

Argyll and Bute Council
Comhairle Earra Ghaidheal agus Bhoid

Customer Services
Executive Director: Douglas Hendry



Kilmory, Lochgilphead, PA31 8RT
Tel: 01546 602127 Fax: 01546 604435
DX 599700 LOCHGILPHEAD
e.mail –douglas.hendry@argyll-bute.gov.uk

28 November 2014

NOTICE OF MEETING

A meeting of the **AUDIT COMMITTEE** will be held in the **COUNCIL CHAMBERS, KILMORY, LOCHGILPHEAD** on **FRIDAY, 5 DECEMBER 2014** at **12 NOON**, which you are requested to attend.

Douglas Hendry
Executive Director - Customer Services

BUSINESS

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10. EXTERNAL AUDIT ANNUAL REPORT

Report by Audit Scotland, External Auditors. (Pages 115 - 162)

11. AUDIT COMMITTEE DEVELOPMENT DAY - ACTION PLAN

Report by Chief Internal Auditor. (Pages 163 - 166)

12. AUDITED ACCOUNTS 2013 - 14

Report by Head of Strategic Finance. (Pages 167 - 296)

AUDIT COMMITTEE

Martin Caldwell (Chair)

Councillor Michael Breslin

Councillor Iain MacDonald

Sheila Hill

Councillor Gordon Blair

Councillor Maurice Corry

Councillor Richard Trail

Contact: Shona Marshall Tel. No. 01546 604407

**MINUTES of MEETING of AUDIT COMMITTEE held in the COUNCIL CHAMBERS, KILMORY,
LOCHGILPHEAD
on FRIDAY, 26 SEPTEMBER 2014**

Present:

Martin Caldwell (Chair)

Councillor Gordon Blair
Councillor Michael Breslin
Councillor Maurice Corry

Councillor Iain MacDonald
Sheila Hill

Attending:

Douglas Hendry, Executive Director – Customer Services
Bruce West, Head of Strategic Finance
Patricia O'Neill, Central Governance Manager
Jane Fowler, Head of Improvement and HR – item 4
Kevin Anderson, Chief Internal Auditor
Grace Scanlon, Grant Thornton
Fiona Mitchell-Knight, Audit Scotland
David Jamieson, Audit Scotland
Russell Smith, Audit Scotland

1. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Richard Trail.

2. DECLARATIONS OF INTEREST

Councillor Maurice Corry declared a non-financial interest in relation to the external audit report – Review of Scottish Submarine Museum at item 13 in that he was a member of the Argyll and Bute Community Covenant Partnership, but did not regard the interest as significant.

3. MINUTES

The Minutes of the Audit Committee of 27 June 2014 were approved as a correct record.

With reference to item 15 – Internal Audit Reports to Audit Committee, The Chair advised that after attending the Performance Review and Scrutiny Committee Development Day, it is his understanding that the Performance Review and Scrutiny Committee need to be given time to work as a group and it would be better if the joint meeting was held at a later date.

4. PERFORMANCE MANAGEMENT REPORTING - UPDATE

A report which provided an update on the progress of the council's performance management processes and procedures was considered.

These were agreed by the Committee in June 2013.

Decision

The Committee noted the progress made against the agreed scrutiny process for the Council's performance management system and procedures.

(Reference: Report by Executive Director – Customer Services, dated 26 September 2014, submitted)

- 5. EXTERNAL AUDIT REPORT ON FINANCIAL STATEMENTS - ISA 260**
The Committee considered a report by the external auditors which sets out the key issues emerging from the audit of the financial statements for 2013/14 that require to be reported under ISA260. Consideration was also given to a separate ISA260 report in relation to the audit of the Council's charities.

Decision

The Audit Committee noted the contents of the report and that an audit of land and asset disposal was scheduled for quarter 3.

(Reference: Report by External Auditors – Audit Scotland, dated September 2014, submitted.)

- 6. TREASURY MANAGEMENT ASSURANCE REPORT**
The Committee considered a report which set out information around the arrangements in place relating to the management controls and risk for treasury management. The purpose of the report was to provide assurance to the Committee that appropriate arrangements are in place.

Decision

The Committee noted the Treasury Management Assurance Report.

(Reference: Report by Head of Strategic Finance, dated 26 September 2014, submitted)

- 7. ANNUAL RISK ASSURANCE REPORT**
A report was considered which provided the Committee with an update on risk management activity. The report provided assurance to the Committee that risk management is a live process within the organisation and it continues to be embedded into day to day management.

Decision

The Committee noted the contents of the report.

(Reference: Report by Head of Strategic Finance, dated 26 September

2014, submitted)

8. INTERNAL AUDIT UPDATE SUMMARY

A report that detailed the activity undertaken by Internal Audit in quarter two was considered. The report provided the Committee with an update with regards to progress during quarter two against the following areas:

- 14/15 Audit Plan Progress
- Individual Audits undertaken
- Continuous Monitoring Programme Testing
- National Fraud Initiative
- Development Plan
- Performance Indicators.

Decision

The Audit Committee noted the contents of the report.

(Reference: Report by Head of Strategic Finance, dated 26 September 2014, submitted)

9. INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE

The Committee considered a report which provided executive summaries and details on the audits that have been undertaken by Internal Audit and the recommendations that have been identified as a result of these audits.

The Chief Internal Auditor advised the Committee of the improved layout of the report.

Decision

1. The Committee noted the contents of the reports in respect of the following audits:-

- (a) Review of sickness and absence
- (b) Review of Marine Services
- (c) Review of Capital Contracts and Operating Leases
- (d) Review of Risk Management
- (e) Review of Local Government Benchmarking Framework
- (f) Review of NPDO
- (g) Review of Insurance
- (h) Review of S75 Planning
- (i) Review of Crematoriums
- (j) Review of Procurement of Utilities

2. The Committee agreed to the new format of the report.

(Reference: Report by Chief Internal Auditor, dated 26 September 2014, submitted)

10. EXTERNAL AUDIT - PROGRESS REPORT ON EXTERNAL AUDIT PLAN

The external auditors Audit Scotland's Annual Audit Plan for 2013/14 audit was presented to the Audit Committee on 14 March 2014. The audit plan set out the key financial risks facing Argyll and Bute Council in financial year 2013/14. A report providing the progress against the 2013/14 Annual Audit Plan was considered.

Decision

The Committee noted the contents of the report.

(Reference: Report by Audit Scotland, dated September 2014, submitted)

11. EXTERNAL AUDIT REPORT - REVIEW OF INTERNAL CONTROLS 2013-14

The Committee considered a report which provided the results of a review carried out by Audit Scotland to evaluate whether the key internal controls operating within the main financial systems of the Council are operating adequately to allow Audit Scotland to take assurance on these systems for their financial statements audit work in 2013/14.

Decision

The Audit Committee noted the content of the report and the conclusion reached by Audit Scotland that the Council's main financial systems are operating satisfactorily; therefore planned assurance can be placed on these systems.

(Reference: Report by External Auditors - Audit Scotland, dated 3 July 2014, submitted)

12. EXTERNAL AUDIT REPORT - REVIEW OF HELENSBURGH CHORD

Audit Scotland submitted a management letter to the Committee reporting the outcome of additional targeted audit activity. This additional work was undertaken as a result of correspondence from members of the public. (3 submissions)

Audit Scotland provided an overview of the content within the management letter which provided opinion on governance and project management arrangements.

The Chair highlighted that an internal audit of CHORD was scheduled for

quarter 4 as part of the planned audit programme.

Decision

The Committee noted the content of the management letter.

(Reference: Report by External Auditors – Audit Scotland, dated 21 September 2014, submitted)

13. EXTERNAL AUDIT REPORT - REVIEW OF SCOTTISH SUBMARINE MUSEUM

Audit Scotland submitted a management letter to the Committee reporting the outcome of additional targeted audit activity. This additional work was undertaken as a result of correspondence from members of the public. (1 submission).

Audit Scotland provided an overview of the content within the management letter which provided opinion on the governance arrangements in respect of a funding request to support a Submarine museum.

The Chair indicated that at his request, work had already taken place with regards to an approval framework/checklist to support appraisal of funding requests and the outcome of this would be presented to a future Audit Committee meeting.

The Chair proposed the introduction of clearer communication protocols between Internal Audit and Audit Scotland in respect of future reviews.

Decision

The Committee noted the content of the management letter.

(Reference: Report by External Auditors – Audit Scotland, dated 21 September 2014, submitted)

Councillor Michael Breslin left the meeting at the end of discussions on the above item, and after the decision.

14. EXTERNAL AND INTERNAL AUDIT REPORT FOLLOW UP 2014-2015

Internal Audit document the progress made by departmental management in implementing the recommendations made by both External Audit and Internal Audit. The Committee considered a report which set out the results from a review performed by Internal Audit for recommendations due to be implemented by 31 July 2014.

The Committee noted that Internal Audit were content with the reasons behind services delaying certain recommendations and noted that Internal

Audit are looking at developing a protocol that limits the number of times that a target date can be rescheduled.

Decision

The Committee noted the contents of the report.

(Reference: Report by Head of Strategic Finance, submitted, dated 26 September 2014)

15. AUDIT COMMITTEE DEVELOPMENT DAY ACTION PLAN

The Committee considered a report which provided a progress update in respect of the Audit Committee Development Day Action Plan for 2014/15.

Decision

The Audit Committee note the contents of the report.

(Reference: Report by Chief Internal Auditor, dated 26 September 2014, submitted)

16. DEVELOPMENT OF ASSURANCE MAPPING EXERCISE

The Committee considered a report which set out the process which Grant Thornton, strategic advisors, and the internal audit team have adopted to map the Council's key risks, and the source and level of assurance that the Council receives on those risks.

Grace Scanlon asked the Committee for their views on the format of the assurance mapping exercise and a discussion was had on this.

The Vice Chair asked Audit Scotland for their view on the proposed format. Audit Scotland advised that the format is similar to what is used by other Councils within Scotland.

Decision

The Committee noted the report and agreed that the format of the assurance mapping exercise may have to be revisited at a future meeting.

(Reference: Report by Grant Thornton, dated 3 September 2014, submitted)

17. AUDIT COMMITTEE EFFECTIVENESS: PRACTICAL GUIDANCE

An introduction paper for discussion in relation to CIPFA's guidance on the function and operation of Audit Committees in local authorities which provides a view of best practice for audit committees in local authorities throughout the UK was considered.

The Committee discussed the Self Assessment of Good Practice which

was included in Appendix d. It was agreed that each member of the Committee should complete the Self-Assessment and return this to Internal Audit.

Decision

The Committee agreed:-

1. to complete and return the Self Assessment of Good Practice to Internal Audit by 17 October 2014.
2. to hold an informal discussion on the results of the Self Assessment of Good Practice at 11am prior to the start of the next meeting of the Audit Committee.
3. to delay the start time of the next meeting to 12pm to allow for the informal discussion to take place at 11am.
4. to change the date of the next meeting from Friday 12 December to Friday 5 December.

(Reference: Report by Chief Internal Auditor, dated 26 September 2014, submitted)

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ARGYLL AND BUTE COUNCIL**AUDIT COMMITTEE****STRATEGIC FINANCE****5 December 2014**

INTERNAL AUDIT SUMMARY OF ACTIVITIES

1. EXECUTIVE SUMMARY

1.1 This report details the Internal Audit activity undertaken October to December 2014. The objective of the report is to provide an update with regards progress during Quarter 3 against a number of areas.

1.2 Good progress continues to be made. There is clear evidence of improved interaction and engagement between Internal Audit and Service Management.

- **14/15 Audit Plan progress:** Audit plan is currently on track.
- **Individual Audits undertaken:** seven individual audits have been completed during the period. Of these seven audits, six are rated substantial and one is rated limited.
- **Continuous Monitoring Programme Testing:** A number of auditable units are subject to continuous testing. Reporting is by exception. Management have responded to previous quarter notifications and there are no outstanding issues. Issues arising during the current quarter which require management action are in respect of excessive overtime payments and duplicate NI numbers. Testing also identified control weaknesses in relation to segregation of duties and use of system functionality within the Debtors systems.
- **National Fraud Initiative:** Data mismatches in relation to Council Tax records have been identified and work has commenced in relation to reviewing each case. Services have assisted in the data upload for the 2014 – 2015 exercise.
- **Development Plan:** Progress continues to be made against revised development plan action points. All items are currently on track.
- **Performance indicators:** Revised indicators are in place and current status is on track / green.

INTERNAL AUDIT SUMMARY OF ACTIVITIES

2. INTRODUCTION

2.1 This report details the Internal Audit activity undertaken October to December 2014. The objective of the report is to provide an update with regards progress during Quarter 3 against a number of areas;

- 14/15 Audit Plan progress,
- Individual Audits undertaken
- Continuous Monitoring Programme Testing
- National Fraud Initiative
- Development Plan
- Performance indicators

3. RECOMMENDATIONS

3.1 The Audit Committee is asked to note the content of the report.

4. DETAIL

4.1 The Audit Plan is currently on track. Seven audits have been completed as detailed at 4.2. In addition a number of audits are also in progress and are at various stages of completion including Winter Maintenance, Kinship Care and Flood Risk Control. These will be completed in Quarter 3 and are scheduled for submission at the March committee.

4.2 Audits completed to December are detailed in Table 1.

Table 1: Summary of Audits performed in Quarter 3, 2014/15:

Audit Name	Level of Assurance	No. of recommendations	High Recommendations
Airports	Substantial	2	0
Customer Service Centre	Substantial	7	0
Flag	Substantial	2	0
Income Maximisation Direct payments	Substantial	3	0
Land and Asset Disposal	Limited	8	3
Leader LAG	Substantial	1	0
Pyramid	Substantial	7	3

4.3 Audits planned for Quarter 4 are shown in the table below..

Quarter 4
Central Governance
Homecare Services
Business Support
Revenue and Benefits
Chord
Employment and Training
ICT
Adult Learning & Community Development
Information Security

4.4 A number of areas which were previously subject to individual audits now form part of our continuous monitoring programme. These areas are tested on a regular basis and detailed reporting will be by exception to Audit Committee. Standard audit tests are applied relevant to each auditable unit. Clients are notified by memo of any concerns and a follow up process is in place to ensure active management /rectification of issues raised. Table 2 below summarises activity to date outlining issues arising and provides a level of assurance.

Table 2: Continuous monitoring programme results:

Audit Unit	Areas Tested	Issues Arising	Assurance Level	Follow up
Payroll and Overtime	<ul style="list-style-type: none"> Excessive & Regular Overtime Ghost Employees Starters and Leavers 	<ul style="list-style-type: none"> Excessive overtime 7 instances have been highlighted. 6 duplicate NI numbers were found. 	Substantial	Payroll section to review.
Debtors	<ul style="list-style-type: none"> Authorisation of Credit Notes 	<ul style="list-style-type: none"> Reason for issue of credit note field not completed. Segregation of Duties. 	Limited	Debtors Supervisor to review and re-issue instructions to users.
Creditors	<ul style="list-style-type: none"> Bank Changes Process 	None	Substantial	
General Ledger Controls	<ul style="list-style-type: none"> Posting Authorisations Segregation of Duties 	None	Substantial	
Establishment Visits <ul style="list-style-type: none"> Argyll House Dunoon Queens Hall 	<ul style="list-style-type: none"> Cash Reconciliation's Authorisations Procedures Roles , Responsibilities and Remits 	None	Substantial	

Audit Unit	Areas Tested	Issues Arising	Assurance Level	Follow up
School Fund checks <ul style="list-style-type: none"> • Strachur • Hermitage Academy • Rosneath • Rockfield • St Columba • Inveraray • Rhu 	<ul style="list-style-type: none"> • Compliance with Standard Circular 1.10. General Purpose Funds 	<ul style="list-style-type: none"> • Use of pre-numbered receipts. • Segregation of Duties • Record Keeping 	Substantial	Headteacher to ensure compliance. Management to review and update circular.

4.5 The Audit Commission's NFI team carries out matching work on behalf of Audit Scotland. The 2014-15 exercise has now commenced and all services have completed relevant data uploads.

4.6 Council Tax data in relation to Council Tax Reduction Scheme has returned a number of matches and these are currently being reviewed as per the table below.

4.7 A mail run has been completed regarding the matches and the Council Tax team are processing the returns they have received.

Table 3: National Fraud Initiative Matches:

Datasets	Total Matches	Matches Complete	Status of Sample Match Testing	Responsible Officer
Council Tax to Electoral Register	694	8	Mail Merge Complete	Revenues Supervisor
Council Tax rising 18's	147	121	Mail Merge Complete	Revenues Supervisor
Total	841	129		


4.8 This section highlights further progress made against the actions points on our 14/15 Internal Audit development plan. These include improvements identified as a result of our review against the Public Sector Internal Audit Standards.

