

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

Customer Services  
Executive Director: Douglas Hendry



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30 November 2012

## NOTICE OF MEETING

A meeting of the **AUDIT COMMITTEE** will be held in the **COUNCIL CHAMBER, KILMORY, LOCHGILPHEAD** on **FRIDAY, 7 DECEMBER 2012** at **11:15 AM**, which you are requested to attend.

Douglas Hendry  
Executive Director - Customer Services

## BUSINESS

1. **APOLOGIES FOR ABSENCE**
2. **DECLARATIONS OF INTEREST (IF ANY)**
3. **MINUTES**  
Audit Committee 21 September 2012 (Pages 1 - 6)
4. **BUSINESS CONTINUITY PLANNING - UPDATE FOR COMMUNITY SERVICES**  
Report by Executive Director – Customer Services (Pages 7 - 10)
5. **MANAGING ATTENDANCE 2011/2012**  
Report by Head of Improvement and Strategic HR (Pages 11 - 38)
6. **PERFORMANCE MANAGEMENT QUARTERLY REPORT**  
Report by Head of Improvement and Strategic HR (Pages 39 - 40)
7. **AUDIT SCOTLAND NATIONAL REPORTS TO AUDIT COMMITTEE**  
Report by Chief Internal Auditor (Pages 41 - 60)
8. **PROGRESS REPORT ON INTERNAL AUDIT PLAN 2012 - 2013**  
Report by Chief Internal Auditor (Pages 61 - 66)
9. **EXTERNAL AND INTERNAL AUDIT REPORT FOLLOW UP 2012 - 2013**  
Report by Chief Internal Auditor (Pages 67 - 78)

- 10. **CORPORATE PERFORMANCE AUDITS**  
Report by Chief Internal Auditor (Pages 79 - 80)
- 11. **NATIONAL FRAUD INITIATIVE (NFI) EXERCISE 2012 - 2013**  
Report by Chief Internal Auditor (Pages 81 - 84)
- 12. **RISK MANAGEMENT UPDATE**  
Report by Head of Strategic Finance (Pages 85 - 88)
- 13. **AUDITED ACCOUNTS 2011 - 2012**  
Report by Head of Strategic Finance (Pages 89 - 206)
- 14. **EXTERNAL AUDIT ANNUAL REPORT 2011 - 2012**  
Report by Head of Strategic Finance (Pages 207 - 250)
- 15. **EXTERNAL AUDIT REPORT - ICT SERVICE REVIEW 2011 - 2012**  
Report by Audit Scotland (Pages 251 - 264)
- 16. **INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE 2012 - 2013**  
Report by Chief Internal Auditor (Pages 265 - 312)
- E1 17. **INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE 2012 - 2013**  
Report by Chief Internal Auditor (Pages 313 - 326)
- E2 18. **MAINTAINING SCOTLAND'S ROADS - FOLLOW UP WORK**  
Report by Head of Roads and Amenity Services (Pages 327 - 330)

The Committee will be asked to pass a resolution in terms of Section 50(A)(4) of the Local Government (Scotland) Act 1973 to exclude the public for items of business with an "E" on the grounds that it is likely to involve the disclosure of exempt information as defined in the appropriate paragraph of Part 1 of Schedule 7a to the Local Government (Scotland) Act 1973.

The appropriate paragraphs are:-

- E1 **Paragraph 1** Information relating to a particular employee, former employee or applicant to become an employee of, or a particular office-holder, former office-holder or applicant to become an office-holder under the authority.
- E2 **Paragraph 8** The amount of any expenditure proposed to be incurred by the authority under any particular contract for the acquisition of property or the supply of goods or services.

## AUDIT COMMITTEE

Councillor Gordon Blair  
Councillor Maurice Corry  
Councillor Duncan MacIntyre

Martin Caldwell  
Councillor Iain MacDonald  
Councillor Aileen Morton

Contact: Fiona McCallum

Tel. No. 01546 604392

**MINUTES of MEETING of AUDIT COMMITTEE held in the COUNCIL CHAMBER, KILMORY,  
LOCHGILPHEAD  
on FRIDAY, 21 SEPTEMBER 2012**

**Present:** Mr Ian M M Ross (Chair)

Councillor Gordon Blair	Councillor Iain MacDonald
Mr Martin Caldwell	Councillor Duncan MacIntyre
Councillor Maurice Corry	Councillor Aileen Morton

**Attending:** Charles Reppke, Head of Governance and Law  
Bruce West, Head of Strategic Finance  
Ian Nisbet, Chief Internal Auditor  
Tom Kerr, Senior HR Officer (for item 4)  
Carolyn McAlpine, HR Officer (for item 4)  
David Clements, Performance Manager (for item 5)  
Fiona Mitchell-Knight, Assistant Director, Audit Scotland  
David Jamieson, Senior Audit Manager  
Russell Smith, Senior Auditor

Prior to consideration of business the Chief Executive extended a vote of thanks to Mr Ross in recognition of his time both as Chair and Vice Chair of the Audit Committee and presented a Quaich on behalf of the Provost and the Council on his retirement from the Audit Committee.

Mr Caldwell, also paid tribute to Mr Ross on behalf of the Audit Committee Members past and present.

Mr Ross thanked everyone for their kinds words and thanked Members and Officers for all their support over the years.

**1. APOLOGIES FOR ABSENCE**

There were no apologies for absence.

**2. DECLARATIONS OF INTEREST**

There were no declarations of interest.

**3. MINUTES**

The Minutes of the Audit Committee meeting held on 29 June 2012 were approved as a correct record.

**4. MANAGING ATTENDANCE 2011 - 2012**

A report providing details of the Council's sickness absence levels for the financial year 2011 – 2012 was considered.

**Decision**

1. Noted the contents of the report; and

2. Noted that a copy of the new Maximising Attendance Policy would be brought to the next meeting of the Audit Committee along with a template of what will be reported to the Audit Committee in future taking on board comments made by Members in respect of long term and short term absenteeism, benchmarking with other local authorities and trends over the last 3 years.

(Reference: Report by Head of Improvement and Strategic HR, submitted)

## **5. PLANNING AND PERFORMANCE MANAGEMENT QUARTERLY REPORT**

A report updating the Committee on the progress being made across the Council relating to the key elements of the Planning and Performance Management Framework was considered.

### **Decision**

Noted the progress in relation to performance management and improvement across the Council.

(Reference: Report by Head of Strategic Finance, submitted)

## **6. REVIEW OF BUSINESS CONTINUITY PLANNING: ACTION PLAN PROGRESS**

A report advising on progress on completing the Critical Activity Recovery Plans for the Council, with particular reference to Community Services was considered along with the final report of the project team detailing the outcomes achieved in relation to the project plan for Business Continuity Planning.

### **Decision**

1. Noted the position in relation to progress in completing recovery plans for schools and other services within Community Services;
2. Endorsed the contents of the project report; and
3. Requested a further update report for the next Audit Committee meeting in December to confirm that arrangements for Community Services generally and schools are on schedule for completion of recovery plans.

(Reference: Report by Executive Director – Customer Services, submitted)

## **7. TREASURY MANAGEMENT AUDIT ASSURANCE**

A report setting out information around the arrangements in place in relating to management controls and risk for treasury management was considered.

### **Decision**

Noted the contents of the report.

(Reference: Report by Head of Strategic Finance dated 5 September 2012, submitted)

**8. PROGRESS REPORT ON INTERNAL AUDIT 2012 -2013**

An interim progress report covering the audit work performance by Internal Audit as at 24 August 2012 was considered.

**Decision**

Approved the progress made with the Annual Audit Plan for 2012 – 2013.

(Reference: Report by Chief Internal Auditor dated 7 September 2012, submitted)

**9. INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE 2012 - 2013**

A report detailing final reports, summaries and actions plans (where applicable) from recent audits was considered.

**Decision**

1. Noted the contents of the reports in respect of the following audits and that these will be followed up by Internal Audit:-
  - (a) Scoping for Development and Infrastructure Services systems health check, in respect of specific client identified systems;
  - (b) Capital Contracts Computer Replacement Management – Customer Services
  - (c) Review of Statutory Performance Indicators 2011/12
2. Noted that the report on Cash and Income will be brought to the Audit Committee in December along with a special investigations report.

(Reference: Report by Chief Internal Auditor dated 7 September 2012, submitted)

The Committee resolved in terms of Section 50A(4) of the Local Government (Scotland) Act 1973, to exclude the public for the following item of business on the grounds that it was likely to involve the disclosure of exempt information as defined in Paragraph 1 of Part 1 of Schedule 7A to the Local Government (Scotland) Act 1973.

**10. INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE 2012 - 2013**

A report detailing a final report, summary and action plan from a recent audit carried out in respect of Payroll was considered.

**Decision**

Noted the contents of the report.

(Reference: Report by Chief Internal Auditor dated 7 September 2012, submitted)

The press and public were invited back to the meeting.

**11. EXTERNAL AND INTERNAL AUDIT REPORT FOLLOW UP 2012 - 2013**

Internal Audit documents the progress made by departmental management in implementing the recommendations made by both External Audit and Internal Audit. A report detailing the results from a review performed by Internal Audit for recommendations due to be implemented by 31 July 2012 was considered.

**Decision**

Noted and approved the contents of the report.

(Reference: Report by Chief Internal Auditor dated 30 August 2012, submitted)

**12. AUDIT SCOTLAND NATIONAL REPORTS TO AUDIT COMMITTEE 2012 - 2013**

A report advising of recently published reports by Audit Scotland entitled (1) "National Scrutiny Plan for Local Government 2012/13" and (2) "Using cost information to improvement performance: are you getting it right" along with a management in respect of the second report was considered.

**Decision**

1. Noted the contents of the report and that these will be followed up by Internal Audit; and
2. Noted that the Chief Internal Auditor would provide to Members a copy of previous Local Area Network reports as agreed at their recent Development day.

(Reference: Report by Chief Internal Auditor dated 7 September 2012, submitted)

Councillor Gordon Blair left the meeting.

**13. EXTERNAL AUDIT REPORT: ISA 260**

A report setting out the matters arising from the audit of the financial statements for 2011/12 that require reporting under ISA 260 was considered.

**Decision**

Noted the contents of the report.

(Reference: Report by Audit Scotland dated September 2012, submitted)

**14. EXTERNAL AUDIT REPORT: MAINTAINING SCOTLAND'S ROADS**

A report advising on progress on implementing the recommendations contained in Maintaining Scotland's roads follow up report published in the Accounts

Commission and the Auditor General for Scotland in February 2011 was considered. In particular it examined changes in the condition of the road network since the original report was published; what is currently being spend on road maintenance; and how road maintenance is being managed. The severe winter weather of 2009/10 and 2010/11 had a severe impact on road surfaces and road budgets, and this report highlights the progress being achieved in delivering the required improvements in a difficult economic climate.

**Decision**

1. Noted the contents of the report and that these will be followed up by Internal Audit; and
2. Requested the Head of Roads and Amenity Services to attend the next meeting of the Audit Committee to report on the new suite of indicators that have been developed through the Roads Operations Service Review for inclusion in Pyramid in order to measure performance.

(Reference: Report by Audit Scotland dated August 2012, submitted)

**15. EXTERNAL AUDIT REPORT: REVIEW OF INTERNAL CONTROL SYSTEMS**

A report advising on a review carried out by Audit Scotland to evaluate whether the key internal controls operating within the main financial systems of the Council are adequate so as to enable Audit Scotland to place reliance on them when forming an opinion on the 2011/12 financial statements was considered.

**Decision**

Noted the contents of the report and that these will be followed up by Internal Audit.

(Reference: Report by Audit Scotland dated June 2012, submitted)

**16. RISK MANAGEMENT QUARTERLY UPDATE**

A report updating the Committee on developments in relation to risk management over the last few months was considered.

**Decision**

Noted the contents of the report.

(Reference: Report by Head of Strategic Finance dated 5 September 2012, submitted)

**17. ANNUAL REPORT BY AUDIT COMMITTEE 2011 - 2012**

In compliance with the CIPFA Code of Practice for Internal Audit in Local Government a draft annual Audit Committee report was presented to the Audit Committee on 29 June 2012 for review. The final annual report and the Committee's Terms of Reference were now before the Committee for consideration.

**Decision**

Noted and approved the contents of the report for submission to the Council.

(Reference: Report by Chief Internal Auditor dated 24 August 2012 and Annual Report by Chair and Vice Chair of Audit Committee 2011 – 2012, submitted)



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**ARGYLL AND BUTE COUNCIL  
CUSTOMER SERVICES**

**AUDIT COMMITTEE  
7<sup>TH</sup> DECEMBER 2012**

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**BUSINESS CONTINUITY PLANNING; UPDATE FOR COMMUNITY SERVICES**

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**1. PURPOSE**

- 1.1 To provide a progress report as required by the Action Mandate from the Audit Committee meeting on 21<sup>st</sup> September 2012.

**2. RECOMMENDATIONS**

- 2.1 To note the position in relation to progress in completing recovery plans for Community Services, as detailed in Annex 1 (attached).
- 2.2 To request Internal Audit to review a sample of the recovery plans in conjunction with Community Services. This should ensure that recovery plans now address the issues identified in the previous report by Internal Audit (December 2011), particularly since that audit was initiated by Customer Services.

**3. UPDATE ON COMMUNITY SERVICES**

- 3.1 At its meeting on 21<sup>st</sup> September 2012, the Audit Committee requested an update report to provide information on the progress of Community Services in completing their recovery plans for critical activities.
- 3.2 The table at Annex 1 shows the current status across for Community Services, as at 28 November 2012. The number of plans has now been reduced from 47 to 22 due to the consolidation of plans relating to specific activities which are delivered from multiple sites. The consolidated plans include general information relevant to that activity as well as local information for each specific location.
- 3.3 As a result of this consolidation and further progress in completing the plans, the number of open actions has also reduced significantly; from 290 to 0.
- 3.4 It is understood that local service managers are unlikely to review their recovery plans again prior to the meeting of Audit Committee on 7th December 2012.
- 3.5 Following the development of the suite of recovery plans completed this year, it is suggested that a further review of a sample of plans by Internal Audit may help to ensure consistency of quality and that the plans adhere to the agreed guidance. This audit would focus on recovery plans for Adult Care and Children and Families services. The audit would be undertaken as a desktop review, the specific terms of which will be confirmed by Internal Audit.

- 3.6** As agreed by SMT, recovery plans for schools will be completed by the end of the current school year. The school support team are currently populating the recovery plan templates with generic information relating to the school estate, plans will then be issued to primary and secondary schools in January 2013 and plans will be finalised by the end of June 2013.

#### **4. CONCLUSIONS**

- 4.1** Significant progress has been made in reducing the number of open actions for Community Services recovery plans, due in part to the consolidation of plans on the basis of service activities.
- 4.2** Following the development of the recovery plans a further review of the completed plans will help ensure consistency and improve their quality.

#### **5. IMPLICATIONS**

**Policy:** the recommendations support current policy on Business Continuity Planning.

**Financial:** no significant financial implications.

**Legal:** the recommendations address compliance with the Civil Contingencies Act 2004.

**HR:** staff resources are still required to close the remaining actions and to ensure consistency and quality of the recovery plans.

**Equalities:** to be addressed in the policy review and on-going monitoring .

**Risk:** the remaining actions must be addressed in order to meet the Strategic Risk Register element; failure to progress Business Continuity Planning.

**Customer Service:** the four relevant customer service drivers have been addressed in the review process.

#### **6. APPENDICES**

- 6.1** Business Continuity Planning – Community Services Recovery Plan Update; 28 November 2012 at Annex 1

**ANNEX 1 - revised 29 November 2012****Business Continuity Planning – Community Services Recovery Plan Update**  
**28<sup>th</sup> November 2012**

<b>COMMUNITY SERVICES</b>	<b>Critical Activity</b>	<b>Plans</b>	<b>'Open' Actions</b>
<b>Adult Care</b>	Care at Home	1	0
	Tele-care	1	0
	Operations	1	0
	Learning Disability	1	0
	Residential Care	1	0
	<b>SUB TOTAL</b>	<b>5</b>	<b>0</b>
<b>Children and Families</b>	Operations	1	0
	Adoption and Fostering	1	0
	Residential Care for Children and Young People	3	0
	Criminal Justice	5	0
	<b>SUB TOTAL</b>	<b>10</b>	<b>0</b>
<b>Community and Culture</b>	Homelessness	7	0
	<b>SUB TOTAL</b>	<b>7</b>	<b>0</b>
<b>DEPARTMENT TOTAL</b>		<b>22</b>	<b>0</b>

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ARGYLL AND BUTE COUNCIL

AUDIT COMMITTEE

IMPROVEMENT AND HR

7<sup>th</sup> December 2012

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**MANAGING ATTENDANCE 2011/12 (Covering Report)**

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**1. Summary**

- 1.1 At the Audit Committee on 21<sup>st</sup> September 2012 the HR team were asked to return to the meeting in December with a standard format for future reports which included trend analysis, a more detailed breakdown of stress related absence and benchmarking performance with other Scottish Local Authorities
- 1.2 The enclosed report has been updated and amended where required to include this information and table one below outlines the standard headings which will be included in future reports.
- 1.3 On reviewing the information and reports used to create the previous report some anomalies in reporting were highlighted and have been updated in the enclosed report.

**2.0 Recommendations**

2.1 It is recommended the Audit Committee:

- Note the contents of the enclosed report and agree the standard reporting format outlined in Table one
- Note the changes which have been made in relation to updates and corrections

**3.0 Detail**

- 3.1 An anomaly in the report on long and short term absence counted total length of long term absence including continuous absence commencing in the previous year. This meant that the previous report over reported that long term absence accounted for around 75% of overall absence. Corrected figures are outlined in the enclosed report.
- 3.2 The HR team have noted that where possible the Audit Committee would like to compare three years' data. Future reports will contain trends based on three years' data. However due to a restructure of services in 2010 three years data will not be available until 2013.
- 3.3 It should be noted that the increase in absence in quarter 4 of 2011/12 can be partly contributed to the more accurate reporting of absence using the Direct Absence Reporting line.

3.4 The table below outlines the proposed standard format for future Audit Committee Reports

**Table One: Standard format for future audit reports**

<b>Section Number</b>	<b>Section Heading</b>	<b>Contents</b>
1	Summary	A summary of the report and absence information for the current year
2	Recommendations	Recommendations for the Audit Committee
3	Current Absence Statistics	Table of current years' actual absence performance against targets broken down to service level. Table including actual working days lost by service and a note of FTE staffing within each service
4.	Cost	In future reports this section will show the cost to the Council of sickness absence.
5.	Proposed Targets next financial year	Narrative of how targets have been decided Table outlining proposed improvement by service
6.	Absence Analysis	An analysis of absence including long and short term absence and the reasons for this
7.	Analysis of Stress Related absence	Stress as a proportion of Council's overall absence A breakdown of stress related absence by service Information provided by the Employee Counselling service outlining the reasons for stress and breakdown of employees using the service
8.	Accidents and Reportable Instances	Table including trends in relation to the number of accidents and reportable incidents
9.	Trend Analysis	Graph outlining Argyll and Bute's Statutory Performance indicators by employee group for previous three years
10.	Departmental Trends	Line graphs outlining the quarterly average days lost per FTE employee for each service over the previous three years
11.	Benchmarking with Other Authorities	Table showing three years trends with respect to Argyll and Bute's ranking on absence performance indicators for teachers and LGE employees
12.	Other relevant updates	Any relevant updates with respect to absence interventions/ Policy changes etc.
13.	Conclusion	A Conclusion bringing together the main themes of the report

**11.0 Conclusion**

11.1 In conclusion this covering report has been prepared to update the Audit Committee on how future absence reports will be presented. The enclosed report has been amended to reflect this.

**12.0 IMPLICATIONS**

PERSONNEL (See enclosed report)

FINANCIAL (See enclosed report)

EQUALITY (see enclosed report)

LEGAL (see enclosed report)

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ARGYLL AND BUTE COUNCIL

AUDIT COMMITTEE

IMPROVEMENT AND HR

7<sup>th</sup> December 2012

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## MANAGING ATTENDANCE 2011/12

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### 1. Summary

1.1 The following report provides details of the Council' sickness absence levels for the financial year 2011/2012.

1.2 Note that, where average figures are used in the course of this report, allowances should be made for rounding of decimal points.

1.3 Human Resources have continued to work with both the Strategic Management Team and the Trades Unions to improve absence recording mechanisms and introduce new initiatives. In April 2012 the new Maximising Attendance Policy (Copy Attached) which was developed in consultation with the Trades Unions was agreed by the Executive and is now being rolled out.

- The new Maximising Attendance at work policy ensures that managers are prompted to review the cases of those who reach the triggers so that suitable action can be taken. This could include occupational health referrals, phased return to work, redeployment and where appropriate dismissal and/or disciplinary action.
- The main change in the policy is in relation to the triggers for short term absence which are now three instances of absence in a rolling period of 12 months.

1.4 Whilst it is pleasing to see the average number of days sickness per employee has fallen from 9.53 to 8.77 days per year, further improvements are still possible and each individual has a part to play in this. Managers will carry out Return to Work Interviews:

- Returns to work interviews are held for all staff who have been off however long or short their absence period. Robust monitoring arrangements are now in place to ensure return to work interviews are carried out on the employee's return to work after every single instance of sickness. Meetings of this type are widely regarded as the single most effective action that can be taken to reduce sickness absence.
- Each Head of Service has agreed a specific target for their service. Monthly absence reports are submitted to DMT and HR continue to provide coaching and mentoring as well as obtaining support and advice from the Council's Occupational Health advisers to ensure that each individual is managed in accordance with advice provided by the occupational health physician.

1.5 Significant improvements have been made in the recording of absence with the roll out of the Direct Reporting of Absence Line. Information is recorded in real time into Resourcelink, the Council's integrated HR and Payroll System, which allows HR to provide managers with up to date information.

## 2.0 Recommendations

2.1 It is recommended the Audit Committee:

- Note the statistics for the full financial year 2011-12
- Note the contents of the new Maximising Attendance Policy (Appendix One)

## 3.0 Detail

### 3.1 Current Absence Statistics

The current absence for the full year 2011/12 is shown in Tables 1 and 2.

**Table 1 – Average Number of Days Lost Per Employee by Service**

Section	Service	Overall	2011/12 Target
Community	Adult Care	13.91	11.0
	Children & Families	12.25	9.0
	Education -Primary	6.26	5.8
	Education -Secondary	9.02	8.5
	Community and Culture	7.59	9.0
Customer	Facility	8.89	9.5
	Governance & Law	6.76	5.5
	Customer & Support	6.92	7.0
Dev & Infra	Roads & Amenity	8.30	9.9
	Economic Development	7.28	7.9
	Planning & Regulatory	7.54	9.9
Chief Exec	Improvement & HR	6.21	6.5
	Strategic Finance	4.20	5.5
Total		9.11	
Teachers			
Community	Education -Primary	6.59	6.25
	Education -Secondary	8.49	6.5
Total		7.62	

3.2 Table 2 lists the working days lost per year against the average FTE headcount per Service. Note that the FTE value is averaged for each quarterly report, the table shows the total of the four quarters divided by four.

**Table 2 - Working Days lost and number Employees per Service**

Section	Service	Working Days Lost	FTE
Community	Adult Care	7558	543
	Children & Families	2247	183
	Education -Primary	1875	299
	Education -Secondary	1849	205
	Community and Culture	1502	198
Customer	Facility	2771	312
	Governance & Law	378	56
	Customer & Support	1481	214
Dev & Infra	Roads & Amenity	4630	558
	Economic Development	627	86
	Planning & Regulatory	1031	137
Chief Exec	Improvement & HR	554	89
	Strategic Finance	227	54
<b>Sub Total</b>		<b>26731</b>	<b>2934</b>
<b>Teachers</b>			
Community	Education -Primary	2616	397
	Education -Secondary	4006	472
<b>Sub Total</b>		<b>6622</b>	<b>869</b>
<b>Overall Total</b>		<b>33 353</b>	<b>3803</b>

#### 4.0 Proposed Targets for 2012/13

4.1 The Direct Absence Reporting (DAR) process has increased the accuracy of absence reporting. Data gathered via DAR was utilised for the final quarter of the 2011/12 attendance figures.

4.2 From analysis of the increased absence reported in the last quarter figures versus the last quarter of the previous year there is a 4.7% increase in absence. Comparing the third quarter results between 2011/12 and 2010/11 indicates a 6.4 % improvement in attendance figures. It is therefore estimated that the impact of the increased accuracy of reporting is 11.1%. This is reflected in the graphs at section 10 of this report.

4.3 Table 3 illustrates the likely impact of the DAR project on the 2011/12 results.

**Table 3 – Figures factored up 11% for first 3 quarters**

Service	Overall quarter 1 to 3 factored up 11%	2011/12 Target
Adult Care	15.07	11.0
Children & Families	13.22	9.0
Education -Primary	6.70	5.8
Education -Secondary	9.62	8.5
Community and Culture	8.19	9.0
Facility	9.60	9.5
Governance & Law	7.31	5.5
Customer & Support	7.41	7.0
Roads & Amenity	8.95	9.9
Economic Development	7.66	7.9
Planning & Regulatory	8.19	9.9
Improvement & HR	6.63	6.5
Strategic Finance	4.51	5.5
Education -Primary	7.07	6.25
Education -Secondary	9.07	6.5

4.4 The impact of factoring up the absence recorded for the first three quarters is to increase non education figures from 9.11 to 9.82 and teachers from 7.62 to 8.16, giving an overall Council figure of 9.44.

4.5 It is noted that last year's targets become exceedingly difficult if the 11% increase is factored in for the first 3 quarters, with only 5 Services meeting their targets.

4.6 Rather than tightening last year's target based on the recorded figures for last year it is recommended that cognisance is given to the impact accuracy of reporting and therefore targets are relaxed to recognise this.

4.7 Table 4 illustrates a proposed target structure for 2012/13. A simple approach to targets has been taken:

- For areas that have not met their previous target by over 30% and are above the Council Average Figure of 9.82 for non-teaching and 8.16 for teaching it is proposed a 15% improvement over the factored up figures.
- For areas that have below 7, i.e. a very low figure no improvement target is set as they are exceeding realistic targets. This is only the case in two small departments where one case of serious illness would lead to failure.
- A 5% improvement target to all other sections has been proposed. This was discussed with the Chief Executive and some Heads of Service and a number of targets revised.

4.8 If these targets are met it will lead to an improvement over the current under reported figures: Non-Teaching going from 9.11 to 9.0 and 7.62 to 7.5 for teaching

**Table 4 – Figures factored up with proposed new Targets 2012/13**

Section	Service	Overall corrected 2011/12	Proposed % improvement	Proposed Target 2012/13
Community	Adult Care	15.07	15	12.8
	Children & Families	13.22	10	11.9
	Education -Primary	6.70	5	6.4
	Education -Secondary	9.62	5	9.0
	Community and Culture	8.19	5	7.8
Customer	Facility	9.60	6	9.0
	Governance & Law	7.31	5	6.9
	Customer & Support	7.41	5	7.0
Dev & Infra	Roads & Amenity	8.95	5	8.5
	Economic Development	7.66	5	7.3
	Planning & Regulatory	8.19	5	7.8
Chief Exec	Improvement & HR	6.63	2	6.5
	Strategic Finance	4.51	0	5.5
Total		9.82		9.0
Teachers				
Community	Education -Primary	7.07	5	6.7
	Education -Secondary	9.07	10	8.2
Total		8.16		7.5
			Council Overall	8.7

4.9 The Strategic Management Team have agreed that it will be more beneficial to move from an overall Council target to individual Service targets to recognise differences in jobs such as variations in physical and mental demands, health and safety requirements etc. Service targets also encourage greater ownership and therefore greater chances of achieving their target in conjunction with the proactive measures outlined earlier in this report.

4.10 Targets have been calculated with reference to the average number of days lost per employee to improve on the outturn for 2011/12 which was set following analysis of the top 8 performing Scottish Councils in 2010/11 as opposed to national statistics. The intention is to improve attendance so that Argyll and Bute Council will be placed in the upper quartile of the best performing local authorities within the next three to five years. Audit Scotland do not specify targets for Councils.

## 5.0 Cost

5.1 It would be helpful to record the cost to the Council of sickness absence. HR is currently working with other Scottish Local Authorities to agree a common definition of "cost" and future reports will include an indication of the cost of sickness absence to the Council.

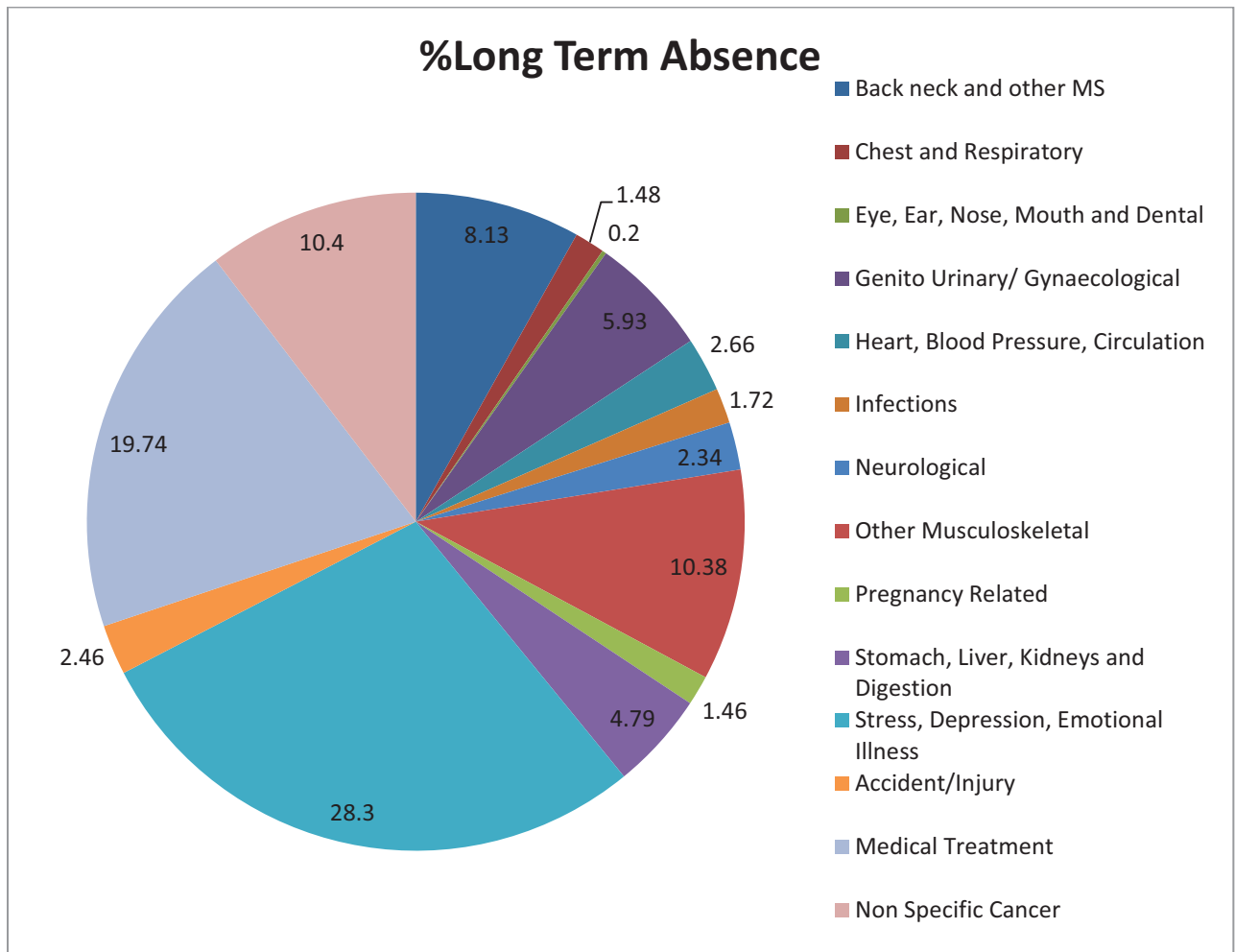
## 6.0 ABSENCE ANALYSIS

6.1 The CIPD annual absence survey 2011 puts the average long term absence across organisations at one third of overall absence. For the financial year 2011/12 long term absence within Argyll and Bute Council accounted for approximately 51.3 per cent of all absence, an increase from 32.2 per cent the previous year.

6.2 With this in mind representatives from HR have set up a regular meeting with Serco, the Council's Occupational Health providers, to review the cases of employees currently on long-term sickness. As a result the Council has a better understanding of the effect of each individual's medical condition on their work and HR Officers are working closely with line managers to ensure each case is managed in accordance with the medical advice received.

6.3 Graph 1 below shows the reasons for Long term absence across the Council in 2011/12.

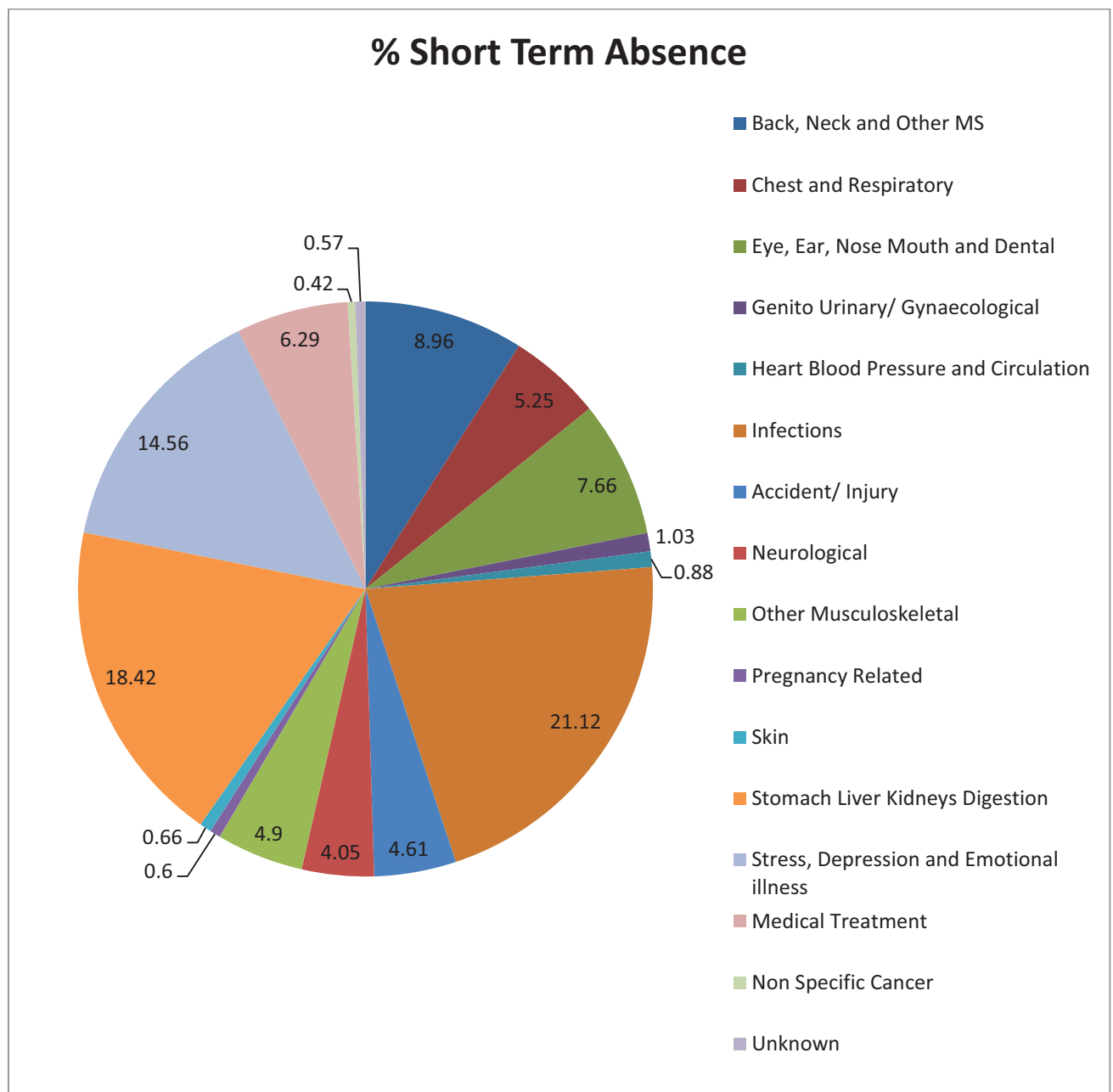
**Graph 1: Absence Reasons (% of Long Term Absence)**



6.4 In comparison to the previous year stress and emotional illnesses replace accidents and injuries as the most frequent reason for long term absences. A further analysis of stress related absence is outlined in section 6 of this report.

6.5 Short-term absence can have a detrimental effect on service delivery and be exacerbated by mismanagement. If an employee is repeatedly absent for short periods this is likely to both undermine the individual’s own performance and be disruptive to colleagues and the wider organisation. Short term absence accounted for approximately 48.7 per cent of all absence in 2011/12 which marked a decrease from 67.8% the previous year. The top 5 reasons for short term absence are shown in Graph 2.

**Graph 2: Reasons for Short term absence (% of short term absence)**



6.6 Compared to the previous years' figures the reasons for the three most frequent causes of short term absence (Infections, Stomach and Digestion problems and Stress and Emotional Illness) have remained the same.

6.7 The new maximising attendance policy has more robust trigger points for managing short term absence. The policy was implemented in July 2012 and managers are now using the policy to actively manage cases where employees meet a trigger point in relation to short term absence.

**7.0 Analysis of Stress Related absence**

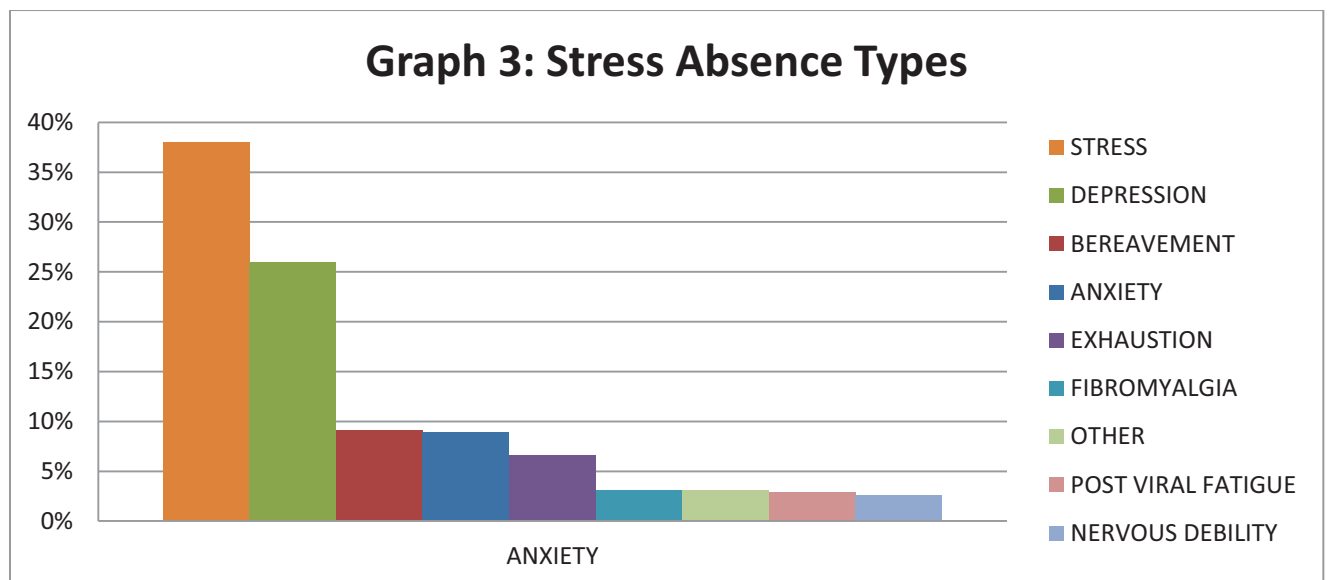
7.1 Stress and emotional illnesses have increased over the last year and have now become the most frequent reason for all sickness absence across the Council. Stress is responsible for 21% per cent of all sickness absence. This follows a trend identified in the 2011 CIPD annual absence survey:

7.2 “Nearly two-fifths of employers overall (50% in the public sector) report that stress-related absence has increased over the past year.”

7.3 The top causes of stress at work are workloads, management style, non-work factors such as relationships and family, relationships at work and considerable organisational change/restructuring.

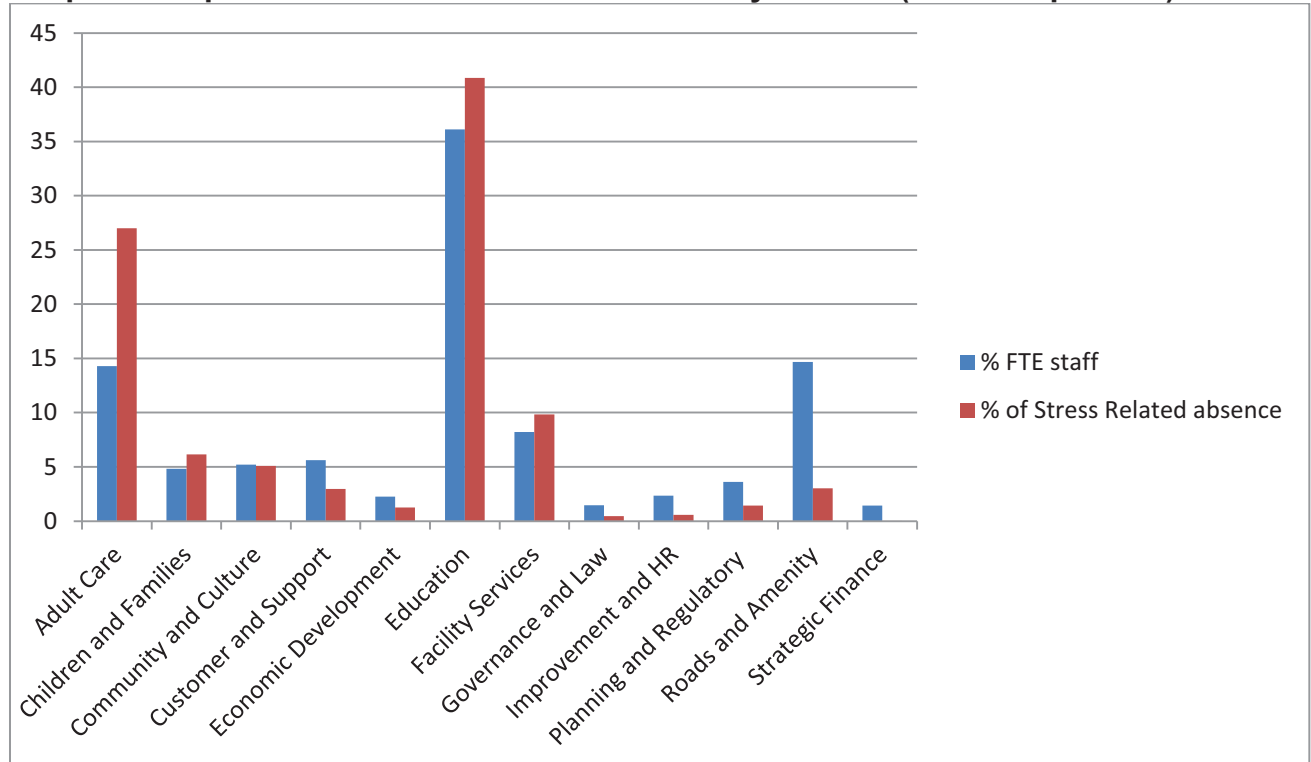
7.4 “Job insecurity is a more common cause of stress in the public sector this year compared with last year and is higher there than in the private or non-profit sectors.”

7.5 The current round of service reviews and resulting employment insecurity and change is likely to have been a factor in our figures. Graph 3 highlights a breakdown of the main types of absence within the category of stress related absence.



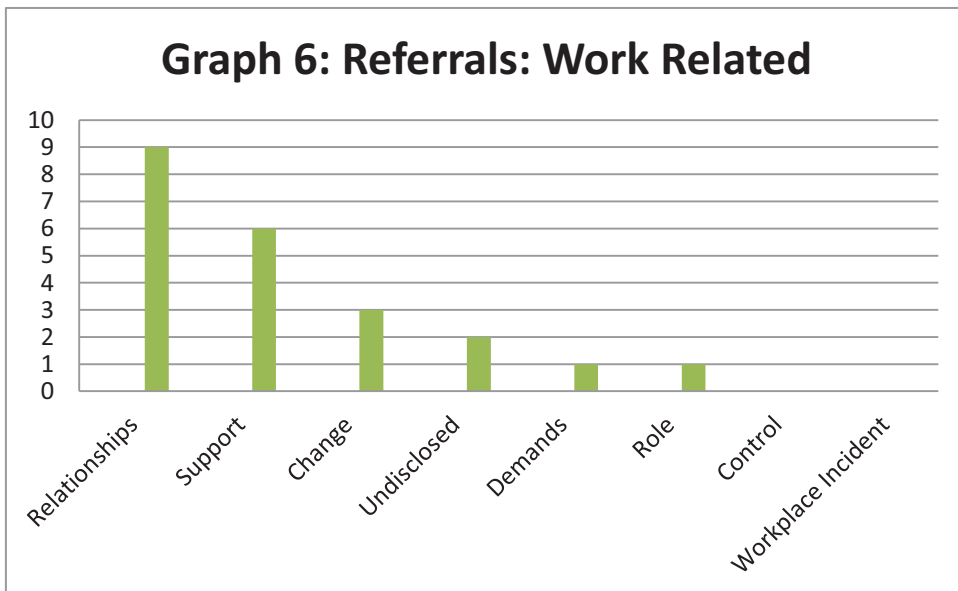
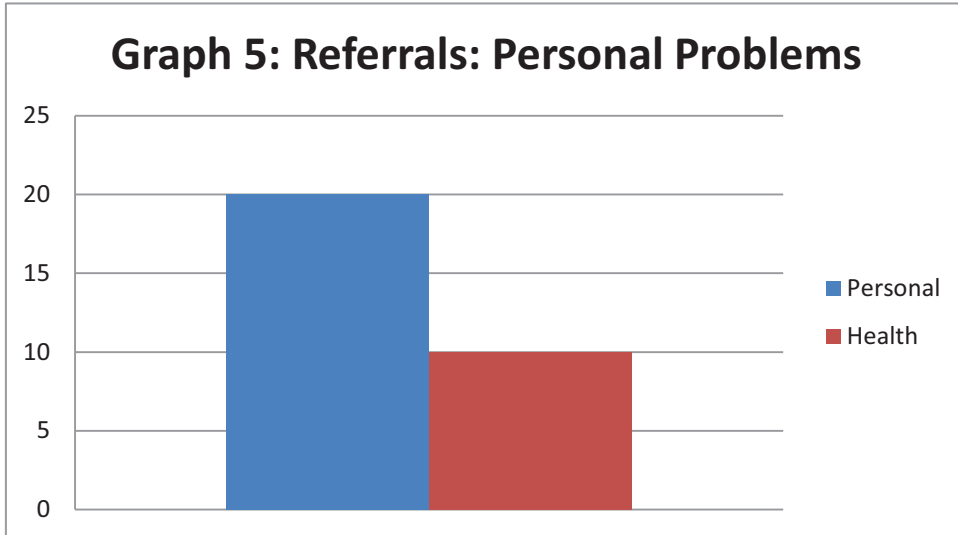
7.6 The graph below shows the proportion of stress related absence split by service against the FTE number staff for each service.



**Graph 4: Proportion of Stress Related absence by Service (FTE Comparison)**

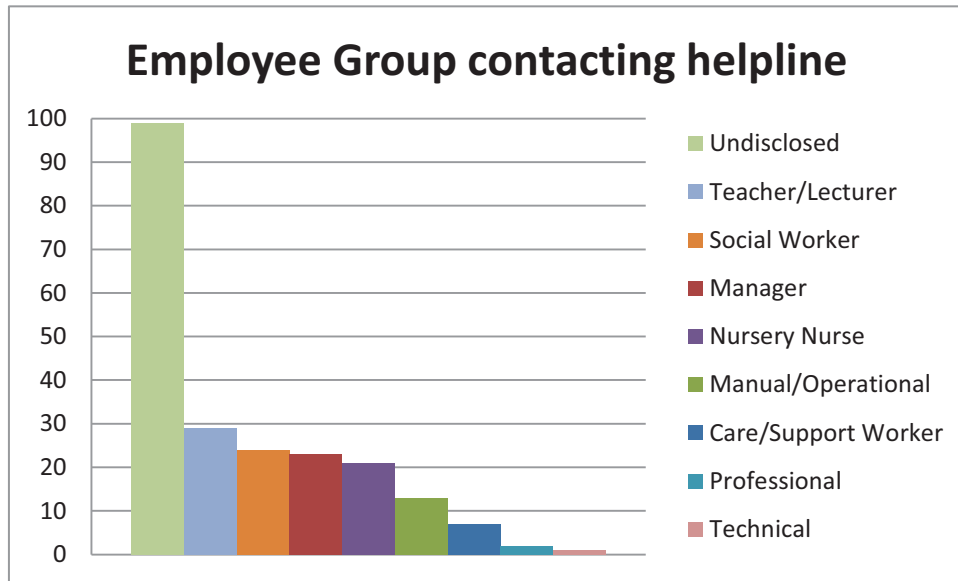
7.7 One hundred and four employees attended counselling from 1<sup>st</sup> April 2010 to 31<sup>st</sup> March 2011. Of these, 58% cited personal reasons for seeking counselling whilst 42% gave work-related explanations. All but 2 were self-referrals. Graph 5 shows that of the non-work related referrals personal problems were the main reason cited for the referral. Graph 6 shows that “relationships” was the most commonly cited work-related reason given for obtaining counselling, closely followed by “support” and then “change”. These categories refer to the HSE’s Management Standards for work-related stress as outlined below:

- Demands – workload, work patterns and work environment.
- Control – How much say a person has in their work.
- Support – Encouragement and resources provided by the Council, line management and colleagues.
- Role – Employees understand their role within their service.
- Change – How organisational change is managed and communicated within the Council.
- Relationships – promoting positive working to avoid conflict and dealing with unacceptable behaviour.



7.8 There were a total of 78 return counselling appointments during the year.

7.9 In addition to structured counselling, the Employee Counselling Service operates an information helpline, 24 hours a day, 365 days a year. Graph 7 provides additional information with regard to employee type contact with the helpline from 1<sup>st</sup> April 2010 to 31<sup>st</sup> March 2011.

**Graph 7: Employee Groups contacting information helpline**

7.10 Human Resources continue to promote the activities of the Employee Counselling Service to ensure all employees are aware of the information and support available to them. Human Resources will continue to promote the activities of the Employee Counselling Service through posters, payslip messages, Cascade, The Hub, News Flash messages and correspondence with employees to ensure the message continues to reach those in even the largest, and most geographically dispersed departments.

## 8.0 Accidents and Reportable Incidents

8.1 The Council continues to have a good health and safety record and only a small proportion of incidents were sufficiently serious to be reported to the Health and Safety Executive. From 1<sup>st</sup> April 2010 to 31<sup>st</sup> March 2011 there were 16 reportable accidents under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations, 1995 placing the Council well below the national average for reportable events.

