

Argyll and Bute Council
Comhairle Earra Ghaidheal agus Bhoid

Corporate Services
Director: Nigel Stewart



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14 September 2006

NOTICE OF MEETING

A meeting of the **AUDIT COMMITTEE** will be held in the **COUNCIL CHAMBERS, KILMORY** on **THURSDAY, 21 SEPTEMBER 2006** at **2:00 PM**, which you are requested to attend.

Nigel Stewart
Director of Corporate Services

BUSINESS

- 1. APOLOGIES**
- 2. DECLARATIONS OF INTEREST**
- 3. MINUTES**
 - (a) AUDIT COMMITTEE 9 JUNE 2006 (Pages 1 - 6)
 - (b) AUDIT COMMITTEE 13 JULY 2006 (Pages 7 - 8)
- 4. MAINTAINING SCOTLAND'S ROADS (Pages 9 - 18)**
- 5. EXTERNAL AND INTERNAL AUDIT REPORT FOLLOW UP 2006-2007 (Pages 19 - 36)**
- 6. HMIE ACTION PLAN 2004-2005 (Pages 37 - 38)**
- 7. ANNUAL ACCOUNTS 2005-2006 (UNAUDITED) (Pages 39 - 84)**
- 8. INTERNATIONAL STANDARD ON AUDITING 260 (ISA 260) LETTER (Pages 85 - 86)**
- 9. RECENT EXTERNAL AUDIT REPORTS ISSUED 2005-2007 (Pages 87 - 102)**

10. **PROGRESS REPORT ON INTERNAL AUDIT PLAN 2006-2007** (Pages 103 - 106)
11. **LEGAL AND PROTECTIVE SERVICE PERFORMANCE (REPORT TO FOLLOW)**
12. **QUARTERLY SERVICE REPORTING PROCESS** (Pages 107 - 110)
13. **BEST VALUE REVIEW PROCESS REPORT** (Pages 111 - 112)

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: Katie McKenzie

Tel. No. 01546 604511

**MINUTES of MEETING of AUDIT COMMITTEE held in the THE MEMBERS ROOM, KILMORY,
LOCHGILPHEAD
on FRIDAY, 9 JUNE 2006**

Present: Councillor Gary Mulvanay (Chair)

Councillor Elaine Robertson
Ian Ross

Councillor John Tacchi
Christopher Valentine

Attending: Charles Reppke, Head of Democratic Services and Governance
Bruce West, Head of Strategic Finance
Ian Nisbet, Internal Audit Manager
Jim Robb, Head of Integrated Care
Steve Keightly, KPMG
Angela Cassels, Audit Scotland
David Jamieson, Audit Scotland

URGENT ITEM

The Chairman ruled, and the Committee agreed, in terms of Section 50B(4)(b) of the Local Government (Scotland) Act 1973 in terms of Standing Order 3.2.2, that item 15, which was not specified in the Agenda, should be considered as a matter of urgency.

1. APOLOGIES

Apologies were received from Councillors MacMillan and McAlpine.

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

3. MINUTES

The minutes of the meeting of 3 March 2006 were approved as a correct record.

Arising from item the Head of Strategic Finance noted that the report on Unit Labour Costs will be submitted to the next meeting of the Audit Committee.

4. ADAPTING TO THE FUTURE 2003-2004

A report was considered which detailed an Action Plan with agreed implementation dates for the "Adapting to the Future" report issued by the Accounts Commission - Audit Scotland towards the end of August 2004.

Decision

It was agreed:

1. To note the contents of the report,
2. To instruct Internal Audit to follow it up, and
3. To note the budgetary requirement of £650,000 per annum for 2007/8 and

£400,000 per annum are necessary to run our efficient service.

(Reference: Report by Internal Audit Manager dated 29 May, submitted).

5. MAINTAINING SCOTLAND'S ROADS

Audit Scotland issued a national report at the end of November 2004 entitled "Maintaining Scotland's Roads". In response the Head of Roads and Amenity Services prepared an action plan incorporating the report's 9 recommendations and added a further 3 to reflect dependent issues. The Committee considered a report which set out the current implementation position in respect of the action plans for 2005/06 and 2006/07.

Decision

It was agreed:

1. To note the contents of the report.
2. To instruct Internal Audit to follow up the contents of the report.

(Reference: Report by Internal Audit Manager dated 28 April 2006, submitted).

6. ANNUAL AUDIT REPORT 2005-2006

The Committee considered a report which detailed the duties and audits carried out by the section throughout the financial year.

Decision

The Committee agreed to approve the Internal Annual Audit Report for 2005 – 2006.

7. EXTERNAL AND INTERNAL AUDIT FOLLOW UP 2004-2005

A report setting out the results from a review undertaken by Internal Audit and recommendations due to be implemented by 31 March 2006 was considered.

Decision

It was agreed:

1. To note the contents of the report.
2. To instruct Internal Audit to follow up the contents of the report.
3. To request a report from the Head of Legal Services detailed the departments performance indicators and value for money.

(Reference: Report by Internal Audit Manager dated 18 May 2006, submitted).

8. ASSET MANAGEMENT STRATEGY

The Audit Committee, in 2005, requested regular updates on progress with the Asset Register and implementation of the asset management strategy/planning. A report identifying the main elements of asset management planning, its development and progress was considered.

Decision

To note the contents of the report and the progress made.

(Reference: Report by Internal Audit Manager dated 5 May 2006, submitted and Supplementary Report by Head of Strategic Finance dated 8 June 2006, tabled).

9. HMIE REPORT 2004-05

The Education Service of Argyll and 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 key strengths plus areas requiring improvement. The HMIE review found that the service demonstrated good and improving performance and indicated areas where further improvement could be made.

Decision

1. To note the contents of the report.
2. To instruct Internal Audit to follow up the contents of the report.

(Reference: Report by Internal Audit Manager dated 29 May 2006, submitted).

10. AUDIT SCOTLAND - FINANCIAL STATEMENTS STRATEGY

The Committee considered a report detailing the Financial Statements Strategy 2005-2006 and the Audit Risk Analysis and Plan 2005-2006.

Decision

It was agreed to note the contents of the report.

(Reference: Report by Internal Audit Manager dated 5 May 2006, submitted).

11. INTERNAL FINANCIAL CONTROL STATEMENT (IFCS) - DRAFT

The Committee considered a report detailing an annual overall assessment of the robustness of the Internal Financial Control System (IFCS) for 2005 – 2006.

Decision

It was agreed to note the contents of the report.

(Reference: Report by Internal Audit Manager dated 15 May 2006, submitted).

12. RECENT EXTERNAL AUDIT REPORT 2005-2006

The Committee considered a report detailing the Executive Summary and Action Plan for a new report issued by Audit Scotland since the last Audit Committee..

Decision

1. To note the contents of the report.
2. To instruct Internal Audit to follow up the contents of the report.

(Reference: Report by Internal Audit Manager dated 5 May 2006, submitted).

13. KPMG PROPOSALS FOR 2006-2007

The Committee considered a report detailing the progress of the internal audit partnering agreement in its first year of operation and KPMG's proposals for the forthcoming year.

Decision

It was agreed:

1. To note the progress of the agreement in its first year, and
2. To approve the proposals for the forthcoming year.

(Reference: Report by Partnership Manager dated 18 May 2006, submitted).

14. APPOINTMENT OF EXTERNAL AUDITORS 2006/07 TO 2010/11

The Committee considered a report confirming that RSM Robson Rhodes LLP will be the Council's external auditors for 2006/07 to 2010/11.

Decision

It was agreed to note the contents of the report.

(Reference: Report by Head of Strategic Finance dated 30 May 2006, submitted).

15. FREE PERSONAL CARE

The Committee gave consideration to a report and extract from the minutes of the Helensburgh and Lomond Area Committee of 6 June 2006 relating to the introduction of the Community Care (Scotland) Act 2002 Policy of Free Personal Care within the Helensburgh and Lomond area, and heard from the Director of Community Services on the current situation relating to the clients awaiting Free Personal Care Funding, the moratorium on spend across all Social Work Services and the level of funding from the Scottish Executive to support free personal care.

Decision

1. To note the terms of the extract of the Helensburgh & Lomond Area Committee.
2. To request a report from the Head of Strategic Finance, to be presented at the Council meeting on 28 June 2006, identifying:
 - i) The GAE received from the Scottish Executive for Social Services, broken down by care of Elderly, Children and Families etc for the last 3 years,
 - ii) The element of GAE received for Free Personal Care for the last 3 years,
 - iii) The Council's annual expenditure for 2004/2005 and 2005/2006 and budgeted expenditure for 2006/7 in connection with (i) and (ii).
 - iv) The cost of Council run Care Homes in the last 3 years, gross expenditure and net expenditure, and impact on Social Services

(Reference – Extract from Helensburgh & Lomond Area Committee of 6 June 2006 and Report by Head of Integrated Care dated 25 May 2006, tabled).

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**MINUTES of MEETING of AUDIT COMMITTEE held in the COUNCIL CHAMBERS, KILMORY
on THURSDAY, 13 JULY 2006**

Present: Councillor Gary Mulvaney (Chair)

Councillor Donald MacMillan
Councillor Elaine Robertson
Christopher Valentine

Councillor John McAlpine
Ian Ross

Attending: Charles Reppke, Head of Democratic Services and Governance
Douglas Hendry, Director of Community Services
Jim Robb, Head of Integrated Care
Bruce West, Head of Strategic Finance
Ian Nisbet, Internal Audit Manager
Steve Keightly, KPMG

1. APOLOGIES

Apologies for absence were received from Councillor John Tacchi.

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

3. SOCIAL WORK AND FREE PERSONAL CARE EXPENDITURE AND GAE

The Committee considered a report by the Head of Strategic Finance which identified details of Social Work GAE and expenditure amounts for 2004/05, 2005/06 and 2006/07. It was considered at the Council meeting on 28 June 2006 and referred to the Audit Committee to consider and report to the Strategic Policy Committee.

The Committee also considered a report by the Director of Community Services which provided information in regard to aspects of the report on Social Work expenditure/GAE submitted by the Head of Strategic Finance to the Council on 28 June 2006.

Decision

The Committee agreed –

1. to adjourn to a future date to allow the following information to be circulated to the Committee -
 - (a) Circular 18 2003,
 - (b) How many outstanding assessments there are, the cost of these outstanding assessments and the effect it is likely to have on the budget this year.
2. To have any questions or queries regarding the report by the Director of Community Services submitted to the Head of Democratic Services and Governance no later than Friday 21 July 2006.

(Reference: Extract from minutes of Council meeting of 28 June 2006 and Report by Head of Strategic dated 26 June 2006, submitted. Report by Director

of Community Services dated July 2006, tabled).

ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE

AUDIT COMMITTEE
21 SEPTEMBER 2006

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. The Head of Roads & Amenity Services prepared an action plan incorporating the report's recommendations and added a further 3 to reflect dependent issues. The Head of Service commenced reporting to the Audit Committee and Strategic Policy Committee (SPC) in December 2004. Set out below is the current implementation position in respect of planned actions.

2. RECOMMENDATION

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

3. DETAILS

3.1 As at the 18th of August 2006, it can be reported that the 2 recommendations remaining from 2005- 2006 are now reflected in the Action Plan for 2005 – 2007. The 2 recommendations are numbers 3 & 6, one covering the establishment of a long-term strategy for road maintenance and the other the conducting of an option appraisal for procuring and financing road maintenance services. The 2 recommendations are long term objectives involving in some cases the co-operation of external agencies, and for reporting purposes have been amalgamated into the one Action Plan, see Appendix 1. Management comment on both recommendations is given below and within attached Appendices.

3.2 With regard to the 12 recommendations set out in the 2005 – 2007 Action Plan attached in Appendix 1, management have reported 6 of the 12 recommendations are complete with one recommendation number 4 a constant task. Of the 5 remaining recommendations management have reported to Internal Audit that recommendations one, 6 & 8 remain within their original or previously reported implementation timescales.

With regard to the 2 remaining recommendations management comment on progress is as follows:

- ◆ Recommendation number 7: The system has been introduced. However staff training is still to be delivered, which will take place in September. The system will be fully operational by October 2006; and
- ◆ Recommendation number 3: All 32 Councils are working on an overall Scotland strategy for road maintenance, see Appendices 2 & 3.

4. CONCLUSION

Progress with the implementation of 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 28th August 2006.

28augfinalreport28aug

Maintaining Scotland's Roads 2005 – 2007
Action Plan

No.	Recommendations	Current Position	Proposed Action	Timescale	Progress update as at 18 th of August 2006
1	Report on the condition of roads and maintenance backlog.	2005/06 Information received.	Continue to report on annual basis.	Report to SPC October 2006	Information being assembled for October 2006 SPC Paper
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	COMPLETE
3	Establish a long-term strategy for road maintenance in the overall context of transportation and roads asset management strategies.	The Society of Chief Officers of Transportation in Scotland (SCOTS) is working on an overall Scotland Approach and is seeking funding from Efficient Government Fund (EGF).	The Council is part of this Scotland Wide process.	Ongoing	Awaiting the result of SCOTS EGF funding bid. See Appendix 2.
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.	-	Continuous monitoring.
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	COMPLETE
6	Conduct an option appraisal for procuring and financing road maintenance services.	Work has commenced.	Undertake recommendation.	March 2007	The Streetscene initiative which was approved at a recent SPC meeting will impact on road maintenance service delivery practices. Once this work has been completed it will be possible to then

APPENDIX 1

						further review the procurement and financing issues affecting roads maintenance.
7	Improve inventory information on the roads assets.	Work ongoing.	Complete inventory.	March 2006	The Roads Maintenance Management System (RMMS) system is now in place however dates for staff training extend into September/October. Management believe the system will be operational by October 2006. This will allow the recommendation to be completed.	
8	Use asset management system linked to GIS and financial system.	Progress is now being made.	Introduce a Roads Maintenance Management System.	Initial introduction complete full implementation on 1 st April 2006	Progress is now being made towards implementation by the end of September 2006.	
9	Consider joint working with other Councils	No significant opportunities found.	Review this recommendation.	To be reviewed March 2006	COMPLETE An ongoing task.	
10	Review unit costs of various service elements.	Complete for 2005/06	Review recommendation.	March 2006	COMPLETE	
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 included in the Roads Maintenance Strategy.	Review Performance Indicators in light of Audit Scotland's Report.	March 2006	COMPLETE	
12	Complete the Best Value Road Maintenance Service Checklist.	Complete	Review recommendations.	March 2006	COMPLETE	

Mr George Black
Chief Executive
Glasgow City Council
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Our Ref: JMcL/JRB/6022 **Your Ref:**
Date: 22 August 2006
If phoning or calling please ask for: Mr. J. McLellan
E-Mail: james.mclellan@argyll-bute.gov.uk
www.argyll-bute.gov.uk

Dear Sir

EFFICIENT GOVERNMENT FUND BID – ROADS ASSET MANAGEMENT

I refer to your letter of 14 August regarding the SCOTS (Society of Chief Officers of Transportation in Scotland) led initiative, to submit an Efficient Government Fund Bid to jointly procure a common roads asset management framework for all 32 Scottish Local Authorities.

I note the comments made and the advantages that would be gained from having a common nationwide strategy. I recognise that supporting this initiative will meet the requirements of Audit Scotland's Report 'Maintaining Scotlands Roads', and also address some of the issues raised in the Local Government in Scotland Act 2003 which encourages Councils to develop Asset Management Plans.

A report on this matter was submitted to our Strategic Policy Committee on 15 June 2006, and was subsequently endorsed at the full Council on 28 June 2006. I acknowledge that officers within Roads & Amenity Services have received a full copy of the bid documentation, including indicative costs for this Council, and that we were also represented at the national meeting held on 18 August.

You requested a response to three specific issues in your letter.

- 1 Argyll & Bute Council supports the Bid in principle, and we wish to participate in this initiative.
- 2 Argyll & Bute Council confirms agreement that Glasgow City Council will act as the lead authority, which will have operational responsibility for the project, and the appropriate authority to act for, and on this authority's behalf in the Bid process.

APPENDIX 2

3 Having reviewed the various bid documents, I would confirm that this Council is in agreement with all aspects of its content.

I acknowledge that should this bid be successful, you will write again to inform me of the detailed cost implications of participation, and then request our formal agreement to enter into a multi -Local Authority Partnership to deliver a Roads Asset Management Plan Framework for Scotland.

I acknowledge that the bid process will be led by Ian Bruce and Christine Francis of Glasgow City Council, and any issues regarding the bid will be directed through them.

I consider this initiative to be very worthwhile, and I hope that it will be successful.

Yours faithfully

James McLellan
Chief Executive

ARGYLL & BUTE COUNCIL**STRATEGIC POLICY COMMITTEE****OPERATIONAL SERVICES****15 JUNE 2006**

**EFFICIENT GOVERNMENT FUND BID BY SCOTS FOR A NATIONAL ASSET
MANAGEMENT FRAMEWORK**

1. SUMMARY

SCOTS (The Society of Chief Officers of Transportation in Scotland) in response to the recommendations made in the Audit Scotland Report, Maintaining Scotland's Roads, are submitting a bid to the Scottish Executive's Efficient Government Fund (EGF) to develop a nationwide roads asset management framework. It is proposed that the Committee supports the Bid, which can be delivered on a cost neutral basis to Argyll and Bute Council. The implementation of a nationwide Asset Management Plan could have financial implications for Argyll and Bute Council but at present the extent of this cost is not known.

