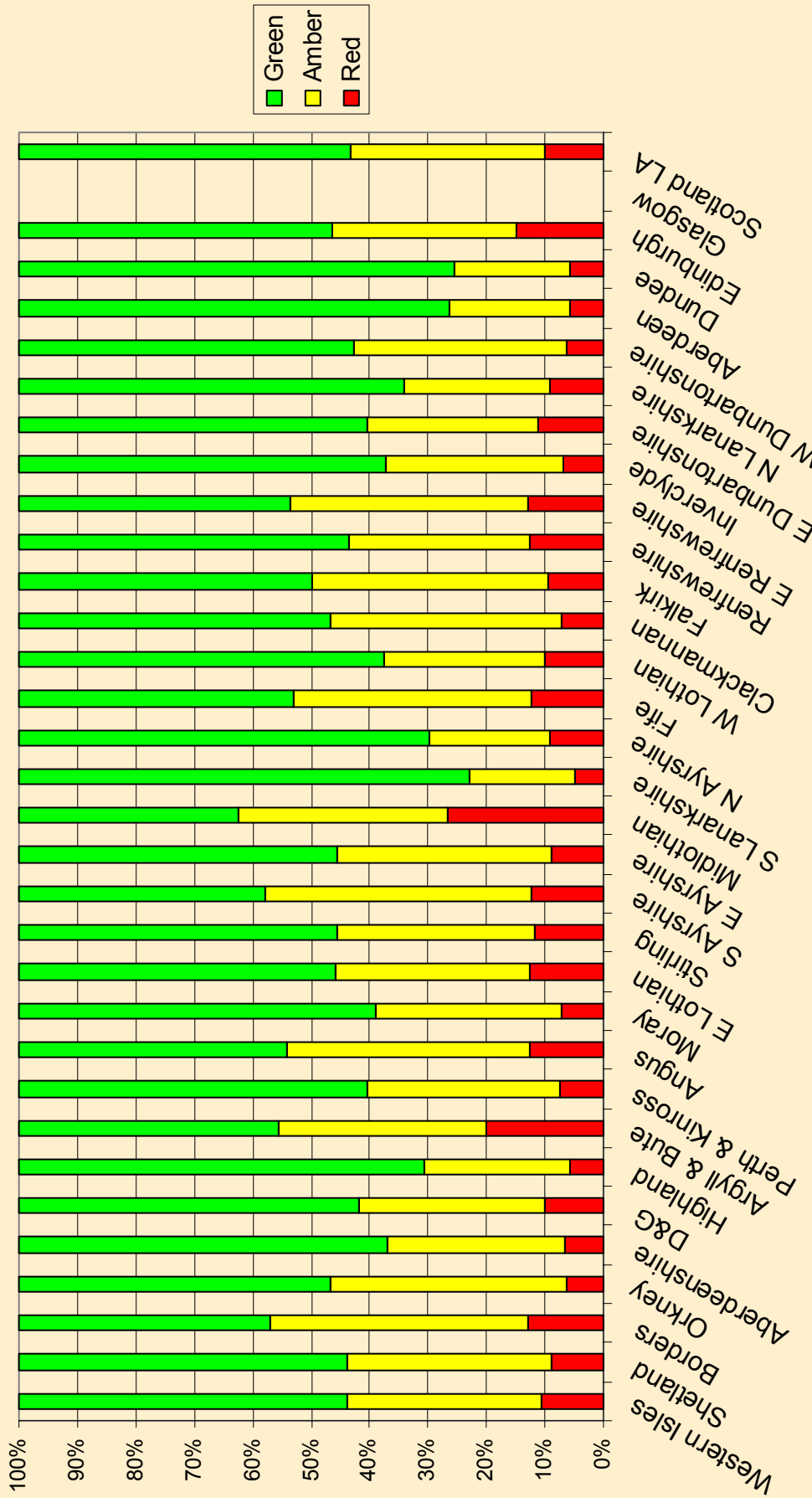
APPENDIX 2
Appendix A



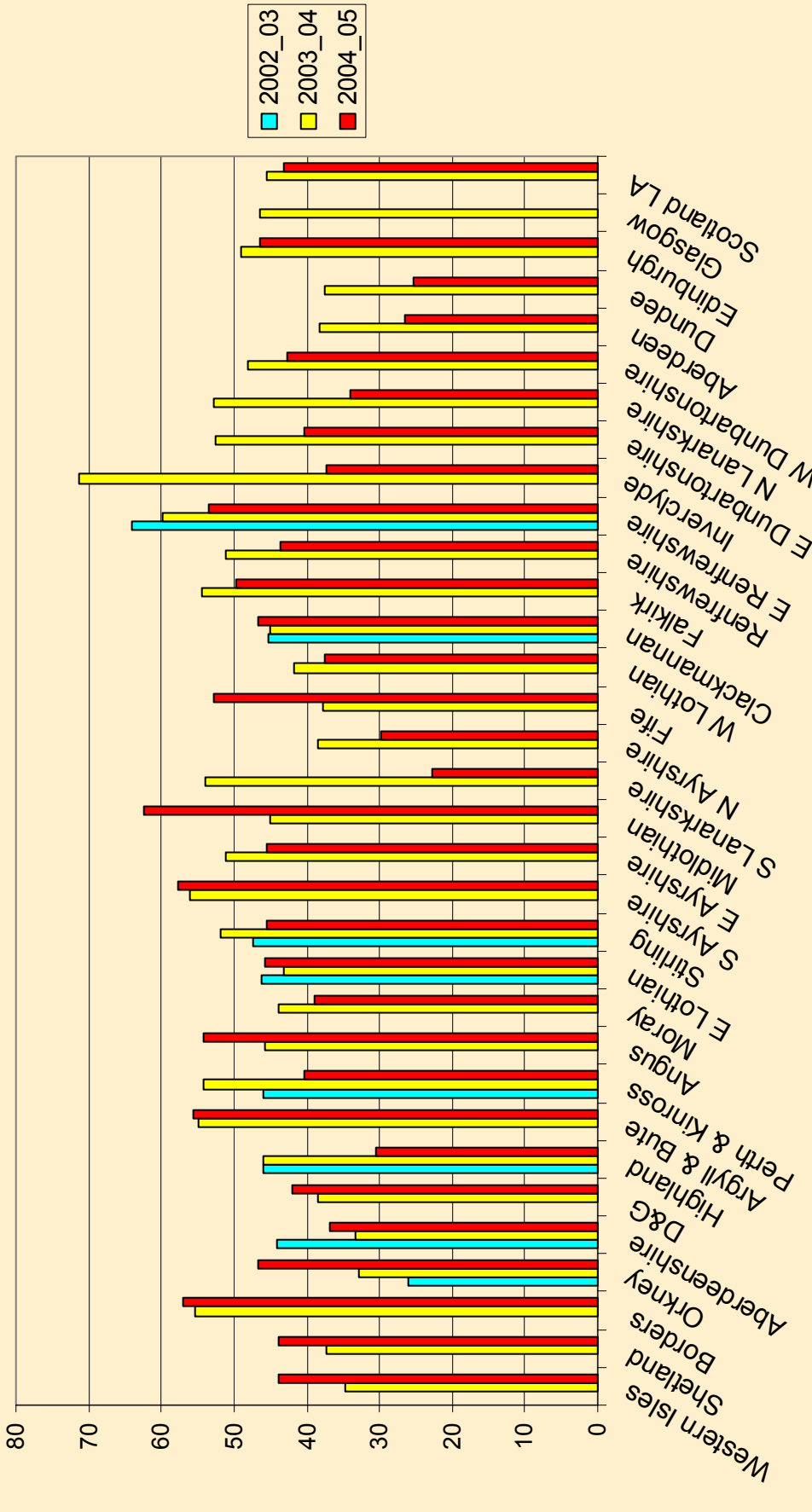
Change In A Roads PI over Time



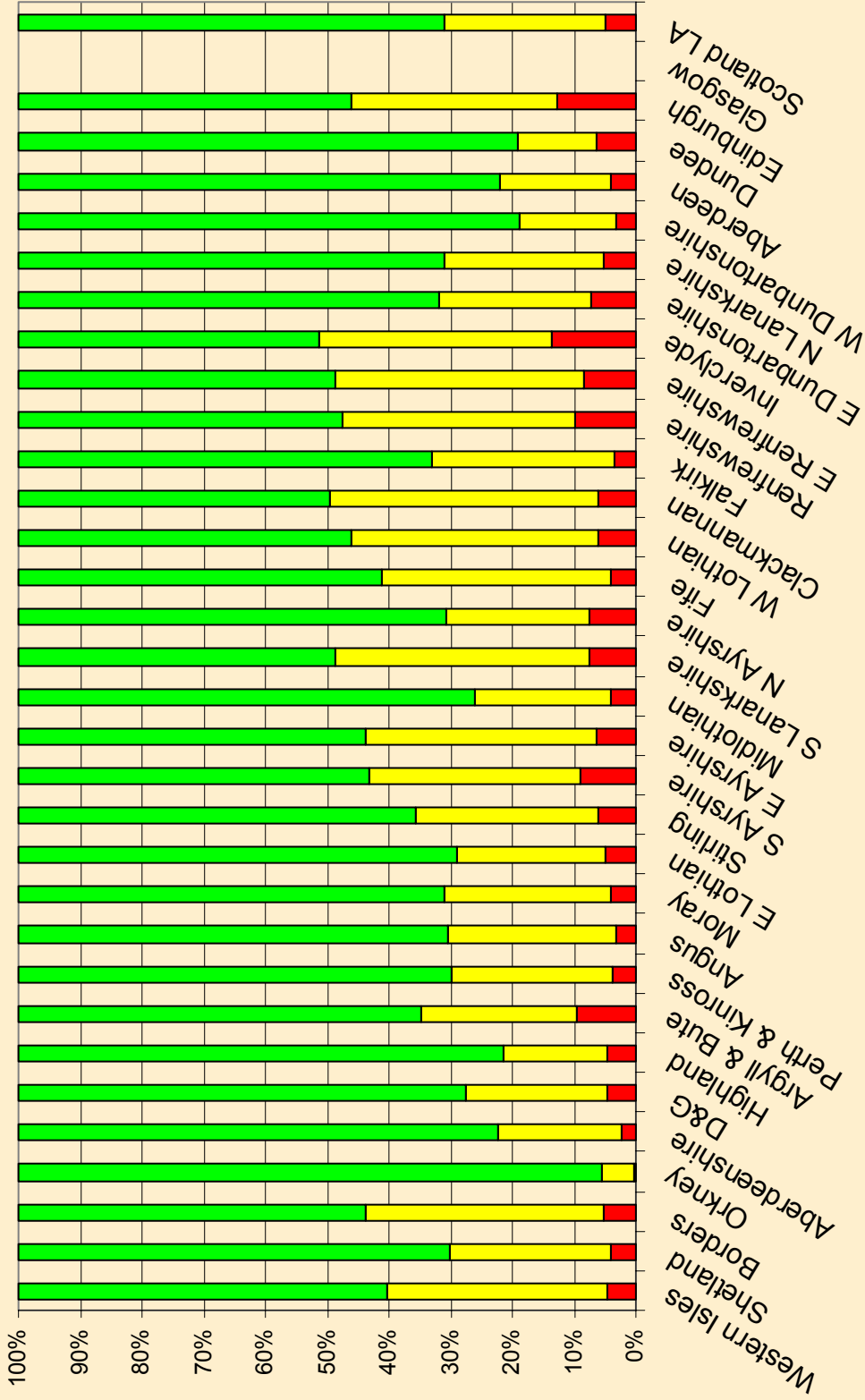
B Roads PI 2004_2005



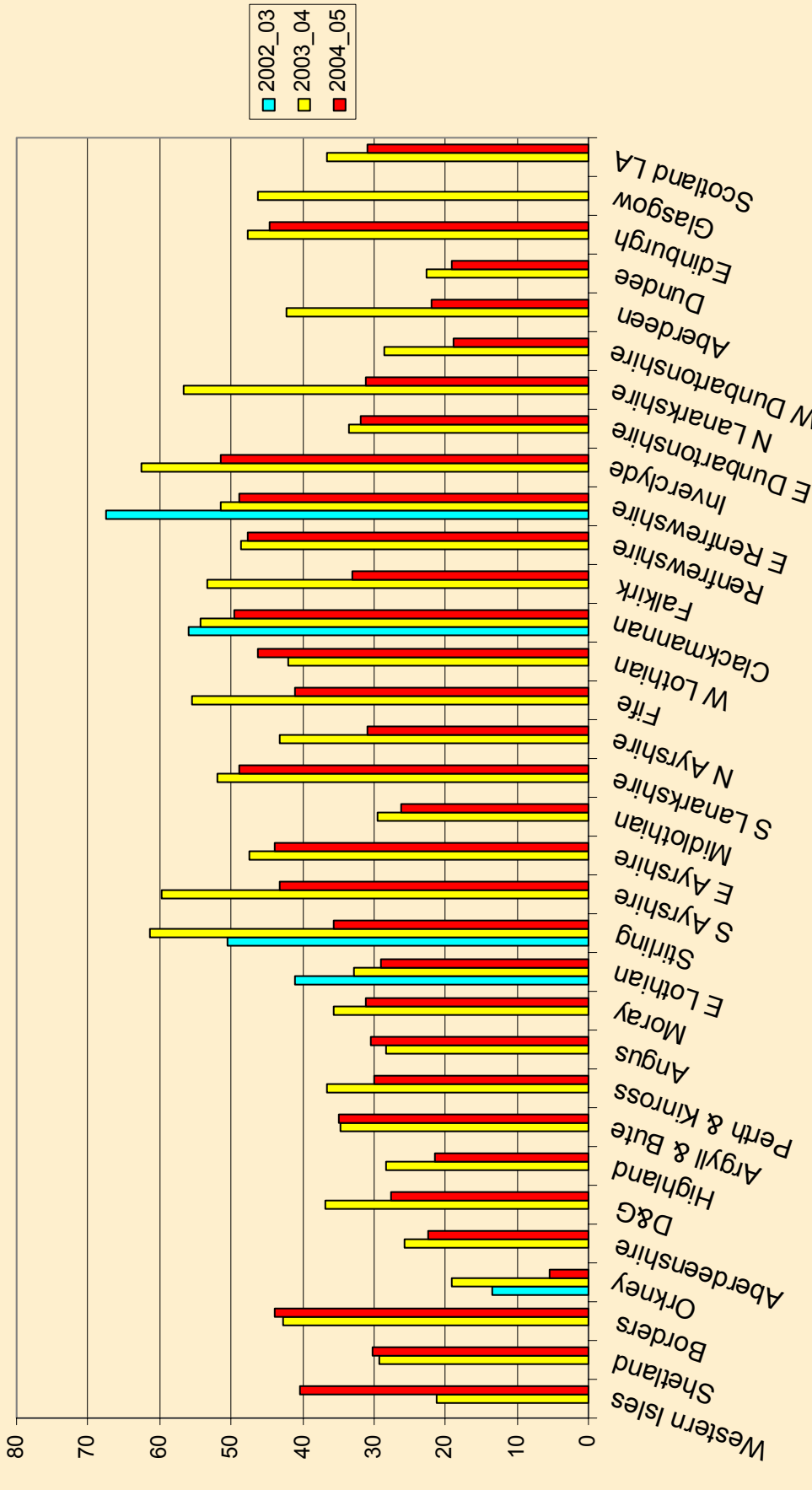
Change B Roads PI over Time



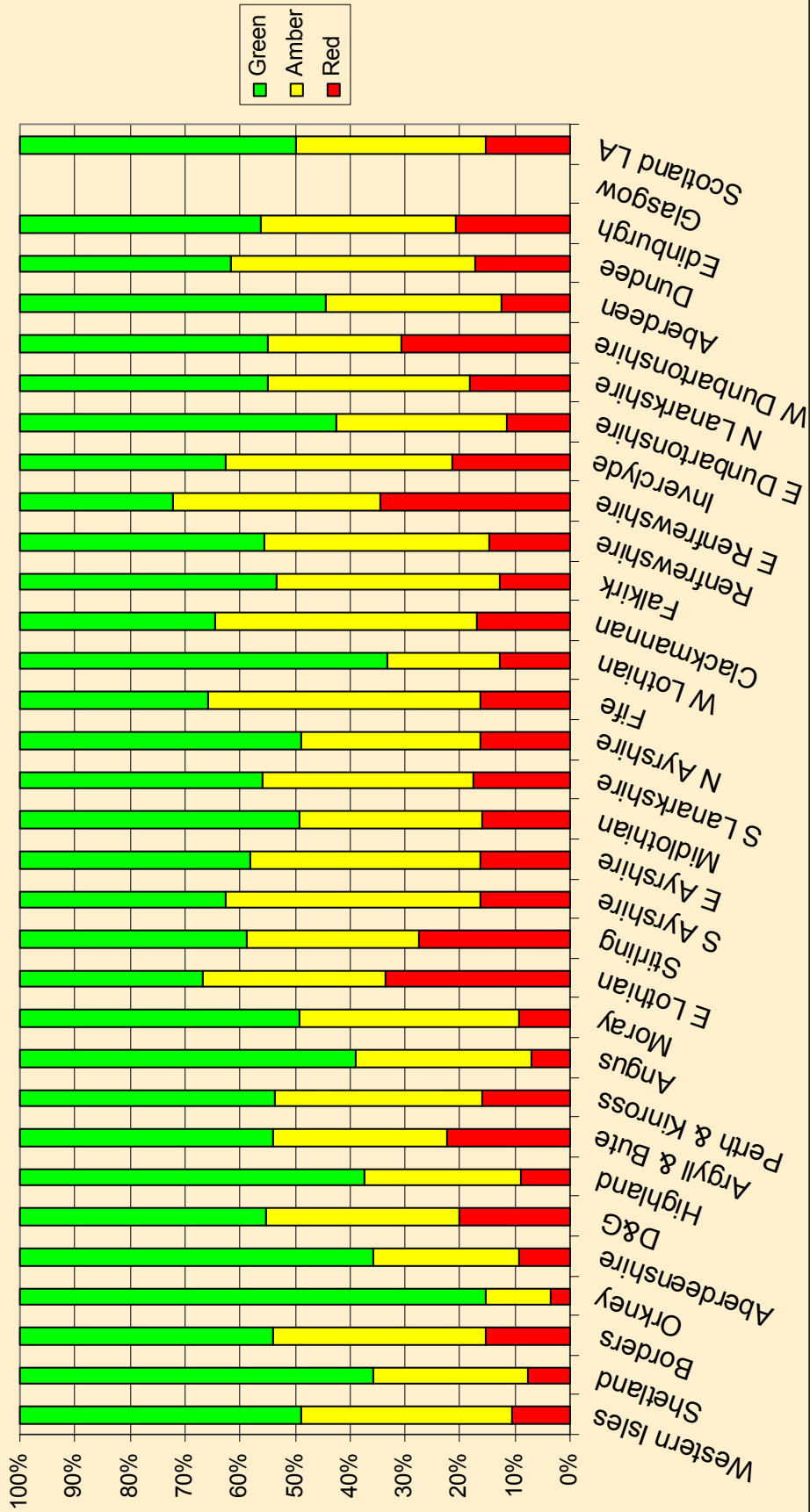
C roads PI 2004_2005



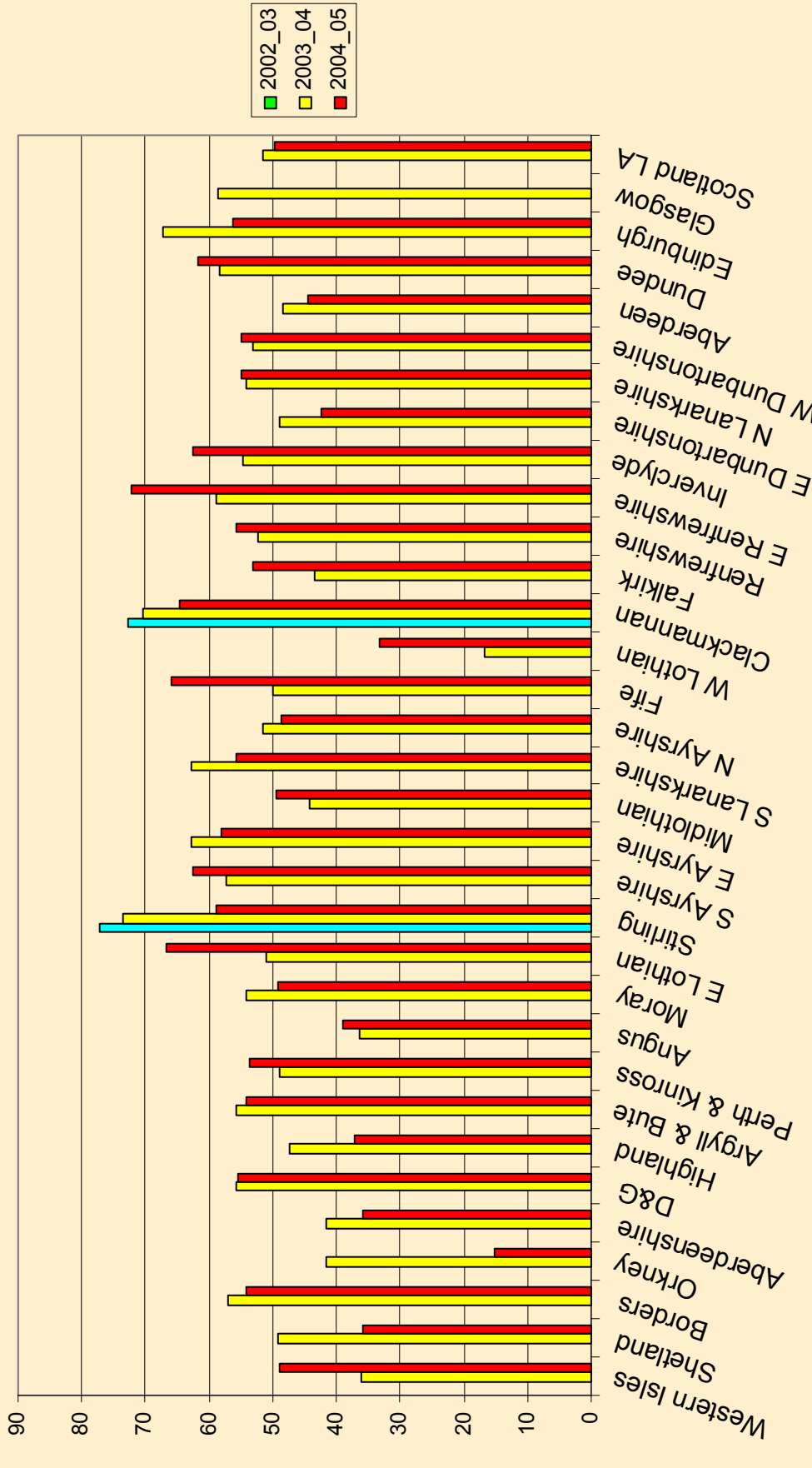
Change in C Roads PI over Time



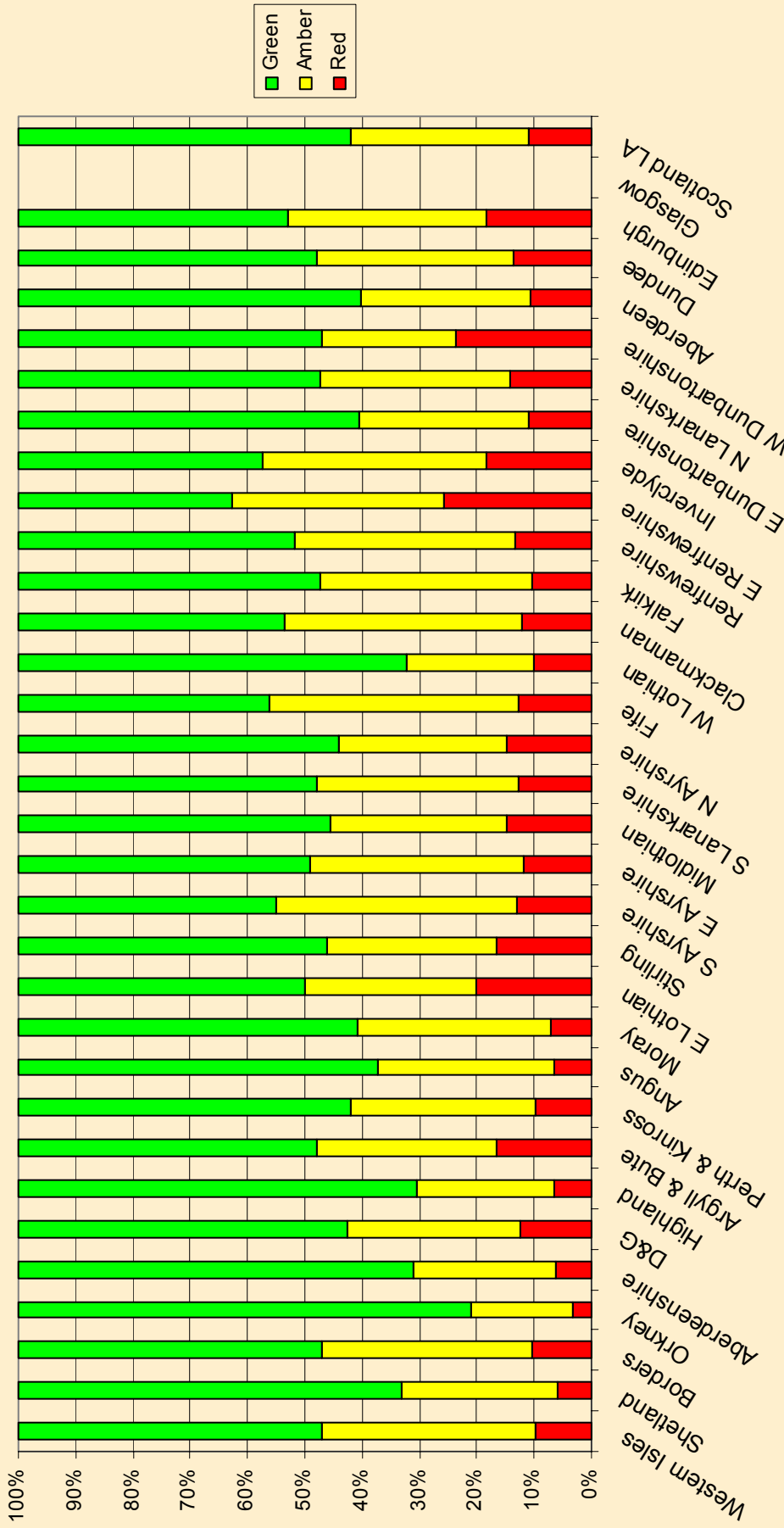
Unclassified Roads PI 2004_2005



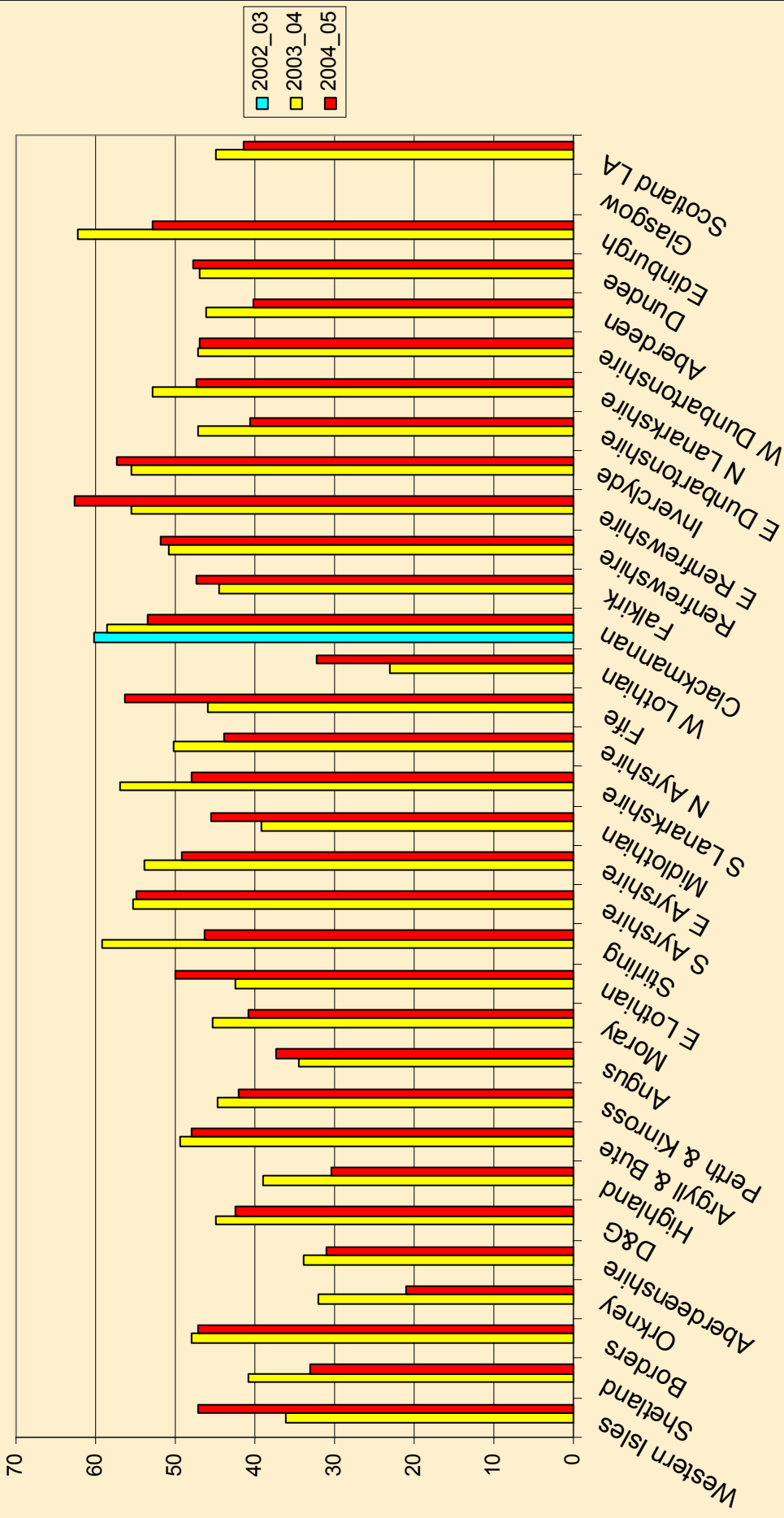
Change in Unclassified roads PI over Time



Network PI 2004_2005



Change in Network PI over time



APPENDIX 2

Appendix B

No.	Recommendations	Current Position	Proposed Action	Timescale
1	Report on the condition of roads and maintenance backlog.	Awaiting 2004/05 information	Continue to report on annual basis.	Reported to SPC May 2005 next report May 2006
2	Determine the size of the structural maintenance backlog.	An accurate assessment is not yet available.	Determine the cost, in accordance with Scottish Executive approved techniques.	March 2006
3	Establish a long-term strategy for road maintenance in the overall context of transportation and roads asset management strategies.	No action to date.	Implement action in association with Asset Management Unit.	December 2005
4	Meet the recommendations stated in "Delivering Best Value in Highway Maintenance – Code of Practice for Maintenance Management".	Road Maintenance Plan introduced by Council in May 2004.	Continue to monitor.	-
5	Review budget setting procedures ensuring appropriate priority to structural maintenance to achieve long-term value for money.	Capital programme allows an element of structural maintenance.	Review Audit Scotland's recommendation.	Complete Review March 2006
6	Conduct an option appraisal for procuring and financing road maintenance services.	No action.	Undertake recommendation.	March 2006
7	Improve inventory information on the roads assets.	Work ongoing.	Complete inventory.	March 2006