8.2 In 2000 the Council set itself targets to reduce the number of reportable accidents per year in line with the targets set out in the Health & Safety Executive's publication 'Revitalising Health & Safety'. Now used as a benchmark, the Council has always performed well in terms of these targets and through investment in Health and Safety, since 2007-08 has achieved year on year reductions in reportable accidents with a slight increase in the last year; though with a significant downward trend as follows:

**Table 5 – Number of Reportable Accidents Per Year**

Financial Year	Number of reportable accidents
2006-07	39
2007-08	37
2008-09	31
2009-10	23
2010-11	12
2011-12	16

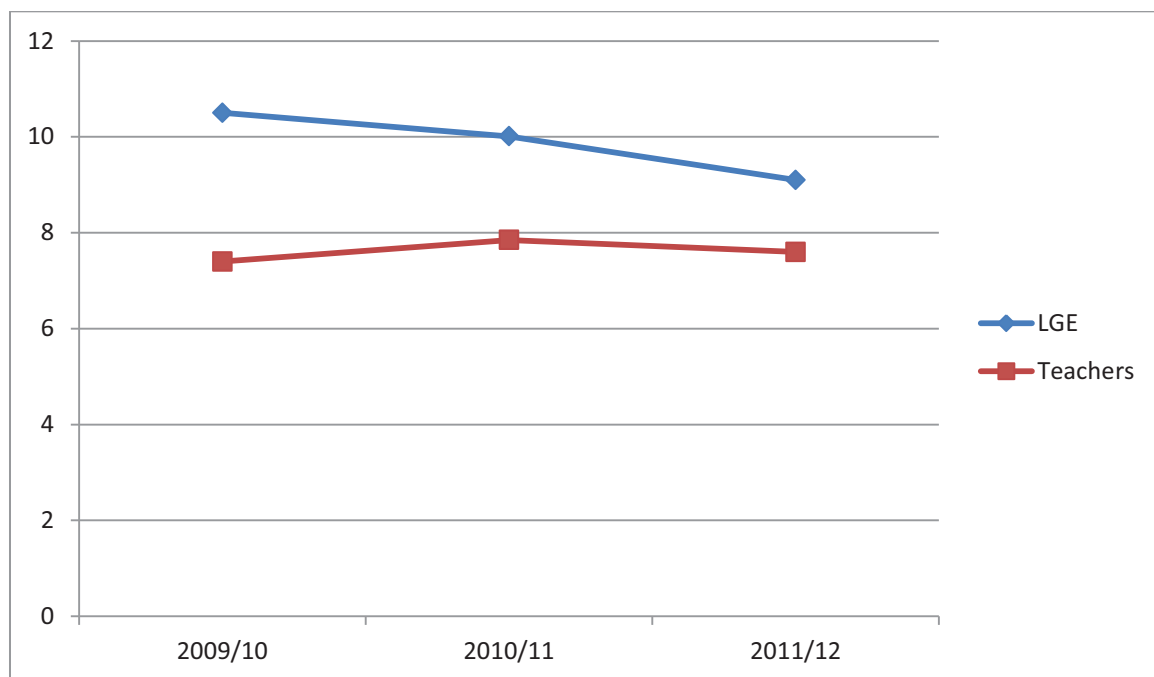
**9.0 Review of Occupational Health Arrangements**

9.1 A working group consisting of representatives from Human Resources and Health and Safety was formed to review occupational health arrangements and a number of meetings held in order to agree requirements. An initial tender was awarded to Serco however issues with the contract have meant that a further tended exercise will be undertaken.

**10.0 Trend Analysis**

10.1 The graph below charts the Statutory Performance Indicators, as reported to Audit Scotland for the previous three years.

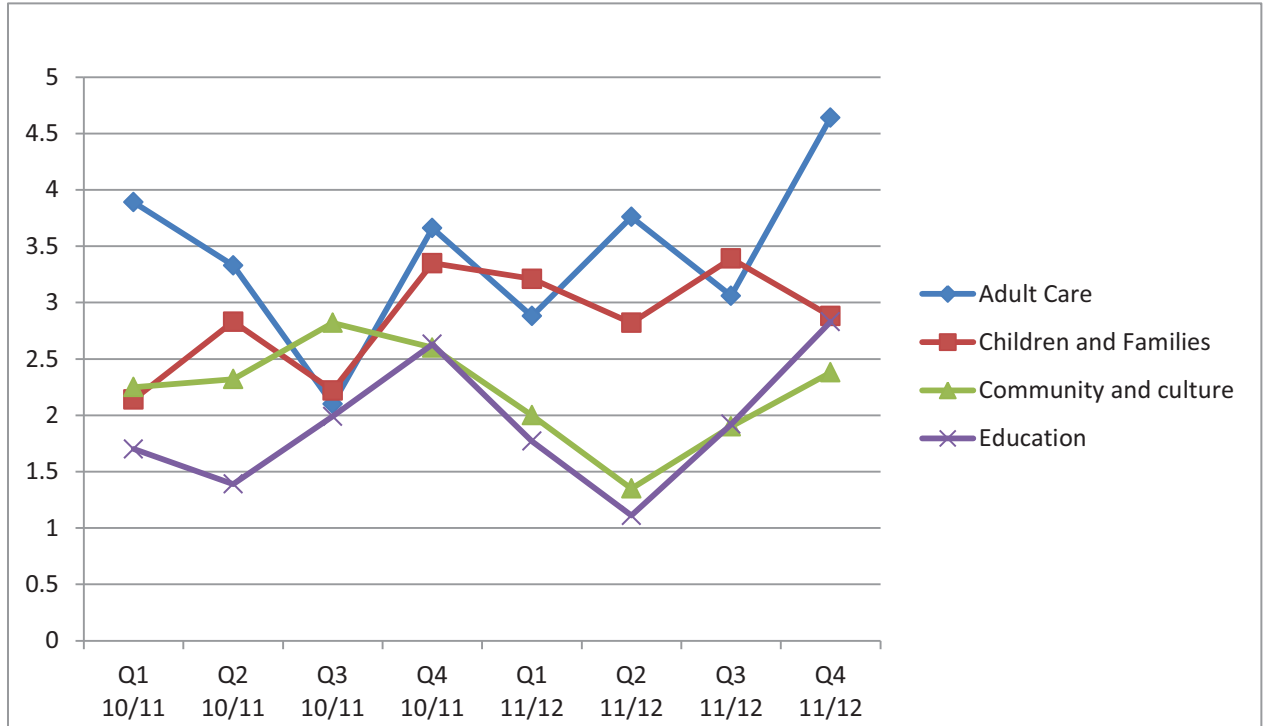
**Graph8: Average Work Days lost per FTE employee (by employee group)**



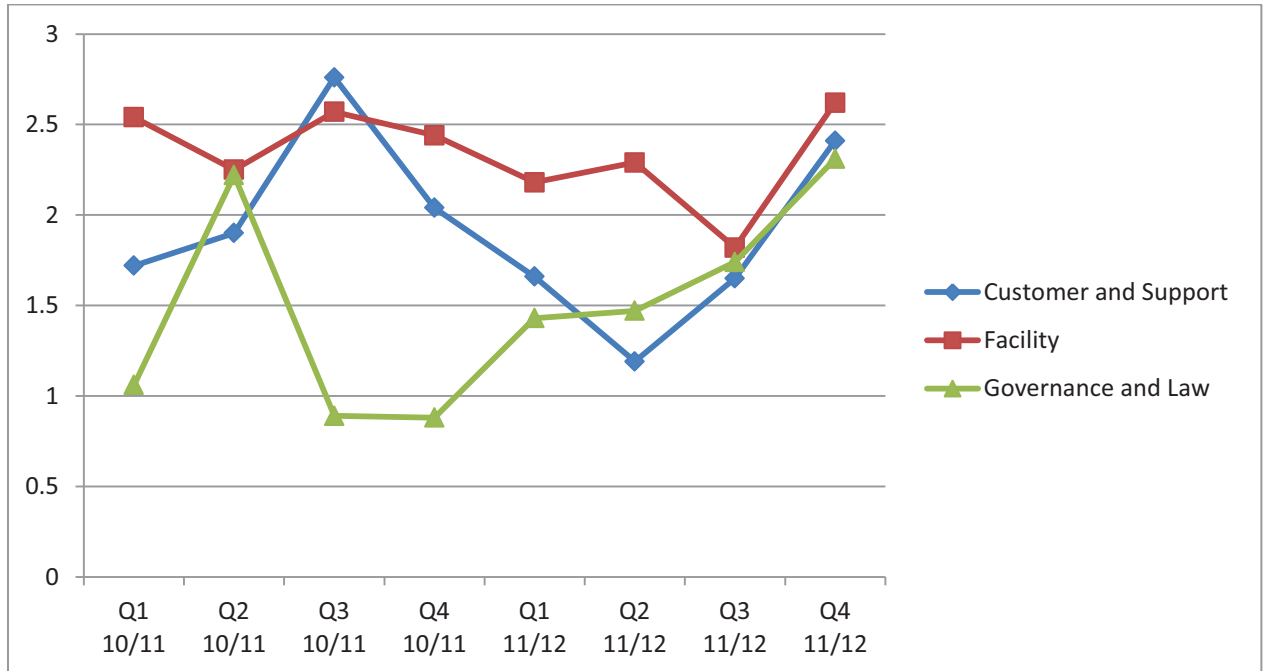
**10.2 Departmental Trends**

10.2.1 The graphs below outline by department the quarterly average days lost per FTE employee for each service. Ideally the Audit committee would like to see three years' data. However due to a restructure in 2010 where departments and services were realigned only figures from April 2010 will afford meaningful comparisons. Future reports will contain three years data.

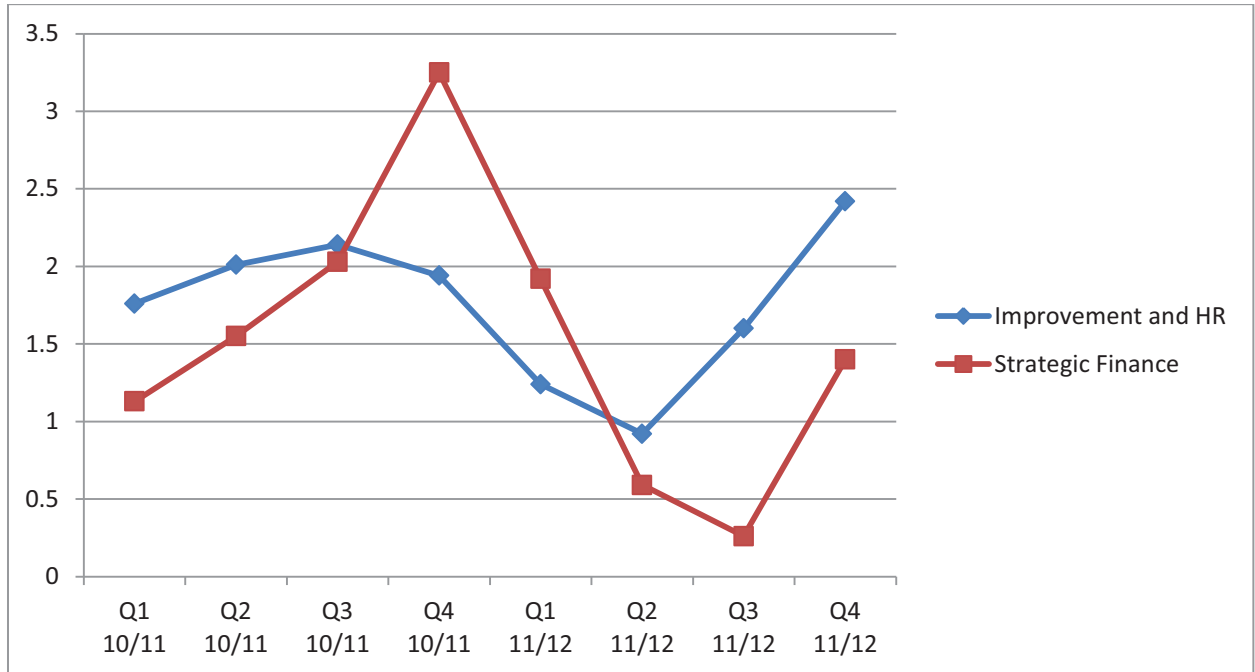
**GRAPH 9: COMMUNITY SERVICES**



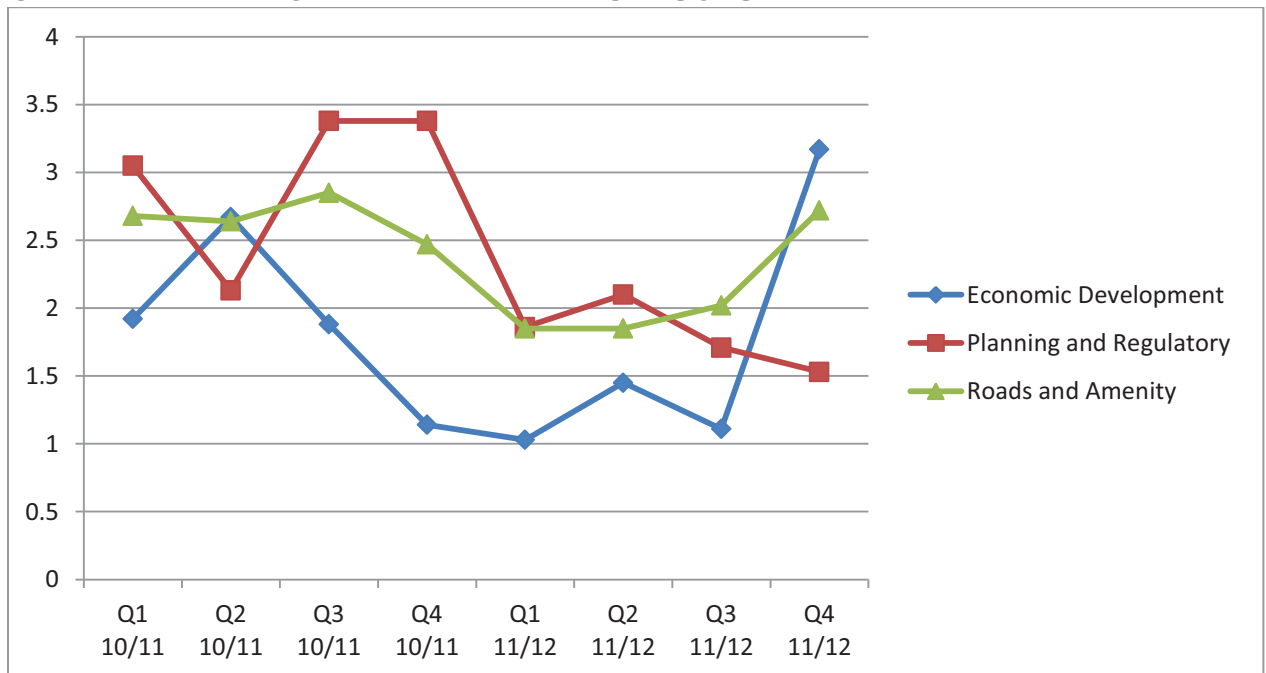
**GRAPH 10: CUSTOMER SERVICES**



**GRAPH 11: CHIEF EXECUTIVES UNIT**



**GRAPH 12 DEVELOPMENT AND INFRASTRUCTURE**



## 11.0 Benchmarking with other authorities

11.1 Each of the 32 Scottish Local Authorities are required to publish their statutory performance indicators in relation to sickness absence. This allows for comparison to be made between the performance of Argyll and Bute Council and other Scottish Councils. The table below shows Argyll and Bute Council's ranking against the 31 other Scottish Local Authorities in relation to the Statutory Performance Indicators over three years.

**TABLE6: Council Ranking on Statutory Performance Indicators**

<b>Employee Group</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
Teachers	19	25	28
LGE	10	10	3

## 12.0 Conclusion

12.1 The Authority is taking an increasingly holistic and preventative approach to Attendance Management through the provision and use of cost effective support services such as Physiotherapy, the Employee Counselling Service and occupational health. These can help to keep employees at work or expedite the return of those who are absent.

12.2 Cumulatively, absence levels from 1<sup>st</sup> April 2011 to 31<sup>st</sup> March 2012 are lower than last year. The Council recognises that further improvements are still possible and is committed to monitoring and reviewing its management practices in light of organisational changes and developments in best practice. This will be an ongoing process and will ensure the Council continues to achieve the reductions in sickness absence costs that are now being generated.

12.3 Argyll and Bute Council has made some significant improvement in absence management over 2011/12. Some of this improvement is lost due to increased accuracy of absence reporting introduced over the last quarter of 2011/12.

12.4 Absence targets for 1012/13 should be set taking into consideration the impact of the underreporting of absence prior to the introduction of the new DAR process.

12.5 Attendance Targets are agreed by Executive Directors and Executive Directors ensure Heads of Service take ownership of their targets.

## 13.0 IMPLICATIONS

**PERSONNEL** Support Services will continue to be promoted to employees and reviewed by the Council to ensure they are providing value for money and continue to meet requirements. The new Maximising Attendance Policy and Procedures have been communicated to all staff. Promotional activities are in place to advise employees of changes to reporting procedures as the Direct Absence Reporting Phone line is rolled out across the Authority.

FINANCIAL	Failure to properly manage sickness absence can lead to an increase in costs through sick pay and the cost of cover for the absent employee. The Council has, and will continue to face, significant budgetary constraints and needs to ensure it is making the most effective and efficient use of resources.
EQUALITY	Internal and external support mechanisms such as Human Resources, Employee Counselling Service and Occupational Health (including occupational physiotherapy) are available to all staff within the Council.
LEGAL	Line managers need to be aware of the implications of the Equality Act 2010 when making any decisions that affect someone who may be disabled as defined by the Act. Failure to address incidences of work-related stress within the workplace may result in claims being raised against the Council.
RISK	Failure to maximise attendance could present operational, financial and reputational risk to the Council

Jane Fowler  
Head of Improvement and HR  
Tel: 01546 604466

For further information, please contact:  
Carolyn McAlpine 01546 604 021



**Appendix One: Maximising Attendance at Work Policy**



**ARGYLL AND BUTE COUNCIL**

**MAXIMISING ATTENDANCE AT WORK  
POLICY**

## Contents

1.	<u>Scope</u> .....
2.	<u>Policy Statement</u> .....
3.	<u>Principles and Aims</u> .....
4.	<u>Roles and Responsibilities in Implementing the Policy</u> .....
	<u>The role of the Strategic Management Team is to:</u> .....
	<u>Heads of Service are required to:</u> .....
	<u>Line Managers are required to:</u> .....
	<u>Employees are required to:</u> .....
	<u>The role of Human Resources is to:</u> .....
5.	<u>Tackling the Causes of Sickness Absence – Additional Support</u> .....

## 1. Scope

- 1.1. This Policy and associated procedures apply to all employees of Argyll and Bute Council.

## 2. Policy Statement

- 2.1. Levels of attendance at work directly affect the quality and provision of services through the ability of employees to carry out their work efficiently and effectively. Whilst some absence due to sickness is inevitable, the Council's objective is to ensure that sickness absence is minimised through effective management supported by fair and consistent procedures.
- 2.2. Absence due to sickness can be for a number of reasons. It is important that within a common policy approach, instances of sickness absence are dealt with on an individual basis. A balanced approach is required which takes into account the need to maintain high levels of attendance whilst ensuring employees are treated fairly, consistently and sympathetically.
- 2.3. It is intended that this Policy be used positively and constructively to support and enable employees to return or remain at work. At all stages, discussions will focus on exploring ways to improve and maintain attendance thereby ensuring service needs are met. The particular circumstances of each individual will be considered and relevant support measures implemented where these can contribute to improved attendance levels.
- 2.4. A healthy workforce and a healthy working environment are essential to achieving higher levels of attendance and providing high quality services. The Council is therefore committed to developing occupational health and related services, and to promoting health at work, as measures to improve attendance levels. In this regard there are a number of other Council policies which are complementary to the Council's wider approach to promoting health at work and these include the Equal Opportunities Policy, Health and Safety Policies as well as the Stress Reduction Policy. The Council recognises that, depending on the nature of the health condition and/or absence, early intervention can be effective in promoting improved health and attendance.
- 2.5. In the case of illness resulting from a disability, "reasonable adjustments" will be made wherever practicable to support and facilitate an employee's attendance at work in accordance with relevant disability discrimination legislation.
- 2.6. The effectiveness of this Policy will be monitored through regular reporting of relevant sickness absence management information to the Council's Strategic Management Team and Elected Members/Audit Committee.

### 3. Principles and Aims

3.1. The following principles apply to the Council's procedures for dealing with sickness absence:

- Good attendance is valued and all opportunities should be taken to acknowledge and recognise such attendance.
- The Council will aim to promote a positive and preventative, rather than punitive approach.
- Matters raised relating to an employee's attendance do not imply any distrust of the employee or concerns regarding their conduct.
- Sickness/injury absence will be dealt with in a way that is non-discriminatory and in accordance with the Council's Equal Opportunities Policy. A copy of the Equal Opportunities Policy can be found within the HUB under HR Section.
- Employees will be dealt with consistently, and the sickness absence procedures will be fairly applied across the Authority. The Council will be sensitive, and supportive to those suffering the effects of ill health.
- Sickness absence cases will be conducted with respect for confidentiality and in accordance with the requirements of the Data Protection, and Access to Medical Reports Acts.
- Open communication between managers and employees will be encouraged and promoted.

The Maximising Attendance at Work Policy and associated procedures will be monitored and reviewed to ensure that they continue to meet the Council's aims and comply with these principles.

#### **4. Roles and Responsibilities in Implementing the Policy**

Responsibility for implementing and complying with this Policy lies with individuals at all levels within the Council.

##### **The role of the Strategic Management Team is to:**

- Analyse and monitor corporate/departmental sickness absence data and trends based on quarterly returns
- Determine, as necessary, the requirement for targeted interventions in areas with higher sickness absence or where patterns or trends emerge
- Report Council-wide sickness absence levels to the Council's Executive Committee on a quarterly and bi-annual basis per department via scorecards.

##### **Heads of Service are required to:**

- Monitor sickness absence by service area on an ongoing basis using absence data provided by Human Resources
- Ensure line managers are trained in applying the Maximising Attendance at Work Policy and procedures.
- Monitor action being taken by managers in respect of cases where triggers have been reached and follow up on progress

##### **Line Managers are required to:**

- Let employees know that their contribution to the work of the Council is valued, and that their attendance at work makes a significant contribution to providing a quality service.
- Manage absence among the employees for which they have responsibility. This includes:
  - Ensuring that employees are aware of the notification (and where appropriate, certification procedures) for absences of any kind.
  - Ensuring that accurate absence records are kept for each employee
  - Dealing immediately, fairly and sensitively with employees when they are ill and providing support to encourage attendance.
  - Maintaining regular contact with employees who are absent.

- Make reasonable adjustments (where appropriate) to aid employees return to work or where the employee has raised concerns that their work is impacting their health.
- Conduct Return to Work Meetings and, where appropriate, further meetings with employees in accordance with the Maximising Attendance at Work Policy and associated procedures.

### **Employees are required to:**

- Attend work unless unfit to do so.
- Advise their line manager of any illness or condition which may affect their ability to attend work or to undertake the duties of their post.
- Take personal and contractual responsibility for attendance levels, their own well-being and seek medical advice and appropriate treatment promptly to maintain attendance, and/or facilitate an early return to work.
- Raise concerns with their manager (or Human Resources if appropriate) and where possible detail possible solutions if they believe their job is making them ill, or contributing to illness.
- Report sickness absences promptly, in accordance with the Maximising Attendance at Work procedures.
- Ensure appropriate certifications are completed and submitted in accordance with notification and certification procedures.
- Maintain regular contact with their manager during periods of sickness/injury absence.
- Communicate effectively with their manager about their sickness/injury absence.
- Co-operate as appropriate with the Council's Occupational Health Adviser and other organisations that provide support to the Council and its' employees.
- Not knowingly abuse the maximising attendance procedures or sick pay schemes.

### **The role of Human Resources is to:**

- Provide advice and guidance to employees and line managers in managing attendance.
- Provide reports and statistical information to managers to enable them to make informed decisions when monitoring and reviewing sickness absence
- Maintain links with the Council's Occupational Health provider and other similar agencies to support the implementation of this Policy

- Monitor the overall application of the Policy and associated procedures

## 5. Tackling the Causes of Sickness Absence – Additional Support

- 5.1. The Council has developed a range of initiatives designed to support employees and prevent and reduce sickness absence levels including;
- 5.2. Occupational Health - provide advice and guidance on the impact of ill health on work and what steps the Council and/or the employee may make in order to secure an early return to work.
- 5.3. Counselling Service – to provide a confidential information, counselling and assistance service to employees in order to discuss concerns related to work or personal circumstances.
- 5.4. Health improvement policies – developing initiatives which contribute to the improved health and welfare of the workforce supported by the national Healthy Working Lives agenda.
- 5.5. Flexible and home working arrangements – Extending the scope of flexible and home working arrangements to help employees to better achieve a work/life balance.
- 5.6. Additional training for managers – training on the Maximising Attendance at Work Policy & Procedures will be offered to provide additional support to managers.
- 5.7. The development of management information systems which will enable managers to receive detailed reports on the causes of absence and identify any trends that may be evident as well as the concentration of absence at a particular location.

Please refer to the **“Sources of Support for Managing Attendance”** document for further information. Sources of Support for Managing attendance can be obtained within the HUB under HR Section/Managing Staff

This is a “live” document and will be regularly reviewed by Improvement and HR. We will therefore be pleased to receive any comments and/or suggestions in relation to the Policy as part of this review cycle. These should be sent to the Head of Improvement & HR, Kilmory, Lochgilphead, PA31 8RT or via email to [Jane.Fowler@argyll-bute.gov.uk](mailto:Jane.Fowler@argyll-bute.gov.uk).

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**ARGYLL AND BUTE COUNCIL****AUDIT COMMITTEE****CHIEF EXECUTIVE'S UNIT****7 DECEMBER 2012**

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**PERFORMANCE MANAGEMENT QUARTERLY REPORT**

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**1 Introduction**

**1.1** This report updates the Audit Committee on the progress being made across the Council relating to the key elements of the Planning and Performance Management Framework (PPMF), including

- The Council's Annual Report 2011-12
- Service Annual Performance Reviews 2011-12
- Service Improvement Plans 2012-13
- Service Plans 2013-14
- Performance Review and Development (PRD)
- Area Scorecards

**1.2** The report provides a detailed view of a range of key areas of development and continuous improvement.

**2 Recommendation**

**2.1** It is recommended that the Audit Committee notes the progress made in relation to performance management and improvement across the council.

**3 Detail**

**3.1** The **Council's Annual Report** for 2011-12 has been approved by the Strategic Management Team and prepared for review by the Performance Review and Scrutiny Committee. The Annual Report sets out a broad range of achievement and challenge for the year across the whole council. Successes of key front line services are described alongside the allocation of resources. An overview of the council's financial position is included.

**3.2** **Service Annual Performance Reviews** for 2011-12 provide greater detail about the annual performance of each Service. These Reviews are complementary to the Council's Annual Report, expanding on the highlights provided therein. Each Service sets out the key successes and challenges with a section explaining how future challenges will be met. The Review includes screenshots of the Service scorecard.

**3.3** **Service Improvement Plans** for 2012-13 reflect the necessity to address the challenges faced by increasing demand for services at a time of diminishing resources. Each Service undertakes a regular self-assessment, using the Public Service Improvement Framework or a similar business excellence model. The results of this self-assessment are developed along with customer feedback, employee suggestions and the Annual Performance Review to provide a comprehensive Improvement Plan. The Plan is monitored and reported through the Service scorecard.

**3.4** First draft **Service Plans** have been developed for 2013-14 in preparation for development of next year's budget. They set out the proposed Service outcomes, success measures and risks alongside the Service overview and customer management proposals. This latter has been developed for 2013-14 using the Customer Service Health Check – a new self-assessment tool designed to help managers identify areas for improvement in customer service delivery. This is an area that will be developed and progressed through the Customer Service Board.

**3.5 Performance Review and Development (PRD)** is an improved way to develop employees' competencies. At their September meeting, the Audit Committee heard that the new process would be piloted through the Development and Infrastructure Department. Unfortunately, this has now been delayed, leaving the Chief Executive's Unit to pilot the new process. Other Departments will follow from April 2013, but in the meantime, every effort is being made to continue with the new on-line system, as this will link the Corporate and Service Outcomes to the Team and individual work plans. This 'golden thread' approach supports greater attribution and accountability, leading to a leaner, more efficient organisation. The overall timescale for implementing the new PRD process is for all departments to be using this by 31 March 2014.

**3.6 Area Scorecards** have undergone a transformation. The council's outcomes have been removed, providing additional opportunities for Members to select Area-sensitive measures. The scorecards have developed through an inclusive process, allowing each Area scorecard to evolved differently. However, there is a unified end result though careful design and negotiation.

## **4 Conclusion**

**4.1** The Planning and Performance Management Framework continues to be the structure against which performance is planned and measured. It is reviewed annually to capture ongoing improvements across the Council.

## **5 Implications**

<b>Policy</b>	none
<b>Financial</b>	the Council's budget is set and monitored using the processes agreed in the PPMF
<b>Personnel</b>	none
<b>Legal</b>	none
<b>Equal Opportunities</b>	none

### **Jane Fowler**

Head of Improvement & HR

For further information:

### **David Clements**

I&OD Programme Manager

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**ARGYLL & BUTE COUNCIL  
STRATEGIC FINANCE**

**AUDIT COMMITTEE  
7 DECEMBER 2012**

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**AUDIT SCOTLAND NATIONAL REPORTS TO AUDIT COMMITTEE 2012 - 2013**

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**1. SUMMARY**

In compliance with the CIPFA Code of Practice for Internal Audit, on a quarterly basis the Audit Committee receives Audit Scotland reports pertaining to Local Government. There are 2 reports appended for the Audit Committee. Both reports contain a checklist for which a management response has been provided.

**2. RECOMMENDATIONS**

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

**3. DETAILS**

3.1 In November 2012, Audit Scotland published a report entitled, "Reducing reoffending in Scotland. " The report highlights that reconviction rates have remained relatively static over the past decade, with 30 per cent of offenders being reconvicted within one year. In 2010/11 of 9,500 people convicted one in five had at least ten previous convictions. Almost £130 million is spent a year on reducing reoffending and it is important this money is spent effectively. The report concludes that the Scottish Government needs to review how offenders are managed in the community and Councils need to improve how they plan, design and deliver services for offenders. An audit checklist has been completed by the appropriate Head of Service responding to key report messages and is attached for review.

3.2 The Accounts Commission published a report in October 2012 entitled "Managing performance: are you getting it right?" The report offers practical pointers and support to help councillors and officials. The report highlights that effective management of performance is everyone's business – from the chief executive down. The report goes on to say that in well-run councils a key element is getting the culture right with councillors and officials sharing a common purpose and vision and setting clear priorities for performance. An audit checklist has been completed by the appropriate Head of Service responding to key report messages and is attached for review.

3.5 Full reports can either be viewed at [http://www.audit-scotland.gov.uk/work/local\\_national.php](http://www.audit-scotland.gov.uk/work/local_national.php) 2012/13 or viewed in the Committee Room 1 where a copy has been made available.

**4. CONCLUSIONS**

This report and attachments are submitted to the Audit Committee for consideration and review.

**5. IMPLICATIONS**

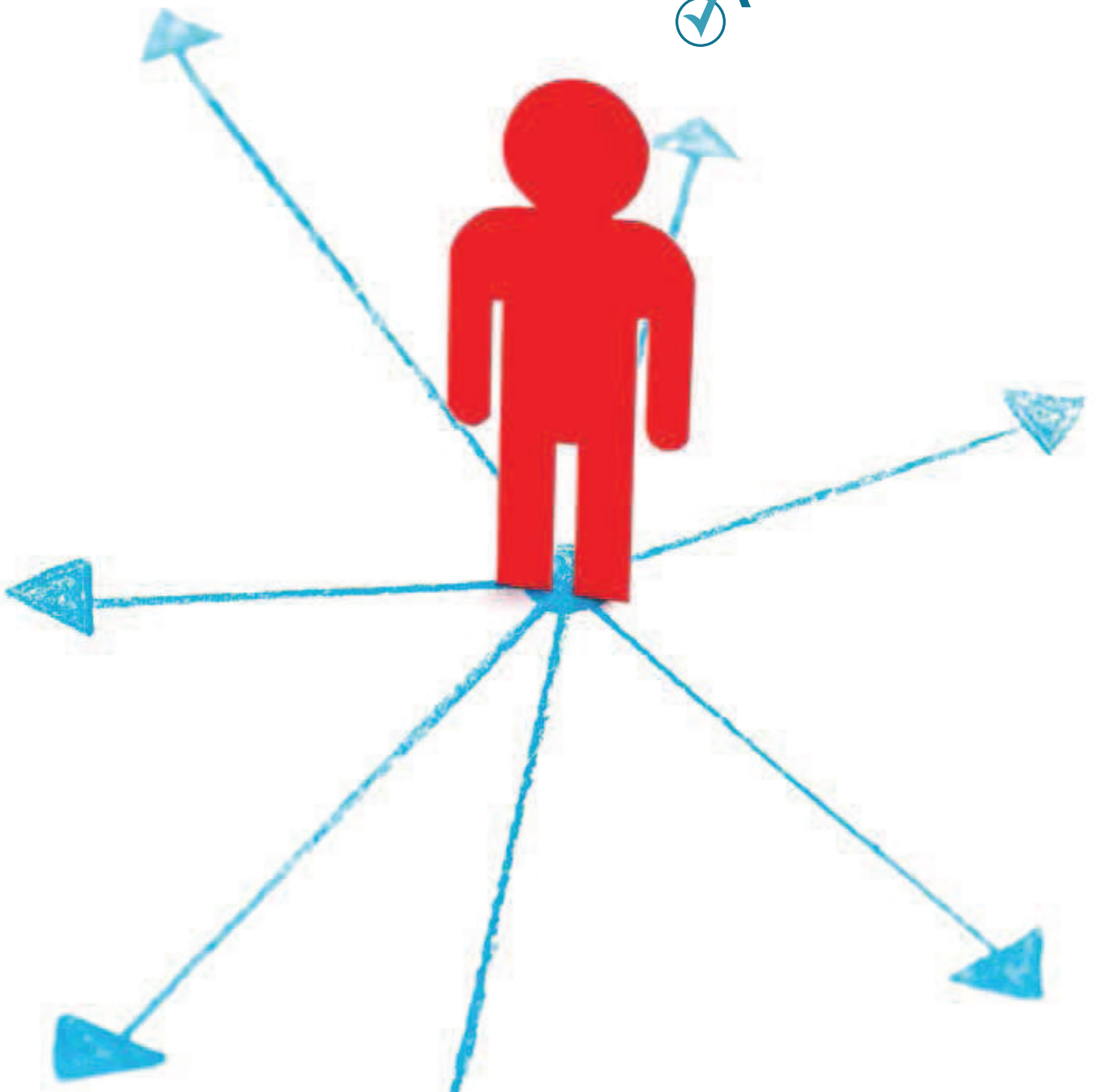
5.1	Policy:	None
5.2	Financial:	None
5.3	Legal:	None
5.4	HR:	None
5.5	Equalities:	None
5.6	Risk:	None
5.7	Customer Service:	None

For further information please contact Ian Nisbet, Chief Internal Auditor (01546 604216). 13 November 2012

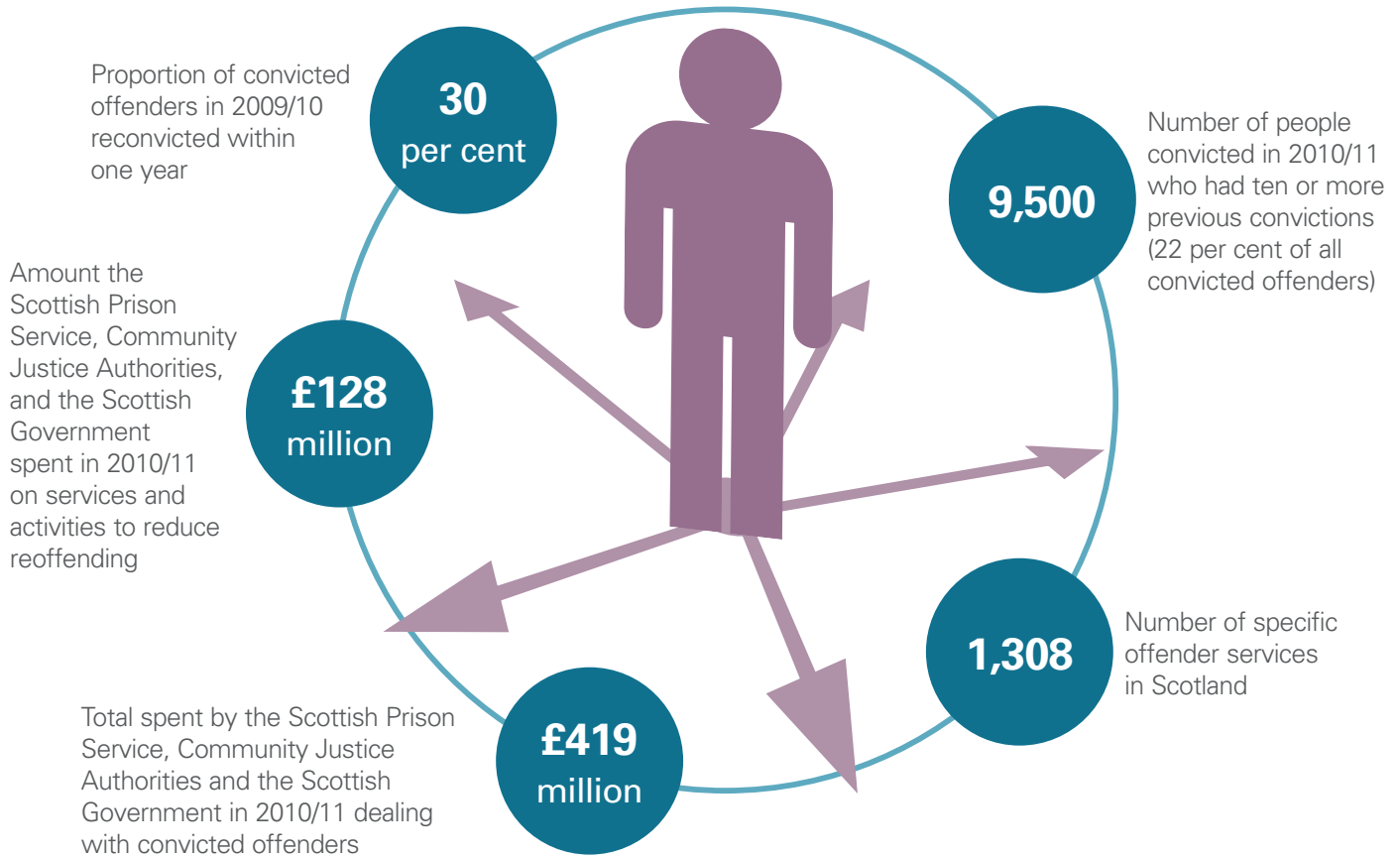
Key messages

# Reducing reoffending in Scotland

Prepared for the Auditor General for Scotland and the Accounts Commission  
November 2012



## Key facts



### What's this report about?

This audit looked at the efficiency and effectiveness of approaches taken to reduce reoffending in Scotland. It focused on adult offenders sentenced in court.

### Reoffending is a continuing problem in Scotland

- Reconviction rates in Scotland have remained relatively static over recent years; 30 per cent of people convicted in 2009/10 were reconvicted within one year compared to 32 per cent in 1997/98.
- In 2010/11, more than one in five people convicted (9,500) had ten or more previous convictions.
- The prison population has risen 27 per cent in ten years. In 2011/12, an average of 8,178 people were in prison on any one day.
- The Scottish Government estimates that reoffending costs Scotland £3 billion a year.

### £128 million was spent on reducing reoffending in 2010/11. There is a mismatch between what is delivered and what is known to work

- In 2010/11, £419 million was spent by the Scottish Prison Service (SPS), Community Justice Authorities (CJAs) and the Scottish Government on dealing with convicted offenders. Less than a third of this (£128 million) was spent on services specifically to reduce reoffending.
- There is strong evidence on what works to reduce reoffending. This includes:
  - helping offenders find jobs, improving relationships with their families and communities, and managing their lives
  - relationships between support workers and offenders based on respect and trust; being flexible and non-judgemental; and relationships being maintained when offenders leave prison
  - tailoring approaches to offenders and their individual needs.
- Over 1,300 services are provided for offenders in prison and the community, but access and availability vary across Scotland. There is limited correlation

between what is offered and what works, for example, there are few services that address families and relationships or money management.

- The level of support for prisoners depends on the length of sentence being served. Better support for prisoners serving short sentences is needed.

**Community Justice Authorities were established to improve joint working and reduce reoffending. They have brought people together, but the way they were set up and inflexible funding limit their effectiveness**

- Many bodies are involved in dealing with offenders, including SPS, CJAs, councils, the Crown Office and Procurator Fiscal Service, the Scottish Court Service, police, NHS boards, professional individuals, and over 100 voluntary and community organisations.
- Eight CJAs were established in 2007. They are independent government bodies, accountable to Scottish ministers, with boards consisting of councillors from constituent councils. SPS and councils have a duty to cooperate with CJAs, and a number of other bodies are statutory partners. But these bodies are not accountable to CJAs.
- Engagement and scrutiny varies among board members, and councillors can find it difficult to separate their CJA and council responsibilities. This has limited CJAs' ability to move funds between councils to meet local needs.
- CJAs' effectiveness is also limited by their lack of operational control (councils deliver criminal justice social work services) and small staff numbers – typically three or four.
- Community justice funding is inflexible and does not encourage reducing reoffending. CJAs had £99 million in 2010/11 to allocate to councils to deliver community-based sentences and other services for offenders. The cost of these sentences varies widely across the country.

**Recommendations**

The Scottish Government should:

- improve arrangements for funding community justice to ensure that:
  - the money is targeted towards effective approaches to reduce reoffending
  - there is more flexibility to meet local needs and priorities
  - allocations are more responsive to changes in demand

- improve the range of performance measures to assess the effectiveness of SPS, CJAs and councils in reducing reoffending
- review current arrangements for managing offenders in the community to ensure that:
  - there are clear and shared objectives to reduce reoffending
  - those working to reduce reoffending have appropriate powers
  - there is clear accountability and a mechanism to promote collective responsibility for reducing reoffending
  - arrangements promote and support what works in reducing reoffending and allow flexible service delivery
  - there is a more coordinated and strategic approach to working with the third sector.

The Scottish Government, SPS, CJAs and councils should:

- work together, and with other relevant public and third sector providers, to improve how services to reduce reoffending are planned, designed and delivered to ensure that they:
  - meet the needs of offenders, in particular those serving short prison sentences
  - recognise the level of demand
  - are based on evidence of what works
  - take into account costs of delivery.

CJAs and councils should:

- work together to improve their understanding of the costs of different types of criminal justice social work activity and how these relate to the quality of service. This should inform decisions on how resources are used and where efficiency could be improved.

**What happens now?**

The full report can be accessed on our website – [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk). We will present our report to the Scottish Parliament's Public Audit Committee. The Committee can call relevant people at the Scottish Government and other public bodies to discuss the issues our audit has raised.

We will also monitor progress against our recommendations through our audit work.

Key messages

# Reducing reoffending in Scotland

If you would like to find out more on this topic, you can download a copy of the full report from our website or contact our report team at [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

We provide all our reports and key messages documents in PDF, black and white PDF and RTF format.

If you require any publications in an alternative format and/or language, please contact us to discuss your needs.



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ISBN 978 1 907916 79 3

AGS/2012/8

This publication is printed on 100% recycled, uncoated paper





Key Point/Checklist/ Recommendation	Council Position Yes/No	Action/Response:	Date for Implementation	Lead Officer
Does the Council and the Community Justice Authorities (CLAs) work together to improve their understanding of the unit costs of different types of criminal justice social work activity and how these relate to the quality of service delivered. This work should be used to inform decisions on how resources are used and where efficiency could be improved.	Yes	<p>Following the publication of the Audit Scotland Report the Council will, with it's partners within the Argyll, Bute and Dunbartonshires' Criminal Justice Social Work Partnership be seeking to establish a clearer understanding of the costs of CJSW services.</p> <p><i>Note: the Audit \Scotland report refers to indicative unit costs of ** and CJ Reports which reflect a division of grant allocation against that heading by activity levels. This is highly unlikely to reflect the "real" cost of the service as, over several years the value of the community justice funding has increasingly lagged behind the cost of delivering the service. The relationship between the value of the grant and cost has further been distorted by the effect of the funding formula, rightly criticised in the report.</i></p>	30 <sup>th</sup> January 2013	Partnership Manager/Service Manager Criminal Justice
Does the Council work with the Scottish Government and CJAs to improve how services are reducing reoffending are planned, designed and delivered to ensure that they:	Yes	The Council and partners works with the CJA to reduce re-offending. This is achieved within a Planning and Performance Improvement Framework drawing down from the National Strategy from the Management of Offenders, the CJA National strategic Aims and objectives and Area Plan, to create and implement a Partnership Strategic Plan focusing upon, five strategic Priorities which underpin the achievement of reducing re-offending.	The current plan runs up to 2014	Partnership Manager/Service Manager

<p>1 Meet the needs of offenders, in particular those serving short sentences</p>	<p>Yes</p>	<p>These are, Assessment, Supervision, Workforce Development, resource Planning And Commissioning and management and Performance Improvement.</p> <p>The Majority of prisoners serving shorter sentence are not subject to any form of statutory post custodial supervision.</p> <p>The Council / CJ Partnership is presently working with third sector partners within the terms of priorities identified through the Reducing Re-offending 2 programme towards a bid for funding via the Community Justice Change Fund. The focus of this bid is Persistent offenders, group which contributes disproportionately to the short term prison population.</p>	<p>January 2013 (bid deadline)</p>	<p>Partnership Manager</p>
<p>2 Recognise the level of demand</p>	<p>Yes</p>	<p>The Council has clear understanding of the level of demand, directly through analysis of Aggregate return information re activity levels over the past ten years and through recorder crime data.</p> <p>The CJ Partnership's Commissioning Strategy will be brought up to date to reflect the most recent available data/analysis within the context of anticipated significant changes within the strategic</p>	<p>December 2012 (and annually)</p>	<p>Partnership Manager/ Planning Officer</p>

3 Are based on evidence of what works	Yes	<p><i>Note. Both the current Audit Scotland report and preceding Overview report on the Scottish Criminal Justice System , recognise that demand in terms of community justice services is a product of the decisions of sentencers over which services have little control.</i></p> <p><i>A corollary of this is that demand expressed through this medium may not consistently reflect need in respect of the nature and pattern of criminal activity.</i></p>		
4 Take into account costs of delivery.	Yes	<p>The Council has invested considerable effort in terms of improving practice over recent years , principally through commitment of staff to participation in national training programmes with regard to improved risk assessment tools and the implementation of Community Payback Orders.</p> <p>The Change fund bid noted above will focus on what is described in the Audit Scotland and Commission on Women Offenders reports as the promise offered by intensive mentoring and more generally the merits in the longer term of early and effective intervention</p>	March 2013 ( contingent upon success of bid and /or nationally co-ordinated initiatives currently in process )	Partnership Manager
4 Take into account costs of delivery.	Yes	See above comment re unit costs.		Partnership Manager

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How councils work:  
an improvement series for  
councillors and officers

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# **Managing performance: are you getting it right?**

**Key messages for councillors**



 ACCOUNTS COMMISSION

October 2012



Effectively managing performance and improvement helps councils demonstrate that they are delivering efficient and effective services to communities and are making the best use of resources.

### Key messages

- Everyone in the council has a role to play in managing performance.
- Councillors need good-quality information to make well-informed decisions, scrutinise performance and identify areas for improvement.
- Performance measures must reflect a council's priorities if it is to assure itself that its objectives are being met.
- Managing performance is important for governance and accountability.
- An effective performance management culture, led by officers and councillors, is essential.
- Performance information must be acted upon to improve outcomes.
- Self-evaluation and review activity form an important part of continuous improvement.
- Councillors and officers need to ensure that the principles of effective performance management apply equally when working with partners.

## Councillors have an important role in managing performance and delivering improvement

### Key messages

Councillors:

- have a strategic role in managing performance
- need to be clear about what the council is wanting to achieve and how they will monitor and review performance
- need to be prepared to challenge officers on service performance to ensure that priorities are delivered and the needs of local communities are being met
- can support improvement by showing they are actively interested in performance management and taking action based on what the performance information is telling them.

### More information

You can get the full report on the Audit Scotland website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) or ask for a copy from your council.

**Councillors role in managing performance: the plan – do – review – revise cycle**



## How councils work: an improvement series for councillors and officers

- *Roles and working relationships: are you getting it right?*
- *Arm's-length external organisations (ALEOs): are you getting it right?*
- *Using cost information to improve performance: are you getting it right?*

Full report available online: Podcast • PDF • RTF • Black and white PDF





Extract from How councils work: an improvement series for councillors and officers - Managing performance: are you getting it right? Audit Scotland, 04/10/12.	Our position	What action we plan to take to improve our position and address the action points	Who will lead and timescale
<b>An effective council will:</b>			
1. have a developed culture where leaders demonstrate good management of performance and communicate regularly on performance and improvement issues	Performance considered at service, departmental and corporate management teams and by elected members. Performance Review and Scrutiny Committee established. Departmental and Council scorecards reported quarterly and available on website for public. Services also prepare annual service reviews.	Planning and Performance Management Framework due for review.	Executive Director of Development & Infrastructure as sponsor for Productivity and Service Improvement project in Corporate Improvement Plan  March 2013
2. have a corporate framework for performance management and continuous improvement	Planning and Performance Management Framework in place.	Planning and Performance Management Framework due for review.	Executive Director of Development & Infrastructure as sponsor for Productivity and Service Improvement project in Corporate Improvement Plan  March 2013
3. be clear on its priorities and have plans that meet the 'golden thread' test	Service outcomes linked to corporate outcomes. Team plans contain actions to deliver service outcomes. PDR/PRD translate team actions into individual staff contributions.	Strengthen the linking of corporate and service outcomes and team actions. PRD will drive down to individual level.	Head of improvement and HR Teams FQ4 2012-13. PRD roll out extends to 2014/15.