2. RECOMMENDATIONS

- 2.1 The Committee is asked to note this report.
- 2.2 Support the Stage Two EGF bid to be made by SCOTS, as it will be carried out on a cost neutral basis to the Council.
- 2.3 Instruct the Head of Roads & Amenity Services to report back to the Committee as soon as the financial implications of a successful Stage Two bid are known.

3. DETAIL

- 3.1 The Committee has previously considered reports based on Audit Scotland's Maintaining Scotland's Roads Document where a number of objectives were identified by Audit Scotland and which were subsequently actioned by Roads & Amenity Services. As part of the Audit Scotland Report, it was proposed that the Code of Practice prepared by the Institution of Highways and Transportation - Delivering Best Value in Highway Maintenance should be developed throughout Scotland. At present there are only four Local Authorities who have implemented this matter, including Argyll & Bute. In Roads & Amenity, we have been using the Roads Asset Management Plan to aid roads maintenance since April 2004. It should be recognised that the vast majority of Scotland's Councils require significant work to be undertaken to implement this Code of Practice.
- 3.2 In the EGF bid, SCOTS has responded to the Audit Scotland report in several ways.

- Creating a common framework for the development of Roads Asset Management Plans for all Roads Authorities throughout Scotland.
- Providing a single Asset Management protocol for all Roads Authorities in Scotland.
- Delivering the aspirations for a better and improved road network.
- Collecting standard inventory details to populate a national Asset Management database.

In general terms, this Authority has addressed the issues of developing a Road Asset Management Plan and it has collected the vast majority of the standard inventory items.

3.3 In Autumn 2005, the Scottish Executive indicated that SCOTS' Stage One Efficient Government bid had been successful and that they were prepared to offer support funding for a development of a Stage Two bid. The grant offered was 50% of the costs up to a maximum of £50,000. SCOTS agreed that as the bid involved all Scotland's local authorities then the Council share of the costs would be found from efficiencies in the Scottish Roads Maintenance Condition Survey funds. Effectively, the Stage One and Stage Two bids can be carried out, on a cost neutral basis to the Council.

3.4 The Stage One Bid indicated that the national project cost is around £27 million over a five-year period, which would result in savings of around £20 million. Savings would arise from the following areas

- ICT systems, through joint procurement of system software and maintenance contracts.
- Procurement of survey system development, which lead to one off savings.
- Project management through a smaller number of parties being involved on behalf of all local authorities rather than each Council being directly involved.
- Pooled resources for research and savings from training.

The Stage Two Bid requires a Business Case to be prepared and assessed. The schemes that will be successful will demonstrate the largest benefit when considered against a balanced return versus risk.

In order to assist in the development of this work, SCOTS have commissioned consulting engineers Halcrow, to prepare the bid.

3.5 The initial estimate of costs are considerable, but this should be weighed against the project costs over a five year period involving all 32 Local Authorities gathering data, developing systems and using common frameworks. It has been estimated that an average authority would require funding of £155,000 per year.

3.6 It should be recognised that a significant amount of work has already been undertaken by this Authority on Roads Asset Management. It is not possible at this stage to determine the actual level of funding this Council may be required to provide in a successful bid, but it would be significantly less than £155,000 per annum, due to the work already undertaken. In general terms, it would be

appropriate for the Committee to support the EGF Stage Two Bid, as this exercise is being carried out on a cost neutral basis to the Council. The actual costs for the development of the project are unclear at present and it would be appropriate to report back later when the impact on Argyll and Bute Council can be established. It is only when an estimate of the cost has been determined that the Committee will be able to have an informed view on ultimately supporting the project.

4. IMPLICATIONS

- 4.1 Policy – None, at present although ultimately this could lead to a nationwide Asset Management System.
- 4.2 Financial – The Scottish Executive has offered a 50% grant up to a maximum of £50,000 to progress the Stage Two EGF Bid. SCOTS has identified this share of costs from efficiencies in the Scottish Roads Maintenance Condition Survey contract. Effectively, the Stage Two Bid can be carried out on a cost neutral basis. The detailed implications of the bid in terms of cost and benefits have to be assessed for each Local Authority. It is only when Stage Two Bid has been successful that the actual costs to each Authority can be determined.
- 4.3 Personnel – None.
- 4.4 Equal Opportunities – None.
- 4.5 Legal – None.

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

Andrew R Law
Director of Operational Services
5 June 2006

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ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE

AUDIT COMMITTEE
21 SEPTEMBER 2006

EXTERNAL & INTERNAL AUDIT REPORT FOLLOW UP 2006 – 2007.

1. SUMMARY

The Internal Audit Annual Plan requires that follow up reviews be conducted for all audits completed during the prior year. Internal Audit also document the progress made by departmental management in implementing the recommendations made by both Audit Scotland and Internal Audit. The current reporting system was introduced and approved by the Audit Committee in August 2004. Set out below are the results from a review performed by Internal Audit for recommendations due to be implemented by the 30th June 2006.

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 a statistical summary of the 2003/04, 2004/05 and 2005/06 Internal Audit reports issued prior to June 2006. It details the number of recommendations to be implemented by the follow up date, the number implemented and those past their implementation date. The implementation date used for reporting to this Audit Committee is the 30th June 2006. A reference column has been added to provide a link to Appendix 2, where reasons are given by local management as to why recommendations have not been implemented by the agreed date. The same layout has been used for the follow up of Audit Scotland report recommendations.

3.2 Appendix 1 is split into 2 documents 1a & 1b. The first document refers to all reports with recommendations due April to June 2006. The second document lists action points outstanding from the previous Audit Committees. These are points that should have been implemented by the 31st March 2006 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 Appendices 2 and 4, detail 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, the original and revised implementation date.

3.3 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 are included in the summary list in Appendices 3 & 4 of this report.

4. CONCLUSIONS

Implementation of all 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 or Alex Colligan of Internal Audit on (01546 604216 or 604271)

31 August 2006
31Augreport31Aug

Internal Audit Report Follow up - Summary

Reports With Recommendations Due From April to June 2006

Audit	Report Number	Points to be actioned by 30 June 2006	Points actioned by implementation date	Behind Schedule/ Insufficient evidence received	
<u>2005/06</u>					
Review of Contract Tendering & Vetting	12 (March 2006)	8	5	3	B 1,2&7
Review of Debtors - Estates Rents	17 (March 2006)	1	1	0	
Review of Cash & Income Banking, Hermitage Academy	9 (February 2006)	2	0	2	A 7&8
Review of Leisure Services Procurement	7 (December 2005)	1	1	0	
Review of Creditors	4 (November 2005)	1	1	0	
Total		12	7	5	

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Points Outstanding From Previous Audit Committee

Audit	Report Number	Points Still Outstanding From Previous Audit Committees	Points to be actioned by 30 June 2006	Points actioned by implementation date	Behind Schedule/ Insufficient evidence received
2003/04					
Review of the System of Budgetary Control	9 (November 2003)	2	2	1	1 D3
2004/05	<i>20 Reports</i>				
Prudential Code	17 (May 2005)	2	2	0	2 C 5&15
Best Value Review 2004/05	8 (December 2004)	1	1	1	0
2005/06					
Review of Capital Accounting	13 (February 2006)	1	1	1	0
Review of Capital Contracts	11 (February 2006)	1	1	1	0
Review of Performance Indicators 2004/05	2 (August 2005)	2	2	2	0
Review of Debtors - Estates Rents	17 (March 2006)	4	4	4	0
Review of Operating Leases	6 (December 2005)	3	3	3	0
Total		16	16	13	3

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Action Points Behind Schedule – Internal Audit

A – Review of Cash & Income Banking, Hermitage Academy & Education Services

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
7	Full advantage may not be made of the VAT Free Purchase Scheme.	Heads of Service for Primary and Secondary Education	This applies to the use of funds from the School General Purpose Funds (GPF). The effectiveness of the implementation of procedures is being reviewed by head teachers. A working group has been established to revise procedures for GPF by December 2006 and this will include updated reference to the VAT free purchase scheme.	Minor	30 April 2006	31 December 2006
8	There is no established procedure for choosing suppliers. This may lead to poor value for money.	Heads of Service for Primary and Secondary Education	This will be addressed as part of the Best Value Action Plan. School Admin Finance Assistants wherever possible make use of suppliers identified by the Authorities Buying Consortium. They are currently engaged with central finance staff in piloting the PECOS system as it develops.	Minor	30 April 2006	31 December 2006

B – Review of Contract Tendering & Vetting

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
1	Multiple customised select list spreadsheets in use, relying on the manual transposition of data from	Health and Safety Manager	It was agreed that a single format was required. A meeting will be arranged for the parties concerned to agree the format to be used.	Minor	30 April 2006	30 September 2006

APPENDIX 2

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
	the Health and Safety spreadsheet of approved contractors.					
2	There is no common department Health and Safety approval form.	Head of Facility Services	Revised approval form still to be agreed all.	Material	30 April 2006	30 September 2006
7	The Council's Health and Safety Manager requires all contractors whether registered on a Constructionline or on a local Select List to be approved by Argyll & Bute Health and Safety. The Contract Standing Orders do not reflect this.	Governance & Risk Management Officer	Governance & Risk Manager discussed this with relevant officers. Process in place to meet issue. Will look at revision of Constitution in May 2007.	Material	30 April 2006	May 2007

C – Review of the Prudential Code

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
5	Business plans have only been done for a limited number of projects. There is a need to develop an approach to business case and option appraisal for all projects that reflects robust estimates at the outset.	Head of Strategic Finance	The work on developing an approach in respect of producing business plans is ongoing. The decision to include block allocations rather than specific projects in the capital programme when it was approved in December 2005 removed the urgency in finalising the approach to this topic. CIPFA in Scotland is looking to produce detailed guidance on Options Appraisal which will be incorporated into the approach to business plan being	Material	30 November 2005	30 September 2006

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
15	Existing strategy limitations restricts investment returns. There is an opportunity for increased returns at minimum risk.	Finance Manager - Development Services	<p>The recent Audit of Best Value will require changes to the Corporate Plan and again these changes will need to be reflected in the approach to business planning.</p> <p>An external review of the management of the capital plan is being carried out. This will be completed by 30 September 2006 with recommendations on the use of business cases in preparation of the capital plan.</p> <p>The new investment regulations have not been produced by the Scottish Executive.</p>	Material	30 June 2006	31 March 2007

D – Review of the System of Budgetary Control

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
3	Budget holders receive no formal training in financial control or the nature of the Council's budgetary control systems.	Head of Strategic Finance	This is being addressed. See Appendix 4, Audit Scotland – Financial Strategy point 8.	Fundamental	31 May 2004	31 October 2006

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External Audit Report Follow up - Summary

External Audit Reports With Recommendations Due From April to June 2006

Audit	Points to be actioned by 30 June 2006	Points actioned by implementation date	Behind Schedule/ Insufficient evidence received	
2005/06				
Financial Strategy	2	0	2	C 6 & 8
Education Department - Computer Services Review	2	0	2	B10 & 11
Total	4	0	4	

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Points Outstanding From Previous Audit Committee

Audit	Points Still Outstanding From Previous Audit Committees	Points to be actioned by 30 June 2006	Points actioned by implementation date	Behind Schedule/ Insufficient evidence received	
2004/05 Audit - Final Report to Members Report on the 2002/03 Audit	2	2	2	0	
Commissioning Community Care Services for Older People	1	1	1	0	
Improving Customer Services through Better Customer Contact	1	1	0	1	A 1
Web Overview	1	1	0	1	D 1
	1	1	1	0	
Total	6	6	4	2	

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Action Points Behind Schedule - Audit Scotland Reports

A – COMMISSIONING COMMUNITY CARE SERVICES FOR OLDER PEOPLE

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
1	Officers should confirm that the revised system can provide aggregated information from individual care plans and additional information on unmet need to inform the planning process	Head of Planning and Performance	<p>Iorn System in place with the exception of the Islands. Full implementation – end of September 2006.</p> <p>Iorn System will collate unmet need at each service centre area.</p>	Medium	31 October 2004	30 September 2006

B – EDUCATION DEPARTMENT - COMPUTER SERVICES REVIEW

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
10	<p>A comprehensive service level agreement (SLA) is an essential requirement for the provision or receipt of any important service. An SLA defines the parameters for the delivery of that service, for the benefit of both parties.</p> <p>The parameters of the service delivery arrangement are not adequately defined.</p>	Head of Planning and Performance	Contract negotiations were delayed. Contract now re-established and server hardware and software purchased. SLA negotiation will be complete by November 2006.	Minor	30 April 2006	30 November 2006

APPENDIX 4

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
11	<p>The aim of business continuity planning is to ensure that an adequate service level can be provided if an unforeseen incident occurs.</p> <p>The Progress Report on Argyll & Bute Council Education Information Security Implementation Plan dated February 2005 highlighted several outstanding actions in the area of business continuity planning.</p> <p>Incomplete business continuity plans will have an impact on the service provision provided by the Education Department should an unforeseen incident occur.</p>	Head of Planning and Performance	Remote access configuration difficulties caused delays in implementing this recommendation. Problems now resolved and application will be included as part of the Disaster Recovery (DR) project by November 2006.	Minor	30 April 2006	30 November 2006

C – FINANCIAL STRATEGY

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
6	<p>The council's approach to develop financial skills across the organisation could be further improved.</p> <p>Risk: Capital investment decisions may be made which are not soundly based or consistent with the overall corporate strategy.</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>	Head of Strategic Finance	There are a large number of changes being implemented to financial processes at present which will impact on the requirements for staff development. These include changes to budget monitoring, the capital plan preparation and actions from the Best Value Improvement Plan.	n/a	30 June 2006	30 November 2006
8	<p>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>	Head of Strategic Finance	New budget monitoring procedures in place for August revenue budget monitoring. A full training programme is now being developed.	n/a	30 June 2006	31 October 2006

D – IMPROVING CUSTOMER SERVICES THROUGH BETTER CUSTOMER CONTACT

Ref	Action Point / Implication	Department / Head of Service	Explanation for delay	Risk Grading	Original implementation date	Revised implementation date
1	<p>Councils needs to commit to actively pursue a programme to manage customer service improvements as this is central to effective service delivery.</p> <p>Councils should improve how they research customers' opinion on service and make better use of feedback.</p> <p>Councils should improve performance measurement.</p>	Head of Democratic Services and Governance	<p>Customer contact centre tender process underway to procure business case justification, telephony. CRM, web self serve, business process change, implementation and joint management of dispersed customer contact centre. Tender return date end march 2006.</p> <p>A tender for the above is out to a select group of 5 companies who will deliver a contact centre after council approve a business case.</p> <p>The Business Case is to be presented to the Council on 27 September 2006.</p>	Medium	31 December 2005	27 September 2006

**ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE**

**AUDIT COMMITTEE
21 SEPTEMBER 2006**

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. The HMIE review found that the service demonstrated good and improving performance but indicated areas where further improvement could be made.

2. RECOMMENDATIONS

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

3. DETAILS

3.1 An agreed Action Plan between the Community Services department and HMIE was presented to and approved by the Strategic Policy Committee (SPC) on the 8th of September 2005. Thereafter the Audit Committee received quarterly updates on management progress addressing the inspectorates Main Action Points. At the last Audit Committee Internal Audit was able to report that all of the action points were being progressed with the majority complete.

3.2 Internal Audit at the end of August 2006 carried out a review of management progress in addressing the inspectorates Main Action Points. Internal Audit has concluded that the Education Service management and staff have expended a considerable amount of effort and time addressing the main issues raised by the inspectorate's report. Internal Audit is currently preparing a draft report and once finalised a copy will be sent to HMIE for their attention. HMIE are scheduled to return to check implementation progress during the academic year 2006 – 2007.

4. CONCLUSIONS

Internal Audit will continue to monitor progress by Education Service management in addressing HMIE recommended improvement areas.

5. IMPLICATIONS

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

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**ACCOUNTS FOR THE PERIOD
1 APRIL 2005 TO 31 MARCH 2006
(UNAUDITED)**

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

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

Strategic Finance
Argyll and Bute Council
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	Page
FOREWORD BY THE HEAD OF STRATEGIC FINANCE	2 – 4
STATEMENT OF ACCOUNTING POLICIES	5 – 8
CONSOLIDATED REVENUE ACCOUNT	9
NOTES TO THE CONSOLIDATED REVENUE ACCOUNT	10 – 16
HOUSING REVENUE ACCOUNT	17
NOTES TO THE HOUSING REVENUE ACCOUNT	18
COUNCIL TAX INCOME ACCOUNT	19
NOTES TO THE COUNCIL TAX INCOME ACCOUNT	20
NON-DOMESTIC RATE INCOME ACCOUNT	21
NOTES TO THE NON-DOMESTIC RATE INCOME ACCOUNT	21
CONSOLIDATED BALANCE SHEET	22
NOTES TO THE CONSOLIDATED BALANCE SHEET	23 – 31
STATEMENT OF TOTAL MOVEMENT ON RESERVES	32
NOTES TO THE STATEMENT OF TOTAL MOVEMENT ON RESERVES	33 – 34
CONSOLIDATED CASH FLOW STATEMENT	35 – 36
NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT	37 – 38
GROUP REVENUE ACCOUNT	39
GROUP BALANCE SHEET	40
STATEMENT OF TOTAL MOVEMENT IN GROUP RESERVES	41
NOTES TO THE GROUP ACCOUNTS	42
STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS	43
STATEMENT ON THE SYSTEM OF INTERNAL FINANCIAL CONTROL	44

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 2005/2006.