8	Use asset management system linked to GIS and financial system.	No action.	Introduce a Roads Maintenance Management System.	Initial introduction complete full implementation 1 st April 2006
9	Consider joint working with other Councils	No significant opportunities found.	Review this recommendation.	Complete will be reviewed March 2006
10	Review unit costs of various service elements.	Complete for 2005/06	Review recommendation.	March 2006
11	Develop a framework of performance indicators and outcome targets against which to measure the performance of the road maintenance system.	There are several performance indicators in the Roads Maintenance Strategy.	Review Performance Indicators in light of Audit Scotland's Report.	March 2006
12	Complete the Best Value Road Maintenance Service	Complete	Review recommendation.	March 2006

APPENDIX 2

	Checklist.			
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Roads Maintenance and Asset Management Plan Performance Indicators and Targets

Appendix C

PI No	Objective	Local Performance Indicator	Local Performance Target	2004/2005 H&L	2004/2005 B&C	2004/2005 MAKI	2004/2005 L&I	2004/2005 OVERALL	Target 2005/06
LPI 1	To ensure that all defects which present a hazard to roads users are identified and dealt with in order that the Council fulfils its statutory obligation with regards to road safety.	% of Category 1 defects repaired by the end of the next working day.	To respond to all reported category 1 defects by the end of the next working day.	89%	95%	89%	83%	89%	95%
LPI 2	To determine the effect of the Maintenance Plan on the level of reactive maintenance required.	Reactive repairs as % of revenue budget.	To see year on year reduction in % of revenue budget spent on reactive maintenance.	36.4%	36.8%	46%	45.1%	42.1%	38%
LPI 3	To determine the effectiveness and robustness of safety inspection regime and level of preventative maintenance carried out.	Number of public liability claims received per 100km of road network.	To see year on year reduction in number of public liability claims.	30 claims 242km 12.4/100km	39 claims 449km 8.7/100km	26 claims 790km 3.3/100km	40 claims 834km 4.8/100km	135 claims 2315km 5.8/100km	5.3/100km