Extract from How councils work: an improvement series for councillors and officers - Managing performance: are you getting it right? Audit Scotland, 04/10/12.	Our position	What action we plan to take to improve our position and address the action points	Who will lead and timescale
4. use a wide range of measures to effectively manage performance	Scorecards contain measures around service outcomes, customer satisfaction, improvement actions and resources. Service plans set down success measures and targets and timescales for each service outcome.	Review of Planning and Performance Management Framework and annual service planning cycle.	Executive Director of Development & Infrastructure as sponsor for Productivity and Service Improvement project in Corporate Improvement Plan  March 2013
5. use benchmarking to compare and monitor improvement against other councils	Benchmarks are included in service plans and scorecards. Benchmarking used as part of service review activity etc. Annual review of statutory performance indicators.	Will incorporate guidance on using benchmarking as a regular process for review and improvement as part of Planning and Performance Management Framework.	Executive Director of Development & Infrastructure as sponsor for Productivity and Service Improvement project in Corporate Improvement Plan  March 2013
6. encourage scrutiny and challenge from councillors	Performance Review and Scrutiny Committee established. Departmental and Council scorecards reported quarterly and available on website for public.	It is anticipated the Performance Review and Scrutiny Committee will hold an away day to set out how develops its role.	Ongoing
7. use overview and scrutiny panels to challenge performance	Performance Review and Scrutiny Committee established.	It is anticipated the Performance Review and Scrutiny Committee will hold an away day to set out how develops its role.	Ongoing

Extract from How councils work: an improvement series for councillors and officers - Managing performance: are you getting it right? Audit Scotland, 04/10/12.	Our position	What action we plan to take to improve our position and address the action points	Who will lead and timescale
8. actively respond to areas requiring improvement	Reports that accompany departmental scorecards outline successes, challenges and actions. Annual service reviews identify areas of challenge and action being taken to address these.	Planning and Performance Management Framework due for review.	Executive Director of Development & Infrastructure as sponsor for Productivity and Service Improvement project in Corporate Improvement Plan  March 2013
9. use self-evaluation and reviews to demonstrate continuous improvement	Public Service Improvement Framework and similar models in use. Extensive programme of service reviews completed.	Planning and Performance Management Framework due for review.	Executive Director of Development & Infrastructure as sponsor for Productivity and Service Improvement project in Corporate Improvement Plan  March 2013
10. use internal audit service to assure performance management systems and measures	Internal Audit include an audit of performance management as part of annual audit plan.	None but will continue to assess audit risk and include in annual audit plan.	N/A

Extract from How councils work: an improvement series for councillors and officers - Managing performance: are you getting it right? Audit Scotland, 04/10/12.	Our position	What action we plan to take to improve our position and address the action points	Who will lead and timescale
11. work constructively with partners to manage performance and improvement.	Scorecards developed for community plan themes and reviewed periodically.	Development of new community plan and outcome planning and governance review of community planning will clarify line of sight for partner contributions to community plan outcomes and set a clearer framework for reporting and taking action in relation to performance – A Planning and Performance Management Framework for community planning .	Chief Executive as sponsor for CPP Outcome Planning project in Corporate Improvement Plan. Head of Strategic Finance as lead officer for CPP Governance Review and New Community Plan  March 2013
<b>An effective council will ensure that:</b>			
12. all staff understand their role in managing performance and use it in their day-to-day work	PDR/PRD translate team actions into individual staff contributions.	Development and role out of PRD process.	Head of Improvement and HR  PRD roll out extends to 2014-15.
13. councillors understand their role in all aspects of performance management and improvement	Performance Review and Scrutiny Committee established. Departmental and Council scorecards reported quarterly and available on website for public. Members provided with training on key aspects of performance management.	Members' PDPs. Review of development of Performance Review and Scrutiny Committee.	Ongoing.

Extract from How councils work: an improvement series for councillors and officers - Managing performance: are you getting it right? Audit Scotland, 04/10/12.	Our position	What action we plan to take to improve our position and address the action points	Who will lead and timescale
14. councillors are provided with clearly presented and quality information to enable them to make decisions	Scorecards contain measures around service outcomes, customer satisfaction, improvement actions and resources and are available on website. Annual service reviews identify areas of challenge and action being taken to address these.	Planning and Performance Management Framework due for review.	Executive Director of Development & Infrastructure as sponsor for Productivity and Service Improvement project in Corporate Improvement Plan  March 2013
15. both internal and public reports are of good quality and are tailored appropriately for their use	Scorecards contain measures around service outcomes, customer satisfaction, improvement actions and resources and are available on website. Annual service reviews identify areas of challenge and action being taken to address these. In addition the Council prepares and annual report.	Planning and Performance Management Framework due for review.	Executive Director of Development & Infrastructure as sponsor for Productivity and Service Improvement project in Corporate Improvement Plan  March 2013

Extract from How councils work: an improvement series for councillors and officers - Managing performance: are you getting it right? Audit Scotland, 04/10/12.	Our position	What action we plan to take to improve our position and address the action points	Who will lead and timescale
16. the principles of performance management apply equally to working with partners.	Scorecards developed for community plan themes and reviewed periodically.	Development of new community plan and outcome planning and governance review of community planning will clarify line of sight for partner contributions to community plan outcomes and set a clearer framework for reporting and taking action in relation to performance – A Planning and Performance Management Framework for community planning .	Chief Executive as sponsor for CPP Outcome Planning project in Corporate Improvement Plan. Head of Strategic Finance as lead officer for CPP Governance Review and New Community Plan  March 2013

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**PROGRESS REPORT ON INTERNAL AUDIT PLAN 2012 - 2013**

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**1. SUMMARY**

An interim progress report has been prepared covering the audit work performed by Internal Audit as at 2 November 2012. 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 2012 - 2013.

**3. BACKGROUND**

3.1 The progress report contained in Appendix 1 lists the audits scheduled for the financial year 2012 –2013, and are ordered by section and level of completion.

3.2 For the purpose of the progress report, audits are deemed to be complete following fieldwork and issue of a Draft Report.

3.3 As outlined in the September progress report to the Audit Committee a review has been undertaken of both the Financial Control and Business Systems audits. This has resulted in the transfer of 3 audits from Business Systems to the Financial Control section of the audit plan. Their transfer added to the Financial Control Environment as outlined in Appendix 2. As at 2 November 2012 of 21 audits, 2 have been completed with 15 started and 4 remaining to start. With regard to the Government and European Grant audit, the planned number of audit days has been increased from 20 to 30 to meet additional Scottish Government test requirements placed on all Leader Funding organisations.

3.4 As at 2 November 2012, as outlined there are now 12 Business Systems audits of which 9 have been completed with the remaining 3 started.

3.5 With regard to the Corporate Performance audits as at 2 November 2012, all audits have been commenced with the Statutory Performance Indicator (SPI) report presented to the Audit Committee in September. As requested by the Audit committee an update report has been provided for review. This has been reported separately. By March 2013 further audit work will have been undertaken in order to establish management progress in implementing the recommendations set out in the June 2012 audit report entitled Corporate Performance Audits.

- 3.6 A total of 180 days were set out in the plan for Corporate/Service Plans audit work. As at 2 November 2012, 77 days have been expended on audit work. Within this section of the plan 80 days were estimated for review of Corporate Plan activities. However, I have reduced the direct days estimate to 55 days as there is coverage of Corporate Plan activity within other areas of the audit plan. Of the 25 days, 10 have been assigned to the Government and European Grant audit with the remaining 15 days allocated to Special Investigations. See Appendix 1.
- 3.7 As at 2 November 2011 from a total of 50 audit days planned for the Special Investigations / Contingency section of the audit plan, a total of 50 days have now been expended. As noted above in 3.6, the number of audit days has been increased from 50 to 65 which should provide sufficient days for required special investigations work.
- 3.8 A total of 119 direct audit days were set out in the annual audit plan for Other Areas. As at 2 November 2012, a total of 73 days have been expended to date as outlined in Appendix 1.

#### **4. SUMMARY OF AUDIT ACTIVITIES FOR 2012 - 2013**

- 4.1 Appendix 1, shows that a total of 459 direct audit days have been expended as at 2 November 2012. As noted above current progress with the Internal Audit plan is on-going. The direct audit days expended to date is in profile with that of the same period in 2011- 2012.

#### **5. CONCLUSION**

Progress is being made with the audit plan for 2012 – 2013.

#### **6. IMPLICATIONS**

- |     |                      |  |
|-----|----------------------|--|
| 6.1 | Policy:              | Update on audit plan for 2012 – 2013.          |
| 6.2 | Financial:           | The audit plan is based on budgeted provision. |
| 6.3 | Personnel:           | None   |
| 6.4 | Legal:               | None   |
| 6.5 | Equal Opportunities: | None   |
| 6.6 | Risk                 | None   |
| 6.7 | Customer Services    | None   |

For further information please contact Ian Nisbet, Internal Audit Manager (01546 604216) 14 November 2012



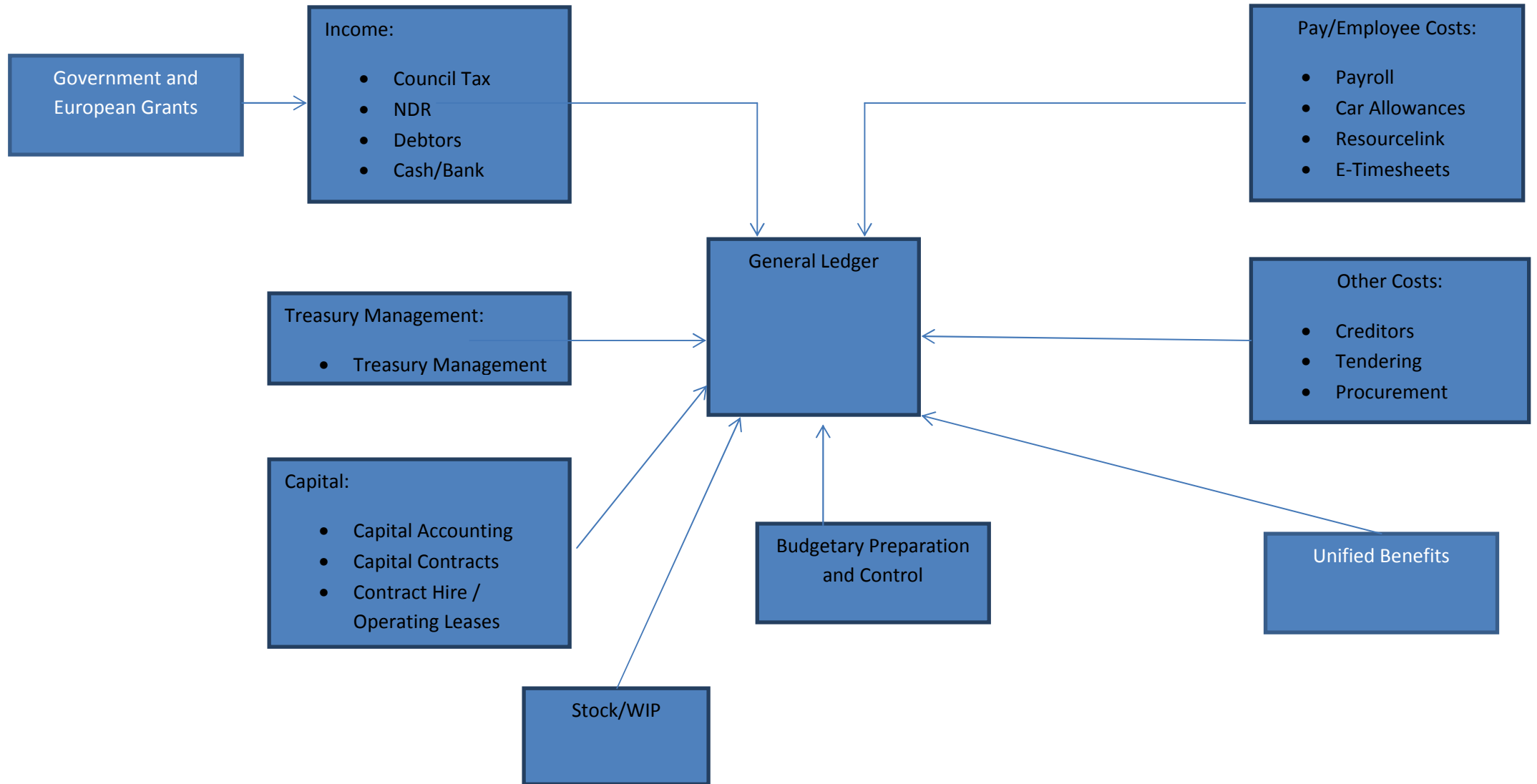
## Assessment of audit days: 2012-2013 strategic plan

AUDIT WORK SCHEDULE AS AT 2 NOVEMBER 2012		Last audited	Risk ranking	Original Estimated Audit Days 2012-13	Revised Estimated Audit Days 2012-13	Actual Audit Days 2012-13	Balance
<b>FINANCIAL CONTROL AUDITS</b>							
<b>Complete</b>							
Stock and Work in Progress	2010	3	10	10	10	10	0
Government & European Grants	2010	1	20	30	29	29	1
<b>Started</b>							
Council Tax	2010	1	20	20	9	9	11
Cash & Income Banking	2010	2	15	15	7	7	8
Non Domestic Rates	2010	2	15	15	7	7	8
Debtor Accounts	2010	2	15	15	8	8	7
Unified Benefit System	2010	2	15	15	3	3	12
Treasury Management	2012	3	10	10	2	2	9
General ledger operations	2012	3	10	10	2	2	8
Procurement	2010	2	15	15	1	1	14
eProcurement	2010	3	10	10	1	1	9
Resource Link	2010	2	15	15	3	3	12
Electronic Timesheets	2010	4	5	5	2	2	3
Payroll	2011	2	15	15	5	5	10
Car Allowances & Subsistence	2011	3	10	10	1	1	9
Tendering Procedures	2011	2	15	15	1	1	14
Creditor Payments	2010	3	10	10	1	1	9
<b>Not Started</b>							
Budgetary Preparation and Control	2011	1	20	20	0	0	20
Capital Contracts	2011	2	15	15	0	0	15
Capital Accounting	2010	2	15	15	0	0	15
Contract Operating Leases	2012	3	10	10	0	0	10
<b>Section Total</b>				<b>285</b>	<b>295</b>	<b>91</b>	<b>204</b>
<b>BUSINESS SYSTEMS AUDITS</b>							
<b>Complete</b>							
Planning/Building Standards	2010	2	15	15	12	12	3
Environmental Health	2011	3	10	10	8	8	2
Fleet Management	2010	3	10	10	10	10	0
Customer Service Centre	2010	3	10	10	9	9	1
Leisure Management System	2010	3	10	10	9	9	1
IKEN Case Management	2010	4	5	5	4	4	1
Library Management System	2011	4	5	5	4	4	1
Licensing	-	4	5	5	4	4	1
Care First	2010	2	15	15	14	14	1
<b>Started</b>							
Roads Costing System	2010	3	10	10	4	4	6
Pyramid Performance Management	2011	4	5	5	2	2	3
Comino	2011	3	10	10	6	6	4
Comino							
<b>Section Total</b>				<b>110</b>	<b>110</b>	<b>86</b>	<b>24</b>

<b>CORPORATE PERFORMANCE AUDITS</b>						
<b>Complete</b>						
Statutory Performance Indicators	2011	2	15	15	22	-7
<b>Started</b>						
Asset Management Partnerships	2011	1	20	20	8	12
Procurement	2010	1	20	20	8	12
Information Management	2011	2	15	15	6	9
Governance and Accountability	2010	2	15	15	6	9
Financial Management	2010	2	15	15	6	9
People Management	2010	3	10	10	6	4
Risk Management	2010	3	10	10	4	6
Sustainability	2010	3	10	10	4	6
Equality	2010	4	5	5	2	3
Performance Management	2010	4	5	5	2	3
Efficiency	2010	4	5	5	2	3
Public Performance Reporting	2011	4	5	5	2	3
Partnerships	2012	4	5	5	2	3
Community & Customer Engagement	2011	4	5	5	2	3
Customer Focus	2011	4	5	5	2	3
<b>Section Total</b>			<b>165</b>	<b>165</b>	<b>82</b>	<b>83</b>
<b>CORPORATE/SERVICE PLANS</b>						
<b>Complete</b>						
Customer Services - Corporate Governance	2011	1	15	15	13	2
Community Services - Payroll	2011	1	20	20	19	1
Community Services - Cash & Income Banking	2011	1	20	20	20	0
<b>Started</b>						
Chief Executive's Unit - Procurement	2010	1	10	10	7	3
Development & Infrastructure Services	2011	1	35	35	18	17
<b>Not Started</b>						
Corporate Plan	2011	1	80	55	0	55
<b>Section Total</b>			<b>180</b>	<b>155</b>	<b>77</b>	<b>78</b>
<b>Actual Direct Audit Time</b>			<b>740</b>	<b>725</b>	<b>336</b>	<b>389</b>
<b>Special investigations contingency</b>						
Chief Executive's Unit			50	65	34	15
Community Services					16	
<b>Section Total</b>			<b>50</b>	<b>65</b>	<b>50</b>	<b>15</b>
<b>Other Areas</b>						
Inverclyde Charity & Trust Accounts	2011		0	10	8	2
Follow-up External & Internal Audit Management Letter Points	2010		80	70	37	33
NFI	2010		39	39	28	11
<b>Section Total</b>			<b>119</b>	<b>119</b>	<b>73</b>	<b>46</b>
<b>TOTAL</b>			<b>909</b>	<b>909</b>	<b>459</b>	<b>450</b>

## Appendix 2

## Financial Control Environment



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**ARGYLL & BUTE COUNCIL  
STRATEGIC FINANCE**

**AUDIT COMMITTEE  
07 DECEMBER 2012**

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**EXTERNAL & INTERNAL AUDIT REPORT FOLLOW UP 2012 – 2013.**

---

**1. SUMMARY**

Internal Audit document the progress made by departmental management in implementing the recommendations made by both External Audit and Internal Audit. Set out below are the results from a review performed by Internal Audit for recommendations due to be implemented by 31 October 2012.

**2. RECOMMENDATIONS**

2.1 The contents of this report are noted and approved by the Audit Committee.

**3. DETAILS**

3.1 The process requires departmental Executive Directors assigning a 3<sup>rd</sup> tier officer to act as the sole contact for the follow up of both external and internal recommendations. The contact role involves updating both the Executive Directors and internal audit on progress with agreed department recommendation implementation.

3.2 Appendix 1 is a statistical summary of all agreed recommendations arising from both external and internal audit reports by department. Detailed is the number of recommendations due as at 31 October 2012, the number implemented, the number of agreed future recommendations and their status, i.e. on course etc.

3.3 Appendix 2 provides a summary of all outstanding recommendations from both external and internal audit reports by department and service. Detailed is the report name along with the weakness identified, agreed management action, revised date, any previous missed implementation dates reported to the Audit Committee, management comment and Pyramid status.

3.4 Appendix 3 provides a summary of all recommendations from both external and internal audit reports by department and service that are due after 31 October and not on track to achieve the agreed implementation dates. Detailed is the report name along with the weakness identified, agreed management action, revised date, any previous missed implementation dates reported to the Audit Committee, management comment and Pyramid status.

**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	Legal:	None
5.4	HR:	None
5.5	Equalities:	None
5.6	Risk:	None
5.7	Customer Service:	None

For further information please contact Ian Nisbet of Internal Audit on (01546 604216)

14novemberfinalreport

## APPENDIX 1

## SERVICE SUMMARIES

## RECOMMENDATIONS DUE 01 AUGUST - 31 OCTOBER 2012

SERVICE	Complete	Delayed but rescheduled	Total
ADULT CARE	1		1
CUSTOMER & SUPPORT SERVICES	10	1	11
ECONOMIC DEVELOPMENT	2		2
EDUCATION	1		1
EXECUTIVE DIRECTOR COMMUNITY SERVICES	1		1
EXECUTIVE DIRECTOR DEVELOPMENT & INFRASTRUCTURE SERVICES	2		2
IMPROVEMENT & HR		6	6
ROADS & AMENITY SERVICES	3	2	5
<b>TOTALS</b>	<b>20</b>	<b>9</b>	<b>29</b>

## RECOMMENDATIONS DUE AFTER 31 OCTOBER 2012

SERVICE	Complete	On Course	Total
ADULT CARE		4	4
CHILDREN & FAMILIES	1		1
CUSTOMER & SUPPORT SERVICES		8	8
ECONOMIC DEVELOPMENT		2	2
EDUCATION		1	1
EXECUTIVE DIRECTOR COMMUNITY SERVICES		1	1
IMPROVEMENT & HR		5	5
ROADS & AMENITY SERVICES		2	2
STRATEGIC FINANCE		9	9
<b>TOTALS</b>	<b>1</b>	<b>32</b>	<b>33</b>

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## Appendix 2

# Recommendations Overdue 01 August – 31 October 2012

ACTION PLAN NO:	WEAKNESSES IDENTIFIED:	AGREED ACTION:	DATES:	COMMENT/EXPLANATION:	PYRAMID: RESPONSIBLE OFFICER:
DEPARTMENT SERVICE	CHIEF EXECUTIVE'S UNIT IMPROVEMENT & HR	REVIEW OF RESOURCELINK	31 October 2012 31 March 2013	Development Officer will take responsibility for future development/improvements to Resourcelink System from October 2012. She will prepare a plan for the roll out of My View/Self Service across all Council Services and agree with HR Manager. As per previous RL will be picked up by Development Officer from October 2012. She will agree new priorities and timetable for going forward. However, implementation of MY View is unlikely to be until end of current financial year. As previous transfers to Development Team for action from October 2012.	Delayed but rescheduled Head of Improvement and HR
1	Project Monitoring From our consideration of the progress made against project deliverables, while there is potential in the project to deliver on the identified objectives and deliverables, there is a risk that the appropriate level of resource is not available to ensure delivery of the project within the shortened remaining project timetable. <b>HIGH</b>	Management should undertake a full update report against the project deliverables, and agree those of priority which can be delivered within the remaining available resources, both financial and staff. This will help to ensure that the Council maximises the potential benefits from the time invested in the project to date. AGREED - this will be picked up in the lessons learnt review and next steps report which will be prepared by the project manager at the end of phase 2 of the project to be presented to the next meeting of the HR board. Moving forward future development of Resourcelink and My View self serve will be managed by the HR development team from October 2012			

ACTION PLAN NO:	WEAKNESSES IDENTIFIED: GRADE:	AGREED ACTION:	DATES :	COMMENT/EXPLANATION:	PYRAMID: RESPONSIBLE OFFICER:
2	<p>Risk Monitoring</p> <p>In the update reports produced, a section on risks is included, which represents good practice. However, the risks reported on are those that are assessed as having materialised therefore they do not necessarily correspond to the risks identified originally in the PID. It is therefore more difficult to see how the expected risks are being monitored.</p> <p>Furthermore, the materialised risks are not necessarily given a unique reference number, making it more difficult to follow the progress of the assessment and management of the risk.</p> <p>Care should also be taken to ensure that in assessing the movement of the materialised risks that, should there be a change in the level of risk, an explanation should be given for this movement. Without explanation for a change in risk, it can be difficult for members of the Project Board to understand the overall risk profile of the project and whether appropriate mitigating action has been taken.</p> <p><b>MEDIUM</b></p>	<p>In preparing the risk reporting and monitoring, management should ensure that:</p> <ul style="list-style-type: none"> <li>- risks originally identified within the PID are reported on, to provide a complete picture of the risks to the project;</li> <li>- as risks materialise, they should be assigned unique reference numbers to assist the Project Board with assessment of monitoring of the risk profile of the project; and</li> <li>- change in risk assessment should be reported, so that the overall risk profile can be monitored and the success of actions to mitigate risks considered.</li> </ul> <p>ACCEPTED - the project manager for this project was chosen because of her knowledge of Resourcelink rather than experience of project management.</p> <p>The SRO was aware that project management skills were not well developed and brought in an IOD programme manager in a project assurance and mentoring role. Skills have improved over the duration of the project but have some way to go.</p> <p>From October 2012 future developments of the Resourcelink project will be managed by the HR development team who are experienced in project work.</p>	<p>31 October 2012 <b>31 March 2013</b></p>	<p>Development Officer has actioned a Risk register within her Team for Resourcelink. She will agree new priorities and timetable for going forward. However, implementation of MY View is unlikely to be until end of current financial year.</p>	<p><b>Delayed but rescheduled</b> Head of Improvement &amp; HR</p>

ACTION PLAN NO:	WEAKNESSES IDENTIFIED: GRADE:	AGREED ACTION:	DATES :	COMMENT/EXPLANATION:	PYRAMID: RESPONSIBLE OFFICER:
3	<p>Financial Monitoring</p> <p>No financial budget monitoring has been reported in the update reports to the time of our work. Without regular reporting of the financial position of the project, it is difficult to draw specific conclusion on the expected outturn of the project, especially with the recent change in scope to the project.</p> <p><b>MEDIUM</b></p>	<p>Following the change in scope on the project, a summary of expenditure incurred to date, and that now forecast to be incurred by the anticipated end date, should be prepared and submitted to the Project Board for review.</p> <p>ACCEPTED - see response to recommendation 1 above</p> <p>Budget forecasting was prepared at year end to ensure earmarked funds were rolled over. Review of project budget and spend will be included in the lessons learnt report.</p>	<p>31 October 2012 <b>31 March 2013</b></p>	<p>Development Officer has actioned a Risk register within her Team for Resourcelink. She will agree new priorities and timetable for going forward. However, implementation of MY View is unlikely to be until end of current financial year.</p>	<p><b>Delayed but rescheduled</b> Head of Improvement &amp; HR</p>
4	<p>Online Payslips</p> <p>Office based staff have the option through the MyView self-service software to view their payslips online. This is currently considered to be a 'nice to have' option, and all members of staff still receive hard copies of their payslip. Non-office based staff do not have access to MyView.</p> <p>Consequently, there have been no changes to the current system and process for generating payslips and so at this time, this element of the project currently does not deliver any efficiencies. There is, therefore, a risk that the Council continues to incur costs and not meet efficiency targets as well as members of staff not benefiting from the self-serve software.</p> <p><b>MEDIUM</b></p>	<p>Further consideration is needed by the Council to achieve fully the potential benefits from this element of the project, especially as the system is due to be rolled out to teaching staff in the coming months as well as other remaining employees to whom this process is currently unavailable.</p> <p>AGREED - the savings will be delivered through the HR service review implementation.</p> <p>From October 2012 the HR development team will continue with a phased roll out of online payslip and online travel and subsistence.</p>	<p>31 October 2012 <b>31 March 2013</b></p>	<p>The development Officer will take responsibility for future development/improvements to Resourcelink System from October 2012. She will prepare a plan for the roll out of My View/Self Service across all Council Services and agree with HR Manager. She will agree new priorities and timetable for going forward. However, implementation of MY View is unlikely to be until end of current financial year.</p>	<p><b>Delayed but rescheduled</b> Head of Improvement &amp; HR</p>

ACTION PLAN NO:	WEAKNESSES IDENTIFIED:	AGREED ACTION:	DATES :	COMMENT/EXPLANATION:	PYRAMID: RESPONSIBLE OFFICER:
2	By September 2011 the total mileage claimed is 2,637,612 miles. This figure indicates that there is a possibility that this financial year the total mileage claimed will be in excess of both of the last 2 years. This raises concerns over sustainability. <b>MEDIUM</b>	Managers should be provided a monthly staff travel monitoring report, in order that they can better balance staff travel. Quarterly reports should be given to Executive Directors and their Heads of Service detailing the top 10 mileage claims for each quarter.	31 July 2012 31 October 2012 <b>31 December 2012</b>	Transfers to Development Team from October for action. Agreed with CE to extend to end December for final completion.	<b>Delayed but rescheduled</b> Head of Improvement and HR (formerly Head of Customer and Support Services)
6	Internal Audit notes that guidance to staff on the Council HUB states that when travelling on Council business the staff member requires to have a valid driving licence and insurance cover allowing business use when using their own car. The guidance also states that checks by nominated officers will be undertaken to ensure that both Driving Licences and Insurance details are current and cover appropriate. <b>MEDIUM</b>	Presently departments should ensure that staff who undertake business travel on behalf of the Council have a valid Driving Licence and appropriate Insurance cover.	30 April 2012 31 May 2012 30 June 2012 28 September 2012 31 October 2012 <b>31 December 2012</b>	Transfers to Development Team from October for action. Agreed with CE to extend to end December for final completion. Have discussed with IOD Manager possibility of inclusion with Annual PRD as a means of checking all required information.	<b>Delayed but rescheduled</b> Head of Improvement & HR (Formerly Head of Customer and Support Services)

**DEPARTMENT CUSTOMER SERVICES**  
**SERVICE CUSTOMER & SUPPORT SERVICES**  
**REPORT NAME REVIEW OF CASH, INCOME AND BANKING**

8	Internal Audit found that there was a lack of robust challenge and scrutiny of Imprest Claims submitted to Creditors for re-imburement. <b>HIGH</b>	Creditors will undertake checks to ensure that Imprest claims balance to the correct authorised Imprest levels and that the forms have been completed correctly. Concerns will be raised with the Imprest Account holder if discrepancies occur.	01 October 2012 <b>31 December 2012</b>	Final report only received on 24 October, so dates were not achievable. Revised implementation dates now agreed with Internal Audit.	<b>Delayed but rescheduled</b> Creditor's Supervisor, Customer and Support Services
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**ACTION WEAKNESSES IDENTIFIED:** **AGREED ACTION:** **DATES :** **COMMENT/EXPLANATION:** **PYRAMID:**  
**PLAN NO:** **GRADE:** **RESPONSIBLE OFFICER:**

**DEPARTMENT DEVELOPMENT & INFRASTRUCTURE SERVICES**

**SERVICE ROADS & AMENITY SERVICES**

**REPORT NAME REVIEW OF FLEET MANAGEMENT**

2	Data Transfer It was found that data transfer between historic systems was incurring unnecessary administrative time, and increasing the risk of data entry error. Further there is no recorded formalised agreements between departments as to information requirements, resulting in additional queries and the associated administrative time to respond.	Management should work to agree the different data transfer requirements and update the data transfer inks to include cross departmentally agreed required information.	31 July 2012 31 October 2012 <b>28 February 2013</b>	Finance and Roads & Amenity are currently liaising to fully scope out the project requirements for data transfer. The original implementation date has not been achieved and therefore a revised date has been put forward of February 2013.	<b>Delayed but rescheduled</b> Data Systems & Information Officer
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## Appendix 3

### Recommendations Due After 31 October 2012

ACTION PLAN NO:	WEAKNESSES IDENTIFIED:	AGREED ACTION:	DATES:	COMMENT/EXPLANATION:	PYRAMID RESPONSIBLE
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**CORPORATE PERFORMANCE AUDITS 2012 - 2013**

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**1. SUMMARY**

Audit Scotland has published a number of Best Value (BV2) Toolkits as guidance for Councils to enable them to assess their performance against defined criteria. Internal Audit undertook an analysis of the BV2 Toolkits with services in order to evaluate performance. A report was prepared for the Strategic management team (SMT) and the Audit Committee in June 2012. The Audit Committee requested that they be kept informed of progress with an update in December 2012 and a report in March 2013.

**2. RECOMMENDATION**

2.1 The Audit Committee is asked to note the contents of this report which will be followed up by Internal Audit.

**3. DETAILS**

3.1 The objective of the work undertaken by internal audit prior to the issue of the June 2012 report was to assess the performance of Council services using the criteria contained in the BV Toolkits. The results of that audit work were reported to the Audit Committee in June 2012. Report recommendations arising from internal audit work were to be integrated with the Corporate Improvement Plan.

3.2 Internal Audit can report to the Audit Committee that the recommendations made in the June 2012 report have been progressed. The Council has developed a Corporate Improvement Plan which was agreed by the Corporate Improvement Board in September 2012. Management has been tasked with regular reporting to the Corporate Improvement Board on progress with assigned recommendations.

3.3 Internal audit will undertake audit work and prepare a report as requested by the Audit Committee for March 2013. This report will comment on progress regarding implementation of the agreed June 2012 report recommendations.

**4. CONCLUSION**

Internal audit will follow up report action plan points.

**5. IMPLICATIONS**

- 6.1 Policy: None
- 6.2 Financial: None

6.3 Personnel: None

6.4 Legal: None

6.5 Equal Opportunities: None

For further information please contact Ian Nisbet, Chief Internal Auditor (01546 604216) 13 November 2012

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**NATIONAL FRAUD INITIATIVE (NFI) – NATIONAL EXERCISE 2012/13**

---

**1. INTRODUCTION**

Audit Scotland carries out data matching under 26A of the Public Finance and Accountability (Scotland) Act 2000 which provides that Audit Scotland may carry out data matching exercises, or arrange for them to be carried out on its behalf. The Audit Commission's NFI team carries out the matching work on their behalf.

This report provides the current position regarding the Accounts Commission – Audit Scotland NFI exercise for 2012/13. It details the steps recently taken by internal audit and services in preparation for the NFI referral matching exercise that will commence in January 2012.

**2. RECOMMENDATION**

- 2.1 The Audit Committee is asked to note the contents of this report which will be followed up by Internal Audit.

**3. DETAILS**

- 3.1 The Accounts Commission requested that Argyll and Bute Council submit the following datasets by the 8<sup>th</sup> October 2012;

- Payroll
- Creditors
- Council Tax
- Market Traders
- Personnel alcohol/Taxi Licences
- Blue Badges
- Residential Care Home
- Insurance claims

This information was electronically uploaded onto the NFI secure website by Customer and Support Services on the 8<sup>th</sup> of October 2012. On the 9<sup>th</sup> of October the Council received notification that the data uplift had been successful.

- 3.2 Prior to the 8<sup>th</sup> of October, steps were taken to follow the Fair Processing Guidelines issued by the Accounts Commission regarding notifying employees and the public about the NFI 2012/13 exercise. This notification process involved setting up a webpage on the Council's web site containing relevant information and useful links to the Audit Commission website regarding the NFI exercise. Council employees were notified through a message on their payslips.
- 3.3 The Accounts Commission required all bodies involved in the NFI exercise to inform Sole Traders listed on their Creditors system regarding the forthcoming

NFI exercise. Through joint working within Customer and Support Services a list of Sole Traders was produced and a notification letter prepared. Once this was agreed with Governance and Law and Audit Scotland it was dispatched to listed Sole Traders.

#### **4 CONCLUSION**

- 4.1 The success of the last NFI exercise was down to co-operation between services. In particular the allocation of responsibility to officers within services for the follow up of NFI referrals was important along with meeting key Accounts Commission – Audit Scotland dates. Set out below in Tables 1 and 2 are the responsible officers for the forthcoming exercise and key dates announced by the Accounts Commission and Audit Scotland.
- 4.2 The preparation work for the 2012/13 NFI exercise has been completed and the Council is presently compliant with the requirements set out by the Accounts Commission. A report to this effect was recently presented to the Strategic Management Team (SMT) for their notice. The SMT will receive monthly progress reports post January 2013. The Audit Committee will receive quarterly progress reports from March 2013 forward.

**APPENDIX 1**

**Table 1 – Responsible Officers for NFI Exercise 2012/13**

<b>Datasets</b>	<b>Responsible Officer</b>	<b>Estimated Completion Date</b>
Council Tax	Revenues Supervisor	28 Feb 2014
Creditors	Creditors Supervisor	28 Feb 2014
Payroll	Payroll Supervisor	28 Feb 2014
Residential Care Homes	Finance Officer	28 Feb 2014
Blue Badges	Customer Management Project Assistant	28 Feb 2014
Market Traders	Administrative Assistant	28 Feb 2014
Alcohol and Taxi Licenses	Administrative Assistant	28 Feb 2014
Insurance	Administration Assistant – Insurance	28 Feb 2014

**Table 2 – Key Dates**

<b>Key Dates</b>	<b>Target Dates</b>
Participants will submit fair processing compliance returns	Friday 28 September 2012
Participants will extract the data from the systems in accordance with the data specifications	Monday 8 October 2012
Participants will upload the live data to the NFI web application	Monday 8 October 2012
The Audit Commission NFI team will send automatically generated reminders to participants who have not submitted expected datasets	Monday 15 October 2012 onwards
Audit Scotland will provide training for participants	January 2013
The Audit Commission NFI team will make the 2012/13 exercise matches available	Tuesday 29 January 2013
Audit Scotland will use the outcomes as at this date for the national report	Monday 31 March 2014
Audit Scotland will publish the 2014 NFI report	May 2014

For further information contact Ian Nisbet on TEL: 01546 604216. 28 November 2012.

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**RISK MANAGEMENT UPDATE**

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**1 SUMMARY**

- 1.1 This report updates the Audit Committee on developments in relation to risk management over the last few months.

**2 RECOMMENDATION**

- 2.1 This is a progress report for noting.

**3 DETAIL**

- 3.1 A quarterly update is provided to the Audit Committee on developments/progress in relation to risk management. These reports are not about making the Audit Committee responsible for managing risks but to provide assurance around the process and systems the Council has in place in relation to risk management.
- 3.2 A report was presented to the Audit Committee on 22 September advising the Audit Committee on the progress against the risk management action plan for 2012-13. A copy of the risk management action plan for 2012-13 is attached to this report.
- 3.3 Whilst work is progressing against the actions shown in the risk management action plan 2012-13, there are two items currently classified as being off track. These are:
- Deliver and Develop Training Programme to ensure People are equipped to Manage Risk, and
  - Developing Shared Risk arrangements to ensure effective arrangements for managing risk with partners.

In relation to Delivering and Developing a Training Programme, discussions are scheduled to take place with our Insurance partners Zurich Municipal regarding a number of options. It is anticipated that this action point will be complete by January 31<sup>st</sup> 2013

In relation to Developing Shared Risk arrangements, discussions are scheduled to take place at the Strategic Risk Group 29<sup>th</sup> November regarding a preferred model. Again it is anticipated that this action point will be complete by January 31<sup>st</sup> 2013.

- 3.4 The Operational Risk Registers continue to be reviewed on a quarterly basis and were reported to Departmental Management Teams and Strategic Management Team (SMT) at the end of September 2012.
- 3.5 The key issues for the next few months will be:
- review of ORRs at end of December 2012
  - reviewing ORRs as part of service planning process
  - completing risk management action plan tasks currently off track
  - completing any risk management action plan tasks due at end of December.

#### **4 CONCLUSION**

- 4.1 This report summarises progress and future issues in relation to risk management.

Bruce West  
Head of Strategic Finance  
7 December 2012



Theme	Management Activity	Improvement Areas	Specific Action Activity	Success Measures	Lead	Deadline	Status	
Leadership & Management	Senior Management and Executive support & promote risk management	Information and decision making Escalation and reporting systems Accountability and management responsibility Leading risk management implementation	Formation of Strategic Risk Group Corporate Improvement Plan CG4	Maintain or Improve Assessed Level	SMT	31/3/13	On Track	Strategic Risk Group has been formed, terms of reference agreed and is scheduled to meet on a quarterly basis.
Policy & Strategy	Clear policies and strategies in place	Risk Management Policy	Review Policy, Framework and Guidance Corporate Improvement Plan CG7 Corporate Improvement Plan CG5	Maintain or Improve Assessed Level	Head of Strategic Finance	31/8/12	Complete	
People	People are equipped to manage risk	Culture Responsibility Skills and Guidance Communications	Develop and Deliver Training Programme Corporate Improvement Plan CG6	Maintain or Improve Assessed Level	Head of Strategic Finance	30/9/12	Off-Track	Discussion will take place will Insurance partners re options available to deliver RM training. Revised deadline 31st January
Partnership & Resources	Effective arrangements for managing risk with partners	Partnerships Finance Tools	Develop Shared Risk Arrangements	Maintain or Improve Assessed Level	Head of Strategic Finance	30/9/12	Off Track	Discussions will take place at Strategic Risk Group (29th November) re preferred model for managing Shared Risk Arrangements.
Processes	Effective risk management	Links to business / service processes overview Risk identification and analysis Risk Response Risk Reporting and Review Investigation and root cause analysis Service continuity	Regularly Review ORR's and SRR's. Develop procedures for reporting risk movement	Maintain or Improve Assessed Level	Head of Strategic Finance	31/03/13	On-Track	Quarterly reviews and reporting is in place.
Risk Handling & Assurance	Risks are handled well and the organisation has assurance that risk management is assisting delivering successful outcomes and supports risk achieving Outcomes	Risk Handling Assurance	Develop advanced annual Risk Assurance Statements	Maintain or Improve Assessed Level	Heads of Service	31/3/13	On-Track	
Outcomes & Delivery	Risk Management contributes to achieving Outcomes	Risk Management contribution to overall performance Contribution to specific outcomes	Annual review	Maintain or Improve Assessed Level	Heads of Service	31/3/13	On -Track	

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**ARGYLL AND BUTE COUNCIL****COUNCIL/AUDIT COMMITTEE****STRATEGIC FINANCE****22 NOVEMBER 2012/7 DECEMBER 2012**

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**AUDITED ACCOUNTS 2011-12**

---

**1 INTRODUCTION**

- 1.1 The external auditors, Audit Scotland, have completed their audit of the Council's accounts for the year to 31 March 2012. The audited accounts incorporating the audit certificate for 2011-12 are attached. The audit certificate contains no qualifications.

**2 RECOMMENDATIONS**

- 2.1 The audited accounts and the terms of the audit certificate are noted.

**3 DETAIL**

- 3.1 The audited accounts including the audit certificate and the external audit report for the 2011-12 audit are attached.
- 3.2 The accounts were completed and submitted by the statutory date of 30 June 2012. The audit has been completed within the timescale of 30 September 2012, set by Audit Scotland.
- 3.3. The audit certificate on the Council's accounts for the year ended 31 March 2012 contains no qualification. External audit are able to conclude that the Council's accounts present a true and fair view of its financial position as at 31 March 2012.
- 3.4 Appendix 1 is a schedule of the significant changes to the accounts. The 2 significant adjustments to the accounts were as noted below. There were also a few presentation adjustments.
- A reduction in the values at which landfill sites are held based on valuations provided by the Valuation Office Agency of £2.966m.
  - An increase in the accrued expenditure in relation to holiday pay for teachers of £0.244m.
- 3.5 The table below reconciles the changes from unaudited accounts to audited accounts for Deficit/(Surplus) on Provision of Services, balance on the General Fund and Total Assets less Liabilities.

	(Surplus) On Provision of Services £m	General Fund Balance £m	Total Assets Less Liabilities £m
Unaudited Accounts	(18.852)	(34.572)	180.177
Reduction in the value of landfill sites	2.966		(2.846)
Increase to holiday pay accrual for teachers	0.244		(0.244)
<b>Audited Accounts</b>	<b>(15.642)</b>	<b>(34.572)</b>	<b>(177.087)</b>

3.6 The committed funds within the General Fund Balance were £29.454m per the unaudited accounts. This leaves a free General Fund Balance of £5.118m. This equates to 2% of the Council's budgeted net expenditure for 2012-13 and exceeds the agreed contingency level approved as part of the 2012-13 to 2014-15 budget process. The level of General Fund Balance and contingency will require to be considered during the 2013-14 budget process.

3.7 The external audit report identifies 3 errors where it was agreed not to amend the accounts. These would have reduced the General Fund Balance by £0.102m. They comprise.

	£m
Debtors invoice not accrued	0.008
Understatement of common good / trust funds	(0.101)
Overstatement of imprest balances	<u>(0.009)</u>
Net error	<u>(0.102)</u>

Bruce West  
Head of Strategic Finance  
1 November 2012

**APPENDIX 1 – SUMMARY OF MAIN CHANGES TO FINANCIAL STATEMENTS ARISING FROM AUDIT**

<b>Section of Financial Statements Changes</b>	<b>Audited Accounts £000s</b>	<b>Unaudited Accounts £000s</b>	<b>Change £000s</b>	<b>Comments / Explanation</b>
<b>Comprehensive income &amp; Expenditure Account (Pages 32-33 of audited accounts)</b>				
Net cost of service	240,192	236,982	3,210 (Dr)	Reduction in valuation of landfill site £2.966m Increase in teachers holiday pay accrual £0.244m
Surplus) / Deficit on Provision of Services	(15,642)	(18,852)	3,210 (Dr)	See above
<b>Statement of Movement in Reserves (Pages 28-29 of audited accounts)</b>				
Surplus) / Deficit on Provision of Services	(15,642)	(18,852)	3,210 (Dr)	See Comprehensive Income and Expenditure Account above.
Impairment of Non-Current Assets	(6,460)	(3,494)	2,966 (Cr)	Reduction in valuation of landfill site £2.966m
Adjustment of employee benefits (holiday pay accrual)	2,588	2,832	244 (Cr)	Increase in teachers holiday pay accrual £0.244m
Net gain or loss on sale of non current assets	(755)	(632)	123 (Cr)	
Transfer to / from statutory reserve	139	16	123 (Dr)	
Increase / (Decrease) in General Fund Balance for the Year	(820)	(820)	0 (Cr)	
Balance on General Fund Carried Forward	(34,572)	(34,572)	0 (Cr)	

<b>Balance Sheet (Page 34 of audited accounts)</b>				
Property, Plant and Equipment	475,186	478,032	2,846 (Cr)	Reduction in valuation of landfill sites
Short term borrowing	(3,225)	(553)	2,672 (Cr)	Reclassification of accrued interest from creditors
Short term Creditors	(33,082)	(5,510)	2,428 (Dr)	Reclassification of accrued interest to short term borrowing £2,672m (Cr) Increase to teachers holiday pay accrual £0.244m (Dr)
Total assets less liability	177,087	180,177	3,090 (Cr)	



## **Audited Financial Statements**

for the year ended 31 March 2012

## LANGUAGE OPTIONS

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

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

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

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

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

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

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

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

**Strategic Finance**  
**Argyll and Bute Council**  
**Kilmory**  
**Lochgilphead**  
**Argyll**  
**PA31 8RT**

**Tel: 01546 604220**



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## Explanatory Foreword by the Head of Strategic Finance

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### INTRODUCTION

The Annual Accounts demonstrate the Council's stewardship of the public funds it controls. The financial results for 2011-12 are set out on pages 28 to 36. Note 1 to the Financial Statements on pages 37 to 49 sets out the Summary of Significant Accounting Policies adopted by the Council to ensure that the Financial Statements give a "true and fair view" of our financial performance.

### THE FINANCIAL STATEMENTS

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

The financial statements comprise:

- Statement of Movement in Reserves for the period
- Statement of Comprehensive Income and Expenditure for the period
- Balance Sheet as at the end of the period
- Cash Flow Statement for the period
- Notes, comprising a summary of significant accounting policies and other explanatory information, and
- Balance Sheet as at the beginning of the earliest comparative period where a retrospective restatement of items in its financial statements have been made.

### CHANGES IN ACCOUNTING PRACTICE

Financial Reporting Standard (FRS) 30 – *Heritage Assets* has been adopted as part of the 2011-12 Code of Practice. This is being disclosed as a change in accounting policy.

Heritage assets are assets that are held and maintained by the Council for their contribution to knowledge and culture. Heritage assets can have historical, artistic, geophysical or environmental qualities. Heritage assets have been identified and recognised as a separate class of assets for the first time in the balance sheet.

This change in accounting policy has resulted in £1.3m of assets being re-categorised from community assets into heritage assets. The main heritage assets held by the Council are two art collections and Inveraray Jail and Courthouse. The Council holds other heritage assets which are not valued and shown on the balance sheet. Further details on the council's heritage assets policy can be found in note 1.11 on page 42.

During 2011-12 a decision was made to recognise as a debtor on the balance sheet amounts due to the Council for care home fee charging orders. This resulted in a long term debtor of £0.831m being recognised on the balance sheet at 1 April 2010. This amount has been earmarked within the General Fund Balance along with the year on year movement since then.

## Explanatory Foreword by the Head of Strategic Finance

### FINANCIAL PERFORMANCE

#### Statement of Movement in Reserves

The total Council reserves have decreased from £212.980m at 31 March 2011 to £177.087m at 31 March 2012, a decrease of £35.893m. This is represented by a Surplus on Provision of Services of £15.642m offset by a deficit in Other Comprehensive Income and Expenditure of £51.535m.

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

Unusable Reserves have decreased by £36.623m from £175.604m at 31 March 2011 to £138.981m at 31 March 2012. The main reasons for this are a decrease in the Pension Reserve Liability of £52.865m, partly offset by a surplus on the revaluation of fixed assets of £5.619m and the transfer of £11.479m from the Comprehensive Income and Expenditure Statement for Capital Grants.

The Usable Reserves have increased from £37.376m at 31 March 2011 to £38.196m at 31 March 2012, an increase of £0.820m. The main reason for this is an increase in the General Fund Balance of £0.665m.

A number of adjustments are made between Council reserves to reflect the correct charge to Council Tax for the year. The net adjustment to the surplus per the Comprehensive Income and Expenditure Statement to reflect the impact on Council Tax is a debit of £14.977m. In summary this debit represents the difference between:

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

The net surplus on the Provision of Services on the Comprehensive Income and Expenditure Statement of £15.642m less the adjustments to reflect impact on Council Tax of £14.977m equates to the increase on the balance on the General Fund of £0.665m.

#### General Fund Reserve

The balance on the General Fund at 31 March 2012 stands at £34.572m compared to £33.907m at 31 March 2011, an increase of £0.665m. The "free" General Fund Balance stands at £5.118m at 31 March 2012. This equates to 2.0% of the net revenue expenditure for 2012-13, the Council has a policy of maintaining an unallocated balance in the General Fund Reserve equivalent to 1.5% of budgeted net revenue expenditure. There are a range of balances earmarked within the General Fund, these total £29.454m and are laid out in note 5 on page 53. The main balances include £8.689m for the Strategic Housing Fund generated from Council Tax on second homes and £12.5m earmarked as a revenue contribution to capital to fund the Dunoon and Campbeltown schools, as agreed as part of the 2012-13 to 2014-15 revenue budget in February 2012.

## Explanatory Foreword by the Head of Strategic Finance

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

	£m	£m
<b>Balance on General Fund 31 March 2011</b>		<b>33.907</b>
Release of sums previously earmarked to service budgets 2011-12		(10.224)
		<b>23.683</b>
<b>Add outturn for 2011-12:</b>		
Increase in council tax income	0.692	
Savings in loan charges	1.156	
Net underspend on departmental and other expenditure compared to budget	1.220	
<b>Surplus against budget 2011-12</b>		<b>3.068</b>
<b>Contributions to Earmarked Reserves 2011-12:</b>		
Council Tax collection on second homes	1.817	
Funds earmarked by departments from budgets	6.004	
		<b>7.821</b>
<b>Balance on General Fund 31 March 2012</b>		<b>34.572</b>

The release of sums already earmarked to service budgets total of £10.224m consists of funds released to services for amounts previously earmarked for specific purposes, for example the CHORD programme and Process for Change and also the approved budgeted contribution from reserves to balance the overall 2011-12 budget position.

In February 2012 the Council took the decision to remove the earmarking from the NPDO and Waste Management PPP Smoothing Funds and use £12.5m of this as a contribution to capital to fund the Council contribution for the Dunoon and Campbeltown schools. The smoothing funds have been un-earmarked and the £12.5m has been earmarked in the General Fund for this purpose, with the remaining balance on the Smoothing Funds being returned to the unallocated General Fund and used as part of the overall budget strategy.

## Explanatory Foreword by the Head of Strategic Finance

### Performance against budget

At the year-end, expenditure excluding loans charges was underspent by £1.220m. The table below is a summary of the year-end actual expenditure for each department compared to the annual budget.

	(over) /underspend £m	% of annual budget £m
Chief Executive's Unit	0.111	1.75%
Community Services	2.067	1.50%
Customer Services	0.081	0.24%
Development and Infrastructure Services	(0.639)	(1.95%)
Non-Departmental expenditure	<u>(0.400)</u>	<u>(1.47%)</u>
<b>TOTAL</b>	<b>1.220</b>	<b>0.51%</b>

The overspend in Development and Infrastructure Services relates to the additional costs associated with winter maintenance and storm damage. In Community Services there was an overall underspend due to a reduction in demand for some services and additional savings achieved in advance of service reviews. The projected year-end position for the departments was forecast and monitored during 2011-12 and steps were taken to ensure that overall the departmental year-end variance position was not unfavourable. The overspend in Non-Departmental expenditure relates to the provision for severance costs as part of the on-going Council Modernisation.