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 2005/2006 have been prepared in compliance with the Code of Practice on Local Authority Accounting in the United Kingdom 2005: A Statement of Recommended Practice (SORP). The format of the Consolidated Revenue Account reflects the requirements of the Best Value Accounting Code of Practice 2005 - Scotland (BVACOP).

The Financial Statements

The 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.

The 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.

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

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

The 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.

Group Accounts combines the revenue and balance sheet figures for the Council as a whole with those of entities in which the Council has a controlling interest in or where significant influence is exerted.

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

Modified requirements for Group Accounts were introduced by the 2004 SORP. Transitional arrangements were in place last financial year that did not require disclosures in the 2004/2005 financial statements. The 2005 SORP removes these transitional arrangements and Council's are now required to fully comply with the requirements for group accounts, which includes comparative figures for 2004/2005.

General Fund

The following table summarises how the deficit for the year has arisen. For the purpose of comparison, the budget for 2005/2006 has been taken as the original approved budget 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	0.506
Increased Collections on Local Taxes	1.506
Overall Overspend by Departments Against Budget	(0.171)
Sub-Total - Outturn Compared to Budget	1.841
Change in earmarked funds	1.784
Equal Pay Settlement	(4.128)
Deficit for Year Per Accounts	(0.503)

The General Fund Reserve at 31 March 2005 amounted to £15.120m of which £7.094m was earmarked. This left a "free" balance of £8.026m. The "free" Reserve now stands at £5.739m, the earmarked Reserve stands at £8.878m and the overall Reserve stands at £14.617m. The Council policy is to maintain a contingency of 2% of its net expenditure which is equivalent to £4m. The "free" reserve exceeds this by £1.739m.

Significant Trading Organisations

Councils are required to identify their Significant Trading Organisations. Significant Trading Organisations must achieve a breakeven financial position over a rolling three year period. The first rolling three year period ended on 31 March 2006 (i.e. the first full three financial years following 31 March 2003). Information on the financial performance of Significant Trading Organisations is given in the Accounts and this is laid out in note 6 of the Consolidated Revenue Account. During 2005/2006 all of the Council's Significant Trading Organisations achieved a surplus with the exception of the Catering and Cleaning Trading Account. The equal pay settlement made during the year had a major impact on the Catering and Cleaning Trading Account with the result that it failed to meet its financial objective of breaking even over the first rolling three year period. Any surplus or deficit is treated as part of the General Fund. All other Significant Trading Organisations met their financial objective of breaking even over the first rolling three year period.

Housing Revenue Account

The HRA balance stands at £1.756 at 31 March 2006 and is an increase of £0.741m from the 31 March 2005 balance of £1.015m. 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	(0.441)
Decrease in Supervision and Management	0.138
Reduction in Capital Financing	1.150
Bad Debts Written Off	(0.020)
Increase in Bad Debt Provision	(0.066)
Other Variations in Expenditure	0.092
Decreased / (Increased) Expenditure	0.579
<hr/>	
Increase in Rental Income	0.025
Other Variations in Income	0.372
Deduct Budgeted Deficit	(0.280)
(Decreased) / Increased Income	0.117
<hr/>	
Surplus for Year	0.696
<hr/>	
Contribution to General Fund	-
Interest Earned on Balance	0.045
Increase to HRA Balance	0.741

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 for the transfer of the housing stock during 2006. 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 regulated by the Prudential Code, a regime of self regulation. Under the Prudential Code of Practice the Council must ensure that:

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

The Council approved a set of prudential indicators for 2005/2006 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	33.628
Less:	
Capital Receipts	5.225
Government Grants and Other Contributions	7.358
Revenue Contributions	0.572
Contribution from Useable Capital Receipts Reserve	0.466
Net Capital Expenditure	20.007

The external borrowing of the Council at 31 March 2006 amounted to £223.116m. The majority of this was financed by the Public Works Loan Board (£196.560m), with the remainder coming mainly from the money market. During the year the Council completed £44m of new external borrowing. This was used to finance capital expenditure incurred during the year.

Property Valuations

In accordance with the 2005 Statement of Recommended Practice (SORP) all properties are required to be formally revalued at intervals of not more than five years. The current five year rolling programme of revaluation of all land and buildings, started in 2004/2005, was continued during 2005/2006.

Pensions Liability

Pension costs have been recognised in accordance with FRS17. As a result of this a liability of £65.681m 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 Fund 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 2006. 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

In December 2005, Argyll and Bute Council Tenants voted in favour of transfer of their homes to Argyll Community Housing Association Limited (ACHA). The transfer is set to take place during 2006.

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 (PPP) for school buildings. The Council has developed a Pathfinder Non-Profit Distributing Organisation (NPDO) approach for the PPP. Financial close for Stage 1 covering 9 schools on 4 sites was achieved during September 2005 and Stage 2 covering a further school will be achieved in the near future. Work on all Stage 1 sites is well under way with building completion on all schools scheduled for early 2008.

During 2005/06 the Council settled equal pay claims of £3.691m to female employees in catering, cleaning and home care services. The Council's settlement was accepted by 91% of relevant staff. Another 24 staff have lodged claims with employee tribunal. A provision for £0.336m has been set up for the remaining employees who have not accepted the Council's offer, this equates to the amount originally offered.

The Council reduced the discount on council tax from second homes to 10% during 2005/06. The additional council tax income collected amounted to £1.518m, this amount is to be paid to registered social landlords to invest in social housing.

Conclusion

The Council ends the year with a slightly decreased general fund balance. This is a better position than expected given the full impact of the equal pay settlement has been processed through the 2005/06 financial year: continuing 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.



Bruce West
Head of Strategic Finance
16 June 2006

1. GENERAL PRINCIPLES

The statement of accounts summarises the Council's transactions for the 2005/2006 financial year and its position at the year-end of 31 March 2006. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2005: A Statement of Recommended Practice (SORP). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

2. ACCRUALS OF INCOME AND EXPENDITURE

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

- Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services.
- Supplies and services are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as stocks on the balance sheet.
- Works are charged as expenditure when they are completed, before which they are carried as work in progress on the balance sheet.
- Interest payable and receivable on borrowings is accounted for in the year to which it relates, on a basis that reflects the overall effect of the loan or investment.
- Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Income and expenditure are credited and debited to the relevant revenue account, unless they properly represent capital receipts or expenditure.

3. OVERHEADS AND SUPPORT SERVICES

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2005 – Scotland (BVACOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional democratic organisation; and
- Non Distributed costs – the cost of discretionary benefits awarded to employees retiring early and the costs of unused shares of IT facilities and other assets.

These two cost categories are accounted for as separate headings in the Consolidated Revenue Account, as part of Net Cost of Services.

4. GOVERNMENT GRANTS AND CONTRIBUTIONS (REVENUE)

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

5. 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:

5.1 Teachers

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

5.2 Local Government Pension Scheme

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

- The liabilities of the Strathclyde Pension Fund attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 5.5% (based on the indicative rate of return on high quality corporate bonds (as measured by the yield on iBoxx Sterling Corporates Index, AA over 15 years))
- The assets of the Strathclyde Pension Fund attributable to the Council are included in the balance sheet at their fair value:
 - Quoted securities – mid market value
 - Unquoted securities – professional estimate
 - Unlisted securities – average of the bid and offer rates
 - Property – market value
- The change in the net pensions liability is analysed into seven components:

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

Statutory provisions limit the Council to raising council tax to cover the amounts payable by the Council Pension Fund in the year. In the Consolidated Revenue Account this means that there is an appropriation to the Pensions Reserve after Net Operating Expenditure to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end.

5.3 *Discretionary Benefits*

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

6. INTANGIBLE FIXED ASSETS

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

7. TANGIBLE FIXED ASSETS

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

7.1 *Recognition*

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

7.2 *Measurement*

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

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

Net current replacement cost is assessed as:

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

Assets included in the balance sheet at current value are revalued where there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Fixed Asset Restatement Account to recognise unrealised gains.

7.3 *Impairment*

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

- Where attributable to the clear consumption of economic benefits – the loss is charged to the relevant service revenue account
- Otherwise – written off against the Fixed Asset Restatement Account.

7.4 *Disposals*

When an asset is disposed of or decommissioned, the value of the asset in the balance sheet is written off to the Fixed Asset Restatement Account.

7.5 Depreciation

Depreciation is provided for on all assets with a determinable finite life (except for investment properties), by allocating the value of the asset in the balance sheet over the periods expected to benefit from their use.

The Council depreciates its fixed assets on a straight line basis (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

Where an asset has major components with different estimated useful lives, these are depreciated separately.

7.6 Grants and Contributions

Where grants and contributions are received that are identifiable to fixed assets with a finite useful life, the amounts are credited to the Government Grants Deferred Account. The balance is then written down to revenue to offset depreciation charges made for the relevant assets in the Asset Management Revenue Account, in line with the depreciation policy applied to them.

8. CHARGES TO REVENUE FOR FIXED ASSETS

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding fixed assets during the year:

- Capital charges on tangible fixed assets – comprising depreciation attributable to the assets used by the relevant service, plus a capital financing charge based on a percentage of the value of the asset in the balance sheet (3.5% and 4.8% for assets carried at current value and historical cost respectively)
- Impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service
- Amortisation of intangible fixed assets attributable to the service.

The charges made to service revenue accounts, support services and trading accounts are reversed out of the Consolidated Revenue Account after the Net Cost of Services by way of a credit to the Asset Management Revenue Account (AMRA). The following transactions are then made in the AMRA to represent the expenditure of the Council relating to fixed assets, reflected in Net Operating Expenditure:

- Debit for total depreciation of fixed assets for the year
- Credits for amortisations from the Government Grants Deferred Account
- Debits for total impairment losses attributable to the clear consumption of economic benefits and amortisations of intangible assets
- Debit for external interest payable by the Council.

Net Operating Expenditure now contains accounting entries that should not have an impact on Council Tax. Consequently, after the disclosure of net operating expenditure, a second reconciliation is required to reverse out charges in respect of depreciation, impairment losses and amortisations of deferred government grants and to replace them with the 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.

9. 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 the 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.

10. LEASES

10.1 Finance Leases

The Council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased asset transfer to the Council. Lease payments are apportioned between:

- A charge for the acquisition of the interest in the asset (recognised as a liability in the balance sheet at the start of the lease, matched with a tangible fixed asset – the liability is written down as the rent becomes payable) and
- A finance charge (debited to the Asset Management Revenue Account as rent becomes payable).

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

10.2 Operating Leases

Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable are charged to the relevant service revenue account on a straight line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

11. REPURCHASE OF BORROWING

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Consolidated Revenue Account in the year of repurchase/settlement. However, where repurchase has taken place as part of the restructuring of the loan portfolio with substantially the same overall effect when viewed as a whole, gains and losses are recognised on the balance sheet and written down to revenue on a straight line basis over the term of the replacement loans.

12. STOCK AND WORK IN PROGRESS

Stocks are included on the balance sheet at the lower of cost and net realisable value. Work in progress is subject to an interim valuation at the year-end and recorded in the balance sheet at cost plus any profit reasonably attributable to the works.

13. PROVISIONS

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain.

Provisions are charged to the appropriate revenue account when the authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the balance sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes more likely than not that a transfer of economic benefits will not be required, the provision is reversed and credited back to the relevant revenue account.

Where some or all of the payment required to settle a provision is expected to be met by another party, this is only recognised as income in the relevant revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

14. RESERVES

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts from the Consolidated Revenue Account after the Net Operating Expenditure line. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate revenue account in the year to score against the Net Cost of Services. The reserve is then appropriated back into the Consolidated Revenue Account after Net Operating Expenditure so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies above.

15. VALUE ADDED TAX (VAT)

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

16. INTERESTS IN COMPANIES AND OTHER ENTITIES

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates or joint ventures and requires to prepare group accounts. In the Council's own single-entity accounts, the interests in companies and other entities are recorded as investments, i.e. at cost, less any provision for losses.

2004/05		2005/06		
Net Expenditure £'000	Note	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
Council Services				
80,602	Education Services	107,771	14,629	93,142
2,166	Housing Services (Non-HRA)	41,506	38,791	2,715
(688)	Housing Services (HRA)	13,962	14,843	(881)
8,261	Cultural and Related Services	9,587	917	8,670
13,544	Environmental Services	18,377	5,001	13,376
21,225	Roads and Transport Services	28,143	6,417	21,726
1,131	Trading Services	3,050	2,027	1,023
2,963	Planning and Development Services	9,177	5,780	3,397
35,942	Social Work	53,273	12,040	41,233
Central Services				
3,410	- Corporate and Democratic Core	4,544	915	3,629
2,364	- Non Distributed Costs	1,230	2	1,228
2,727	- Central Services to the Public	3,033	1,022	2,011
403	- Other Operating Income and Expenditure	18,671	16,545	2,126
8,467	Strathclyde Police Joint Board	9,514	-	9,514
5,010	Strathclyde Fire Joint Board	5,239	-	5,239
187,527	Net Cost of Services	327,077	118,929	208,148
3,792	Asset Management Revenue Account			2,076
(735)	Interest and Investment Income			(886)
(1,861)	Pensions interest costs and expected return on pension assets			605
188,723	Net Operating Expenditure			209,943
153	Contribution to/(from) Other Funds			(174)
520	Contribution to/(from) HRA Balance			696
(334)	Reconciling amount for loans fund repayment	3		(6,379)
315	Capital Expenditure Financed from Revenue	3		572
(1,088)	Contribution to/(from) the pensions reserve			(2,286)
188,289	Amount to be met from Government Grants and Local Taxation			202,372
116,677	General Government Grants			124,555
40,394	Income from Council Tax			43,065
34,145	Non-domestic Rates Redistribution			34,249
2,927	Net General Fund Surplus / (Deficit)			(503)
12,193	Balance on General Fund Brought Forward			15,120
15,120	Balance on General Fund Carried Forward	4		14,617

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:

2004/05		2005/06
£'000	Joint Board	£'000
8,467	Strathclyde Police Joint Board	9,514
5,010	Strathclyde Fire Joint Board	5,239
1,190	Dunbartonshire and Argyll & Bute Valuation Joint Board (within Central Services to the Public total)	1,217
26	Authorities Buying Consortium (within Other Operating Income and Expenditure total)	26
<u>14,693</u>	Total Joint Boards	<u>15,996</u>

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.

2004/05		2005/06
£'000		£'000
14,367	Charge for Depreciation/Impairment	22,952
14,870	External Interest Payable	15,019
(24,602)	Capital Charges	(34,554)
(133)	Capital Element of Finance Lease Payments	(103)
(710)	Release of Government Grant	(1,238)
<u>3,792</u>	Net Expenditure / (Income)	<u>2,076</u>

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.

2004/05		2005/06
£'000		£'000
41	Capital Financed from Current Revenue - General Fund	298
274	Capital Financed from Current Revenue - HRA	274
<u>315</u>	Capital Expenditure Financed from Current Revenue	<u>572</u>
13,749	Principal Loans Fund Instalment	15,232
133	Capital Element of Finance Lease Payments	103
(14,367)	Depreciation/Impairment	(22,952)
(559)	Deferred Charges Written off to Revenue	-
710	Release of Government Grant	1,238
<u>(334)</u>	Reconciling amount for loans fund repayment	<u>(6,379)</u>
<u>(19)</u>	Total Contribution to Capital Financing Account	<u>(5,807)</u>

4. General Fund Balance Carried Forward

The following committed sums are included within the General Fund balance carried forward of £14.617m:-

	£'000
Waste Management PPP	3,916
NPDO Affordability Funding	356
Community Planning Partnership	61
Best Value Development Plan	10
Events and Festivals	281
E-Procurement Project	50
Digital Communities	74
IT Top Slice	37
Modernising Government Fund	34
Server Consolidation	20
CRM/Customer Index Contact Centre	142
Smart Card	100
E-Care	30
Three Islands Partnership	22
Young Scot Initiative	2
Protective Services Training Programme	38
Houses of Multiple Occupancy	2
Smoking Prohibition	14
Anti Social Behaviour	6
Money Management	192
Home Safety Unit	86
Mull and Iona Pool	100
Community Services - Underspends in 2005/06 Used to Fund 2006/07 Budget	580
Social Work Funding	179
School budgets carried forward as per revised Devolved Management of Schools, Scheme of Delegation	325
Abandoned Vehicles	140
Feasibility Studies	100
Corporate Property Strategy	30
Change Management	25
Reserve Committed for 2006/2007 budget	1,926
Total Committed Funds	8,878

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 £0.147m.

2004/05		2005/06
£'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 2005/06 were as follows:

2004/05		2005/06
£'000		£'000
129	Land and Buildings	172
883	Vehicles	1,153
250	Plant and Equipment	185
1,262	Total	1,510

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.

	2005/06 Actual £'000	2005/06 Target £'000	3 Year Target £'000	3 Year Actual Performance £'000
Turnover	11,664	11,683	33,986	35,811
Expenditure	11,594	11,620	33,836	35,641
Surplus/(Deficit)	70	63	150	170

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.