LPI 4	To determine the effectiveness of the routine maintenance programme.	Number of defects reported during safety inspections per 100km of road network	To see reduction in the number of defects as preventative maintenance is carried out.	745 defects 242km 308/100km	418 defects 449km 93/100km	1096 defects 790km 138/100km	1726 defects 834km 209/100km	3985 defects 2315km 172/100km	155/100km
LPI 5	To determine the effectiveness of capital reconstruction programme.	% of schemes identified for resurfacing in a financial year that are completed within programme.	To complete 100% of capital allocation within programme.	90%	100%	90%	100%	95%	100%

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RECENT EXTERNAL AUDIT ISSUED REPORTS 2004 – 2005.

1. SUMMARY

This report contains the executive summary and action plan for new reports issued by Audit Scotland since the last Audit Committee. Where Internal Audit has performed a review of the progress made by management in implementing report recommendations, this has been reported below. (See Appendix 1). These reports will be incorporated into the reporting system for the next Audit Committee.

2. RECOMMENDATIONS

2.1 The contents of this report are noted and are to be followed up by Internal Audit.

3. DETAILS

3.1 In August 2005, Audit Scotland issued a report entitled “Business Continuity Planning Review”. The audit covered, business continuity planning implementation and operation within the Council. The Action Plan, which accompanies the report, details 3 recommendations for action. The first recommendation has 3 progress dates with the main date being January 2006. Internal Audit can report that progress is being made with this recommendation. A report covering the Council response to a pandemic flu outbreak was approved by the Strategic Management Team (SMT) on the 30th of August 2005. Progress continues with the remaining actions within this recommendation.