### Comprehensive Income and Expenditure Statement

The Council ended the year with an accounting deficit of £35.893m for 2011-12 compared to a surplus of £100.754m in 2010-11, this is the accounting surplus based on the IFRS compliant accounts rather than the movement in the General Fund Balance. The total Comprehensive Income and Expenditure for 2011-12 represents the decrease in the net worth of the Council from £212.980m at 31 March 2011 to £177.087m at 31 March 2012. This is a decrease in the net worth of the Council in accounting terms and does not represent a decrease in the spending power of the Council.

The total Comprehensive Income and Expenditure comprises a surplus on the provision of services of £15.642m and a surplus on the revaluation of Long Term Assets of £5.619m; these are offset by an actuarial loss on the pension fund assets/liability of £57.154m.

The surplus on the provision of services of £15.642m compares to a surplus of £53.182m for 2010-11. The main factors contributing to these changes are as follows:

- Taxation and Non-Specific Grant Income decreased from £279.925m to £272.546m a decrease of £7.379m (2.6%). This reduction in income reflects the Councils share of the overall national reduction in funding for public services.
- Financing and Investment Income and Expenditure fell from £15.670m in 2010-11 to £15.316m in 2011-12 a reduction of £0.354m (2.2%). The reduction is due to an increase in interest payable and similar charges, partly offset by an increase in the expected return on pension assets.
- Other Operating Income and Expenditure decreased from £1.453m in 2010-11 to £1.396m in 2011-12 a reduction of £0.057m (3.9%). This is due to an increase in the loss on disposal of long term assets offset by a decrease in other operating income and expenditure as a result of additional income recovered in relation to VAT reclaims made under the "Fleming" case law principle.

## Explanatory Foreword by the Head of Strategic Finance

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- The Net Cost of Services has increased from £209.620m in 2010-11 to £240.192m in 2011-12 an increase of £30.572m (14.6%). This is an increase in expenditure in accounting terms and does not represent a true increase in spend on services by the Council. The main reason for this being a credit of £42.187m to Non Distributed costs in 2010-11 for a reduction in the Pension Liability, this adjustment was the one-off impact on the pension liability as a result of the basis for future pension increases being linked to the Consumer Price Index (CPI).

### Balance Sheet

As indicated above the accounting net worth of the Council has decreased by £35.893m from £212.980m at 31 March 2011 to £177.087m at 31 March 2012.

The value of long term assets has increased from £479.957m at 31 March 2011 to £486.289m at 31 March 2012, an increase of £6.332m (1.3%). This comprises the net of an overall upward revaluation of fixed assets, capital expenditure in the year, less the value of long term assets disposed.

Total current assets have increased from £47.527m at 31 March 2011 to £53.303m at 31 March 2012 an increase of £5.776m. The main reason for this being a decrease in Cash and Cash Equivalents of £14.959m from £30.446m at 31 March 2011 to £15.487m at 31 March 2012, offset by an increase in short term investments of £20.000m.

Total current liabilities have reduced from £44.446m at 31 March 2011 to £40.865m at 31 March 2012 a reduction of £3.581m. Short term creditors have fallen from £36.168m to £33.082m. In addition there has been a decrease in provisions of £1.845m, which relates to the settling of equal pay claims and severance costs associated with employees leaving the Council under redundancy and early retirement.

Overall, long term liabilities have increased from £270.058m at 31 March 2011 to £321.640m at 31 March 2012. The increase of £51.582m is primarily due to the increase in the IAS19 valuation of the pension scheme liability from £26.227m to £79.092m.

### Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the financial year. The Cash and Cash Equivalents balance at 31 March 2011 was £30.446m and decreased by £14.959m to £15.487m at 31 March 2012. The Net Cash Flows from Operating Activities have decreased from £19.340m at 31 March 2011 to £6.538m at 31 March 2012, this decrease of £12.802m represents a decrease in the Councils income funded from taxation and grant income. Cash outflows for Investment Activities have increased from £6.968m during 2010-11 to £21.570m in 2011-12, as a result of placing £20m of surplus cash on investment. Cash flows from Financing Activities were a cash inflow of £14.724m during 2010-11 and a net cash inflow during 2011-12 of £0.073m, this decrease relates to new borrowing during 2010-11.



## Explanatory Foreword by the Head of Strategic Finance

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### Pension Liability

As noted above the IAS19 valuation of the pension scheme liability has increased from £26.227m at 31 March 2011 to £79.092m at 31 March 2012. This pension liability represents the best estimate of the current value of pension benefits that will have to be funded by the Council. The liability relates to benefits earned by existing or previous employees up to 31 March 2012.

These benefits are expressed in current value terms rather than the cash amount that will actually be paid out. This is to allow for the 'time value of money', whereby the value of cash received now is regarded as higher than cash received, for example, in ten years' time, since the money received now could be invested and would earn interest or returns during the ten years. In order to adjust the pension liability cash flows for the time value of money, a discount factor based on corporate bonds is used. The corporate bond rate used for discounting scheme liabilities in the valuation as at 31 March 2012 (4.8%) is significantly lower than that used at 31 March 2011 (5.5%). This has contributed to a significant increase in the estimated current value of the pension liability.

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 2012. Their calculations have been carried out in accordance with Guidance Note 36: Accounting for Retirement Benefits under IAS19, issued by the Institute and the Faculty of Actuaries.

### Significant Trading Organisations

Councils are required to identify their Significant Trading Organisations. Significant Trading Organisations must achieve a breakeven financial position over a rolling three year period. Information on the financial performance of Significant Trading Organisations is given in the Accounts and this is laid out in note 8 of the Notes to the Core Financial Statements on page 58. During 2011-12 the Roads and Lighting trading account achieved a surplus of £0.357m. It achieved a rolling breakeven position with a three year surplus of £2.029m. The Catering & Cleaning trading account returned a surplus of £0.322m for the year, and it achieved a rolling breakeven position with a three year surplus of £1.308m. Any surplus or deficit on trading organisations is treated as part of the General Fund.

### Capital Expenditure and Borrowing

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

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

The Council approved a set of prudential indicators for 2011-12 and managed capital expenditure and borrowing within these approved limits.

## Explanatory Foreword by the Head of Strategic Finance

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

	<b>£'m</b>
Gross Capital Expenditure	25.575
Less: Capital Receipts	0.190
Government Grants and Other Contributions	11.479
Revenue Contributions	0.124
Balance Funded from Borrowing	<b>13.782</b>

The capital financing requirement at 31 March 2012 was £256.617m. This was financed as follows:

	<b>£'m</b>
Long Term Borrowing	160.210
Short Term Borrowing	0.553
Schools NPDO Finance Lease Liability	82.576
Internal Funds	13.278
	<b>256.617</b>

The external borrowing of the Council at 31 March 2012 amounted to £160.763m. The majority of this was financed by the Public Works Loan Board (£108.066m), with the remainder coming mainly from the money market.

During the year the Council completed £0.209m of new external borrowing. This was used to finance capital expenditure incurred during the year. The Council also repaid loans of £0.167m.

### PROVISIONS AND CONTINGENT LIABILITIES

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

- Severance costs – a number of employees have either taken or been offered a redundancy package as part of the Council Modernisation programme. A provision of £1.388m has been created in 2011-12 for the termination benefits for employees who have accepted redundancy but are not planned to leave until after 31 March 2012. Termination costs for all Council employees who have accepted redundancy by 31 March 2012 have been accounted for in 2011-12 or in previous years. There are only two groups of employees where there is insufficient information to allow for redundancy costs to be estimated reliably, therefore no financial provision can be made for these costs. An element of the General Fund balance has been earmarked to accommodate these costs as and when the outstanding issues are resolved.
- Equal Pay - the Council is nearing agreement on the final settlement for Equal Pay claims. A provision is held for claims where settlement offers have been made and a reliable estimate could be made of the liability. There are further outstanding claims where the settlement amount cannot be estimated reliably enough to provide for the costs.
- Utilities Provision – a total of £0.781m has been provided for during 2011-12 to cover the cost of a potential liability in relation to discrepancies in charges for utility costs.

## Explanatory Foreword by the Head of Strategic Finance

### GROUP ACCOUNTS

Group Accounts have been prepared and show a change from a net asset position at 31 March 2011 to a net liability position at 31 March 2012. This reduction in net assets is primarily due to an increase in the pension liability for the Council. In terms of the overall position of the Group Accounts being a net liability compared to the net asset position of the single entity accounts, this is a result of the Police and Fire Pension Schemes being unfunded and reflects the proper accounting treatment as determined by IAS19. The technical accounting treatment has no impact on the underlying basis for meeting the Police and Fire Boards' current and on-going pension liabilities. These will continue to be met from government grants and contributions from constituent authorities.

Further information regarding these pension deficits can be found in Note 5 to the Group Accounts on page 107.

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

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

### FUTURE OUTLOOK

The outlook for all public sector organisations is challenging. The Council established a Transformation Board to oversee its major change programme. A key element of this is a 3 year programme of service reviews which have been set targets to identify potential savings of between 15% and 20%. These reviews are a key element in identifying the savings to balance the Council budget.

The Council has adopted a strategic 3 year approach to managing its budgetary position and has prepared budgets for the period to 2014-15. The Council received a 3 year settlement of funding from the Scottish Government for this period. The table below summarises the Council revenue budget plan for the 3 years to 2014-15:

	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Base Expenditure Budget for Services	261.355	262.769	267.277
Revenue Contribution to Capital Budget	0.921	4.216	0.869
Budget Savings Agreed	(6.425)	(7.861)	(8.750)
Efficiency Savings to be Allocated	-	(1.595)	(3.641)
<b>Revenue Expenditure on Services</b>	<b>255.851</b>	<b>257.529</b>	<b>255.755</b>
Funding	259.611	257.529	255.769
<b>Annual Surplus/(Deficit)</b>	<b>3.760</b>	<b>0</b>	<b>0.014</b>

## Explanatory Foreword by the Head of Strategic Finance

The overall financial profile in terms of the impact on the General Fund is a surplus of £3.760m in 2012-13, a balanced position in 2013-14 and a surplus of £0.014m in 2014-15. The net of any surplus or deficit position across the 3 years would be allocated to the General Fund balance. At the end of year 3 (2014-15), the Council have planned for a level of expenditure on services which should be sustainable going forward.

The surplus generated during 2012-13 has been planned to offset the anticipated deficit in 2011-12. This is due to the profile of the payment of severance costs for employees, to ensure that the one-off impact of these costs during 2011-12 are re-paid into the general fund balance in future years. All of the severance costs in relation to service reviews have been accounted for within 2011-12 or previous years, with the exception of two specific employee groups where sufficient information was not available to make provision for the likely costs.

The budget savings agreed include all savings planned as part of the 3 year programme of service reviews. The Scottish Government budget contained a commitment to on-going efficiency savings in the public sector. The Council has recognised this in the 3 year budget plan and these additional efficiency savings have been factored into the 2013-14 and 2014-15 budgets.

The 3 year capital plan has been agreed by the Council for the period to 2014-15, the table below summarises the capital budget plans for the 3 years to 2014-15:

	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Total Capital Expenditure</b>	<b>42.644</b>	<b>38.432</b>	<b>39.312</b>
<b><i>Funded by:</i></b>			
Borrowing	28.248	16.649	22.944
Capital Grant	9.656	8.907	13.278
Contribution from Smoothing Funds	3.819	6.460	2.221
Contribution from Revenue Budget	0.921	4.216	0.869
Capital Receipts	-	2.200	-

The Council in common with many other organisations is facing a period of significant financial challenge. However it moves forward from a sound financial base in terms of reserves and control of expenditure and with clear plans to maintain financial sustainability. The financial position will be monitored on an on-going basis during 2012-13 and the revenue budget and capital plan reviewed for 2013-14.



Bruce West  
Head of Strategic Finance  
**28 September 2012**

## THE AUTHORITY'S RESPONSIBILITIES

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

## THE HEAD OF STRATEGIC FINANCE'S RESPONSIBILITIES

The Head of Strategic Finance is responsible for the preparation of the Council's Statement of Accounts, which in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code of Practice), are required to show a true and fair view of the financial position of the Council as at 31 March 2012 and its income and expenditure for the year ended on that date.

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

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Local Authority Code of Practice 2011-12.

The Head of Strategic Finance has also:

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

This Statement of Accounts show a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31 March 2012.



Bruce West  
Head of Strategic Finance  
**28 September 2012**

## Statement of Governance and Internal Control

### BACKGROUND

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

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

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

### THE GOVERNANCE FRAMEWORK

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

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

### GOVERNANCE ROLES AND RESPONSIBILITIES

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

- Overseeing the implementation of the Code of Corporate Governance and monitoring its operation; and
- Reporting annually to the Council on compliance with the Code and any changes required to maintain it and ensure its effectiveness

Account has been taken of the results of reviews of internal control that have been carried out within each Council Service. Specific responsibilities are assigned to the Head of Strategic Finance to ensure that public funds are properly accounted for.

### INTERNAL FINANCIAL CONTROL

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

## Statement of Governance and Internal Control

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

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

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

- Comprehensive budgeting systems with an annual budget which is reviewed and agreed by the Council and the above named bodies;
- Regular reviews by the Council and the above named bodies 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.

### RISK MANAGEMENT

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

### INTERNAL AUDIT

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

The Chief Internal Auditor provides the Audit Committee with an annual report on internal audit activity in the Council. The Chairman and Vice Chairman are independent lay members of the Audit Committee.

The report includes the Chief Internal Auditor's independent opinion on the adequacy and effectiveness of the Council's systems of governance and internal control.

### ISSUES FOR FURTHER DEVELOPMENT

The review of governance and internal control has identified the following areas for further development:

-

## Statement of Governance and Internal Control

- The continued development of performance management throughout the Council by embedding links between corporate and service outcomes and the performance scorecards;
- Improving self-assessment through the rollout of PSIF and using the results to drive continuous improvement;
- Further development of the approach to risk management integrated as part of planning and performance management framework;
- Ongoing development of asset management to improve the availability and use of performance management information for assets;
- Action the Corporate Governance Improvement Plan;
- Development of partnership agreements for key partners; and
- Maintain the quality of services in a time of budget savings and service review.

### ASSURANCE

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

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

It is the Council's view that the systems for governance and internal control are operating effectively within Argyll and Bute Council and the aforementioned bodies during 2011-12 and that there are no significant weaknesses. This assurance is limited, however, to the work undertaken during the year and the evidence available at the time of preparing this statement.



Roddy McCuish  
**Leader**



Sally Loudon  
**Chief Executive**



Bruce West  
**Head of Strategic Finance**

**28 September 2012**



## The Remuneration Report

### BACKGROUND

The Local Authority Accounts (Scotland) Amendment Regulations 2011 amended the Local Authority Accounts (Scotland) Regulations 1985 and required Scottish Local Authorities to prepare a Remuneration Report for the first time in 2010-11 as part of its annual Financial Statements.

### REMUNERATION POLICY AND ARRANGEMENTS

#### Councillors

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

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

The Regulations also provide for the banding of local authorities – Argyll and Bute is in Band B, the Council has determined the level of remuneration for councillors within that banding. The salary that is to be paid to the Leader of the Council is set out in the Regulations. For 2011-12 the salary for the Leader of Argyll and Bute Council is £32,470. The Regulations permit the council to remunerate one Civic Head. The Regulations set out the maximum salary that may be paid to that Civic Head. The Council's Civic Head is The Provost and his remuneration is set at £24,353 which is the maximum allowed for Local Authorities in Band B.

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

In 2011-12 Argyll and Bute Council had 12 senior councillors. The total remuneration for senior councillors during 2011-12 was £279,063. The Regulations also permit the Council to pay contributions or other payments as required to the Local Government Pension Scheme in respect of those councillors who elect to become councillor members of the pension scheme.

#### Senior Employees

The salary of senior employees is set by reference to national arrangements. The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services sets the salaries for the Chief Executives of Scottish local authorities. Circular CO/144 sets the amount of salary for the Chief Executive of Argyll and Bute Council for the period 2008 to 2012. The salaries of the Executive Directors and Heads of Service are based on a fixed percentage of the Chief Executive's salary in two bandings. Executive Directors receive 80% of the amount of the Chief Executive's salary and Heads of Service 75% of Executive Director's salary. This equates to Chief Officers Salary Scale Point (SCP) 43 for Executive Directors and SCP 29 for Heads of Service.

## COUNCILLORS' REMUNERATION

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

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

Members Allowances	2011-12	2010-11
	Actual £'000	Actual £'000
Basic Councillor Salaries	345	368
Senior Councillor Salaries (Includes Salary of Leader and Provost)	335	319
Other Expenses and Allowances paid to Members	161	180
<b>Total Allowances</b>	<b>841</b>	<b>867</b>

The annual return of councillors' salaries and expenses for 2011-12 is available for any member of the public to view at all Council libraries and public offices during normal working hours. It is also available on the Council's website at <http://www.argyll-bute.gov.uk/council-and-government/councillors-and-community-councillors>.

## SENIOR COUNCILLORS' REMUNERATION

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

Details of senior councillors' remuneration are as follows:

Senior Members	2011-12				2010-11
	Salary, Fees and Allowances £	Taxable Expenses £	Non-cash Expenses & Benefits-in-kind £	Total Remuneration £	Total Remuneration £
<b>Provost</b> - Councillor William Petrie	24,353	-	-	<b>24,353</b>	24,933
<b>Leader</b> - Councillor Dick Walsh	32,470	565	-	<b>33,035</b>	34,537
<b>Education and Lifelong Learning Spokesperson</b> - Councillor Isobel Strong (to 25-11-10)	-	-	-	-	17,303
<b>Education and Lifelong Learning Spokesperson</b> - Councillor Ellen Morton (from 06-12-10)	24,353	-	-	<b>24,353</b>	7,022
<b>Leader of the Opposition</b> - Councillor Ellen Morton (to 25-11-10)	-	-	-	-	14,183
<b>Economy, Environment and Rural Affairs Spokesperson</b> - Councillor Robert Macintyre (to 25-11-10)	-	-	-	-	17,303
<b>Leader of the Opposition</b> - Councillor Robert Macintyre (from 06-12-10)	19,962	-	-	<b>19,962</b>	6,066
<b>Housing and Communities Spokesperson</b> - Councillor George Freeman (to 25-11-10)	-	-	-	-	17,829
<b>Transport and Infrastructure Spokesperson</b> - Councillor Duncan MacIntyre	24,353	-	-	<b>24,353</b>	24,686
<b>Islands and European Affairs Spokesperson</b> (to 06-12-10), <b>European Issues Spokesperson</b> (from 06-12-10) - Councillor Len Scoullar	24,353	65	-	<b>24,418</b>	24,793

## The Remuneration Report



Senior Members	2011-12				2010-11
	Salary, Fees and Allowances £	Taxable Expenses £	Non-cash Expenses & Benefits-in-kind £	Total Remuneration £	Total Remuneration £
<b>Rural and Island Affairs, Housing and Gaelic Spokesperson</b> - Councillor Robin Currie (from 06-12-10)	24,353	-	-	<b>24,353</b>	7,022
<b>Social Services Spokesperson</b> - Councillor Donald McIntosh (to 25-11-10)	-	-	-	-	17,425
<b>Social Services Spokesperson</b> - Councillor Andrew Nisbet (from 06-12-10)	24,353	-	-	<b>24,353</b>	7,022
<b>Third Sector Spokesperson</b> - Councillor John Semple (to 25-11-10)	-	-	-	-	17,948
<b>Third Sector and Communities Spokesperson</b> - Councillor Rory Colville (from 06-12-10)	24,353	-	-	<b>24,353</b>	7,022
<b>Enterprise, Energy, Culture and Tourism Spokesperson</b> - Councillor Neil MacKay (from 06-12-10)	24,353	-	-	<b>24,353</b>	7,022
<b>Chair - Helensburgh and Lomond Area Committee</b> - Councillor Vivien Dance (from 06-12-10)	19,962	-	-	<b>19,962</b>	5,756
<b>Chair - Bute and Cowal Area Committee</b> - Councillor Bruce Marshall	24,353	200	-	<b>24,553</b>	21,740
<b>Environment Spokesperson</b> - Councillor Bruce Marshall (from 06-12-10)					
<b>Chair - Mid Argyll, Kintyre &amp; Islands Area Committee</b> - Councillor Donald MacMillan	19,962	-	-	<b>19,962</b>	19,962
<b>Chair - Protective Services and Licensing Committee</b> - Councillor Daniel Kelly	24,353	315	-	<b>24,668</b>	24,721

## EMPLOYEES' REMUNERATION

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

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

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

Range £	2011-12 Number of Officers	2010-11 Number of Officers
£50,000 - £54,999	25	29
£55,000 - £59,999	20	21
£60,000 - £64,999	3	4
£65,000 - £69,999	14	18
£70,000 - £74,999	1	2
£75,000 - £79,999	2	4
£80,000 - £84,999	-	1
£85,000 - £89,999	-	-
£90,000 - £94,999	3	2
£95,000 - £99,999	-	-
£100,000 - £104,999	-	-
£105,000 - £109,999	-	-
£110,000 - £114,999	-	1
£115,000 - £119,999	1	1
<b>Total</b>	<b>69</b>	<b>83</b>

As a result of the Council modernisation programme a number of officers received redundancy payments during 2010-11. This was still on-going during 2011-12 and the employees above include a number of employees receiving redundancy payments.

## SENIOR EMPLOYEES' REMUNERATION

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

In 2011-12 there were no employees earning more than £150,000.

The following table sets out the remuneration disclosures for 2011-12 for senior officers:

Post Holder	Salary (Including Fees and Allowances)	Taxable Expenses	Benefits other than in cash	Total Remuneration 2011/12	Total Remuneration 2010-11
	£	£	£	£	£
<b>Chief Executive</b> - Sally Loudon	118,017	2,309	-	<b>120,326</b>	<b>118,239</b>
<b>Executive Director of Community Services</b> - Cleland Sneddon (from 17-05-10) <i>(Full year equivalent)</i>	92,770	4,343	-	<b>97,113</b>	<b>78,342</b> <i>(92,625)</i>
<b>Executive Director of Customer Services</b> - Douglas Hendry	92,516	603	-	<b>93,119</b>	<b>93,173</b>
<b>Executive Director of Development and Infrastructure Services</b> - Alexander MacTaggart (from 01-04-10)	92,770	-	-	<b>92,770</b>	<b>92,433</b>
<b>Head of Strategic Finance (Section 95 Financial Officer)</b> - Bruce West	68,539	820	-	<b>69,359</b>	<b>69,309</b>
<b>Head of Adult Care (Section 3 Social Work Officer)</b> - James Robb (from 12-11-11)	68,728	-	-	<b>68,728</b>	-
<b>Head of Children and Families (Section 3 Social Work Officer)</b> - Dougie Dunlop (to 11-11-11) <i>(Full year equivalent)</i>	48,078 <i>(68,728)</i>	113	-	<b>48,191</b> <i>(68,728)</i>	<b>69,178</b> -
<b>Head of Improvement and HR (Direct Report to Chief Executive)</b> - Jane Fowler	68,728	-	-	<b>68,728</b>	<b>68,764</b>

The Chief Executive's salary of £118,017 includes £4,796 of remuneration for acting as Returning Officer during 2011-12 and £3,241 of remuneration for the role is included for 2010-11.

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

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

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

## PENSION BENEFITS

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

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

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

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

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

The tiers and members contribution rates for 2011-12 remain at the 2010-11 rates and are as follows:

Whole time pay	Contribution Rate	
	2011-12	2010-11
On earnings up to and including £18,000	5.50%	5.50%
On earnings above £18,000 and up to £22,000	7.25%	7.25%
On earnings above £22,000 and up to £30,000	8.50%	8.50%
On earnings above £30,000 and up to £40,000	9.50%	9.50%
On earnings above £40,000	12.00%	12.00%

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

There is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for a lump sum up to the limit set by the Finance Act 2004. The accrual rate guarantees a pension based on 1/60<sup>th</sup> of final pensionable salary and years of pensionable service. (Prior to 2009 the accrual rate guaranteed a pension based on 1/80<sup>th</sup> and a lump sum based on 3/80<sup>th</sup> of final pensionable salary and years of pensionable service).

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

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

## SENIOR COUNCILLORS' PENSION BENEFITS

The pension entitlements for senior councillors for the year to 31 March 2012 are shown in the table below, together with the contribution made by the Council to each senior councillor's pension during the year.

Senior Members	In-year pension contributions			Accrued pension benefits	
	For year to 31 March 2012 £	For year to 31 March 2011 £		As at 31 March 2012 £	Difference from 31 March 2011 £
<b>Education and Lifelong Learning Spokesperson</b> (from 06-12-10) and <b>Leader of the Opposition</b> (to 25-11-10) - Councillor Ellen Morton	4,678	3,844	Pension <i>Lump Sum</i>	1,514 1,468	436 118
<b>Housing and Communities Spokesperson</b> - Councillor George Freeman (to 25-11-10)	3,118	3,983	Pension <i>Lump Sum</i>	1,733 1,680	335 (72)
<b>Islands and European Affairs Spokesperson</b> (to 06-12-10), <b>European Issues Spokesperson</b> (from 06-12-10) - Councillor Len Scoullar	4,678	4,414	Pension <i>Lump Sum</i>	1,629 1,580	430 77
<b>Rural and Island Affairs, Housing and Gaelic Spokesperson</b> - Councillor Robin Currie (from 06-12-10)	4,678	3,365	Pension <i>Lump Sum</i>	1,219 707	428 80
<b>Social Services Spokesperson</b> - Councillor Andrew Nisbet (from 06-12-10)	4,678	3,365	Pension <i>Lump Sum</i>	1,332 1,084	428 112
<b>Third Sector Spokesperson</b> Councillor John Semple (to 25-11-10)	3,118	3,983	Pension <i>Lump Sum</i>	1,463 1,418	319 (16)
<b>Third Sector and Communities Spokesperson</b> - Councillor Rory Colville (from 06-12-10)	4,678	3,365	Pension <i>Lump Sum</i>	1,423 1,380	431 137
<b>Enterprise, Energy, Culture and Tourism Spokesperson</b> - Councillor Neil MacKay (from 06-12-10)	4,678	3,365	Pension <i>Lump Sum</i>	1,193 1,157	416 184
<b>Chair - Helensburgh and Lomond Area Committee</b> -Councillor Vivien Dance (from 06-12-10)	3,834	3,135	Pension <i>Lump Sum</i>	1,337 1,297	364 78
<b>Chair - Bute and Cowal Area Committee and Spokesperson for the Environment</b> (from 06-12-10)- Councillor Bruce Marshall	4,678	3,844	Pension <i>Lump Sum</i>	1,520 1,475	436 117

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



## SENIOR EMPLOYEES' PENSION BENEFITS

The pension entitlements for senior employees for the year to 31 March 2012 are shown in the table below, together with the contribution made by the Council to each senior employee's pension during the year.

Senior Officers	In-year pension contributions			Accrued pension benefits	
	For year to 31 March 2012 £	For year to 31 March 2011 £		As at 31 March 2012 £	Difference from 31 March 2011 £
<b>Chief Executive - Sally Loudon</b>	22,248	21,085	Pension	32,432	4,033
			<i>Lump Sum</i>	71,517	(2,050)
<b>Executive Director of Community Services - Cleland Sneddon (from 17-05-10)</b>	17,792	14,028	Pension	26,720	5,771
			<i>Lump Sum</i>	66,252	11,117
<b>Executive Director of Customer Services - Douglas Hendry</b>	17,828	16,812	Pension	35,498	1,544
			<i>Lump Sum</i>	92,624	-
<b>Executive Director of Development and Infrastructure Services - Alexander MacTaggart (from 01-04-10)</b>	17,792	16,619	Pension	10,986	1,648
			<i>Lump Sum</i>	19,052	202
<b>Head of Strategic Finance (Section 95 Financial Officer) - Bruce West</b>	13,200	12,448	Pension	27,208	1,142
			<i>Lump Sum</i>	71,358	-
<b>Head of Adult Care (Section 3 Social Work Officer) - James Robb (from 12-11-11)</b>	13,174	12,437	Pension	23,741	1,131
			<i>Lump Sum</i>	60,936	(31)
<b>Head of Children and Families (Section 3 Social Work Officer) - Dougie Dunlop (to 11-11-11)</b>	9,197	12,437	Pension	22,507	743
			<i>Lump Sum</i>	58,399	(31)
<b>Head of Improvement and HR (Direct report to Chief Executive) - Jane Fowler</b>	13,174	12,437	Pension	19,213	1,137
			<i>Lump Sum</i>	47,343	(25)

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

## EMPLOYEE EXIT PACKAGES

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

No	2010/11				Exit Package Cost Band	No	2011/12			
	Cash Value			Notional CAY Value £			Cash Value			Notional CAY Value £
	Compulsory Redundancies £	Other Departures £	Total Cash Value Cost £				Compulsory Redundancies £	Other Departures £	Total Cash Value Cost £	
187	256,110	1,270,029	<b>1,526,139</b>	280,478	£0 - £20,000	89	229,520	308,113	<b>537,633</b>	81,661
47	99,746	1,188,259	<b>1,288,006</b>	362,354	£20,001 - £40,000	26	149,137	593,154	<b>742,290</b>	129,121
15	126,299	595,276	<b>721,575</b>	147,473	£40,001 - £60,000	24	202,360	987,862	<b>1,190,222</b>	131,085
9	63,511	558,068	<b>621,579</b>	117,034	£60,001 - £80,000	15	66,162	958,650	<b>1,024,812</b>	42,544
3	-	258,508	<b>258,508</b>	52,944	£80,001 - £100,000	5	80,599	363,919	<b>444,518</b>	37,760
2	-	219,487	<b>219,487</b>	41,848	£100,001 - £150,000	5	122,020	530,534	<b>652,553</b>	-
1	-	249,655	<b>249,655</b>	25,661	£150,001 - £200,000	3	158,291	207,892	<b>366,182</b>	48,313
<b>264</b>	<b>545,667</b>	<b>4,339,281</b>	<b>4,884,950</b>	<b>1,027,792</b>		<b>167</b>	<b>1,008,089</b>	<b>3,950,122</b>	<b>4,958,210</b>	<b>470,483</b>

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

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

## The Remuneration Report

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The total cost of £4.958m in the table above includes exit packages that have been agreed and charged to the Council's Comprehensive Income and Expenditure Statement in the current year. These costs include all exit packages agreed by 31 March in each year, this does not necessarily mean that these payments have been made, for example an employee could have subsequently been re-deployed to an alternative post within the Council. The Council's Balance Sheet includes a provision at 31 March 2012 of £1.779m, this represents the amount which has yet to be paid out by the Council, this amount is included within the bands above.

The supplementary Termination Benefits Note 33 on page 90 provides more information on the exit packages agreed in the two financial years.

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

Roddy McCuish  
**Leader**

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

Sally Loudon  
**Chief Executive**

**28 September 2012**

## Statement of Movement in Reserves

	Usable Reserves (Note 31)				Unusable Reserves (Note 30)						Total Reserves £'000	
	Repairs and Renewals Fund		Capital Funds	Total Usable Reserves	Revaluation Reserve	Capital Adjustment Account	Pensions Reserve	Financial Instrument Adjustment Account	Accumulated Absences Account	Total Unusable Reserves		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000		
<b>Movements in 2011-12</b>												
<b>Balance at 31 March 2011</b>	<b>(33,907)</b>	<b>(497)</b>	<b>(2,972)</b>	<b>(37,376)</b>	<b>(51,895)</b>	<b>(163,123)</b>	<b>26,227</b>	<b>6,006</b>	<b>7,181</b>	<b>(175,604)</b>	<b>(212,980)</b>	
(Surplus)/Deficit on Provision of Services Other Comprehensive Expenditure and Income	(15,642)			(15,642)	(5,619)		57,154				(15,642)	
<b>Total Comprehensive Expenditure and Income</b>	<b>(15,642)</b>	<b>-</b>	<b>-</b>	<b>(15,642)</b>	<b>(5,619)</b>	<b>-</b>	<b>57,154</b>	<b>-</b>	<b>-</b>	<b>51,535</b>	<b>35,893</b>	
<b>Adjustments between accounting basis and funding basis under regulations:</b>												
Adjustment between CAA and Revaluation Reserve for depreciation that is related to the revaluation balance rather than historic cost.				-	2,177	(2,177)						
Amortisation of Intangible Assets	(129)			(129)		129				129		
Depreciation of Non-current Assets	(18,309)			(18,309)		18,309				18,309		
Impairment of Non-current Assets	(6,460)			(6,460)		6,460				6,460		
Capital Grants and Contributions credited to the Comprehensive Income and Expenditure Statement	11,479			11,479		(11,479)				(11,479)		
Capital Expenditure Charged to the General Fund	124			124		(124)				(124)		
Net Gain or Loss on Sale of Non-current Assets	(442)		(313)	(755)		755				755		
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	372			372				(372)		(372)		
Employee Benefits	2,588			2,588					(2,588)	(2,588)		
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under pension scheme regulations	4,289			4,289			(4,289)			(4,289)		

## Statement of Movement in Reserves

Statutory Repayment of Debt - Loans Fund Advances	19,915								(19,915)	-
Statutory Repayment of Debt - Finance Leases	157								(157)	-
Statutory Repayment of Debt - NPDO Finance	1,412								(1,412)	-
<b>Total Statutory Adjustments</b>	<b>14,996</b>	<b>(313)</b>	<b>2,177</b>	<b>(9,611)</b>	<b>(4,289)</b>	<b>(372)</b>	<b>(2,588)</b>	<b>(14,683)</b>		<b>-</b>
<b>Net (Increase)/Decrease before Transfers to Other Statutory Reserves</b>	<b>(646)</b>	<b>(313)</b>	<b>(3,442)</b>	<b>(9,611)</b>	<b>52,865</b>	<b>(372)</b>	<b>(2,588)</b>	<b>36,852</b>		<b>35,893</b>
<b>Other Transfers required by Statute</b>										
Transfer to/from Other Statutory Reserves	(19)	193							(139)	-
<b>(Increase)/Decrease in Year</b>	<b>(665)</b>	<b>(120)</b>	<b>(3,442)</b>	<b>(9,750)</b>	<b>52,865</b>	<b>(372)</b>	<b>(2,588)</b>	<b>36,713</b>		<b>35,893</b>
<b>Balance at 31 March 2012 Carried Forward</b>	<b>(34,572)</b>	<b>(3,092)</b>	<b>(55,337)</b>	<b>(172,873)</b>	<b>79,092</b>	<b>5,634</b>	<b>4,593</b>	<b>(138,891)</b>		<b>(177,087)</b>

This Statement shows the movement in the 2011-12 financial year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The '(Surplus) or Deficit on the provision of services' line shows the true economic cost of providing the Council's services, more details of which are shown in Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting purposes. The 'Net (Increase)/Decrease before transfers to Earmarked Reserves' line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

## Statement of Movement in Reserves

	Usable Reserves (Note 31)						Unusable Reserves (Note 30)														
	General Fund Balance		Repairs and Renewals Fund		Capital Funds		Total Usable Reserves		Revaluation Reserve		Capital Adjustment Account		Pensions Reserve		Financial Instrument Adjustment Account		Accumulated Absences Account		Total Reserves		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
<b>Comparative Movements in 2010-11</b>																					
<b>Balance at 31 March 2010</b>	<b>(33,851)</b>	<b>(475)</b>	<b>(2,977)</b>	<b>(37,303)</b>	<b>(46,059)</b>	<b>(150,275)</b>	<b>107,969</b>	<b>6,378</b>	<b>7,064</b>	<b>(74,923)</b>	<b>(112,226)</b>										
(Surplus)/Deficit on Provision of Services	(53,182)			(53,182)	(8,592)		(38,980)			0	(53,182)										
Other Comprehensive Expenditure and Income																					
<b>Total Comprehensive Expenditure and Income</b>	<b>(53,182)</b>	<b>-</b>	<b>-</b>	<b>(53,182)</b>	<b>(8,592)</b>	<b>-</b>	<b>(38,980)</b>	<b>-</b>	<b>-</b>	<b>(47,572)</b>	<b>(100,754)</b>										
<b>Adjustments between accounting basis and funding basis under regulations:</b>																					
Adjustment between CAA and Revaluation Reserve for depreciation that is related to the revaluation balance rather than historic cost.				-	2,756	(2,756)															
Amortisation of Intangible Assets	(127)			(127)		127															
Depreciation and of Non-current Assets	(15,318)			(15,318)		15,318															
Impairment of Non-current Assets	(4,252)			(4,252)		4,252															
Capital Grants and Contributions credited to the Comprehensive Income and Expenditure	7,094			7,094		(7,094)															
Capital Expenditure Charged to the General Fund	915			915		(915)															
Net Gain or Loss on Sale of Non-current Assets	(201)			(375)		375															
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	372		(174)	372																	
Employee Benefits	(117)			(117)																	
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under pension scheme regulations	42,762			42,762																	



## Statement of Comprehensive Income and Expenditure

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

2010-11			Note	2011-12		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
			<b>Service</b>			
111,299	8,442	102,857	Education Services	102,771	7,013	95,758
40,024	25,465	14,559	Housing Services (Non-HRA)	31,336	26,615	4,721
13,649	2,629	11,020	Cultural and Related Services	12,143	2,449	9,694
21,812	4,223	17,589	Environmental Services	25,535	4,739	20,796
28,288	7,324	20,964	Roads and Transport Services	25,411	6,735	18,676
8,418	4,324	4,094	Trading Services	7,425	4,435	2,990
11,239	6,197	5,042	Planning and Development Services	10,452	5,845	4,607
63,461	12,652	50,809	Social Work	64,775	9,549	55,226
			Central Services:			
4,734	140	4,594	- Corporate and Democratic Core	3,945	17	3,928
(37,260)	2	(37,262)	- Non Distributed Costs	8,373	1	8,372
2,549	1,106	1,443	- Central Services to the Public	2,606	1,189	1,417
8,927	-	8,927	Strathclyde Police Joint Board	9,168	-	9,168
4,984	-	4,984	Strathclyde Fire and Rescue Joint Board	4,839	-	4,839
<b>282,124</b>	<b>72,504</b>	<b>209,620</b>	<b>Net Cost of Services</b>	<b>308,779</b>	<b>68,587</b>	<b>240,192</b>





## Balance Sheet

1 April 2010	31 March 2011		Note	31 March 2012	
				£'000	£'000
		<b>Long Term Assets</b>			
		Property Plant & Equipment	15		
297,041	301,804	- Other Land and Buildings		296,463	
5,058	5,713	- Vehicles, Plant, Furniture and Equipment		6,784	
139,371	145,554	- Infrastructure Assets		153,761	
1,142	1,272	- Community Assets		1,338	
5,753	12,137	- Surplus Assets		5,117	
10,299	8,597	- Assets Under Construction		11,723	
<b>458,664</b>	<b>475,077</b>	Property Plant & Equipment			<b>475,186</b>
1,316	1,316	Heritage Assets	16		1,324
420	365	Intangible Assets	17		332
1,090	1,290	Investment Property	18		5,647
1,766	1,909	Long-Term Debtors	21		3,800
<b>463,256</b>	<b>479,957</b>	<b>Total Long Term Assets</b>			<b>486,289</b>
		<b>Current Assets</b>			
116	103	Inventories		516	
17,522	15,256	Short Term Debtors (Net of Impairment)	22	15,147	
8,679	1,722	Assets Held for Sale	23	2,153	
-	-	Short Term Investments		20,000	
3,350	30,446	Cash and Cash Equivalents	24	15,487	
<b>29,667</b>	<b>47,527</b>	<b>Total Current Assets</b>			<b>53,303</b>
		<b>Current Liabilities</b>			
(14,156)	(1,751)	Short-term Borrowing	26	(3,225)	
(38,725)	(36,168)	Short-term Creditors	25	(33,082)	
-	(280)	Capital Grant Receipts in Advance		(278)	
(1,088)	(4,676)	Provisions	28	(2,831)	
(1,727)	(1,571)	Other Short Term Liabilities	27	(1,449)	
<b>(55,696)</b>	<b>(44,446)</b>	<b>Total Current Liabilities</b>			<b>(40,865)</b>
		<b>Long-term Liabilities</b>			
(131,242)	(160,229)	Borrowing Repayable within a Period in Excess of 12 Months	26	(160,210)	
(84,937)	(83,367)	Other Long-term liabilities	27	(81,919)	
(853)	(235)	Provisions	28	(419)	
(107,969)	(26,227)	Other Long-term liabilities (Pensions)	29	(79,092)	
<b>(325,001)</b>	<b>(270,058)</b>	<b>Total Long-term Liabilities</b>			<b>(321,640)</b>
<b>112,226</b>	<b>212,980</b>	<b>Total Assets less Liabilities</b>			<b>177,087</b>

## Balance Sheet

1 April 2010	31 March 2011		Note	31 March 2012	
				£'000	£'000
		<b>Unusable Reserves</b>	30		
46,059	51,895	- Revaluation Reserve		55,337	
150,275	163,123	- Capital Adjustment Account		172,873	
(6,378)	(6,006)	- Financial Instruments Adjustment Account		(5,634)	
(107,969)	(26,227)	- Pensions Reserve		(79,092)	
(7,064)	(7,181)	- Accumulated Absences Account		(4,593)	
<b>74,923</b>	<b>175,604</b>				138,891
		<b>Usable Reserves</b>	31		
2,977	2,972	- Capital Funds		3,092	
475	497	- Repairs and Renewals Funds		532	
33,851	33,907	- General Fund Balance		34,572	
<b>37,303</b>	<b>37,376</b>				38,196
<b>112,226</b>	<b>212,980</b>	<b>Total Reserves</b>			<b>177,087</b>

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories:

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

The financial statements were issued on 28 June 2012 and the audited financial statements were authorised for issue on 28 September 2012.



Bruce West  
Head of Strategic Finance  
28 September 2012

## Cash Flow Statement

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

2010-11 £'000		Note	2011-12 £'000
<b>(53,182)</b>	<b>Net (Surplus) or Deficit on the Provision of Services</b>		<b>(15,642)</b>
28,805	Adjustments to net surplus or deficit on the provision of services for non-cash movements		(354)
5,037	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		9,458
<b>(19,340)</b>	<b>Net Cash Flows from Operating Activities</b>	36	<b>(6,538)</b>
6,968	Investing Activities	37	21,570
(14,724)	Financing Activities	38	(73)
<b>(27,096)</b>	<b>Net Increase or Decrease in Cash and Cash Equivalents</b>		<b>14,959</b>
(3,350)	Cash and Cash Equivalents at the beginning of the Reporting Period		(30,446)
<b>(30,446)</b>	<b>Cash and Cash Equivalents at the end of the Reporting Period</b>	24	<b>(15,487)</b>

## Notes to the Financial Statements

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2011-12 financial year and its position at the year-end of 31 March 2012. The Council is required to prepare an annual Statement of Accounts by the Local Authority Accounts (Scotland) Regulations 1985, which section 12 of the Local Government in Scotland Act 2003 require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011-12 and the Service Reporting Code of Practice for Local Authorities 2011-12 (SeRCOP), supported by International Financial Reporting Standards (IFRS).

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

#### 1.2 Accruals of Income and Expenditure

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

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

## Notes to the Financial Statements

### 1.3 Cash and Cash Equivalents

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

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

### 1.4 Changes in Accounting Policies, Estimates and Errors

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

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

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

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

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

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

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

### 1.6 Employee Benefits

#### 1.6.1 Benefits Payable during Employment

Short-term benefits, such as wages and salaries, paid annual and sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees, are recognised as an expense in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end and which employees can carry forward into the next financial year.

#### 1.6.2 Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to either terminating the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

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

## Notes to the Financial Statements

the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

### 1.6.3 Post-Employment Benefits

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

#### a) Teachers

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

#### b) Local Government Pension Scheme

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

- The liabilities of the Strathclyde Pension Fund attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 6.9% (based on the indicative rate of return on a “high quality corporate bond of equivalent term and currency to the liability” (as measured by the yield on iboxx Sterling Corporates Index, AA over 15 years))
- The assets of the Strathclyde Pension Fund attributable to the Council are included in the balance sheet at their fair value:
  - Quoted securities – current bid price
  - Unquoted securities – professional estimate
  - Unitised securities – current bid price
  - Property – market value
- The change in the net pension's liability is analysed into seven components:
  - Current service cost – the increase in liabilities as a result of years service earned this year - allocated in the comprehensive Income and Expenditure Statement to the services for which the employees worked
  - Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
  - Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Finance and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

## Notes to the Financial Statements

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

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

### 1.6.4 Post Employment Discretionary Benefits

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

### 1.7 Events after the Reporting Period

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

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

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

### 1.8 Exceptional Items

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



## Notes to the Financial Statements

### 1.9 Financial Liabilities

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

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

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

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

### 1.10 Government Grants and Contributions

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

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

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

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

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

## Notes to the Financial Statements

### 1.11 Heritage Assets

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

#### The Art Collections

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

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

#### Inveraray Jail and Courthouse and “Other” Historic Buildings

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

#### Archaeology and “Other” Museum Exhibits

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

#### Heritage Assets – General

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

### 1.12 Intangible Assets

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

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

Intangible assets are measured initially at cost. Amounts are not revalued, as the fair value of the assets held by the Council cannot be determined by reference to an active market. The depreciable

## Notes to the Financial Statements

amount of an intangible asset is amortised over its useful life to the relevant service lines in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service lines in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

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

### 1.13 Interests in Companies and Other Entities

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

### 1.14 Inventories

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

### 1.15 Investment Properties

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

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

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

### 1.16 Leases

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

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

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

#### 1.16.1 The Council as Lessee

##### a) Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of

## Notes to the Financial Statements

the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability.

Lease payments are apportioned between:

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

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

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

### b) Operating Leases

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

### 1.16.2 The Council as Lessor

#### a) Finance Leases

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

Lease rentals receivable are apportioned between:

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

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

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

## Notes to the Financial Statements

### b) Operating Leases

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

#### 1.17 Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2011-12 – Scotland (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

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

#### 1.18 Assets Held for Sale

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

- The property is available for immediate sale in its present condition.
- The sale must be highly probable; and an active programme to locate a buyer and complete the plan must have been initiated.
- The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value.
- The sale should be expected to qualify for recognition as a completed sale within one year (although events or circumstances may extend the period to complete the sale beyond one year).

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

#### 1.19 Property, Plant and Equipment

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

##### 1.19.1 Recognition

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

## Notes to the Financial Statements

### 1.19.2 Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

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

### 1.19.3 Impairment

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

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

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

## Notes to the Financial Statements

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

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

### 1.19.4 Disposals

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

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

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

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

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

### 1.19.5 Depreciation

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

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

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

## 1.20 Private Finance Initiative (PFI) and Similar Contracts

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

## Notes to the Financial Statements

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

Fixed assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

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

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

### 1.21 Provisions, Contingent Liabilities and Contingent Assets

#### 1.21.1 Provisions

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

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

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

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

#### 1.21.2 Contingent Liabilities

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

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



## Notes to the Financial Statements

### 1.21.3 Contingent Assets

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

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

### 1.22 Reserves

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

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments and retirement benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies above and Note 30 to the accounts.

### 1.23 VAT

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

## 2. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

The adoption of amendments to IFRS 7 Financial Instruments: Disclosures (issued October 2010) by the Code will result in a change in accounting policy that requires disclosure in line with paragraph 3.3.4.3 of the Code.

The introduction of this standard will have no impact on the Council's 2012-13 financial statements.

## 3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

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

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

## Notes to the Financial Statements

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

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

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

The items in the Council’s Balance Sheet at 31 March 2012 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions															
<p>Property, Plant and Equipment</p>	<p>Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives.</p>	<p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.</p> <p>It is estimated that the annual depreciation charge for buildings would increase by £1.0m for every year that useful lives had to be reduced.</p>															
<p>Pensions Liability</p>	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.</p>	<p>The effects on the net pension's liability of changes in individual assumptions can be measured. The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out as follows:</p> <table border="1" data-bbox="895 103 1406 1016"> <thead> <tr> <th data-bbox="895 595 1062 1016">Sensitivities at 31 March 2012</th> <th data-bbox="895 333 1062 595">Approximate % Increase to Employer Obligation</th> <th data-bbox="895 103 1062 333">Approximate monetary amount £'000</th> </tr> </thead> <tbody> <tr> <td data-bbox="1062 595 1150 1016">0.5% decrease in real discount rate</td> <td data-bbox="1062 333 1150 595">9%</td> <td data-bbox="1062 103 1150 333">42,804</td> </tr> <tr> <td data-bbox="1150 595 1238 1016">1 year increase in member life expectancy</td> <td data-bbox="1150 333 1238 595">3%</td> <td data-bbox="1150 103 1238 333">13,471</td> </tr> <tr> <td data-bbox="1238 595 1326 1016">0.5% increase in salary increase rate</td> <td data-bbox="1238 333 1326 595">3%</td> <td data-bbox="1238 103 1326 333">12,893</td> </tr> <tr> <td data-bbox="1326 595 1406 1016">0.5% increase in pension increase rate</td> <td data-bbox="1326 333 1406 595">6%</td> <td data-bbox="1326 103 1406 333">29,485</td> </tr> </tbody> </table>	Sensitivities at 31 March 2012	Approximate % Increase to Employer Obligation	Approximate monetary amount £'000	0.5% decrease in real discount rate	9%	42,804	1 year increase in member life expectancy	3%	13,471	0.5% increase in salary increase rate	3%	12,893	0.5% increase in pension increase rate	6%	29,485
Sensitivities at 31 March 2012	Approximate % Increase to Employer Obligation	Approximate monetary amount £'000															
0.5% decrease in real discount rate	9%	42,804															
1 year increase in member life expectancy	3%	13,471															
0.5% increase in salary increase rate	3%	12,893															
0.5% increase in pension increase rate	6%	29,485															

## Notes to the Financial Statements



Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Arrears	At 31 March 2012, the Council had a balance of sundry debtors of £4.243m. A review of significant balances suggested an allowance of 18.9% (£0.804m) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate an increase of the allowance to 25% would increase the bad debt provision required by £0.257m

## Notes to the Financial Statements

### 5. TRANSFERS TO/FROM EARMARKED RESERVES

The Council has ring-fenced £29.454m of the balance on the General Fund as follows:

Ring-fenced Balances	Balance 1 April 2011 £'000	Funds Used £'000	Contributions to Funds £'000	Balance 31 March 2012 £'000
<b>PPP Smoothing Funds:</b>				
Waste Management PPP	5,487	(5,487)	-	-
NPDO Affordability Funding	10,568	(10,568)	-	-
Provision for Future Severance Costs to be repaid to Smoothing Fund in Future Years	(728)	728	-	-
<b>Total Ring-fenced for PPP Smoothing Funds</b>	<b>15,327</b>	<b>(15,327)</b>	-	-
<b>Other Ring-fenced Balances:</b>				
Revenue from Additional Council Tax on Second Homes (Strategic Housing fund)	7,366	(494)	1,817	8,689
Unspent Grants	328	(129)	278	477
Contributions Carried Forward	265	(21)	33	277
Unspent Budget Carried Forward	502	(322)	5,064	5,244
School Budget Carry Forwards	657	(657)	1,221	1,221
Unspent Budget Required for Existing Legal Commitments	115	(40)	73	148
CHORD	908	(517)	84	475
Process for Change	326	(326)	-	-
Additional Scottish Government Grant carried forward to 2011-12	2,455	(2,455)	-	-
Reserve Committed for 2011-12 Budget	876	(876)	-	-
Revenue Contribution to Capital (Dunoon and Campbeltown Schools)	-	-	12,500	12,500
Severance Costs	-	-	423	423
<b>Total Ringfenced</b>	<b>29,125</b>	<b>(21,164)</b>	<b>21,493</b>	<b>29,454</b>
Unallocated	4,782	-	336	5,118
<b>Total General Fund Balance</b>	<b>33,907</b>	<b>(21,164)</b>	<b>21,829</b>	<b>34,572</b>

The unallocated balance of £5.118m is 2.0% of the Council's budgeted net expenditure for 2012-13.