Table 4: Internal Audit Development Key Actions:

Area For Improvement	Agreed Action	Progress Update	Timescale
<ul style="list-style-type: none"> • Training and CPD 	<ul style="list-style-type: none"> • Formalise our plans for internal audit training, including continuing professional development (CPD) requirements. 	On Track: <ul style="list-style-type: none"> • Senior Audit Assistants are signed up to complete IIA Diploma qualification. 	<ul style="list-style-type: none"> • Ongoing

Area For Improvement	Agreed Action	Progress Update	Timescale
<ul style="list-style-type: none"> Induction Programme 	<ul style="list-style-type: none"> Development of Induction process for new members of staff joining the team. 	On Track: <ul style="list-style-type: none"> Audit Manual is being updated to include induction section 	<ul style="list-style-type: none"> 31/12/2014
<ul style="list-style-type: none"> Audit Plan Preparation 	<ul style="list-style-type: none"> 2015/16 Plan to be submitted to December committee for comment and feedback 	On Track: <ul style="list-style-type: none"> Draft Plan submitted to Committee for review. 	<ul style="list-style-type: none"> 30/11/2014
<ul style="list-style-type: none"> Audit manual 	<ul style="list-style-type: none"> Development Audit Manual 	On Track: <ul style="list-style-type: none"> Work has commenced on Audit Manual 	<ul style="list-style-type: none"> 31/03/2015
<ul style="list-style-type: none"> SharePoint site 	<ul style="list-style-type: none"> Creation of Audit share point site to co-ordinate documentation and version control. Track stage progress and publish reports. 	On Track: <ul style="list-style-type: none"> 2 members of staff trained on use. On-going weekly discussion session as to items for inclusion. Protocols being developed 	<ul style="list-style-type: none"> 31/03/2015 Basic site up operational by deadline then continuous development.

4.9 Internal Audit scorecard data is available on pyramid. The indicators are showing green and / or on track with the exception of Revenue Finance indicator which is off track due to a year to date overspend in relation to back-filling part year sickness absence. The undernoted table is an extract of the key information.

Internal Audit Team Scorecard 2014 – 15			
FQ 2 14/15			
TEAM RESOURCES			
People			
PRDs IA Team	Target	Percentage of PRDs complete	
	90%	100%	
	Number of eligible employees FTE	Number of PRDs complete FTE	
	4	4	
Financial			
Revenue Finance	ACTUAL	BUDGET	
Year to date	£124,562	£106,864	
Year end	£221,753	£221,753	

NEW INTERNAL AUDIT MEASURES			
% of risks within the SRR audited in reporting period	Actual	37%	G →
	Target	30%	
	Benchmark		
Quarterly meetings held with Chair of Audit Committee	Actual	Yes	G →
	Target	Yes	
	Benchmark	Yes	
% satisfaction rates from post audit surveys	Actual	100%	G →
	Target	80%	
	Benchmark	80%	
% Recommendations followed up	Actual	100%	G →
	Target	100%	
	Benchmark		
% customer satisfaction with audit reports	Actual	100%	G →
	Target	80%	
	Benchmark	80%	
Percentage qualified staff	Actual	60%	G →
	Target	60%	
	Benchmark	60%	
Internal Audit Training hours	Actual	349hrs	G →
	Target	375hrs	
	Benchmark	0	

5. CONCLUSION

5.1 Good progress is being made across a range of areas. The audit plan is on track and there are currently no material issues impacting on Internal Audit activity. A programme of on-going review and continuous improvement is in place.

6. IMPLICATIONS

6.1 Policy - None

6.2 Financial -None

6.3 Legal -None

6.4 HR -None

6.5 Equalities - None

6.6 Risk – Internal Audit continue to adopt a risk based approach

6.7 Customer Service - None

Kevin Anderson, Chief Internal Auditor

For further information contact: Kevin Anderson, Chief Internal Auditor (01369 708505)

 ARGYLL AND BUTE COUNCIL

AUDIT COMMITTEE

STRATEGIC FINANCE

5 December 2014

 INTERNAL AUDIT REPORTS TO AUDIT COMMITTEE 2014 - 2015

1. EXECUTIVE SUMMARY

- 1.1 There are seven audits being reported to the Audit Committee. Six audits have a substantial level of assurance with one being rated as limited assurance.
- 1.2 Internal Audit provides a level of assurance upon completion of audit work, this is evaluated as follows:

Level of Assurance	Reason for the level of Assurance given
High	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with.
Substantial	Internal Control, Governance and the Management of Risk have displayed a mixture of little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Limited	Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues.
Very Limited	Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource to the issues.

- 1.3 The attached reports contain the 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.

1.4 A high level summary of each report is noted below:

- **Airports:** This audit has provided a substantial level of assurance with good evidence of compliance with the procedures set down in the Aerodrome Operating Manual. The report highlights two areas for further action being the closure of outstanding audit action points and a housekeeping issue in respect of records held.
- **Customer Service Centre:** This audit has provided a substantial level of assurance. Adequate arrangements are in place in respect of monitoring compliance and performance in relation to Customer Charter measures. Weaknesses were identified in relation to follow up protocols where service departments do not have access to Lagan system.
- **Fisheries Local Action Group (FLAG):** This audit provided a substantial level of assurance. Internal Audit is required to provide an annual report as part of the supporting evidence in preparation of an Annual Confirmation certificate. This is a requirement of our agreement with Marine Scotland. The report highlights two low level issues that were in relation to inconsistencies in project referencing and procurement.
- **Income Maximisation - Direct Payments:** This audit provided a substantial level of assurance. Procedures and policies are in place with appropriate controls in place. The report highlights potential weaknesses in relation to follow up protocols where it was not evidenced that action is taken following Strategic Finance requests. Agreement documentation should be reviewed to ensure terms and conditions are included.
- **Land and Asset Disposal:** This audit provided a limited level of assurance. It was evidenced that disposal processes and procedures are in place however guidance has not been updated for some 8 years. A review of the asset register also identified anomalies in information held. Weaknesses were also identified in respect of reporting arrangements.
- **LEADER:** This audit provided a substantial level of assurance. Robust systems are in place to ensure that as lead partner for the Argyll and Islands LEADER LAG, Argyll and Bute Council is adhering to the technical and procedural guidance.
- **Pyramid Performance Management System:** This audit provided a substantial level of assurance. Data contained in the scorecards was found to be accurate with appropriate supporting documentation. The exception being, data in relation to PRD statistics where it was evidenced that weaknesses exist in relation to the collation methodology and in some instances manual overwrites are taking place to provide accurate figures.

2. RECOMMENDATIONS

- 2.1 Audit Committee note the content of this summary report and detail within each individual report.

3. CONCLUSION

- 3.1 Management has accepted each of the reports submitted and has agreed responses and timescales in the respective action plans. The total number of recommendations made within the seven audits is as undernoted:

- High – 6
- Medium – 13
- Low – 11

4. IMPLICATIONS

- 4.1 Policy - None
- 4.2 Financial - None
- 4.3 Legal - None
- 4.4 HR - None
- 4.5 Equalities - None
- 4.6 Risk - None
- 4.7 Customer Service – None

Kevin Anderson, Chief Internal Auditor

5 December 2014

**For further information contact: Kevin Anderson, Chief Internal Auditor
01369 708505**

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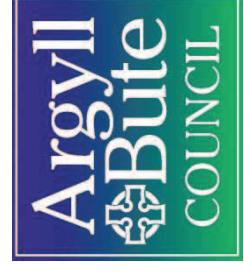
ARGYLL & BUTE COUNCIL

Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	DEVELOPMENT AND INFRASTRUCTURE SERVICES
AUDIT DESCRIPTION	VERIFICATION AUDIT
AUDIT TITLE	OBAN AIRPORT
AUDIT DATE	NOVEMBER 2014

2014/2015



1. BACKGROUND

This report has been prepared as a result of the Internal Audit review of Operational Procedures at Oban Airport as part of the 2014/15 Internal Audit programme.

Oban Airport Aerodrome Operating manual has been produced to satisfy the requirements of the UK Civil Aviation Authority, Health and Safety legislation and the Air Navigation Order. The Aerodrome Operating Manual sets out operational procedures, accountability by personnel and importantly acts as an information manual to assist personnel in performing their role.

Records are kept on an Access database called the 'Navigator System' which has been created in house by the station manager. In addition the service also operates the 'RedKite' system tracker which is a recognised equipment management and personal development system.

Scheduled services operate from Oban airport to Coll, Colonsay, Islay and Tiree. They also operate scholar flights for island school children. In addition the Airport deals with chartered traffic and military flights as well as general aviation traffic such as medevacs, training flights and scenic tours by private operators.

The 2014/15 net operating budget for the airport is £515k

2. AUDIT SCOPE AND OBJECTIVES

The audit will assess compliance with Aerodrome Operating Instructions.

- Review previous audits to ensure that corrective actions have been completed.
- Assess Compliance with record keeping requirements as prescribed in the Aerodrome Operating instructions.
- Evidence availability and completeness of inspections and reporting logs in respect of the undernoted:

- Condition of Runway
- Lighting Inspections
- Bird Control
- Aircraft Movements
- Incidents and Accidents

3. RISKS CONSIDERED

- Failure to follow the procedure manual could contribute to an increased risk of Accidents.
- Failure to follow the procedure manual could result in the airport losing its CAA operating licence.

4. AUDIT OPINION

The level of assurance given for this report is Substantial.

Level of Assurance	Reason for the level of Assurance given
High	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with.
Substantial	Internal Control, Governance and the Management of Risk have displayed a mixture of little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Limited	Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues.
Very Limited	Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource to the issues.

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

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.

5. FINDINGS

The following findings were generated by the audit:

- In reviewing previous audits to assess whether corrective actions have been completed it was noted that there are 5 corrective actions of a low risk factor still outstanding from the June 2014 audit. The station manager has given a completion date of October 31st 2014 to complete these actions. (Post Completion note: All actions are now completed)
- It was found that the records were fully compliant with the requirements as set out in the aerodrome operating manual.
- A review of the records of Airport inspections showed that the recording of Airport inspections is as prescribed in the Aerodrome Operating manual.
- It was evidenced that runway inspections are available and complete as prescribed in the aerodrome operating manual and that corrective actions had been carried out where required.

- It was evidenced that lighting inspections records are available and complete as outlined in the aerodrome operating manual, however it was noted that no evidence could be found on the system of outstanding defects. Subsequent investigation found that these are recorded in the defects folder kept at the reception desk.
- It was evidenced that bird control records are available and complete on the system as per requirement outlined in the aerodrome operating manual.
- It was evidenced that records regarding aircraft movements are available and complete as per requirement outlined in the aerodrome operating manual.
- The aerodrome procedure prescribes that a Mandatory Occurrence Report must be completed for all accidents, incidents or safety related events and forwarded to the CAA. A sample of 5 reports was reviewed between January 2013 and June 2014. The reports outlined the nature of the incidents as prescribed in the manual. No corrective action was recommended by the Civil Aviation Authority as a result of these incidents.

6. CONCLUSION

This audit has provided a Substantial level of assurance. There are a number of recommendations for improvement identified as part of the audit and these are set out in Appendix 1. There is one medium recommendation as a result of the audit. There is also 1 low recommendation which is not reported to the Audit Committee. Appendices 1 sets out the action management have agreed to take as a result of the recommendations, the persons responsible for the action and the target date for completion of the action. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

APPENDIX 1 ACTION PLAN

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
1. Audit Actions				
In reviewing previous audits to assess that corrective actions have been completed it was noted that there are 5 corrective actions still outstanding.	Failure to address previously identified weaknesses	High/ Medium or Low Medium	The remaining audit actions will be closed on an individual basis.	Senior Airport Fire Officer 31 December 2014

Contact Details

Name David Sullivan

Address Kilmory, Lochgilphead, Argyll, PA31 8RT

Telephone 01546 604215

Email David.sullivan@argyll-bute.gov.uk

www.argyll-bute.gov.uk

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Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	CUSTOMER SERVICES
AUDIT DESCRIPTION	RISK BASED AUDIT
AUDIT TITLE	REVIEW OF CUSTOMER SERVICE CENTRE
AUDIT DATE	NOVEMBER 2014

2014/2015



1. BACKGROUND

This report has been prepared as a result of the Internal Audit review of the Customer Service Centre (CSC) within Customer Services as part of the 2014/15 Internal Audit programme. The CSC promotes good customer service throughout the Council but is not responsible for Departmental responses to service requests and queries.

Poor customer service can have detrimental effect on the Council's reputation. While excellent customer service will enhance the Council's standing, providing a platform for growth and development.

Good customer service can also reduce costs by minimising the time needed for handling customer complaints and re-work. This is likely to result in increased customer satisfaction.

In 2010 the council launched its [Customer Service Charter](#) as part of a programme of activities aimed at further improving customer service standards across the Council. The Charter informs customers of the standards of response they can expect from Council employees. Its pledges were designed following consultation with the Citizens' Panel as part of the Process for Change efficiency initiative. The Charter is currently under review and will be updated in the near future.

The outcomes of the 5th annual mystery shopping exercise undertaken in the summer of 2014 that focused on customer contacts to the Customer Service Centre and Services have been issued to the Customer Service Board (CSB). Actions resulting from this exercise have been reported to the board and are in the process of being cascaded across the council. The headline results are shown below:

Department	Telephone	Email	Letters	Face To Face
Customer Services	85% (76)	89% (83)	94% (79)	88% (88)
D&I	88% (62)	66% (84)	13% (88)	83% (81)
Community Services	86% (51)	79% (76)	61% (73)	91% (87)
CSC	87% (90)	82% (66)	N/A	92% (92)
Council Score	86% (84)	78% (73)	52% (59)	88% (90)

2. AUDIT SCOPE AND OBJECTIVES

The scope and objectives of the audit are limited to:

- Review performance and compliance against the Customer Charter.
- Review communication protocols and follow up between CSC and departments.
- Review the Service Level Agreement process.

The audit will be conducted by reviewing current practice against policy documentation including walk-through testing of control systems and procedures.

The officers and service which will be involved in this audit and main contacts will be:

- Judy Orr – Head of Department;
- Mhairi Renton, Customer Service Centre Manager; and
- Bob Miller, Development and Support Manager.

3. RISKS CONSIDERED

- Operational Risk Register (ORR): Customers can access Council services more easily and these services are of better quality.
- Failure to meet customer promises within the charter.
- Failure to manage customer expectations.

4. AUDIT OPINION

The level of assurance given for this report is Substantial.

Level of Assurance	Reason for the level of Assurance given
High	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with.
Substantial	Internal Control, Governance and the Management of Risk have displayed a mixture of little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Limited	Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues.
Very Limited	Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource to the issues.

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

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.

5. FINDINGS

The following findings were generated by the audit:

REVIEW OF COUNCIL PERFORMANCE AND COMPLIANCE AGAINST THE CUSTOMER CHARTER

- Performance measures are in place and reported via a customer services scorecard.
- Collation and preparation processes relating to performance measures were reviewed with supporting information and data found to be accurate.
- An error was identified within the Pyramid Performance system where an anomaly was found regarding the rollup of information against an incorrect higher level target this led to the misreporting of a red traffic light.
- Two of the indicators within the Customer Charter scorecard were consistently performing higher than the target set.
- Compliance with the Charter Standards is tested by Mystery shopping exercises. Mystery shopping exercises supply data for all Council services, the data are easily tracked and the latest exercise was analysed to ensure accuracy.
- Telephone performance is measured by the Phonex call logging system that provides accurate management information for individual service areas.
- Performance is reported quarterly to CSB and Strategic Management Team (SMT), the reports accurately reflect the data collected.
- The mystery shopping exercises are based on the framework for Customer Service Benchmarking from which reports are produced covering the whole of the UK. Argyll and Bute Council carries out an exercise to identify comparable Scottish Local Authorities with whom to benchmark. The results of the exercise are reported to the CSB and SMT however there was no corporate cascade article of the 2013 results highlighting areas of excellence or areas for improvement.

REVIEW OF COMMUNICATION PROTOCOLS AND FOLLOW UP BETWEEN CSC AND DEPARTMENTS

Two services were tested:

- It was evidenced that effective communication protocols and follow up procedures are in place between CSC and Roads and Amenity Services. Staff within the service have access to the Lagan system (CSC system) to pick up tasks recorded by staff at the CSC via the golden number for Roads and Amenity Services requests and queries. The system is updated to reflect status or completion of the allocated task.
- Enquiries received by the CSC for Council Tax queries in relation to incorrect addresses are currently being transferred to the Corporate Address Gazetteer (CAG) team. The CAG team are not included within the Service Level Agreement for Planning and Regulatory Services; therefore, there are no communication protocols or follow-up procedures in place between CSC and CAG.

Communication protocols:

- It was evidenced that actions identified as a result of the mystery shopping exercise are followed up. The follow up actions are submitted to SMT and once agreed these are taken forward as follow:
 - Department specific actions are allocated to appropriate management.
 - General improvement advice is cascaded through DMT's and Customer Service Board members to relevant Council employees.
- A standard guide for e-mail composition and letter writing both internal and external is not readily available.
- The guidance regarding employees email signatures is contained within IT guidance on how to set your signature, however it does not require inclusion of the Service or Department, but this is an element scored within mystery shopping exercise.
- Not all employees in Council departments are using their automatic signature settings for both sending and replying to e-mails. The CSC staff use a generic signature which excludes their name as agreed.

SERVICE LEVEL AGREEMENTS (SLAS)

- There is no corporate approach to the format of Internal SLA's. Those pertaining to the Customer Service Centre showed minor variations in the content however, this is necessary to distinguish between the differing demands from Services.
- A review process is in place in respect of Service Level Agreements. Minutes of Quarterly meetings were reviewed and found to cover relevant areas with actions assigned to staff members.

6. CONCLUSION

This audit has provided a substantial level of assurance. There were a number of recommendations for improvement identified as part of the audit and these are set out in Appendix 1 and 2. There were 3 medium recommendations set out in Appendix 1 which will be reported to the Audit Committee. There are 4 low recommendations which are not reported to the Audit Committee. Appendices 1 sets out the action management have agreed to take as a result of the recommendations, the persons responsible for the action and the target date for completion of the action. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to the Customer Service Centre staff and management for their co-operation and assistance during the Audit and the preparation of the report and action plan.