	2005/06 Actual £'000	2005/06 Target £'000	3 Year Target £'000	3 Year Actual Performance £'000
Turnover	4,839	4,796	14,712	15,095
Expenditure	4,580	4,751	14,654	14,817
Surplus/(Deficit)	259	45	58	278

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.

	2005/06 Actual £'000	2005/06 Target £'000	3 Year Target £'000	3 Year Actual Performance £'000
Turnover	3,390	3,314	8,384	8,714
Expenditure	3,390	3,312	8,377	8,700
Surplus/(Deficit)	-	2	7	14

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

	2005/06 Actual £'000	2005/06 Target £'000	3 Year Target £'000	3 Year Actual Performance £'000
Turnover	7,185	6,881	20,514	21,821
Expenditure	8,761	6,858	20,471	23,392
Surplus/(Deficit)	(1,576)	23	43	(1,571)

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.

	2005/06 Actual £'000	2005/06 Target £'000	3 Year Target £'000	3 Year Actual Performance £'000
Turnover	2,496	2,302	6,208	7,824
Expenditure	2,467	2,293	6,186	7,786
Surplus/(Deficit)	29	9	22	38

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 £0.617m was incurred during 2005/06 and is included within service expenditure as follows:

2004/05 £'000		2005/06 £'000
363	Staff advertising	307
35	Leaflets and publications	29
99	Statutory notices	119
133	Other	162
630	Total	617

8. Agency Income

The Council have an ongoing agency agreement with Scottish Water to collect domestic water and sewerage charges. During 2005/06 income from these agreements amounted to £0.225m.

2004/05 £'000		2005/06 £'000
-	Scottish Veteran Garden City Association and Margaret Blackwood Housing Association	-
255	Scottish Water	225
26	Authorities Buying Consortium	-
281	Agency Income	225

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 £1.218m and the related expenditure was £1.206m. 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	164	149
Strathclyde Police	Cleaning of Police Stations	79	68
Strathclyde Fire	Maintenance of Fire Stations	554	469
Various Public Bodies	Grounds Maintenance	9	8
Various Councils	Provision of Science Packs And Health Packs	7	14
Various Councils	Provision of Auxiliary Support	22	22
Various Councils	Provision of Pre-School TEDEY Software	3	3
Lomond & Argyll Primary NHS Trust	Provision of Care for the Elderly	110	125
Various Councils	Provision of Care for the Elderly	53	130
West Dunbartonshire Council	Provision of Special Education Needs	217	218
		1,218	1,206

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 2005/06 income from this source amounted to £3.805m and the related expenditure was £4.963m. These sums can be analysed as follows:

Purpose of Service	Income £'000	Expenditure £'000
Care of the elderly	1,391	1,813
Provision of services for people with learning disabilities	1,850	2,571
Provision of services for people with mental health needs	564	579
	3,805	4,963

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.

2004/05		2005/06
3,927	Amount paid over (£'000)	4,077
	Rate of contribution (%) :	
12.50%	1 April - 31 March	12.50%
1,013	Amount of added years awarded by the Council (£'000)	624
-	Discretionary payments made by the council (£'000)	13

12. Members' Allowances

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

2004/05		2005/06
£'000		£'000
219	Basic Allowance	220
234	Special Responsibility Allowance	240
453	Total Allowances	460

13. Officers' Emoluments

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

2004/05		2005/06
No	Remuneration Band	No
64	£40,000 - £49,999	78
24	£50,000 - £59,999	24
3	£60,000 - £69,999	2
4	£70,000 - £79,999	4
-	£80,000 - £89,999	-
1	£90,000 - £99,999	1

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 £4.400m which represents the value of the service provided from 1 April 2005 to 31 March 2006. Under the agreement the Council is committed to paying the following sums:

2006/07	4,505
2007/12	25,497
2012/17	28,265
2017/22	31,396
2022/27	29,980
Total	119,643

This equates to £5.697m per annum over the life of the contract.

15. Fees Payable to Audit Scotland

In 2005/06 the following fees relating to external audit and inspection were incurred:

£'000		£'000
272	Fees payable to Audit Scotland with regard to external audit services carried out by the appointed auditor	272
272		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	124,555	
Non-domestic Rates	34,249	
Housing Benefits / Support Grant	15,923	
Council Tax Benefit Subsidy	5,374	
Other Government Grants	25,484	
	205,585	
Capital Grants:		
European Grants	1,518	
Sportscotland	199	
AIE - Campbeltown Community Project	522	
School Buildings Improvements Fund	1,943	
Other Government Capital Grants	3,123	
	7,305	

**Expenditure
£'000**

Related Bodies:

Transactions with related bodies during the year totalled 20,666

Of these, transactions with the following exceeded £10,000:

Joint Boards (see note 1 for further details)	15,996
Strathclyde Passenger Transport	2,447
Argyll, the Islands, Loch Lomond, Stirling and the Trossachs Tourist Board	195
Bute Council on Alcohol	55
Cowal Council on Alcohol and Drugs	103
Convention of Scottish Local Authorities (COSLA)	79
Dunoon and Cowal Youth Project	15
Islay and Jura Community Enterprise	67
Mid Argyll Community Enterprises	45
Nadair Trust	14
NHS Argyll and Clyde	1,283
Oban and Lorn Enterprises - Atlantis Leisure	329
Oban Youth and Community Association	15

Other Related Party Transactions:

Transactions in which members have a significant interest

During the year there was one company in which members had a significant interest and where the total of transactions exceeded £10,000. This was as follows:

	£'000
Trident Taxis	82

17. Pension – Local Government Superannuation (Scotland) Scheme

As stated in note 5 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:

2004/05 £'000		2005/06 £'000
	Net Cost of Services:	
9,165	Current Service Cost	9,477
45	Past Service Cost	869
616	Settlements and Curtailments	111
1,111	Provision for Teachers Premature Retirement Scheme	-
	Net Operating Expenditure:	
13,546	Interest Cost	17,674
(15,407)	Expected Return on Employer Assets	(17,069)
	Amounts to be met from Government Grants and Local Taxation:	
(1,088)	Movement on Pension Reserve	(2,286)
	Actual amount charged against Council Tax for pensions in the year:	
7,988	Employers Contributions Payable to the Scheme	8,776

Further details on pension assets and liabilities are provided in Note 15 to the Balance Sheet and Note 8 to the Statement of Total Movement on Reserves.

2004/05 Actual £'000		2005/06 Actual £'000	2005/06 Budget £'000
	Expenditure		
4,755	Repairs and Maintenance	4,538	4,097
4,814	Supervision and Management	4,985	5,123
3,193	Capital Financing Costs	3,173	4,323
579	Void House Rents	582	582
51	Bad Debt Write Off	20	-
-	Increase in Provision for Bad or Doubtful Debts	66	-
390	Other expenditure	598	681
274	Contribution to Capital Financing Account	274	-
(76)	Pensions Interest Cost and Expected Return on Pensions Assets	26	18
(30)	Transfers to / (from) the Pension Reserve	(115)	(98)
13,950	Total Expenditure	14,147	14,726
	Income		
13,435	Rent of houses (gross)	13,344	13,316
83	Non-dwelling Rents	79	82
111	Housing Support Grant	135	135
17	Decrease in Provision for Bad or Doubtful Debts	-	-
824	Other Income	1,285	913
14,470	Total Income	14,843	14,446
520	(Deficit) / Surplus for Year Prior to CFCR	696	(280)
274	Contribution to Capital Financing Account	274	-
794	(Deficit) / Surplus for Year after CFCR	970	(280)
474	Balance on Housing Revenue Account Brought Forward	1,015	1,015
21	Interest Earned on Balance	45	
520	(Deficit) / Surplus for Year	696	(280)
-	Contribution to General Fund	-	-
1,015	Balance on Housing Revenue Account Carried Forward	1,756	735

1. Gross Rent Income

This is the total rent income for the year. Average annual rent charges were £45.59 per week in 2005/06 (2004/05 - £44.27)

2. Housing Stock

2004/05		2005/06
No		No
198	Sheltered Housing	198
2,897	Other Houses	2,786
1,512	Tenement Flats	1,483
1,099	Other Flats	1,063
<u>5,706</u>	Total Housing Stock	<u>5,530</u>

3. Rent Arrears and Bad Debts

Rent arrears at 31/3/2006 were £0.383m (31/3/2005 - £0.275m) and this equated to an average rent arrears per house of £69 (2004/05 - £46).

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 £0.239m (2004/05 - £0.173m); this represents an increase of £0.066m. The share of the sundry debtor account provision has remained the same.

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

2004/05		2005/06
Actual		Actual
£'000		£'000
48,163	Gross Council Tax Levied and Contributions in Lieu excluding RSL Second Home Additional Income	50,611
-	Add Back: RSL Second Home Discount Additional Income	1,518
(8,046)	Less: Other Discounts and Reductions	(8,468)
(1,201)	Provision for Bad and Doubtful Debts	(1,267)
<u>38,916</u>	Total for 2005/06	<u>42,394</u>
1,478	Adjustment to Previous Years' Community Charge and Council Tax	671
<u>40,394</u>	Transfers to General Fund	<u>43,065</u>

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 2005/06 was as follows:

Band	Valuation Band	% Band D	£ per year
A	Under £27,000	67%	745
B	£27,000 - £35,000	78%	869
C	£35,000 - £45,000	89%	993
D	£45,000 - £58,000	100%	1,117
E	£58,000 - £80,000	122%	1,365
F	£80,000 - £106,000	144%	1,613
G	£106,000 - £212,000	167%	1,862
H	Over £212,000	200%	2,234

2. Calculation of the Council Tax Base 2005/06

Council Tax Base	A	B	C	D	E	F	G	H	Total
Total Number of Properties	8,076	9,528	9,201	5,574	6,760	3,510	2,375	222	45,246
Less - Exemptions / Deductions	1,058	702	943	446	525	203	132	31	4,040
- Adjustment for Single Chargepayers	905	980	763	414	359	147	87	6	3,661
Effective Number of Properties	6,113	7,846	7,495	4,714	5,876	3,160	2,156	185	37,545
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	4,075	6,102	6,662	4,714	7,182	4,564	3,593	370	37,262
Add Contribution in lieu in respect of Class 18 dwellings (Band D Equivalent)									458
Nominal Tax Yield									37,720
Less Provision for Non-Collection - 4.97%									1,873
Council Tax Base 2005/06 - Number of Band D equivalents									35,847

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.

2004/05		2005/06
Actual		Actual
£'000		£'000
34,106	Gross rates levied	32,208
	Less:	
(4,494)	Reliefs and other deductions	(5,276)
(5)	Payment of interest	(1)
190	Provision for bad and doubtful debts	(115)
29,797	Net Non-domestic Rate Income	26,816
2	Adjustments for years prior to introduction of national non-domestic rate pool	2
4,346	Contribution from / (to) national non-domestic rate pool	7,431
34,145	Guaranteed Rate Income	34,249

NOTES TO THE NON-DOMESTIC RATE INCOME ACCOUNT

1. Analysis of Rateable Values

2004/05		2005/06
£		£
3,383,850	Industrial and freight transport subjects	3,471,355
33,247,591	Miscellaneous including Telecomms, Rail, Gas and Electricity Companies	36,762,797
	Commercial subjects:	
9,579,410	Shops	10,374,220
4,703,535	Offices	4,706,005
6,399,955	Hotels, Boarding Houses etc.	7,158,305
5,586,700	Others	5,940,925
7,705,885	Formula valued subjects	13,746
70,606,926	Total Rateable Value	68,427,353

2. Non-Domestic Rate Charge

2004/05		2005/06
Pence		Pence
48.8p	Rate Per Pound	46.1p
0.3p	Supplementary Rate Per Pound for Properties over £25,000	0.45p

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.

2004/05 £'000	Note	2005/06 £'000
	Fixed Assets	
28	<i>Intangible Fixed Assets</i>	49
	<i>Tangible Fixed Assets</i>	
	Operational Assets	
68,370	- Council Dwellings	72,470
177,024	- Other Land and Buildings	173,161
5,956	- Vehicles, Plant and Equipment	6,588
75,771	- Infrastructure Assets	90,138
1,690	- Community Assets	1,783
	Non-operational Assets	
5,935	- Investment Property	6,624
14,962	- Assets Under Construction	19,288
8,100	- Surplus Assets held for Disposal	8,300
357,836	Total Fixed Assets	378,401
1,419	Long Term Debtors	1,229
359,255	Total Long Term Assets	379,630
	Current Assets	
678	Stock and Work in Progress	609
18,055	Debtors	18,545
13,128	Cash and Bank	24,635
391,116	Total Assets	423,419
	Current Liabilities	
(4,517)	Short Term Borrowing	(551)
(44,433)	Creditors	(36,540)
(3,850)	Bank Overdraft	(2,885)
338,316	Total Assets less Current Liabilities	383,443
(193,771)	Long Term Borrowing	(222,565)
(567)	Deferred Liability - Finance Leases	(465)
(388)	Provisions	(821)
(81,535)	Liability Related to Defined Benefit Pension Scheme	(65,681)
62,055	Total Assets less Liabilities	93,911
	<i>Financed by:</i>	
104,772	Fixed Asset Restatement Account	114,662
6,168	Capital Financing Account	6,012
467	Useable Capital Receipts Reserve	-
23,881	Deferred Government Grants and Contributions	30,001
(9,653)	Deferred (Premiums) / Discounts	(9,104)
(81,535)	Pensions Reserve	(65,681)
15,120	General Fund Balance	14,617
1,015	Housing Revenue Account Balance	1,756
1,820	Repairs and Renewals Funds	1,648
62,055	Total Net Worth	93,911



Bruce West
 Head of Strategic Finance
 16 June 2006

1. Movement in Intangible Assets

	Purchased Software Licences £'000
Original cost at 31/03/05	28
Other	-
Net Book Value at 31/03/05	28
Movement in 2005/06	
Expenditure in Year	28
Disposals	-
Depreciation	(7)
Net Book Value at 31/03/06	49

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 2005/06 £'000	Total 2004/05 £'000
Certified Valuation at 31/03/05	68,370	204,731					
Accumulated Depreciation		(27,707)					
Accumulated Impairment							
Net Book Value at 31/03/05	68,370	177,024	5,956	75,771	1,690	328,811	295,301
<i>Movement in 2004/05</i>							
Expenditure in Year	3,582	5,191	2,151	13,044	93	24,061	11,817
Assets Acquired Under Finance Leases						-	-
Disposals	(2,094)	(1)	(148)			(2,243)	(2,707)
Revaluations	4,891	6,491				11,382	23,759
Transfers (to) / from Non Operational Assets		100		4,975		5,075	15,004
Depreciation	(2,279)	(15,644)	(1,371)	(3,652)		(22,946)	(14,363)
Net Book Value at 31/03/06	72,470	173,161	6,588	90,138	1,783	344,140	328,811

2.2 Movement in Non-Operational Fixed Assets

	Investment Properties £'000	Assets Under Construction £'000	Surplus Assets Held for Disposal £'000	Total 2005/06 £'000	Total 2004/05 £'000
Certified Valuation at 31/03/05	5,935		8,806		
Accumulated Depreciation			(706)		
Accumulated Impairment					
Net Book Value at 31/03/05	5,935	14,962	8,100	28,997	26,513
<i>Movement in 2004/05</i>					
Expenditure in Year		97	9,401	41	9,539
Disposals				(94)	(90)
Revaluations		592		253	845
Transfers (to) / from Operational Assets			(5,075)		(15,004)
Depreciation				-	-
Net Book Value at 31/03/06	6,624	19,288	8,300	34,212	28,997

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 2005/06
	£'000	£'000	£'000	£'000	£'000	£'000
Valued at historical cost			6,588	90,138	1,783	98,509
Valued at current value in:						
2005/2006	72,470	39,003				111,473
2004/2005		87,938				87,938
2003/2004		15,866				15,866
2002/2003		29,127				29,127
2001/2002		49				49
2000/2001		42				42
1999/2000		1,100				1,100
Inherited Value		36				36
Total	72,470	173,161	6,588	90,138	1,783	344,140

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.