3.2 The remaining 2 recommendations contained in the Action Plan have been assigned the status “Ongoing”. As at the 31st of October 2005, management have advised Internal Audit that implementation of these recommendations is progressing. The Executive Summary and Action Plan are given in Appendix 1.

3.3 In November 2005, Audit Scotland issued a report entitled “Financial Strategy”. The general findings of the audit were that the Council has sound arrangements in place in many areas for determining financial strategy although some key arrangements have yet to be developed. The Action Plan accompanying the report details 8 recommendations. Five recommendations have implementation dates of between January 2006 and March 2007. Three recommendations are to be in place for the 2007 – 08 budget cycle. The Executive Summary and Action Plan are given in Appendix 2.

3.4 At the end of November 2005, Audit Scotland issued a report entitled “Following the Public Pound”. The overall conclusion from the audit was that the Council demonstrated compliance with a number of aspects of the code of practice in relation to its dealings with arms length external organisations (ALEOs). The Action Plan accompanying the report lists 18 recommendations. In terms of priority assigned to report recommendations, 2 are considered high and 16 of medium priority.

3.5 The Council response to the report recommendations was that a working group would be set up to address the recommendations. One outcome from the group will be a completed Action Plan that lists responsibilities with implementation dates. In this knowledge Audit Scotland has finalised and issued their report. Audit Scotland will follow up progress as part of their 2005/06 audit. The Executive Summary and Action Plan are given in Appendix 3. Internal Audit will provide support to the working group in addressing the recommendations. Audit Scotland has indicated that in their national report on Scottish Authority compliance with the code, Argyll & Bute has been noted for displaying good practice in 2 categories.

4. CONCLUSIONS

Implementation of recommendations will continue to be monitored by Internal Audit.

5. IMPLICATIONS

5.1	Policy:	None
5.2	Financial:	None
5.3	Personnel:	None
5.4	Legal:	None
5.5	Equal Opportunities:	None

For further information please contact Ian Nisbet, Internal Audit Manager (01546 604216)

Ian Nisbet
Internal Audit Manager 1 December 2005
1Decfinalreport1Dec

Executive Summary

1. As part of our 2004/05 audit we have carried out an overview of the Council's arrangements for business continuity planning.
2. The main areas covered by our audit were:
 - the operation of a business continuity planning framework;
 - the approach to business continuity planning and development; and
 - the implementation, testing and maintenance of business continuity plans.

Conclusion

3. We found that the Council recognises the importance of addressing business continuity planning. The Strategic Risk Management and Governance Group was established as a Sub-Group of the Strategic Management Team with a representative at Head of Service/third tier level from each department together with representatives from Corporate, Health & Safety Services, Insurance, Purchasing, Legal Services, Internal Audit, Strategic Finance and Information Security (IT and Financial Services) and the Council's Insurers. The group initiated the business continuity planning process. Initially, the group are focusing on arrangements to ensure effective Council services can be provided in case of a pandemic influenza epidemic. The group is considering widening the scope of this work to include addressing other operational risks faced by the Council.
4. The group's remit includes updating the Council's risk register and overseeing the formation of Loss Control Groups. Loss Control Groups were established within each department and are charged with the responsibility for continuing to develop responses to operational risk issues claims. They will report quarterly to the Strategic Risk Management and Governance Group on progress as a means of sharing best practice. These groups will review the risk registers, identify key risk categories such as financial, human, operational and legal and will cascade information to staff within their respective departments.

Main audit findings

5. The Strategic Risk Management and Governance Group are supervising the development of a business continuity plan. The group is aware of the need to expand the scope of the current exercise which is focusing on the risks associated with a pandemic influenza epidemic, to cover other operational risks and to minimise the impact should these risks occur.
6. The main findings from audit were:
 - scope of the current business continuity exercise should be expanded to include other risks;
 - the Council should ensure that sufficient resources are assigned to the project to complete the tasks identified in the project plan to the agreed timetable; and

- during the course of a business continuity planning exercise the Council may identify issues affecting several departments; these issues should be addressed across the Council rather than individual departments developing their own plans in isolation.

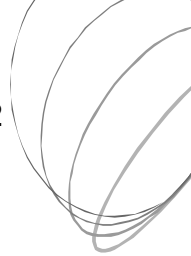
Management action

7. Detailed recommendations on those areas where controls could be improved are noted in the action plan that follows. The action plan also describes under the 'risk exposure' column the possible consequences of our audit finding. The factual accuracy of the report and the timescales for implementing our recommendations has been agreed with officers.
8. This report to management sets out our findings from the review carried out. The weaknesses outlined are only those which have come to our attention during the course of our normal audit work and are not necessarily, therefore, all of the weaknesses which may exist.
9. Although we include a number of specific recommendations in this report to strengthen internal control, it is the responsibility of management to determine the extent of the internal control system appropriate to the Council. We would stress, however, that an effective internal control system is an essential part of the efficient management of any organisation.
10. The assistance and co-operation we received during the course of our audit is gratefully acknowledged.

Action Plan

No.	Audit Finding	Risk Exposure	Recommendation	Action Responsibility and Date
1	<p>The Council set-up a Strategic Risk Management and Governance Group, which is responsible for managing risk. This group produced a risk register, oversaw the formation of the Loss Control Groups and supervised the development of business continuity plans for a pandemic influenza epidemic.</p>	<p>Current business continuity plans do not cover many of the main risks facing the Council. Without proper business continuity plans in place the Council will find it difficult to deliver the level of services that its citizens expect.</p>	<p>The scope of the Strategic Risk Management and Governance Group activities for business continuity will be expanded to include the provision for addressing other operational risks. Priority : High</p>	<p>Action: The BCP for a pandemic flu was completed by 30/08/05 and approved by the SMT. The RMG will expand the BCP report to include all appropriate risks by 31/1/06. The BCP action plan will be subject to task by role play by 31/06/06. Responsibility: Governance and Risk Manager Date: January 2006</p>

No.	Audit Finding	Risk Exposure	Recommendation	Action Responsibility and Date
2	The business continuity planning exercise requires input from many areas of the Council to produce the business continuity plan. For the plan to succeed it will be necessary for all departments within the Council to make available staff with sufficient knowledge of the respective business processes to help generate the business continuity plan.	Without sufficient resources, the objectives of the business continuity group are unlikely to be met.	The Council will ensure that sufficient resources are assigned to the project to complete the tasks identified in the project plan. Priority : High	<p>Action: The SMT will be asked on 30/08/05 to note the ongoing service requirements required to fulfil the initial completion of the plan and thereafter the ongoing commitments to training and testing and renewing the plans.</p> <p>Responsibility: Governance and Risk Manager</p> <p>Date: On-going</p>
3	During the course of the business continuity planning exercise the Council may identify issues affecting several departments; these issues should be addressed across the Council rather than individual departments developing their own plans in isolation.	Ineffective planning and failing to address wider issues facing the Council can lead to duplication of effort and wasted resources.	Departments will work together to address common operational risks and share experiences. Priority : High	<p>Action: The action plan for the implementation of the BCP has been developed on a collegiate approach which will ensure a corporate approach to resolve such issues.</p> <p>Responsibility: Governance and Risk Manager</p> <p>Date: On-going</p>




Executive summary

Overall conclusions

1. In 2005/06 Argyll & Bute Council will manage a revenue budget of £149 million, with long term borrowing, as at 31 March 2005, of £194 million and short term borrowing of £4.5 million.
2. The Council has sound arrangements in place in many areas for determining financial strategy although some key arrangements have yet to be developed. These are noted below. Overall conclusions are that the Council:
 - operates a budgeting system that is independent of the council's corporate objectives. Although the annual service plans include a limited amount of financial detail, there is no attempt to align resources to priorities;
 - has developed an approach to ensuring the sustainability of its spending decisions although this focuses on the short to medium term but is limited in relation to longer term sustainability. This development would be strengthened by the implementation of the new asset management strategy which was approved by the Council in April 2005 but has been delayed from 2006 to 2007;
 - has demonstrated a relatively pro-active approach to assisting elected members and managers to be effective financial managers and has recognised the need to enhance budget monitoring procedures and to provide budget holder training;
 - has sound foundations of budgetary control and treasury management on which to build and develop the financial strategy.
3. The Council has identified its top three financial risks as:
 - requirement for investment in council assets;
 - pressure on pay costs through affordability of pensions and single status/job evaluation; and
 - cost of maintaining services in remote, rural and island areas.

Main strengths and areas for improvement

4. The Council has well developed procedures in most areas covered by this study. Examples of particularly good practice already in place include:
 - regular, and structured, reporting of material revenue budget variances to both senior management and members;
 - usable reserves which are held for a clear purpose in support of the overall financial strategy;
 - bi-annual monitoring of progress toward targets established in the corporate plan;
 - the establishment of a community planning partnership which operates on both a pan Argyll and Bute as well as an area basis, obtaining views and feedback from residents and incorporates these into area plans through the identification of key themes and priorities; and
 - quarterly reporting of service performance to the Strategic Management Team.

- 
5. Key areas where we consider that arrangements could be further improved include the need for:
 - clearer links between the overall corporate plan and the individual service plans, and costing of objectives at a service plan level and reporting thereon;
 - a more consistent approach to budget setting and monitoring which is practical for all service areas. We acknowledge that there is currently a plan to roll out the principles of a approach in operation within the Community Services Department and we further recognise that these arrangements need to take account of the different nature of operations within each department; and
 - timely implementation of the recently approved asset management strategy to ensure capital investment decisions are soundly based.

 6. A number of reports have been produced recently highlighting good practice in financial strategy, including the Controller of Audit's *'Overview of the local authority accounts 2004'*, the Audit Commission's *'Improvement through better financial management'* and CIPFA's framework/model on *'Improving financial management in public services'*. These documents provide useful benchmarks on best practice and the Council should review its own progress against these benchmarks on a regular basis.

Action plan

No.	Issue, risk & recommendation	Responsible officer	Response & agreed action	Action date
1.	<p>Linkage with corporate strategies</p> <p>There are no clear links between the objectives set out in the overall corporate plan and the key themes established in individual service plans.</p> <p><i>Risk: The key themes that individual service areas are working to achieve may not be directly contributing to the overall objectives of the Council.</i></p> <p>Recommendation: Service plans should clearly indicate how the key themes contribute toward achieving the overall corporate objectives.</p>	Policy and Strategy Manager	<p>Policy and Strategy are currently developing a corporate strategy map as part of the Council's Performance Management Framework. This document will ensure there are links between corporate and service objectives.</p> <p>The Performance Management framework will be implemented in phases, as agreed in the project plan approved by the SMT and SPC.</p> <p>Evaluation of each phase will be conducted in line with the project plan. Regular progress reports will be submitted to the SMT.</p>	Project plan approved by SMT and SPC by 12/05 Implementation by 3/06
2.	<p>Corporate and service plans are not clearly integrated with the revenue and capital budgets. There is more of a focus on 'total budget' rather than costing of individual service level activities.</p> <p><i>Risk: Members may not be fully aware of the financial implications of individual service objectives and therefore not able to assess whether adequate and appropriate resources have been allocated.</i></p> <p>Recommendation: Key themes in the service plans should be costed in line with the resource allocation established on the revenue and capital budgets.</p>	Head of Strategic Finance	A project to align service and budget planning exercises is already underway.	In place for 2007-08 budget cycle