APPENDIX 1 ACTION PLAN

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
1. Follow up				
Council Tax queries in relation to incorrect addresses are currently being transferred to the Corporate Address Gazetteer (CAG) team.	Customers may not receive the information or actions they are requesting.	High/ Medium or Low Medium	Queries will be forwarded to Council Tax Team by email to ensure that they can be tracked.	Customer Services Centre Manager 31 December 2014
2. Follow-up				
Council Tax queries in relation to incorrect addresses are currently being transferred to the Corporate Address Gazetteer (CAG) team.	Customers may not receive the information or actions they are requesting.	Medium	Staff will be issued guidelines on treatment of Council Tax address queries	Revenues and Benefits Manager 31 March 2015
3. Automatic e-mail signatures				
The guidance regarding employees email signatures does not require inclusion of the Service or Department.	Scores may not improve in this area if guidance does not include all areas scored.	Medium	Guidance within IT guide "How to set your signature" will be updated to include Service/Department/Team. Also to be included in the Communication teams guide.	High/ Medium or Low Development and Support Manager and Communications Manager 31 March 2015



Contact Details

Name Vivienne Barker and Mhairi Weldon
Address Kilmory, Lochgilphead, Argyll, PA31 8RT
Telephone 01546 604759/4294
Email mhairi.weldon@argyll-bute.gov.uk
vivienne.barker@argyll-bute.gov.uk

www.argyll-bute.gov.uk

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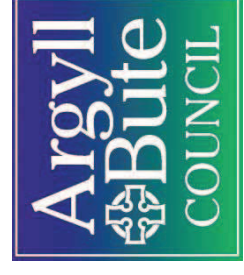
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Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	DEVELOPMENT AND INFRASTRUCTURE SERVICES
AUDIT DESCRIPTION	VERIFICATION AUDIT
AUDIT TITLE	FISHERIES LOCAL ACTION GROUP (FLAG)
AUDIT DATE	NOVEMBER 2014

2014/2015



1. BACKGROUND

This report has been prepared as a result of the Internal Audit review of Fisheries Local Action Group (FLAG) within Development and Infrastructure as part of the 2014 Internal Audit programme.

Argyll & Bute and South Ayrshire Fisheries Local Action Group (FLAG) is a partnership established to oversee the delivery of the European Fisheries Fund (Axis 4). The FLAG, which includes representatives from the public, community and private sectors, has allocated a sum of £400K to projects that seek to promote the sustainable development of communities that have been affected by the decline of the fishing industry. Public, private and third sector organisations operating in fishing communities throughout Argyll & Bute and South Ayrshire are eligible to apply for funding.

FLAG members will oversee the delivery of the European Fisheries Fund (EFF) and will have responsibility for considering funding applications. Applications will be assessed against EFF eligibility criteria, the project's contribution towards the Local Fisheries Development Strategy and the level of community benefit that will be delivered.

Argyll & Bute and South Ayrshire Fisheries Local Action Group will support measures to promote economic diversification and an improved quality of life in areas affected by a decline in fishing activities with a particular focus on the following Axis 4 priorities:

- Revitalising Communities;
- Coastal Community Capacity;
- New Markets and Products; and
- Progressive Coastal Economy.

Internal Audit is required to undertake a review and provide an annual report as part of the supporting evidence in preparation of this Annual Confirmation certificate as outlined in Section 11 of the Service Level Agreement (SLA) with Marine Scotland, Scottish Government. A total of seven projects have been passed as eligible under the European Fisheries Fund Axis 4 eligible criteria by the Fisheries Local Action Group of which two were chosen for audit namely Tobermory Harbour Association and Bowmore Harbour Association.

2. AUDIT SCOPE AND OBJECTIVES

- Evidence the availability and completeness of project records as per the guidance outlined in the SLA between Argyll and Bute Council and Marine Scotland;
- Claim process - to assess the robustness of claim process and compliance with guidance; and
- Review the responsibilities of the FLAG to ensure best practice is being observed.

3. RISKS CONSIDERED

- Contract compliance checking is inadequate leading to inaccurate payments being made.
- Failure to meet the requirements of the SLA between Argyll and Bute Council and Marine Scotland.

4. AUDIT OPINION

The level of assurance given for this report is Substantial.

Level of Assurance	Reason for the level of Assurance given
High	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with.
Substantial	Internal Control, Governance and the Management of Risk have displayed a mixture of little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Limited	Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues.
Very Limited	Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource to the issues.

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

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.

5. FINDINGS

The following findings were generated by the audit:

- Procedures are in place that detail the activities required to be carried out at each step of the application process and subsequent claims processes. This includes specifying the person responsible for ensuring that the activity is properly carried out. The previous FLAG audit had highlighted that no formal procedures had been prepared.
- It was evidenced that procedures are being followed that demonstrated that the projects sampled had gone through a process that complies with the EFF procurement conditions and that demonstrated value for money. It was noted that the procurement process was however not compliant with Councils procedures.
- Documentation was found to be available and complete in respect of the progress stage each project had reached.
- No claims have been submitted and therefore verification of the claims process will be carried out in subsequent audit. However it was noted during the file review that financial information was available.

- Minor administration errors were found. An example being where the project number differed on different documentation relating to the same project.

6. CONCLUSION

This audit has provided a Substantial level of assurance. There are no high or medium recommendations. There are two low recommendations which are not reported to the Audit Committee. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to the Development and Infrastructure staff and management for their co-operation and assistance during the Audit and the preparation of the report and action plan.

Contact Details

Name David Sullivan
Address Kilmory, Lochgilphead, Argyll, PA31 8RT
Telephone 01546 604125
Email david.sullivan@argyll-bute.gov.uk
www.argyll-bute.gov.uk

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Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	CHIEF EXECUTIVES SERVICES
AUDIT DESCRIPTION	RISK BASED AUDIT
AUDIT TITLE	DIRECT PAYMENTS
AUDIT DATE	NOVEMBER 2014

2014/2015



1. BACKGROUND

This report has been prepared as a result of the Internal Audit review of Direct Payments within Chief Executives as part of the 2014/2015 Internal Audit programme.

A direct payment is made where clients have been assessed as requiring community care or children's services. Local authorities must offer a direct payment as an alternative to arranging services. Clients must use direct payments to arrange services that meet their assessed needs. Monies should be expended as per formal agreements and monitoring processes should be in place to ensure compliance with agreements.

2. AUDIT SCOPE AND OBJECTIVES

The audit was limited to reviewing the following controls:

- Procedural and communication protocols are in place between Community Services -Adult Services and Strategic Finance - Income Maximisation sections which allow:
 - 1) Preparation of individual contracts: There is a formal agreement in place between the Council and individual setting out the terms and conditions of Direct payments.
 - 2) Payments to be made: Including arrangements in place for any emergency payments and arrangements for reclaiming money from individuals including actions and follow up taken when individuals mis-manage their money.
 - 3) Monitoring and Reporting: Including Budgeting, Reporting and Contract monitoring.
- Roles and responsibilities are clearly defined in respect of Service staff and Income Maximisation staff.

3. RISKS IDENTIFIED

- Failure to comply with Statutory and Legislative requirements.
- Failure to have robust Internal controls
- Inefficient use of scarce resource

4. AUDIT OPINION

The level of assurance given for this report is substantial.

Level of Assurance	Reason for the level of Assurance given
High	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with.
Substantial	Internal Control, Governance and the Management of Risk have displayed a mixture of little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Limited	Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues.
Very Limited	Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource to the issues.

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

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.

5. FINDINGS

The following findings were generated by the audit:

Preparation of individual contracts

- 5.1 There is a formal agreement in place between the Council and the individual in receipt of the Direct Payment which is signed by the Head of Service and by the client. The terms and conditions of the Direct Payment are set out in a separate document which is issued to the client. Clients do not sign to confirm that they have read and agree to adhere to the terms and conditions of the Direct Payment.

Payments to be made

- 5.2 There are written procedures in place for Strategic Finance staff to follow in terms of making Direct Payments. It was evidenced that satisfactory internal control processes exist.
- 5.3 Where emergency payments are required appropriate controls and procedures are in place.
- 5.4 Arrangements for reclaiming monies are considered robust in terms of the responsibilities held by Finance (Income Maximisation). A review of client files showed that where a surplus of Direct Payment was identified appropriate procedures are in place to recover monies. It was evidenced that these procedures have been followed and monies repaid.

Monitoring

- 5.5 The 2009 CIPFA guidance on Self Directed Support stipulates that financial evidence (bank statements, supporting invoices and receipts as a minimum) should be provided for monitoring purposes to provide assurance that the outcomes detailed in the care plan are being achieved and that there is no mis-management of monies. It was evidenced that Strategic Finance provide Social work (Adult Care) staff with details of cases where financial evidence has not been submitted or is incomplete.
- 5.6 It was evidenced that adequate monitoring arrangements are in place within Strategic Finance however it was not evidenced that Social Work (Adult Care) are actively following up Strategic Finance requests to ensure that clients complete and return Financial Statements of Expenditure.

Roles and Responsibilities

- 5.7 Roles and responsibilities are clearly identified in respect of Strategic Finance requirements. It was not evidenced that roles and responsibilities are clearly defined in terms of Social Work (Adult Care) requirements.

Budget and Reporting

- 5.8 Budget arrangements are appropriate to the nature of the service and it was evidenced that robust monitoring and reporting is in place.

6. CONCLUSION

This audit has provided a substantial level of assurance. There are 3 recommendations for improvement identified as part of the audit set out in Appendix 1. These are all medium recommendations which will be reported to the Audit Committee. Appendix 1 sets out the action management have agreed to take as a result of the recommendations, the persons responsible for the action and the target date for completion of the action. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

APPENDIX 1 ACTION PLAN

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
1. Terms and Conditions				
The terms and conditions of the Direct Payment are not signed by the client.	Failure to have robust information and monitoring protocols.	High/ Medium or Low	Contract currently being revised and will include the requirement for the client to sign that they have read and will comply with the terms and conditions of the Direct Payment.	Head of Adult Care April 2015
2. Follow-Up				
It was not evidenced that Social Work (Adult Care) staff are actively following up Financial evidence requests.	Failure to have robust information and monitoring protocols.	High/ Medium or Low	Assessment and Care Planning Procedures document to be updated to include roles and responsibilities for Self Directed Support of which Direct Payment is an element.	Head of Adult Care April 2015

3. Roles and Responsibilities		High/ Medium or Low		
<p>It was not evidenced that roles and responsibilities were clearly defined in terms of Social Work (Adult Care) requirements in relation to follow up/monitoring of Direct Payments.</p>	<p>Failure to clearly define roles and responsibilities and ensure appropriate management / monitoring of resources.</p>	<p>Medium</p>	<p>Assessment and Care Planning Procedures document to be updated to include roles and responsibilities for Self Directed Support of which Direct Payment is an element.</p>	<p>Head of Adult Care April 2015</p>

Contact Details

Name Moira Weatherstone
Address Whitegates, Lochgilphead, Argyll, PA31
Telephone 01546 604394
Email moira.weatherstone@argyll-bute.gov.uk

www.argyll-bute.gov.uk

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Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	CUSTOMER SERVICES
AUDIT DESCRIPTION	SYSTEM BASED AUDIT
AUDIT TITLE	LAND AND ASSET AUDIT
AUDIT DATE	NOVEMBER 2014

2014/2015



1. BACKGROUND

This report has been prepared as a result of the Internal Audit review of Facility Services within Customer Services as part of the 2014/14 Internal Audit programme.

Facility Services provides a range of support to other Council Services. This includes asset management and estates services. The service has responsibility for the Council's corporate asset management processes together with the design and delivery of property related capital projects.

Strategic Finance maintains an Asset register via a system called AIRS. Information held includes Asset name and address (if applicable), financial information including NBV, depreciation, valuation basis and history. An Asset Management Board is also in place chaired by the Head of Facility Services and includes representatives from Property maintenance, Estates, Business improvement as well as each service department.

Facility Services within its service plan has a stated outcome 'Communities are safer and more successful through improved facilities' with various success measures including 'The Council ensures that its property assets are aligned to support service delivery requirements'.

There are various accounting classifications in relation to assets which are no longer required. This audit will review arrangements in relation to the following categories 1) Corporate Surplus Assets. 2) Assets Held for Sale.

When an asset is no longer operationally required it is classified as surplus. When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction it is reclassified as an Asset Held for Sale.

Under Assets Held for Sale, Property, land and buildings for accounting purposes are classified as such 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.

As at 31/3/2014 the Council was showing 91 assets under the corporate surplus asset category and was showing 8 entries in the held for sale category. Internal Audit sampled 8 files from the corporate surplus asset category and 3 from the held for sale category.

2. AUDIT SCOPE AND OBJECTIVES

Control objectives will include Authority, Occurrence, Completeness, Measurement, Timeliness and Regularity. Testing will be undertaken using CIPFA SBA control matrixes series 3, Inventories and Commercial Properties.

The audit scope will be limited to:

- Clearly defined asset disposal arrangements and policies.
- Compliance with relevant legislative requirements.
- Availability of an asset register /database which is complete with adequate controls in place.
- Valuation review and recording arrangements.
- Internal and External Reporting and Communication processes.

3. RISKS CONSIDERED

- Failure to adhere to legislative requirements
- Failure to adhere to internal policy and guidelines
- Failure to secure best value
- Reputational damage to the Council

4. AUDIT OPINION

The level of assurance given for this report is Limited.

Level of Assurance	Reason for the level of Assurance given
High	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with.
Substantial	Internal Control, Governance and the Management of Risk have displayed a mixture of little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Limited	Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues.
Very Limited	Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource to the issues.

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

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.

5. FINDINGS

The following findings were generated by the audit:

Clearly defined asset disposal arrangements and policies

- It was evidenced that Argyll and Bute Council have a defined document entitled “Corporate Property Disposal Procedures” that details the various actions required of a Council officer/department when disposing of a corporate asset. The procedures have not been updated for some 8 years. The main headings of the procedures are:
 - Property declared surplus
 - Initial Marketing Process
 - Marketing
 - Preparation of report on marketing exercise
 - Settlement of transaction

Evidence that policies and procedures are being adhered to

The files were reviewed in order to evidence that the procedures had been adhered to. The findings were as follows:

- It was evidenced that all properties were declared surplus via a memo sent to the Director of Customer Services by the client department.
- Procedures require that the local members be advised of the marketing timetable but there was no evidence of this having been carried out.
- Where appropriate it was evidenced that Area Committees had received a report on the marketing outcomes.
- It was evidenced that procedures in respect of settlement transactions had been followed.

As at 31/3/2014 there was 8 properties categorised as Assets Held for Sale. In addition there were 91 property/assets categorised as Corporate Surplus Assets. It should be noted that not all Corporate Surplus Assets are available for sale and as at 31/3/2014, 16 of the 91 Corporate Surplus properties were at various stages of disposal.

- The timeline in securing title deeds was on average completed within a 2/3 month period. However it was noted that this period can be longer due to complexities and extenuating circumstances.
- It was noted that the procedures stipulate the setting of an appropriate closing date for offers in conjunction with Governance and Law Service. It is recommended a minimum marketing period should be set out in procedures in order to ensure best consideration as stipulated in Local Government (Scotland) Act 1973

Compliance with relevant legislative requirements

- Property Services are principally required to comply with the Local Government (Scotland) Act 1973 which stipulates that Councils are required to achieve the best consideration obtainable when disposing of property and also the Disposal of Land by Local Authorities (Scotland) Regulations 2010 Act which governs the rules for land disposal. The files reviewed complied with the legislation.
- In reviewing the sample for those properties which have now been sold i.e. 109 Alexander Street, Dunoon and the Tobermory school flats it was evidenced that the Council obtained a sales price comparable to the valuation.

Availability of an asset register /database which is complete with adequate controls in place

- Strategic Finance maintains an Asset register via a system called AIRS. Information held includes Asset name and address (if applicable), financial information including net book value (NBV), depreciation, valuation basis and history.
- A review of the information held by Strategic Finance in the Asset register highlighted discrepancies in respect of 3 properties which were no longer assets of the Council. These assets showed a total value of £13,500 in the balance sheet as at 31/3/2014.
 1. 88A Auchamore Road, Dunoon
 2. Land , Colbeck Place ,Rothesay
 3. WRVS Building, Alma Crescent, Oban
- It was evidenced that appropriate internal controls are in place in respect of authorisations, system access and segregation of duties.

Valuation review and recording arrangements

- The accounting policy of the Council as stated in our annual accounts is that “Assets included in the balance sheet at fair value are re-valued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years”.
- Estates produce information annually to comply with the Councils financial regulations which provides valuation figures in respect of Assets held for Sale and Corporate Surplus Assets. This is forwarded to Finance to enable them to update asset register data.
- A review of the valuations provided by Estates to Strategic Finance as at 31/3/2014 highlighted material differences in information held on Strategic Finance asset register. These were:
Kilbowie House valued at £1 in the Asset registers which differs from a valuation of £450,000 provided by Estates.
Clydesdale Bank Building valued at £0 in the Asset register which differs from a valuation of £75,000 provided by Estates.

- Strategic Finance have confirmed that asset register valuations in respect of both Kilbowie House and Clydesdale bank are compliant with accounting standards International Financial Reporting Standard (IFRS5) which states that “assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell, and depreciation on such assets to cease” and have been agreed as such by the Councils external auditors.
- The file review of Lochgilphead Primary School found that 2 offers were received and rejected during financial year 11/12. Both offers were substantially lower than the asking price of £400,000 which was set by Estates based on the sale price achieved for a similar site and market conditions at the time. A report produced by DVS Property specialists during financial year 12/13 subsequently valued the property at £250,000 and referenced previous offers in 11/12 being indicative of the revised market value and conditions for 12/13. The property is currently being re-marketed
- It was noted in Audit Scotland’s (External Auditors) report to those charged with Governance on the 2013/14 audit that there is a recommendation that members are advised of both the marketing valuation and the Asset Register value for assets when they are evaluating offer bids.
- Procedures do not stipulate valuation arrangements. Estates have confirmed that a rolling programme of valuations is in place undertaken by the Estates service as well as external valuers
- Valuations by nature are subjective and in respect of the arrangements in place it was evidenced that formal independent valuations are not always provided and depending on specific circumstances are not always required at the time of marketing an asset.