	Investment Properties	Assets Under Construction	Surplus Assets Held for Disposal	Total 2005/06
	£'000	£'000	£'000	£'000
Valued at historical cost		19,288		19,288
Valued at current value in:				
2005/2006	1,280		763	2,043
2004/2005	636		90	726
2003/2004	1,514		1,658	3,172
2002/2003	2,570		543	3,113
2001/2002	85		5,090	5,175
2000/2001	128		62	190
1999/2000	411		94	505
Total	6,624	19,288	8,300	34,212

2.5 Fixed Assets Information on Assets Held at 31/03/06

	2005/06		2005/06
	No.		No.
OPERATIONAL BUILDINGS			
Administrative Buildings	52	OPERATIONAL EQUIPMENT	
Depots	34	Vehicles and Heavy Plant	325
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	79	Car Parks	138
Secondary Schools	10	Vessels	5
Special Schools	3	COMMUNITY ASSETS	
Nursery Schools	4	Parks/Play Areas	60
Halls	8	Civic Regalia (Provosts' Chains)	4
Sports Centres	1	Civic Regalia (Baillies' Chains)	1
Swimming Pools	4	Cemeteries	125
Museums and Libraries	10	War Memorials	54
Community Centres	8	Works of Art	299
Crematoria	1	COUNCIL DWELLINGS	
Public Conveniences	78		5,530
Travelling Persons Sites	3		
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 2006	31 March 2005
	£'000	£'000
Opening Capital Financing Requirement	223,617	226,322
Capital Investment		
Operational Assets - Expenditure	24,061	11,817
Operational Assets - Finance Leases		-
Non-Operational Assets	9,537	17,033
Deferred Charges		-
Intangible Assets	28	10
Total Capital Investment	33,626	28,860
Sources of Finance:		
Capital Receipts	(5,225)	(5,651)
Government Grants	(7,358)	(11,353)
Capital Financed from Current Revenue	(572)	(315)
Repayment of External Loans	(15,232)	(13,749)
Capital Element of Finance Lease Payments	(103)	(133)
Capital Receipts from Useable Capital Receipts Reserve	(466)	(359)
Other	(174)	(5)
Total Funding	(29,130)	(31,565)
Closing Capital Financing Requirement	228,113	223,617

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 2005	567
Additions	-
Depreciation	(102)
Disposals	-
Value at 31 March 2006	465

Outstanding obligations to make payments under these finance leases (excluding finance costs) at 31 March 2006, accounted for as part of long-term liabilities, are as follows:

	Vehicles, Plant and Equipment £'000
Obligations payable in 2006/2007	116
Obligations payable between 2007/2008 and 20010/2011	349
Obligations payable after 2010/2011 onwards	-
Total liabilities at 31 March 2005	465

5. Assets Held Under Operating Leases

The authority was committed at 31 March 2006 to making payments of £1.603m under operating leases in 2006/2007, comprising the following elements:

	Other Land and Buildings £'000	Vehicles, Plant and Equipment £'000
Leases expiring in 2006/2007	26	223
Leases expiring between 2007/2008 and 20010/2011	36	1,142
Leases expiring after 2010/2011 onwards	107	110
	169	1,475

6. Long Term Debtors

	31 March 2006 £'000	31 March 2005 £'000
House Loans	388	601
Waste PPP Historic Contamination Fund	841	818
Total Long Term Debtors	1,229	1,419

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 2005	818
Contribution to General Fund	-
"Top-up" payments during the year	-
Withdrawals by Shanks Group PLC	-
Interest earned on bank account	23
Balance at 31 March 2006	841

7. Debtors

		2005/06		2004/05	
		£'000	£'000	£'000	£'000
Arrears of Local Taxation	Council Tax	12,774		11,983	
	less: provision for bad debts	(10,301)		(9,741)	
			2,473		2,242
	Community Charge	7,601		7,636	
	less: provision for bad debts	(7,601)		(7,636)	
			-		-
	Non-domestic Rates	2,055		1,573	
	less: provision for bad debts	(934)		(920)	
			1,121		653
House Rents		383		275	
less: provision for bad debts		(239)		(173)	
			144		102
Debtor Accounts		3,183		2,833	
less: provision for bad debts		(385)		(392)	
			2,798		2,441
Government Grants			67		-
VAT Recoverable			2,223		2,775
Other Debtors			9,719		9,842
Total Debtors			18,545		18,055

8. Analysis of Borrowing

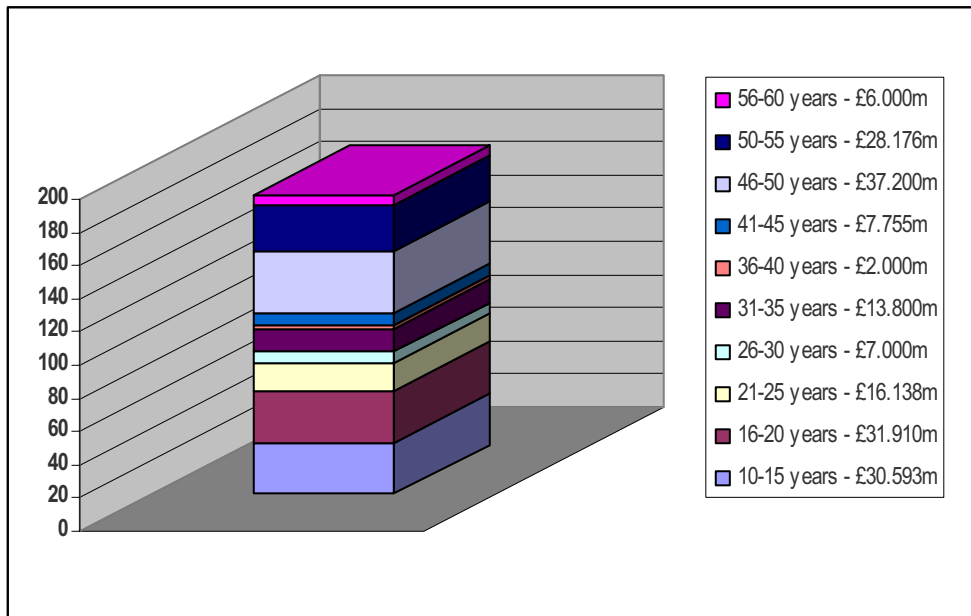
8.1 Source of Loan

	31 March 2006	31 March 2005
	£'000	£'000
Public Works Loan Board	196,560	171,560
Money Market	25,755	25,755
EIB	296	437
Other Loans	505	536
Total Outstanding Loans	223,116	198,288

8.2 Maturity of Loans

	31 March 2006	31 March 2005
	£'000	£'000
Borrowings repayable on demand or within 12 months	551	4,517
Borrowings repayable on demand or within 12 months	551	4,517
1 - 2 years	87	4,012
2 - 5 years	9,083	4,263
6 - 10 years	32,823	23,638
Over 10 years (see graph)	180,572	161,858
Total Long and Medium Term Loans	222,565	193,771
Total Outstanding Loans	223,116	198,288

The following graph shows an additional analysis of how the £180.572m of long term loans over 10 years, shown in the table above, is repayable.



9. 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 £0.087m. Full provision for this amount has been made.

During 2005/06 the council settled equal pay claims of £3.691m to female employees in catering, cleaning and home care services. The Council's settlement was accepted by 91% of relevant staff. Another 24 staff have lodged claims with employee tribunal. A provision for £0.336m has been set up for the remaining employees who have not accepted the Council's offer, this equates to the amount originally offered.

The Council reduced the discount on council tax from second homes to 10% during 2005/06. The additional council tax income collected amounted to £1.518m, this amount is to be paid to registered social landlords to invest in social housing. A provision for cash not yet collected, due to be paid to registered social landlords, has been created amounting to £0.098m.

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."

These provisions comply with the requirements of Financial Reporting Standard 12 - "Provisions, Contingent Liabilities and Contingent Assets" and meets the following criteria:

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

	Opening Balance £'000	Movement in Year £'000	Closing Balance £'000
SRC Insurance Claims	(88)	1	(87)
Reorganisation Redundancy Costs	(300)		(300)
Income due to Registered Social Landlords (Additional Council Tax on Second Homes)		(98)	(98)
Equal Pay Claims	-	(336)	(336)
Total Provisions	(388)	(433)	(821)

10. Analysis of Net Assets Employed

	As at 31 March 2006		
	General Fund £'000	HRA £'000	Total £'000
Assets			
Intangible Fixed Assets	49	-	49
Tangible Fixed Assets	305,882	72,470	378,352
Long Term Debtors	1,229	-	1,229
Stock and Work in Progress	609	-	609
Debtors	18,401	144	18,545
Cash at Bank and in Hand	24,635	-	24,635
Liabilities			
Short Term Borrowing	(468)	(83)	(551)
Creditors	(36,329)	(211)	(36,540)
Bank Overdraft	(2,885)	-	(2,885)
Long Term Borrowing	(189,180)	(33,385)	(222,565)
Deferred Liability Under Finance Leases	(465)	-	(465)
Provisions	(821)	(174)	(995)
Liability Related to Defined Benefit Pension Scheme	(62,988)	(2,693)	(65,681)
Total Net Assets Employed	57,669	36,068	93,737

11. Contingent Gains and Liabilities

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 grant funding.

12. Commitments Under Capital Contracts

At 31 March 2006, 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.

ICT and Financial Services	112
Community Services	2,755
Infrastructure and Transport	11,009
Operational Services	363
	14,239

13. 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	26	27	485	485
Oban Common Good Fund	46	31	881	881
Inveraray Common Good Fund			1	1
Lochgilphead Common Good Fund			5	5
Dunoon Common Good Fund			6	6
Rothesay Common Good Fund	8	12	131	131
Argyll Education Trust	12	9	247	247
GM Duncan Trust	3	1	80	80
McDougall Trust	22		519	519
Various Other Trust Funds	25	1	447	447
Total Trust Funds	142	81	2,802	2,802

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.

14. European Monetary Union

As at 31 March 2006, 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.

15. Pension Assets and Liabilities - FRS 17 Disclosure

In accordance with Financial Reporting Standard 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 2006. 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 - £897,767

Teachers' Scheme - £524,902

15.1 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 2005. 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 2006 are as follows:

	31 March 2006	31 March 2005
	% per annum	% per annum
Price Increases	3.1%	2.9%
Salary Increases	4.6%	4.4%
Pension Increases	3.1%	2.9%
Discount Rate	4.9%	5.4%

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

	Return within 2005/2006	Fund Value at 31 March 2006	Expected Return 2006/2007
	% per annum	£'000	% per annum
Assets (Employer Share)			
Equities	7.7%	235,194	7.4%
Bonds	4.8%	31,766	4.6%
Properties	5.7%	28,106	5.5%
Cash	4.8%	14,252	4.6%
Total	7.0%	309,318	6.8%

The net pension asset / (liability) of Argyll and Bute Council as at 31 March 2006 is as follows:

	31 March 2006 £'000	31 March 2005 £'000
Estimated Employer Assets	309,318	241,712
Present Value of Scheme Liabilities	351,230	302,810
Present Value of Unfunded Liabilities	23,769	20,437
Total Value of Liabilities	374,999	323,247
Net Pension Asset / (Liability)	(65,681)	(81,535)

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 £'000	Note 3	Note 4	Total £'000			
	Fixed Asset Restatement Account £'000	Capital Financing Account £'000		Deferred Gov't Grants £'000	Deferred (Premiums) Discounts £'000				
	Balance at 1 April 2005	104,772		6,168	467		23,881	(9,653)	125,635
	Net Surplus/(Deficit) for year			(5,807)			6,120	549	862
Prior year adjustments	-	-				-			
Unrealised gains/(loss) from revaluation of fixed assets	12,227					12,227			
Impairment gains/(losses) arising from revaluations						-			
Capital Receipts transferred to/from Useable Capital Receipts Reserve		467	(467)			-			
Other Adjustments	-	(41)				(41)			
Effects of disposals of fixed assets:									
Cost or value of assets disposed of	(2,337)					(2,337)			
Proceeds of disposals		5,225				5,225			
Net Surplus/(Deficit)	(2,337)	5,225	-			2,888			
Balance at 31 March 2006	114,662	6,012	-	30,001	(9,104)	141,571			

Revenue Reserves and Funds (Note 5)

	Note 5			Total £'000
	General Fund £'000	HRA Balance £'000	Repairs and Renewals Funds £'000	
	Balance at 1 April 2005	15,120	1,015	
Net Surplus/(Deficit) for year	(503)	696	(172)	21
Revenue Interest		45		45
Other Adjustments / Reserve Transfers				-
Balance at 31 March 2006	14,617	1,756	1,648	18,021

Pension Reserve

Balance at 1 April 2005	£'000
Reversal of Provision for Teachers Premature Retirement Scheme 2004/2005	(81,535)
Transfer to Revenue	1,111
Actuarial Gain / (Loss) in Pension Plan	(2,286)
	Note 8
	17,029
Balance at 31 March 2006	(65,681)

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 2005			104,772
Surplus on revaluations, etc	7,336	4,891	12,227
Disposal of Fixed Assets	(243)	(2,094)	(2,337)
Balance at 31 March 2006			114,662

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 2005				6,168
Appropriations:				
Capital Financed from Current Revenue	298	274	572	
Repayment of External Loans	15,232		15,232	
Capital Element of Finance Lease Payments	103		103	
Depreciation Write-off	(20,673)	(2,279)	(22,952)	
Deferred Government Grants Write-off	1,238		1,238	(5,807)
Proceeds of Disposals				5,225
Capital Receipts transferred from Useable Capital Receipts Reserve				467
Other Adjustments				(41)
Balance at 31 March 2006				6,012

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 2005	23,881
Grants received during the year to finance capital projects	7,358
Credit to revenue account during the year	(1,238)
Balance at 31 March 2006	30,001

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 2005	(9,653)
New (Premiums) / Discounts	(3)
Debit / (Credit) to Asset Management Revenue Account	552
Balance at 31 March 2006	(9,104)

5. Repairs and Renewals Funds

	Balance at 31 March 2005 £'000	Contribution from CRA £'000	Interest Earned £'000	Appropriation to CRA £'000	Balance at 31 March 2006 £'000
Revenue Funds:					
Repairs and Renewals - Education	945	447		(645)	747
Repairs and Renewals - Vehicles	57		3		60
Repairs and Renewals - Land Contamination	818		23		841
	1,820	447	26	(645)	1,648

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

There is no surplus included in the general fund balance this year as the Waste Management PPP funding matched expenditure in the 2005/06 financial year. The following analysis provides more detail on how the breakeven for the year was arrived at:

Expenditure	£'000
Payment under the contract:	
Service Cost	4,400
Landfill Tax	582
Historic Contamination	-
Total Expenditure	4,982
Funding	
Argyll and Bute Council Revenue Budget	1,438
Level Playing Field Support	1,290
Strategic Waste Fund - Revenue Support Grant	1,654
Capital Virement	600
Total Funding	4,982
2005/06	-

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 2006. Comparative figures are also noted for the previous three financial years:

	£'000	%	£'000	%	£'000	%	£'000	%
Differences between the Expected and Actual Return on Assets	(34,762)	(33.44%)	19,563	14.15%	8,174	3.38%	48,981	15.84%
Differences between actuarial assumptions about liabilities and actual experience	(14,501)	(10.01%)	(512)	(0.32%)	(3,449)	(1.07%)	9,656	2.57%
Changes in the demographic and financial assumptions used to estimate liabilities					(57,592)		(41,608)	
Actuarial Gain / (Loss) in Pension Plan	(49,263)		19,051		(52,867)		17,029	

2004/05 Actual £'000	REVENUE ACTIVITIES	Note	2005/06 Actual £'000
	Cash outflows		
118,583	Cash Paid for and on Behalf of Employees		126,222
113,093	Other Operating Cash Payments		130,107
6,968	Housing Benefit Paid Out		8,703
	National Non-domestic Rate Payments to National Pool		676
238,644	Total Cash Outflows		265,708
	Cash inflows		
6,292	Rents (after rebates)		7,542
33,511	Council Tax Income		37,146
33,085	Non-domestic Rate Receipts		33,781
719	Community Charge		33
117,175	Revenue Support Grant		122,726
19,835	DWP Grants for Benefits		21,667
28,187	Other Government Grants	1	26,312
24,065	Cash Received for Goods and Services		24,601
2,514	Other Operating Cash Receipts		9,206
265,383	Total Cash Inflows		283,014
26,739	Net Cash Inflow / (Outflow) From Revenue Activities	2	17,306
	SERVICING OF FINANCE		
	Cash outflows		
13,400	Interest paid		13,419
14	Interest element of finance lease		45
13,414	Total Cash Outflows		13,464
	Cash inflows		
491	Interest received		883
491	Total Cash Inflows		883
(12,923)	Net Cash Inflow / (Outflow) From Servicing of Finance		(12,581)
	CAPITAL ACTIVITIES		
	Cash outflows		
20,274	Purchase of Fixed Assets		30,445
1	Other Capital Cash Payments		
20,275	Total Cash Outflows		30,445
	Cash inflows		
5,526	Sale of Fixed Assets		5,071
10,592	Capital Grants Received		8,119
560	Other Capital Cash Receipts		276
16,678	Total Cash Inflows		13,466
(3,597)	Cash Inflow (Outflow) From Capital		(16,979)

Continued on next page.

Continued from previous page.