No.	Issue, risk & recommendation	Responsible officer	Response & agreed action	Action date
3	<p>Sustainability</p> <p>Long term planning is generally restricted to a three-year budgeting horizon.</p> <p><i>Risk: It is recognised that long term planning is difficult in the light of short term financial settlements. However failure to project the longer-term implications of previous spending decisions could restrict the ability to achieve objectives beyond the three-year budgeting horizon.</i></p> <p>Recommendation: The Council should develop longer term financial planning which incorporates projections and modelling for specific issues.</p>	Head of Strategic Finance	A longer term financial planning model will be developed as part of the project to align service and budget planning exercises.	In place for 2007-08 budget cycle
4	<p>Projected budgets for 2006/07 and 2007/08 have identified a corporate funding gap at a council wide level. Whilst savings have been identified at a service level to support the 2005/06 budget there has been no attempt to identify the impact of the funding gap in future years.</p> <p><i>Risk: Medium to long term corporate objectives may not be affordable and sustainable nor soundly based on realistic revenue projections.</i></p> <p>Recommendation: The potential impact of the projected corporate funding gap should be considered and achievable efficiency savings determined at a service level in order to minimise this impact.</p>	Head of Strategic Finance	A requirement to consider the impact and achievability of future years saving will be built into the service and budget planning process that emerges from the project currently underway to align these planning provisos.	In place for 2007-08 budget cycle

No.	Issue, risk & recommendation	Responsible officer	Response & agreed action	Action date
5	<p>The Council are currently working toward the implementation of an asset management strategy. The strategy was approved by the Council in April 2005. The strategy was originally proposed to be implemented in 2006 however this timescale has since been extended to 2007.</p> <p><i>Risk: Capital investment decisions may be made which are not soundly based or consistent with the overall corporate strategy.</i></p> <p>Recommendation: The implementation of the asset management strategy is treated as a matter of priority and measures are taken to minimise any further delay in its implementation.</p>		<p>The implementation of the asset management strategy will form five phases:</p> <ol style="list-style-type: none"> 1. Completeness checks 2. Conditions and costings 3. Asset use 4. Options appraisal 5. Computer systems <p>This timetable will be presented to the Audit Committee for and its members will monitor progress.</p>	<p>January 06 Mid 2006 Late 2006 Early 2007 Late 2005</p>
6	<p>Political and managerial leadership</p> <p>The Council's approach to developing financial skills across the organisation could be further improved.</p> <p><i>Risk: The Council may be unable to maintain the existing levels of financial expertise to support effective financial management.</i></p> <p>Recommendation: The Council should introduce a continuing and structured programme of staff development and training on financial issues and undertake a regular review of the financial expertise in place across the organisation.</p>	Head of Strategic Finance	Develop a continuing and structured staff development programme on financial issues.	30 June 2006

No.	Issue, risk & recommendation	Responsible officer	Response & agreed action	Action date
7	<p>Financial information and monitoring</p> <p>Financial and performance monitoring are currently reported separately. Financial monitoring is reported to senior management and members whilst performance reporting is only reported to senior management. On a bi-annual basis Corporate Plan progress is reported to the members.</p> <p><i>Risk: Performance monitoring is not effective and may not contribute to best value in use of resources. Members are not supplied with sufficient information to adequately perform their scrutiny role.</i></p> <p>Recommendation: An integrated approach to financial and performance reporting should be adopted by the Council. This should specify the minimum requirements for reporting to members and senior management particularly in relation to trend, and performance against targets or benchmarks.</p>	Head of Strategic Finance	Included in draft Best Value action plan and will emerge from work carried out by group looking at alignment of service and budget planning. Will include a period of development and piloting before full implementation.	31 March 2007
8	<p>There is currently a varied approach to budgetary control throughout the Council's service departments. Preliminary discussions have been held within the Council relating to the implementation of a service wide consistent approach to budget setting and monitoring and also the provision of budget holder training. The overall objective is to roll out the approach currently adopted by Community Services. It is recognised, however, that there will be a need to take account of the different nature of the</p>	Head of Strategic Finance	Principles of Community Service budget monitoring to be rolled out to all services with training for budget holders.	30 June 2006

No.	Issue, risk & recommendation	Responsible officer	Response & agreed action	Action date
	<p>operations in each of the services. Therefore it is intended to implement key principles and guidelines rather than a rigid set of rules and procedures. No formal timescales have been allocated to this task however it is intended for an initial roll out in the second quarter of the 2005/06 financial year.</p> <p><i>Risk: Budgetary control could be weakened in the absence of appropriate skills, guidance and a consistent approach.</i></p> <p>Recommendation: The Council should continue to plan toward the provision of budget holder training and the roll out of key guidance and should consider setting formal timescales on the implementation of this approach. It is recognised that the current approach to budgetary control is effective and that this recommendation is aimed at further improving the process.</p>			

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Executive summary

Overall conclusions

We consider that the Council has demonstrated compliance with a number of aspects of the code of practice in relation to its dealings with arms length external organisations (ALEOs).

Main strengths

The Council has a variety of effective arrangements in place. These include:

- standard Grant Application forms and contracts
- detailed service level agreements, of a standard format. These include target outcomes for objectives which are drawn up in respect of higher level funding agreements
- adequate vetting and regular monitoring procedures.

Areas for improvement

We consider, however, that the following areas merit renewed management attention:

- the decision to award funding is purely a "political" one. Our review established that there is no pre-determined, clear or transparent scoring methodology or option appraisal process which ensures that the Council's objectives are best served by a particular organisation or to ensure an optimum balance of funded organisations which serve individual sub-objectives
- officers involved in dealing with ALEOs currently receive no training in this area
- many organisations do not require to adhere to a given timetable for achievement of objectives
- there is no central quality control operated to oversee the monitoring process
- there is no central point of knowledge in relation to grants in the council
- a number of key areas could be clarified through additional policy initiatives. These include :
- the standing orders do not currently outline the approvals process
- there is no policy outlining situations where it is appropriate for officers or members to act on an ALEO
- there is no policy which outlines minimum skills requirements for staff acting on ALEO boards.

Management action

An action plan contained within this report details areas where improvement could be achieved. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The assistance and co-operation we received during the course of our audit is gratefully acknowledged.

David Jamieson
Senior Audit Manager
September 2005

Action plan

Action ref.	Strategic objective	Priority	Responsible officer	Agreed timescale	Council's commitment	For action by (date)
<p>Principle 1: Purpose: the council is clear about its reasons for transferring funds to ALEOs.</p>						
1	<p>The Council should ensure that grant application packs, committee reports and funding approval letters contain reference to the appropriate statutory powers under which the grant is applied for and approved. This will ensure that members, officers and applicants are clear about the statutory authority for funding requests.</p>	Medium				
2	<p>The Council should seek to develop a methodology of scoring grant applications in terms of how best they fit with the Council's overall objectives, in order to provide transparency to the decision making process.</p> <p>Funding amounts for specific sub-objectives should also be predetermined to ensure that an optimum balance of types of organisations is obtained.</p>	High				

Action ref	Recommendation	Priority High Medium Low	Responsibility Council Committee Family	Approval Council Committee Family	Reporting Council Committee Family	Frequency Annually Bi-annually Quarterly	Evaluation by (date)
3	The Council should ensure that the constitution document, presently being developed to replace the standing orders and financial regulations, clearly outlines the approval process in respect of grant funding.	Medium					
	Principle 2: Financial regime: the council has a clear and robust financial management regime in place.						
4	The Council should ensure that all risks relating to voluntary organisations are identified, assessed and taken into account in developing the corporate risk register. This will provide a formal mechanism to ensure that these risks can be appropriately addressed and controlled.	Medium					
5	The Council should consider the inclusion of a clause in the standard contract which states that any liability or claims are the sole responsibility of the funded organisation, in order to prevent any possible financial cost to the Council. (Note duplication with action plan no. 18)	Medium					
6	The Council should consider requesting details of management composition of funded organisations to ensure that an appropriate structure is in place and that known individuals are of sound character.	Medium					

Action ref	Recommendation	Priority 1 - High 2 - Medium 3 - Low	To whom help should be given	Agreed 1 - Yes 2 - Partially 3 - No	Council comments	For action by (date)
7	The Council should consider the preparation of a guidance manual for use by officers involved in dealing with ALEOs.	Medium				
Principle 3: Monitoring: the council has robust arrangements for monitoring its relationship with ALEOs.						
8	The Council should provide a mechanism by which organisations are aware of exactly what council policies are in relation to ALEOs.	Medium				
9	A standard template should be devised by the Council for the end of year grant report in order to ensure that organisations supply the required amount of information in a concise format.	Medium				
10	The Council should consider reviewing the monitoring process in place across the Council in order to provide a quality control dimension.	Medium				
11	The Council should consider the creation of a central knowledge database in relation to grant funding, which could be used to record details of approved funding amounts and supervisory contact details. Further fields could also be added to record when monitoring reports, end of grant reports and annual accounts have been received.	High				

Action ref	Recommendation	Priority 1=High 2=Medium 3=Low	Responsible Council	Agreed (Yes/No) 3=Fully 2=Partly 1=No	Council's comments	For action by (date)
	Principle 4: Representation: the council is clear about the purpose of any officer or member representation on ALEOs, and representatives discharge their responsibilities with due regard to the objectives of the council.					
12	The Council should devise a formal policy which details the situations where it would be appropriate for members or officers to be appointed to the management team or board of an ALEO. The policy should clearly outline the exact roles involved and provide restrictions on the amount of support which should be provided.	Medium				
13	Service Level Agreements should be amended to include provision for the Council's requirements to appoint officers or members to the board or management team.	Medium				
14	The Council should devise a formal policy which outlines a minimum requirement of skills, experience and grade which officers responsible for representing the Council on ALEOs should possess.	Medium				
15	Formal training should be provided to all officers involved in dealing with ALEOs to ensure that they understand their respective responsibilities to both the Council and the ALEO.	Medium				

Action ref	Recommendation	Priority: 1 = High 2 = Medium 3 = Low	Responsible officer	Agreed: 1 = Yes 2 = Partly 3 = No	Council's comments	For action by (date)
16	The Council should seek to ensure that all officers involved in dealing with ALEOs are required to sign the register of declaration of interest, in order to ensure that officers are not placed in situations where a clear conflict of interest may arise.	Medium				
	Principle 5: Limitations: in entering into a substantial funding commitment with an ALEO, the council lays down a timetable for the achievement of its objectives.					
17	The Council should seek to ensure that organisations which receive funding to provide specific services are required to achieve objectives within a predetermined agreed timetable in order to ensure that these contribute to the achievement of the Council's corporate objectives.	Medium				
18	The Council should consider the inclusion of a clause in the standard contract which states that any liability or claims are the sole responsibility of the funded organisation, in order to prevent any financial cost to the Council. (Note duplication with action plan no. 5)	Medium				
Principle 6: Accountability: the council makes arrangements for suitable access by external audit.						
	No recommendations made.					

ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE

AUDIT COMMITTEE
9 DECEMBER 2005

EXTERNAL & INTERNAL AUDIT REPORT FOLLOW UP 2004 – 2005.

1. SUMMARY

The Internal Audit Annual Plan requires that follow up reviews be conducted for all audits completed. Internal Audit documents the progress made by departmental management in implementing agreed recommendations made by both Audit Scotland and Internal Audit. Set out below is the results from a review performed by Internal Audit for recommendations due to be implemented by the 31st October 2005.

2. RECOMMENDATIONS

2.1 The contents of this report are noted and are to be followed up by Internal Audit.

3. DETAILS

3.1 Appendix 1 is split into 2 documents 1a & 1b and provides a statistical summary of the 2003/04 and 2004/05 issued audit reports. The first document refers to all reports with recommendations due July to October 2005. The second document lists action points outstanding from the previous Audit Committee. These are points that should have been implemented by the 30th of June 2005 for the last Audit Committee. The same layout has been used for the reporting of Audit Scotland report recommendations in Appendices 3 & 4.

3.2 Appendix 2, details under each report's title the recommendation that is still to be implemented the department and Head of Service responsible, and an explanation for the delay, the level of risk, original and a revised implementation date.

3.2 All new external audit reports issued by Audit Scotland to the Council are reported initially separately to the Audit Committee with their executive summary and action plan. Thereafter they will be included in the summary list in Appendices 3 & 4 of this report.

4. CONCLUSIONS

Implementation of recommendations will continue to be monitored and reported by Internal Audit.