Internal and External Reporting and Communication processes

- Estates management prepare a report on a monthly basis to the Customer Services Departmental Management Team meeting which gives an update on the status of property that is available for sale. The report highlight's :

- Sale price or offers price
- When declared surplus
- Description of property
- Any issues regarding sale
- Offers made (if appropriate)
- Expected completion date

- The report as of 31 March 2014 highlighted 22 properties which were available for sale or being prepared for marketing out of a total of 99 properties included in the Asset register in respect of Corporate Surplus Assets and Assets Held for Sale. This report is updated on a monthly basis and presented to Customer Services Departmental meeting and the minutes are forwarded to the Chief Executive.

- The remaining 77 properties are comprised of properties that are designated under the financial category Corporate surplus assets and are not necessarily assets that the Council have available for disposal. Reasons for this can be surplus properties which are currently leased /rented to external parties. Properties which are mothballed but not available for sale and properties which are subject to future redevelopment/regeneration. Current practice is to report on those properties either currently being prepared for market or being actively marketed to the customer services DMT with additional reporting on assets through the SAMP process. However this does not cover the status of all properties.

- It was evidenced that partial reporting of the Corporate Surplus Assets exists via the Service Asset Management Plan (SAMP), however it was noted that this did not include all of the properties and did not refer to current status in all cases.

- Procedures stipulate that a report should be submitted to the appropriate area committee detailing any offers made and any relevant comments associated with the marketing of the property. A review of the files evidenced reports had been submitted to area committees detailing the relevant information.
- A review of the Council website showed that properties being marketed by external agents are not listed. Furthermore it was noted that properties under offer have been so for an extended period of time, in one particular example in excess of 5 years.

6. CONCLUSION

This audit has provided a Limited level of assurance. There were a number of recommendations for improvement identified as part of the audit and these are set out in Appendix 1 and 2. There were 3 high and 4 medium recommendations set out in Appendix 1 which will be reported to the Audit Committee. There is 1 low recommendation which are not reported to the Audit Committee. Appendices 1 and 2 set out the action management have agreed to take as a result of the recommendations, the persons responsible for the action and the target date for completion of the action. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to the Estates staff and management for their co-operation and assistance during the Audit and the preparation of the report and action plan.

APPENDIX 1 ACTION PLAN

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
1. Procedures		High/ Medium or Low		
Procedure Guidance Procedures for Disposal of Council assets have not been updated in approximately 8 years.	Assurance level is undermined	High	Procedures to be reviewed and updated	Asset Manager 31 st March 2015
2. Procedures		High/ Medium or Low		
Asset Disposal The timeline in securing title deeds was on average completed within a 2/3 month period. However it was noted that this period can be longer due to complexities and extenuating circumstances.	Assurance level is undermined	Medium	Monthly review meeting with Governance and Law to discuss outstanding issues	Asset Manager 31 st March 2015

3. Procedures		High/ Medium or Low		
Audit Scotland Report It was noted in Audit Scotland's (External Auditors) report to those charged with Governance on the 2013/14 audit that a recommendation that members are advised of both the marketing valuation and the Asset Register value for assets when they are evaluating offer bids	Failure to action external recommendations	Medium	Procedures to be reviewed and updated	Asset Manager 31 st March 2015
4. Marketing		High/ Medium or Low		
It is recommended a minimum marketing period should set out in procedures in order to ensure best consideration as stipulated in Local Government (Scotland) Act 1973.	Failure to achieve best consideration	High	Procedures to stipulate minimum period.	Asset Manager 31 st March 2015
5. Asset Register				High/ Medium or Low
Disposals: A review of the information held in the Asset register highlighted 3 discrepancies namely 3 properties which were no longer assets of the Council.	Failure to update update asset register results in mis representation	High	A reconciliation will be carried out between information held by estates and Finance to ensure that the register is accurate.	Finance Manager Corporate Support Estates Manager 31 March 2015

6. Reporting	It was evidenced that partial reporting of the Corporate Surplus Assets exists via the Service Asset Management Plan (SAMP), however it was noted that this did not include all of the properties and did not refer to current status in all cases.	Failure to provide information can lead to ineffective decision making	Medium	Report to be prepared	Asset Manager 31st March 2015
7. Council Website	A review of the Council website showed that properties being marketed by external agents are not listed.	Failure to maximise marketing potential	Medium	Website to be updated with external link to agents and once available the SFT e-pims marketing platform	Asset Manager 31st March 2015

APPENDIX 2 ACTION PLAN

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
<p>1. Reporting</p> <p>Procedures stipulate that a marketing timetable should be forwarded to local members. No evidence of this could be found in the files reviewed.</p>	<p>Assurance level is undermined</p>	<p>High/ Medium or Low</p>	<p>Procedures to be revised and updated arrangements to be put in place</p>	<p>Asset Manager 31st March 2015</p>

Contact Details

Name David Sullivan
Address Kilmory, Lochgilphead, Argyll, PA31 8RT
Telephone 01546 604125
Email david.sullivan@argyll-bute.gov.uk

www.argyll-bute.gov.uk

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ARGYLL & BUTE COUNCIL

Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	DEVELOPMENT AND INFRASTRUCTURE SERVICES
AUDIT DESCRIPTION	VERIFICATION AUDIT
AUDIT TITLE	LEADER FUNDING - ANNUAL CERTIFICATION
AUDIT DATE	NOVEMBER 2014

2014/2015



1. BACKGROUND

1 INTRODUCTION

This report has been prepared as the result of an Internal Audit review of LEADER funding as part of the 2014/15 Internal Audit Programme.

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. The Council acts as Lead Partner to the Argyll and Islands LEADER Local Action Group (LAG), in accordance with a Service Level Agreement (SLA) with Scottish Government Rural Payments and Inspection Directorate (SGRIPD).

LEADER Funding for 2007 – 2014 consists of an amount of £3.77m LEADER funds with additional Convergence funding of £5.12m. LAG members have responsibility for delivering the Local Development Strategy and making ongoing 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. The Council, as Lead Partner is responsible for employing staff, providing secretariat support and managing budgets. As Lead Partner the Council must ensure that an Annual Confirmation Certificate covering the year 16 October 2013 to 15 October 2014 is provided.

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.

3. RISKS CONSIDERED

- 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, but have been addressed and managed by the Lead Partner through the Secretariat support as detailed in Section 5 of the report.
- SR13: Failure to comply with new legislation, regulations or statutory responsibilities; and
 - SR16: Failure to have a robust internal control process and system which could lead to substantial fines imposed by the European Union regarding errors in the claims process.

4. AUDIT OPINION

The level of assurance given for this report is Substantial.

Level of Assurance	Reason for the level of Assurance given
High	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with.
Substantial	Internal Control, Governance and the Management of Risk have displayed a mixture of little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Limited	Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues.
Very Limited	Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource to the issues.

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

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.

5. FINDINGS

The following findings were generated by the audit:

- The Argyll and Islands LEADER Local Action Group (LAG) continues to develop a structured approach for developing, appraising and approving applications for LEADER funding.
- It was found that there are robust 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.
- The project applications and claims process was found to be compliant with relevant guidance however it was noted that the reconciliation between the Council's ledger and the claim for LAG administration costs has not been carried out.

6. CONCLUSION

This audit has provided a substantial level of assurance. There is one medium recommendation set out in Appendix 1 which will be reported to the Audit Committee. There are no low recommendations. Appendices 1 sets out the action management have agreed to take as a result of the recommendations, the persons responsible for the action and the target date for completion of the action. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to the LEADER staff and management for their co-operation and assistance during the Audit and the preparation of the report and action plan.

APPENDIX 1 ACTION PLAN

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
1. Reconciliation's				
The project applications and claims process was found to be compliant with relevant guidance however it was noted that the reconciliation between the Council's ledger and the claim for LAG administration costs has not been carried out.	Failure to carry out the reconciliation can lead to incorrect accounting.	High/ Medium or Low Medium	The reconciliation with the Council's ledger will be completed by the European Support Officer.	Economic Development Manager. 31 December 2014.

Contact Details

Name David Sullivan

Address Kilmory, Lochgilphead, Argyll, PA31 8RT

Telephone 01546 604125

Email david.sullivan@argyll-bute.gov.uk

www.argyll-bute.gov.uk

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ARGYLL & BUTE COUNCIL

Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	CUSTOMER SERVICES
AUDIT DESCRIPTION	RISK BASED AUDIT
AUDIT TITLE	REVIEW OF PERFORMANCE MANAGEMENT – PYRAMID
AUDIT DATE	OCTOBER 2014

2014/2015



1. BACKGROUND

A review of Pyramid Performance across Argyll and Bute Council (the Council) has been planned as part of the 2014/15 Internal Audit programme.

The Council has a Planning and Performance Management Framework (PPMF) which describes how it plans and manages performance. The balanced scorecard represents a concerted attempt to ensure the focus of the organisation remains firmly fixed on its Strategic Objectives.

Pyramid is the Council's Performance Management System, providing up to date information on levels of performance across the broad range of services that we provide. The Improvement and Organisational Development (IOD) team analyse and report on Performance Management as well as providing support for users of the system.

The Council scorecard and departmental scorecards are scrutinised by the Chief Executive, Executive Directors and the Performance Review and Scrutiny (PRS) Committee on a quarterly basis. Service scorecards are monitored by Heads of Service and Executive Directors at their Departmental Management Team (DMT) meetings.

Pyramid is available to all Councillors and members of staff, and to encourage open and transparent reporting there is no restriction on what can be viewed in the system although updating of information is restricted to nominated members of staff.

Increasingly the Council are using Pyramid to report performance to the public and to our partner organisations. Partners, for example the NHS, Police and Fire Services, supply information about their performance so that we can build up a picture for the whole area – for example regarding the Single Outcome Agreement and Community Planning Partnership.

2. AUDIT SCOPE AND OBJECTIVES

The audit will cover the arrangements in place for input of data into the Pyramid system and level of accuracy of statistics and outputs produced from the system. We will assess the following:

- Consistency and accuracy of information held in the system
- Data input to the pyramid system is evidenced.
- PPMF objectives are accurately reflected in Pyramid
- Controls around system access, view and edit
- Reporting and cascading of information from Pyramid
- User guide and user support
- User feedback

Sampling of scorecards was undertaken with each indicator tested and verified for accuracy and supporting evidence.

The officers and service which will be involved in this audit and main contacts will be:

- Jane Fowler – Head of Department;
- Carolyn McAlpine, IOD Manager, and
- David Clements, Programme Manager

3. RISKS CONSIDERED

Strategic Risk Register (SRR)13 - A lack of Strategic Leadership and Direction will have a negative impact on the ability of the Council to set out strategic objectives and then align service delivery and resources to ensure these objectives are achieved.

Ineffective decision making arising from incomplete, inaccurate and untimely performance information

4. AUDIT OPINION

The level of assurance given for this report is Substantial.

Level of Assurance	Reason for the level of Assurance given
High	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with.
Substantial	Internal Control, Governance and the Management of Risk have displayed a mixture of little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Limited	Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues.
Very Limited	Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource to the issues.

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

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.

5. FINDINGS

The following findings were generated by the audit:

ACCURACY OF INFORMATION HELD IN THE SYSTEM

Three Scorecards were reviewed to assess the data held within the system:

Integrated Transport Scorecard

- The information is collated from various systems and reviewed by management prior to input into the Pyramid system, all the indicators reviewed contained accurate data.

Homelessness Scorecard

- The information is extracted from the ABRITAS Housing Case Management System and input into the Pyramid system, all the indicators reviewed contained accurate data.
- The ABRITAS system is now in use by the 4 partner organisations (ACHA, Fyne Homes, Dunbritton and WHHA) who previously submitted manual data, this allows reports to be run direct from the system which eliminates some of the risk of human error occurring.

Performance Review and Development (PRD) Scorecard

- The information is extracted from ResourceLink, Human Resources Management System via the COGNOS reporting tool. The report is then manually manipulated due to the report containing data that should have been excluded. This process is labour intensive and leads to additional risk of human error. It was also noted that in two instances services maintain their own records and the pyramid figures are overwritten.

- Pyramid is manually updated from the edited data derived from the COGNOS report. The Pyramid System requires numbers of employees eligible for a PRD and numbers of completed PRDs to be entered. It was noted that the collation process excludes employees on secondment therefore figures are not reflective of PRDs due.
- The process of collating information regarding PRDs is based on Full Time Equivalent (FTE) posts. Therefore, there is misrepresentation of number of PRDs completed.

General

- Use of rounding can lead to misrepresentation of progress against targets.

DATA INPUT INTO THE PYRAMID SYSTEM IS EVIDENCED

Three Scorecards were tested back to the source information

Integrated Transport Scorecard

- Evidence was provided, records are well maintained and technology is used effectively to analyse all the data required. Supporting documentation and files confirmed figures entered into the Pyramid system.

Homelessness Scorecard

- Evidence is contained within the ABRITAS system with relevant data also submitted to the Scottish Government. This information can be seen on the Scottish Government website including information on benchmarking with other local authorities. Supporting documentation and files confirmed figures entered into the Pyramid system.

PRD Scorecard

- Evidence was provided in the form of a COGNOS report. The figures entered into the Pyramid system are supported by the report; however, there are weaknesses in the methodology.

Elements of all three scorecards reviewed feed up to parts of the Council Scorecard which shows the progress toward Corporate Objectives. The data from these scorecards feeds into higher level score cards. This process was tested and found to be accurate in terms of roll-up of information.

PPMF OBJECTIVES ARE ACCURATELY REFLECTED IN PYRAMID

- Planning and Performance Management Framework (PPMF) is currently under review.
- The current commitment within the PPMF document states “The system includes Council, Department, Service and Area Scorecards to provide the key management information required at all levels in the organisation and to measure achievement of Corporate Plan and CP/SOA deliverables.” It was evidenced that Pyramid reflects PPMF objectives with the exception of the 2013 – 2023 SOA Delivery Plans scorecards which are currently under development and not available.

SYSTEM CONTROLS

- Pyramid is available to all Councillors and members of staff and to encourage open and transparent reporting there is no restriction on what can be viewed in the system.
- Updating of information is restricted to nominated members of staff within each service team.
- Retrospective editing of data within Pyramid is not restricted.

REPORTING AND CASCADING OF INFORMATION FROM PYRAMID:

- It was evidenced that regular review of performance takes place at 360 reviews, SMT, DMTs and Service Management team meetings.
- The Council and Departmental scorecards are also reported publicly through the Performance Review and Scrutiny Committee and on the Council's website.
- A review of reports to PRS committee, Senior Management Team & DMTs confirmed that the reports are timely and accurate.

USER GUIDE AND USER SUPPORT:

- A review of the Welcome to Pyramid guide shows an overview of what information is held in the system and how to view it. However, there is no evidence as to the availability of an instruction document or comprehensive user guide.
- Assistance for users of Pyramid is available from Improvement and Organisational Development.

USER FEEDBACK

- A survey was taken of 15 Pyramid users, 11 responses were received and the results are summarised in Appendix 3.
- Whilst the majority of the survey returns reflected a level of satisfaction with the system, statements where areas for improvement have been identified are:
 - Information is displayed in a size and format that is easy to read.
 - Icons and Colour scheme used are suitable for my needs.
 - I use customised views to access my data.
 - I use bookmarks to quickly view and update frequently accessed data.

6. CONCLUSION

This audit has provided a substantial level of assurance. There were a number of recommendations for improvement identified as part of the audit and these are set out in Appendix 1 and 2. There were 2 high and 2 medium recommendations set out in Appendix 1 which will be reported to the Audit Committee. There is one low recommendation which is not reported to the Audit Committee. Appendices 1 and 2 set out the action management have agreed to take as a result of the recommendations, the persons responsible for the action and the target date for completion of the action. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to staff and management for their co-operation and assistance during the Audit and the preparation of the report and action plan.