2004/05 Actual £'000		Note	2005/06 Actual £'000
MANAGEMENT OF LIQUID RESOURCES			
-	Liquid Resources		-
10,219	Net Cash Inflow / (Outflow) Before Financing		(12,254)
FINANCING			
<i>Cash outflows</i>			
6,365	Repayments of Amounts Borrowed		19,174
133	Capital element of finance lease		102
6,498	Total Cash Outflows		19,276
<i>Cash inflows</i>			
8,377	New Loans Raised		44,002
8,377	Total Cash Inflows		44,002
1,879	Net Cash Inflow / (Outflow) From Financing		24,726
12,098	Net Increase / (Decrease) in Cash	3	12,472

1. Other Government Grants

-	Community Regeneration Funding	341
-	Housing Stock Transfer	554
198	Housing Support Grant	135
1,839	Private Sector Housing Grant	5,398
430	Public Transport Grant	524
163	Pre-school Education Grants	-
40	Pre-school Gaelic Education Grants	45
2,352	National Priorities Action Fund	1,570
143	Special Education	-
284	Gaelic Education Grants	385
1,239	Other Educational Grants	1,854
162	Education Maintenance Allowance	342
16,048	Supporting People	12,287
663	Children's Change Fund	-
722	DWP Other Grants	882
507	Social Inclusion Partnership	336
1,137	Strategic Waste Fund	-
46	Associated Schools Group	32
178	Discipline Task Group	163
420	Other Social Work Grants	412
1,616	Other Grants (e.g. Civil Defence)	1,052
28,187	Total "Other Government Grants"	26,312

2. Net Cash Flow Reconciliation

2004/05 £'000		2005/06 £'000
2,927	Surplus/(Deficit) for Year	(503)
794	Add back: Transfer to HRA Balance	970
3,721		467
183	Movements in Reserves	(172)
21,749	Adjustments Not Involving Movement in Funds	22,902
(26)	(Increase)/Decrease in Stocks	69
(6,017)	(Increase)/Decrease in Debtors	(1,216)
7,129	Increase/(Decrease) in Creditors	(4,744)
26,739	Revenue Activities Net Cash Flow	17,306

3. Analysis of Net Debt

	As at 31 March 2006 £'000	As at 31 March 2005 £'000	Cash Flow £'000
Cash at Bank and in Hand	24,635	13,128	11,507
Bank Overdraft	(2,885)	(3,850)	965
Net Increase / (Decrease) in Cash	21,750	9,278	12,472
Debt due within one year	(551)	(4,517)	3,966
Debt due after one year	(222,565)	(193,771)	(28,794)
(Increase) / Decrease in Debt Financing	(223,116)	(198,288)	(24,828)
Movement in Debt in Period			(12,356)
Capital Element of Finance Lease			102
Net Cash Flow on Debt and Capital Element of Finance Leases			(12,254)

4. Reconciliation of Movement in Cash to Net Debt

2004/05		2005/06
£'000		£'000
12,098	Increase / (Decrease) in Cash in Period	12,472
(2,012)	(Increase) / Decrease in Debt Financing	(24,828)
10,086	Movement in Debt in Period	(12,356)
(199,096)	Net Debt as at 1 April 2005	(189,010)
(189,010)	Net Debt as at 1 April 2006	(201,366)

2004/05 Net Expenditure £'000		2005/06		
		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
	Council Services			
76,231	Education Services	102,573	14,629	87,944
13,269	Environmental Services	18,061	5,001	13,060
7,439	Cultural and Related Services	8,756	917	7,839
2,902	Planning and Development Services	9,113	5,780	3,333
35,390	Social Work Services	52,705	12,040	40,665
2,141	Housing Services (Non-HRA)	41,471	38,791	2,680
(1,683)	Housing Services (HRA)	13,068	14,843	(1,775)
17,545	Roads and Transport Services	23,314	6,417	16,897
1,037	Trading Services	2,961	2,027	934
	Central Services			
2,779	- Central Services to the Public	3,095	1,022	2,073
3,402	- Corporate and Democratic Core	4,486	915	3,571
2,302	- Non-distributed Costs	1,170	2	1,168
400	- Other Operating Income and Expenditure	18,680	16,548	2,132
8,467	Strathclyde Police Joint Board	9,514		9,514
5,010	Strathclyde Fire Joint Board	5,239		5,239
(3,290)	Profit or Losses on Disposal of Assets		2,888	(2,888)
173,341	Net Cost of General Fund Services	314,206	121,820	192,386
(5)	Share of Associates Profit or Loss on Disposal of Fixed Assets			(2)
195	Share of Operating Results of Associates			1,278
173,531	Net Cost of Services			193,662
14,870	External Interest Payable			15,018
413	Share of Interest Payable by Associate			407
(809)	Interest and Investment Income			(960)
(219)	Share of Associate Interest and Investment Income			(248)
(1,861)	Pensions interest costs and expected return on pension assets			605
5,876	Share of Associate Pensions interest costs and expected return on pension assets			8,001
191,801	Net Operating Expenditure			216,485
153	Contribution to/(from) Other Funds			(174)
520	Contribution to/(from) HRA Balance			696
(472)	Reconciling amount for loans fund repayment			(6,383)
315	Capital Financed from Current Revenue			572
(1,088)	Contribution to/(from) the pensions reserve			(2,286)
3,290	Reversal of Profit or Loss on Disposal of Assets			2,888
(6,260)	Appropriation to Group Income and Expenditure Reserve			(9,436)
188,259	Amount to be met from Government Grants and Local Taxation			202,362
116,677	General Government Grants			124,555
40,394	Income from Council Tax			43,065
34,145	Non-domestic Rates Redistribution			34,249
2,957	Net General Fund Surplus / (Deficit)			(493)
12,703	Balance on General Fund Brought Forward			15,660
15,660	Balance on General Fund Carried Forward			15,167

2004/05 £'000		2005/06 £'000
	Fixed Assets	
28	<i>Intangible Fixed Assets</i>	49
	<i>Tangible Fixed Assets</i>	
	Operational Assets	
68,370	- Council Dwellings	72,470
177,024	- Other Land and Buildings	173,161
5,959	- Vehicles, Plant and Equipment	6,589
75,771	- Infrastructure Assets	90,138
1,740	- Community Assets	1,833
	Non-operational Assets	
5,935	- Investment Property	6,624
14,962	- Assets Under Construction	19,288
8,100	- Surplus Assets held for Disposal	8,300
357,889	Total Fixed Assets	378,452
1,115	Other Long Term Investments	1,189
1,419	Long Term Debtors	1,229
360,423	Total Long Term Assets	380,870
	Current Assets	
678	Stock and Work in Progress	609
18,059	Debtors	18,562
13,173	Cash and Bank	24,692
392,333	Total Assets	424,733
	Current Liabilities	
(4,317)	Short Term Borrowing	(355)
(44,435)	Creditors	(36,540)
(3,850)	Bank Overdraft	(2,885)
339,731	Total Assets less Current Liabilities	384,953
(193,771)	Long Term Borrowing	(222,565)
(567)	Deferred Liability - Finance Leases	(465)
(388)	Provisions	(821)
(135,335)	Investment in Associate	(166,343)
(81,535)	Liability Related to Defined Benefit Pension Scheme	(65,681)
(71,865)	Total Assets less Liabilities	(70,922)
	<i>Financed by:</i>	
104,772	Fixed Asset Restatement Account	114,662
6,168	Capital Financing Account	6,012
467	Useable Capital Receipts Reserve	-
23,881	Deferred Government Grants and Contributions	30,001
(9,653)	Deferred (Premiums) / Discounts	(9,104)
(81,535)	Pensions Reserve	(65,681)
15,660	General Fund Balance	15,167
(135,335)	Group Reserves	(166,343)
875	Common Good Capital Reserves	960
1,015	Housing Revenue Account Balance	1,756
1,820	Repairs and Renewals Funds	1,648
(71,865)	Total Net Worth	(70,922)

Capital Reserves

	Fixed Asset Restatement Account £'000	Capital Financing Account £'000	Useable Capital Receipts Reserve £'000	Deferred Gov't Grants £'000	Deferred (Premiums) Discounts £'000	Total £'000
Balance at 1 April 2005	104,772	6,168	467	23,881	(9,653)	125,635
Net Surplus/(Deficit) for year		(5,807)		6,120	549	862
Prior year adjustments	-	-				-
Unrealised gains/(loss) from revaluation of fixed assets	12,227					12,227
Impairment gains/(losses) arising from revaluations						-
Capital Receipts transferred to/from Useable Capital Receipts Reserve		467	(467)			-
Other Adjustments	-	(41)				(41)
Effects of disposals of fixed assets:						
Cost or value of assets disposed of	(2,337)					(2,337)
Proceeds of disposals		5,225				5,225
Net Surplus/(Deficit)	(2,337)	5,225	-			2,888
Balance at 31 March 2006	114,662	6,012	-	30,001	(9,104)	141,571

Revenue Reserves and Other Funds

	General Fund £'000	Group Reserves £'000	Common Good Capital Reserves £'000	HRA Balance £'000	Repairs and Renewals Funds £'000	Total £'000
Balance at 1 April 2005	15,660	(135,335)	875	1,015	1,820	(115,965)
Net Surplus/(Deficit) for year	(493)	(31,849)	85	696	(172)	(31,733)
Revenue Interest				45		45
Balance at 31 March 2006	15,167	(167,184)	960	1,756	1,648	(147,653)

Pension Reserve

	£'000
Balance at 1 April 2005	(81,535)
Reversal of Provision for Teachers Premature Retirement Scheme 2004/2005	1,111
Transfer to Revenue	(2,286)
Actuarial Gain / (Loss) in Pension Plan	17,029
Balance at 31 March 2006	(65,681)

1. Combining Entities

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

The entities which have been consolidated as a wholly owned subsidiary of Argyll and Bute Council are:

- Oban Common Good Fund
- Campbeltown Common Good Fund
- Rothesay Common Good Fund
- Lochgilphead Common Good Fund
- Dunoon Common Good Fund

The Associates which have been incorporated are:

- Strathclyde Joint Police Board
- Strathclyde Fire and Rescue Joint Board
- Dunbartonshire and Argyll & Bute Valuation Joint Board
- Strathclyde Passenger Transport Authority
- Strathclyde Concessionary Travel Scheme Joint Committee
- Criminal Justice Partnership Joint Committee

The accounting period for all entities is 31 March 2006.

2. Nature of Combination

The Council inherited its interest in these entities following the reorganisation of local government in 1996. It is considered that the acquisition was based on an acquisition basis. However, as no consideration was given for this interest there is no goodwill involved in these instances.

3. Financial Impact of Consolidation

The effect of inclusion of the Common Food Funds on the Group Balance Sheet is to increase both reserves and net assets by £1.510m representing the Council's share of the realisable surpluses in the Common Good Funds.

The effect of inclusion of the above Associates on the Group Balance Sheet is to decrease both reserves and net worth by £166.38m. This gives an overall net liability for the Group of £70.959m. This net liability position is due to the FRS17 Pension Liability within the Associates' Single Entity Accounts. This can be summarised as follows:-

	Pension Liability per Associates' Accounts	Argyll and Bute Council's Group Share
	£'m	£'m
Strathclyde Joint Police Board	3,525.254	139.953
Strathclyde Fire and Rescue Joint Board	927.807	36.277
Dunbartonshire and Argyll and Bute Valuation Joint Board	0.487	0.231
Strathclyde Passenger Transport Authority	15.183	0.193
Total Pension Liability of Associates	4,468.731	176.654

4. Reporting Authority Adjustments to align with UK GAAP (Generally Accepted Accounting Practice)

A number of adjustments are required to enable the details contained within the Council's Consolidated Revenue Account (page 9) to align with UK GAAP requirements for Group Accounting arrangements. These can be summarised as follows:

- The notional interest rate applied by local authorities to account for the "economic" costs of tying up capital in fixed assets has been removed from the net cost of service analysis. To this end £11.7m has been removed from the capital charges incorporated within the service departments' net cost of service with a corresponding removal from the Asset Management Revenue Account.
- The net profit on the disposal of assets to the value of £2.888m has now been included within net operating expenditure.
- Capital grants amortised to services to the value of £1.238m have now been included within net cost of service analysis.
- The overall impact on the Asset Management Revenue Account is the removal of all entries except external interest payable which now features on the face of the Group Revenue Account.
- All intra-group transactions have been removed from the Group Accounts as part of the subsidiary consolidation process.

5. Group Cash Flow Statement

A Group Cash Flow Statement has not been prepared as there would not be any further material cash flow transactions from that shown in the Consolidated Cash Flow Statement on pages 35-36.

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 2006 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 2006.



Bruce West
Head of Strategic Finance
16 June 2006

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 that 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 system 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 audit as described above; and
- external audit in their annual audit letter and other reports.

During 2005/06 Internal Audit noted the following areas requiring further development in 2006/07 to improve financial control. They are:-

- Risk Management Strategy and a Risk Register; and
- The linkages between budgets and the service planning processes with a corresponding review of procedures and training is to be continued into 2006/07.

In addition attention is drawn to the following matters for consideration in 2006/07:-

- the review of charging procedures for trading accounts;
- the procedures for granting and monitoring payments to outside bodies are to be considered for improvement (Following the Public Pound);
- Asset Management Strategy to be developed in 2006/07;
- Best Value Improvement Plan to be progressed throughout 2006/07; and
- reconciliation processes to be reviewed for the annual Unified Benefits Claim.

In summary the year-end outturn 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
16 June 2006

ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE

AUDIT COMMITTEE
21 SEPTEMBER 2006

ISA 260 LETTER for 2005 – 2006 ANNUAL ACCOUNTS (UNAUDITED)

1. SUMMARY

Audit Scotland will provide an audit letter to the Audit Committee in accordance with International Standard on Auditing 260 (ISA 260). This auditing standard requires external auditors to communicate matters relating to the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action to be agreed prior to the finalisation of the Annual Accounts for 2005 - 2006.

2. RECOMMENDATIONS

2.1 The contents of the ISA 260 are to be noted by the Audit Committee and agreed.

3. DETAILS

3.1 Prior to completion of the Annual Accounts and their final Certification the members of the Audit Committee are provided the opportunity to discuss with Audit Scotland matters relating to the audit of the financial statements of the Council.

3.2 On 21 September, in order to meet the requirement set out in ISA 260, the Assistant Director of Audit (Local Government) will present the contents of the audit letter to the Audit Committee for discussion.

3.3 The letter which will form the basis of the discussion on the 21st of September 2006 will encompass the following:

- ◆ Any major areas of concern;
- ◆ Any proposed changes to the Annual Accounts;
- ◆ Any changes Audit Scotland has requested that have not been agreed; plus
- ◆ Minor changes.

The Audit Committee will therefore have the opportunity to discuss the points outlined in the letter and to instruct the Head of Strategic Finance to make any subsequent agreed changes.

3.4 The letter from Audit Scotland will be provided to members of the Audit Committee at the meeting on the 21st of September 2006.

4. CONCLUSIONS

The Council's Accounts for the year to 31 March 2006 and the Audit Certificate, Certified Accounts and Report to Members will return to the Audit Committee on the 8th of December 2006 after Council approval.

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. 12th September 2006.
12Septfinalreport12Sept.

ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE

AUDIT COMMITTEE
21 SEPTEMBER 2006

RECENT EXTERNAL AUDIT REPORTS ISSUED 2005 – 2007.

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 new reporting system for the next Audit Committee where applicable.

2. RECOMMENDATIONS

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

3. DETAILS

3.1 Audit Scotland issued a report in March 2006 entitled, “Overview of the local authority audits 2005”. The report provides an overview of the main issues arising from local authority audits in 2005. The key messages from the report are that Councils are facing substantial financial pressures, challenges through Best Value and the need to focus on achieving greater efficiency in the use of resources. The report concludes that Audit Scotland is developing its approach to audit with these themes clearly in mind. The Summary of this national report is provided in Appendix 1.

3.2 In May 2006 Audit Scotland issued a report entitled, “A mid-term report”. Their study examined the implementation of *A Teaching Profession for the 21st Century* (the Agreement) commonly known as the ‘McCrone report’. The Agreement was designed to revitalise the teaching profession, make it a more attractive career option and address recruitment difficulties. Nineteen recommendations were generated by the review. In discussion with Education Service management it has been concluded that the majority of recommendations are for the Scottish Executive to address. Education Service management have informed Internal Audit that of the 3 recommendations specific to Councils they have already begun to address these. The report Summary and Part 7, Summary of recommendations are provided in Appendix 2.

3.3 In June 2006 Audit Scotland issued a report entitled, “Community planning: an initial review”. The report comments on Community Planning in terms of the national context, local arrangements and planning and performance management in Community Planning Partnerships (CPPs). Twenty one recommendations were generated by the review, 5 are directed to the Scottish Executive, 12 to CPPs and 4 to Councils and partner organisations. Internal Audit working with Policy & Strategy management has already provided comment through audit reports and the Councils Best Value Implementation & Development Plan addresses a number of the report recommendations. Within the 2006 – 2007 Annual Audit Plan time is set aside for work on partnerships. Both the report Summary and Part 5, Agenda for action: summary and recommendations are provided in Appendix 3.

4. CONCLUSIONS

4.1 All reports have been noted by Council management.

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 18 August 2006
18Augfinalreport18Aug



4

Summary

Introduction

1. This report provides an overview of the main issues arising from local authority audits in 2005. It draws on information from a range of sources, including auditors' reports, Best Value audits, Statutory Performance Indicators (SPIs) and studies of specific services. The report also draws on the work of other inspectorates and regulators such as the education and police inspectorates.

2. Local government revenue expenditure was almost £15 billion in 2004/05, an increase of 6% on the previous year. The major services funded through this expenditure were education (£4.2 billion), housing (£2.7 billion) and social work (£2.6 billion).

3. The Accounts Commission is responsible for securing the audit of Scottish local authorities. The audit comprises:

- the annual audit of finance and governance

- the audit of Best Value and Community Planning
- SPIs
- national performance studies.

4. These strands of work complement one another and are carried out in a joined-up manner, sharing knowledge and avoiding duplication.

5. Auditors also work with other scrutiny bodies. Together they aim to support improvement while minimising the workload they impose on local services. In particular, Best Value audit reports draw together the findings from inspection to provide a rounded picture of how each council performs.

6. This report is organised into five parts:

- Part 1: The strategic context for local government in Scotland.
- Part 2: Managing resources.
- Part 3: Managing performance.

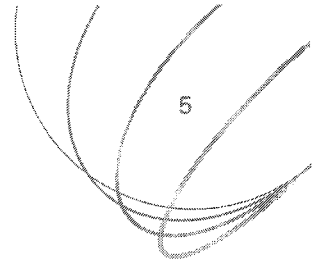
- Part 4: Service performance.
- Part 5: Looking ahead, setting out how audit is responding to issues highlighted in this report.