5. IMPLICATIONS

- | | | |
|-----|------------|------|
| 5.1 | Policy: | None |
| 5.2 | Financial: | None |
| 5.3 | Personnel: | None |
| 5.4 | Legal: | None |

5.5 Equal Opportunities: None

For further information please contact Alex Colligan or Ian Nisbet, Internal Audit (01546 604271 or 604216)

Ian Nisbet

Internal Audit Manager 25 November 2005.

25Novfinalreport25Nov

Internal Audit Report Follow up - Summary

Reports With Recommendations Due From July To October 2005

Audit	Report Number	Points to be actioned by 31 October 2005	Points actioned by implementation date	Behind Schedule/ Insufficient evidence received
2004/05	<i>20 Reports To Date</i>			
Prudential Code	17 (May 2005)	2	2	0
Review of e-procurement	19 (August 2005)	1	1	0
Review of Purchase of Equipment & Materials	20 (August 2005)	3	1	2 C1&2
Review of Unified Benefits	10 (December 2005)	2	1	1 E1
Review of HRA Rents	13 (March 2005)	1	1	0
Review of Significant Trading Operations	9 (December 2004)	1	0	0
2005/06				
Review of Year end Stock Count Procedures	1 (August 2005)	2	0	2 H4&5
Total		12	6	5

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Action Points Behind Schedule – Internal Audit**A – Review of the Prudential Code**

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
3	Prioritisation of capital schemes be developed; on going revenue effect be available to Council when a scheme is proposed; eventual final outturn be compared with budget estimate.	Head of Strategic Finance	This is being carried out as part of the preparation of the 2006/07 Revenue and Capital Budgets	Material	30 June 2005	February 2006
7	No assessment has been made of the need for training in risk management for major capital project managers	Head of Strategic Finance	The names of people requiring training have been identified. We are in the process of organising a training course.	Material	30 June 2005	Currently in discussion with CIPFA to arrange a date for training. November 2005
9	There are no specifications of the type and value of assets to be accounted for.	Head of Strategic Finance	A note will be issued as part of the exercise to verify the Council's asset base.	Material	30 June 2005	November 2005

B – Best Value Review 2004/05

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
9	The agreed actions from this review have not been fully implemented or reported on.	Head of Legal & Protective Services	Due to other competing priorities it was not possible to get a report to SPC in October. The target is now to present a report to SPC in December.	Material	31 January 2005	December 2005

C –Review of Purchase of Equipment & Materials

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
1	There were instances where the same officer was both requisitioning goods and authorising the order form. Of the sample checked this appeared to be common practice. It was not restricted to any one area.	Head of Roads & Amenity Services	Currently updating Authorised Signatory list for all Operational Services. Countersigning is not always possible in one person establishments e.g. School kitchens.	Fundamental	30 September 2005	January 2006

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
2	Departments were unsure as to who had authority to use new suppliers. Most of the suppliers would be on the list of approved suppliers supplied by the Authorities Buying Consortium but others may have been historical. Some local suppliers are used because the values of goods or services being purchased are low. Other suppliers may have been selected by competitive tender.	Head of Roads & Amenity Services	This forms part of the new Authorised Signatories list.	Fundamental	30 September 2005	January 2006

D – Review of Car Allowances - Education

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
2	Some staff may not be aware of the basic guidelines with regard to the completion and submission of travel claims.	Appropriate Heads of Service - Community Services	This action was identified in the Community Services Department 2004/05 Internal Financial Control Services (IFCS) as an action to be carried out in 2005/06. A new set of guidelines has been developed and is in operation in both Education and Social Work and being rolled out to the remaining sections.	Material	December 2004	January 2006

E – Review of Unified Benefits 2004/05

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
1	It is difficult for the auditor to identify back-up evidence to the reconciliation statements.	Head of Community Regeneration	The 2004/05 audit begins in November 2005. The Finance Section's appointed responsible person has reviewed the file compiled by the Benefits Development Officer. Liaison with Internal Audit will continue.	Minor	30 September 2005	November 2005

F – Review of HRA Rents

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
5	Recharge procedures require review and update.	Head of Housing	Procedural guidance drafted August 2005, to be considered by Housing Management Team on 15 November 2005, followed by Departmental Management Team on 28 November. Since this has financial implications it should go to SPC. It is intended to put this to SPC ON 19 January 2006.	Minor	14 April 2005	31 March 2006

G – Review of the Progress of the Joint Future Agenda

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
3	Budgetary control procedures will require consideration before the introduction of pooled budgets.	Head of Integrated Care	The Financial Framework has been formally approved by the Joint Future Unit of the Scottish Executive and practical application of all aspects of joint single management are being driven through a Joint Implementation Group (JIG) on behalf of the Joint Partnership Group. Membership of JIG includes the Scottish Executive Joint Improvement Team who are supporting project management of a series of joint initiatives across localities. The work programme has a timescale of September 2005 to summer 2006. Further impetus will be given at senior political level and executive level through a Joint Strategic Conference being held on 10 November 2005.	Material	03 June 2004	31 July 2006
4	The financial framework will vary as the Joint Future Agenda develops.	Head of Integrated Care	As per number 3	Material	03 June 2004	31 July 2006
5	Progression of the development and implementation of joint services and associated joint management arrangements both at high and local levels require continuous review.	Head of Integrated Care	As per number 3	Material	03 June 2004	31 July 2006

8	Significant elements of the Joint Financial Framework regarding joint resourcing requires further development documentation and completion.	Head of Integrated Care	As per number 3	Fundamental	03 June 2004	31 July 2006
10	There are a number of key steps required in the implementation of single shared assessment.	Head of Integrated Care	Implementation of Single Shared Assessment is on target and continuous review now includes the addition of Risk Assessment Indicator Of Relevant Need (IORN) by 31 March 2006 and upgraded to an electronic version by October 2007.	Material	31 March 2005	31 March 2006

H – Review of Yearend Stock Count Procedures

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
4	Controls in place for CallMac Ferry tickets could be improved further.	Finance Manager in conjunction with both Heads of Service	It is planned to visit Queen's Hall to review as part of all systems check	Minor	31 August 2005	31 December 2005
5	Swim Cards controls at Helensburgh Pool could be improved further.	Finance Manager in conjunction with both Heads of Service	It is planned to visit Helensburgh Pool to review as part of all systems check	Minor	31 August 2005	31 December 2005

External Audit Report Follow up - Summary

External Audit Reports With Recommendations Due From July to October 2005

Audit	Points to be actioned by 31 October 2005	Points actioned by implementation date	Behind Schedule/ Insufficient evidence received
<u>2002/03</u>			
e-government Preparedness Report on the 2002/03 Audit	1	0	1
	2	1	1
			C2 D5
<u>2004/05</u>			
Information Management Review	3	3	0
<u>2005/06</u>			
Web Overview	5	5	0
Total	11	9	2

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Points Outstanding From Previous Audit Committee

Audit	Points Still Outstanding From Previous Audit Committee	Points to be actioned by 31 October 2005	Points actioned by implementation date	Behind Schedule/ Insufficient evidence received
Prudential Code	1	1	0	1
Regularity & Governance (3)	9	9	7	2
2003/04				B10&14
Total	10	10	7	3

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Action Points Behind Schedule - Audit Scotland Reports**A –Prudential Code**

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
5	Officers are to devise and implement a suitable project option appraisal process	Head of Strategic Finance	The appraisal process will be used in setting the revised Capital Programme for 2006/07 onwards.	Medium	31 March 2005	February 2006

B –Regularity & Governance (3) 2003/04

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
10	Authorised signatory lists, incorporating sample signatures, should be compiled for all secondary schools. These should be updated periodically to reflect staff changes	Head of Strategic Finance	The Finance team are currently undergoing a department wide exercise to update all authorised signatories. The forms are in the process of being returned. It is hoped that the exercise will be completed by 31 December 2005.	Low	31 January 2005	December 2005
14	Office staff should be provided with a copy of the Council Financial Regulations and the DMR procedure manual	Head of Strategic Finance	Updated Financial Regulations will be sent out to all relevant staff. DMR procedures manual requires updating in all areas.	Low	31 January 2005	September 2006

C – e-Government Preparedness

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
2	With the customer contact centre project not progressing according to timescales originally agreed, the Council should assess the current position and take action to reflect the way forward for the 21st Century Government Agenda	Head of Democratic Services & Governance	Customer First Board has been established. Modernising Government Fund 3 money has been obtained. The Contact Centre development is well underway. The Council has begun the tendering process and we should have a fully functioning Contact Centre by Autumn of 2006.	Medium	31 July 2004	Autumn 2006

D – Report on the 2002/03 Audit

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
5	The practical steps for demonstrating annually that assets have been systematically reviewed for impairment should be documented and implemented.	Head Of Transportation & Infrastructure	This is being carried out as part of the preparation of the 2006/07 Revenue and Capital Budgets.	Medium	31 March 2004	February 2006

**REVIEW AND CONSOLIDATION OF OUTSTANDING AUDIT
RECOMMENDATIONS RELATED TO BUDGETARY CONTROL**

- 1 Given status of budgetary control as a core finance system and its importance in terms of the internal financial control framework it is understandable that over the period there have been a number of audits carried out by both internal and external audit into the Council's budgetary control systems. Generally these audits have identified that adequate arrangements are in place and in some cases examples of good practice have been identified. However it is acknowledged the arrangements in place are not perfect and that in certain areas there is room for improvement. Following the conclusion of each audit an action plan will have been prepared with agreed improvements to the arrangements for budgetary control. In some case the same or similar recommendations have appeared in a different reports. Most recommendations have been actioned but there a few recommendations where delays have been encountered in their implementation. At the last Audit Committee it was agreed that a separate note should be prepared consolidating the various outstanding recommendations on budgetary control and setting a new baseline for future reporting.
- 2 The approach to ongoing monitoring and reporting on budgetary performance is most developed in Community Services and this has been the area that has been given greatest scrutiny. This has acknowledged the improvements in place compared to the previous arrangements in place within the former education Service. The Finance Team in Community Services are currently reviewing the process adopted in Community Services to ease the administrative burden associated with the process whilst maintaining or improving the utility of the process. They are developing and testing their changes over the course of the current financial year. Following this pilot within Community Services the approach will be rolled out to other departments with suitable adjustments where appropriate to reflect the different nature of the business, operations and risks within these departments. A key element of this roll out will be the development of training materials and delivery of training to budget holders. Both the roll out of the new procedures and preparation and delivery of training will be completed before June 2006.
- 3 The other key area for improvement is the extent to which service and financial plans and monitoring reports are linked. Currently the Council prepares a fairly comprehensive budget pack that contains information on its corporate plan, area strategies, service plans and budgets. However the priorities in the service plans are not costed. Furthermore although the Strategic Management Team consider quarterly service performance reports and revenue budget monitoring reports at the same meeting the quarterly service reports do not contain information on the budgetary performance against each of the priorities in the service plan. The

Strategic Policy Committee established a Valuing Performance Review in August 2005 with a remit to consult key stakeholders in the development of an approach that would lead to priorities identified in the planning process being costed to make explicit the financial implications associated with priorities and that monitoring reports would also report on financial performance relative to each priority. The Valuing Performance review team are due to report draft proposals to the Strategic Management Team in December with an agreed approach being developed by February 2006 with rollout and implementation of the new approach to link service and budget planning and monitoring information for the 2007-08 budget and 2006-07 quarterly performance reports.

4 The revised action plan relative to the above is noted below.

Ref	Action Point	Responsibility	Risk Grading	Date
1	Complete pilot testing of new budget monitoring approach within Community Services and roll out of new budget monitoring procedures over all departments	Head of Strategic Finance	Fundamental	June 2006
2	Development of training materials and delivery of training to budget holder on budgetary control generally and the new procedures	Head of Strategic Finance	Fundamental	June 2006
3	Valuing performance review team to develop an approach to establish costing of priorities in service plans and reporting of such in quarterly reports	Head of Strategic Finance	Fundamental	For 2006-07 quarterly reports and 2007-08 budget

Bruce West
 Head of Strategic Finance
 30 November 2005

ARGYLL AND BUTE COUNCIL
Chief Asset Manager, Development Services Department

AUDIT COMMITTEE
November 9th 2005

Report on Asset Management

The Audit Committee, on the 2nd of September 2005 requested an update on progress with the asset register and implementation of asset management strategy/planning. This report identifies the main elements of asset management planning and progress to date.