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

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

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

**6.1 Departmental Information for the year ended 31 March 2012**

The income and expenditure of the Council's principal departments recorded in the budget reports for the 2011-12 year is as follows:

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

Departmental Income and Expenditure 2010-11 Comparative Figures	Community Services £'000	Development and Infrastructure Services £'000	Customer Services £'000	Chief Executive's Unit £'000	Total £'000
Fees, Charges and Other Service Income	(19,964)	(41,693)	(21,971)	(373)	(84,001)
Government Grants	(3,133)	-	(22,673)	-	(25,806)
<b>Total Income</b>	<b>(23,097)</b>	<b>(41,693)</b>	<b>(44,644)</b>	<b>(373)</b>	<b>(109,807)</b>
Employee Expenses	88,392	23,502	17,483	5,846	135,223
Other Operating Expenses	75,173	54,288	58,718	1,840	190,019
<b>Total Operating Expenses</b>	<b>163,565</b>	<b>77,790</b>	<b>76,201</b>	<b>7,686</b>	<b>325,242</b>
<b>Net Cost of Services</b>	<b>140,468</b>	<b>36,097</b>	<b>31,557</b>	<b>7,313</b>	<b>215,435</b>

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

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

	2011-12 £'000	2010-11 £'000
<b>Cost of Services in Service Analysis</b>	<b>203,495</b>	<b>215,435</b>
Add Services not included in Main Analysis	21,400	23,047
Add Amounts not Reported to Management	16,560	(27,268)
Remove Amounts Reported to Management not Included in Comprehensive Income and Expenditure Statement	(1,263)	(1,594)
<b>Net Cost of Services in Comprehensive Income and Expenditure Statement</b>	<b>240,192</b>	<b>209,620</b>

## Notes to the Financial Statements

### 6.3 Reconciliation to Subjective Analysis

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

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



**Notes to the Financial Statements**

<b>2010-11 Comparative Figures</b>	<b>Service Analysis £'000</b>	<b>Services not in Analysis £'000</b>	<b>Not Reported to Management £'000</b>	<b>Not Included in I&amp;E £'000</b>	<b>Total Net Cost of Services £'000</b>	<b>Corporate Amounts £'000</b>	<b>Total £'000</b>
Fees, Charges and Other Service Income	(84,001)	(81)	-	170	(83,912)	(71)	(83,983)
Surplus or Deficit on Associated and Joint Ventures	-	-	-	-	-	(82)	(82)
Interest and Investment Income	-	-	-	-	-	(2,400)	(2,400)
Income from Council Tax	-	-	-	-	-	(47,012)	(47,012)
Government Grants and Contributions	(25,806)	-	-	-	(25,806)	(232,913)	(258,719)
<b>Total Income</b>	<b>(109,807)</b>	<b>(81)</b>	<b>-</b>	<b>170</b>	<b>(109,718)</b>	<b>(282,478)</b>	<b>(392,196)</b>
Employee Expenses	135,223	4,845	(35,773)	-	104,295	-	104,295
Other Service Expenses	190,019	2,897	(453)	(359)	192,104	-	192,104
Depreciation, Amortisation and Impairment	-	-	8,958	-	8,958	-	8,958
Interest Payments	-	-	-	-	-	18,070	18,070
Precepts, Levies and Requisitions	-	15,386	-	(1,405)	13,981	1,405	15,386
Gain or Loss on Disposal of Assets	-	-	-	-	-	201	201
<b>Total Operating Expenses</b>	<b>325,242</b>	<b>23,128</b>	<b>(27,268)</b>	<b>(1,764)</b>	<b>319,338</b>	<b>19,676</b>	<b>339,014</b>
<b>Surplus or Deficit on the Provision of Services</b>	<b>215,435</b>	<b>23,047</b>	<b>(27,268)</b>	<b>(1,594)</b>	<b>209,620</b>	<b>(262,802)</b>	<b>(53,182)</b>

## Notes to the Financial Statements

### 7. OTHER OPERATING INCOME AND EXPENDITURE

The expenditure of £1.000m shown in the Other Operating Income and Expenditure line on the Statement of Comprehensive Income and Expenditure consists of the requisition paid to Dunbartonshire and Argyll & Bute Joint Valuation Board of £1.327m offset by £0.327m of backdated VAT income received as a result of claims being made under “the Fleming” case law principle.

### 8. SIGNIFICANT TRADING ORGANISATIONS

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

#### 8.1 Roads and Lighting Trading Account

The Council runs its Roads and Lighting Service on the basis of agreements concluded between the Service Managers, the relevant Council Departments and external organisations. The Service maintains the road network throughout Argyll and Bute excluding Trunk Roads (which are the responsibility of the Scottish Government). The Roads and Lighting Trading account returned a surplus of £0.357m in 2011-12. The trading objective is to break-even over a three year period, the trading account has achieved this objective with a 3 year surplus.

Roads and Lighting Trading Account	2009-10	2010-11	2011-12	3 year Cumulative £'000
	Actual £'000	Actual £'000	Actual £'000	
Turnover	18,555	19,406	19,944	57,905
Expenditure	17,484	18,805	19,587	55,876
<b>Net Surplus/(Deficit)</b>	<b>1,071</b>	<b>601</b>	<b>357</b>	<b>2,029</b>

#### 8.2 Catering and Cleaning Trading Account

The Council runs its Catering and Cleaning Service on the basis of agreements concluded between the Service Managers, the relevant Council Departments and external organisations. The Service provides Catering and Cleaning to all Schools and Council Offices as well as providing a Cleaning Service to external clients such as Police Stations and Outdoor Centres. The Catering and Cleaning Trading account returned a surplus of £0.322m in 2011-12. The trading objective is to break-even over a three year period, the trading account has achieved this objective with a 3 year surplus.

Catering and Cleaning Trading Account	2009-10	2010-11	2011-12	3 year Cumulative £'000
	Actual £'000	Actual £'000	Actual £'000	
Turnover	8,470	8,643	6,831	23,944
Expenditure	7,790	8,337	6,509	22,636
<b>Net Surplus/(Deficit)</b>	<b>680</b>	<b>306</b>	<b>322</b>	<b>1,308</b>

## Notes to the Financial Statements

### 9. AGENCY INCOME

The Council have an ongoing agency agreement with Scottish Water to collect domestic water and sewerage charges. During 2011-12 income from this agreement amounted to £0.266m.

Agency Income	2011-12 Actual £'000	2010-11 Actual £'000
Scottish Water	266	255
<b>Total</b>	<b>266</b>	<b>255</b>

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

During 2011-12, under the Community Care and Health (Scotland) Act 2002, the Council continued to develop services which centred on joint working with the Argyll & Bute Community Health Partnership (CHP) and NHS Highland within the Argyll and Bute Health and Social Care Partnership.

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

During 2011-12 the Partnership included provision of services to older people, supporting people with a learning disability and provision of support to adults who have a mental health difficulty.

Budgets are currently aligned which means that each Partner organisation holds their own element of the budget and records the income and expenditure that relates to the part of the service for which they are responsible.

During 2011-12 income received by the Council from this source amounted to £5.056m and the related expenditure was £6.586m. This can be analysed as follows:

Purpose of Services	Income £'000	Expenditure £'000
Care of the Elderly	2,245	3,081
Provision of Services for People with Learning Disabilities	2,139	2,764
Provision of Services for People with Mental Health Needs	672	741
<b>Total</b>	<b>5,056</b>	<b>6,586</b>

## Notes to the Financial Statements

### 11. WASTE MANAGEMENT PUBLIC PRIVATE PARTNERSHIP

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

The Council has paid a service charge of £4.893m (2010-11 - £5.895m) which represents the value of the service provided from 1 April 2011 to 31 March 2012. Under the agreement the Council is committed to paying the following sums:

Future Repayment Periods	£'000
2012 - 2013	5,421
2013 - 2018	28,861
2018 - 2023	32,069
2023 - 2027	23,290
<b>Total</b>	<b>89,641</b>

This equates to £5.418m per annum over the life of the contract.

### 12. FEES PAYABLE TO AUDIT SCOTLAND

In 2011-12 the following fees relating to external audit and inspection were incurred:

Auditor's Remuneration	2011-12 £'000	2010-11 £'000
Fees payable to Audit Scotland with regard to external audit services carried out by the appointed Auditor	266	287

## Notes to the Financial Statements

### 13. GRANT INCOME

The Council credited the following grants to the Comprehensive Income and Expenditure Statement in 2011-12.

Grant Income	2011-12 £'000	2010-11 £'000
<b>Credited to Taxation and Non Specific Grant Income</b>		
Revenue Support Grant	187,818	189,205
Non Domestic Rates	25,582	36,214
Specific Capital Grant	98	154
General Capital Grant	11,005	6,381
European Regional Development Fund (ERDF)	414	-
SUSTRANS	140	477
Other Grants	68	39
Other Government Capital Grants	112	443
<b>Total</b>	<b>225,237</b>	<b>232,913</b>
<b>Credited to Services</b>		
Scottish Government Specific Grants	385	784
General Capital Grant - Private Sector Housing Improvement Grants	1,517	1,484
Housing Benefit Subsidy	22,843	21,776
Council Tax Benefit Subsidy	5,972	5,999
Other Revenue Government Grants	1,898	1,872
<b>Total</b>	<b>32,615</b>	<b>31,915</b>

### 14. RELATED PARTIES

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

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

#### 14.1 Scottish Government

The Scottish Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework, within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 6 on reporting for resource allocation decisions and also in Note 13 – Grant Income.

## Notes to the Financial Statements

### 14.2 Members

Members of the council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2011-12 is shown in the Remuneration Report on page 18.

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

Transactions in which Members have a significant interest	Expenditure £'000
Trident Taxis	22

### 14.3 Other Related Bodies

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

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

Related Bodies:	Expenditure £'000
Transactions with related bodies during the year totalled	1,531
<i>Of these, transactions with the following exceeded £10,000:</i>	
West Highland Housing Association	356
Argyll, the Isles, Loch Lomond, Stirling and the Trossachs Tourist Board	189
Scotland Excel	68
Convention of Scottish Local Authorities (COSLA)	61
Cowal Council on Alcohol and Drugs	105
Helensburgh Addiction Rehabilitation Team	52
Islay and Jura Community Enterprise	80
Argyll and Bute Citizens Advice Bureaux	50
Mid Argyll Community Enterprise	60
Oban Addiction Support and Information Services (OASIS)	43
Oban and Lorn Community Enterprise - Atlantis Leisure	441
<b>Total</b>	<b>1,505</b>

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

## Notes to the Financial Statements

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

Movements in 2011-12	Other Land & Buildings & Assets £'000	Vehicles Plant & Equipment £'000	Infra- structure Assets £'000	Community Assets £'000	Corporate Surplus Assets £'000	Assets Under Construction £'000	Total 2011-12 £'000
<b>Cost or Valuation</b>							
<b>At 1 April 2011</b>	<b>319,491</b>	<b>17,870</b>	<b>187,181</b>	<b>1,274</b>	<b>14,476</b>	<b>8,597</b>	<b>548,889</b>
Additions	4,818	3,166	8,938	66	61	8,422	25,471
Revaluation increases/(decreases) recognised in the Revaluation Reserve	598	-	-	-	247	-	845
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(3,602)	-	-	-	(25)	-	(3,627)
Derecognition - Disposals	(459)	(1,124)	-	-	(390)	-	(1,973)
Derecognition - Other	-	-	-	-	-	(669)	(669)
Assets reclassified (to)/from Held for Sale	-	-	-	-	(3,545)	-	(3,545)
Other movements in cost or valuation	(949)	28	3,776	-	(5,318)	(4,627)	(7,090)
<b>At 31 March 2012</b>	<b>319,897</b>	<b>19,940</b>	<b>199,895</b>	<b>1,340</b>	<b>5,506</b>	<b>11,723</b>	<b>558,301</b>
<b>Depreciation and Impairments</b>							
<b>At 1 April 2011</b>	<b>(17,687)</b>	<b>(12,157)</b>	<b>(41,627)</b>	<b>(2)</b>	<b>(2,339)</b>	<b>-</b>	<b>(73,812)</b>
Depreciation Charge for 2011-12	(11,575)	(2,111)	(4,507)	-	(116)	-	(18,309)
Depreciation written out to the Revaluation Reserve	4,712	-	-	-	62	-	4,774
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	700	-	-	-	20	-	720
Derecognition - Disposals	161	1,113	-	-	62	-	1,336
Other movements in depreciation and impairment	255	(1)	-	-	1,922	-	2,176
<b>At 31 March 2012</b>	<b>(23,434)</b>	<b>(13,156)</b>	<b>(46,134)</b>	<b>(2)</b>	<b>(389)</b>	<b>-</b>	<b>(83,115)</b>
<b>Balance Sheet amount at 1 April 2012</b>	<b>296,463</b>	<b>6,784</b>	<b>153,761</b>	<b>1,338</b>	<b>5,117</b>	<b>11,723</b>	<b>475,186</b>
<b>Balance Sheet amount at 1 April 2011</b>	<b>301,804</b>	<b>5,713</b>	<b>145,554</b>	<b>1,272</b>	<b>12,137</b>	<b>8,597</b>	<b>475,077</b>

## Notes to the Financial Statements

Comparative Movements in 2010-11	Other Land & Buildings £'000	Vehicles Plant & Equipment £'000	Infra- structure Assets £'000	Community Assets £'000	Corporate Surplus Assets £'000	Assets Under Construction £'000	Total 2010-11 £'000
<b>Cost or Valuation</b>							
<b>At 1 April 2010</b>	<b>312,534</b>	<b>16,171</b>	<b>176,743</b>	<b>1,144</b>	<b>6,573</b>	<b>10,299</b>	<b>523,464</b>
Additions	4,657	2,229	4,683	130	-	9,502	21,201
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(177)	-	-	-	(540)	-	(717)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(2,511)	-	-	-	(135)	-	(2,646)
Derecognition - Disposals	-	(898)	-	-	(495)	-	(1,393)
Derecognition - Other	-	-	-	-	-	(4)	(4)
Assets reclassified (to)/from Held for Sale	-	-	-	-	9,073	-	9,073
Other movements in cost or valuation	4,988	368	5,755	-	-	(11,200)	(89)
<b>At 31 March 2011</b>	<b>319,491</b>	<b>17,870</b>	<b>187,181</b>	<b>1,274</b>	<b>14,476</b>	<b>8,597</b>	<b>548,889</b>
<b>Depreciation and Impairments</b>							
<b>At 1 April 2010</b>	<b>(15,493)</b>	<b>(11,113)</b>	<b>(37,372)</b>	<b>(2)</b>	<b>(820)</b>	<b>-</b>	<b>(64,800)</b>
Depreciation Charge for 2010-11	(11,758)	(1,927)	(4,255)	-	(339)	-	(18,279)
Depreciation written out to the Revaluation Reserve	8,278	-	-	-	919	-	9,197
Impairment losses/(reversals) recognised in the Revaluation Reserve	112	-	-	-	-	-	112
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	1,174	-	-	-	30	-	1,204
Derecognition - Disposals	-	883	-	-	36	-	919
Other movements in depreciation and impairment	-	-	-	-	(2,165)	-	(2,165)
<b>At 31 March 2011</b>	<b>(17,687)</b>	<b>(12,157)</b>	<b>(41,627)</b>	<b>(2)</b>	<b>(2,339)</b>	<b>-</b>	<b>(73,812)</b>
<b>Balance Sheet amount at 1 April 2011</b>	<b>301,804</b>	<b>5,713</b>	<b>145,554</b>	<b>1,272</b>	<b>12,137</b>	<b>8,597</b>	<b>475,077</b>
<b>Balance Sheet amount at 1 April 2010</b>	<b>297,041</b>	<b>5,058</b>	<b>139,371</b>	<b>1,142</b>	<b>5,753</b>	<b>10,299</b>	<b>458,664</b>



## Notes to the Financial Statements

### 15.2 Valuation of Property, Plant and Equipment

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

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

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is re-valued at least every five years. This includes Other Land and Buildings and Surplus Assets.

Revaluations of council owned Land and Property were carried out at 31 March 2012 in accordance with the Council's rolling programme of revaluations. The revaluations have been carried out by Hugh Blake, M.R.I.C.S, Estates Manager for Argyll and Bute Council. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

The following statement shows the progress of the Council's rolling programme for the revaluation of property, plant and equipment:

	Other Land & Buildings £'000	Corporate Surplus Assets £'000
Valued at Fair Value as at:		
31 March 2012	21,737	495
31 March 2011	59,341	915
31 March 2010	68,739	1,624
31 March 2009	19,061	439
31 March 2008	127,585	1,644
<b>Total Cost or Valuation</b>	<b>296,463</b>	<b>5,117</b>

## Notes to the Financial Statements

### 15.3 Depreciation

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

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

### 15.4 Summary of Capital Expenditure and Financing

Capital expenditure involves the creation of assets, the benefit of which will be available to future rates and council taxpayers. It is financed from borrowing, capital receipts and capital grants. The cost of the asset is effectively borne over a period of years. In 2011-12 total spending on capital projects was £25.575m.

	2011-12 £'000	2010-11 £'000
<b>Opening Capital Financing Requirement</b>	<b>264,977</b>	<b>274,020</b>
<b>Capital Investment:</b>		
Property Plant and Equipment:		
Other Land and Buildings	4,818	4,657
Vehicles, Plant, Furniture and Equipment	3,166	2,229
Infrastructure Assets	8,938	4,683
Community Assets	66	130
Surplus Assets	61	-
Assets Under construction	8,422	9,502
Property Plant and Equipment acquired under Finance Leases:		
Vehicles, Plant, Furniture and Equipment	-	-
Heritage Assets	8	-
Intangible Assets	96	-
<b>Total Capital Investment</b>	<b>25,575</b>	<b>21,201</b>
<b>Sources of Finance:</b>		
Capital Receipts	(190)	(159)
Government Grants	(11,479)	(7,095)
Capital Financed from Current Revenue	(124)	(915)
Repayment of External Loans	(20,584)	(20,416)
Capital Element of Finance Lease Payments	(157)	(338)
Capital Element of Schools NPDO Payments	(1,412)	(1,468)
Capital Receipts transferred to Capital Fund	190	159
Capital Receipts Used from Capital Fund	-	-
Other	(179)	(12)
<b>Total Funding</b>	<b>(33,935)</b>	<b>(30,244)</b>
<b>Closing Capital Financing Requirement</b>	<b>256,617</b>	<b>264,977</b>

## Notes to the Financial Statements

### 15.5 Commitments under Capital Contracts

At 31 March 2012, the Council had commitments on capital contracts of £11.206m. This expenditure will be funded from a combination of government grants, borrowing and income from selling assets and contributions from Revenue Accounts. Similar commitments at 31 March 2011 were £2.838m. The major commitments are:

	£'000
Kintyre Renewables Hub	4,513
Roads Reconstruction (Various Locations)	2,902
Tayinloan Ferry Berth Improvements	1,036
Milton Burn Flood Prevention	519
Kinloch Park All Weather Pitch	556
Rothesay Harbour Ferry Berth Improvements	500

### 16. HERITAGE ASSETS

Financial Reporting Standard (FRS) 30 – *Heritage Assets* has been adopted as part of the 2011-12 Code of Practice. This is being disclosed as a change in accounting policy.

This change in accounting policy has resulted in £1.3m of assets being re-categorised from community assets into heritage assets. The main heritage assets held by the Council are two art collections and Inveraray Jail and Courthouse. The Council holds other heritage assets which are not valued and shown on the balance sheet. Further details on the council's heritage assets policy can be found in note 1.11 on page 42.

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

	Art Collections	Heritage Property	Total
	£'000	£'000	£'000
<b>Cost or Valuation</b>			
<b>Net Book Value at 1 April 2010</b>	<b>1,140</b>	<b>176</b>	<b>1,316</b>
Additions	-	-	-
Disposals	-	-	-
Revaluations	-	-	-
Depreciation	-	-	-
<b>At 31 March 2011</b>	<b>1,140</b>	<b>176</b>	<b>1,316</b>
<b>Cost or Valuation</b>			
<b>Net Book Value at 1 April 2011</b>	<b>1,140</b>	<b>176</b>	<b>1,316</b>
Additions	8	-	8
Disposals	-	-	-
Revaluations	-	-	-
Depreciation	-	-	-
<b>At 31 March 2012</b>	<b>1,148</b>	<b>176</b>	<b>1,324</b>

## Notes to the Financial Statements

### 17. INTANGIBLE ASSETS

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

Movements in 2011-12	Purchased Software Licences 2011-12 £'000
<b>Cost or Valuation</b>	
<b>At 1 April 2011</b>	<b>715</b>
Additions	96
Disposals	-
Reclassifications	-
<b>At 31 March 2012</b>	<b>811</b>
<b>Depreciation and Impairments</b>	
<b>At 1 April 2011</b>	<b>(350)</b>
Charge for 2011-12	(129)
Disposals	-
<b>At 31 March 2012</b>	<b>(479)</b>
<b>Balance Sheet amount at 1 April 2012</b>	<b>332</b>
<b>Balance Sheet amount at 1 April 2011</b>	<b>365</b>

## Notes to the Financial Statements

The comparative movement in intangible assets in 2010-11 was:

Comparative Movements in 2010-11	Purchased Software Licences 2010-11 £'000
<b>Cost or Valuation</b>	
<b>At 1 April 2010</b>	<b>643</b>
Additions	4
Disposals	-
Reclassifications	68
<b>At 31 March 2011</b>	<b>715</b>
<b>Depreciation and Impairments</b>	
<b>At 1 April 2010</b>	<b>(223)</b>
Charge for 2010-11	(127)
Disposals	-
<b>At 31 March 2011</b>	<b>(350)</b>
<b>Balance Sheet amount at 1 April 2011</b>	<b>365</b>
<b>Balance Sheet amount at 1 April 2010</b>	<b>420</b>

### 18. INVESTMENT PROPERTY

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

The value of investment property is initially measured at cost and thereafter measured at fair value. The fair value of investment property reflects market conditions at 31 March 2012. Revaluations of investment properties were carried out at 31 March 2012 by Hugh Blake, M.R.I.C.S, Estates Manager for Argyll and Bute Council.

#### 18.1 Movement in Investment Property

The movement in investment property during 2011-12 was:

Movements in 2011-12	Investment Properties £'000
<b>Cost or Valuation</b>	
<b>At 1 April 2011</b>	<b>1,290</b>
Acquisitions	-
Disposals	(3)
Net Gains/Losses from fair value adjustments	(1,280)
Transfers	5,640
<b>At 31 March 2012</b>	<b>5,647</b>

## Notes to the Financial Statements

The comparative movement in investment property during 2010-11 was:

Comparative Movements in 2010-11	Investment Properties £'000
<b>Cost or Valuation</b>	
<b>At 1 April 2010</b>	<b>1,090</b>
Acquisitions	-
Disposals	-
Net Gains/Losses from fair value adjustments	200
Transfers	-
<b>At 31 March 2011</b>	<b>1,290</b>

### 18.2 Investment Property Income and Expenditure

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

	2011-12 £'000	2010-11 £'000
Rental Income from Investment Property	91	87
Direct operating expenses arising from investment property	-	-
<b>Net gain/(loss)</b>	<b>91</b>	<b>87</b>

## Notes to the Financial Statements

### 19. SCHOOLS NON PROFIT DISTRIBUTING ORGANISATION (NPDO)

During 2007-08 two secondary schools, two joint campuses and one primary campus, developed as part of the non-profit distributing organisation (NPDO) variant of a public private partnership, became operational. When the agreement ends in 2035 the provider will hand the five school complexes back to the Council, it is expected at that point in time each school will have an estimated life of 30 years remaining.

#### 19.1 Assets Held under Schools NPDO Contract

Five schools were constructed under the Schools NPDO Contract; Hermitage Academy, Dunoon Grammar, Lochgilphead Joint Campus, Rothesay Joint Campus and Oban Primary Campus. The construction costs of the buildings, adjusted for revaluations on 31 March 2008 and depreciation to date, are included as part of Tangible Fixed Assets as follows:

Movements in 2011-12	Land & Buildings £'000
<b>Cost or Valuation</b>	
<b>At 1 April 2011</b>	<b>87,573</b>
Additions	-
Revaluations	-
<b>At 31 March 2012</b>	<b>87,573</b>
<b>Depreciation and Impairments</b>	
<b>At 1 April 2011</b>	<b>(4,387)</b>
Charge for 2011-12	(1,468)
Revaluations	-
<b>At 31 March 2012</b>	<b>(5,855)</b>
<b>Balance Sheet amount at 1 April 2012</b>	<b>81,718</b>
<b>Balance Sheet amount at 1 April 2011</b>	<b>83,186</b>

Comparative Movements in 2010-11	Other Land & Buildings £'000
<b>Cost or Valuation</b>	
<b>At 1 April 2010</b>	<b>87,573</b>
Additions	-
Revaluations	-
<b>At 31 March 2011</b>	<b>87,573</b>
<b>Depreciation and Impairments</b>	
<b>At 1 April 2010</b>	<b>(2,919)</b>
Charge for 2010-11	(1,468)
Revaluations	-
<b>At 31 March 2011</b>	<b>(4,387)</b>
<b>Balance Sheet amount at 1 April 2011</b>	<b>83,186</b>
<b>Balance Sheet amount at 1 April 2010</b>	<b>84,654</b>

## Notes to the Financial Statements

### 19.2 Schools NPDO Finance Lease Liability

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

<b>Movements in 2011-12</b>		<b>£'000</b>
<b>Balance at 1 April 2011</b>		<b>(83,988)</b>
Repayments		1,412
<b>Schools NPDO Finance Lease Liability at 31 March 2012</b>		<b>(82,576)</b>
Split:		
Obligations payable within 1 year		(1,424)
Obligations payable after 1 year		(81,152)
<b>Schools NPDO Finance Lease Liability at 31 March 2012</b>		<b>(82,576)</b>

<b>Comparative Movements in 2010-11</b>		<b>£'000</b>
<b>Balance at 1 April 2010</b>		<b>(85,376)</b>
Repayments		1,388
<b>Schools NPDO Finance Lease Liability at 31 March 2011</b>		<b>(83,988)</b>
Split:		
Obligations payable within 1 year		(1,412)
Obligations payable after 1 year		(82,576)
<b>Schools NPDO Finance Lease Liability at 31 March 2011</b>		<b>(83,988)</b>

### 19.3 Payments due to Operator under Schools NPDO Contract

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

<b>Future Repayment Periods</b>	<b>Repayment of Liability £'000</b>	<b>Lifecycle Costs £'000</b>	<b>Payment of Interest £'000</b>	<b>Service Charges £'000</b>	<b>Total Payments £'000</b>
2012 - 2015	4,705	-	24,438	12,152	41,295
2015 - 2020	10,205	-	37,520	24,004	71,729
2020 - 2025	14,888	928	31,884	28,070	75,770
2025 - 2030	22,156	2,837	23,164	32,186	80,343
2030 - 2035	30,622	3,122	9,823	33,173	76,740
<b>Total</b>	<b>82,576</b>	<b>6,887</b>	<b>126,829</b>	<b>129,585</b>	<b>345,877</b>



## Notes to the Financial Statements

### 20. FINANCE AND OPERATING LEASES

#### 20.1 Finance Leases – Amounts Paid to Lessors

The Authority holds various vehicles under finance leases. The finance lease payment for the year amounted to £0.304m.

	2011-12 £'000	2010-11 £'000
Vehicles	304	400
<b>Total</b>	<b>304</b>	<b>400</b>

#### 20.2 Operating Leases – Amounts Paid to Lessors

The Council uses land, buildings, vehicles, plant and equipment financed under the terms of an operating lease. The amounts paid under these arrangements in 2011-12 were as follows:

	2011-12 £'000	2010-11 £'000
Land and Buildings	107	250
Vehicles	884	1,068
Plant and Equipment	108	61
<b>Total</b>	<b>1,099</b>	<b>1,379</b>

#### 20.3 Assets Held Under Finance Leases

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

Movements in 2011-12	Vehicles, Plant and Equipment £'000
<b>Value at 1 April 2011</b>	<b>200</b>
Additions	-
Depreciation	(158)
<b>Value at 31 March 2012</b>	<b>42</b>

Comparative Movements in 2010-11	Vehicles, Plant and Equipment £'000
<b>Value at 1 April 2010</b>	<b>538</b>
Additions	-
Depreciation	(338)
<b>Value at 31 March 2011</b>	<b>200</b>

## Notes to the Financial Statements

Outstanding obligations to make payments under these finance leases (excluding finance costs) as at 31 March 2012, accounted for as part of other liabilities are as follows:

	Vehicles, Plant and Equipment £'000
Obligations payable within 1 year	25
Obligations payable between 1 and 5 years	17
Obligations payable after five years	-
<b>Total Liabilities at 31 March 2012</b>	<b>42</b>

### 20.4 Assets Held Under Operating Leases

The Council was committed at 31 March 2012 to making payments of £0.649m under operating leases in 2011-12 comprising the following elements:

	Other Land and Buildings £'000	Vehicles, Plant and Equipment £'000
Leases expiring within 1 year	1	277
Leases expiring between 1 and 5 years	11	271
Leases expiring after 5 years	89	-
<b>Value at 31 March 2012</b>	<b>101</b>	<b>548</b>

### 21. LONG TERM DEBTORS

	31st March 2012 £'000	31st March 2011 £'000	31st March 2010 £'000
House Loans	85	125	185
Waste PPP Historic Contamination Fund	750	750	750
Charging Orders - Care Home Fees (See Note Below)	965	934	831
Strategic Housing Fund Loans to Registered Social Landlords	1,900	-	-
Other Long Term Debtors	100	100	-
<b>Total Long Term Debtors</b>	<b>3,800</b>	<b>1,909</b>	<b>1,766</b>

During 2011-12 a decision was made to recognise, as a debtor on the balance sheet, amounts due to the Council for care home fee charging orders, this is being treated in the financial statements as a change in accounting policy. This resulted in a long term debtor of £0.831m being recognised on the balance sheet for the first time at 1 April 2010. This amount has been earmarked within the General Fund Balance along with the year on year movement since then.

## Notes to the Financial Statements

### 22. DEBTORS

		31 March 2012		31 March 2011	31 March 2010
		£'000	£'000	£'000	£'000
Arrears of Local Taxation	Council Tax	11,949		11,579	11,452
	Less: Provision for Bad Debts	(9,756)		(9,390)	(9,112)
			2,193	<b>2,189</b>	<b>2,340</b>
	Community Charge	7,550		7,551	7,550
	Less: Provision for Bad Debts	(7,550)		(7,551)	(7,550)
			-	-	-
Housing Benefits Overpayments		877		878	787
Less: Provision for Bad Debts		(657)		(552)	(457)
			220	<b>326</b>	<b>330</b>
Debtor Accounts		4,243		2,467	6,184
Less: Provision for Bad Debts		(804)		(1,024)	(1,079)
			3,439	<b>1,443</b>	<b>5,105</b>
Net Debtor to Scottish Government for Non Domestic Rates			-	1,355	961
VAT Recoverable from HMRC			3,323	3,130	2,149
Other Debtors			5,972	6,813	6,637
<b>Total Debtors</b>			<b>15,147</b>	<b>15,256</b>	<b>17,522</b>

### 23. ASSETS HELD FOR SALE

	2011-12 £'000	2010-11 £'000
<b>Balance outstanding at start of year</b>	<b>1,722</b>	<b>8,679</b>
Assets newly classified as held for sale (Property, Plant and Equipment)	2,820	1,593
Revaluation losses	(2,273)	(50)
Revaluation gains	-	-
Impairment losses	-	-
Assets declassified as held for sale (Property, Plant and Equipment)	-	(8,500)
Assets Sold	(116)	-
<b>Balance outstanding at year-end</b>	<b>2,153</b>	<b>1,722</b>

## Notes to the Financial Statements

### 24. CASH AND CASH EQUIVALENTS

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

	31 March 2012 £'000	31 March 2011 £'000	31 March 2010 £'000
Cash held by the Authority	64	62	62
Cash in transit	105	43	87
Short term deposits with banks	17,962	34,836	6,645
Bank Current Accounts (Overdraft)	(2,644)	(4,495)	(3,444)
<b>Total Cash and Cash Equivalents</b>	<b>15,487</b>	<b>30,446</b>	<b>3,350</b>

### 25. CREDITORS

	31 March 2012 £'000	31 March 2011 £'000	31 March 2010 £'000
Accrued Payrolls and Superannuation	5,677	6,470	6,556
Accrued Employer's National Insurance Contributions and PAYE	2,292	2,598	2,499
Accrual for Short Term Accumulating Absences	4,593	7,181	7,064
Creditors System Liability	6,949	5,961	6,932
Accrued Expenditure	5,164	6,456	7,782
Other Creditors	8,407	7,502	7,892
<b>Total Creditors</b>	<b>33,082</b>	<b>36,168</b>	<b>38,725</b>

### 26. FINANCIAL INSTRUMENTS DISCLOSURES

#### 26.1 Types of Financial Instruments

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

	31 March 2012		31 March 2011		31 March 2010	
	Long Term £'000	Current £'000	Long Term £'000	Current £'000	Long Term £'000	Current £'000
<b>Investments and Lending</b>						
Loans and Receivables	3,800	50,634	1,909	45,702	1,764	20,872
<b>Borrowing</b>						
Financial Liabilities at amortised cost	242,148	37,737	242,942	39,464	215,935	50,938

## Notes to the Financial Statements

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

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

- Estimated interest rates at 31 March 2012 for loans from the PWLB were taken from the appropriate interest rate notice and for other loans receivable and payable from market rates obtained by our treasury advisors.
- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values are calculated as follows:

	31 March 2012		31 March 2011		31 March 2010	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
<b>Lending</b>						
Loans and Receivables	54,434	54,581	47,611	47,611	22,636	22,636
<b>Borrowing</b>						
Financial Liabilities	279,885	310,724	283,085	310,004	266,753	306,211

The fair value of the Authority's lending is the same as the carrying value at 31 March 2010 because the lending was at variable interest rates whilst the fair value is less than the carrying amount at 31 March 2011 because the Council's lending figure includes a number of loans where the interest rate receivable is higher than the rates available for similar loans at the balance sheet date. The commitment to receive interest above current market rates increases the amount that the Council would receive if it agreed to early repayment of the loans.

### 26.3 Gains and Losses on Financial Instruments

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

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

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

### 26.5 Credit Risk

Credit risk arises from the short-term lending of surplus funds to banks, building societies and other local authorities as well as credit exposures to the Council's customers. It is the policy of the Council to place deposits only with a limited number of high quality UK banks and building societies whose credit rating is independently assessed as sufficiently secure by the Council's treasury advisers and to restrict lending to a prudent maximum amount for each institution.

## Notes to the Financial Statements

The following analysis summarises the Council's potential maximum exposure to credit risk, based on past experience and current market conditions. No credit limits were exceeded during the financial year and the Council expects full repayment on the due date of deposits placed with its counterparties.

	Amount at 31 March 2012 £'000	Historical Experience of Non-payment adjusted for Market Conditions at 31 March 2012 %	Estimated Maximum Exposure to Default and Uncollectibility £'000
Deposits with Banks, Building Societies and Local Authorities	17,962	-	-

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

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

### 26.6 Liquidity Risk

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

The maturity analysis of financial liabilities is as follows:

The maturity analysis of financial liabilities is as follows:	31 March 2012 £'000	31 March 2011 £'000	31 March 2010 £'000
Less than one year	37,737	39,464	50,935
Between one and two years	1,424	1,427	1,589
Between two and five years	41,058	23,116	6,287
More than five years	199,666	218,399	207,662

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

### 26.7 Market Risk

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

## Notes to the Financial Statements

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

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

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

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

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

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

To illustrate the impact of changes in interest rates upon the Council, the following table shows the financial effect if rates had been 1% higher at 31 March 2012, with all other variables held constant.

	31 March 2012 £'000	31 March 2011 £'000
<b>Impact on tax-payer</b>		
Increase on interest payable on variable rate borrowings	5	5
Increase in interest receivable on variable rate lending	-	-
Increases in government grant receivable for “loan charges”	-	-
<b>Net effect on Statement of Comprehensive Income &amp; Expenditure</b>	<b>5</b>	<b>5</b>

	31 March 2012 £'000	31 March 2011 £'000
<b>Other accounting presentational changes</b>		
A decrease in the “fair value” of fixed rate borrowing (disclosure confined to the notes to the financial statements)	22,340	22,736

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

### 26.8 Price Risk

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

### 26.9 Foreign Exchange Risk

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

## Notes to the Financial Statements

### 26.10 Short-Term Deposits

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

	31 March 2012 £'000	31 March 2011 £'000	31 March 2010 £'000
Banks	17,962	34,836	6,645

### 26.11 Short-Term Borrowing

The Common Good and the various trust administered by the Council had monies temporarily invested with the Council's loans fund during the year. The amounts at 31 March 2012 are shown in the table below. Further details of the nature and amounts of the funds of the Common Good and trusts are shown in notes 34 and 35 on pages 91 to 92.

	31 March 2012 £'000	31 March 2011 £'000	31 March 2010 £'000
Common Good	100	101	97
Trust Funds	1,234	1,219	1,207



## Notes to the Financial Statements

### 27. OTHER LIABILITIES

Other liabilities consist of liabilities which by arrangement are payable at some point in the future or paid off by an annual sum over a period of time. Other liabilities total £83.368m as at 31 March 2012 and comprise the following:

<b>Movements in 2011-12</b>	<b>Opening Balance 31 March 2011 £'000</b>	<b>Movement in Year £'000</b>	<b>Closing Balance 31 March 2012 £'000</b>
Finance Lease Liability (See note 20.3)	(200)	158	(42)
Schools NPDO Finance Lease Liability (See note 19.2)	(83,988)	1,412	(82,576)
Land Contamination	(750)	-	(750)
<b>Total Other Liabilities</b>	<b>(84,938)</b>	<b>1,570</b>	<b>(83,368)</b>
Split:			
Short Term Liabilities (due within 1 year)			(1,449)
Long Term Liabilities (due after 1 year)			(81,919)
<b>Total Other Liabilities</b>			<b>(83,368)</b>

<b>Comparative Movements in 2010-11</b>	<b>Opening Balance 31 March 2010 £'000</b>	<b>Movement in Year £'000</b>	<b>Closing Balance 31 March 2011 £'000</b>
Finance Lease Liability (See note 20.3)	(538)	338	(200)
Schools NPDO Finance Lease Liability (See note 19.2)	(85,376)	1,388	(83,988)
Land Contamination	(750)	-	(750)
<b>Total Other Liabilities</b>	<b>(86,664)</b>	<b>1,726</b>	<b>(84,938)</b>
Split:			
Short Term Liabilities (due within 1 year)			(1,571)
Long Term Liabilities (due after 1 year)			(83,367)
<b>Total Other Liabilities</b>			<b>(84,938)</b>

## Notes to the Financial Statements

### 28. PROVISIONS

	Opening Balance 31 March 2011 £'000	Additional Provision £'000	Amounts Used £'000	Unused Amounts Reversed £'000	Closing Balance at 31 March 2012 £'000
SRC Insurance Claims	(22)	(173)			(195)
Equal Pay Claims	(590)		399		(191)
Single Status Provision	(911)		697	214	-
Income due to Registered Social Landlords	(88)		6		(82)
Reorganisation Redundancy Costs	(3,199)	(1,388)	2,808		(1,779)
Care Charges Provision	(101)	(7)	81	20	(7)
Utilities Provision	-	(781)			(781)
Other Provisions	-	(215)			(215)
<b>Total Provisions</b>	<b>(4,911)</b>	<b>(2,564)</b>	<b>3,991</b>	<b>234</b>	<b>(3,250)</b>
Split:					
Short Term Provisions (due within 1 year)					(2,831)
Long Term Provisions (due after 1 year)					(419)
<b>Total Other Liabilities</b>					<b>(3,250)</b>

Liabilities have continued to arise in respect of the former Strathclyde Regional Council's operations. Cost sharing arrangements are in place with the other eleven authorities that make up the former Strathclyde Region. Argyll and Bute Council's share of liabilities, which materialise in the future, will be approximately 4.75%. At present, potential liabilities in respect of insurance claims and various legal actions could cost the Council £0.195m. Additional provision has been made in 2011-12 for asbestos related cases, full provision for the amounts notified have been made.

A provision was created at the end of 2005-06 in relation to the 9% of female employees in catering, cleaning and home care services who had not accepted the Council's equal pay settlement. The Council is nearing agreement on the final settlement for Equal Pay claims. A reliable estimate of the liability could be made for those claims where settlement offers have been made and as such a provision is held for the full cost of these claims, some of these claims were settled during 2011-12 with a balance remaining to fund the remainder of these. There are further outstanding claims where the settlement amount cannot be estimated reliably enough to provide for the costs.

During 2007-08 the Council implemented a new Pay and Grading Model and also revised Terms and Conditions. There were a number of employees who appealed the determination of their allocated grade under the single status arrangements. The single status appeals have all been finalised and as such the full provision has been released during 2011-12.

The Council reduced the discount on council tax from second homes to 10% during 2005-06. The additional council tax income invoiced during 2011-12 amounted to £1.817m; 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 £0.082m.

## Notes to the Financial Statements

As with previous years, liabilities have arisen in respect of employees who will be made redundant as a result of restructuring. The Council has significant budget savings to make in the coming years; in advance of this, the Council Transformation Programme of service reviews has been put in place to achieve the savings required. As part of this the Council invited all employees to express an interest in voluntary redundancy. As a result of service review savings agreed as part of the budget process for 2011-12 and 2012-13 a number of employees have subsequently either taken or have been offered a redundancy package. The additional costs for employees terminated on or before 31 March 2012 were incurred in-year. For the employees who have confirmed acceptance of redundancy but have left or are leaving after 31 March 2012, a provision of £1.779m has been created during 2011-12. For further information refer to note 33 - Termination Benefits.

The Council was in dispute with a care provider over fees and charges from 2009-10. The Council position was that fee increases imposed during 2009-10 were unreasonably high, therefore the uplift element of the payments have been withheld from the provider. It is likely that the settlement of the dispute may involve litigation and that the Council will have to meet the payment demands, therefore a provision was created in 2009-10 for these costs. Settlement for these care packages has now been made with the provider. There is an additional provision of £0.007m in 2011-12 for a similar issue with a care provider for 2011-12 care charges and as such these costs have been provided for.

The utilities provision of £0.781m has been created during 2011-12 to cover a potential liability in relation to discrepancies in charges for utility costs.

The "other" provisions include funds to cover legal expenses in respect of recent court cases which the council will have to incur and also an amount in relation to the schools NPDO service charges which have been withheld from the operator. These amounts will require to be settled during 2012-13.

### 29. DEFINED BENEFIT PENSION SCHEMES

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

#### *Teachers*

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

#### *Local Government Pension Scheme*

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

#### 29.1 Accrued Pensions Contribution

Due to the timing of salary processing, not all employee and employer contributions have been paid to the Pensions Schemes by the 31 March 2012. These payments have been accrued and are included within the creditors figure on the balance sheet. These have been paid during April 2012. The amounts are as follows:

- Local Government Pension Scheme – £1.186m
- Teachers' scheme – £0.605m

## Notes to the Financial Statements

### 29.2 Transactions in Respect of the Local Government Pensions Scheme

The latest formal valuation of the Strathclyde Pension Fund for funding purposes was at 31 March 2011. The independent actuaries appointed by the Council are Hymans Robertson and they have assumed that employees have continued to earn new benefits on the same basis as the latest formal valuation and that the employer's pensionable payroll over the year to 31 March 2012 remains substantially stable with new entrants replacing any leavers.

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

	2011-12 £'000	2010-11 £'000
<b>Comprehensive Income and Expenditure Statement</b>		
<b>Cost of Services:</b>		
Current Service Cost	10,438	12,732
Past Service Cost/(Gain)	-	(42,187)
Settlements and Curtailments	2,931	1,164
<b>Net Operating Expenditure:</b>	<b>13,369</b>	<b>(28,291)</b>
<b>Financing and Investment Income and Expenditure</b>		
Interest Cost	22,516	23,629
Expected Return on Scheme Assets	(26,448)	(25,517)
<b>Total Post Employment Benefit Charged to the surplus or Deficit on the Provision of Services</b>	<b>9,437</b>	<b>(30,179)</b>
<b>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>		
Actuarial (Gains) and Losses	57,154	(38,980)
<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>66,591</b>	<b>(69,159)</b>
<b>Statement of Movement in Reserves:</b>		
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	4,289	42,762
<b>Actual Amount charged against the General Fund Balance for pensions in the year:</b>		
Employer's Contributions Payable to the Scheme	13,726	12,583

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2012 is a loss of £102.909m (£45.755m loss in 2010-11).

## Notes to the Financial Statements

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

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

	2011-12 £'000	2010-11 £'000
<b>Defined Benefit Obligation at 1 April</b>	<b>408,953</b>	<b>462,085</b>
Current Service Cost	10,438	12,732
Interest Cost	22,516	23,629
Contributions by Scheme Participants	3,374	3,515
Actuarial (Gains) and Losses	27,423	(36,528)
Estimated Unfunded Benefits Paid	(1,811)	(1,700)
Estimated Benefits Paid	(14,045)	(13,757)
Losses on Curtailments	2,931	1,164
Past Service Costs (Gains)	-	(42,187)
<b>Defined Benefit Obligation at 31 March</b>	<b>459,779</b>	<b>408,953</b>

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

	2011-12 £'000	2010-11 £'000
<b>Fair Value of Employer Assets at 1 April</b>	<b>382,726</b>	<b>354,116</b>
Expected Rate of Return	26,448	25,517
Actuarial Gains and (Losses)	(29,731)	2,452
Employers Contributions	13,726	12,583
Contributions by Scheme Participants	3,374	3,515
Estimated Unfunded Benefits Paid	(1,811)	(1,700)
Estimated Benefits Paid	(14,045)	(13,757)
<b>Fair Value of Employer Assets at 31 March</b>	<b>380,687</b>	<b>382,726</b>

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £4.105m (2010-11: £28.027m).

### 29.4 Scheme History

Local Government Pension Scheme	2007-08 £'000	2008-09 £'000	2009-10 £'000	2010-11 £'000	2011-12 £'000
Present Value of Scheme Liabilities	(325,814)	(289,681)	(462,085)	(408,953)	(459,779)
Fair Value of Assets	325,216	257,164	354,116	382,726	380,687
<b>(Deficit) in the Scheme</b>	<b>(598)</b>	<b>(32,517)</b>	<b>(107,969)</b>	<b>(26,227)</b>	<b>(79,092)</b>

The liabilities show the underlying commitments that the authority has in the long run to pay post-employment (retirement) benefits. The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2013 is £10.095m.

## Notes to the Financial Statements

### 29.5 Basis for Estimating Assets and Liabilities

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

The principal assumptions used by the actuary have been:

	2011-12	2010-11
Long Term expected rate of return on assets in the scheme:	%	%
Equity Investments	6.3%	7.5%
Bonds	3.9%	4.9%
Property	4.4%	5.5%
Cash	3.5%	4.6%

	2011-12	2010-11
Mortality assumptions	Years	Years
Longevity at 65 for current pensioners:		
Men	21.0	20.6
Women	23.4	23.9
Longevity at 65 for future pensioners:		
Men	23.3	22.6
Women	25.3	25.0

	2011-12	2010-11
Financial Assumptions	%	%
Rate of Inflation (CPI)	2.5%	2.8%
Rate of Increase in Salaries	4.8%	5.1%
Rate of Increase in Pensions (CPI)	2.5%	2.8%
Rate for discounting scheme liabilities	4.8%	5.5%

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

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

	2011-12	2010-11
	%	%
Equity Investments	77.0%	77.0%
Bonds	11.0%	13.0%
Property	7.0%	6.0%
Cash	5.0%	4.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

## Notes to the Financial Statements

### 29.6 History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2011-12 can be analysed into the following categories:

Local Government Pension Scheme	2007-08	2008-09	2009-10	2010-11	2011-12
Scheme	%	%	%	%	%
Experience gains and losses on assets	-10.44%	-35.55%	22.60%	0.64%	-7.81%
Experience gains and losses on liabilities	0.04%	12.35%	-0.21%	-0.55%	-0.04%

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

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

	2011-12	2010-11
	£'000	£'000
Amount Paid Over (£'000)	5,152	5,457
Rate of Contribution (%)	14.90%	14.90%
Amount of Added Years Awarded by the Council (£'000)	519	515

## 30. UNUSABLE RESERVES

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

### 30.1 Revaluation Reserve

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

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

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

### 30.2 Capital Adjustment Account

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

The Account contains accumulated gains and losses on Investment Properties.

## Notes to the Financial Statements

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

### 30.3 Financial Instruments Adjustment Account

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

### 30.4 Pensions Reserve

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

### 30.5 Accumulated Absences Account

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

## 31. USABLE RESERVES

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

### 31.1 Capital Funds

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

#### *Usable Capital Receipts Reserve*

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

#### *Capital Fund*

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



## Notes to the Financial Statements

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

Movements in 2011-12	Usable Capital Receipts Reserve £'000	Capital Fund £'000	Total Capital Funds £'000
<b>Balance at 1 April 2011</b>	<b>2,785</b>	<b>187</b>	<b>2,972</b>
Proceeds of Disposals	25	288	313
Transfer to Capital Adjustment Account		(139)	(139)
Contribution to Loans Fund Charges		(68)	(68)
Interest Earned	13	1	14
<b>Balance at 31 March 2012</b>	<b>2,823</b>	<b>269</b>	<b>3,092</b>

Comparative Movements in 2010-11	Usable Capital Receipts Reserve £'000	Capital Fund £'000	Total Capital Funds £'000
<b>Balance at 1 April 2010</b>	<b>2,773</b>	<b>204</b>	<b>2,977</b>
Proceeds of Disposals	1	173	174
Transfer to Capital Adjustment Account	-	(12)	(12)
Contribution to Loans Fund Charges	-	(179)	(179)
Interest Earned	11	1	12
<b>Balance at 31 March 2011</b>	<b>2,785</b>	<b>187</b>	<b>2,972</b>

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

Movements in 2011-12	Balance at 31 March 2011 £'000	Contribution from Revenue £'000	Interest Earned £'000	Contribution to Revenue £'000	Balance at 31 March 2012 £'000
Education	428	91	2	(58)	463
Vehicles	69	-	-	-	69
<b>Total</b>	<b>497</b>	<b>91</b>	<b>2</b>	<b>(58)</b>	<b>532</b>

Comparative Movements in 2010-11	Balance at 31 March 2010 £'000	Contribution from Revenue £'000	Interest Earned £'000	Contribution to Revenue £'000	Balance at 31 March 2011 £'000
Education	407	124	1	(104)	428
Vehicles	68	-	1	-	69
<b>Total</b>	<b>475</b>	<b>124</b>	<b>2</b>	<b>(104)</b>	<b>497</b>

## Notes to the Financial Statements

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### 32. CONTINGENT LIABILITIES

The Council has had significant budget savings to make from 2011-12 onwards, the Transformation Programme has been put in place to help the Council identify the level of savings required to balance the budget over the coming years through a programme of service reviews. As part of this process all Council employees were asked to express an interest in voluntary redundancy. Termination costs for all employees who have since been accepted for redundancy have been accounted for either in 2011-12, or previous financial years. The implementation of the service reviews is ongoing and although all known severance costs have been provided for it is possible that there may be further redundancies required in the future to meet both service review and future savings from the revenue budget.