APPENDIX 1 ACTION PLAN

Findings	Risk Impact	Rating High/ Medium or Low	Agreed Action	Responsible person agreed implementation date
1. Accuracy				
The COGNOS report providing PRD data is unreliable.	Risk of mis-reporting.	High	The Resourcelink 4 Project ensures the creation of reports to provide reliable data.	Head of Improvement and HR March 2016
2. Accuracy				
It was noted that the collation process excludes employees on secondment therefore figures are not reflective of PRDs due.	Risk of mis-reporting.	High	COGNOS reports are amended to include all employees on secondment	Head of Improvement and HR March 2015
3. Accuracy				
The process of collating information regarding PRDs is based on Full Time Equivalent (FTE) posts.	Risk of mis-reporting.	High	A revised approach to PRD reporting will recommend to SMT that FTE is replaced in the reports with number of PRD meetings required.	Head of Improvement and HR March 2015
4. SOA				
2013 – 2023 SOA Delivery Plans scorecards are currently under development and not yet available.	CP/ SOA achievements are not measured and monitored effectively.	Medium	SOA Delivery Plans are available through Pyramid	Head of Improvement and HR March 2015

APPENDIX 3 SURVEY RESULTS

		Strongly agree	Agree	Disagree	Strongly disagree	No basis for comment
1.	The Council has a Planning and Performance Management Framework (PPMF)	8	3			
2.	Pyramid scorecards are used to monitor and report performance	8	3			
3.	Pyramid scorecards exist at several levels and themes that feed into each other	9	2			
4.	Information is gathered from our partners to provide combined performance information	5	5			1
5.	I have access to and can log-in to Pyramid from my computer	10	1			
6.	I receive sufficient training and user support to assist me in the use of Pyramid	7	2	1		1
7.	I can easily navigate to required scorecards and underlying data	7	3	1		
8.	I use bookmarks to quickly view and update frequently accessed data	6	1	3		1
9.	I use customised views to access my data	4	2	4		1
10.	Information is displayed in a size and format that is easy to read	5	4	1	1	
11.	Information on Pyramid is easy to understand	2	7	1		1
12.	Icons and Colour scheme used are suitable for my needs	4	5	1	1	
13.	I receive regular management feedback on performance information on Pyramid	6	3	2		
14.	Overall I think that the Pyramid Performance Management System is user friendly	3	7	1		

APPENDIX 4 SCORECARDS REVIEWED

FQ2 14/15	Corporate target % PRDs - 90 %							
HR2 - PRDs A&B Council		This section reports the number of employees in each Department and Service at the end of the reporting period who are eligible for a PRD and those who have completed the PRD process within the previous twelve months.						
		Number of employees	No. PRDs complete	% PRDs complete				
		2,357	1,651	70 %				R ↓
Chief Executive's % of PRDs completed		36	35	99 %				G ↑
Strategic Finance % of PRDs completed		34	33	99 %				G ↑
Community Services % of PRDs completed		1,693	1,025	61 %				R ↓
Adult Care % of PRDs completed		259	158	61 %				R ↑
Children and Families % of PRDs completed		144	122	85 %				R ↓
Community & Culture % of PRDs completed		131	93	71 %				R ↓
Education % of PRDs completed		1,152	646	56 %				R ↓
Customer Services % of PRDs completed		333	317	95 %				G ↑
Customer & Support Services % of PRDs completed		180	172	95 %				G ↑
Facility Services % of PRDs completed		50	49	98 %				G ↓
Governance & Law % of PRDs completed		30	27	88 %				R ↓
Improvement & HR % of PRDs completed		64	61	95 %				G ↑
Development & Infrastructure Services % of PRDs completed		296	274	93 %				G ↓
Economic Development % of PRDs completed		72	68	94 %				G ↓
Planning & Regulatory Services % of PRDs completed		98	93	95 %				G ↓
Roads & Amenity Services % of PRDs completed		78	67	86 %				R ↓

FS03 We contribute to the sustainability of the local area		Links to Council Outcome CO13	Integrated Transport Team Scorecard 2014-15	
Average age of light vehicle fleet	Actual	3.6	PRDs Integrated Transport Team G ↑	Target 90 %
	Target	5.0		
	Benchmark	4.7		
Mileage incurred by pool cars - All areas	Actual	45,350 miles	Percentage of PRDs complete 100 %	Number of PRDs complete FTE 8
	Target	44,824 miles		
	Benchmark			
No of drivers who have completed a Fuel Efficient driving test	Actual	78	Number of eligible employees FTE 8	YTD actual / Forecast R
	Target	75		
	Benchmark			
FS04 School & public transport meets the needs of communities		Links to Council Outcome CO12	Financial	
Average subsidy per bus passenger - A&B	Actual	£ 1.82	Revenue Finance	Budget
	Target	£ 1.99		
	Benchmark	£ 2.00		
No of bus shelters cleaned twice a year	Actual	80	Year to date	£ 4,508,565
	Target	50		
	Benchmark	50		
No of new bus shelters during financial year	Actual	3	Year end	£ 9,666,985
	Target	3		
	Benchmark	3		
No of school bus inspections during financial year	Actual	18	% Extra Curricular Activity Requests Met	Actual 3
	Target	18		
	Benchmark	18		
			Pupil transport - No of bad behaviour reports	Actual 18

CC04 Less people will become homeless ... thru proactive approach ...		Links to Council Outcome CO6	A ↑
% of clients leaving the Housing Support Service with a planned approach	Actual	80	G ↓
	Target	80	
	Benchmark	70	
% of RSL lets allocated to homeless households	Actual	47 %	R ↑
	Target	50 %	
	Benchmark	51 %	
CC5 Number of people accessing housing advice and Information	Actual	1,005	G ↑
	Target	660	
	Benchmark	600	
Number of households housed through Common Housing Register in Argyll & Bute No target	Actual	234	↑
	Target		
	Benchmark		
Proportion of homeless households assessed in priority need in Argyll & Bute	Actual		
	Target		
	Benchmark		

Housing Services Team Scorecard 2014-15			
FQ2 14/15			
TEAM RESOURCES			
<i>People</i>			
PRDs Housing Services	Target	90 %	Percentage of PRDs complete
	Number of eligible employees FTE	30	51 %
		Number of PRDs complete FTE	15
R ↓			
<i>Financial</i>			
Revenue Finance	Budget	YTD actual / Forecast	
	Year to date	£ 2,330,378	£ 2,629,266
Year end	£ 3,777,567	£ 3,777,567	G

Contact Details

Name Vivienne Barker and Mhairi Weldon
Address Kilmory, Lochgilphead, Argyll, PA31 8RT
Telephone 01546 604759/4294
Email mhairi.weldon@argyll-bute.gov.uk
vivienne.barker@argyll-bute.gov.uk

www.argyll-bute.gov.uk

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**ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE**

**AUDIT COMMITTEE
5 DECEMBER 2014**

INTERNAL AUDIT DEVELOPMENT PLAN

1. Executive Summary

- 1.1 This report introduces revised development actions which are a continuation of improvement actions arising from a previous review of Internal audit which was carried out as part of the strategic development and performance improvement partnership with Grant Thornton and CIPFA.
- 1.2 The development plan focuses on continuous development and upskilling of the Internal Audit team and includes a number of refresher training items aimed at enhancing core skills and to ensure that appropriate tools and techniques are utilised.
- 1.3 The development plan also includes a section for Managing Internal Audit activity. Action points include the development of an Argyll and Bute Audit Manual which will outline the approach to auditing and will provide a guidance and procedural reference document. This should ensure consistency of approach and enhance quality of individual audits.

2. RECOMMENDATIONS

- 2.1 The Audit Committee note the content of the development plan.

3. DETAIL

- 3.1 The development plan is shown in Appendix 1. It includes detail of the development area, proposed actions and provides an update on progress to date.

4 CONCLUSION

- 4.1 The development plan is a continuation of actions points arising from a self-assessment exercise and is part of a focus on continuous improvement which should ensure consistency of approach and further enhance quality of output.

5. IMPLICATIONS

5.1	Policy:	Development plan sets out a number of areas of improvement in how Internal Audit operate.
5.2	Financial:	None
5.3	Legal:	None.
5.4	HR:	Requirement for staff training
5.5	Equalities:	None
5.6	Risk:	Will improve risk focus on Internal Audit.
5.7	Customer Service:	Sets out improvements that should lead to better customer service for internal customers.

For further information please contact Kevin Anderson Internal Audit on (01369 708505)

Kevin Anderson
Chief Internal Auditor
December 5 2014

Appendix 1

	Development Area	Proposed action	Update at December
1.	<p>The Internal Audit Team participate in the Council's PDR/ PRD programme and have attended relevant training provided. Individual auditors ensure that their CPD requirements are fulfilled, but there is no systematic approach to developing and maintaining internal audit skills.</p>	<p>We will review training requirements both across the team and individually. We propose a period of intensive refresher training and development on:</p> <ul style="list-style-type: none"> • internal audit core skills • identifying and managing risk • audit tools and techniques, including the use of IDEA and Sharepoint • Best value and performance audit (including value for money audit techniques). • Training programme complete by December 2013 	<p>On-Track</p> <p>Senior Audit Assistants completed IIA examination (Nov 2014)</p> <p>Draft Audit Plan has been prepared using risk based approach.</p> <p>Cipfa Matrix Testing used where appropriate</p> <p>Scottish Local Authority Chief Internal Auditors group running Value for Money Audit Courses . January 2015.</p> <p>Participation in Strategic Finance training plan.</p>
2.	<p>Development of Audit Manual</p>	<p>We will develop an Argyll and Bute Audit Manual which provides guidance and procedure notes outlining our approach to:</p> <ul style="list-style-type: none"> • Planning including Research & approach to agreeing Terms of Reference • Fieldwork including Continuous Monitoring and Verification Activity • Reporting – Protocols, Exception reporting and follow up. 	<p>On Track</p> <p>Team Discussion sessions complete</p> <p>Content and Format Agreed</p> <p>Draft being prepared.</p>

	Development Area	Proposed action	Update at December
	Quality Assurance and Improvement Plan		
3.	<p>The QAIP is a new requirement under PSIAS. The Internal Audit Team has a team plan in place, and reports on performance using the Council's Pyramid performance management system.</p>	<p>We will continue to review the key performance indicators and targets in place and consult with the Audit Committee and Senior Management Team to establish indicators that are more focused on the outcomes and impact of internal audit work.</p>	<p>On-Track Preparation and Actioning of Team Plan Indicative Audit Allocations Customer Survey feedback reviewed.</p>

STRATEGIC RISK ASSURANCE MAPPING EXERCISE

1 SUMMARY

- 1.1 This report sets out internal audit's assessment of the sources of assurance for the Audit Committee on the management of the Council's strategic risks.

The report describes the approach to the work and the outcomes, including recommendations for future internal audit work.

Appendix A highlights our overall assessment against each of the strategic risks. It should be noted that the assessment is based on the level of assurance that the Committee can rely on at each level. A 'low' level therefore highlights where there are gaps in evidence of active /targeted actions /activity and therefore the level of assurance that can be given, rather than an assessment on the management of that risk.

2 RECOMMENDATION

- 2.1 The Audit Committee notes the Strategic Risk Register at Appendix A.
- 2.2 The Audit Committee considers implications for the Internal Audit annual plans in 2015-16 and 2016-17, specifically:
- verification of data quality within Pyramid
 - partnership governance arrangements
 - governance and political management arrangements in due course
- 2.3 The Audit Committee and Performance Review and Scrutiny Committee consider areas of potential duplication relating to scrutiny of service performance. The role of the Performance Review and Scrutiny Committee could be focused on the extent to which reported outcomes have a mitigating effect on the risks facing the Council.

3 BACKGROUND

- 3.1 As part of the action plan emerging from the Audit Committee Development Day, internal audit undertook to develop an assurance mapping exercise to:
- give senior management and elected/committee members comfort that there is a comprehensive risk and assurance framework with no potential gaps
 - ensure that internal audit plans are targeted to address the key risks facing the Council, and where assurance gaps remain
 - identify any potential areas of overlap or duplication of assurance.

- 3.2 Internal audit has developed the assurance map attached at Appendix A to highlight the key sources of assurance available for each strategic risk, across each of the three lines of defence.

4 FIRST LINE OF DEFENCE – MANAGEMENT ASSURANCE

- 4.1 The council has a well-developed Planning and Performance Management Framework, which underpins much of the management assurance process.
- 4.2 The Strategic Risk Register has clear links to the SOA and Corporate Plan and associated aims and outcomes. Service plans containing outcomes and success measures are agreed annually by the council as part of the budget setting process.
- 4.3 Performance against the plans is reviewed quarterly and subject to DMT exception reporting where performance does not meet the target, and by the Chief Executive at one to ones with Executive Directors that examine departmental scorecards.
- 4.4 Where the Strategic Risk is directly linked to a strategic or corporate objective, we therefore found strong management assurance arrangements in place to review the risk and mitigating actions.
- 4.5 Where Strategic Risks cannot be directly attributed to a strategic objective, there was less evidence of systematic management assurance.
- 4.6 We also noted that the first line of defence places significant reliance on the accuracy of data within Pyramid. Internal audit has conducted a separate audit of Pyramid as part of the 2014-15. Early findings suggest that there is scope to improve the verification arrangements in place at service level, and we would therefore recommend that data quality is incorporated within Internal Audit's programme of continuous audit procedures.

5 SECOND LINE OF DEFENCE – MANAGEMENT OVERSIGHT

- 5.1 The Council is currently following up an Audit Scotland Statutory report and an action plan is in place. Revised Political Managements arrangements, scrutiny arrangements and Member briefing arrangements are in place. It is our opinion that management oversight is adequate although it is noted these arrangements are in their infancy and will need time to develop and embed. We also noted that although mitigation of risk is being monitored and further developments planned, there is no direct link to performance reporting ,therefore there is scope to better scrutinise and challenge this area of performance. We would therefore recommend that this is considered as part of the post-implementation review of the revised political management arrangements.

6 THIRD LINE OF DEFENCE – INDEPENDENT ASSURANCE

6.1 Under the Public Sector Internal Audit Standards, Internal Audit has adopted a risk-based audit approach. Internal audit activity is therefore planned to address the key risks facing the Council. External audit also provides assurance on a number of key risk areas.

6.2 The Assurance Map has identified a number of areas where independent assurance has been limited. These include:

- the external built environment
- partnership governance
- reputation; and
- demographic changes.

6.3 In the draft Internal Audit Annual Plan 2015-16, Internal Audit has identified audits relating to the built environment. We therefore recommend that the Audit Committee uses the Assurance Map to inform and consider the Internal Audit Annual Plan for 2015-16 and 2016-17.

7 CONCLUSION

7.1 Overall, Appendix A highlights a strong performance management framework is in place across the Council. We have used the exercise to highlight improvements to the assurance framework, to ensure that the Audit Committee and Performance Review and Scrutiny Committee understand how risks are managed mitigated.

8 IMPLICATIONS

- 8.1 Legal – None.
- 8.2 Finance – None.
- 8.3 HR – None.
- 8.4 Policy – None.
- 8.5 Risk – None.
- 8.6 Equalities – None.
- 8.7 Customer Services – None.

For further information please contact

Grace Scanlin
0131 659 8526

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Strategic Risk	Risk Assessment		1st Line of Defence				2nd Line of Defence				3rd Line of Defence				Assessment of Arrangements			
	Risk	Residual (with controls)	Owner	Service Plan	Departmental Scorecard / Pyramid	Monitoring / Exception Reporting to DMT	Action Plan / Procedures	Quarterly Performance Reporting	Corporate Reporting	SMT / Risk Management Group	Comms / Working Groups	Community Planning Partnership / Area Committees	Council	Internal Audit	External Audit	Regulators	Level of Assurance	Improvements Proposed
1 Population and Economic Decline	Red 20 Projected population decline and potential economic decline and failure to identify relevant factors causing the decline and the need to develop strategies and action plans to address that decline in an effective manner.	Red 16	D & I	Actions reflected in Single Outcome Agreement / Corporate Plan Economic Development Action Plan Services Plans via link to SOA/Corporate Outcomes	All scorecards reflect the Corporate Outcomes and are monitored via PPMF D & I quarterly scorecard ED & ST Team Scorecards	Exception reports within Team Quarterly Performance Report	EDAP CHORD programme Community Engagement Strategy	Quarterly Performance reports considered by Performance Review and Scrutiny Committee Quarterly Updates challenged by SMT D & I quarterly performance reporting to Environment, D & I Committee	Council Annual Report Annual SOA Report Local Government Benchmarking Framework	Strategic Risk Register considered quarterly Discussion about emerging risks at SMT / RMG Updates included in Departmental Verbal Updates CHORD update briefings	CHORD updates to Policy & Resources Cmte Discussion on roads and economic Development and Environment Committee Infrastructure Committee	SOA Localised Delivery Plans Economic Development Action Plan Localised Area monitoring	Single Outcome Agreement Delivery Plan considered in June Policy Lead Update reports to Council Reports from Short Life Working Group (roads) CHORD progress and business cases	Reviews undertaken / Planned for 2014-15 Employment and training 2014-15		Audit Scotland / SCSWIS / Education Scotland etc	High	Clarity relating to the impact that actions and outcomes have on the residual risk
	Infrastructure and asset base does not meet current and future requirements. Infrastructure and asset base is not being used or managed efficiently or effectively.	Red 16	D & I	Corporate Plan includes Corporate Outcomes relating to: 3. Transport infrastructure / sustainable environment 4. Improve the management and rationalise the council's assets Service Plans via link to SOA/Corporate Outcomes	All scorecards reflect the Corporate Outcomes and are monitored via PPMF D & I quarterly scorecard	Exception reports to DMT Capital reports monitoring prepared quarterly	Corporate asset management strategy Service asset management plans	Quarterly performance reports considered by Performance Review and Scrutiny Committee Quarterly Updates considered and challenged by SMT D & I quarterly performance reporting to Environment, D & I Committee	Annual SOA report	Strategic Risk Register considered quarterly Discussion about emerging risks at SMT / RMG Updates included in Departmental Verbal Updates	Policy and Resources Committee updates on Management and capital monitoring Environment, D & I Committee receive quarterly D&I Scorecard E, D & I Committee review Roads Asset Management Plan	Corporate Management Strategy Asset Management / Roads Asset Management 2011-12	Corporate Management Strategy Asset Management / Roads Asset Management 2011-12	Roads Maintenance and Management 2014-15 Asset and Estates Management 2014-15			High	As above
2 Condition and suitability of overall Council infrastructure and asset base.	Our built environment is not maintained to an adequate standard and does not support investment or regeneration aspirations. Built environment deteriorates to levels where intervention is required.	Red 16	D & I	Local Development Plan Planning and Regulatory Services Plan		Reports on CARS/THI		SMT discussions on hotel regeneration Risk Management Group consider actions	CHORD progress updates on THI	CARS considered by Helensburgh and Lomond Area Committee Reports on CARS funding and progress/THI to Council	Dangerous Buildings 2011-12						Low	Internal audit coverage in 2015-16
	External - built environment. Non council assets and infrastructure	Amber 12	C & SS	C & SS Service Plan includes welfare rights service and administration of Scottish Welfare Fund.	Outcomes monitored through scorecard reporting on priority - Less people will become homeless	Reporting on speed of processing Scottish Welfare Fund	Action plan developed with partners as part of Project Board action plan. Financial inclusion / DHP policy	Customer Quarterly Performance Reporting to Review and Scrutiny Committee.	SMT considered high and medium hardship cases for all priority groups, and payment of low, medium and high priority crisis grants and community care grants for	Project Board established to manage welfare reform introduction.							High	Housing Benefits Performance Audit 2014-15 Assurance and Improvement Plan: Scottish Housing Regulator
3 Welfare reform	Implementation of welfare reform is not managed well resulting in increased poverty and deprivation or short term crisis.	Red 20	C & SS															