Requirement:

This report provides an update to the report provided in September 2005 to the Audit Committee that details the process being followed for the production of the Asset Register.

Progress:

In summary terms implementation of the asset management strategy is being taken forward in 5 broad areas. These are:

- 1 Completeness check
- 2 Conditions and costings
- 3 Asset use
- 4 Options appraisal
- 5 Computer systems

Each of the broad areas can be broken down into more specific issues. The specific issues and progress against each of these is noted below along with responsibility.

1 Completeness check	Current Position	Responsibility	Action dates
1.1 What assets do we own, lease and use?	Cross checking of capital accounting register to title deeds nearing completion. Expected to be finalised by 30 September 2005 for audit of Annual Accounts. Once the capital accounting register and title deeds reconciled, further cross checks against property maintenance records, rent roll and non-domestic rate register/valuation roll, will be carried out. At this stage the capital accounting register will also be reviewed with Fleet Management and Information Technology to reconcile entries for vehicles and IT equipment.	Strategic Finance, Legal & Protective, User Depts.	Sept 2005 – complete Sept 05 - complete
1.2 Who is the owner/user for each asset?	A detailed list of Assets were provided to Services in October, for confirmation and verification of Service owned Assets. Some responses have been received, and discussions are on going.	Strategic Finance, Legal & Protective, User Depts	Oct 05 commenced Jan 06 completion

2 Conditions and Costing	Current Position	Responsibility	Action Dates
2.1 What condition are assets in?	<p>Information on the school estate is already available through the School Estate Asset Management Plan. Information on roads is already available through the SCOTS study and Roads Asset Management Plan. Information on fleet and IT equipment will be reviewed as part of the asset completeness checks outlined above. Property condition surveys have already been completed for shared offices and will be completed for leisure properties by 31 March 2007, (this is being carried out over a 3 year period). Property condition surveys for depots will be carried out in 2006-07. A reduced scale, (to reflect the properties in question) is being undertaken in house for public conveniences and will be completed by October 2005. In terms of social work properties whilst condition surveys have been undertaken further work is required to generate all the information necessary for asset management planning. It is intended that on an ongoing basis property condition surveys will be carried out on a 5 yearly basis.</p> <p>Service data collection activities (condition)</p> <ol style="list-style-type: none"> 1. There is a rolling programme for Property Condition Surveys 2. Roads have an annual Condition Inspection & Maintenance programme. 3. Street lighting operate a rolling program for asset inspection, condition and asset replacement, 4. Fleet management have a rolling programme for vehicle inspections 5. Infrastructure assets have a rolling programme for Bridge inspections reported through SCOTS 	IT, Fleet Mgt, Property, Roads & Health & Safety	<p>Schools Estate condition Surveys Complete -December 2004</p> <p>Shared office accommodation Condition surveys Complete October 2005</p> <p>7 Roads Depots Complete October 2005</p> <p>(A rolling count of 139 Asset Condition Surveys as of Nov 2005).</p> <p>Update still to be obtained on Public conveniences December 2005</p> <p>Complete Nov 2005</p> <p>Completed July 2005.</p> <p>Complete Nov 2005</p> <p>Complete Nov 2005</p> <p>Completed July 2005</p>
2.2 Are assets fit for purpose?	Assets fitness for purpose will be assessed by services based upon a combination of factors such as condition surveys, suitability, service delivery, operational requirements, desired performance levels, and stakeholder's views.	User Depts, IT, Fleet Mgt, Property, Roads & Health & Safety	Expected time frame for reporting is June 2006
2.3 What do we need to spend to make assets fit for purpose?	Financial spending is dependant upon the assessment of requirements and information obtained within sections 2.1 and 2.2.	IT, Fleet Mgt, Property, Roads & Health & Safety	Expected timeframe for reporting is June 2006

2.4 What do we need to spend over the lifecycle of our assets?	<p>For Schools Estates and some properties whole life costs information is currently available through the condition survey reports.</p> <p>There is a rolling programme to obtain property condition survey reports, which will provide lifecycle cost information.</p>	IT, Fleet Mgt, Property, Roads & Health & Safety	<p>Schools Estate Completed December 2004</p> <p>Complete Nov 2005</p>
2.5 What does it cost to run and operate our assets?	<p>Operational costs for assets based upon a number of cost elements which are reported to Services directly or indirectly</p> <p><u>Operational cost elements:</u></p> <p>Energy cost information for Schools Estate Asset Management Plan is currently reported annually, as part of the requirement on core facts.</p> <p>Energy management information is available in various formats, for other property assets. A STARK energy management system is currently being purchased which will provide structured reporting.</p> <p>Asset Maintenance Costs Costs for reactive, planned and statutory property maintenance are reported monthly.</p> <p>Cleaning & Janitorial cost information Fixed charges for property are charged directly to the Finance ledger.</p> <p>Asset property rate charges Annualised charges are sent out to Services</p> <p>Fleet management Fuel costs for vehicles are reported weekly. Hire charges for vehicles are reported on a 4 weekly basis.</p>	User Depts, IT, Fleet Mgt, Property, Roads & Health & Safety	<p>Schools Estate: Current Schools Estate reporting Complete January 2005 (for 2004 year)</p> <p>Energy Management: STARK April 2006 is the anticipated timeframe for reports via the STARK system.</p> <p>Complete Nov 2005</p> <p>Complete Nov 2005</p> <p>Complete Nov 2005</p> <p>Complete Nov 2005</p>
3 Asset Use	Current Position	Responsibility	Action dates
3.1 What use do we make of our assets?	This will commence once the asset completeness checks above are complete. This will be based upon user demand and Service planning /operational requirements.	User Depts.	Expected timeframe for reporting Dec 2006
3.2 What are our future asset requirements?	This will commence once the asset completeness checks above are complete.	User Depts.	Expected timeframe for reporting Dec 2006

4 Options Appraisal	Current Position	Responsibility	Action dates
4.1 Do we need this asset/What are the alternatives?	A review of appropriate approaches to and development of an initial approach to options appraisal will take place in 2005-06 as per the draft Best Value Audit Improvement Plan. This will require review, refinement and further development from 2006-07 onwards.	User Depts, IT, Fleet Mgt, Property, Roads & Health & Safety	Expected timeframe for reporting Oct 2006
5 Computer Systems	Current Position	Responsibility	
5.1 Identify systems to be put in place to manage recording, transfer and management of data related to asset management.	<p>Scoping study currently being carried out by the Chief Asset Manager and scheduled for completion by 30 September 2005. There will be a second stage to this to implement decisions based on the scoping study.</p> <p><u>Update November 2005</u></p> <p>The asset management group's direction is to specify a corporate level system based upon a prioritised list of strategic finance and operational requirements.</p> <p>A number of Service based computer systems are currently in use for Asset management activities.</p>	User Depts, IT, Fleet Mgt, Property, Roads & Health & Safety.	Nov 2005

The tasks above in essence are about establishing a process rather than completing a task. Once the actions above have been completed the Council will have an established process and a sound basis in place for managing its assets and collecting and using the information necessary to do so.

Out-with the above, further tasks related to asset management are underway and these include input by the Asset Management Team to reviews on rationalisation of council properties and regeneration projects in Helensburgh, Oban, Campbeltown and Dunoon.

John MacNicol
Chief Asset Manager
9th November 2005.

ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE

AUDIT COMMITTEE
9 DECEMBER 2005

HMIe REPORT 2004 – 05

1. SUMMARY

The Education Service of Argyll & Bute Council was inspected during the period December 2004 to January 2005 by HM Inspectorate of education (HMIe), as part of a 5 year national inspection programme of all local authorities in Scotland. In June 2005 HMIe issued their inspection report. This outlined service key strengths plus areas requiring improvement.

2. RECOMMENDATIONS

2.1 The contents of this report are noted and to be followed up by Internal Audit.

3. DETAILS

3.1 A copy of the HMIe report was provided to the Audit Committee on the 2nd of September 2005. The HMIe review found that Argyll & Bute Council demonstrated good and improving performance across many different aspects of its work. Overall, from a sound base, the Education Service was strengthening its impact on meeting the Council's key aim of being recognised as Scotland's leading rural area.

3.2 In response to the HMIe requirement, the Education Services management at the beginning of September 2005 agreed an Action Plan. This was then presented and approved by the Strategic Policy Committee (SPC) on the 8th of September 2005. See Appendix 1.

3.3 The Action Plan contains 4 main action points, which have sub sections detailing areas of concern, management comment, the responsible officer and implementation dates. Three of the main action points have implementation dates within the academic year 2005 – 2006. It should be noted that the August 2005 action date within Action Point 3 has been addressed. The remaining action point has 2 issues with agreed implementation dates of March and July 2006. Management have reported that progress is ongoing with all action points.

4. CONCLUSIONS

Internal Audit will monitor progress by Education Services management as they address the issues contained in the agreed Action Plan.

5. IMPLICATIONS

- | | | |
|-----|------------|------|
| 5.1 | Policy: | None |
| 5.2 | Financial: | None |
| 5.3 | Personnel: | None |

5.4 Legal: None

5.5 Equal Opportunities: None

For further information please contact Ian Nisbet, Internal Audit Manager (01546 604216)

Ian Nisbet

Internal Audit Manager 25 November 2005.

25Novfinalreport25 Nov



**ARGYLL AND BUTE COUNCIL
COMMUNITY SERVICES: EDUCATION**

INSPECTION OF THE EDUCATION FUNCTIONS OF LOCAL AUTHORITIES

ACTION PLAN

The following stakeholders were consulted in the process of developing this action plan. Their contributions, ongoing involvement and support are welcomed and greatly appreciated in its implementation.

- The Education Spokesperson and Elected Members
- The Director, Community Services and Heads of Service
- The Quality Standards Manager and Quality Improvement Officers
- Head Teachers
- Council Staff in Community Services and Partner Services
- Professional Associations
- Parent Representatives

SEPTEMBER 2005

EXECUTIVE SUMMARY

HMIE found that Argyll and Bute Council demonstrated good and improving performance across many different aspects of its work. Overall, from a sound base, the Education Service was strengthening its impact on meeting the Council's key aim of being recognised as Scotland's leading rural area.

The overarching challenge the Council needs to meet is to further improve the existing high levels of attainment, particularly in secondary schools and to continue to monitor the impact of the teams of Quality Improvement Officers on raising pupils' attainment, broadening their achievements and improving learning and teaching.

The underlying purpose of this Action Plan is to ensure that the key elements of this challenge will inform and have significant impact on the delivery of outcomes from:

- the Service Improvement Plan 2005-8
- the annual Improvement Objectives of the Education Authority, 2005 and 2006
- School Improvement Plans 2005/6 and 2006/7

on continuing improvements in:

- monitoring the implementation of key policies, initiatives and priorities and evaluating their impact on learning improvement
- promoting and supporting a culture of 'improvement from previous best'
- engaging with stakeholders in gaining views on aspects of educational change and influencing decision making
- recognizing and undertaking effective or innovative practice and school and pupil achievement

and on addressing the main points for action identified by HMIE.

Implementation of the action plan will be given major priority and will be closely monitored by the Strategic Policy Committee, Education Spokesperson, Director and Heads of Service in Community Services.

The Education Service's Management Team and Quality Improvement Officers will provide clear direction and support to ensure that Head Teachers and schools address the key priority of continuous improvement and will monitor the effectiveness of schools in securing raised attainment for children and young people in Argyll and Bute.