During the 2006-07 financial year the Council transferred its housing stock to Argyll Community Housing Association (ACHA). Some council houses involved in the transfer had been built on land not owned by the Council. The transfer agreement requires the Council to purchase this land and transfer it to ACHA at nil cost. A price has yet to be negotiated with the landowners and therefore a reliable estimate cannot be made of the obligation at this stage.

The Council has a number of applications for equal pay at various stages of completion at Industrial Tribunals. The final outcome of all of these applications are unknown at this time. There is also the potential for other equal pay claims whose costs may be met by the Council. Some claims were at the point of being settled on 31 March 2011, these were provided for in 2010-11 with some claims being settled during 2011-12 (see Note 28).

### 33. TERMINATION BENEFITS

A number of savings options were brought forward at the Council budget meetings in February 2011 and February 2012 to balance the Council budget for the period 2011-12 to 2014-15, these included savings from service reviews and further savings options in advance of service reviews. A number of these savings options were reliant on a reduction in the Councils staffing levels. The Council had forewarning of the level of savings required to balance the budget and had previously asked all Council employees to express an interest in voluntary redundancy. As a result of the budget savings options approved by the Council a number of employees had their redundancy application accepted.

Redundancy costs have been incurred by the Council in both 2010-11 and 2011-12 for the budget savings agreed. In both years provision was made within the financial year for the costs of all employees who had accepted redundancy as at 31 March ending that year, including accounting for costs for employee who confirmed redundancy by 31 March but left or were leaving after this date. The total cost accounted for in 2010-11 was £4.885m for 264 employees and in 2011-12 was £4.958m for 167 employees. These costs are detailed further in the Remuneration Report on page 26.

Therefore termination costs for all Council employees who have accepted redundancy by 31 March 2012 have been accounted for in 2011-12, or in previous financial years. There are only two groups of employees where there is insufficient information to allow for redundancy costs to be estimated reliably, therefore no actual financial provision can be made for these costs. An amount of £0.423m has been earmarked within the General Fund balance to accommodate these costs as and when the outstanding issues have been resolved.

The reduction in the staffing establishment includes posts from all services across the Council and reductions were in line with the service review and other savings agreed by the Council.

## Notes to the Financial Statements

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

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

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

	Income £'000	Expenditure £'000	Net Assets £'000	Reserves £'000
Argyll Education Trust	12	5	357	357
GM Duncan Trust	1	1	88	88
MacDougall Trust	3	-	604	604
Various Other Trust Funds	6	1	529	529
<b>Total Trust Funds</b>	<b>22</b>	<b>7</b>	<b>1,578</b>	<b>1,578</b>

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

Further information on the Trust Funds, administered by Argyll and Bute Council, can be obtained from Strategic Finance within the Chief Executive's Unit.

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

## Notes to the Financial Statements

### 35. COMMON GOOD FUNDS

The Council administers the Common Good Accounts for the former Burghs of Oban, Campbeltown, Rothesay, Dunoon, Lochgilhead, Inveraray, Cove and Kilcreggan. The figures below summarise the aggregate income and expenditure for the year as well as providing a snapshot picture of the assets and liabilities at 31 March 2012. The Common Good Funds are for the benefit of the geographical areas of the former burghs. Further information on the Common Good Funds can be obtained from Strategic Finance within the Chief Executive's Unit.

#### 35.1 Common Good Income and Expenditure Account for the year ended 31 March 2012

2010-11 Actual £'000		2011-12 Actual £'000
74	Expenditure	80
(77)	Income	(79)
<b>(3)</b>	<b>(Surplus)/Deficit for the Year</b>	<b>1</b>

#### 35.2 Common Good Balance Sheet at 31 March 2012

2010-11 Actual £'000		2011-12 Actual £'000
110	Tangible Fixed Assets	243
1,762	Investments	1,766
161	Current Assets	158
(2)	Current Liabilities	(2)
<b>2,031</b>	<b>Total Assets less Liabilities</b>	<b>2,165</b>
241	Revaluation Reserve	370
1,790	Common Good Fund	1,795
<b>2,031</b>	<b>Total Net Worth</b>	<b>2,165</b>

## Notes to the Financial Statements

### 36. CASH FLOW STATEMENT – OPERATING ACTIVITIES

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

	2011-12 £'000	2010-11 £'000
<b>Net (Surplus)/Deficit on Provision of Services</b>	<b>(15,642)</b>	<b>(53,182)</b>
<b>Adjustments to Net (Surplus)/Deficit on the Provision of Service for Non Cash Movements:</b>		
Statutory Adjustments through Statement of Movement in Reserves	14,996	53,271
Transfer to/from Other Statutory Reserves	(19)	(145)
Increase/(Decrease) in Inventories	413	(13)
Increase/(Decrease) in Debtors	3,048	(2,420)
(Increase)/Decrease in Creditors and Provisions	2,264	(305)
Other Revenue Adjustments	(21,056)	(21,583)
	<b>(354)</b>	<b>28,805</b>
<b>Adjustments for items included in the Net (Surplus)/Deficit on the Provision of Services that are Investing and Financing Activities:</b>		
Non Cash Capital	11,027	6,763
Capital Element of Finance Lease Payments	(1,569)	(1,726)
	<b>9,458</b>	<b>5,037</b>
<b>Net Cash Flows from Operating Activities</b>	<b>(6,538)</b>	<b>(19,340)</b>
<b>The cash flows for Operating Activities include the following</b>		
Interest Paid on Borrowings	8,673	9,783
Interest Paid on Finance Leases	8,535	8,723
Interest Received on Bank Deposits	(260)	(264)
<b>Net Cash Outflow from Servicing of Finance</b>	<b>16,948</b>	<b>18,242</b>

### 37. CASH FLOW STATEMENT – INVESTING ACTIVITIES

The cash flows for Investing Activities include the following items:

	2011-12 £'000	2010-11 £'000
Purchase of Property, Plant and Equipment, Investment Property and Intangible and Heritage Assets	13,273	14,714
Investments made during year	20,000	-
Proceeds from the Sale of Property, Plant and Equipment and Investment Property	(313)	(244)
Other Receipts from Investing Activities	(11,390)	(7,502)
<b>Net Cash Outflow from Investing Activities</b>	<b>21,570</b>	<b>6,968</b>

## Notes to the Financial Statements

### 38. CASH FLOW STATEMENT – FINANCING ACTIVITIES

The cash flows for Financing Activities include the following items:

	2011-12 £'000	2010-11 £'000
Cash Receipts of Short and Long Term Borrowing	(209)	(29,231)
Other Receipts from Financing Activities	(1,600)	-
Cash Payments for the Reduction of the Outstanding Liabilities relating to Finance Leases and on Balance Sheet PFI Contracts	1,569	1,726
Repayments of Short and Long Term Borrowing	167	12,387
Other Payments from Financing Activities	-	394
<b>Net Cash Outflow from Financing Activities</b>	<b>(73)</b>	<b>(14,724)</b>

## Council Tax Income Account

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

2010-11 Actual £'000		2011-12 Actual £'000
53,246	Gross Council Tax Levied and Contributions in Lieu excluding RSL Second Home Additional Income	53,622
	Add Back:	
1,788	RSL Second Home Discount Additional Income	1,817
	Less:	
(7,548)	Other Discounts and Reductions	(7,621)
(1,174)	Provision for Bad and Doubtful Debts	(1,081)
<b>46,312</b>	<b>Total</b>	<b>46,737</b>
700	Adjustment to Previous Years' Community Charge and Council Tax	572
<b>47,012</b>	<b>Transfers to General Fund</b>	<b>47,309</b>

## Notes to the Council Tax Income Account

### 1. CALCULATION OF THE COUNCIL TAX

Dwellings are valued by the Assessor and placed within a valuation band ranging from the lowest "A" to the highest "H". The Council Tax charge is calculated using the Council Tax Base, Band D equivalent as below. This value is then decreased or increased dependent upon the band of the dwelling. The charge for each band for 2011-12 was as follows:

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

### 2. CALCULATION OF THE COUNCIL TAX BASE 2011-12

Council Tax Base	A	B	C	D	E	F	G	H	Total
Total Number of Properties	7,727	9,715	9,310	5,916	7,167	3,947	2,666	231	46,679
<b>Less</b> - Exemptions / Deductions	973	767	1,004	510	582	234	162	49	4,281
- Adjustment for Single Chargepayers	898	1,020	768	449	420	193	106	5	3,859
<b>Effective Number of Properties</b>	<b>5,856</b>	<b>7,928</b>	<b>7,538</b>	<b>4,957</b>	<b>6,165</b>	<b>3,520</b>	<b>2,398</b>	<b>177</b>	<b>38,539</b>
Band D Equivalent Factor (ratio)	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	
<b>Band D Equivalent Number of Properties</b>	<b>3,904</b>	<b>6,166</b>	<b>6,700</b>	<b>4,957</b>	<b>7,535</b>	<b>5,084</b>	<b>3,997</b>	<b>354</b>	<b>38,697</b>
<b>Add</b> Contribution in lieu in respect of Class 18 dwellings (Band D Equivalent)									478
<b>Nominal Tax Yield</b>									<b>39,175</b>
<b>Less</b> Provision for Non-Collection - 2.92%									1,144
<b>Council Tax Base 2011-12 - Number of Band D equivalents</b>									<b>38,031</b>



## Non Domestic Rate Income Account

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

2010-11 Actual £'000		2011-12 Actual £'000
33,630	Gross rates levied and Contributions in Lieu	34,770
	Less:	
(8,040)	Reliefs and other deductions	(8,598)
(1)	Payment of Interest	-
(116)	Provision for Bad and Doubtful Debts	(284)
<b>25,473</b>	<b>Net Non-Domestic Rate Income</b>	<b>25,888</b>
-	Adjustment for years prior to introduction of national non-domestic rate pool	-
10,741	Contribution (to)/from national non-domestic rate pool	(306)
<b>36,214</b>	<b>Transfers to General Fund</b>	<b>25,582</b>

## Notes to the Non Domestic Rate Income Account

### 1. ANALYSIS OF RATEABLE VALUES

	2011-12 £	2010-11 £
Industrial and freight transport subjects	6,262,945	6,111,030
Miscellaneous including Telecomms, Rail, Gas and Electricity Companies	52,744,894	50,570,494
Commercial subjects:		
Shops	12,980,910	12,982,765
Offices	5,033,860	5,034,535
Hotels, Boarding Houses etc.	6,529,025	6,643,450
Others	2,102,185	2,105,870
<b>Total Rateable Value</b>	<b>85,653,819</b>	<b>83,448,144</b>

### 2. NON-DOMESTIC RATE CHARGE

	2011-12 Pence	2010-11 Pence
<b>Rate Per Pound</b>	<b>42.6p</b>	<b>40.7p</b>
<b>Supplementary Rate Per Pound for Properties over £35,000</b>	<b>0.7p</b>	<b>0.7p</b>

### 3. CALCULATION OF RATE CHARGE FOR EACH PROPERTY

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

## Group Accounts

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### INTRODUCTION

The Code of Practice on Local Authority Accounting in the United Kingdom 2011-12: Based on International Financial Reporting Standards (the 2010 Code) places a requirement on Councils to consider all their interests in external organisations including limited companies and other statutory bodies. Where the interest is considered to be material, the Council is required to prepare a full set of group accounts in addition to those prepared for Argyll and Bute Council. The Group Accounts are designed to show “a true and fair view” of the financial performance and position of the Council’s Group.

## Group Statement of Movement in Reserves

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

	Argyll and Bute Council							Council's Share of Reserves of Associates £'000	Total Common Good Reserves £'000	Total Reserves £'000
	Usable Reserves			Total Usable Reserves £'000	Total Unusable Reserves £'000	Total Reserves of the Council £'000	Total Reserves of the Council £'000			
	General Fund Balance	Repairs and Renewals Fund	Capital Funds							
	£'000	£'000	£'000	£'000	£'000	£'000	£'000			
<b>Movements in 2011-12</b>										
<b>Balance at 31 March 2011</b>	<b>(33,907)</b>	<b>(497)</b>	<b>(2,972)</b>	<b>(37,376)</b>	<b>(175,604)</b>	<b>(212,980)</b>	<b>195,717</b>	<b>(2,031)</b>	<b>(19,294)</b>	
Surplus/(Deficit) on Provision of Services	(15,642)	-	-	(15,642)	-	(15,642)	14,329	91	(1,222)	
Other Comprehensive Expenditure and Income	-	-	-	-	51,535	51,535	218	(225)	51,528	
<b>Total Comprehensive Expenditure and</b>	<b>(15,642)</b>	<b>0</b>	<b>0</b>	<b>(15,642)</b>	<b>51,535</b>	<b>35,893</b>	<b>14,547</b>	<b>(134)</b>	<b>50,306</b>	
<b>Total Statutory Adjustments (See Page 28)</b>	<b>14,996</b>	<b>-</b>	<b>(313)</b>	<b>14,683</b>	<b>(14,683)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Net (Increase)/Decrease before Transfers to Other Statutory Reserves</b>	<b>(646)</b>	<b>-</b>	<b>(313)</b>	<b>(959)</b>	<b>36,852</b>	<b>35,893</b>	<b>14,547</b>	<b>(134)</b>	<b>50,306</b>	
<b>Other Transfers required by Statute</b>										
Transfer to/from Other Statutory Reserves	(19)	(35)	193	139	(139)	-	-	-	-	
<b>(Increase)/Decrease in Year</b>	<b>(665)</b>	<b>(35)</b>	<b>(120)</b>	<b>(820)</b>	<b>36,713</b>	<b>35,893</b>	<b>14,547</b>	<b>(134)</b>	<b>50,306</b>	
<b>Balance at 31 March 2012 Carried Forward</b>	<b>(34,572)</b>	<b>(532)</b>	<b>(3,092)</b>	<b>(38,196)</b>	<b>(138,891)</b>	<b>(177,087)</b>	<b>210,264</b>	<b>(2,165)</b>	<b>31,012</b>	

The Council's Statement of Movement in Reserves on pages 28 to 29 give a more detailed analysis of the movement in the Council's usable and unusable reserves during 2011-12.

## Group Statement of Movement in Reserves



This statement shows the comparative movement in the year on the reserves held by the Council plus its share of the reserves of its associates. The Common Good reserves are also fully consolidated into the Group Accounts.

Comparative Movements in 2010-11	Argyll and Bute Council							Council's Share of Reserves of Associates £'000	Total Common Good Reserves £'000
	Usable Reserves			Total Unusable Reserves £'000	Total Reserves of the Council £'000	Total Reserves of Associates £'000	Total Reserves £'000		
	General Fund Balance £'000	Repairs and Renewals Fund £'000	Capital Funds £'000						
				£'000	£'000	£'000	£'000		
<b>Balance at 31 March 2010</b>	<b>(33,851)</b>	<b>(475)</b>	<b>(2,977)</b>	<b>(37,303)</b>	<b>(74,923)</b>	<b>(112,226)</b>	<b>226,733</b>	<b>(1,998)</b>	<b>112,509</b>
Surplus/(Deficit) on Provision of Services	(53,182)	-	-	(53,182)	-	(53,182)	(15,802)	(33)	(69,017)
Other Comprehensive Expenditure and Income	-	-	-	-	(47,572)	(47,572)	(15,214)	-	(62,786)
<b>Total Comprehensive Expenditure and</b>	<b>(53,182)</b>	<b>0</b>	<b>0</b>	<b>(53,182)</b>	<b>(47,572)</b>	<b>(100,754)</b>	<b>(31,016)</b>	<b>(33)</b>	<b>(131,803)</b>
<b>Total Statutory Adjustments (See Page 30)</b>	<b>53,271</b>	<b>-</b>	<b>(174)</b>	<b>53,097</b>	<b>(53,097)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net (Increase)/Decrease before Transfers to Other Statutory Reserves</b>	<b>89</b>	<b>-</b>	<b>(174)</b>	<b>(85)</b>	<b>(100,669)</b>	<b>(100,754)</b>	<b>(31,016)</b>	<b>(33)</b>	<b>(131,803)</b>
<i>Other Transfers required by Statute</i>									
Transfer to/from Other Statutory Reserves	(145)	(22)	179	12	(12)	-	-	-	-
<b>(Increase)/Decrease in Year</b>	<b>(56)</b>	<b>(22)</b>	<b>5</b>	<b>(73)</b>	<b>(100,681)</b>	<b>(100,754)</b>	<b>(31,016)</b>	<b>(33)</b>	<b>(131,803)</b>
<b>Balance at 31 March 2011 Carried Forward</b>	<b>(33,907)</b>	<b>(497)</b>	<b>(2,972)</b>	<b>(37,376)</b>	<b>(175,604)</b>	<b>(212,980)</b>	<b>195,717</b>	<b>(2,031)</b>	<b>(19,294)</b>

The Council's Statement of Movement in Reserves on pages 30 to 31 give a more detailed analysis of the comparative movement in the Council's usable and unusable reserves during 2010-11.

## Group Statement of Comprehensive Income and Expenditure

This statement shows the accounting cost in the year of providing the Council's services and its share of the results of its associates in accordance with International Financial Reporting Standards, rather than the amount to be funded from taxation. Local authorities raise taxation to cover expenditure in accordance with regulations, and this is different from the accounting cost. The taxation position is shown in the Statement of Movement in Reserves on pages 28 to 31.

2010-11			Note	2011-12		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
111,299	8,442	102,857	Service	102,771	7,013	95,758
40,024	25,465	14,559	Education Services	31,336	26,615	4,721
13,649	2,629	11,020	Housing Services (Non-HRA)	12,143	2,449	9,694
21,812	4,223	17,589	Cultural and Related Services	25,535	4,739	20,796
28,288	7,324	20,964	Environmental Services	25,411	6,735	18,676
8,418	4,324	4,094	Roads and Transport Services	7,425	4,435	2,990
11,239	6,197	5,042	Trading Services	10,452	5,845	4,607
63,461	12,652	50,809	Planning and Development Services	64,775	9,549	55,226
4,734	140	4,594	Social Work	3,945	17	3,928
(37,260)	2	(37,262)	Central Services:	8,373	1	8,372
2,638	1,106	1,532	- Corporate and Democratic Core	2,777	1,189	1,588
8,927	-	8,927	- Non Distributed Costs	9,168	-	9,168
4,984	-	4,984	- Central Services to the Public	4,839	-	4,839
42,841	58,643	(15,802)	Strathclyde Police Joint Board	45,036	30,707	14,329
			Strathclyde Fire and Rescue Joint Board			
			Associates Accounted for on an Equity Basis			
<b>325,054</b>	<b>131,147</b>	<b>193,907</b>	<b>Net Cost of Services</b>	<b>353,986</b>	<b>99,294</b>	<b>254,692</b>



## Group Balance Sheet



1 April 2010 £'000	31 March 2011 £'000		31 March 2012	
			£'000	£'000
		<b>Long Term Assets</b>		
297,041	301,804	Property Plant & Equipment		
5,058	5,713	- Other Land and Buildings	296,463	
139,371	145,554	- Vehicles, Plant, Furniture and Equipment	6,784	
1,274	1,290	- Infrastructure Assets	153,761	
5,753	12,137	- Community Assets	1,581	
10,299	8,597	- Surplus Assets	5,117	
		- Assets Under Construction	11,723	
<b>458,796</b>	<b>475,095</b>	Property Plant & Equipment		<b>475,429</b>
1,316	1,316	Heritage Assets		1,324
420	365	Intangible Assets		332
1,090	1,382	Investment Property		5,647
1,766	1,909	Long-Term Debtors		3,800
1,684	1,722	Long-Term Investments		1,766
2,783	2,733	Investment in Associates		2,557
<b>467,855</b>	<b>484,522</b>	<b>Total Long Term Assets</b>		<b>490,855</b>
		<b>Current Assets</b>		
116	103	Inventories	516	
17,522	15,256	Short Term Debtors (Net of Impairment)	15,154	
8,679	1,722	Assets Held for Sale	2,153	
-	-	Short Term Investments	20,000	
3,409	30,506	Cash and Cash Equivalents	15,538	
<b>29,726</b>	<b>47,587</b>	<b>Total Current Assets</b>		<b>53,361</b>
		<b>Current Liabilities</b>		
(12,495)	(355)	Short-term Borrowing	(3,126)	
(40,263)	(37,425)	Short-term Creditors	(33,083)	
-	(280)	Capital Grant Receipts in Advance	(278)	
(1,088)	(4,676)	Provisions	(2,831)	
(1,727)	(1,571)	Other Short Term Liabilities	(1,449)	
<b>(55,573)</b>	<b>(44,307)</b>	<b>Total Current Liabilities</b>		<b>(40,767)</b>
		<b>Long-term Liabilities</b>		
(131,242)	(160,229)	Borrowing Repayable within a Period in Excess of 12 Months	(160,210)	
(84,937)	(83,367)	Other Long-term liabilities	(81,919)	
(853)	(235)	Provisions	(419)	
(229,516)	(198,450)	Liabilities in Associates	(212,821)	
(107,969)	(26,227)	Other Long-term liabilities (Pensions)	(79,092)	
<b>(554,517)</b>	<b>(468,508)</b>	<b>Total Long-term Liabilities</b>		<b>(534,461)</b>
<b>(112,509)</b>	<b>19,294</b>	<b>Total Assets less Liabilities</b>		<b>(31,012)</b>



## Group Balance Sheet



1 April 2010 £'000	31 March 2011 £'000		31 March 2012	
			£'000	£'000
		<b>Unusable Reserves</b>		
46,059	51,895	- Revaluation Reserve	55,562	
150,275	163,123	- Capital Adjustment Account	172,873	
(6,378)	(6,006)	- Financial Instruments Adjustment Account	(5,634)	
(107,969)	(26,227)	- Pensions Reserve	(79,092)	
(7,064)	(7,181)	- Accumulated Absences Account	(4,593)	
<b>74,923</b>	<b>175,604</b>			139,116
		<b>Usable Reserves</b>		
2,977	2,972	- Capital Funds	3,092	
475	497	- Repairs and Renewals Funds	532	
33,851	33,907	- General Fund Balance	34,572	
<b>37,303</b>	<b>37,376</b>			38,196
<b>(226,733)</b>	<b>(195,717)</b>	<b>Group Reserves</b>		(210,264)
<b>1,998</b>	<b>2,031</b>	<b>Common Good Reserves</b>		1,940
<b>(112,509)</b>	<b>19,294</b>	<b>Total Reserves</b>		<b>(31,012)</b>

The Balance sheet is a snapshot of the value at the 31 March 2012 of the assets and liabilities recognised by the Council and its share of the net assets or liabilities of its associates and Common Good funds. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. The net investment or liability in its associates is matched by its share of the reserves of the associates (i.e. its group reserves).

Bruce West  
Head of Strategic Finance  
28 September 2012

## Notes to the Group Financial Statements

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### 1. GROUP ACCOUNTING POLICIES

The group accounts are prepared in accordance with the policies set out in Note 1 to the Financial Statements on pages 37 to 49.

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

### 2. COMBINING ENTITIES

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

The Associates which have been incorporated are:

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

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

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

The accounting period for all entities is 31 March 2012.

### 3. NON MATERIAL INTEREST IN OTHER ENTITIES

The Council has an interest in Scotland Excel. Scotland Excel took up the activities of the Authorities Buying Consortium and similar bodies across the Scottish local authority sector on 1 April 2008. Renfrewshire Council prepare the financial statements for Scotland Excel in its role as lead authority. Scotland Excel is a not-for-profit organisation funded mainly by the 28 participating Scottish local authorities. Argyll and Bute Council contributed £0.068m towards Scotland Excel in the 2011-12 financial year.

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

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

## Notes to the Group Financial Statements

### 4. NATURE OF COMBINATION

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

### 5. FINANCIAL IMPACT OF CONSOLIDATION

The effect of inclusion of the Associates and Common Good Funds on the Group Balance Sheet is to decrease both reserves and net worth by £208.099m. This gives an overall net liability position for the Group of £31.012m. This reduced net asset position is due to the IAS19 Pension Liability within the Associates' Single Entity Accounts. This can be summarised as follows:-

	Pension Liability per Associates Accounts £'m	Argyll and Bute Council's Group Share £'m
Strathclyde Joint Police Board	4,513.810	180.101
Strathclyde Fire and Rescue Joint Board	1,101.302	42.731
Dunbartonshire and Argyll and Bute Valuation Joint Board	2.823	1.342
<b>Total Pension Liability of Associates</b>	<b>5,617.935</b>	<b>224.174</b>

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

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

### 6. FURTHER DETAILS ON CONSOLIDATION

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

#### Strathclyde Police Joint Board

Strathclyde Police Joint Board is the statutory corporate body established under the Strathclyde Combined Police Area Amalgamation Order 1975 and provides a comprehensive range of policing services on behalf of the 12 constituent Councils in the West of Scotland. During 2011-12 the Council contributed £8.810m or 3.99% of the Board's estimated running costs and accounted for £174.184m of Balance Sheet Liabilities within the Group Balance Sheet. The accounts of the Board are subject to independent audit and can be obtained from the Treasurer to Strathclyde Police Joint Board, Glasgow City Chambers, Glasgow G2 1DU.

#### Strathclyde Fire and Rescue Joint Board

This is the statutory body responsible for supervising the activities of Strathclyde Fire and Rescue Service. Strathclyde Fire and Rescue provides fire and emergency cover for the 12 constituent Councils in the West of Scotland. The Council contributed £4.839m to the Boards revenue costs in 2011-12 or 3.88% and has accounted for £37.754m as its representative share of the Balance Sheet

## Notes to the Group Financial Statements

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Liabilities within the Group Balance Sheet. The accounts of the Board are subject to independent audit scrutiny and available from the Treasurer to Strathclyde Fire and Rescue Joint Board, South Lanarkshire Council, Almada Street, Hamilton ML3 0AA.

### **Strathclyde Partnership for Transport**

Strathclyde Partnership for Transport was formed on 1 April 2006 as the successor to the Strathclyde Passenger Transport Authority. It is a Joint Committee of all Councils in the West of Scotland plus Dumfries and Galloway Council. In association with the related Structure Planning Committees, the Partnership's remit included the promotion of joint working to set out the policy framework for achieving the most effective management, development and integration of the transport network across boundaries in the medium to longer term through the Joint Transport Strategy. The Council contributed £0.606m or 1.62% of the Board's estimated net running costs during 2011-12 and accounted for £2.490m of the Balance Sheet Assets within the Group Balance Sheet. The accounts of the Board are subject to independent audit and are available from the Treasurer to Strathclyde Partnership for Transport, Consort House, 12 West George Street, Glasgow G2 1HN.

### **Strathclyde Concessionary Travel Scheme Joint Board**

This body comprises the 12 local authorities within the West of Scotland which oversees the operations of the concessionary fares scheme for public transport within its area. The costs of the scheme are met by a combination of funding from the 12 constituent councils and direct grant funding from the Scottish Government. During 2011-12 the Council contributed £0.144m or 4.14% of the net annual running costs and accounted for £0.067m of the Balance Sheet Assets within the Group Balance Sheet. The accounts of the Board are subject to independent audit and are available from the Treasurer to Strathclyde Concessionary Travel Scheme, Consort House, 12 West George Street, Glasgow G2 1HN.

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

This body was formed in October 1995 at local government reorganisation by a Statutory Instrument and is responsible for the maintenance of the electoral, council tax and non-domestic rates registers for Argyll and Bute, West Dunbartonshire and East Dunbartonshire Councils. The Board's running costs are met by the three Councils. During 2011-12 Argyll and Bute Council contributed £1.327m towards estimated running costs and accounted for £0.883m of Balance Sheet Liabilities within the Group Balance Sheet. The accounts of the Board are subject to independent audit and are available from the Treasurer to Dunbartonshire and Argyll and Bute Valuation Joint Board, Council Offices, Garshake Road, Dumbarton G82 3PU.

## Notes to the Group Financial Statements

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

	2011/12 £'m	2010/11 £'m
Argyll and Bute Council has a 47.5% share of:		
Gross Income	2.551	2.661
Net Surplus (Deficit)	(0.153)	(1.139)
Long Term Assets	0.822	0.807
Current Assets	0.808	0.708
Liabilities due within one year	(0.663)	(0.519)
Liabilities due over one year	-	(0.089)
Pension Liability	(2.823)	(1.219)
Capital and Revenue Reserves	(1.856)	(0.312)

### 7. REPORTING AUTHORITY ADJUSTMENTS

A number of adjustments are required to the Council's Statement of Comprehensive Income and Expenditure (pages 32 to 33) for group accounting purposes. These can be summarised as follows:

- All intra-group transactions have been removed from the Group Accounts as part of the subsidiary consolidation process.
- The Common Good Funds described in note 35 of the Notes to the Financial Statements on page 92 have been fully consolidated into the Group Accounts. This adjustment increases the net assets and reserves of Argyll and Bute Council's Group by £1.940m.

### 8. GROUP CASH FLOW STATEMENT

The impact of the incorporation of the associates has no effect upon the Cash Flow statement for Argyll and Bute Council on page 36. Only the Common Good transactions would have an impact. However, this impact is not material enough for a separate Group Cash Flow Statement to be prepared.

### 9. SCOTTISH POLICE AND FIRE REFORM

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

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

## Independent Auditor's Report

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

I certify that I have audited the financial statements of Argyll and Bute Council and its group for the year ended 31 March 2012 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and authority only Statements of Movement in Reserves, the Statements of Comprehensive Income and Expenditure Statements, and Balance Sheets, the Cash-Flow Statement, the Council Tax Income Account, and the Non-domestic Rate Account, the Common Good Funds, the Trust Funds and Other Third Party Funds and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the 2011/12 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

### Respective responsibilities of the Responsible Financial Officer and auditor

As explained more fully in the Statement of Responsibilities, the Head of Strategic Finance is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Strategic Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the statement of accounts to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2011/12 Code of the state of the affairs of the group and of the body as at 31 March 2012 and of the income and expenditure of the group and the body for the year then ended;
- have been properly prepared in accordance with IFRS's as adopted by the European Union, as interpreted and adapted by the 2011/12 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

## Independent Auditor's Report

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### Opinion on other prescribed matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 1985; and
- the information given in the Explanatory Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Statement of Governance and Internal Control does not comply with Delivering Good Governance in Local Government; or
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

A handwritten signature in black ink that reads 'Fiona Mitchell-Knight'.

Fiona Mitchell-Knight FCA  
Assistant Director, Audit Services  
Audit Scotland  
7<sup>th</sup> Floor, Plaza Tower  
East Kilbride  
Glasgow  
G74 1LW

28 September 2012

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**ARGYLL AND BUTE COUNCIL****COUNCIL/AUDIT COMMITTEE****STRATEGIC FINANCE****22 NOVEMBER 2012/7 DECEMBER 2012**

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**EXTERNAL AUDIT ANNUAL REPORT**

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**1 SUMMARY**

1.1 This report introduces the external auditors annual audit report for 2011/12.

**2 RECOMMENDATION**

2.1 The external audit annual report for 2011/12 is noted.

**3 DETAIL**

3.1 The report is the summary of the external auditor's findings arising from the 2011/12 audit of Argyll and Bute Council. The report is addressed to the members and the Controller of Audit. The nature and scope of the audit were outlined in the Audit Plan presented to the Audit Committee in March 2012, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011. The purpose of the annual report is to summarise the audit opinion on the financial statements and to report any significant issues arising.

3.2 A number of reports have been issued in the course of the year in which recommendations for improvements were made and these have been reported or will be reported to the Audit Committee. Implementation of the actions in these reports is also monitored by the Audit Committee. This final report focuses on the financial statements and any significant findings from the wider audit review of Argyll and Bute Council. Appendix B of the report is an action plan setting out the high level risks we have identified from the audit.

3.4 The key findings are summarised below but members are requested to read the detailed report (attached) to gain full understanding of the findings of the external auditor.

- The external auditor has given an unqualified opinion that the financial statements of Argyll and Bute Council for 2011/12 give a true and fair view of the financial position and expenditure and income of the council and its group for the year.
- Financial management arrangements have operated effectively during the year.
- Overall, they are satisfied with the council's governance arrangements.
- Scotland's public bodies continue to face increasing demand and cost pressures for their services and this is likely to continue in the future.
- Argyll and Bute Council moves forward from a sound financial base in terms of reserves and control of expenditure and with clear plans to maintain financial stability.

- The Welfare Reform Act 2012 will bring about the biggest reform of the UK welfare system for 60 years. The introduction of the Universal Credit will have a significant impact on the Council's strategies and plans in areas such as housing, asset management, finance, ICT and customer services.

Bruce West  
Head of Strategic Finance  
1 November 2012

# Argyll and Bute Council

## Annual report on the 2011/12 audit



Prepared for Members of Argyll and Bute Council and the Controller of Audit  
October 2012

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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# Key messages

## 2011/12 audit findings

This report summarises the findings from our 2011/12 audit of Argyll and Bute Council. As part of the audit we assessed the key financial and strategic risks being faced by the council. We audited the financial statements and reviewed the council's financial position and aspects of governance, best value, the use of resources and performance. This report sets out our key findings.

We have given an unqualified opinion that the financial statements of Argyll and Bute Council for 2011/12 give a true and fair view of the financial position and expenditure and income of the council and its group for the year. We also certify that the accounts have been prepared in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

Financial management arrangements have operated effectively during the year. The financial position at 31 March 2012 is more favourable than was anticipated in the budget. Usable reserves have increased by £0.820 million to £38.196 million.

The initial 2011/12 budget planned to use £5.870 million of general fund reserves to balance the budget, mainly to fund the one-off severance costs. This was later revised to an estimated £2.403 million. The final reported outturn was an increase in the general fund of £0.665 million, a net underspend against the revised budget of £3.068 million. Departmental controllable expenditure was £1.220 million below budget. There were also savings in loan charges of £1.156 million and an increase in council tax income of £0.692 million.

Due to the underspend the general fund increased to £34.572 million as at 31 March 2012. This balance includes earmarked commitments of £29.454 million and an unallocated general fund balance of £5.118 million. The unallocated balance represents 2.0% of the Council's budgeted net expenditure for 2012/13. This is in accordance with the council's policy to maintain an unallocated balance in the general fund of at least 1.5% of budgeted net revenue expenditure.

There was minor slippage on the Capital Plan in 2011/12 but the council is making progress on major projects in line with its three year capital plans. In February 2012 the council agreed to increase capital expenditure in the two areas which the majority of its residents see as being the top spending priorities; education and roads. The council has approved plans to spend £30 million on education and £21 million on roads over the next three years.

Overall, we are satisfied with the council's governance arrangements. Following the May elections the members approved a change to the committee structure. Powers that were previously delegated to the Executive Committee have now reverted to the full Council. They also decided to replace the Policy and Performance groups with a Performance Review and Scrutiny Committee.

A review of existing improvement processes has been undertaken, including Public Service Improvement Framework findings, all external and internal audits, the Assurance and Improvement Plan, the previous Corporate Improvement Plan, and several national policy initiatives likely to have an impact over the course of the next year. A draft of a Corporate Improvement Plan is currently being prepared which is drawn from the information collated from the actions above along with a review of the scope of the current Transformation Programme. This will bring together all corporate improvement activity into a single Corporate Improvement Plan.

## Outlook

Scotland's public bodies continue to face increasing demand and cost pressures for their services and this is likely to continue in the future. An ageing population, the effects of the recession and the heightened expectations of the public, all increase the demand for public services. These, together with cost pressures and existing financial commitments, place an additional burden on the capacity of public bodies to provide efficient and quality services at a time when budgets are reducing.

Argyll and Bute Council moves forward from a sound financial base in terms of reserves and control of expenditure and with clear plans to maintain financial stability. The council has adopted a strategic 3 year approach to managing its budgetary position and has prepared budgets for the period to 2014/15. In February 2012, the council approved a revenue budget of £255.851 million for 2012/13, with approved budget savings across services of £6.425 million, resulting in a budgeted surplus of £3.760 million for the year. The council also approved a balanced position in 2013/14 and a surplus of £0.014 million in 2014/15. The budgets include all savings planned as part of the 3 year programme of service reviews.

In this environment, the Welfare Reform Act 2012 will bring about the biggest reform of the UK welfare system for 60 years. The introduction of the Universal Credit will have a significant impact on councils' strategies and plans in areas such as housing, asset management, finance, ICT and customer service. As part of our work on the 2012/13 audit, we will consider the council's preparations for introduction of these changes, and how it is developing and taking forward its strategies and plans to address the risks arising from these changes.

# Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of Argyll and Bute Council. The nature and scope of the audit were outlined in the Audit Plan presented to the Audit Committee in March 2012, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011. The purpose of the annual audit report is to summarise the auditor's opinions (i.e. on the financial statements) and conclusions, and to report any significant issues arising. The report is divided into sections which reflect the public sector audit model.
2. A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of Argyll and Bute Council.
3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the council understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report is addressed to the members and the Controller of Audit and should form a key part of discussions with audit committees, either prior to, or as soon as possible after, the formal completion of the audit of the financial statements. Reports should be available to the Scottish Parliament, other stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.
5. This report will be published on our website after consideration by the council. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits. The overview report is published and presented to the Local Government and Regeneration Committee of the Scottish Parliament).
6. The management of Argyll and Bute Council is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The auditor is responsible for auditing and expressing an opinion on the financial statements. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.



# Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
  - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
  - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.
9. Auditors review and report on, as appropriate, other information published with the financial statements, including [the directors' report, annual governance statement, statement on internal control or statement on internal financial control and the remuneration report]. Where required, auditors also review and report on the Whole of Government Accounts return. This section summarises the results of our audit on the financial statements.

## Audit opinion

10. We have given an unqualified opinion that the financial statements of Argyll and Bute Council for 2011/12 give a true and fair view of the state of the affairs of the council and its group as at 31 March 2012 and of the income and expenditure for the year then ended.

## Legality

11. Through our planned audit work we consider the legality of the council's financial transactions. In addition the Head of Strategic Finance confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the council's management team, the financial transactions of the council were in accordance with relevant legislation and regulations. There are no legality issues arising from our audit which require to be brought to members' attention.

## Statement of governance and internal control

12. We are satisfied with the disclosures made in the statement of governance and internal control and the adequacy of the process put in place by the council to obtain the necessary assurances.

## Remuneration report

13. In 2010/11 the Scottish Government introduced a Remuneration Report into the financial statements. This required the disclosure of salary including bonuses, benefits in kind, compensation for loss of office, pension contributions and benefits for senior officers, senior members and anyone not otherwise included earning over £150,000 per year. Auditors are

required to audit part of the Remuneration Report and give a separate opinion within their report on the financial statements on whether it has been properly prepared.

14. From 2011/12, authorities are required to include in the report, summary information in relation to exit packages, including compulsory and voluntary redundancy costs, ex-gratia payments and other departure costs. The Remuneration Report submitted for audit did not include the total cost to the council of added years pension costs relating to non-teaching staff retiring early in 2011/12. The matter was resolved through discussion with officers and the disclosures were added to the revised Remuneration Report for both 2011/12 and 2010/11.
15. We are now satisfied that the Remuneration Report for 2011/12 has been prepared in accordance with Local Authority Accounts (Scotland) Regulations 1985 and the Scottish Government finance circular 8/2011 and includes all required disclosures.

## Accounting issues

16. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code). We are satisfied that the council prepared the 2011/12 financial statements in accordance with the 2011 Code. The council adjusted the financial statements to reflect audit findings. As is normal practice, immaterial unadjusted errors have been reported to the Head of Strategic Finance and the Audit Committee.

## Accounts submission

17. The council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. Final accounts preparation processes and working papers were generally of a high standard which enabled the audit to progress smoothly and allowed us to conclude the audit and certify the financial statements by the target date of 30 September 2012. The financial statements are now available for presentation to members and publication.

## Presentational and monetary adjustments to the unaudited accounts

18. A number of adjustments have been made to the 2011/12 unaudited financial statements in accordance with normal audit practice. These adjustments primarily related to reclassifications within the balance sheet and have not had any impact on the general fund balance of the council. Several unadjusted errors were also identified during the audit, where if adjustments were made these would have a net effect of reducing the net assets on the balance sheet by £0.102 million and reducing the surplus on provision of services by the same amount, with a corresponding impact on the general fund balance.
19. A number of presentational amendments were, however, made to improve the disclosures within the financial statements. The most significant of the changes was to amend the remuneration report to include the total cost to the council of added years pension costs relating to non-teaching staff retiring early in 2011/12, referred to at paragraph 14 above. Some of the remaining key issues from our audit are included in the following paragraphs.

## Refuse Disposal Sites

20. Valuations provided after the accounts had been prepared in respect of three landfill sites on Mull, Islay and Tiree included significant liabilities for future expenditure on restoration and aftercare, resulting in negative asset valuations for two of the three sites. Following discussion with officers and consideration of accounting guidance in this area, it was agreed that the sites should be impaired to the land and buildings asset values provided by the Valuation Office Agency. With regard to estimated future expenditure for restoration and aftercare, we agreed that the treatment will be kept under review going forward. The impairments are now reflected in the updated financial statements.

## Prior year adjustments

21. For the first time in 2011/12 the Code required local authorities to account for tangible heritage assets in accordance with Financial Reporting Standard 30: Heritage assets. Heritage assets are those that are intended to be preserved in trust for future generations and are held and maintained principally for their contribution to knowledge and culture. This change has resulted in £1.3m of assets being re-categorised from community assets into heritage assets. The main heritage assets held by the Council are two art collections and Inveraray Jail and Courthouse.

## Equal Pay Provision

22. The Equal Pay Act 1970 makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work, work rated as equivalent, or work of equal value. Employees who consider that they have been discriminated against in terms of pay can put forward claims to an employment tribunal. The ultimate cost to the council remains uncertain and it is likely that resolution of the issue will take some time. As the tribunal process unfolds the extent of the council's eventual liability will become clearer. The council's equal pay provision at 31 March 2012 of £0.191 million is based on full provision for all known claims against the council. The council have disclosed a contingent liability for any additional future claims that may potentially arise and will review the equal pay provision on an annual basis.

**Refer Action Plan No 1**

## Pension costs

23. The net assets on the council's balance sheet have decreased from £212.980 million in 2010/11 to £180.177 million in 2011/12, a reduction of £32.803 million. The principal reason for this decrease is due to the £52.865 million increase in the pension liability from £26.227 million to £79.092 million. This is also reflected in the balance sheet for the group. The pension liability represents the difference between the expected future payments to be made to former employees of the council and their spouse in the form of pension payments and the underlying value of pension fund assets to meet this cost. The calculation of the liability is assessed by professional actuaries each year and is an estimated figure.

24. The large increase in the pension liability in 2011/12 is due to financial assumptions about the cost of pension payments being less favourable at March 2012 than they were at March 2011 which has the effect of increasing the overall cost of pensions. In addition, the level of assumptions applied by the Actuary to the expected return on pension fund assets was more favourable than actual returns in most cases. Both these factors have contributed to the increase in the net liability faced by the council. The movement in the council's liability in respect of pensions in recent years is set out in the table at Exhibit 1.

#### Exhibit 1: Pensions liability movement history

Balance sheet as at	Liability £ million	Increase/Decrease over previous year
31 March 2007	36.228	
31 March 2008	0.598	-98%
31 March 2009	32.517	5,338%
31 March 2010	107.969	232%
31 March 2011	26.227	-76%
<b>31 March 2012</b>	<b>79.092</b>	<b>202%</b>

Source: Argyll and Bute financial statements

25. This additional liability does not have any immediate impact on the council's financing requirements. The council will continue to make annual contributions to the Pension Fund, through employer contributions, in accordance with triennial valuations carried out by the actuaries.

#### Trade Receivables

26. In their report on the 2010/11 Audit, the auditors recommended that the bad debt provision (BDP) methodology should be reviewed on an annual basis, including a review of significant individual debtors for impairment. Our follow-up review identified
- That for 2011/12 there was a specific write off of bad debt of £305,000
  - All debt on the "old" debtors system has a full 100% BDP
  - The BDP for debt over one year old varies from 55% (12-24 months) to 70% (24 to 36 months) and 80% to 100% (36 to 60 months) and these are the same percentages applied in 2010/11
  - Currently there are debtor balances of £159,390 over 12 months old that have not been fully provided for.
27. Our experience of the level of BDP in other councils suggests the percentage provisions for bad debt are lower than other councils. Taking all of this into account there is a risk that the

BDP is understated but not by a material amount. In resolution of this issue, officers have agreed that the basis of calculating the BDP will be reviewed annually.

### Trade Payables

28. Trade payables included within the financial statements include £214,083 relating to capital creditors brought forward from previous years and for which no supporting documentation is available. Following discussion with officers, we are advised that these brought forward creditors relate primarily to retentions for work carried out. We have also established that all capital creditors raised in 2011/12 can be agreed to listings of individual projects which split the amounts between retentions, fees and final payments. We are however unable to confirm that the brought forward capital creditors are valid entries in the financial statements and £214,083 has been included in the total of Unadjusted Errors at paragraph 18 above. Officers have agreed that for 2012/13, the capital creditors balance brought forward will be reviewed at an early date.

### Group accounts

29. The diversity of service delivery vehicles means that consolidated group financial statements are required to give a true and fair view of the activities of the council. The council has 5 associates: Strathclyde Joint Police Board, Strathclyde Fire and Rescue Joint Board, Dunbartonshire and Argyll & Bute Valuation Joint Board, Strathclyde Partnership for Transport and Strathclyde Concessionary Travel Scheme Joint Committee. These have been included in group accounts in accordance with the Code. The overall effect of inclusion of these group entities is to reduce net worth by £208.099 million giving the group a negative net worth of £31.012 million at 31 March 2012. This is primarily due to the IAS 19 pension liabilities within the associates' single entity accounts.

### Whole of Government Accounts

30. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. The council submitted the consolidated pack to the Scottish Government prior to the deadline of 29 July and the audited return was completed by the audit deadline of 5 October.

# Financial position

31. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
32. Auditors consider whether audited bodies have established adequate arrangements and examine:
  - financial performance in the period under audit
  - compliance with any statutory financial requirements and financial targets
  - ability to meet known or contingent, statutory and other financial obligations
  - responses to developments which may have an impact on the financial position
  - financial plans for future periods.
33. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

## Financial results

34. In 2011/12 the council spent £256.904 million on the provision of public services, resulting in an accounting surplus of £15.642 million. This surplus includes capital grants received and other amounts totalling £14.977 million that are specified by statutory provisions as being available to meet future capital and revenue expenditure. The net revenue surplus for 2011/12 was £0.665 million.

## Budgetary control

35. In 2011/12 there was a net underspend against the revised budget of £3.068 million (1.1%). Departmental controllable expenditure was £1.220 million below budget. There were also savings in loan charges of £1.156 million and an increase in council tax income of £0.692 million.
36. The initial 2011/12 budget planned to use £5.870 million of general fund reserves to balance the budget, mainly to fund the one-off severance costs. However, due to the net underspend noted above plus budget adjustments during the year and movements in the amount of earmarked reserves, the general fund increased by £0.665 million during the year.
37. The council has two significant trading operations: Roads and Lighting and Catering and Cleaning. Both achieved their statutory objective of achieving a breakeven financial position over a rolling three year period.

## Financial position

38. Exhibit 2 shows the balances in the council's funds at 31 March 2012 compared to the previous year. Funds include a capital fund which may be used to defray capital expenditure

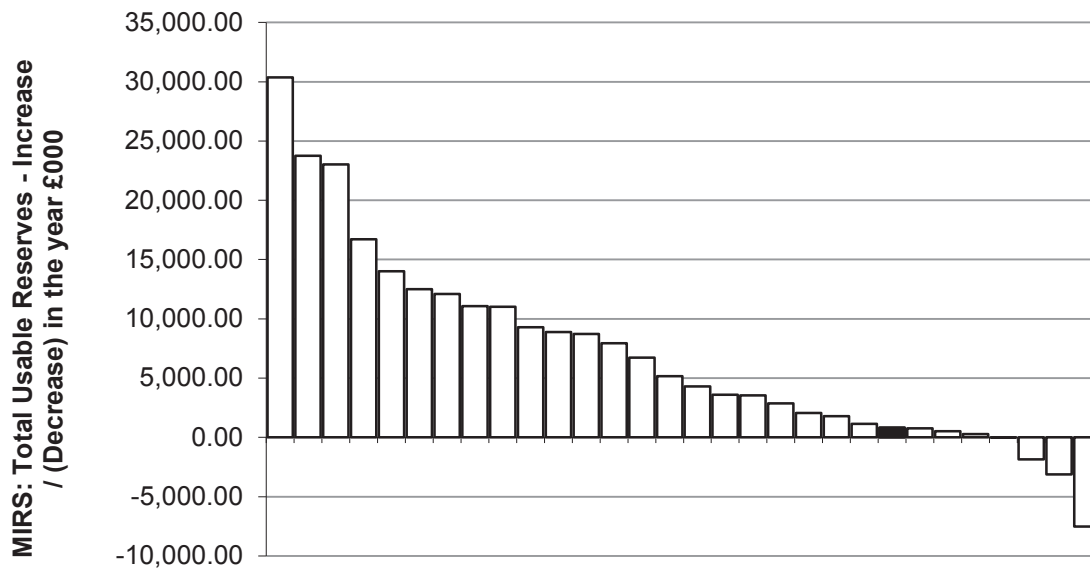
or repay loan principal. The council's funds at 31 March 2012 totalled £38.196 million, an increase of £0.820 million on the previous year.