Strategic Risk	Risk	Risk Assessment		Owner	1st LINE OF DEFENCE				2nd LINE OF DEFENCE				3rd LINE OF DEFENCE		ASSESSMENT OF ATTORNMENTS			
		Residual (with controls)	Residual (without controls)		Service Plan	Departmental Scorecard / Pyramid	Monitoring / Reporting to DMT	Action Plan / Procedures	Quarterly Performance Reporting	Corporate Reporting	SMT / Risk Management Group	Working Groups / Committees / Partnership / Area Committees	Area Based	Internal Audit	External Audit	Regulators	Level of Assurance	Improvements Proposed
5	Political Leadership	Red 20	Amber 12	CE	Customer Services Service Plan	Action Plan progress monitored through scorecard reporting	Monitoring / Reporting to DMT	Audit Scotland Action Plan and monitoring	Customer Quarterly Performance Reporting and Scrutiny Committee.	Corporate Reporting	SMT considered political arrangements / Audit Scotland report and update	Short Life Working Group on Political Management Arrangements Members Seminars	Approval of SLWG recommendations and revised committee structure. Consideration of Audit Scotland report	Reviews undertaken / Planned for 2014-15	New committee structure Statutory report follow up	Audit Scotland / SCSWIS / Education Scotland Follow Up	High	Post implementation review will be conducted by Governance and Law in 2015. We would therefore propose follow up by internal audit in 2016-17.
6	Finance - Income and funding	Red 16	Amber 12	SF / C & SS	Strategic Finance Service Plan	All Scorecards include financial outcome measures	Full Financial Monitoring Reports considered at DMT / BWG	Medium Term Financial Strategy Monitoring of GF Reserves	All Scorecards include financial outcomes Financial Monitoring Papers presented to Policy and Resources Committee which includes monitoring of financial risks	Budget and Annual Accounts presented to full Council	Financial Reporting Monitoring Pack considered by SMT	Annual accounts and audit reports considered by Audit Committee	Resources aligned / reported to CPP	Budgetary Preparation and Control 2012-13	Financial management and sustainability	High		
7	Health and social care integration	Red 16	Amber 12	CS	Reflected within Adult Care, Children & Families and Finance and Legal Service Plans		Monitored at DMT/SMT level	Action Plan produced as part of Project implementation in Team	Update papers presented to SMT, Council and CPP	SMT reviewed progress with implementation	Project implementation in team in place	Progress reports including timeline and plans for governance arrangements in partnership of Chief Officer	Older Peoples Services 2014-15	Health and social care integration		High	Subject to findings of internal and external audit	
8	Reputation	Red 16	Amber 12	T & HR	PPMF in place and revised arrangements being developed	PPMF	Reported on an exception basis	PPMF	Customer satisfaction ratings Local Government Benchmarking Framework	SMT considered a paper on reputation in response to adverse media reports	PPMF	PPMF	Pyramid performance management system 2014-15		Medium	No specific assurance on reputation, but customer satisfaction and service planning processes incorporated with the PPMF.		
9	Demographic change	Red 16	Amber 12	T & HR	Service Planning process SOA planning process			Corporate / Service Planning guidance and approach	Budget and Annual Accounts presented to full Council	SMT receive reports on population change RMG consider emerging risks	PPMF	PPMF			Low	Proposed IA coverage in 2016-17		
10	Finance - expenditure	Amber 12	Amber 12	SF	Strategic Finance Service Plan	All Scorecards include financial outcome measures	Full Financial Monitoring Reports considered at DMT / BWG	Medium Term Financial Strategy Monitoring of GF Reserves	Budget and Annual Accounts presented to full Council	Financial Reporting Monitoring Pack considered by SMT	Use of GF Reserves considered by SMT	Annual accounts and audit reports considered by Audit Committee	Resources aligned / reported to CPP	Budgetary Preparation and control 2012-13	Financial management and sustainability	High		

Strategic Risk	Risk	Risk Assessment		Owner	1st Line of Defence				2nd Line of Defence				3rd Line of Defence		Assessment of Arrangements		
		Residual (with controls)	(without controls)		Service Plan	Departmental Scorecard / Pyramid	Monitoring / Reporting to DMT	Action Plan / Procedures	Quarterly Performance Reporting	Corporate Reporting	SMT / Risk Management Group	Committees / Working Groups	Area Based	Internal Audit	External Audit	Regulators	Level of Assurance
Partnership governance	Inadequate Partnership Governance Arrangements. Risk that partnership arrangements are poorly defined and constituted leading to an inability to deliver outcomes and objectives or being democratically deficient.	Amber 12	Amber 9	CC/ G&L	SOA Delivery Plans make links between resources, with lead partners identified	Outcomes monitored by DMT as part of quarterly performance reporting	A governance review of the CPP has been presented to the management committee and Area Community Planning Groups.	SOA delivery plans monitored through quarterly performance management reporting	SOA annual report	SMT consider progress against SOA delivery plans		A governance review of the CPP has been presented to the management committee and Area Community Planning Groups.	Reviews undertaken / Planned for 2014-15			Medium	Proposed IA coverage in 2016-17
Engagement and alignment of service delivery	The Council fails to understand service user needs and align service delivery to meet these.	Amber 12	Amber 8	All H of S	SOA Delivery Plan Service planning process PPMF in place and subject to review	Exception reporting on customer feedback / complaints to DMT	HR and Organisational Development Strategy Community Engagement Strategy in place	PRS Committee / SMT review departmental scorecards and can therefore consider customer satisfaction ratings	SMT to consider PPMF review paper		Use of area profiles to develop SOA SOA delivery plan includes link to resources				Medium	Proposed IA coverage of service planning in 2016-17	
<p>HIGH - Controls in place assessed as adequate/effective and in proportion to the risks</p> <p>MEDIUM - Some areas of limited coverage over the adequacy/effectiveness of the controls in proportion to the risks</p> <p>LOW - Limited coverage over the adequacy/effectiveness of the controls in proportion to the risks</p> <p>Insufficient information at present to judge the adequacy/effectiveness of the controls.</p>																	

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**ARGYLL & BUTE COUNCIL
STRATEGIC FINANCE**

**AUDIT COMMITTEE
5 DECEMBER 2014**

EXTERNAL & INTERNAL AUDIT REPORT FOLLOW UP 2014 – 2015.

1. EXECUTIVE SUMMARY

- 1.1 Internal Audit document the progress made by departmental management in implementing the recommendations made by both External Audit and Internal Audit. This report and attached appendices are the results from a review performed by Internal Audit for recommendations due to be implemented by 31 October 2014.
- 1.2 The process requires departmental Executive Directors assigning a 3rd 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 audit recommendation implementation.
- 1.3 Appendix 1 is a statistical summary of all agreed recommendations arising from National, External and Internal Audit reports by department. Detailed is the number of recommendations due as at 31 October 2014, the number implemented, the number of agreed future recommendations and their status, e.g. on course etc.
- 1.4 Appendix 2 provides a summary as at 31 October 2014, of all outstanding recommendations from National, 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 implementation dates reported to the Audit Committee management comment and Pyramid status.
- 1.5 Appendix 3 provides a summary of all recommendations from National, External and Internal Audit reports by department and service that are due after 31 October 2014 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 implementation dates reported to the Audit Committee, management comment and Pyramid status.

2 RECOMMENDATIONS

- 2.1 The audit committee note the progress.

3 CONCLUSION

3.1 Of the 29 recommendations due for completion by 31 October 2014, 27 have been completed. Internal Audit is satisfied with the status of the remaining 2 recommendations being delayed but rescheduled and superseded.

Good progress is being made on the 42 recommendations due after 31 October 2014 with 9 completed early.

4. IMPLICATIONS

4.1	Policy:	None
4.2	Financial:	None
4.3	Legal:	None
4.4	HR:	None
4.5	Equalities:	None
4.6	Risk:	None
4.7	Customer Service:	None

For further information please contact Kevin Anderson (01369 708505)

Kevin Anderson
Chief Internal Auditor
5 December 2014

APPENDIX 1

SERVICE SUMMARIES

RECOMMENDATIONS DUE 01 AUGUST 2014 – 31 OCTOBER 2014

SERVICE	Complete	Delayed but rescheduled	Superseded	Total Of ACTION PLAN NUMBER
CHILDREN & FAMILIES	2			2
COMMUNITY & CULTURE	1			1
CUSTOMER & SUPPORT SERVICES	5			5
ECONOMIC DEVELOPMENT	5			5
EDUCATION	3			3
EXECUTIVE DIRECTOR CUSTOMER SERVICES	1			1
GOVERNANCE & LAW	3			3
IMPROVEMENT & HR	1		1	2
ROADS & AMENITY SERVICES	3	1		4
STRATEGIC FINANCE	3			3
Totals	27	1	1	29

RECOMMENDATIONS DUE AFTER 31 OCTOBER 2014

SERVICE	Complete	On Course	Total Of ACTION PLAN NUMBER
CHILDREN & FAMILIES	0	2	2
CUSTOMER & SUPPORT SERVICES	0	1	1
ECONOMIC DEVELOPMENT	4	0	4
EDUCATION	1	3	4
FACILITY SERVICES	0	3	3
GOVERNANCE & LAW	1	1	2
IMPROVEMENT & HR	1	4	5
PLANNING & REGULATORY SERVICES	1	5	6
ROADS & AMENITY SERVICES	0	8	8
STRATEGIC FINANCE	1	6	7
Totals	9	33	42

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Recommendations Overdue 31 October 2014

ACTION PLAN NO: WEAKNESSES/GOOD PRACTICE: GRADE: AGREED ACTION: DATES : COMMENT/EXPLANATION: PYRAMID: RESPONSIBLE OFFICER:

DEPARTMENT CUSTOMER SERVICES SERVICE IMPROVEMENT & HR

REPORT NAME REVIEW OF STATUTORY PERFORMANCE INDICATORS (SPIS) 2012/13

- | | | | | |
|---|--|--|----------------|--|
| 1 | Internal Audit found that data supplied to SPI co-ordinators with regard to absence figures did not agree back to working papers.
MEDIUM | The Improvement Service has confirmed that councils must continue to submit data for the small number of former SPIS that are included in the Local Government Benchmarking Framework. Those Services that are required to submit data should continue to work with Internal Audit so that working papers comply with the Accounts Commission's Direction to ensure accuracy before submission to the Improvement Service. | 30 August 2014 | Superseded
Head of Improvement & HR
(co-ordinate returns to IS) |
|---|--|--|----------------|--|

DEPARTMENT DEVELOPMENT & INFRASTRUCTURE SERVICES

ROADS & AMENITY SERVICES

REPORT NAME REVIEW OF CREMATORIUM 2014/15

- | | | | | |
|---|--|-----------------------------------|------------------------------------|---|
| 1 | A service manual detailing procedures for all aspects of the service has yet to be completed.
MEDIUM | Complete and issue service manual | 31 October 2014
31 January 2015 | Delayed but rescheduled
Crematorium Superintendent
and Service Officer – Grounds
& Horticulture |
|---|--|-----------------------------------|------------------------------------|---|
- The crematorium is undergoing a BPR exercise which will feed into the new manual that is under development.

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APPENDIX 3

Recommendations Due After 31 October 2014

ACTION PLAN NO:	WEAKNESSES/GOOD GRADE:	AGREED ACTION:	DATES :	COMMENT/EXPLANATION:	PYRAMID: RESPONSIBLE
-----------------	------------------------	----------------	---------	----------------------	----------------------

DEPARTMENT

SERVICE

REPORT NAME

None

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DRAFT ANNUAL AUDIT PLAN 2015/16

1. SUMMARY

- 1.1 This report introduces the draft Annual Audit Plan for financial year 2015/16.

2. RECOMMENDATIONS

- 2.1 To note proposed content and feedback any comments to the Chief Internal Auditor.

3. DETAILS

- 3.1 At the Audit Committee Development day it was agreed that a draft audit plan would be submitted to the December meeting of the Audit Committee to allow members to review proposals and feedback any comments to the Chief Internal Auditor prior to approving the finalised plan at the March meeting of the committee.
- 3.2 The Public Sector Internal Audit Standards (PSIAS) stipulate that the Council's internal audit plan must be risk based and focused on governance, risk and controls to allow the chief internal Chief Internal Auditor to provide an annual opinion on the Council's internal control framework, based on the work undertake during the year. This annual opinion informs the Annual Governance Statement.
- 3.3 The draft Annual Audit Plan in shown in Appendix 1. The audits detailed in the audit plan have been selected using a risk based assessment of our audit universe which is all of the auditable areas within the Council.
- 3.4 Factors used in the risk assessment process included the potential impact on the Council's corporate outcomes, the financial materiality, links to strategic risks, key changes within the operating environment, a review of complaints register and assurance received from other sources.
- 3.5 Consideration was also given to the requirement to provide an annual assurance statement, volume of transactions and impact on the Council's framework for internal control.

The Audit plan is broken down into 4 main areas which are;

- Continuous Monitoring
- Verification Reviews
- Cross Service Review
- Service Department Reviews

- 3.6 The Continuous Monitoring Programme includes a number of auditable units which were previously subject to individual annual audits. These areas are tested on a regular recurring basis with control weaknesses reported by exception.
- 3.7 Internal Audit undertake a number of Verification Reviews throughout the year. These reviews are primarily focused on testing and verifying areas such as grant claims and performance indicator submissions.
- 3.8 Cross Service Reviews include auditable units which are non-specific to an individual department or service area and which are of a corporate or organisational wide focus.
- 3.9 Service Department Review: Auditable Units within the Audit Universe which are specific to an individual department.
- 3.10 The plan is based on an estimated available 800 Audit day. An indicative outline scope is given for each of Auditable units. Full terms of reference will be discussed and agreed with relevant Head of Service.

4. CONCLUSION

- 4.1 The draft Annual Audit plan is risk based and is aligned to the Council's Long Term Outcomes, Corporate Outcomes and Strategic Risk Register. The plan now incorporates continuous monitoring and verification activity sections.

5. IMPLICATIONS

- | | | |
|-----|----------------------|------|
| 5.1 | Policy: | None |
| 5.2 | Financial: | None |
| 5.3 | Personnel: | None |
| 5.4 | Legal: | None |
| 5.5 | Equal Opportunities: | None |
| 5.6 | Risk | None |
| 5.7 | Customer Service | None |

For further information please contact Internal Audit (01546 604294)

Kevin Anderson
Chief Internal Auditor
05 December 2014

Appendices:

- 1. Draft Audit Plan 15/16

Appendix 1. Draft Audit Plan

Auditable Unit		Sub Service	Topic /Test area	Planned days	Outline Scope
Service Area					
Customer and Support Services	Revenue and Benefits	Revenue and Benefits	Housing Welfare Payments	20	Control Environment. Legislative Compliance and reporting arrangements
	Procurement	Procurement	Pecos	20	Control Environment. Housekeeping and Reconciliations. Year End Processes
Facility Services	Catering	Catering	School Meals	20	Arrangements for compliance with Children's and Young Peoples Act requirements
	Transport	Transport	School Transport	20	Procurement including Contractual arrangements
	Asset Management	Asset Management	Survey Condition Arrangements / Lifecycle planning	20	Policies and Procedures including assessment and reporting.
Improvement and HR	Human Resources	Human Resources	Training needs analysis and provision of training	20	Training Need Analysis /Provision of Training arrangements arising for PRD's.
	Health and Safety	Health and Safety	Recording and Reporting	15	Recording and Reporting arrangements.
Governance and Law	Licensing	Licensing	Taxi	15	Compliance with Legislative requirements / Policy
	Homecare	Homecare	Self Directed Support (SDS)	20	Monitoring and Claw-back Arrangements Counter Fraud.
Adult Services	Homecare	Homecare	Resource Allocation System	20	Control Environment. Application of policy
	Hostels	Hostels	National Care Standards	15	Compliance with National Care Standards
Children and Families	Early Years	Early Years	Children and Young People Act – 600 hrs	20	Arrangements for compliance with CYPA
	Out of Authority Placements	Out of Authority Placements	Control Processes	15	Control Environment.
Community and Culture	Homelessness	Homelessness	Legislative compliance	15	Compliance with Legislative changes (Dec 12)
	Education - SQA Entries	Education - SQA Entries	Policies and Control	15	Policies and Control
Education	Education - Exclusions and Truancy	Education - Exclusions and Truancy	Policies and Controls	15	Policies and Controls
	Education - Looked after Children	Education - Looked after Children	Equality of provision	15	Access to Education services and support

Appendix1. Draft Audit Plan

Auditable Unit		Sub Service	Topic /Test area	Planned days	Outline Scope
Economic Development and Strategic Transportation	Economic Development Action Plans	Delivery of Plans	25	Evidence of Action Plan delivery. Arrangements including monitoring, reporting and escalation.	
	Townscape Heritage Initiative and Community Area Regeneration Schemes	Delivery of Outcomes	15	Evidence of project compliance / Delivery of Outcomes including monitoring and reporting.	
	Piers and Harbours	Management Arrangements	20	Application / compliance with policy and procedures.	
	Capital Projects	Scoping and Design Protocols	20	Scoping and Design Protocols	
Roads and Amenity	Roads Maintenance	Prioritisation of Maintenance Protocols	20	Prioritisation Protocols.	
	Enforcement /Retrospective permissions	Compliance	15	Arrangements for Enforcement / Retrospective Permissions	
Planning and Regulatory Services	Single Outcome Agreement	Delivery Plan Monitoring	25	Arrangements for Delivery Plan monitoring, reporting and escalation.	
	Health and Social Care Integration	Governance Arrangements	20	Governance Arrangements	
	Risk Management	Policy and Procedures	20	Review of Risk Assurance Mapping and Risk Appetite	
	Disposals Policy	Policies	15	Arrangements in place for disposal of surplus /obsolete equipment and materials.	
Cross Cutting	Use of Electronic Signatures	Protocols	15	Policies and Controls	
	Arrangements of prevention /detection of Fraud.	Anti-Fraud Strategy, Whistleblowing National Fraud Initiative	30	Anti-Fraud Strategy, Whistleblowing Policy National Fraud Initiative	
	Performance Management	Scorecards	15	Accuracy of information including supporting documentation.	