ARGYLL & BUTE COUNCIL: COMMUNITY SERVICES – EDUCATION
Action Plan following INEA Inspection

Main Point for Action 1 : Establish closer integration between service and budget planning				
Areas for Development	Impact	Strategy to Support Improvement	Persons Responsible	Timescale
<p>Improve the collation and presentation of information matched to Budget and Service Plan priorities.</p>	<p>Budget allocations are matched to priority areas to secure planned developments.</p> <p>A more robust system of monitoring budget spend and impact as priorities are achieved is in place.</p>	<p>Ensure overall budget statements are applied to each priority area of operation.</p> <p>Apply financial resource requirements to all National Priority areas of development.</p> <p>Identify all specific grants applying to SEED initiatives.</p> <p>Ensure budget monitoring includes information on progress in meeting service plan targets.</p> <p>Ensure spending plans refer to agreed service plan priorities.</p>	<p>Heads of Service – Education, Quality Standards Manager, Accounting Services Manager, Quality Improvement Officers.</p>	<p>Current service planning cycle, completed by March 2006.</p>

ARGYLL & BUTE COUNCIL: COMMUNITY SERVICES – EDUCATION Action Plan following INEA Inspection				
Main Point for Action 1: Establish closer integration between service and budget planning				
Areas for Development	Impact	Strategy to Support Improvement	Persons Responsible	Timescale
Service Improvement, Planning and Reporting.	<p>A more cohesive approach to planned services and improved joint working across Council services is evident.</p> <p>It can be seen that strategies to ensure a Best Value approach to service planning are agreed and established.</p>	<p>Review the framework for reporting progress on key priorities to include more information on the impact and effectiveness of agreed practices.</p> <p>Further develop effective joint working between the Quality Standards Manager and the Council's Policy and Strategy Manager to improve consistency between Corporate and service planning processes.</p> <p>Explore the development of Best Value approaches to Service Planning with a focus on consultation, sound governance, effective resource management and sustainable development.</p>	Quality Standards Manager, Policy and Strategy Manager.	By July 2006.

ARGYLL & BUTE COUNCIL: COMMUNITY SERVICES – EDUCATION Action Plan following INEA Inspection					
Main Point for Action 2: Address the issues of capacity and the physical environment in schools					
Areas for Development	Impact	Strategy to Support Improvement	Persons Responsible	Timescale	
Addressing overcapacity in primary schools.	The profile of the school estate presents as having available capacity fully and appropriately utilised for the benefit of all pupils.	Develop within the School's Estate Strategy, clear and practical procedures to address increasing overcapacity in primary school buildings.	Head of Planning & Performance.	Session 2005/2006 and ongoing.	
Achieving an improved environment for learning.	A more systematic approach to planning and implementing improvements in the schools' estate is in place with high levels of satisfaction from users. There are effective and smooth transitions from old to new buildings.	Identify priority decisions relating to the management of the school estate and the need to respond timeously to improving the environment for learning in specific schools. Support the effective implementation of the NPDO initiative for replacing identified schools within the authority. Ensure effective working relations between the NPDO staff, property services and senior managers in schools over the ongoing school building improvements.	Head of Planning & Performance. Head of Capital Funding Project Head of Planning & Performance	Session 2005/2006 and ongoing.	

ARGYLL & BUTE COUNCIL: COMMUNITY SERVICES – EDUCATION
Action Plan following INEA Inspection

Main Point for Action 3: Strengthen procedures for monitoring and evaluating the performance of all schools including secondary schools				
Areas for Development	Impact	Strategy to Support Improvement	Persons Responsible	Timescale
Planned review of aspects of school performance.	Continuous improvement in school leadership, teaching and learning and attainment and achievement is evident in all authority schools.	<p>Quality Improvement Officers (QIOs) will further develop positive and open relationships with link schools in relation to challenge and support.</p> <p>Monitoring and tracking performance through analysis of attainment information, Key Area Visits, School Reviews and HMIE school inspections.</p> <p>Identification of areas of curriculum where attainment and achievement requires to be improved across the authority and in individual schools.</p> <p>Monitoring the effectiveness of the role of school managers in securing improvement.</p>	Quality Standards Manager, Quality Improvement Team.	From Session 2005/2006.

Performance at S1/S2.	Improved attainment and achievement in 5-14 national assessments, in particular the achievement of level E in S1 and by the end of S2.	Link QIOs to focus on measures to support schools in increasing 12-14 attainment in writing and mathematics. Discussion on 5-14 results to be included in monitoring visits by QIOs. QIOs to support school managers in auditing, reviewing and delivering S1/S2 course plans.	Quality Improvement Team.	Session 2005/2006 and ongoing.
Performance in SQA examinations.	Improved SQA examination results at all levels.	Continue formal meetings with head teachers and SMTS involving Heads of Service, Quality Standards Manager and link QIO to review performance in SQA examinations and school strategies for improving on previous best. Review arrangements for head teachers to present Standards and Quality Reports on an annual basis to elected members at area committees. Training of principal teachers to interpret examination results data and to use the Standard Tables and Charts (STACS) and Fyfe Analyses to improve subject performance. STACS interactive training package made available to all secondary schools.	Quality Improvement Team Head of Service – Secondary, Quality Standards Manager. Fyfe Consultancy. Quality Standards Manager.	Session 2005/6 and ongoing. Session 2005/6 and ongoing. Session 2005/2006. August 2005.

<p>The development of strategic management in secondary education.</p>	<p>Improve standards incorporate leadership in secondary schools and roles of head teachers extended at authority level.</p>	<p>Continue to involve the secondary head teachers in regular forums to further develop school leadership, raising standards and further development of head teachers' roles as senior managers in the authority.</p>	<p>Head of Service – Secondary Quality Standards manager.</p>	<p>Session 2005/2006 and ongoing</p>
<p>Develop procedures for systematically maintaining the extent of policy implementation and the impact of policies on pupils' experiences.</p>	<p>Improvements in teaching and learning. Central authority staff are aware of school performance and provide appropriate support and challenge to secure improvement.</p>	<p>Implement procedures for monitoring the impact of key policies in schools. Ensure the impact on pupils is monitored through classroom observation, Key Area Visits and School Reviews. Review 'Teaching for Effective Learning' to reflect both the broader and specific aspect of 3-18 language and culture and improve the impact of the policy in secondary schools.</p>	<p>Heads of Service – Education, Quality Standards Manager, Quality Improvement Team.</p>	<p>Session 2005/2006 and ongoing.</p>

ARGYLL & BUTE COUNCIL: COMMUNITY SERVICES – EDUCATION Action Plan following INEA Inspection				
Main Point for Action 4: Ensure more effective support for the curriculum and learning and teaching in secondary schools to achieve the Council's aim of raising attainment and achievement further.				
Areas for Development	Impact	Strategy to Support Improvement	Persons Responsible	Timescale
Identify and disseminating good practice.	Improved standards in teaching and learning in all subject areas will be ensured through effective networking that shares good practice amongst all schools.	The education authority will support education authority and school staff to access nationally recognised centres of effective practice and effective provision in other authorities. Education staff will acknowledge and disseminate effective practice in Learning and Teaching and curriculum delivery identified through: Key Area Visits; School Reviews and HMIE Inspections.	Heads of Service – Education. Quality Standards Manager. Quality Improvement Officers.	From session 2005/2006 and ongoing.
Increase focus on pedagogy in securing high quality Teaching and Learning in every classroom.	High standards in teaching and learning and improved pupils' experiences.	QIOs will use the authority's 'Learning Plan' as a framework for leading and supporting the development of a professional learning culture. QIOs to support effective networking with subject leaders and PTs to agree priorities for development and secure appropriate staff and curriculum development support within in-service provision and CPD programme.	Quality Improvement Officers. Quality Improvement Officers.	From September 2005. From session 2005/2006 and ongoing.

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ARGYLL AND BUTE COUNCIL**AUDIT COMMITTEE****STRATEGIC FINANCE****9 DECEMBER 2005**

**STRATHCLYDE PENSION FUND (SPF) – AUTHORITY REPRESENTATION
UPDATE**

1. SUMMARY

- 1.1 In June 2005 Glasgow City Council (GCC) published a consultation paper suggesting a scheme for a representative forum for SPF member organisations and stakeholders. The Council responded to this paper in August 2005 and the Audit Committee considered this response at its meeting on 2 September. The Committee also requested an additional update report to go to its next meeting.
- 1.2 This report outlines the results of the GCC consultation and the form the representative forum will now take.

2. RECOMMENDATION

- 2.1 That the Committee note the content of this report.

3. DETAIL*Background*

- 3.1 The SPC on 11 August agreed a response to be passed to the Fund outlining changes that should be made to the Fund's proposals for the representative forum. This was noted by the Audit Committee on 2 September. The Committee Chair and Vice Chair raised concerns about the Fund's proposals and these are outlined below:

“The GCC proposal does not address the current 'accountability gap'. The Council and other member organisations, other than Glasgow City Council, will continue to have no executive or management responsibility over the pension fund. The creation of a Representative Forum, although a marginal advance on the current arrangements does not address this issue. Under the proposal, the Representative Forum may still be overruled by the GCC Pensions Sub-Committee, in the event that there is a difference of opinion between its members and Glasgow City Council. It is expected that this issue will be raised at the next meeting of the Audit Committee.”

- 3.2 The GCC Pensions Sub-Committee met on 7 September to consider the responses to the consultation and the main outcomes are outlined below.

Results of the Consultation

- 3.3 25 responses were received out of over 200 employing bodies and stakeholders. Of these 23 expressly welcomed the proposal and 11 of these offered no further comment.
- 3.4 The GCC Financial Services (Strathclyde Pension Fund) Sub-Committee met on 7 September to consider the response. Members approved a revised proposal that broadly adhered to the original suggestion.
- 3.5 The GCC response to the Council's specific recommendations is shown below:

Recommendation	Response
<i>1 member from each authority should be represented rather than 3 from 4 authorities in any one year. This would enable all 12 member authorities to be represented rather than using 3 year rotation.</i>	Accepted.
<i>Glasgow City Council should not be represented on the Forum as there is already adequate representation through the Pensions Sub-Committee.</i>	Not accepted. 'There were... proposals that the Forum should elect its own chair and that GCC should not be represented on the Forum. Equally, at least one respondent supported continuity in the Chair of the two bodies.'
<i>The Forum Chair should be drawn from the general Forum membership to ensure there is less scope for conflicts of interest.</i>	Not accepted. See above.
<i>The Chair of the Forum should have the right to deliver the Forum minutes to the Pension Sub-Committee and to speak at the Sub-Committee meetings on behalf of the Forum</i>	Not accepted. See above.
<i>The proposal should make clear that the Forum is a public meeting and that the minutes will be public documents.</i>	Accepted.

Key features of the representative forum

- 3.6 The full report outlining the position agreed by the GCC Pensions Sub-Committee on the representative forum is attached (Appendix 1)
- 3.7 The main features of the new forum are:
- Executive responsibility for the Fund rests entirely with Glasgow City Council.
 - The forum will act as an interface between stakeholders and the Fund. The minutes of the forum will be heard by the GCC Pensions Sub-Committee and will form advice.
 - The forum Chair will be the Chair of the Pensions Sub-Committee. This individual will deliver the forum minutes to the Sub-Committee.
 - The forum will be made up of 28 members:
 - 12 local authority (1 from each authority)
 - 4 from other 'Scheduled' bodies
 - 2 from large admitted bodies (no definition of 'large')
 - 2 from other admitted bodies
 - 5 Trade Union members
 - 1 Pensioner representative
 - Chair and Alternate
 - Meetings will be on a quarterly basis and will be held shortly before meetings of the Pensions Sub-Committee. The agenda will be the same as the Sub-Committee agenda.
 - All administration costs and member support will be the responsibility of Glasgow City Council.

Argyll & Bute Council membership

- 3.8 On 14 November the Council met and appointed Gary Mulvaney to be the Council's representative on the forum. Elaine Robertson will act as an alternate if Gary Mulvaney is unavailable.

Bruce West
Head of Strategic Finance
9 December 2005

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