### Exhibit 2: Reserves

Description	31 March 2011 £ million	31 March 2012 £ million
General Fund	33.907	34.572
Capital Funds	2.972	3.092
Repairs and Renewals Funds	0.497	0.532
<b>Total</b>	<b>37.376</b>	<b>38.196</b>

Source: Argyll and Bute Council 2011/12 financial statements

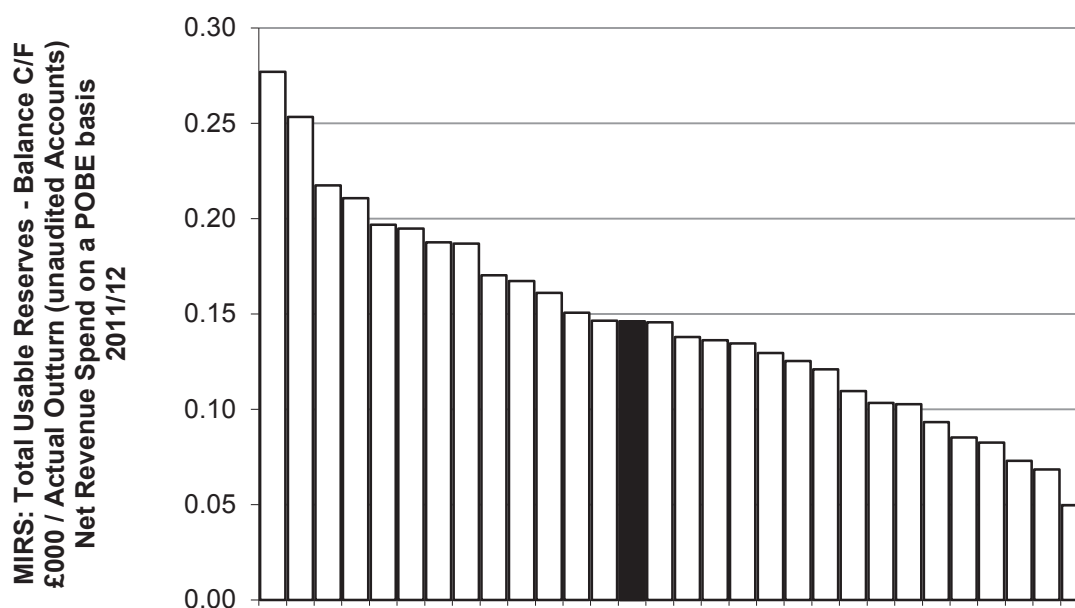
39. The general fund balance increased by £ 0.665million during the year to a balance of £34.572 million which equates to 14.4% of the council's net cost of services. Of this balance £29.454 million has been earmarked for specific purposes. This leaves an unallocated balance of £5.118 million. This equates to 2% of the budgeted net revenue expenditure for 2012/13. This is in accordance with the council's policy to maintain an unallocated balance in the general fund of at least 1.5% of budgeted net revenue expenditure.
40. The balances previously earmarked for the NPDO and Waste Management PPP Smoothing funds of £15.327 million were removed with £12.5 million being earmarked as a contribution to capital to fund the Dunoon and Campbeltown schools, as agreed by the council in February 2012 as part of the 2012/13 budget setting process.
41. Exhibit 3 below shows the movement in total usable reserves across all Scottish councils between 2010/11 and 2011/12. The increase in reserves for Argyll and Bute (highlighted in black) is modest compared to other councils; this does not give rise to any audit concerns.

**Exhibit 3: Movement in total Usable Reserves**

Source: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

42. Exhibit 4 below presents the council's usable reserves position in relation to net revenue spend for the year in comparison to other Scottish local authorities. The council needs to ensure that the level of its reserves strikes a balance between meeting current obligations and preparing for future commitments or reductions in funding. The graph demonstrates that Argyll and Bute Council (highlighted in black) lies around the median in relation to this financial ratio, indicating that the council has made an average budgetary provision for future years' expenditure. The council will however need to ensure that earmarked funds are used for the intended purpose, or where appropriate, an alternative use is found.



**Exhibit 4: Usable Reserves carried forward as a proportion of net revenue spend**

Source: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

**Capital investment and performance 2011/12**

43. Capital expenditure per the capital plan in 2011/12 totalled £25.575 million compared with a budget of £26.962 million giving an underspend of £1.387 million (5%). Three projects accounted for most of the slippage; two carbon management projects where there was a longer than anticipated manufacturing time for the biomass plant and an IT centre where negotiations are continuing with the property owner over the purchase.
44. The Capital Plan for 2012/13 is £35.4 million. The current forecast outturn position as at the end of June 2012 is a forecast underspend of £3.249 million. However, this underspend relates mainly to the Helensburgh office project. A weather related decision was taken to delay construction until January 2013. Therefore a smaller number of contract payments are likely in 2012/13.
45. At the budget setting meeting in February 2012 the council committed an additional £8.2 million for roads reconstruction giving a total spend of £21 million over the three year period. They also committed an additional £2.1 million to education giving a total spend of £17 million over the next 3 years. In addition £12.5 million has been earmarked as a contribution to capital to fund the council's contribution to the replacement of Campbeltown Grammar School and Dunoon Primary School. The new schools will be delivered through a special purpose vehicle (hubco) under the 'Scotland's Schools for the Future' programme. The council will be required to make an up front payment to hubco to contribute to the capital costs of

constructing the new facilities. The council is also progressing the CHORD programme to assist with regeneration and economic development of 5 of the main waterfront towns: Campbeltown, Helensburgh, Oban, Rothesay and Dunoon.

46. In August 2012, the council agreed an £18 million housing investment to open up access to suitable affordable housing in the area. Six initiatives including a Local Authority Mortgage Scheme and an Empty Homes Strategy aim to bring back into use 10 unused properties per year. It will be funded using £8.35 million from the Strategic Housing Fund along with up to £9.5 million of loan funding.
47. Funding for the council's capital programmes is derived, in the main, from general and specific grant, capital receipts and borrowing. The chart at Exhibit 5 shows the sources of capital expenditure funding for the period 2010/11- 2011/12.

#### Exhibit 5: Sources of capital expenditure funding 2010/11 - 2011/12

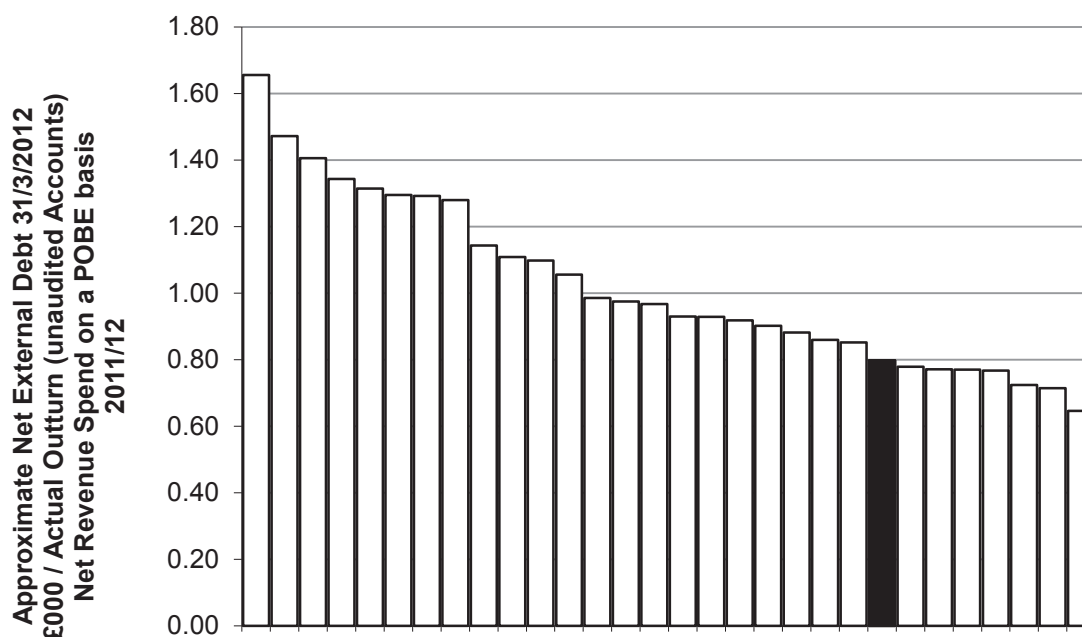
	2010/11 Actual £000	2011/12 Actual £000
Capital expenditure	21,201	25,575
Resourced by:		
Capital receipts	0	0
Capital grants	7,095	11,479
Revenue	915	124
Borrowing	13,191	13,972

Source: Argyll and Bute Council 2011/12 financial statements

### Treasury management

48. As at 31 March 2012 the council held cash and temporary investments totalling £37.962 million (£34.836 million at 31 March 2011). £20 million was held in a one year fixed rate bond.
49. The council's borrowing was £160.763 million as at 31 March 2012 compared to £160.725 million as at 31 March 2011. The majority of this was financed by the Public Works Loan Board with the remainder coming mainly from the money market. No new long term borrowing was taken during the year and no long term borrowing was repaid during the year. The average loans pool rate at 31 March 2012 was 6.139%, the same as at 31 March 2011.
50. Analysing net external debt as a proportion of net revenue spend gives an indication of the relative indebtedness of the council. Exhibit 6 below shows the net external debt as at 31 March 2012 as a proportion of the actual outturn for the year for all councils in Scotland. Argyll and Bute Council (highlighted in black) fares well in this comparison with 80p of net borrowing for every £1 of taxation and grant income, compared to the highest council with over £1.60 of borrowing for every £1 of taxation and grant income.

### Exhibit 6: Net external debt as at 31 March 2012 as a proportion of the actual outturn for the year



Source: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

### Financial planning to support priority setting and cost reductions

51. The council has adopted a strategic 3 year approach to managing its budgetary position and has prepared balanced budgets for the period to 2014/15. The chart at Exhibit 7 shows planned budget savings agreed to the period 2014/15 which include all savings planned as part of the 3 year programme of service reviews.

#### Exhibit 7: Planned Budget Savings 2012/13 - 2014/15

	2012/13	2013/14	2014/15
Budget Savings Agreed	(6.425)	(7.861)	(8.750)
Efficiency Savings to be Allocated	-	(1.595)	(3.641)
<b>Total</b>	<b>(6.425)</b>	<b>(9.456)</b>	<b>12.391</b>

Source: *Argyll and Bute Council 2011/12 financial statements*

52. Service reviews are considered through project boards, the Transformation Board and have been subject to budget seminars and consideration by the Executive before going out to public consultation where there is an impact on service delivery.

As part of the Transformation Programme, all services have been subject to review as part of the 3 year service review programme which has set targets for cost reduction of 15% and 20%. Although these will be challenging targets to achieve, the council has a robust methodology for identifying, implementing and monitoring savings and changes in service delivery that lead to efficiency savings, prioritisation or better use of resources. The council can also demonstrate a good track record of completing service reviews to time and also of implementing the recommendations that deliver the savings. There remains a risk however that the council is unable to deliver vital public services if these savings are not achieved.

**Refer Action Plan No 2**

## Asset management

53. Services prepare service asset management plans each year as part of the capital planning process. These consider issues of suitability, condition and asset performance. Any red risks in terms of asset management are highlighted as part of that process.
54. Argyll and Bute Council also has a corporate asset management programme in place. The programme prioritises work based on a risk assessment and on "spend to save" programmes. For 2011/12, 85% of the internal floor area of operational buildings was in a satisfactory condition and 66% of operational buildings were suitable for their current use, both improvements on the previous year.
55. In October 2011, following a procurement exercise, a new proprietary asset management software package "CONCERTO" was purchased. Work is ongoing to populate the new system. It is anticipated that this new tool will help streamline the management of property assets and will better integrate areas of property maintenance, capital programme delivery and asset management. The implementation of the system is being carried out in a phased manner.

## Procurement

56. The Public Procurement Reform Programme aims to drive continuous improvement in public sector procurement. In 2009 the Scottish Government introduced an annual evidence based assessment tool, the procurement capability assessment (PCA) to monitor public bodies' adoption of good purchasing practice and as a basis for sharing best practice. Councils need to achieve 25% or more to achieve conformance status.
57. The council has shown consistent improvement since the assessment started. Last year's score was 41% compared to 36% in the previous year. This year's assessment will take place in the autumn and the council have set a target of 50% which would take them into Level 2 - improved performance status. In readiness for this year's assessment, the council approved a revised Procurement Manual and Procurement Strategy in September 2011.

## Workforce reduction

58. As part of the Transformation Programme of service reviews, the council invited all employees to express an interest in voluntary redundancy. As a result of the budget savings options

approved by the council, a significant number of employees had their redundancy applications accepted. 264 employees left in 2010/11 and 167 left in 2011/12. Termination costs for all employees who have accepted redundancy by 31 March 2012 have been accounted for in 2011/12 or in previous years.

59. The Council has a workforce planning framework in place which informs a 5 year workforce planning strategy. All staff reductions have taken place as part of an integrated approach to transformation/modernisation. All service reviews have addressed workloads, job descriptions and have detailed implementation plans associated with them. There is no evidence thus far that the workforce reductions have impacted on the delivery of services or resulted in increased overtime and the use of temporary contractors.

### Other change management programmes

60. As outlined at paragraph 52 above, the council has established a Transformation Programme to assist in addressing the challenging financial outlook. The Programme is based around 4 themes:
- Strategic Council wide initiatives
  - A programme of service reviews
  - Efficiency and effectiveness of corporate resources
  - Preparing to meet the challenge of BV2.
61. The Scottish Government has reiterated a commitment to ongoing efficiency savings of 2% year on year in the public sector. The efficiency savings budget target has been secured for 2012/13. However the balance of efficiency savings, to come from the transformation programme, is estimated at £1.164 million in 2013-14 and a further £1.892 million in 2014-15, giving a total of £3.056 million.
62. It is intended that these savings will be achieved through the next phase of the transformation programme where the focus will be on achieving improvements in productivity, improving use of corporate resources, focus and prioritisation on key services and reviewing service delivery/operating models through shared services, outsourcing and development of comprehensive sourcing strategies for complete service areas. The Public Service Improvement Framework self-assessment process, Annual Performance Reports and Service Improvement Plans will be used to help identify and deliver savings in productivity improvements.

### Partnership working

63. As a rural authority Argyll and Bute Council recognise that there are limited opportunities to develop and share services with neighbouring authorities. However, shared services and joint working continue to be considered with other councils and across community planning.
64. There is a well established and developed community planning partnership with a combined Community Plan and Single Outcome Agreement. Focus continues to be made on the four main themes of Economy, Social Affairs, Environment and Communities and the Third sector.

65. Work is ongoing across the council area on a range of shared services initiatives:
- All Community Planning partners in this area have been involved in an asset management project to identify options for sharing delivery points and activity reports will be produced
  - Integrated Health and Social Care discussions have resulted in an in principle agreement by the council and NHS Highland to progress a joint business case investigation
  - An informal network to share expertise and best practice has been established with Business Gateway and more formal shared arrangements are now being considered.
  - Work is underway to examine Out of Hours services, Safety and Training and Policy support with Highland Council and NHS Highland.
66. In response to a request from the Cabinet Secretary for Finance, Employment and Sustainable Growth the Accounts Commission has led development work, with scrutiny partners, on how audit and inspection can support the delivery of better outcomes by Community Planning Partnerships. This will continue to evolve in 2012/13.

## Outlook

### 2012/13 budget

67. The local government finance settlement was announced on 8 December 2011. This confirmed the level of Scottish Government grant funding for councils for the 3 years to 2014/15. The funding for Argyll and Bute Council saw an increase of 1.1% from 2011/12 to 2012/13 followed by reductions of 0.9% for 2013/14 and 0.8% for 2014/15.
68. The council has adopted a strategic 3 year approach to managing its budgetary position and has prepared budgets for the period to 2014/15. In February 2012, the council approved a revenue budget of £255.851 million for 2012/13, with approved budget savings across services of £6.425 million, resulting in a budgeted surplus of £3.760 million for the year. The council also approved a balanced position in 2013/14 and a surplus of £0.014 million in 2014/15. The budgets include all savings planned as part of the 3 year programme of service reviews.
69. The Scottish Government budget contained a commitment to on-going efficiency savings and the council has factored additional efficiency savings into the 2013/14 and 2014/15 budgets.

### 2012/13 budget reporting

70. The current forecast outturn position as at the end of June 2012 is a forecast overspend of £0.015 million. Community Services are the only department forecasting an outturn different to the annual budget. A projected overspend on the Children and Families service of £0.065 million in relation to two children going to secure placements is offset by a projected underspend on Adult Care of £0.050 million. Departments will continue to closely monitor the projected outturn position and report any anticipated over/under spends through the budget monitoring process.

## Financial forecasts beyond 2012/13

71. As outlined at paragraph 68 above, the council has adopted a strategic 3 year approach to managing its budgetary position and has prepared budgets for the period to 2014/15.
72. The current challenging financial environment is likely to continue however for the medium term and the Council will need to consider how best to address this challenge for the period beyond the current 3 year budget whilst also meeting the requirement for 2% efficiency savings each year. Proposals on this will require to be developed for the next planning and budgeting cycle.

## Significant financial risks

73. A report submitted by the Head of Strategic Finance to the Strategic Finance Committee in February 2012 summarises the results of a review of the risks associated with the various assumptions underpinning the 2012/13 to 2014/15 budgets. The report highlighted that there are a range of risks associated with these assumptions in terms of probability, service impact and financial impact.
74. A financial risks analysis was undertaken for each service and looked at each of the main activities/teams/business units within a service and identified risks related to cost levels, service demands and income. The probability, service impact and financial impact of each risk were then assessed. A range of council wide risks were also identified and assessed. Risks related to service reviews and funding were also identified and assessed.
75. The top three risks relating to service demands, in terms of the likely financial impact were identified as:
  - Winter Maintenance – Adverse weather conditions which require a greater than budgeted number of gritting runs
  - Adult care - Older People Population Growth
  - Older People - Level of service demand remains at current commitment or increases due to needs becoming more complex.
76. The main funding risks relate to council tax and Scottish Government grant. The estimated level of council tax income was reviewed at the end of November 2011 and is based on current and forecast band D equivalents and non-payment rates. No further increase in council tax income has been assumed for 2013-14 and 2014-15. A 1% variation in council tax income amounts to £0.450 million.
77. Scottish Government funding is based on the local government finance settlement announcement. The announcement covered a 3 year period for 2012-13 to 2014-15. This represents a firm indication of funding for these 3 years and it is unlikely that funding will fall below these levels. One area of risk to funding would be if the Council were deemed not to have met the conditions attached to the finance settlement and this has been assessed as remote. A 1% variation in Scottish Government funding amounts to £2.2m.

78. The report by the Head of Strategic Finance highlights that the Council will need to monitor a number of the risks/assumptions contained in his report over the 2012/13 financial year and this monitoring will be built into the budget monitoring process. The report was considered by the council in February 2012 as part of the revenue budget setting process.



# Governance and accountability

79. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
80. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
81. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
- corporate governance and systems of internal control
  - the prevention and detection of fraud and irregularity
  - standards of conduct and arrangements for the prevention and detection of corruption.
82. In this part of the report we comment on key areas of governance.

## Corporate governance

### Processes and committees

83. Following the May 2012 elections the council is run by a coalition of councillors from SNP, Argyll First and Argyll and Bute Independent Councillors groups and also non aligned independent councillors.
84. In June 2012, the members voted to discontinue the Executive Committee with all previously delegated powers reverting to the Council. The Council also decided to discontinue Policy and Performance Groups. A Performance Review and Scrutiny Committee has been set up. This new committee will meet quarterly and will have an independent chair. Its remit includes reviewing performance against policy objectives and monitoring the delivery of corporate improvement programmes.
85. The Audit Committee chair and vice-chair are non-executive, unelected members. The audit committee has made good progress in ensuring its role is discharged effectively and is continuously seeking to improve.

### Internal control

86. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial

systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.

87. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.
88. As part of our work, we took assurance from key controls within the council's financial systems. The results of our review of key controls were reported to the Audit Committee in September 2012. A number of minor weaknesses were identified relating to usage of corporate credit cards, Council Tax discounts and exemptions, the sundry debtors system and bank reconciliations. The weaknesses have all been addressed via an agreed action plan.
89. In April 2012, the Council re-tendered a multi-million pound contract for the Helensburgh town centre and West Bay public realm works. The £4m works contract is part of the council's CHORD programme which aims to regenerate 5 waterfront areas: Campbeltown, Helensburgh, Oban, Rothesay and Dunoon. The decision to re-tender was made after concerns were raised by one of the original tenderers regarding the contract evaluation procedures. A subsequent Internal Audit investigation identified that the council's Procurement Procedures Manual had not been followed.
90. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible and as part of our risk assessment and planning process for the 2011/12 audit we assessed whether we could place reliance on the council's internal audit function.
91. We concluded that the internal audit service operates in accordance with the CIPFA Code of Practice for Internal Audit in local government in the UK. We placed reliance on their audit work carried out on several of the key financial systems in forming our opinion on the 2011/12 financial statements, together with a number of governance areas including performance management arrangements and statutory performance indicators, as we anticipated in our annual plan.

### ICT data handling and security

92. As part of our 2011/12 work, a review of the council's ICT arrangements was carried out using a Preliminary Service Evaluation and elements of the Computer Services Review Client Questionnaire. These were completed in consultation with ICT management and from supporting documentation, as appropriate, as back-up evidence. In addition a number of the IT service functions were tested in detail to confirm operational effectiveness.
93. The results of our review were reported to IT Managers in September 2012 and the final report will be presented to the Audit Committee in due course. A number of good practices were identified and include the following:
  - there are sound practices in place for managing user access to systems controlled by the council

- business continuity arrangements have been developed for the back-up and recovery of data although under review
  - there are arrangements in place for managing the council's ICT assets.
94. At the same time there are a number of challenges facing the council. These include:
- Information and Communication Technology (ICT) is an integral part of the council's service delivery activities. Investment in ICT provision is being provided and infrastructure and facilities are being re-configured with a project to close and transfer the Campbeltown server room to a new upgraded data centre at Kilmory
  - the Scottish Government are looking to the council to help develop and deliver plans for superfast broadband and invest further in the standardisation of networks and services to ensure compliance with the public service network (PSN)
  - the maintenance of business continuity / disaster recovery arrangements is part of an on-going process. The requirements needed to support the arrangements at the new data centre will need to be incorporated into the current plans.
95. An action plan to address the challenges raised in the report has been agreed and will be followed up as part of the council's normal ongoing monitoring procedures.

## Prevention and detection of fraud and irregularities

96. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
97. The council has appropriate arrangements in place to help prevent fraud, inappropriate conduct and corruption. These arrangements include: an anti-fraud strategy, a public interest disclosure policy and codes of conduct for councillors and staff. We are not aware of any specific issues that should be brought to your attention in this report.

### NFI in Scotland

98. Audit Scotland has coordinated another major counter-fraud exercise working together with a range of Scottish public bodies, external auditors and the Audit Commission to identify fraud and error. These exercises, known as the National Fraud Initiative in Scotland (NFI), are undertaken every two years as part of the statutory audits of the participating bodies. The latest exercise started in October 2010 and was reported upon in May 2012. The next round of NFI is due to commence in June 2012, and will look to expand the range of data sets and bodies.
99. The NFI works by using data matching to compare a range of information held on bodies' systems to identify potential inconsistencies or circumstances that could indicate fraud or error which are called 'matches'. Where matches are identified these are made available to bodies to investigate via a secure web application. Bodies investigate these and record appropriate outcomes based on their investigations.

- 100.** The data supplied by all participating bodies for NFI 2010/11 returned 287,559 matches. Some 33,846 (11.8%) of matches were categorised as having a higher risk of fraud or error (matches recommended for investigation). Argyll and Bute's NFI data returned 9,502 matches, of which 836 (9%) were recommended for investigation. Individual bodies determine which matches and the number of matches to investigate. The council completed its match investigations on schedule. Fraudulent overpayments totalled £39,423.35. 7 frauds were stopped resulting in 4 cautions issued and 3 being reviewed for criminal prosecution.
- 101.** The council commenced preparation for the 2012/13 NFI Exercise with the checking of the list of expected data sets, confirmed who the web application users would be, completed the requirements outlined for fair processing compliance and live data was uploaded to the NFI web application on 8 October 2012.

### Housing and council tax benefits performance audit

- 102.** A follow up risk assessment of the council's benefits service was carried out in July 2011. It reported that the council had made a positive contribution to the continuous improvement of the benefits service. 24 of the 32 previously identified risks had been fully addressed and the remaining 8 partially addressed. 17 new risks were identified with an action plan being agreed to address them.

### Standards of conduct and arrangements for the prevention/detection of bribery and corruption

- 103.** Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. We have concluded that the arrangements in Argyll and Bute Council are satisfactory and we are not aware of any specific issues that we need to identify in this report.

### Complaints Handling Procedures

- 104.** The Scottish Public Services Ombudsman (SPSO) now requires councils to adopt a new two stage complaints handling procedure, which means informal complaints will need to be recorded by 1 April 2013. The council's corporate complaints procedure complies with the model complaints handling procedure proposed by the Scottish Public Services Ombudsman (SPSO). A copy of the council's procedures has been submitted to the SPSO as required by 14 September 2012.

### Outlook

- 105.** The Westminster government's Welfare Reform Act received Royal Assent on 8 March 2012. This is the biggest reform of the UK welfare system for 60 years and promises to change the lives of millions of households by creating a new Universal Credit for working age claimants.

- 106.** The main drivers for this legislation are to improve work incentives, simplify the benefits system, tackle the administrative complexity of existing systems and to deliver savings.
- 107.** The provisions in the Act will result in a number of significant changes for how local authorities deliver services. Universal Credit will end the devolved administration of housing benefit. Council tax benefit will be replaced by a Scottish council tax reduction scheme from April 2013. There will also be a shift in terms of the delivery of services such as the Social Fund, community care grants and benefit fraud investigations. Going forward, the role councils will play in the delivery of welfare reforms is not yet clear although there is an expectation that councils will provide some face to face support to benefit claimants.
- 108.** Councils will face challenges in understanding and acting upon welfare reform changes, and communicating these accurately and effectively to local residents. The introduction of Universal Credit will also have a significant impact on councils' strategies and plans in areas such as housing, asset management, finance, ICT and customer service. Councils will be challenged during this period of change to maintain service delivery and performance around housing benefit claims.

**Refer Action Plan No 3**

- 109.** As part of our work on the 2012/13 audit, we will consider the council's preparedness for introduction of these changes, and how it is developing and taking forward its strategies and plans to address the risks arising from these changes.

# Best Value, use of resources and performance

110. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.
111. The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning. Auditors of local government bodies also have a responsibility to review and report on the arrangements that specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
112. As part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
- a performance audit which may result in the publication of a national report
  - an examination of the implications of a particular topic or performance audit for an audited body at local level
  - a review of a body's response to national recommendations.
113. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments.
114. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.
115. This section includes a commentary on the Best Value/ performance management arrangements within Argyll and Bute Council. We also note any headline performance outcomes/ measures used by the council and comment on any relevant national reports and the body's response thereto.

## Management arrangements

### Best Value

116. Audit Scotland conducted a full best value audit during 2005 with the report being published in February 2006. A follow-up report was published in December 2008, and in January 2009 the council agreed its first Corporate Improvement Plan which contained the council's response to the findings in the follow-up report. During 2010, the Local Area Network (LAN) published an Assurance and Improvement Plan for the council which recorded that the council

has made significant progress in revising its corporate planning, strategic and performance management arrangements.

117. The council's second (2011/12) Corporate Improvement Plan builds on the improvements made since adoption of the first Plan and was developed from the following sources:
- The Public Service Improvement Framework (PSIF) corporate self-assessment
  - Assurance and Improvement Plan
  - BV2 Gap Analysis
  - Code of Corporate Governance annual review.
118. The 2011/12 Corporate Improvement Plan focuses on four main areas/outcomes identified through the self-assessment and audit activity:
- Improvement – The Council delivers Best Value Services
  - Effective leadership at both political and officer level
  - People Management – the right people, in the right jobs, at the right time
  - Work effectively with partners to deliver the Vision for Argyll and Bute.
119. For each of these outcomes within the Corporate Improvement Plan, a range of success measures are detailed within the Plan and underlying each outcome are a range of actions which have been assigned to the appropriate Executive Director. Monitoring these actions takes place via the Council Scorecard, and as such reported quarterly to the Executive.
120. The Performance Management Report for Quarter 4 2011/12 presented to the Council in June 2012 records that of the 18 Corporate Improvement Plan 2011/12 actions for the Council, 17 are complete and the remaining action (review of Political Management Arrangements) is on track for completion during 2012. The Council is also able to demonstrate that significant progress has been made in putting in place the key building blocks against all 6 improvement areas identified in the follow-up report.
121. In order to ensure that the improvements made are consolidated and built upon, work is underway to put in place a Corporate Improvement Programme bringing together the Transformation Programme and Corporate Improvement Plan under one coordinated and focussed programme.
122. A review of existing improvement processes has been undertaken, including PSIF findings, all external and internal audits, the Assurance and Improvement Plan, the previous Corporate Improvement Plan, and several national policy initiatives likely to have an impact over the course of the next year. These initiatives include the move towards single police and fire services, the national review of community planning, and work around social work and social care integration. A draft of a Corporate Improvement Plan is currently being prepared. This is drawn from the information collated from the actions above along with a review of the scope of the current Transformation Programme. This will bring together all corporate improvement activity into a single Corporate Improvement Plan.

123. The Corporate Improvement Plan will be managed using a formal project management approach, including production of project documentation and the appointment (from existing resources) of a project manager, sponsor and senior responsible officer for each workstream.
124. Internal Audit has recently completed a range of Corporate Performance Audits based on the BV2 toolkits. This has given the council an overview of how their services are performing in relation to the BV2 toolkits. Action plans have been prepared in relation to areas that require improvement and Heads of Service are currently progressing these plans.
125. As part of our work on the 2012/13 audit, we will consider how the council is developing and taking forward its strategies and plans to address the improvement areas identified from all sources.

### Performance management

126. The councils' Planning and performance Management Framework (PPMF) is a core component of the improvement process for the council, helping ensure delivery of the Improvement Plan. The PPMF draws together improvement activities within the council to ensure that improvement is taking place in a coordinated manner, including:
  - Council and service performance scorecards
  - Engagement with stakeholders
  - Improvement plans resulting from: Best Value reviews, audits, inspections, sustainability and equalities impact assessments.
  - Strategic and operational risk registers
  - Higher level plans, e.g. Community Plan, Corporate Plan, Single Outcome Agreement
  - Key performance measures, including statutory performance indicators
  - Other performance information.
127. The council uses Pyramid performance management software system to record performance information and generate performance scorecards. Performance is monitored through the Council Scorecard, which includes the Council Corporate Plan and Single Outcome Agreement, and Departmental Scorecards. The PPMF was refreshed in 2011 to reflect the new council structure. The council also adopted a new Corporate Plan in 2011 that identified corporate outcomes and linked service outcomes to these. These are also mapped to the Scottish Government's National Outcomes. A new council scorecard was introduced to the Executive in August 2011 which shows progress against the corporate outcomes. This can be further interrogated to link through to service outcomes.
128. Each financial quarter the council's Performance Reports and Scorecards are reviewed for the council as a whole and for each of the departments. These identify areas of success, challenge and improvement by service area. All improvement actions are included in the Service Improvement Plans. Each review covers three areas:
  - Key Successes - A numbered list of what the service has achieved particularly well during the last financial year



- Key Challenges - This section is a numbered list of any challenges that have prevented the service from achieving its targeted objectives
- Key Improvements to address Challenges - This section includes a numbered list of improvements that the service plans to carry out in the current financial year

129. Annual Performance Reviews (APRs) are prepared by Heads of Service and are submitted to the Executive in December for consideration. The format of the APRs reflects the quarterly reporting on performance by Strategic Management Team to the Executive.

### Community/user engagement

130. A Community Engagement Strategy was agreed and adopted by the Community Planning Partnership (CPP) in May 2009. The Council also has a Community Engagement Action Plan which is reported to the Community Planning Partnership Management Committee. The four Local Area Community Planning Groups and three Community Planning Partnership Thematic Groups as well as the Management Committee report to the CPP on a regular basis. A Third Sector and Communities CPP Sub-Group was also established to ensure that community engagement is given the same strategic guidance and monitoring as the other CPP Thematic Groups.
131. The CPP Community Engagement Strategy is currently under review by the Third Sector and Communities CPP Sub-group to be brought in line with the new Community Plan/Single Outcome Agreement. The Scottish Government Review of Community Planning will also influence the reviewed strategy.
132. A 2011 internal audit review of work carried out by the council in partnership with community groups recorded that good progress is being made with community engagement within the council area. Internal audit also recorded that this progress is reinforced by the formation of the Third Sector and Communities CPP Sub-Group and that there are four Community Development Officers, one for each of the administrative areas within the council.
133. Through our own audit work we also acknowledge the council's commitment to community engagement. The 2011/12 and 2012/13 budget setting processes included public meetings held by community planning partners plus innovative approaches to consultation: webchat and budget simulator plus the more traditional postcards, posters, web pages, presentations, Citizens' Panel and facilitated meetings. The council's Annual Report is available via the council's website, which has gained a four star rating from Socitm and has been listed as one of the top 20 best developed websites.
134. The current Citizens' Panel is made up of approximately 1,250 people who live in Argyll and Bute. Members of the Panel are recruited to be broadly representative of the wider population of the area in terms of their demographic profile and geographic distribution. Hexagon Research and Consulting currently have the contract to maintain the Citizens' Panel database and to administer the twice yearly Citizens' Panel surveys. The spring surveys are open to all community planning partner organisations. Autumn surveys are now council-only surveys, with the primary purpose to track customer satisfaction across a range of council services.

135. Recent examples of council consultation include:

- Helensburgh Pierhead Masterplan Consultation
- Libraries Customer Satisfaction Survey

## Overview of performance in 2011/12

### Argyll and Bute Council's performance measurement outcomes

136. There are 294 success measures monitored through the council scorecard. These were analysed for 2011/12 to show progress against target. The analysis showed an overall improvement position with 80% of indicators meeting or exceeding target and 20% adrift of target.

137. Some of the performance measures achieved in 2011/12 include:

- Percentage of waste recycled and composted
- All roads asset capital and maintenance programmes in place
- Five year workforce plan completed.

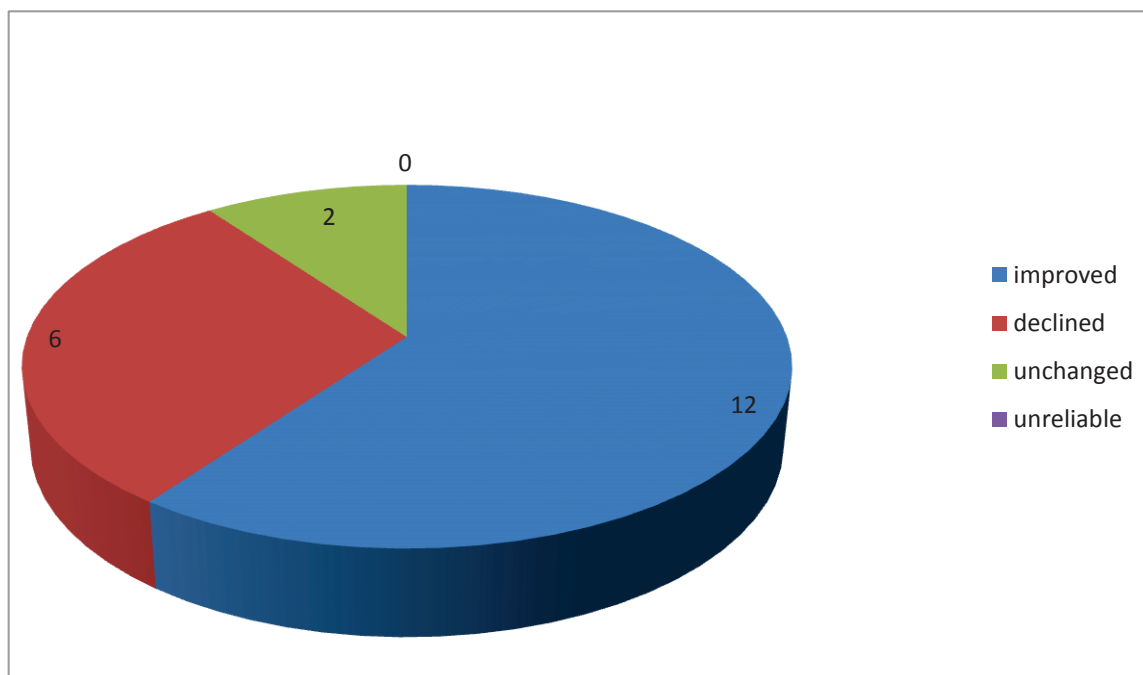
138. some of the measures of performance not achieved in 2011/12 include:

- Secondary school teaching staff sickness absence was 8.5 days against a target of 6.5 days
- % road work instructions completed within timescale was 85% against a target of 90%
- Implementation of employee development training for managers (Argyll and Bute Manager) has slipped.

139. The overall council staff sickness absence rate of 8.8 days is split local government (LG) employees 9.11 days and teachers 7.62 days. Comparing these figures to Audit Scotland's 2011/12 tables, puts the council at number 3 for LG employees, but at number 24 for teaching staff. A target of 7.5 days for all teaching staff has been agreed for 2012/13. Improvements in productivity during the year resulted in roads work instructions performance exceeding target by 3% points (achieving 93%) in Quarter 4 2011/12. This improvement will carry forward into 2012/13. A project plan is now in place for 'Argyll and Bute Manager' to report regularly to the Corporate Improvement Board to manage progress and performance.

### Statutory performance indicators

140. In 2011/12, a total of 20 SPIs were required and these indicate an improved picture of performance as illustrated at Exhibit 8 below.

**Exhibit 8: Improvements demonstrated by SPIs (Total 20 indicators)**

Source: Argyll and Bute Council SPI data returns

- 141.** The improved indicators include sickness absence levels, equal opportunities, the gross administration cost per benefits case, the cost of collecting council tax per dwelling, homelessness processing, the provision of homecare to those aged over 65 and visits to museums. The declines included the payment of invoices and visits to libraries.
- 142.** The declines noted above are attributable mainly to an increase in the number of invoices being processed and Rothesay library being closed for major refurbishment. The council has set a target of paying 90% of invoices within 30 days for 2011/12. Rothesay library has now re-opened and provides a modern, customer orientated library service.

## Maintaining Scotland's roads: a follow-up report

- 143.** During the course of 2011/12 we reviewed the council's response to Maintaining Scotland's roads: a follow-up report; published by the Auditor General and the Accounts Commission in February 2011. The review provided an assessment of the progress that Argyll and Bute Council had made in improving its management of road maintenance, focusing on road asset management planning, performance management and maximising value for money. We found that the council is taking steps to address the recommendations set out in the report. In particular that:
- The completion of the Roads Asset Management & Maintenance Strategy provides the strategic direction upon which detailed plans are based to deliver the road maintenance service in accordance with corporate policy and accepted best practice. The Strategy was completed in draft in December 2011, with formal approval expected during 2012.

- The council has developed 1, 3 and 10 year roads reconstruction programmes of work, with the 1 and 3 year programmes budget being largely programmes to recover from the effects of the winters of 2009/10 and 2010/11. The 10 year programme will be an improvement programme with the emphasis on upgrading the strategic network.
- The council have increased the roads capital maintenance budget for 2012/13 from an initial £5.0 million to £7.0 million. In addition, at the annual budget meeting in February 2012, the council increased the provision for roads reconstruction in the capital plan to £21m over 3 years.

144. We concluded that the council has responded to the recommendations of the report and there is evidence that actions to improve road maintenance are considered at the highest level within the council. We also noted that the SCOTS group have used the annual surveys of road condition to assess a maintenance backlog across Scotland and provide an assessment for each council. The backlog figure for Argyll and Bute was calculated as £162.38 million in February 2011. It is clear that even with the current level of investment and the use of revised asset management prioritisation techniques, a proportion of the road network in the council area will continue to deteriorate in future years.

**Refer Action Plan No 4**

## National performance reports

145. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year of direct interest are detailed in Exhibit 9:

### Exhibit 9: A selection of National performance reports 2011/12

- |   |   |
|---|---|
| • Commissioning social care   | • Reducing greenhouse gas emissions                                   |
| • The National Fraud Initiative in Scotland                                   | • The role of community planning partnerships in economic development |
| • An overview of local government in Scotland - challenges and change in 2012 | • Modernising the planning system                                     |
| • Scotland's public finances: addressing the challenges                       | • Community Health Partnerships                                       |
| • Transport for health and social care  | • Managing performance: are you getting it right?                     |

Source: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

## Managing performance: are you getting it right?

146. The report is the fourth in the How Councils Work series. This series draws on audit work in all councils to highlight concerns, issues and good practice.

147. The report offers practical pointers and support to help councillors and officials with performance management. Effective management of performance is everyone's business from the chief executive down and in well-run councils, it is embedded throughout the

organisation as part of the day job and not seen as a burden. A key element is getting the culture right with councillors and officials sharing a common purpose and vision and setting clear priorities. The council has yet to consider this report as it was only published in October 2012.

### Scotland's public finances: addressing the challenges

148. The report provides an overview of the financial environment facing the public sector in Scotland and the cost pressures currently faced. It outlines what the public sector is doing to respond to current and future budget reductions, and highlights a number of key risks and issues that the public sector needs to manage in responding to the challenges.
149. The report, together with a management response, was considered by the council's audit committee in December 2011. As outlined at paragraph 68, the council has demonstrated a clear awareness of the financial challenges that are highlighted in this report, however they acknowledge that the current challenging financial environment will continue for the medium term and that the council will need to consider how best to address this challenge for the period beyond the current 3 year budget whilst also meeting the requirement for 2% efficiency savings each year. Proposals to address this issue are currently being developed.
150. The service review programme required benchmarking to be undertaken as a key stage in each service review. In addition benchmarking is carried out within some services. There is scope to develop a more coordinated approach to benchmarking and to demonstrate benchmarking is being carried out on a comprehensive basis across all services and that it is being used to improve performance. The process of mapping cost and budget to service and corporate outcomes could be further refined. This will be taken forward under the corporate improvement plan.

**Refer Action Plan No 5**

### Commissioning social care

151. Good strategic commissioning of social care is needed to ensure effective and efficient services are provided and continue to be developed, in partnership with users, carers and providers, so that sustainable services are in place in future. This report examined how well councils and their partners plan, and how councils either procure or deliver, effective social care services. The report also assessed the extent to which councils and their partners involve users and carers in developing services to meet their needs, and how they work with providers in the voluntary and private sectors to provide high-quality, sustainable services.
152. The Council has used the report in preparing updated commissioning strategy and plans which will be finalised by the end of December 2012. This work is being taken forward by Planning and Information Team Leader and Commissioning staff. The updated strategy and plans will ensure that the actions identified in the Audit Scotland self-assessment pro-forma are all addressed.

## The role of community planning partnerships in economic development

- 153.** This review aimed to assess whether Community Planning Partnerships (CPPs) have made a difference to local communities. As CPPs cover a wide range of activity, the review focused on examining their contribution to economic development. This policy was chosen because CPPs have an important role in coordinating local economic development activity and it has a direct link to the Scottish Government's purpose of increasing sustainable economic growth.
- 154.** The Council used the Audit Scotland checklist for CPP board members to assess whether they are meeting the recommendations contained within the report. The Council's assessment was generally positive although they acknowledge that a recent self-assessment of community planning identified some issues around the style and delivery of local community planning and the opportunity to improve strategic focus of management committee. These issues are currently being addressed by the CPP.

## Modernising the planning system

- 155.** The planning system provides the framework for deciding how land is used, how communities take shape and how new developments look and work. It has to balance economic, environmental and community priorities and is central to achieving the Scottish Government's goal of sustainable economic growth and to Scotland's economic recovery.
- 156.** The report assessed whether recent reform and modernisation of the planning system is making it more economic, efficient and effective. The report evaluated the overall progress made by the public sector in modernising the planning system and the impact that modernisation is having on councils' performance in managing planning applications.
- 157.** The report, together with a management response, was considered by the council's audit committee in December 2011. An action plan has been prepared to address the outstanding recommendations within the report and to drive the planning system forward.

## Progress against audit risks identified in the SRA

- 158.** The Local Area Network (LAN), completed its third shared risk assessment (SRA) in Spring 2012 and reported its findings in an Assurance and Improvement Plan (AIP). The risk assessment considered the audit and scrutiny risks in relation to the council's strategic priorities, service delivery, and corporate governance framework. This drew on evidence from a number of sources including:
- The annual report to the Controller of Audit and elected members for 2010/11 from the council's appointed external auditors
  - The council's own self-evaluation, performance reporting and supporting evidence
  - Evidence gathered from Education Scotland, the Care Inspectorate and the Scottish Housing Regulator (including published inspection reports and other supporting evidence).

159. No significant scrutiny risks were identified with the council's corporate governance framework. As was the case in the previous AIP, one significant scrutiny risk was identified with the council's transport service and roads maintenance performance outcomes. The area has a high dependency on the road network and the council faces many challenges in maintaining its road network, including the dispersed geography and extremities of weather within the area. The SCOTS group have used the annual surveys of road condition to assess a maintenance backlog across Scotland and provide an assessment for each Council. The backlog figure for Argyll and Bute was calculated as £162.38 million in February 2011. As outlined in paragraph 143, the council has undertaken a service review of its Roads Operations Service and capital programme which has led to the development of a 3 year roads Reconstruction Recovery Programme and a longer term strategy and plan for improvement. Additional capital funding has been allocated by the council to road maintenance to address this challenge.
160. Areas of uncertainty identified by the LAN were:
- Asset Management: management of the school estate
  - Social Change: ensuring services are directed to the most vulnerable
  - Support of adults at home rather than in residential settings.
161. In relation to the school estate, the council awaits the outcome of the Commission on Rural Education, and the Scottish Government's subsequent legislative response. In relation to Social Change, this assessment is linked to the national risk priority regarding the protection and welfare of vulnerable people. The Care Inspectorate have recently carried out a follow-through visit and will report publicly on the extent to which improvements have been delivered. For the support of adults at home, this area of uncertainty will be monitored by the council during the Care Inspectorate self-evaluation process, with the LAN maintaining a watching brief. An updated position will be reported by the LAN in the next AIP.

## Outlook

162. The Accounts Commission has developed an audit approach for the audit of Community Planning Partnerships. This approach is being piloted in the autumn of 2012 and rolled out across the sector thereafter.
163. In April 2011, the Equality Act 2010 introduced a new public sector 'General Duty' which encourages equality to be mainstreamed into public bodies' core work so that it is not a marginal activity but part and parcel of how public bodies operate. Following on from this the Scottish Government consulted on a set of 'Specific Duties' which came into force in May 2012. There are nine specific duties listed which aim to support public bodies to better perform against the 'General Duty,' including the duty to assess the impact of equalities in all policies and decisions as well as the requirement to publish a set of equality outcomes (and reporting requirements) no later than 30 April 2013. Progress made by the council in implementing these requirements will be monitored in 2012/13.

# Appendix A: audit reports

## External audit reports and audit opinions issued for 2011/12

Title of report or opinion	Date of issue	Date presented to Audit Committee
Annual Audit Plan	9 February 2012	24 March 2012
Shared Risk Assessment/Assurance and Improvement Plan	3 June 2012	16 June 2012
Internal controls management letter	16 June 2012	21 September 2012
Maintaining Scotland's roads - follow-up review	26 July 2012	21 September 2012
Report on financial statements to those charged with governance	17 September 2012	21 September 2012
Audit opinion on the 2011/12 financial statements	17 September 2012	21 September 2012
Audit opinion on the 2011/12 Whole of Government accounts consolidation pack	4 October 2012	tba
Report to Members on the 2011/12 audit	31 October 2012	tba



# Appendix B: action plan

## Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	22	<p><b>Equal pay claims</b></p> <p>The potential liability resulting from equal pay claims remains uncertain and is subject to the outcome of several national test legal cases.</p> <p><b><i>Risk: There is a risk that the ultimate cost to the council is greater than anticipated.</i></b></p>	<p>Negotiations around existing tribunal cases will be monitored and assessed against the current provision with any significant variation being reported through budget monitoring. The outcome of national legal test cases will be monitored and the implications assessed with the financial implications being considered as part of any revision of the provision.</p>	Head of Strategic Finance	Ongoing
2	52	<p><b>Budget savings and financial pressures</b></p> <p>Continuing to deliver vital public services with a reducing budget will be a significant challenge for the council. Planned budget savings are estimated at £9.456m in 2013-14 and a further £12.391m in 2014-15, giving a total of £21.847m.</p> <p><b><i>Risk: There is a risk that the council is unable to deliver vital public services if these savings are not achieved.</i></b></p>	<p>Implementation of savings will be monitored through regular monitoring with financial implications being picked up in budget monitoring and also through the budget preparation process. The impact on services will be monitored through service scorecards and the service planning process each year allows the Council to consider the relevant outcomes and performance levels for each service.</p>	Head of Strategic Finance	Ongoing

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3	108	<p><b>Welfare reform</b></p> <p>Councils will face challenges in understanding and acting upon welfare reform changes, and communicating these accurately and effectively to local residents.</p> <p><b><i>Risk: There is a risk that the council may fail to meet the requirements of the new welfare reform act.</i></b></p>	<p>A working group has already been set up in relation to welfare reform. It has cross service membership and given the impact this may have across the community a number of key partners have also been co-opted onto the group. The Council will continue to monitor developments and will bring forward plans based on developments.</p>	Head of Customer and Support Services	Ongoing
4	144	<p><b>Roads maintenance</b></p> <p>The roads capital budget has increased however, the roads maintenance backlog figure for Argyll and Bute was calculated as £162.38 million in February 2011.</p> <p><b><i>Risk: There is a risk that a proportion of the road network in the council area will continue to deteriorate in future years</i></b></p>	<p>The Council has developed the Roads Maintenance and Management Strategy (RM&amp;MS) to ensure that the Council spends its limited funding wisely on roads upgrade and maintenance. The strategy takes cognisance of Audit Scotland 2004 report – maintaining Scotland's Roads and the 2011 Follow up report. The objective of the RM&amp;MS is to provide a strategy on which detailed plans can be based to deliver the road maintenance service in accordance with Corporate Policy and National accepted best practice.</p>	Head of Roads and Amenity Services	October 2012 and during budget process 2013-14.

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
			<p>The RM&amp;MS was endorsed by the former Roads and Transport Working Group and will be considered by the Council - Target Date October 2012.</p> <p>Capital Investment Plan founded on the RM&amp;MS to be presented for consideration as part of budget process.</p> <p>Target Date - During the budget process for 2013-14.</p>		
5	150	<p><b>Benchmarking</b></p> <p>There is scope to develop a more coordinated approach to benchmarking and to demonstrate benchmarking is being carried out on a comprehensive basis across all services and that it is being used to improve performance. This will enhance the information currently available to establish the efficiency and cost effectiveness of services and to identify scope for further performance improvements.</p> <p><b><i>Risk: There is a risk that the council may not be able to demonstrate whether or not its</i></b></p>	<p>This will be taken forward as part of the corporate improvement plan. It is covered by the project related to productivity and service improvement. This project will be monitored to ensure it develops further the Council's approach to benchmarking.</p>	Head of Strategic Finance	<p>Already covered by corporate improvement plan. Monitoring implementation will be ongoing.</p>

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<i>services are providing value for money.</i>			

# Argyll & Bute Council

## ICT service review

2011/12



Prepared for Argyll & Bute Council  
October 2012

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

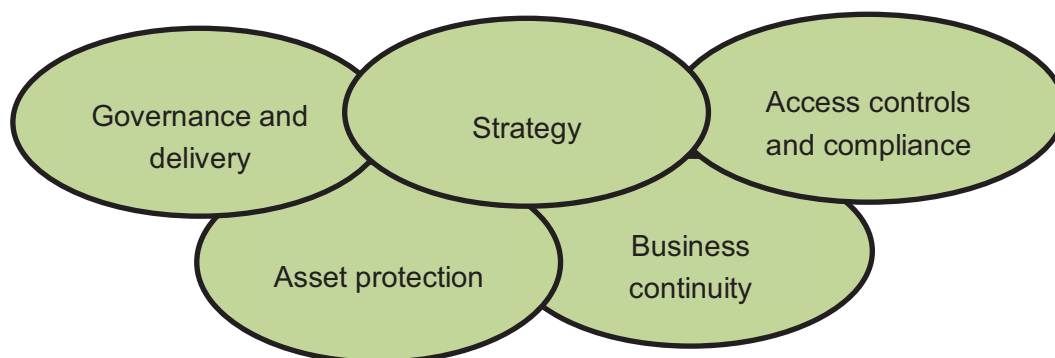
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# Summary

## Introduction and audit approach

1. As part of our risk based assessment carried out during the initial planning stage of Argyll & Bute Council audit, we identified Information and Communication Technology (ICT) as a priority area for review in 2011/12. The audit work was based on an established computer services review methodology developed by Audit Scotland. It provides a high-level risk based assessment of ICT services in five key areas as outlined below.