Key messages

1 Local authorities are working in an environment of major change as government seeks to reform and modernise public services.

7. The Scottish Executive is pursuing major change through public sector reform and modernisation. Its wide-ranging policies are aimed at improving the lives of the people of Scotland and delivering better public services. Many of these policies will be delivered through councils, requiring them to balance local and national priorities.

8. Best Value and Community Planning involves councils taking new approaches to service delivery and governance which take account of cross-cutting policy issues, such as social inclusion, sustainable development and equalities.



The challenge is to find new ways of working across services and with other organisations to achieve the best results for citizens and service users.

9. Community Planning provides the strategic framework for partnership working to deal with local issues, improve services and share resources. And the drive for efficiency has received fresh impetus through the Scottish Executive's plans for cash and time-releasing efficiencies across the public sector in Scotland.

10. The pace of change is likely to intensify in the period up to and beyond the council elections in 2007. Many experienced councillors are expected to stand down at that time and more than half of current chief executives are likely to retire, suggesting a loss of experienced leaders. The 2007 elections are also likely to alter the political complexion of some councils.

2 Councils face substantial financial pressures, and they need to take a more strategic approach to the management of resources and risks.

11. Councils face cost pressures from past decisions and commitments, such as settling equal pay claims, implementing the single status agreement, increasing pension contributions and above-inflation increases in road and building maintenance and energy costs. And there are growing demands on services, particularly for older people and children.

12. These pressures come at a time when, after a period of steady increase, the rate of growth of central government financial support is levelling off.

13. Overall, the audits point to the need for councils to adopt a more strategic approach to resource management, with medium to long-term plans which match resources to priorities. This means financial and workforce plans that are fully integrated with corporate and service plans, and asset management plans which make the best use of assets.

14. Councils are making steady progress in developing risk management arrangements. But they need to show that they are 'risk aware' and that a risk management culture is embedded across services.

3 Financial stewardship in councils remains generally sound. There were no audit qualifications and councils provided more information about reserves and what they intend to do with them.

15. Accounts and audits were completed on time and none of the accounts of councils or other local authority organisations was qualified.

16. Last year's overview report emphasised the need to have clear and explicit policies on the level of reserves and balances held and how these will be applied. Councils have responded well – most now have policies in place covering the general fund, the reserve most closely associated with council tax levels.

17. Improved disclosure in the accounts means that the amounts held in general funds can now be broken down. Of the total (£449 million) at 31 March 2005, £208 million was earmarked for specific future purposes and £241 million was unallocated. Overall, the unallocated element represents about 2.6% of the £9.3 billion net cost of council services, which seems reasonable in light of the financial pressures councils face.

4 Councils have some way to go to develop and implement systematic performance management of their services. Councillors need better information and support if they are to exercise their scrutiny responsibilities effectively.

18. While some councils have made good progress, the Best Value audits show that performance management is underdeveloped in most councils.

19. Councillors need better information about service performance if they are to exercise their scrutiny responsibilities effectively. This means establishing baselines from which improvement can be measured. At present, councils place too much reliance on the SPIs as the primary tool for measuring performance.

20. Further progress has been achieved in applying audit committee principles but there is still room for improvement. Councillors need training and support to enable them to challenge officers. And councils need to ensure that sufficient time is available for core audit committee business.

5 There was general improvement across the range of services covered by the Commission's SPIs, but this masks significant variation among councils.

21. Of the 46 indicators for which comparisons can be drawn between 2002/03 and 2004/05, 16 show an overall performance improvement of at least 5% and seven show a deterioration of at least 5%. Within the overall figures there is wide variation among councils; detailed information on SPIs is published separately.

22. The SPIs show overall improvement in a range of areas, including:

- council tax collection, where the amount collected in-year in 2004/05 increased to 92.7% from 91.7% in the previous year
- home care, where increasing service levels and improved flexibility represent a major step forward
- waste management, where recycling levels are rising towards the national target.

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2

Summary

The Teachers' Agreement has brought about a number of benefits for the profession, but more work is required to demonstrate long-term outcomes and value for money.

About the study

1. This study examines the implementation of *A Teaching Profession for the 21st Century* (the Agreement). This was the tripartite agreement, reached in January 2001, between the Scottish Executive, the Convention of Scottish Local Authorities (COSLA) and teacher organisations following publication of the Committee of Inquiry into Professional Conditions of Service for Teachers report in 2000 (commonly known as the 'McCrone report'). The Agreement was designed to revitalise the teaching profession, make it a more attractive career option and address recruitment difficulties.

2. The Agreement set out a number of major changes to how education services would be delivered in Scotland in the future. These included an across-the-board 23 per cent pay increase for all teachers, a new, simplified career and salary structure, the creation of a new status of chartered teacher and a greater emphasis on Continuing Professional Development (CPD) for all teachers.

3. Between 2001 and 2006, over £2 billion of additional funding for education services was made available by the Scottish Executive to support the Agreement's implementation.

What does the study examine?

4. The study examined the following questions:

- What has the Agreement cost to date?
- What measurable outputs have been achieved with the funding provided?
- Have the milestones for change contained within the Agreement been met?
- Have the changes brought about by the Agreement made teaching a more attractive career?
- Has the Agreement delivered value for money?

5. The study does not assess the impact of the Agreement on the quality of teaching and educational attainment of children, nor does it consider the changes to the negotiating arrangements for teachers' terms and conditions arising from the Agreement. These matters will be covered by Her Majesty's Inspectorate of Education (HMIE) in their evaluation of the impact of the Agreement, which was commissioned by the Scottish Executive Education Department in 2002.¹ HMIE will report later in 2006.

6. Following publication of that report, Audit Scotland and HMIE will consider whether further work is required to assess the long-term benefits of the Agreement and evaluate the effectiveness of the various approaches adopted by local authorities in implementing the Agreement.

7. In carrying out the study, Audit Scotland:

- collected and analysed financial and non-financial data from all 32 local authorities in Scotland
- interviewed a range of involved parties, including the Teachers' Agreement Communication Team (TAC Team),² professional bodies and the Scottish Executive
- reviewed evidence provided by HMIE on the implementation process across local authorities
- commissioned independent surveys of 507 head teachers and depute and 1,411 teachers by telephone and 2,582 support staff by self-completion questionnaire in 14 local authorities, to seek their views on various aspects of the Agreement.³

¹ The terms of reference of this work are 'to identify and evaluate how pupils' experiences and achievements have improved through implementation of the Agreement.'

² The TAC Team was established in 2002 as a joint initiative between the Scottish Executive, COSLA and local authorities. Its aims are to: ensure a strategic focus remains on the overall aims of the Agreement; ensure accurate, timely and consistent information on the Agreement is communicated and good practice and exchange of ideas promoted; identify barriers to implementation and ensure appropriate action taken; review, monitor and report progress on implementation of the Agreement.

³ All 32 local authorities were invited to participate in the independent research, of which 14 agreed to take part.

Key messages

Local authorities have spent an estimated £2.15 billion in implementing the Agreement. This is only £34.8 million (-1.6%) less than the amount the Scottish Executive estimated would be required. The Scottish Executive has not monitored the spending closely (Part 2).

The Agreement set out a number of milestones for changes between 2001 and 2006. All but one of the milestones set for completion by August 2004 were met (Part 2).

Good early progress has been made in implementing the Agreement but sustaining this will be challenging and more needs to be done to ensure the consistent adoption of good practice (Part 6).

The Agreement has brought about a number of important benefits for the Scottish teaching profession. These include:

- stable industrial relations between employers and unions as a consequence of the teachers' 23 per cent pay increase, which has also led to high levels of satisfaction with pay among all groups of teachers (Part 3)
- a positive impact on recruitment and retention rates (Parts 3 and 4)
- the introduction of a Teacher Induction Scheme (TIS) which has successfully addressed the significant weaknesses in previous induction and support arrangements (Part 4)
- an improvement in the quality and variety of CPD available to teachers (Part 4)

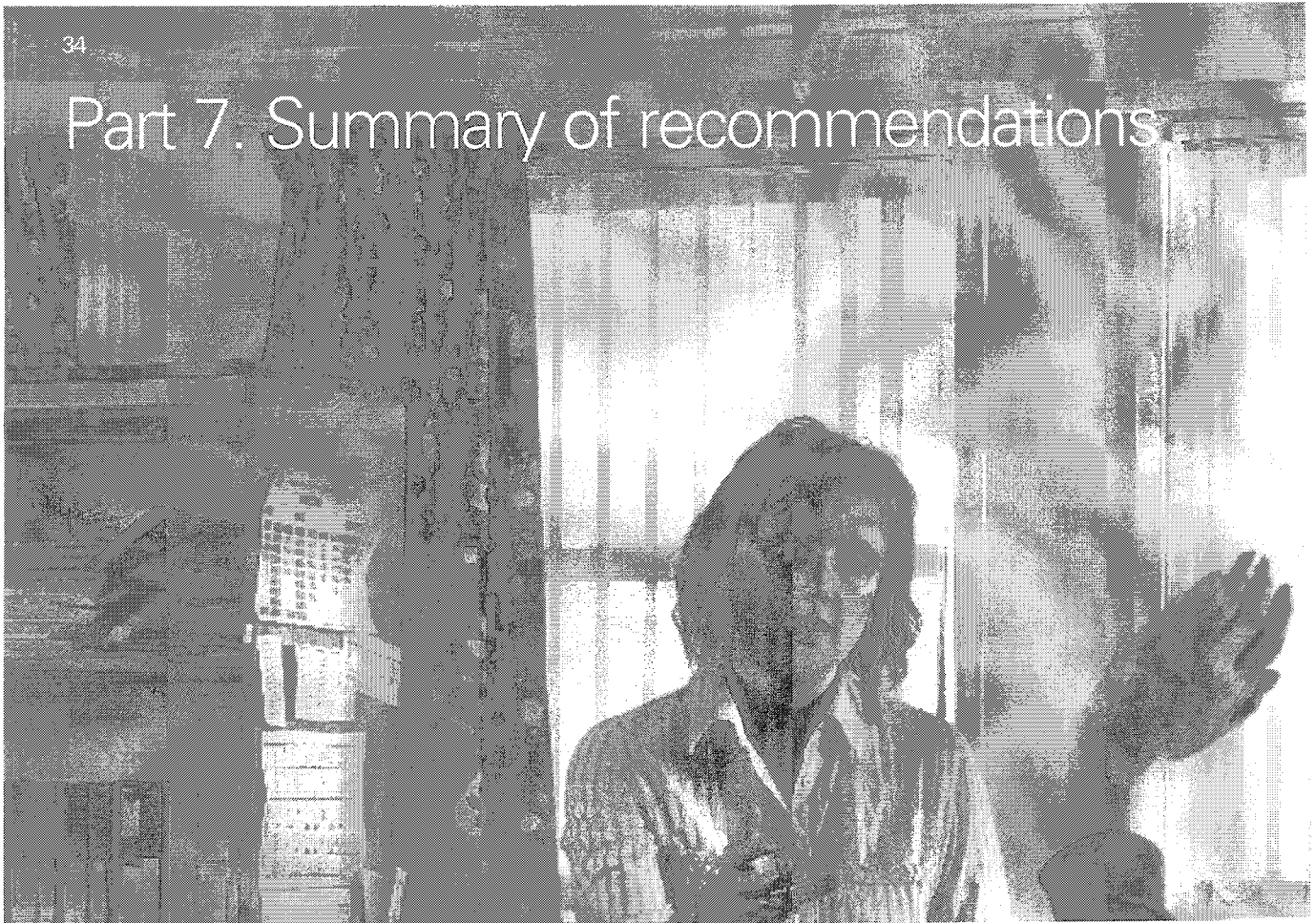
- a stronger commitment to the profession by more recently qualified teachers than by those who have been teaching for longer periods of time (Parts 4 and 5).

In other areas where change has been introduced, the outcomes are more mixed:

- Reductions in class contact time (RCCT) are aimed at providing teachers with adequate opportunities for preparing lessons and marking. These have been generally positive for classroom teachers but have contributed to an increase in head teachers' workload (Part 3).
- Extra administrative and support staff have been recruited to reduce the administrative burden on teachers, but at 31 March 2004, the number recruited was still 30 per cent short of the target. The benefits of these appointments are not yet being felt by a majority of classroom teachers (Part 3).
- The Chartered Teacher Scheme was designed to transform the career structure for classroom teachers. Uptake of the scheme has been limited to date, but is likely to increase in the future. The costs associated with this increased uptake would be significant (Part 5).
- The introduction of the new career structure has been broadly positive for the primary sector, but has proved more complex and challenging in the secondary sector. Additional management restructuring in this sector is creating further changes and challenges, and the long-term outcomes arising from these will need monitoring (Part 5).

It is difficult to assess the extent to which value for money has been achieved from the additional spending because clear outcome measures defining what the Agreement was intended to achieve were not included and have not yet been put in place by the Scottish Executive. The Scottish Executive should work with other parties to the Agreement to identify and report on outcome measures, such as impact on educational attainment, improvements in classroom practice, the quality of educational leadership, workload and skill-mix, workforce morale, and recruitment and retention in the profession (Part 6).

Part 7. Summary of recommendations



Part 2. Cost and implementation

- The Scottish Executive should agree in advance financial monitoring processes for any future large-scale public service change programmes which carry significant levels of expenditure.
- The Scottish Executive should set clear outcome measures and timescales within any future large-scale public service change programme.

Part 3. Terms and conditions of service

RCCT

- The Scottish Executive needs to work with local authorities to monitor the size of the supply pool in Scotland to inform workforce planning.
- The Scottish Executive and local authorities need to develop strategies to attract registered teachers back into schools to increase the size of the supply pool.

Administrative and support staff

- Local authorities should address the perception of limited career progression held by support staff and monitor recruitment and retention.
- SNCT should monitor the impact of support staff on classroom teachers and ensure that they are effectively integrated within the school environment.

Part 4. Development and support

TIS

- The General Teaching Council for Scotland should work with the Scottish Executive to embed and improve data collection and monitoring systems to record and evaluate the employment experiences of newly fully-qualified teachers in their first post-probation year.
- The Scottish Executive should continue to ensure that the recommendations made by the Review Group in *The Review of*

Initial Teacher Education Stage 2 to Teacher Education Institutions and local authorities are being implemented. These relate to widening modes of delivery and working more effectively with each other.

CPD

- Effective monitoring and evaluation schemes must be put in place by local authorities to assess the value of the enhanced investment in CPD on teaching and learning.
- The Scottish Executive, and others,⁴⁶ should explore models used in other professions to evaluate the impact of CPD and disseminate good practice, perhaps by commissioning the National CPD Team to undertake research of this kind.

46 The term 'others' refers to the Scottish Executive in conjunction with other parties to the Agreement.

Part 5. Career and management structures**New Career Structure**

- The Scottish Executive, and others, should undertake research to examine whether the reduction in applications for head teacher posts is a widespread problem and the potential reasons behind this.
- The Scottish Executive, and others, should evaluate the impact of the new structures.

Chartered Teacher Scheme

- The Scottish Executive, and others, should issue guidance on the roles that chartered teachers should play within and across schools.
- The Scottish Executive should assess likely take-up of the Chartered Teacher Scheme and make appropriate financial provision.
- The Scottish Executive and others, along with the General Teaching Council for Scotland, should ensure the Chartered Teacher Scheme is actively targeted towards those who have been teaching longer than ten years.

Part 6: A challenging agenda

- The Scottish Executive, and others, should agree a comprehensive set of performance measures linked to the Agreement for use by all local authorities to benchmark their performance and progress.
- The Scottish Executive, and others, should ensure that recognised best practice is more consistently applied across the education sector.
- The Scottish Executive should prepare periodic reports on the progress made in sustaining the momentum shown to date under the Agreement.

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Background

1. Community planning is the process through which public sector organisations work together and with local communities, the business and voluntary sectors, to identify and solve local problems, improve services and share resources.

2. The Local Government in Scotland Act 2003 (the Act) provides the statutory basis for community planning. It requires local authorities to initiate and facilitate community planning, and NHS boards, the enterprise networks, the police, and the fire and rescue services to participate. Regional Transport Partnerships (RTPs) are now also required to participate. Other public bodies, voluntary organisations, community groups and business organisations should also be involved.

3. The aims of community planning are to promote:

- **community engagement** – making sure people and communities are genuinely

engaged in the decisions made on the public services which affect them

- **joint working** – organisations working together to provide better public services.

4. Community planning should support:

- **rationalisation** – community planning should be the over-arching partnership framework, helping to coordinate other initiatives and partnerships and rationalise a cluttered landscape
- **connection between local and national priorities** – providing a mechanism to balance national priorities and those at regional, local and neighbourhood levels.

5. Community planning is a long-term process and it will take time to achieve improvements in some areas. It is too soon to find much evidence about the effectiveness of individual community planning partnerships (CPPs) in improving public services in their area.

6. In this report we review:

- the national context within which community planning operates
- local arrangements for community planning
- planning and performance management in CPPs.

Key findings

7. Community planning: the national picture.

- Public services in Scotland are delivered through a network of different organisations. Joint working among these organisations is well-established and widespread. When they work well together there can be real benefits to service users, communities and the organisations themselves. Community planning can add value to existing joint working by providing a local strategic framework and building a culture of co-operation and trust.