Appendix1. Draft Audit Plan

Auditable Unit		Sub Service	Topic /Test area	Planned days	Outline Scope
Service Area					
Continuous Monitoring Programme	Budgeting	Cipfa Matrix Testing	12	Internal Control Environment	
	General Ledger	Cipfa Matrix Testing	12	Internal Control Environment	
	Creditors	Cipfa Matrix Testing	24	Internal Control Environment	
	Debtors	Cipfa Matrix Testing	12	Internal Control Environment	
	Payroll	Cipfa Matrix Testing	24	Internal Control Environment	
	Establishment Visits (Cash)	Cipfa Matrix Testing	12	Internal Control Environment	
	Treasury Management	Cipfa Matrix Testing	12	Internal Control Environment	
	Council Tax and NDR	Cipfa Matrix Testing	12	Internal Control Environment	
	Leader	File and Claim review	10	Evidence Compliance with award Criteria	
	Flag	File and Claim review	10	Evidence Compliance with award Criteria	
Verification	Airports	Aerodrome Operation Manual	10	Evidence Compliance with Aerodrome Operating Manual	
	LGBF	Accuracy of Submission	10	Accuracy of Submission	

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Argyll and Bute Council

Annual report on the 2013/14 audit

Prepared for the members of Argyll and Bute
Council and the Controller of Audit

October 2014



Key contacts

Fiona Mitchell Knight, Assistant Director
[@audit-scotland.gov.uk](mailto:fiona.mitchell@audit-scotland.gov.uk)

David Jamieson, Senior Audit Manager
djamieson@audit-scotland.gov.uk

Russell Smith, Senior Auditor
rsmith@audit-scotland.gov.uk

Audit Scotland
4th floor (South Suite)
Nelson Mandela Place
Glasgow
G2 1BT

Telephone: 0131 625 1500

Website: www.audit-scotland.gov.uk

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Key messages

Best Value, use of resources & performance

- The Accounts Commission considered a Best Value audit follow-up report at its meeting on 19 June 2014, and issued its findings.
- These reflected progress made but recognised that it is too early to assess the effectiveness and impact of the actions and plans being implemented.
- The council has much work to do, if it is to secure the improvements required by the Accounts Commission in October 2013, and meet its statutory duties on Best Value.

Governance & accountability

- Key financial controls operated effectively during 2013/14 but weaknesses in governance arrangements were reported on a range of issues.
- Scrutiny still needs to demonstrate improvement under the new committee structure.

Financial position

- Financial management has been strong in 2013/14 with close budget monitoring and regular reporting to members.
- Whilst the balance on the General Fund is reducing, it remains significant and in terms of uncommitted reserves, is considerably above the minimum target set by the council.
- There is short term stability but expenditure needs to be reduced over the period 2016/17 to 2019/20 by approximately £77 million in total.
- Achieving these savings will require fundamental decisions to be made by councillors about future service provision and delivery.

Financial statements

- We have given an unqualified audit opinion on the financial statements of Argyll and Bute Council for financial year 2013/14.

Outlook

- Councils face rising demands for services and continued funding pressures alongside managing major reforms in welfare and health and social care.
- Effective arrangements for Best Value and strong governance and leadership will be essential to ensure the council can meet the challenges it faces, use available resources efficiently and achieve continuous improvement in its performance.

Key Messages

Best Value, use of resources and performance

1. A Best Value audit follow-up report was considered by the Accounts Commission at its meeting on 19 June 2014. The Commission accepted the Controller of Audit's report and noted in its findings that it is encouraged that the council is making progress against its previous findings of October 2013.
2. However, the Commission also agreed that it is too early to assess the effectiveness and impact of the actions and plans being implemented, concluding that there is still much work to be done if the council is to secure the improvements required and meet its statutory duties on Best Value.

Governance and accountability

3. The council recognises that governance and scrutiny arrangements are not effective in all areas.
4. The Best Value follow-up audit report says that scrutiny still needs to improve in its new committee structure.
5. The key controls within the council's main financial systems were operating effectively during 2013/14. However weaknesses in governance arrangements were reported relating to a range of issues, on the:
 - Sale of Kilbowie House, Oban
 - Helensburgh CHORD redevelopment project

- Funding for the Scottish Submarine Museum
 - Gourock to Kilcreggan Ferry Service.
6. The council's 2013/14 Corporate Governance Statement was revised to include some of these issues.
 7. Local interest in the council's activities leads to correspondence being sent to Audit Scotland, asking for issues to be considered as part of our audit. We have reflected the findings from any work that arises from this correspondence throughout this report.

Financial position

8. The closing balance at the year end on usable reserves was £48.526 million representing a net decrease of £1.778 million from 2012/13. Whilst the balance on the General Fund is reducing, it remains significant and in terms of uncommitted reserves, is considerably above the minimum target set by the council.
9. The council estimates it will require to reduce expenditure over the period 2016/17 to 2019/20 by an average of around three per cent or £8 million per annum, building up to £28.565 million in 2019/20. This equates to approximately £77 million in total over the four-year period. Achieving these savings will require fundamental decisions to be made by councillors about future service provision and delivery.

Key Messages

10. The council plans to use the two-year period of financial stability (2014/15 and 2015/16) to develop and put in place proposals to address the longer-term funding outlook and to consider how resources are aligned to the Single Outcome Agreement 2013-23 and council priorities, future savings and options for additional income.

Financial Statements

11. We have given an unqualified audit opinion that the financial statements of Argyll and Bute Council for 2013/14 give a true and fair view of the state of the affairs of the council and its group as at 31 March 2014 and of the income and expenditure for the year then ended.
12. We have also given an unqualified audit opinion on the 2013/14 financial statements of the registered charities audited under the provisions of The Charities Accounts (Scotland) Regulations 2006 (the 2006 Regulations).
13. Overall performance against budget was an underspend of £3.360 million, representing 1.33% of net service expenditure. The council underspent against its departmental controllable budget by £0.842 million (0.40% of the 2013/14 revenue budget).
14. Financial management remains strong with close budget monitoring and regular reporting to members.

Outlook

15. Demands on services and resources continue to increase and these need to be managed alongside major reforms in the welfare system and health and social care. This underlines the need for strong governance, leadership and decision making based on good cost and performance information. Effective working with partners will be required to make the best use of available resources, as well as innovation and vision to design and deliver the services needed to serve the future needs of citizens.
16. Given the outcome of the referendum there is the potential for even further change with significant impact likely on local services, governance and accountability.

Introduction

17. This report is a summary of our findings arising from the 2013/14 audit of Argyll and Bute Council. The purpose of the annual audit report is to summarise the auditor's opinions and conclusions, and to report any significant issues arising from the audit. The report is divided into sections which reflect our public sector audit model. The order of the sections reflect our assessment of the risk areas in the council.
18. Our responsibility, as the external auditor of Argyll and Bute Council, is to undertake our audit in accordance with International Standards on Auditing (UK and Ireland) and the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011.
19. The management of Argyll and Bute Council is responsible for:
- preparing financial statements which give a true and fair view
 - implementing appropriate internal control systems
 - putting in place proper arrangements for the conduct of its affairs
 - ensuring that the financial position is soundly based.
20. This report is addressed to the members of Argyll and Bute Council and the Controller of Audit and should form the basis of

discussions with the Audit Committee as soon as possible after it has been issued. Reports should be made available to stakeholders and the public, as audit is an essential element of accountability and the process of public reporting.

21. This report will be published on our website after it has been considered by the council. The information in this report may be used for the Account's 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.
22. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, shown at Appendices I and II, include recommendations for improvements. 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.
23. The concept of audit risk is of key importance to the audit process. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements. We set out in our annual audit plan the related source of assurances and the audit work we proposed to undertake to secure appropriate levels of assurance. Appendix III sets out the significant audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

Introduction

24. Appendix IV 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 "Management action/response".
25. We recognise that not all risks can be eliminated or even minimised. What is important is that Argyll and Bute Council understands its risks and has arrangements in place to manage these risks. The council and senior officers should ensure that they are satisfied with proposed management action and have a mechanism in place to assess progress and monitor outcomes.
26. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
27. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Best value, use of resources and performance

28. Local authorities have a statutory duty to provide Best Value in carrying out their functions and delivering services, including those provided through Arms-Length Organisations. This requires continuous improvement while maintaining a balance between quality and cost and having regard to value for money, equal opportunities and sustainability. There is also a duty to report performance to the public so that local people know what quality of service is being delivered and what they can expect in the future.

Assurance and improvement plan 2014-17

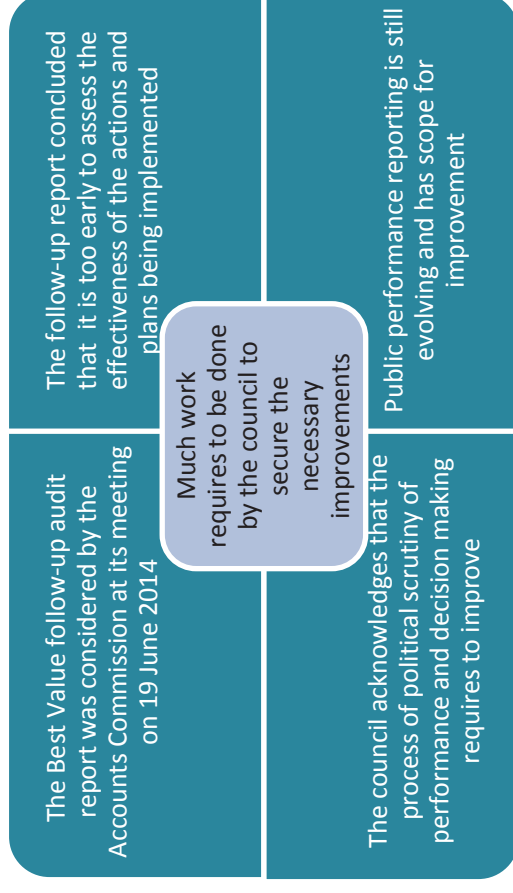
29. The Assurance and Improvement Plan (AIP) covering the period 2014 to 2017 is the fifth AIP for Argyll and Bute Council prepared by the Local Area Network (LAN) of scrutiny partners for the council, since the introduction of the shared risk assessment process. This has been published on Audit Scotland's website.

30. The LAN assessed all areas as 'no scrutiny required', with the

exception of leadership and direction which was assessed as 'scrutiny required'.

31. The AIP recorded that following submission of a statutory report to the Accounts Commission on leadership and culture at Argyll and Bute Council in October 2013, Audit Scotland would carry out Best Value follow-up work, examining the council's progress in responding to the Accounts Commission's requirement for urgent progress. The follow up work considered progress up to April 2014.

Statutory report follow-up



32. The October 2013 statutory report was presented to the Accounts Commission by the Controller of Audit. It covered

Best value, use of resources and performance

leadership and culture at Argyll and Bute Council including the effectiveness of councillor to councillor and councillor to officer working relationships.

33. The Commission made findings on the report and asked the Controller of Audit to provide a further report on the progress made to improve over the following six months. The follow-up audit work reviewed progress made by the council over the six-month period between the publication of the statutory report at the end of October 2013 and April 2014. The follow-up audit report concluded that:
- Argyll and Bute Council has responded constructively to the Accounts Commission findings on the 2013 statutory report and it is making progress with improvement work. It is, however, too early to assess the effectiveness of the actions and plans being implemented.
 - The leadership and political dynamics of the council are more stable but the situation remains fragile. The risk to the council is currently reduced but there are difficult circumstances ahead and tough decisions to be made that will prove challenging to political management and ongoing stability.
 - New political management arrangements provide a foundation for improved governance. The council needs to ensure councillors and officers have a shared understanding in practice about the roles and responsibilities as well as effective links within and across

the new arrangements to ensure they meet their potential.

- Scrutiny still needs to improve. In particular, the council needs the commitment and engagement of councillors in the work of the Performance Review and Scrutiny Committee and the Audit Committee, if these are to make an effective contribution to governance and accountability. The role of senior management will also be crucial.

34. The follow-up audit report was considered by the Accounts Commission at its meeting on 19 June 2014. The Commission accepted the Controller of Audit's report and noted that it encouraged the council is making progress against its previous findings of October 2013. The Commission also agreed that it is too early to assess the effectiveness of actions and plans being implemented and concluded that there is still much work to be done by the council to secure the improvements that were required in October 2013.
35. The Commission therefore requires the Controller of Audit to report on progress by the end of 2015, with particular focus on the effectiveness of the following:
- Political management arrangements
 - Scrutiny
 - Roles and relationships, including between members and officers.
36. At its meeting on 25 September 2014, the council agreed a further 10 actions points as a consequence of the follow-up

report in order to support continued improvement.

Arrangements for securing Best Value

37. The Corporate Improvement Plan sets out the council's planned activity to improve service delivery and how the council works. It aims to drive out financial efficiencies to meet future budgetary constraints.
38. The Planning and Performance Management Framework (PPMF) remains a core component of the improvement process for the council, to help ensure delivery of the Corporate Improvement Plan. The Framework is designed to draw together improvement activities within the council to ensure that improvement is taking place in a coordinated manner.
39. At its meeting in November 2013, the Performance Review and Scrutiny Committee (PRSC) noted the results of a review of the Corporate Improvement Plan. The review identified that five of the original 12 projects (including Employee and Elected Member Development and Health and Social Care Integration) had now either come to a conclusion or will be monitored outwith the Corporate Improvement Board. The review also identified that the Productivity and Service Improvement Project will be split into four parts with the PPMF and Public Service Improvement Framework being monitored through the Strategic Management Team. Remaining within the Corporate Improvement Plan are Service Prioritisation and Business Process Re-engineering.

40. An update report submitted to the PRSC in May 2014 records that the Corporate Improvement Programme is making good progress against its targets. Of the seven projects in the programme, all are reported to be on track and green.

41. A review of the council's Planning and Performance Management Framework is currently ongoing and will be presented to the PRSC in November 2014.

Use of resources

42. The council continues to identify savings through workforce management, asset management and procurement. In 2013 the council achieved a procurement capability assessment (PCA) score of 63%, which is classed as Level 2 'improved performance status' and demonstrates a further improvement on the 2012 score of 53%.

Performance management

43. In 2012 the council established the Performance Review and Scrutiny Committee (PRSC), which is chaired independently. It met for the first time in February 2013 and meets quarterly. It reviews and scrutinises council performance with a structured agenda including quarterly and annual performance reports on service performance, financial performance, improvement and particular areas of strategic interest such as attendance management.

Best value, use of resources and performance

44. The council uses a performance management software system (Pyramid) to record performance information and generate performance scorecards. The PPMF sets out the structure and content of scorecards. The system includes council, department, service, thematic and area scorecards to provide the key management information required at all levels in the organisation and to measure achievement of Corporate Plan and Single Outcome Agreement deliverables.
45. Quarterly performance reports including council and departmental scorecards are presented to the PRSC. The reports outline performance during the period including a review of successes, key challenges and improvement actions for the coming period. Service annual performance reviews for all twelve services are also presented to the PRSC. These include key successes, key challenges and key improvement actions to address the challenges. An Annual Report is also produced as part of the public performance reporting strategy.
46. In a report to the August 2014 PRSC meeting, the Executive Director, Customer Services reported that: “Argyll and Bute Council has a well-established performance management process, underpinned by the Planning and Performance Management Framework. The process of political scrutiny of performance and decision making is less well established”.
47. As a result, a number of measures are currently being introduced to improve member scrutiny of performance. In particular, from Quarter 1 2014/15, the new Strategic Service

Committees carry out review and scrutiny of departmental performance on a quarterly basis. Members will also continue to scrutinise performance for their specific local area at each of the four Area Committees on a quarterly basis.

48. An annual report on performance management processes and procedures is currently being developed. This will be presented to the PRSC in November 2014 as part of the PPMF review.