2. Our audit was carried out using a Preliminary Service Evaluation (PSE) and elements of the Computer Services Review (CSR) Client Questionnaire (CQ) which were completed in consultation with ICT management and from supporting documentation, as appropriate, as back-up evidence. In addition a number of the IT service functions were tested in detail to confirm operational effectiveness.

## Key findings

3. The council's ICT section deals with the management of the local users and ICT resources, requests for services and business continuity, as well as managing ICT projects and information security for the council.
4. A number of good practices were identified and include the following:
  - there are sound practices in place for managing user access to systems controlled by the council.
  - there is a service desk process to ensure effective control is exercised over support calls through a service tool.
  - business continuity arrangements have been developed for the back-up and recovery of data although under review.
  - there are arrangements in place for managing the council's ICT assets.
  - the public sector standard project management methodology Prince2 is used to control ICT projects.



5. At the same time there are a number of challenges facing the council:
  - Information and Communication Technology (ICT) is an integral part of the council's service delivery activities. Investment in ICT provision is being provided and infrastructure and facilities are being re-configured with a project to close and transfer the Campbeltown server room to a new upgraded data centre at Kilmory.
  - the ICT service is part of a programme of continuous service improvement. The implementation of the Information Technology Infrastructure Library (ITIL) will be used to manage this process.
  - the continuous changes and usage of data through collaborative partnerships places new demands on information security policy and arrangements.
  - the Scottish Government are looking to the council to help develop and deliver plans for superfast broadband and invest further in the standardisation of networks and services to ensure compliance with the public service network (PSN).
  - the maintenance of business continuity / disaster recovery arrangements is part of an on-going process. The requirements needed to support the arrangements at the new data centre will need to be incorporated into the current plans.

## Risk exposure and planned management action

6. This report summarises the findings from our review and identifies areas where the council may be exposed to significant risk. Although this report identifies certain risk areas, it is the responsibility of management to decide the extent of the internal control system appropriate to the council. We would stress, however, that an effective control system is an essential part of the efficient management of any organisation. Also, it should be noted that risk areas highlighted in this report are only those that have come to our attention during our normal audit work in accordance with our Code of Audit Practice and therefore are not necessarily all of the risk areas that may exist.
7. Risk exists in all organisations which are committed to continuous improvement and, inevitably, is higher in those undergoing significant change. The objective is to be risk aware with sound processes of risk management, rather than risk averse. Indeed, organisations that seek to avoid risk entirely are unlikely to achieve best value. Risk can be either inherent (because of the environment an organisation operates in or the nature of the operation) or due to the absence of effective controls. Risks take a number of forms including financial, reputational, environmental or physical risks.
8. The action plan included as Appendix A of this report details the areas where continued risk exposure requires management action.

## Conclusion

9. Our overall conclusion is that the controls surrounding the management of the ICT service within the council are sound. There are, however, challenges in terms of costs as investments

are targeted to the priority needs of the council and the Scottish Government while trying to deliver improvements in overall service delivery.

## Acknowledgements

10. The contents of this report have been agreed with senior officers within the ICT service to confirm factual accuracy. The assistance and co-operation we received during the course of our audit is gratefully acknowledged.

# Main Findings

## Introduction

11. There is an increasing reliance upon Information Communications Technology (ICT) in the delivery of government and locally driven initiatives to provide improved service to the public. In addition organisations such as local authorities must continuously strive to achieve value for money from their ICT investment while ensuring the promised benefits from the technology are fully realised.
12. To provide the needed services Argyll & Bute Council have a strategically driven approach. The council also recognises that the Scottish Government in conjunction with the Improvement Service has a programme of services to encourage online access to council and other public services. The council advise that it will align with this approach where it considers it appropriate.
13. In addition to the strategic approach being adopted for the provision of ICT services, there is a requirement to provide sound operational control over matters like, information security, hardware and software management and the ability to provide adequate disaster recovery and business continuity.

## Strategy

14. The council's strategic ICT vision is designed to meet the needs of local service delivery and the requirements of the Scottish Government in its wider demands for efficiency in the use of technology. The ability of the council to deal with changing information needs and technological innovation to improve service delivery is of key importance.
15. The council's vision for the use of ICT in service provision and improvement is seen by the adoption new technology and work practices, for example the council encourages the use of voice and video conferencing to avoid unnecessary travel. This has seen the installation of visual and audio equipment in meeting rooms across key offices of the council. In addition the Scottish Government are looking to the council's strategy to help develop and deliver plans for superfast broadband and invest further in the standardisation of networks and services to ensure compliance with the PSN.
16. The current ICT strategy dated October 2008 and covering the period to 2011 was developed in line with the council's overall corporate plans, with the ICT service seen as an 'enabling' function which supports the Council in its delivery of services. The ICT planning process continues to follow corporate requirements and an ICT service review has been conducted to identify the council's ICT infrastructure and ICT applications needs going forward. The ICT strategy should, however, be refreshed to provide a "roadmap" and benchmark for monitoring service delivery.

**Refer risk no. 1**

17. Due to the complex nature of services delivered by the council it is recognised that there should be a systematic and planned approach taken in the initiation and delivery of projects, to develop the corporate ICT infrastructure and/or for the introduction of new systems. To address this requirement the corporate ICT function has adopted the Prince2 project planning methodology which is the accepted standard for the public sector.

## Governance and delivery

18. To ensure the priorities and service targets set by the ICT strategy were achieved the council created an ICT Strategy Group. In accordance with the strategy each Directorate had to nominate a representative for the corporate ICT Strategy Group at Head of Service level who was tasked with identifying ICT implications of their respective departmental service plans. The strategy group are not currently meeting on a regular basis to monitor the ICT strategy. The services do, however, provide input to the capital programme which includes investment in improved ICT infrastructure and new applications to support new or changing business needs.

**Refer risk no. 2**

19. To support the strategy and to provide the required focus, the ICT function has been structured into two distinct service areas; Infrastructure Services and Application Services. ICT Infrastructure provides hardware support and maintenance including network connections and security while ICT Applications provides first line support for corporate applications and installation and testing of software upgrades and new releases.
20. An integral part of governance beside the provision of a sound control environment and a procedural framework is having adequate key skills and a process of maintenance and training. The council continue to invest in staff training, ensuring they have sufficient skills to enable them to make the most effective use of the facilities provided. In this context performance development reviews are carried out for all staff on an annual cycle and this incorporates annual training plans. Progress is reviewed against these on a 6 monthly basis.
21. As part of providing a sound control environment through service improvement the ICT service has a project in place to implement new work practices through the introduction of ITIL standard V3. ITIL is a widely accepted and recognised approach to IT service management. ITIL provides a cohesive set of best practice, drawn from the public and private sectors designed to improved service delivery.

**Refer risk no. 3**

22. In addition the council has been following a continuous assessment model through benchmarking and customer satisfaction surveys. The benchmarking measures used are provided by SOCITM the most widely used by Scottish public authorities. The council look closely at areas where results fall below the KPI median or where customers look for specific improvement.
23. The council's delivery plans indicate a number of significant ICT challenges against a backdrop of making financial savings. There are a number of initiatives in place to meet these

challenges, for example ICT will continue to develop the council website to meet the changing requirements and expectations of the customer and at the same time will look to drive down the cost of local printing by developing and implementing a corporate wide print strategy. In addition, the upgrading of the Kilmory data centre allows for the closure of the server room at Campbeltown a further step toward reducing the council's energy consumption.

**Refer risk no. 4**

## Access controls and compliance

24. To ensure compliance with corporate and national standards for the provision of security and confidentiality for the council's customer and other sensitive information, the ICT service has policies and arrangements in place to ensure adequate access and identity management. The arrangements are designed to ensure users are authorised and appropriate system access permissions granted.
25. In the review of overall security arrangements we note an information security policy dated February 2005 and approved by the Strategic Management Team. The policy includes rules for computer use, email use and internet use. It is, however, noted that the security policy is out of date and in need of review and refresh in line with the International Standards Organisation ISO27001 information security standards framework which provides best practice guidance. While a policy update appears to be required some matters such as email and internet access have now been superseded or updated by the issue of an acceptable use policy (AUP) dated January 2010.

**Refer risk no. 5**

26. We are advised by council representatives that the maintenance and review of the corporate information security policy and related matters such as information management / sharing and encryption practice is now within the remit of Democratic Services.
27. Government and statutory agencies such as the Information Commissioner's Office (ICO) are placing increased demands on council's to have secure practices and policies in place for issues such as information classification and data sharing. The ICO carried out a review of the council's practices in a number of related areas in 2009 and followed up in 2010, in relation to Data Protection Act 1998 compliance, and found a number of areas in need of improvement. Follow up by internal audit has shown some progress in meeting the recommendations made by the ICO. Notwithstanding this and given an increasing demand for sharing services and data the council need to ensure policy and procedures in this area remain current and are monitored.

**Refer risk no. 5**

28. There is a process in place to authorise the activity of users and users are required to sign up to the acceptable use policy. This process is supported by operating procedures which include the removal of redundant users and the monitoring of internet activity as set out in the AUP.

## Asset protection

29. The council's policies such as the information security policy and the corporate asset strategy requires that asset protection in relation to information management and information technology concerns the availability, confidentiality and integrity of:
- hardware assets, the servers, desktop and cabling infrastructure that stores and transports information
  - software assets, the applications that enable staff to carry out their work, typically subject to licence agreements
  - information assets, collections of data and information stored in application systems, databases, electronic and paper documents.
30. In order for assets to be protected appropriately they need to be identified and recorded. The ICT section is required to maintain a register of hardware and software assets on behalf of the council. All assets under the responsibility of the ICT service are known having been tagged and physically checked in the last 18 months. Although the ICT service has no formal asset register system software the databases for hardware and software assets are held on spread sheets and linked to the service desk tool 'Heat' to help in the provision of support and overall planning.
31. An important part of the lifecycle of hardware assets is disposal. It must be ensured, in particular, that all data is erased to confirm no sensitive personal data will be placed at risk of disclosure. It was advised that the ICT service currently manage disposal through a Waste Electrical and Electronic Equipment Directive (WEEE) certified 3rd party organisation. The corporate asset strategy identified the need for an asset disposal policy and due to changing circumstances the ICT service is currently reviewing their processes in respect of disposal.

**Refer risk no. 6**

32. In addition to hardware and software registers is a project is in place to develop an information classification scheme for both paper and electronic documents. The scheme should record the information assets owned by the council and could impact on data storage.
33. As part of the process for managing information all relevant data held by the council including customer records and corporate information require to be backed up and stored in a secure manner. The ICT service has operating procedures to cover the backup of data using the 'Tivoli' system, including off-site replication between sites for resilience and ease of recovery and backup to tape. The completeness and accuracy of the process is monitored on a daily basis. The impact of the rationalisation of server rooms at Kilmory and Campbeltown on secure off-site back may need to be reviewed.

## Business continuity

34. Argyll & Bute Council recognises that planning for emergencies is an integral part of good business practice. For the ICT service the term disaster recovery is used to refer to the ability

to resume essential information technology services (data networking, key application systems and email) in the event of a significant outage.

35. In addition the council recognises the need for business or service continuity planning and management, which is defined as the processes put in place to ensure the delivery of its core services in the event of unforeseen circumstances short of total service outage. It is recognised by the council that the circumstances can be a natural or man-made disaster (adverse weather conditions, flooding, and terrorism), unavailability of key premises for carrying out the services or long term absence of key staff.
36. The main legislative requirement upon the council to ensure continuity of service is based upon the Civil Contingencies Act 2004 and the resultant Contingency Planning (Scotland) Regulations 2005.
37. A significant aspect of business continuity planning and disaster recovery planning is prevention and minimising risk through the provision of resilient systems and a protected physical environment. The council is rationalising processing capacity with the closure and transfer of the server room at Campbeltown to Kilmory. The premise at Kilmory is protected using fire detection and gas suppression systems and uninterruptible power supply (UPS) for power management in the event of failure.
38. It was found that the council has plans in place to address business continuity planning disaster / recovery relating specifically to information technology and ICT services. The ICT business continuity / disaster recovery arrangements are designed to cover various scenarios from environmental risk, for example damage to premise. The plans are currently under review as part of the council's business continuity planning work, and a fully documented ICT recovery plan will be developed following the consolidation of the Campbeltown and Kilmory sites. Detailed test plans should also be developed to ensure appropriate levels of recovery for all areas of the ICT infrastructure is achievable in the timescales required by the business.

**Refer risk no. 7**

# Appendix A

## Risk identification and action plan

Action point	Refer para no	Risk identified	Planned management action	Responsible officer	Target date
1	16	<p>The ICT strategy is an important means of providing a "roadmap" and benchmark for measuring the delivery of ICT enabled service improvement going forward.</p> <p><b><i>Risk: without a current strategy it is possible that effective ICT enabled services will not be provided.</i></b></p>	<p>The ICT Strategy will be reviewed and refreshed as part of the IT workstream within the new Corporate Improvement Programme and following publication of the new Local Government IT Strategy for Scotland</p>	IT Infrastructure Manager	31st March 2013
2	18	<p>The ICT strategy group is indicated by the council as the vehicle services can collectively use to provide input to prioritising the implementation and delivery of ICT enabled systems.</p> <p><b><i>Risk: without regular input from services to the ICT strategy it is possible that effective ICT enabled services will not be provided.</i></b></p>	<p>The new ICT Client Liaison team will work alongside services to ensure regular input into the ICT strategy. In addition the Corporate Improvement Board, with cross -service representation, is expected to take responsibility for overseeing the ICT Strategy refresh</p>	IT Infrastructure Manager	31st March 2013
3	21	<p>Implementing a standard for service management is an important step in delivering process improvement going forward.</p> <p><b><i>Risk: without the</i></b></p>	<p>Initial ITIL foundation training has been completed and a full ITIL Implementation will occur throughout 2013</p>	Production Manager	31st December 2013



Action point	Refer para no	Risk identified	Planned management action	Responsible officer	Target date
		<b><i>adoption of standards it is possible that an effective service will not be provided.</i></b>			
4	23	<p>The ICT service faces a set of challenges over the coming years with increasing demand to make savings in line with council targets.</p> <p><b><i>Risk: if the ICT service does not fulfil the plans in place or being developed it will be difficult to make the anticipated savings.</i></b></p>	<p>The Council's performance management system, Asset Management Board, Transformation Board, Corporate Improvement Board, IT Management Team and Corporate Services Department Management Team all monitor progress of the major ICT projects expected to contribute to the longer term savings plans of the Council. Monitoring processes are already in place however the ICT Service will continue to present further opportunities to the various boards to innovate and generate further savings but will look to the Council to maintain investment in services at current levels to ensure plans can be delivered.</p>	<p>IT Infrastructure Manager Production Manager</p>	On-going
5	25 & 27	<p>There should be a current information security policy in place to provide a framework for the provision of secure ICT service.</p> <p><b><i>Risk: if the information security policy is not</i></b></p>	<p>The IS Forum will be reconstituted and will meet on a more regular basis. The forum will be responsible for the development of a revised Information Security policy and for the continual</p>	Information Security Forum	31st March 2013

Action point	Refer para no	Risk identified	Planned management action	Responsible officer	Target date
		<b><i>reviewed and updated on a regular basis it is possible that systems, data and information may be at risk.</i></b>	review of that policy thereafter.		
6	31	The disposal of ICT assets must be carried out in a secure and cost effective manner to ensure data security and effective use of equipment. <b><i>Risk: process and cost benefits may not reflect the council's strategic objectives and changing needs.</i></b>	A formal IT Asset disposal policy will be developed and a contract put in place to ensure all IT assets are disposed of in accordance with all relevant legislation.	Networks Manager Production Manager	31st March 2013
7	38	The council should have plans in place to ensure there is adequate IT business or service continuity arrangements in place. <b><i>Risk: if plans do not reflect current needs the council will not be able to effectively respond to unforeseen events.</i></b>	The Council has IT Disaster Recovery and IT Service Business Continuity plans in place. These are currently undergoing refinement to accommodate the on-going refurbishment and re-classification of the Helensburgh server room and the impending closure of the Campbeltown room. The plans will focus on more regular testing to ensure recovery plans are clearly documented.	Networks Manager	31 March 2013

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**ARGYLL & BUTE COUNCIL  
STRATEGIC FINANCE**

**AUDIT COMMITTEE  
7 DECEMBER 2012**

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**INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE 2012 - 2013**

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**1. SUMMARY**

In compliance with good practice set out in the CIPFA Code of Practice for Internal Audit in Local Government (the Code); final report summaries and action plans from recent internal audits are attached for the Audit Committee to review. Appendix 1, lists the attached reports with dates for draft issue, final management comment and final issue.

**2. RECOMMENDATIONS**

2.1 The contents of this report are to be noted.

**3. DETAILS**

3.1 As at November 2012, final reports for 10 audits undertaken in 2012 – 13 are presented to the Audit Committee for review.

3.2 The attached reports contain both the Executive Summaries and Action Plans which detail those recommendations where internal audit in agreement with management has classified the findings either high or medium. Recommendations classified as low have been removed.

**4. CONCLUSION**

The contents of this report will be followed up 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, Chief Internal Auditor (01546 604216) 13 November 2012

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**Internal Audit Reports  
Audit Committee – November 2012**

List of Internal Audit Reports for Audit Committee

<b>Internal Audit Reports 2012 – 2013</b>				
	<b>REPORT TITLE</b>	<b>DRAFT ISSUE DATE</b>	<b>FINAL MANAGEMENT RESPONSE</b>	<b>FINAL ISSUE DATE</b>
1.	Cash & Income Banking (Customer and Support Services)	22 October 2012	24 October 2012	31 October 2012
2.	Special Investigation (Children and Families)	23 October 2012	24 October 2012	24 October 2012
3.	Government Grants - LEADER	29 October 2012	29 October 2012	30 October 2012
4.	Fleet Management – (Roads and Amenity Services)	14 November 2012	27 November 2012	27 November 2012
5.	CareFirst System - (Adult Care)	26 November 2012	29 November 2012	29 November 2012
6.	Business System - (Planning and Regulatory Services)	14 November 2012	27 November 2012	27 November 2012
7.	Business System - Legal and Licensing (Governance and Law)	14 November 2012	27 November 2012	27 November 2012
8.	Business System - Customer Service Centre (Customer and Support Services)	14 November 2012	28 November 2012	28 November 2012
9.	Business System - TLMS Leisure Management System (Community and Culture Service)	14 November 2012	26 November 2012	27 November 2012
10.	Business System - Library System (Community and Culture Service)	14 November 2012	28 November 2012	28 November 2012

**It should be noted that the Draft Issue date recorded above is when the first draft was sent out for review/comment by management. This date is recorded as the date that audit work ended. Subsequent draft reports can be issued thereafter as discussions with management over the audit findings and recommendations commence. Only when agreement is reached is the Final Management Response date recorded. This is reflected in the Final Issue Report Date column where in most cases the dates of issue are the same as the final management response date.**

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**Internal Audit Report**

Development and Infrastructure

**LEADER Funding - Annual Certification**

October 2012

## **1 INTRODUCTION**

- 1.1 This report has been prepared as the result of an Internal Audit review of LEADER funding as part of the 2012/13 Internal Audit Programme.
- 1.2 LEADER, (Liaisons Entre Actions de Development Economique Rurale) funding is part of the Scottish Rural Development Programme (SRDP) and is delivered by Local Action Groups (LAGs) approved by the Scottish Government.
- 1.3 The Council acts as lead partner to the Argyll and Islands LEADER Local Action Group, in accordance with a Service Level Agreement with Scottish Government Rural Payments and Inspection Directorate (SGRIPD).
- 1.4 LEADER Funding for 2007 – 2013 consists of an amount of £3.77m LEADER funds with additional Convergence funding of £5.12m.
- 1.5 LAG members have responsibility for delivering the Local Development Strategy and making on-going strategic decisions on the running of the LEADER programme within Argyll and the Islands. The LAG also has responsibility for awarding funding to successful applicants.
- 1.6 The Council, as lead partners is responsible for employing staff, providing secretariat support and managing budgets.
- 1.7 As lead partner the Council must ensure that an annual confirmation certificate covering the year 16 October 2011 to 15 October 2012 is provided.
- 1.8 Internal Audit is required to undertake a review and provide an annual report as part of the supporting evidence in preparation of this certificate. This work is intended to verify that procedures adopted by the Council are adequate to ensure compliance with the SLA and European Community regulations.



## **2 AUDIT SCOPE AND OBJECTIVES**

- 2.1 The audit approach taken was to undertake sample testing in key activity areas where guidance is prescriptive:
- Project applications - to ensure completeness and compliance with guidance;
  - Claim process - to ensure the claim process is robust and compliant with guidance; and
  - Review the responsibilities of the LAG to ensure best practice is being observed.
- 2.2 As part of the process, a questionnaire was prepared by Internal Audit based on Scottish Government technical guidance and was completed in co-operation with Economic Development staff providing an overview of the standards and processes operated by Argyll and the Islands LEADER LAG. This work has assisted the auditor in assessing whether the technical guidance is being followed and to identify areas where further examination was required.
- 2.3 The auditor reviewed projects funded by LEADER and visited a project currently in progress in October 2012 to review compliance and observe the practices adopted for appraising applications for funding, the decision and project delivery.

## **3 RISK ASSESSMENT**

- 3.1 As part of the audit process the risk register was reviewed to identify any risks that potentially impact on the audit. The following risks were identified.
- SR13 Failure to comply with new legislation, regulations or statutory responsibilities;
  - SR16 Failure to have a robust internal control process and system;
  - SR24 Changes to Scottish Government (or European) Policy.

## **4 CORPORATE GOVERNANCE**

There are no Corporate Governance issues to be reported as a result of this audit.

## **5 MAIN FINDINGS**

- 5.1 The Argyll and Islands LEADER Local Action Group continues to develop a structured approach for developing, appraising and approving applications for LEADER funding.
- 5.2 The deferred applications process could be further strengthened.
- 5.3 The absence of an overall reconciliation between the Council's ledger and the claim for LAG administration costs has resulted in an under claim of £145 in June quarter 2012.
- 5.4 The auditor found that there are sound systems in place to ensure that as lead partner for the Argyll and Islands LEADER LAG, Argyll and Bute Council is adhering to the technical guidance and is compliant with the agreed Service Level Agreement.

## **6 RECOMMENDATIONS**

Three recommendations were identified as a result of the audit. These were rated as medium priority. The recommendations are shown in the action plan attached at Appendix 2 and has been compiled with the co-operation and agreement of the Supervisor/Manager.

Internal Audit considers that, in an effort to improve the quality of information, monitoring and control, the recommendations should be implemented in accordance with the agreed action plan. Management has set achievable implementation dates and will be required to provide reasons to the Audit Committee for failure to implement within the agreed timescale. Where management decides not to implement recommendations it must evaluate and accept the risks associated with that decision.

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as fundamental, material or minor. The definitions of each classification are set out below:-

**High** - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;

**Medium** - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;

**Low** - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.

## 7 AUDIT OPINION

Based on the findings of the audit we can conclude that the Argyll and Islands LEADER Local Action Group has a structured approach for developing, appraising and approving applications for LEADER funding.

As lead partner for the Argyll and the Islands LEADER Local Action Group, the Council has created and continues to develop sound processes and procedures which ensure that the LAG adheres to the technical guidance and comply with the new Service Level Agreement with Scottish Government Rural Payments and Inspection Directorate (SGRPID).

The recommendations made in this report should help to strengthen the already sound processes and procedures in place.

Recommendations arising from the audit work should be implemented by the nominated responsible officer within the agreed timescale. Recommendations not implemented will require explanation to the Audit Committee. This could lead to findings being reported in the Internal Control Statement produced by the Council in support of the Annual Accounts.

## **8 ACKNOWLEDGEMENTS**

Thanks are due to the following for their co-operation and assistance during the Audit and the preparation of the report and action plan.

- Economic Development Manager
- European Support Officer
- Grant Administration Assistant
- LEADER Project Co-ordinators

Argyll and Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives in section 2. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.

This report is private and confidential for the Council's information only and is solely for use in the provision of an Internal Audit service to the Council. In any circumstances where anyone other than the Council accesses this report it is on the strict understanding that the Council will accept no liability for any act or omission by any party in consequence of their consideration of this report or any part thereof. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.

**APPENDIX 2 ACTION PLAN**

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	The current process for approving deferred applications may not stand up to scrutiny.	Medium	The LAG should consider amending the process for approving deferred applications to ensure any decision made can stand up to scrutiny.	Economic Development Manager	26 <sup>th</sup> October 2012  The deferred applications section in the Argyll and the Islands LEADER Administration and Reporting Procedures will be strengthened to make the decision making process more explicit.  The LAG will be informed of this action at the next LEADER LAG meeting on 13 <sup>th</sup> December 2012.
2	There are no documented procedures in place for dealing with deferred applications where e-mail is used to communicate additional information and clarification to and record	Medium	The procedures for deferred approvals should be documented in the Administrative and Reporting procedures	Economic Development Manager	26 <sup>th</sup> October 2012  The deferred approvals section in the Argyll and the Islands LEADER Administration and

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
	the votes of the LAG members.				Reporting Procedures will be strengthened to make the procedure more explicit.
3	The absence of an overall reconciliation between the Council's ledger and the claim for LAG expenditure to ensure that over the financial year the Council have recovered all eligible costs.	Medium	It is recommended that reconciliation be undertaken at 6 month intervals. This will ensure that all eligible recoverable costs incurred by the Council are reclaimed.	Economic Development Manager	26 <sup>th</sup> October 2012  This advice will be followed for now on at six monthly intervals.



## **Internal Audit Report**

Development and infrastructure  
Review of Fleet Management

October 2012

## **1. INTRODUCTION**

- 1.1 As part of the annual audit plan for 2012/13 internal audit undertook a review of the Tranman Fleet Management system. The audit involved a walk through test to ensure that fuel invoices were properly entered into the Vectec and transferred into the Tranman fuel system. The audit also reviewed fuel usage and apportionment of fuel charges from Tranman to services.
- 1.2 Controls were reviewed for the system controlling fuel dispensing which is administered by Vectec and included; Invoicing, fuel transactions, manual fuel transactions from private garages, Esso card transactions and Brogan's will be tested.

## **2. AUDIT SCOPE AND OBJECTIVES**

- 2.1 The key objectives of the review in respect of the Vectec and Tranman systems were to ascertain whether:
  - Dispensing fuel is controlled at depots
  - That the fuel figures produced are reliable;
  - That fuel data is appropriate and proportional for management; and
  - Fuel data is analysed and used by management.

## **3. RISK ASSESSMENT**

- 3.1 Risk Registers were reviewed to establish whether there were any that related to the review undertaken and it was found that the areas to be included in the audit were:
- 3.2 SR16: Failure to have a robust internal control process and system;  
RA03: Inaccurate management information.

## **4. CORPORATE GOVERNANCE**

- 4.1 There were no Corporate Governance issues to be reported as a result of this audit.

## **5. MAIN FINDINGS**

- 5.1 All fuel purchased by Council services should be reflected in the Vectec fuel system and subsequently charged to services via Tranman. It was found that there are still a number of fuel purchases which are being charged direct to service cost centres. The consequences are that fuel consumption data against these vehicles will not accurately reflect the actual fuel usage.



- 5.2 Internal audit found that although there are procedures to ensure that only authorised personnel have access to fuel fobs, in the case of sub-contractor's it should be emphasised to managers that they do not in any circumstances have access to Council fuel stocks.
- 5.3 Fuel tanks are dipped on a regular basis to check that the Vectec system indicates the correct level of fuel in the tanks. Internal audit found no evidence that the fuel dips are reconciled back to the Vectec fuel system.
- 5.4 Internal audit found that fuel is securely held at the depots and there are 2 sites where CCTV has been introduced. This provision enhances security of depots. Management should consider extending the installation of CCTV at sites not currently monitored.
- 5.5 It was noted that administration assistants at Manse Brae spend a considerable amount of time splitting fuel invoices between internal and external fleet for input to Oracle. Internal audit has identified that this information can be obtained direct from the fuel systems.
- 5.6 Internal audit found that Administration Assistants could only view the invoices they input to Vectec and not those entered by their colleagues. On discussing this with the performance manager she stated that there was an alternative method for viewing such invoices and procedures would be amended accordingly.
- 5.7 Fleet currently run 3 fleet systems namely Vectec, Tranman and a software package for real time vehicle tracking which, is at present out to tender. No system administrator has been appointed to administer these systems. Appointment of such a person would help ensure the best use of data reporting capabilities of these systems is made.
- 5.8 Fuel information concerning Roads vehicles can be transferred from the Fleet systems into the Roads Costing Total system, in order to ensure that all jobs are properly costed. At present information is manually transferred to Roads costing via an Excel spread sheet. ICT is aware of the problem but to date no system changes have been implemented.

## **6. RECOMMENDATIONS**

- 6.1 Eight recommendations were identified as a result of the audit. The recommendations have the following priority ranking 2 high, 5 medium and one low. The recommendations are shown in the action plan attached at Appendix 2 and have been compiled with the co-operation and agreement of senior management.
- 6.2 Internal Audit considers that, in an effort to improve the quality of information, monitoring and control, the recommendations should be

implemented in accordance with the agreed action plan. Management have set achievable implementation dates and they will be required to provide reasons to the Audit Committee for failure to implement within the agreed timescale. Management, if it decides not to implement recommendations, must evaluate and accept the risks associated with that decision.

- 6.3 A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as high, medium or low. The definitions of each classification are set out below:-

**High** - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;

**Medium** - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;

**Low** - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.

## 7. AUDIT OPINION

- 7.1 It is Internal Audits view that based on the findings of the audit that there are sufficient controls in place to ensure that services are being correctly charged for fuel usage.
- 7.2 The enhancement of reporting to user departments was identified as an issue but plans are in place to address this.
- 7.3 Recommendations arising from the audit work should be implemented by the nominated responsible officer/s within the agreed timescale. Recommendations not implemented will require explanation to the Audit Committee. This could lead to findings being reported in the Internal Control Statement produced by the Council in support of the Annual Accounts.

## 8. ACKNOWLEDGEMENTS

- 8.1 Thanks are due to the following Officers and staff for their co-operation and assistance during the Audit and the preparation of the report and action plan:

- Fleet and Waste Manager
- Fleet Performance Manager
- Helensburgh Workshop Supervisor
- Fleet Admin Assistants

8.2 Argyll & Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives in section 2. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.

8.3 This report is private and confidential for the Council's information only and is solely for use in the provision of an internal audit service to the Council. In any circumstances where anyone other than the Council accesses this report it is on the strict understanding that the Council will accept no liability for any act or omission by any party in consequence of their consideration of this report or any part thereof. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.

**APPENDIX 2**

**ACTION PLAN**

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	Not all fuel purchases are being recorded via the Vectec fuel systems.	Medium	Management should ensure that all fuel transactions are recorded through the Vectec system to ensure that fuel data reports are accurate.	Fleet Performance Manager	completed
2	Internal audit felt in the course of depot visits that there was uncertainty as to circumstances when Sub contractors have access to Council fuel stocks.	Medium	In the case of sub contractor's it should be emphasised to Depot managers that they do not in any circumstances have access to Council fuel stocks.	Operations manager -Roads and Amenity Services	Completed
3	There was no evidence that depot fuel tanks are manually checked and agreed back to Vectec system.	Medium	Appropriate documentation should be prepared to provide evidence that the fuel tanks have been manually checked and agreed back to the Vectec system.	Fleet Performance Manager	completed
4	Fuel security at Depots could be enhanced by the introduction of CCTV at Depot sites not already covered.	Medium	Management should initiate a series of business cases for each of the fuel depots to ascertain the cost/benefits of introducing CCTV at the various fuel depots.	Operations manager -Roads and Amenity Services	Completed
5	Considerable amount of time is spent by Administration Assistants splitting fuel invoices in the ledger between internal and external fuel account codes.	Medium	This task should end as the fuel systems will furnish management with this information as and when required, this would free up valuable time for staff resulting in improved efficiencies.	Fleet Performance Manager	completed

Argyll & Bute Council  
Internal Audit Review of Fleet Management

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
7	There is no dedicated system administrator for either Vectec, Tranman or for the proposed real time vehicle tracking system which is out for tender at present.	High	Consideration should be given by management to the designation of a position to cover the role of systems Administrator. This role would encompass all 3 fleet vehicle systems namely Vectec, Tranman and real time vehicle tracking which is at present out to tender.	<b>Operations manager –Head of Roads and Amenity Services</b>	<b>31/3/2013</b>
8	Fuel information Re Roads external hire vehicles and Amenity Services vehicles being transferred into Oracle and in the case of Roads subsequently into Total is not as yet at a level to allow proper budget monitoring of fuel usage and costing. A working group should be set up to look at the feeder information being transferred from Tranman into Oracle with a view to improving the level of information transferred from Tranman	High	A working group should be set up to look at the feeder information being transferred from Tranman into Oracle with a view to improving the level of information transferred from Tranman.	<b>Operations manager –Head of Roads and Amenity Services</b>	<b>Completed</b>

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**Internal Audit Report**

Community Services

**CareFirst**

2012-2013

## **1 INTRODUCTION**

This report has been prepared as a result of the Internal Audit review of CareFirst, which is a system operated by the Community Services Department. The audit is part of the 2012/2013 Internal Audit programme.

CareFirst is a web based case management system that went live in Argyll & Bute Council, Social Work Department in 2000. It comprises a comprehensive suite of integrated modules covering the full spectrum of children's and adults service client groups.

## **2 AUDIT SCOPE AND OBJECTIVES**

The specific objective of the audit was to assess and report on whether:

- Internal Audit Recommendations from the 2011/2012 review have been progressed;
- Data held on CareFirst is complete, accurate, input on time and is authorised; and
- Policies and procedures have been established to ensure relevant information; data and documentation are held securely and are readily accessible by authorised persons.

The Social Work, Learning Disability Service was selected for review.

## **3 RISK ASSESSMENT**

As part of the audit process and in conjunction with our CIPFA Systems Based Audit (SBA), ICQ approach, the risk register was reviewed to identify any areas that needed to be included within the audit. The area identified was:

SR16 Failure to have a robust internal control process and system

## **4 CORPORATE GOVERNANCE**

There are no Corporate Governance issues to be reported as a result of this audit.



## 5 MAIN FINDINGS

- 5.1 Key controls are in place to ensure the security and integrity of the CareFirst case management system.
- 5.2 Access controls are in place and access rights to CareFirst are restricted to specific post descriptions.
- 5.3 Support for the CareFirst system is provided by a System Administrator and 3 CareFirst Trainers.
- 5.4 Significant progress has been made since the 2011-2012 Internal Audit Report to ensure that the data held on CareFirst is complete, accurate, input on time and is authorised.

## 6 RECOMMENDATIONS

Four recommendations were identified as a result of the audit, one is high priority, one is medium priority and 2 are low priority. The recommendations are shown in the action plan attached at Appendix 2 and has been compiled with the co-operation and agreement of the Supervisor/Manager.

Internal Audit considers that, in an effort to improve the quality of information, monitoring and control, the recommendations should be implemented in accordance with the agreed action plan. Management have set achievable implementation dates and will be required to provide reasons to the Audit Committee for failure to implement within the agreed timescale. Where management decides not to implement recommendations it must evaluate and accept the risks associated with that decision.

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as fundamental, material or minor. The definitions of each classification are set out below:-

**High** - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;

**Medium** - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;

**Low** - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.

## **7 AUDIT OPINION**

Based on the findings we can conclude that the CareFirst System controls which are currently operating are effective.

Recommendations arising from the audit work should be implemented by the nominated responsible officer within the agreed timescale. Recommendations not implemented will require explanation to the Audit Committee. This could lead to findings being reported in the Internal Control Statement produced by the Council in support of the Annual Accounts.

## **8 ACKNOWLEDGEMENTS**

Thanks are due to the Service & Development staff, the CareFirst Trainers and Social Work staff in each of the locations visited for their co-operation and assistance during the Audit and the preparation of the report and action plan.

Argyll & Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives in section 2. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.

This report is private and confidential for the Council's information only and is solely for use in the provision of an internal audit service to the Council. In any circumstances where anyone other than the Council accesses this report it is on the strict understanding that the Council will accept no liability for any act or omission by any party in consequence of their consideration of this report or any part thereof. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.

## APPENDIX 2 ACTION PLAN

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
3	<p>The responsibility for ensuring that Client records are maintained on CareFirst relies heavily on the support of the CareFirst Trainers who routinely check the system. Internal Audit was advised that there was a facility to record staff supervision notes on each Client record held in CareFirst. This facility is routinely used by Childcare to record that client files have been reviewed by the Team Leader. This practice ensures that there is a robust audit trail in terms of the Team Leader reviewing each allocated case and provides assurance that the Team Leader is providing a review of the information on the client record on CareFirst.</p>	Medium	<p>The Supervision function on each Client Case record should be used by all Team Leaders undertaking staff supervision. This should be applied consistently across all Social Work Teams.</p>	<p>Team Leader, Service Development Team, Community Services</p>	<p>January 2013</p>

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
4	<p>Case Managers are entering information on Carefirst Client Files and saving the same information onto the 'I' Drive. Carefirst has been set up with appropriate access controls and access rights are well defined. The information stored within Carefirst Client files is secure and only those with authority to access these files can do so. The 'network' drive does not have the same level of access rights as Carefirst and anyone in the office with a password is able to access all files, this is less secure than Carefirst raising data security issues. This also represents a duplication of client records, the information being stored in two locations.</p>	High	<p>Team Leaders and Social Workers should be advised that client information should be recorded on Carefirst.</p>	<p>Team Leader,            Service Development Team,            Community Services</p>	<p><b>Complete</b></p>



**Internal Audit Report**

DEVELOPMENT AND INFRASTRUCTURE SERVICES  
DEPARTMENT

**Review of Uniform System**

November 2012

## **1 INTRODUCTION**

This report has been prepared as a result of the Internal Audit review of Uniform System as part of the 2012/13 Internal Audit programme.

Management must ensure that applications perform properly the business activity for which they were designed. The purpose of application controls is to ensure the completeness, accuracy, security and effectiveness of input processing and output. These controls may be provided either by programming within the application system or by manual controls exercised by users or the IT Service.

## **2 AUDIT SCOPE AND OBJECTIVES**

The scope of this review is limited to the Internal Control Questionnaire (ICQ) issued to the Uniform Systems Administrators (Building Control, Planning and Regulatory Services) for completion.

The overall objective is to ascertain whether the system incorporates adequate internal controls, ensure that they are effective and are not invalidated when changes are made.

A systems-based auditing approach has been employed to assess the Uniform system's internal controls to ensure that they are sound and the transactions are properly recorded and processed.

The following areas were reviewed using CIPFA SBA control matrices for Application Controls. This will ensure that procedures and processes are in place through examination of the ICQ Questionnaire answers in the areas detailed below. Requests for system documentation have also been requested to be lodged with Internal Audit.

- **Compliance**
- **Logical Security Controls**
- **User Security Controls**
- **Parameter Data**
- **Transaction Input**
- **Data Processing**
- **Output**
- **System Availability**
- **Audit Trail**

## **3 RISK ASSESSMENT**

As part of the audit process and in conjunction with our Systems Based Auditing, ICQ approach, the Risk Register was reviewed to identify any areas that needed to be included within the audit.

SR 16 - Failure to have a robust internal control system.

#### **4 CORPORATE GOVERNANCE**

There are no Corporate Governance issues to be reported as a result of this audit.

#### **5 MAIN FINDINGS**

There were no significant findings resulting from the tests that were completed during the course of the audit. The Building Control, Planning and Regulatory Services teams continue to provide a well controlled service. One finding has been generated and one recommendation made to further enhance controls and the operational efficiency of the service.

#### **6 RECOMMENDATIONS**

The audit generated one recommendation that required agreement with management.

It is recommended that a reporting methodology is designed and implemented with regard to users' access rights and permissions being reviewed on a regular basis in order to ensure they are still appropriate and maintain adequate separation of duties. (See APPENDIX 2 - ACTION PLAN below).

#### **7 AUDIT OPINION**

Internal Audit is satisfied that the Uniform Systems Administrators have answered the ICQ in an appropriate manner.

Based on audit findings we can conclude that Building Control, Planning and Regulatory Services System staff were able to provide evidence of their adherence to current controls. That in examination of the ICQ answers no minor matters were identified and discussed with management.

Recommendations arising from the audit work should be implemented by the nominated responsible officer within the agreed timescale. Recommendations not implemented will require explanation to the Audit Committee. This could lead to findings being reported in the Internal Control Statement produced by the Council in support of the Annual Accounts.

## **8 ACKNOWLEDGEMENTS**

Thanks are due to the Building Control, Planning and Regulatory Services Systems Administrators and their teams for their co-operation and assistance during the Audit and the preparation of the report and action plan.

Argyll and Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives in Section 2. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.

This report is private and confidential for the Council's information only and is solely for use in the provision of an internal audit service to the Council. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.



**APPENDIX 2 ACTION PLAN**

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	Users' access rights and permissions are not reviewed on a regular basis.	Medium	A reporting methodology is designed and implemented with regard to users' access rights and permissions being reviewed on a regular basis in order to ensure they are still appropriate and maintain adequate separation of duties.	Senior Technical Officer – Development & Infrastructure Services	18 January 2013 (bi-annual thereafter)

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**Internal Audit Report**

CUSTOMER SERVICES DEPARTMENT

Review of the Iken Case Management System

November 2012

## **1 INTRODUCTION**

This report has been prepared as a result of the Internal Audit review of the Iken Case Management System as part of the 2012/13 Internal Audit programme.

Management must ensure that applications perform properly the business activity for which they were designed. The purpose of application controls is to ensure the completeness, accuracy, security and effectiveness of input processing and output. These controls may be provided either by programming within the application system or by manual controls exercised by users or the IT Service.

## **2 AUDIT SCOPE AND OBJECTIVES**

The scope of this review is limited to the Internal Control Questionnaire (ICQ) issued to the Iken Case Management Systems Administrator for completion.

The overall objective is to ascertain whether the system incorporates adequate internal controls, ensure that they are effective and are not invalidated when changes are made.

A systems-based auditing approach has been employed to assess the Iken Case Management system's internal controls to ensure that they are sound and the transactions are properly recorded and processed.

The following areas were reviewed using CIPFA SBA control matrices for Application Controls. This will ensure that procedures and processes are in place through examination of the ICQ Questionnaire answers in the areas detailed below. Requests for system documentation have also been requested to be lodged with Internal Audit Department.

- **Compliance**
- **Logical Security Controls**
- **User Security Controls**
- **Parameter Data**
- **Transaction Input**
- **Data Processing**
- **Output**
- **System Availability**
- **Audit Trail**

## **3 RISK ASSESSMENT**

As part of the audit process and in conjunction with our Systems Based Auditing, ICQ approach, the Risk Register was reviewed to identify any areas that needed to be included within the audit.

SR 16 - Failure to have a robust internal control system.

#### **4 CORPORATE GOVERNANCE**

There are no Corporate Governance issues to be reported as a result of this audit.

#### **5 MAIN FINDINGS**

There were no significant findings resulting from the tests that were completed during the course of the audit and one recommendation has been made (see 6 below). The Iken Case Management team continue to provide a well controlled service.

A Completed Application Controls Questionnaire reply was received.

#### **6 RECOMMENDATIONS**

The audit generated one recommendation that has been agreed with management.

With regard to System Availability it is recommended that an Impact assessment and Business Continuity Planning process should be undertaken for the application (See action plan at APPENDIX 2)

#### **7 AUDIT OPINION**

Internal Audit is satisfied that the Iken Case Management Systems Administrator has answered the ICQ in an appropriate manner.

Based on audit findings we can conclude that the Iken Case Management System staff were able to provide answers indicating their adherence to current controls. That in examination of the ICQ answers, one minor matter was identified and this has been discussed with management.

Recommendations arising from the audit work should be implemented by the nominated responsible officer within the agreed timescale. Recommendations not implemented will require explanation to the Audit Committee. This could lead to findings being reported in the Internal Control Statement produced by the Council in support of the Annual Accounts.

## **8 ACKNOWLEDGEMENTS**

Thanks are due to the Iken Case Management Systems Administrator and their team for their co-operation and assistance during the Audit and the preparation of the report and action plan.

Argyll and Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives in Section 2. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.

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**APPENDIX 2      ACTION PLAN**

<b>No.</b>	<b>FINDINGS</b>	<b>PRIORITY</b>	<b>RECOMMENDATION</b>	<b>RESPONSIBLE OFFICER</b>	<b>IMPLEMENTATION DATE</b>
<b>1</b>	<b>System Availability</b> No Impact assessment or business continuity planning has been undertaken.	Medium	That business continuity planning and impact assessment should be undertaken.	Legal Services Manager - Commercial	31 March 2013

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**Internal Audit Report**

COMMUNITY SERVICES DEPARTMENT

**REVIEW OF TOREX - LEISURE MANAGEMENT SYSTEM**

November 2012

## **1 INTRODUCTION**

This report has been prepared as a result of the Internal Audit review of the TOREX Leisure Management System as part of the 2012/13 Internal Audit programme.

Management must ensure that applications perform properly the business activity for which they were designed. The purpose of application controls is to ensure the completeness, accuracy, security and effectiveness of input processing and output. These controls may be provided either by programming within the application system or by manual controls exercised by users or the IT Service.

## **2 AUDIT SCOPE AND OBJECTIVES**

The scope of this review is limited to the Internal Control Questionnaire (ICQ) issued to the TOREX Leisure Management Systems Administrator for completion.

The overall objective is to ascertain whether the system incorporates adequate internal controls, ensure that they are effective and are not invalidated when changes are made.

A systems-based auditing approach has been employed to assess the TOREX Leisure Management system's internal controls to ensure that they are sound and the transactions are properly recorded and processed.

The following areas were reviewed using CIPFA SBA control matrices for Application Controls. This will ensure that procedures and processes are in place through examination of the ICQ Questionnaire answers in the areas detailed below. Requests for system documentation have also been requested to be lodged with Internal Audit Department.

- **Compliance**
- **Logical Security Controls**
- **User Security Controls**
- **Parameter Data**
- **Transaction Input**
- **Data Processing**
- **Output**
- **System Availability**
- **Audit Trail**

## **3 RISK ASSESSMENT**

As part of the audit process and in conjunction with our Systems Based Auditing, ICQ approach, the Risk Register was reviewed to identify any areas that needed to be included within the audit.

SR 16 - Failure to have a robust internal control system.

#### **4 CORPORATE GOVERNANCE**

There are no Corporate Governance issues to be reported as a result of this audit.

#### **5 MAIN FINDINGS**

There were no significant findings resulting from the tests that were completed during the course of the audit. The TOREX Leisure Management team continue to provide a well controlled service.

#### **6 RECOMMENDATIONS**

The audit generated no recommendations that have been agreed with management.

#### **7 AUDIT OPINION**

Internal Audit is satisfied that the TOREX Leisure Management Systems Administrator has answered the ICQ in an appropriate manner.

Based on audit findings we can conclude that TOREX Leisure Management System staff were able to provide answers indicating their adherence to current controls. That in examination of the ICQ answers no minor matters were identified.

There are no recommendations arising from the audit work that require to be implemented.

#### **8 ACKNOWLEDGEMENTS**

Thanks are due to the TOREX Leisure Management Systems Administrator and their team for their co-operation and assistance during the Audit and the preparation of the report and action plan.

Argyll and Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives in Section 2. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.

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**Internal Audit Report**

COMMUNITY SERVICES DEPARTMENT

**Review of Spydus Library Management System**

November 2012

## **1 INTRODUCTION**

This report has been prepared as a result of the Internal Audit review of Spydus Library Management System as part of the 2012/13 Internal Audit programme.

Management must ensure that applications perform properly the business activity for which they were designed. The purpose of application controls is to ensure the completeness, accuracy, security and effectiveness of input processing and output. These controls may be provided either by programming within the application system or by manual controls exercised by users or the IT Service.

## **2 AUDIT SCOPE AND OBJECTIVES**

The scope of this review is limited to the Internal Control Questionnaire (ICQ) issued to the Spydus Library Management Systems Administrator for completion.

The overall objective is to ascertain whether the system incorporates adequate internal controls, ensure that they are effective and are not invalidated when changes are made.

A systems-based auditing approach has been employed to assess the Spydus Library Management system's internal controls to ensure that they are sound and the transactions are properly recorded and processed.

The following areas were reviewed using CIPFA SBA control matrices for Application Controls. This will ensure that procedures and processes are in place through sampling and walk through testing in the following areas.

- **Compliance**
- **Logical Security Controls**
- **User Security Controls**
- **Parameter Data**
- **Transaction Input**
- **Data Processing**
- **Output**
- **System Availability**
- **Audit Trail**

## **3 RISK ASSESSMENT**

As part of the audit process and in conjunction with our Systems Based Auditing, ICQ approach, the Risk Register was reviewed to identify any areas that needed to be included within the audit.

There were no areas found on the Risk Register to be included within the audit.

#### **4 CORPORATE GOVERNANCE**

There are no Corporate Governance issues to be reported as a result of this audit.

#### **5 MAIN FINDINGS**

There were no significant findings resulting from the tests that were completed during the course of the audit. The Spydus Library Management team continue to provide a well-controlled service, however one finding has been generated and a recommendation made to further enhance controls and the operational efficiency of the service.

#### **6 RECOMMENDATIONS**

The audit generated one recommendation that has been agreed with management. This is detailed in the Action Plan set out below in Appendix 2.

#### **7 AUDIT OPINION**

Internal Audit is satisfied that the Spydus Library Management Systems Administrator has answered the ICQ in an appropriate manner.

Based on audit findings we can conclude that Spydus Library Management System staff were able to provide evidence of their adherence to current controls. That in both sampling and walk through tests 1 minor matter was identified and this has been discussed with management.

Recommendations arising from the audit work should be implemented by the nominated responsible officer within the agreed timescale. Recommendations not implemented will require explanation to the Audit Committee. This could lead to findings being reported in the Internal Control Statement produced by the Council in support of the Annual Accounts.

#### **8 ACKNOWLEDGEMENTS**

Thanks are due to the Spydus Library Management Systems Administrator and their team for their co-operation and assistance during the Audit and the preparation of the report and action plan.

Argyll and Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives in Section 2. We cannot be held

responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.

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**APPENDIX 2      ACTION PLAN**

<b>No.</b>	<b>FINDINGS</b>	<b>PRIORITY</b>	<b>RECOMMENDATION</b>	<b>RESPONSIBLE OFFICER</b>	<b>IMPLEMENTATION DATE</b>
1	Regular checks are not carried out to confirm the integrity of the database files (eg to identify possible data corruption)?	Medium	Periodic checking of the back-up data should be checked for completeness and accuracy.	Library Development Officer	31 March 2013

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