- However improving services through partnerships is difficult because organisations have different geographic boundaries, accountability and financial regulations. This limits the flexibility of some partners to respond to local needs and creates administrative difficulties.
- The lack of integration and prioritisation of the large number of national policy initiatives, and the fragmented nature of funding arrangements to support these, make it difficult for CPPs to achieve their potential in meeting local needs and create a further administrative burden.
- All CPPs operate in this complex policy and organisational environment. Some demonstrate real commitment and willingness to work around the problems, but in others these difficulties seem to impede progress.
- In order to help community planning achieve the potential envisaged in the legislation, partner organisations and the Scottish Executive need to agree priorities for community planning.

8. Community planning: the local picture.

- While most CPPs have broadly similar structures, there is wide variation in the size and membership of CPP boards and theme groups. All statutory partners are engaged at a senior level. The way the board operates influences the effectiveness of the CPP.

- Community engagement is progressing but it needs to be more sustained and systematic. The introduction of National Standards for Community Engagement¹ provides an opportunity for CPPs to improve the consistency and effectiveness of community engagement.
 - The role of elected members in community planning is particularly challenging. Their participation in CPPs is uneven and in some places minimal.
 - CPPs have developed highly complex structures to accommodate the large number of policy and service areas covered and the many organisations and groups which need to participate. Community planning has not helped to rationalise the number or complexity of partnerships in any significant way.
- #### 9. Planning and performance management.
- Community planning is a complex process and CPPs are improving their use of information to inform their planning. However the quality of community plans varies and the links between community plans and partner organisations' corporate plans are generally weak.
 - CPPs are improving their use of performance indicators, but progress has been slow and performance management and reporting arrangements could be further developed. CPPs need to move on from developing

processes to demonstrate the impact they are having on services and the well-being of local communities, and whether the benefits justify the added costs.

- The governance of CPPs needs to be improved through clarifying their accountability arrangements and developing more effective scrutiny and risk management.

10. The report includes recommendations for action by the Scottish Executive, partner organisations and CPPs themselves. We have also developed an evaluation framework to help CPPs and partner organisations improve the effectiveness of their community planning.

About the study

11. Evidence for our findings has been drawn primarily from interviews with staff involved in community planning across a range of organisations in ten partnership areas, and with officials in the Scottish Executive and other national bodies. This qualitative work was supported by a survey of all 32 CPPs. In three further areas we analysed the management costs associated with community planning. We also examined current community plans and reviewed information from other audit work, including Best Value audits.

Part 5. Agenda for action: summary and recommendations



136. Community planning has an important role in improving public services and community well-being in Scotland. In these early days CPPs have concentrated on putting structures and arrangements in place to deliver these aims, and there is limited information available about their achievements. It is now time for them to move on to demonstrate improvements for local communities and in service delivery.

137. However in order for community planning to progress significantly, there needs to be agreement nationally and locally about the focus and priorities for community planning, and the extent to which CPPs should exercise control over resources. This would provide the basis for measuring progress in the long term. The Scottish Executive with its executive agencies and other central bodies need to actively support such an agreement.

138. This study provides an overview of community planning in Scotland and identifies where changes need to happen in order for community planning to progress. Audit Scotland will continue to report to the Accounts Commission results from the audits of Best Value and Community Planning, which will increasingly hold individual councils to account for their performance on community planning.

Full list of recommendations

139. The Scottish Executive and CPPs should agree:

- a small number of strategic priorities where CPPs can add value through partnership working
- how to measure performance against these policy areas.

140. The Scottish Executive, with executive agencies and other central bodies, should:

- improve coordination and integration among initiatives
- rationalise the different funding streams accessed by partnerships
- develop a more standard approach to monitoring spend against individual funding streams.

141. Nationally accountable partners (eg, Scottish Enterprise, the NHS and Communities Scotland), supported by the Scottish Executive, should set clear guidelines for their local organisations (eg, NHS boards, LECs) on what they expect to be achieved through local partnership working. This should be supported by allowing greater flexibility and autonomy to accommodate local CPP priorities when responding to national priorities.

142. The Scottish Executive should review the number of partnerships it requires local authorities and other partner organisations to establish, and ensure there are clear remits and no duplication.

143. Local authorities and partner organisations should:

- develop schemes of delegation to streamline decision-making within CPPs
- ensure that all relevant priorities and related actions agreed by the CPP are incorporated into their corporate plans
- consider providing an annual statement to the CPP explaining how the community plan is reflected in their own corporate plans
- contribute to joint risk registers related to community planning.

144. CPPs should:

- ensure the CPP board is clear on its remit, role and responsibilities, and is structured to fulfil these
- define clearly the role for elected members and members of other partner governing bodies within their community planning arrangements
- ensure that community engagement becomes more sustained and systematic across partners and champion the use of the National Standards for Community Engagement

- review and rationalise structures to focus on delivering services that add value
- consider developing a partnership guide which describes the roles and remits of each element of their structure
- agree a shared vision and a manageable number of priorities for their community plan
- develop processes for managing performance and agree indicators to track progress on key local issues
- develop their arrangements for scrutiny of community plans and expenditure
- develop their approaches to risk management
- review how effectively they are operating as a partnership.

145. The priority which CPPs may wish to give to implementing these different recommendations will depend on their individual circumstances. Using the evaluation framework in Exhibit 14 (page 30) may assist CPPs in identifying which areas for improvement they wish to prioritise.

PROGRESS REPORT ON INTERNAL AUDIT PLAN 2006 - 2007

1. SUMMARY

An interim progress report has been prepared covering the audit work performed by Internal Audit up to the 8th of September 2006. 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 2006 - 2007.

3. BACKGROUND

3.1 The progress report contained in Appendix 1 lists the audits scheduled for the financial year 2006 –2007, and are ordered by section and level of completion.

3.2 As at the 8th of September 2006, of 18 core financial systems audits set out in the audit plan, 3 have been completed. Of the remaining 15 audits, 6 have been started. Two of these audits are Purchasing e-Procurement and Creditor Payments, due to developments within the purchasing audit, work was carried out on creditors, which is a separate audit within this years audit plan. With resource and continuity reasons in mind, and in agreement with Audit Scotland the 2 audits have been combined. As a result the total number of audits still to be commenced is 9.

3.3 Of 16 non-financial audit areas identified for this years audit plan, as at the 8th of September 2006, 4 audits have been completed. Of the remaining 12 audits, 5 have been started and are progressing with one close to being complete. Seven audits remain 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 etc. As at the 8th of September 2006, a total of 15 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 8th of September, a total of 22 days have been expended on Special Investigations.

4. SUMMARY OF AUDIT ACTIVITIES FOR 2006 - 2007

4.1 It can be reported that Internal Audit has made reasonable progress with the Annual Audit Plan through the 1st and into the 2nd Quarter. Audit resources in the 1st Quarter were directed to year end audit work involving Stock Taking, Corporate Governance, Grant Certification and working jointly with Audit Scotland on the auditing of the Council's Performance Indicators (PIs).

4.2 With the section short of 2 permanent staff members Internal Audit at the beginning of the 2nd Quarter took the decision to engage the services of 2 contract auditors. At the end of July one contract auditor was engaged for a 2

month period. This provided holiday cover and assistance with the Annual Audit Plan. At the end of August another contract auditor was engaged with the intention of securing their services for a period of not less than 3 months. This will help maintain delivery of the audit plan and introduce resource stability.

CONCLUSION

Progress is being made on audits planned for 2006 – 2007.

6. IMPLICATIONS

- | | | |
|-----|----------------------|--|
| 5.1 | Policy: | Update on audit plan for 2006 – 07. |
| 5.2 | Financial: | The audit plan is based on 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 12th September 2006.
12Septfinalport12Sept

Assessment of audit days: 2006-2007 strategic plan

AUDIT WORK SCHEDULE As at 8th September 2006	Last audited	Risk ranking	Original Estimated Audit Days 2006-07	Revised Estimated Audit Days 2006-07	Actual Audit Days 2006-07	Balance
Core financial systems						
Complete						
Cash Income and Banking	2005-06	2	30	30	27	3
Contract Hire and Operating Leases	2005-06	2	20	20	20	0
Stocktaking	2005-06	2	25	25	23	2
Started						
Debtor Accounts	2005-06	2	20	20	11	9
Council Tax and Non-Domestic Rates	2005-06	2	30	30	2	28
Purchasing e Procurement/ <i>Creditor Payments</i>	2005-06	2	25	50	24	26
Government & European Grants	2005-06	1	30	30	20	10
Car Allowances	2004-05	2	20	20	6	14
Not Started						
Budgetary preparation and control	2005-06	1	20	20	0	20
Capital Accounting	2005-06	1	20	20	0	20
Capital Contracts	2005-06	1	20	20	0	20
<i>Creditor Payments</i>	2005-06	2	25	0	0	0
General Ledger Operations	2005-06	2	25	25	0	25
Unified Benefits System	2005-06	2	30	30	0	30
Payroll	2005-06	2	30	30	0	30
Treasury Management	2005-06	2	20	20	0	20
Tendering Procedures	2005-06	1	30	30	0	30
Payments to Voluntary Bodies (Following the Public Pound)	2005-06	2	20	20	0	20
Section Total			440	440	133	307
Non-financial Audits						
Complete						
All Depts - Business Continuity Planning	2005-06	1	30	20	20	0
All Depts - Corporate Governance	2005-06	1	30	30	24	6
Performance Indicators	2005-06	1	50	50	50	0
Corporate Services - Risk Management Register	2004-05	3	25	20	16	4
Started						
Chief Executives Unit - Policy & Strategy - Best Value	2005-06	1	30	145	32	113
Community Services - HMle	2004-05	1	20	20	15	5
Corporate Services - ICT - Applications	New	2	25	25	2	23
New Legislation	2005-06	1	30	20	0	20
Development Services - Partnership Project Funding	New	1	30	20	0	20
Not Started						
Community Services - Care Services	2005-06	2	30	20	0	20
Community Services - NPDO - Contract Monitoring	2005-06	1	30	20	0	20
Community Services - Transportation	2005-06	1	30	20	0	20
Operational Services - Amenity & Roads Services	2002-03	3	30	20	0	20
All Depts - Partnership Working	2005-06	1	30	20	0	20
All Depts - Strategic Asset Management	2005-06	1	30	15	0	15
All Depts - Property Asset Management	2005-06	1	30	15	0	15
Section Total			480	480	159	321
Actual Direct Audit Time			920	920	292	628
Special investigations contingency						
Community Services	-	-	80	80	11	58
Chief Executive's Unit					11	
Section Total			80	80	22	58
Other Areas						
Follow-up External & Internal Audit Management Letter Points			60	60	20	40
Risk Assessment, Strategic Plan, Annual Plans			20	20	0	20
Section Total			80	80	20	60
TOTAL			1080	1080	334	746

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ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE

AUDIT COMMITTEE
21 SEPTEMBER 2006

QUARTERLY SERVICE REPORTING PROCESS

1. SUMMARY

In February 2006 Audit Scotland issued a report entitled “The Audit of Best Value and Community Planning”. The report and findings related to the performance of Argyll and Bute Council’s statutory duties to secure Best Value and to initiate and facilitate the Community Planning process. Part 2 of the report pertaining to Scrutiny, recognised the effectiveness of the Audit Committee but requested its role be further developed to provide challenge on service performance information. In response to the Audit Scotland report the Council prepared an Improvement and Development Plan in May 2006. Set out below is an outline of the process for scrutinising service performance information to the Audit Committee.

2. RECOMMENDATIONS

2.1 That the Audit Committee approves the process outline set out in this report.

3. DETAIL -

3.1 Background

- 3.1.1 Services prepare a Service Plan each year to set out their Priorities to deliver against the Corporate Objectives. These broad, long-term Corporate Objectives are agreed by Council and contained in the Corporate Plan. Each Service Plan will align the Service annually to the nuances of the shifting needs and aspirations of the Council and the Scottish Executive.
- 3.1.2 Services report progress against their Service Plans on a quarterly basis. These reports are submitted in full to the SMT. Each service reports in a similar format, with the small number of Priorities, as identified in the Service Plan, set out with the purpose and key activities described. The report details progress against the performance indicators and the budget for each Priority.
- 3.1.3 In November 2005 the Senior Members and Officers Group received the first summary of the Service quarterly reports. It was compiled by Policy and Strategy and was based on the reports from Services. This report was considered useful and the process has been continued for subsequent quarterly reports.
- 3.1.4 The Best Value Audit report, published in February 2006 in particular Paragraph 61, said; “There is an effective audit committee with sufficient independence and authority to scrutinise and challenge financial performance and ensure internal control issues are addressed. The audit committee’s remit also includes monitoring services to ensure they are being provided efficiently and effectively, in accordance with Best Value principles. This role needs to be developed, particularly to provide challenge on the findings and methodology of Best Value reviews, and supported by better information about service performance.”

- 3.1.5 In answer to the report comment expressing a need for the Audit Committee to expand its scrutiny role an action was included within the Council's Improvement and Development Plan agreed with Audit Scotland to ensure that the Audit Committee scrutinises quarterly reports and all Best value reviews.
- 3.1.6 The presentation of quarterly Service performance reports to the Audit Committee will fulfil this final requirement - to provide better information about service performance.

3.2 Proposal

- 3.2.1 Following approval of the quarterly Service performance reports by the SMT, Policy and Strategy compile the summary report for the Senior Members and Officers Group. It is proposed that this report is routinely included on the Audit Committee agenda.
- 3.2.2 It is further proposed that the full quarterly Service performance reports should be made available for scrutiny by the Audit Committee if required. The reports of those Services reporting exceptional performance could routinely be included in the Committee papers, as identified at the pre-agenda briefing.
- 3.2.3 This proposal provides sufficient information to the Audit Committee without the burden of considering the full reports (which runs to about 80 pages). The level of information proposed would also assist the Committee in identifying those areas where further scrutiny should be applied.

3.3 Timescales and responsibilities

- 3.3.1 The first full set of quarterly Service performance reports in the new format will report performance for July-September 2006. They will be presented to the SMT at the beginning of November, with the summary going to the Senior Members and Officers Group shortly thereafter.
- 3.3.2 The SPC will receive a summarised version of the quarterly Service performance reports routinely, starting with the July-September 2006 reports. A paper outlining this approach was considered by the SPC on August 24th 2006.
- 3.3.3 If the Audit Committee approves this process at the meeting on 21st September 2006, the first summarised quarterly Service performance report would be available for the meeting on 8th December 2006.

4. CONCLUSIONS

This will address the additional scrutiny point raised in the Audit Scotland Best Value Report regarding scrutiny of service performance by 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. 31st August 2006. 31Augfinalreport31Aug.

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ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE

AUDIT COMMITTEE
21 SEPTEMBER 2006

BEST VALUE REPORTING PROCESS

1. SUMMARY

In February 2006 Audit Scotland issued a report entitled “The Audit of Best Value and Community Planning”. The report and findings related to the performance of Argyll and Bute Council’s statutory duties to secure Best Value and to initiate and facilitate the Community Planning process. Part 2, paragraph 61 of the report pertaining to Scrutiny, recognised the effectiveness of the Audit Committee but requested its role be further developed to provide challenge on the findings and methodology of Best Value Reviews. In response to the Audit Scotland report the Council prepared an Improvement and Development Plan in May 2006. Set out below is an outline of the process for scrutinising service performance information to the Audit Committee.

2. RECOMMENDATIONS

2.1 That the Audit Committee approves the process outline set out in this report.

3. DETAIL -

3.1 Background

3.1.1 The Best Value Audit Report, published in February 2006 in particular paragraph 61, said, “There is an effective audit committee with sufficient independence and authority to scrutinise and challenge financial performance and ensure internal control issues are addressed. The audit committee’s remit also includes monitoring services to ensure they are being provided efficiently and effectively, in accordance with Best Value principles. This role needs to be developed, particularly to provide challenge on the findings and methodology of Best Value reviews, and supported by better information about service performance.”

3.1.2 In answer to the report comment expressing a need for the Audit Committee to expand its scrutiny role, an action was included within the Council’s Improvement and Development Plan agreed with Audit Scotland to ensure that the Audit Committee is provided with a mechanism to challenge the findings and methodology of reviews.

3.1.3 In a separate paper to the Audit Committee a proposed process is outlined that addresses the second part of paragraph 61 that members are to be supported by better information about service performance. The presentation of Quarterly Service performance reports to the Audit Committee will fulfil this final requirement - to provide better information about service performance.

3.2 Proposal

3.2.1 Eight reviews were agreed by the SMT on the 31st of January 2006. The progress of each of these reviews will be reported to the Audit Committee on a quarterly basis.

3.2.2 Set out in Appendix 1 is the proposed reporting format for the 8 reviews for 2006-2007. The title of each is given, as is the scope, the agreed timescale and the name of the lead officer. The level of information proposed will provide the Audit Committee with a mechanism to challenge the findings and the methodology of the reviews. Once a review has been completed a final report will be presented to the Audit Committee for review.

3.3 Timescales and responsibilities

3.3.1 If the Audit Committee approves this process, the first progress report will be presented to the Audit Committee on the 8th of December 2006.

4. CONCLUSIONS

This will address the point raised in the Audit Scotland report regarding the challenging of findings and methodology of reviews by 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. 31st August 2006. 31Augfinalreport31Aug.