Single Outcome Agreement

49. The SOA 2013-14 annual report details annual performance for 2013-14 by Community Planning Partners (CPP) against measures in the Argyll and Bute SOA 2012-13.
50. The overall reported performance in 2013/14 indicates that of the 105 measures 87.6% were green and 12.4% were red, highlighting an improvement in performance from 2012-13 (80.3% green and 19.7% red).
51. All CPPs in Scotland produced revised Single Outcome Agreements in 2013 based on guidance issued by the Scottish Government. These are ten year plans from 2013 to 2023. The main planned outcome in the SOA for Argyll and Bute is that “Argyll and Bute’s economic success is built on a growing population”. The 6 long term outcomes are:
- The economy is diverse and thriving.
 - We have an infrastructure that supports sustainable growth.

Best value, use of resources and performance

- Education, skills and training maximises opportunities for all.
 - Children and young people have the best possible start.
 - People live active, healthier and independent lives.
 - People live in safer and stronger communities.
52. These six outcomes address the six national policy priorities that were set out in the national guidance on community planning.
53. Argyll and Bute CPP has developed a set of six Delivery Plans linked to each of the long-term outcomes within its SOA. These Delivery Plans identify short term outcomes for the ambition of the SOA and set out the way in which partners will action and monitor progress.
54. At its meeting in June 2014, the Council as lead partner endorsed the delivery plans for the Single Outcome Agreement and agreed that they be submitted to the Scottish Government.

Overview of performance targets in 2013/14

55. As outlined at paragraph 44, performance is monitored via scorecards which report progress against a number of agreed success measures.
56. There are 299 success measures which were monitored through service scorecards in 2013-14. These were analysed for 2013/14 to show progress against target. The analysis

showed a slight overall improvement over the 2012/13 position with 78% of indicators meeting or exceeding target and 22% adrift of target (77% of indicators meeting or exceeding target and 23% adrift of target for 2012/13).

57. Of 102 Service improvement actions, 98 (96%) are reported as on track or complete at the end of the year.

Statutory performance indicators

58. The Accounts Commission has a statutory power to define performance information that councils must publish locally and it does this through its annual Statutory Performance Information Direction. Since its 2008 Direction, the Accounts Commission has moved away from specifying individual indicators and has focused on public performance reporting and councils' requirement to take responsibility for the performance information they report.
59. The audit of Statutory Performance Indicators in 2013/14 is a two stage process. The first stage requires auditors to ascertain and appraise councils' arrangements for public performance reporting and the completion of the Local Government Benchmarking Framework indicators. This focuses on three statutory performance indicators (SPIs) namely:
- SPI 1: covers a range of information relating to areas of corporate management such as employees, assets and equalities and diversity

Best value, use of resources and performance

- SPI 2: covers a range of information relating to service performance
- SPI 3: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.

60. The second stage involves an assessment of the quality of the information being reported by the council to the public. An evaluation of all Scottish Local Authorities' approaches to public performance reporting (PPR) has been carried out by Audit Scotland's Performance Audit and Best Value section, the results of which were reported to the Accounts Commission in June 2014.

61. Individual assessments were also reported to councils' Chief Executives, Leaders and Chairs of Audit Committees. These highlighted the extent to which their PPR material either fully, partially or did not meet the criteria used in the evaluation. The results for Argyll and Bute were mixed, with 43% fully, 48% partially and 9% not meeting the criteria. A further evaluation of councils' approaches to PPR is due to be carried out in spring 2015.

Local performance audit work

62. In 2013/14 we carried out two targeted follow-up audits to assess progress in areas that had been reported nationally by Audit Scotland, namely:

- Arm's-length external organisations (ALEOs)
- Major capital investment in councils.

63. The findings from these two pieces of work were included in our Progress Report to the September 2014 Audit Committee. These findings were:

64. **Arm's-length External Organisation (ALEOs):** This was a targeted follow-up study carried out across all local authorities in Scotland. A key aim of the study was to provide the Accounts Commission with a position statement on councils' use of ALEOs and, on progress since the '*Arms-length External Organisations: Are you getting it right?*' report published in 2011.

65. We concluded that the council does not have any ALEOs and accordingly no further work was required.

66. **Major capital investment in councils:** Audit Scotland's national report on *Major capital investments in councils* published in March 2013 assessed how well councils direct, manage and deliver capital investments. The report focused on major capital projects i.e. those with an individual value exceeding £5 million. Local follow-up audits were carried out at all 32 councils in Scotland.

67. In Argyll and Bute, we concluded that the council has made good progress in addressing relevant recommendations made in the report. The council's three year Capital Programme (2014/15 – 2016/17) generally meets the key features of good

Best value, use of resources and performance

practice outlined in Audit Scotland's report.

National performance audit reports

68. The council has adequate arrangements for the consideration of national performance audit reports.
69. A summary of national performance audit reports, along with local audit reports, is included in Appendices I and II.

Outlook

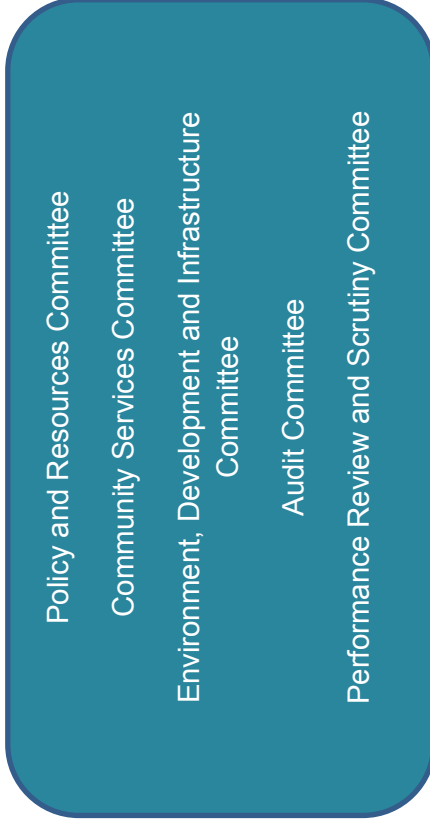
70. In common with other councils, Argyll and Bute Council faces the key challenges of reducing budgets, an ageing population and public expectations of high quality services. Savings have been made in recent years by identifying savings proposals and then setting out the service and staffing implications. However as choices on how to address funding gaps becomes increasing difficult, councils will have to focus on making the very best use of all available resources and to challenge existing ways of doing things. An effective Best Value framework, alongside strong and effective performance management will be critical to the success of the council achieving its key priorities.

adequacy and effectiveness of these arrangements.

Corporate governance

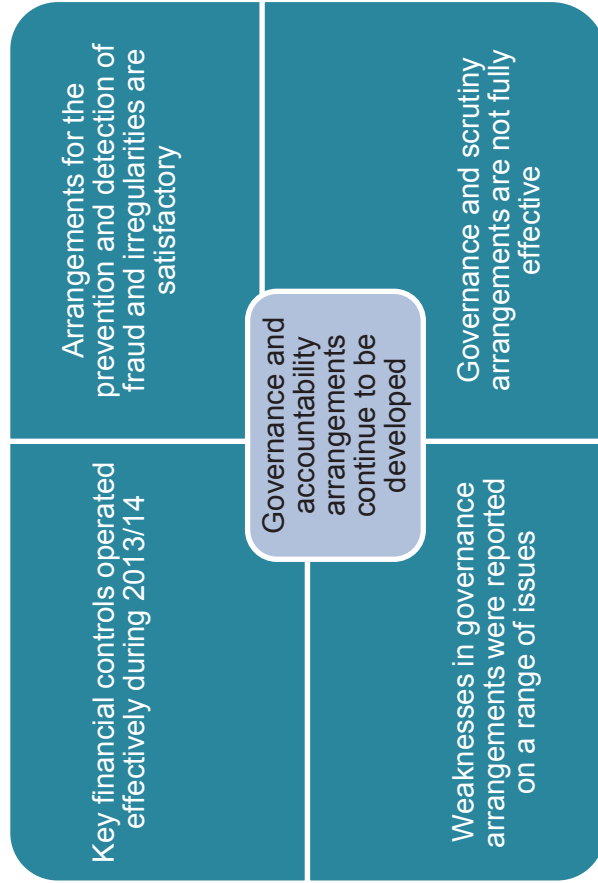
72. At its meeting in January 2014, the council agreed to move forward with a new committee structure recommended by the short life working group on political management arrangements. The first meetings under this new structure commenced in May 2014.

73. The corporate governance framework within Argyll and Bute Council is centred on the council supported by the following committees.



74. The effectiveness of the new committee structure was considered as part of the follow-up audit work to the statutory report presented to the Accounts Commission in October 2013. The results of the follow-up audit work are recorded at paras 32 to 35.

Governance and accountability



71. Members of the council and senior officers are responsible for establishing arrangements for ensuring the proper conduct of the affairs Argyll and Bute Council and for monitoring the

75. The follow-up work reported that scrutiny still needs to improve. In particular, the council needs the commitment and engagement of councillors in the work of the Performance Review and Scrutiny Committee and the Audit Committee, if these are to make an effective contribution to governance and accountability. The role of senior management will also be crucial. The Audit Committee is currently carrying out a review of its effectiveness. The council has also clarified that the area committees perform a scrutiny role by reviewing area performance scorecards.

76. Following a number of recent changes to the political composition of the council, the Executive Director of Customer Services presented a report to the council at its meeting of 25 September 2014 which records that 24 councillors (out of 36) now constitute the Administration of the council. The Administration consists of the members of the Argyll and Bute for Change Alliance in partnership with the members of the Argyll, Lomond and the Isles Group (TALIG).

Internal audit

77. Internal audit provides members of the council and the Proper Officer with independent assurance on the overall risk management, internal control and corporate governance processes. Following the retirement of the Chief Internal Auditor the council is recruiting a replacement.

78. In 2013/14 internal audit commenced a 3 year partnership

contract with Grant Thornton and CIPFA to provide the council with high level support on development of the internal audit function. Our review of internal audit concluded that overall the internal audit service operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place. We placed formal reliance on the work of internal audit in several accounting systems as detailed within our Annual Audit Plan.

Internal control

79. As part of our audit we reviewed the high level controls in a number of the council's systems that impact on the financial statements. This audit work covered payroll and trade payables. We also relied on previous years' audit work in relation to trade receivables, general ledger, council tax billing and collecting, non-domestic rates billing and collection, capital accounting, treasury management and cash & cash equivalents.

80. Our overall conclusion was that key controls within the council's main financial systems were operating satisfactorily during 2013/14 and no significant risks were identified. However during the year we carried out some targeted audit work on council activities where weaknesses in local governance arrangements were identified. We asked that the council revise the 2013/14 Corporate Governance Statement to include

these issues. The process for ensuring the 2014/15 governance statement is complete is to be reviewed.

Recommendation 1

- 81.** A common theme of correspondence received by Audit Scotland is that people would like to see more information on key issues being discussed by the council in public. The council has a process in place, for considering which reports are to be discussed in private, due to inclusion of commercially sensitive information and other valid reasons. However the council should consider whether it is getting the balance right, in this area.

Recommendation 2

Governance issues reported

- 82.** In September we reported to the Audit Committee on the findings from two pieces of audit work where weaknesses in governance arrangements were identified.

Helensburgh Redevelopment Project

- 83.** The Helensburgh CHORD Project is designed for the regeneration and economic development of Helensburgh Town Centre and West Bay Esplanade. Due to the profile of the CHORD project in the community and receipt of correspondence from members of the public, we carried out some targeted audit work reviewing the council's governance over the redevelopment project. In conclusion we reported that

elected members form the Helensburgh and Lomond Area Committee have overseen the redevelopment project. They have been involved in making decisions at key stages of the project.

- 84.** The original target completion date for the Helensburgh redevelopment contract was May 2013. The original budget was £6.660 million. The latest target date for completion is April 2015. Delays in completion became inevitable due to the contract being retendered twice. The first retendering was due to poor procurement practices and the second retendering of the contract was approved by the council with an aim of better reflecting the views of the community. A consequence of both these retendering exercises was delays and increased costs. Having said that the project is still within the original budget allocation of £6.660m. Delays to the project were not solely due to the procurement processes but also due to a range of issues including failures on the part of the contractor and ground conditions.
- 85.** The council has acknowledged that project governance arrangements needed to be improved and that the project has not progressed as planned. The council is to continue to review the effectiveness of its revised arrangements over similar projects. The council is also to complete its planned post implementation review to report on whether the objectives of the Helensburgh project have been realised.
- 86.** The Head of Strategic Finance has confirmed that shortly after

the Council approved the CHORD projects, it agreed to carry out a baseline review to establish a comparator for assessing the success of the projects. It also agreed to carry out a post implementation review and then a longer term evaluation of success for each project. The Head of Strategic Finance has also confirmed that Socio- Economic Baseline and Perceptions studies were undertaken by economists in December 2010 and that in March 2011, an Economic Impact Assessment (EIA) was undertaken which outlines the EIAs likely to be generated within a 3 to 5 year time frame. An initial review of project implementation will be completed with 12 months of the project being completed – this will focus on project delivery and management.

Scottish Submarine Museum

87. Following receipt of correspondence to Audit Scotland, we carried out some targeted audit work on the governance arrangements over the council's involvement with the proposed Scottish Submarine Museum in Helensburgh.
88. The council is of the opinion that this proposal has the potential to add a significant new visitor attraction to Helensburgh and support the investment made in the town through CHORD and proposed future works such as the regeneration of the Pier.
89. In February 2014, as part of the 2014/15 budget approval discussions the council made provision for £140,000 funding to the Scottish Submarine Trust to support the opening of a

Scottish Submarine Museum in Helensburgh. The funding request from an external organisation was included as a 'Cost and Demand Pressure.'

90. In a report to the council meeting in March, senior officers acknowledged that the council did not follow its own procedures in considering the submarine museum funding request, from an external organisation.
91. In response to concerns raised by members regarding the evaluation of this funding request, officers presented a supplementary report to the council meeting in March. Members agreed that a number of additional conditions would need to be satisfied prior to any release of the funding, in three tranches.
92. The Head of Strategic Finance has confirmed that the evidence has now been reviewed, required to satisfy the conditions set by the council for the release of the first funding instalment of £50,000.
93. The funding for the museum was approved to facilitate early release of the funds so that the museum could be opened to coincide with the Commonwealth Games. However the museum was not opened at all during the period of the games and it is still not open to visitors. Accordingly there is a risk that it may not attract the visitor number required for it to be sustainable. The council recognise this risk and have recently received a revised business plan incorporating revised visitor

expectations. Based on this revised business plan, officers have taken the decision to release the first tranche of funding.

94. Following discussion of our findings in relation to this funding request, the council agrees that there needs to be a more formalised process for considering external funding requests.

Recommendation 3

Gourock to Kilcreggan Ferry Service

95. Following receipt of correspondence to Audit Scotland, we carried out some targeted audit work on the governance arrangements in place relating to the Kilcreggan Ferry service.

96. The Gourock to Kilcreggan ferry service is operated by Clydelink Ltd behalf of Strathclyde Partnership for Transport (SPT). Officers acknowledge that from the start of the ferry contract in April 2012, they relied solely on data provided by SPT to check the payments remitted from Clydelink and that controls could be improved,

97. An internal audit Review of Fish Landing Dues & Other Harbour Income in November 2011 identified significant weaknesses in the procedures for collecting berthing or landing fees at the council's harbours and piers. The resultant recommendation to implement a register of berthing at each port is recorded as complete as at 30 November 2012. However we have identified that improved procedures for the collection of fees were not introduced at Kilcreggan Pier until August 2013. At

that time, arrangements were put in place for the Piermaster to maintain his own record of berthings and passenger numbers which were used as a basis for submitting invoices to Clydelink.

98. The time taken to implement improved procedures arising from the internal audit review, at Kilcreggan Pier is outwith the timetable agreed with the Audit Committee.

99. Our review also established that as a result of late payment, most invoices issued to Clydelink for berthing dues have been subject to follow up action through the corporate sundry debtor process. The current position is that the last 3 invoices issued to Clydelink (£8,869.00) remain unpaid and these are also being pursued through the corporate sundry debtor process.

100. Officers have confirmed that there has been ongoing discussion with SPT about unpaid berthing dues by Clydelink at Kilcreggan Pier and SPT have stated that they are prepared to take punitive action if necessary by deducting money at source. An alternative would be for the council to get a signed agreement from Clydelink, enabling SPT to pay monies due directly to the council. This course of action should be considered by the council.

Recommendation 4

101. A Clyde boatyard company related to Clydelink, Silvers Marine (UK) Ltd, ceased trading on 29 October 2012 and the business was taken over by GRM Marine Ltd. Officers have confirmed that the Silvers Marine (UK) Ltd 2012/13 NDR account was

Governance and accountability

passed to sheriff officers on 3 December 2012 as a result of non payment. Officers have also confirmed that a suspend was placed on the Silvers Marine (UK) Ltd account with the sheriff officers following a notice in the Edinburgh Gazette of 8 March 2013 advising that a petition for liquidation had been served.

102. The council's Non Domestic Rates section were unaware of any further changes to liability in relation to Silvers Marine (UK) Ltd until 25 Sept 2013. This information was then acted upon with 2012/13 and 2013/14 NDR Initial Notices being issued to GRM Marine Ltd on 10 October 2013.

103. GRM Marine Ltd was placed in provisional liquidation on 6 February 2014. At that date, all NDR debt relating to 2012/13 (£9,983.15) and 2013/14 (£21,136.93) remained outstanding. The Head of Strategic Finance has confirmed that the council's current arrangements with sheriff officers ensure that they have access to appropriate information on the status of companies who are being pursued for non payment. It is acknowledged however that this process is dependent upon publicly reported information on a company's status being available.

Rockfield Primary School

104. As a result of local interest in the sale of the former Rockfield Primary School in Oban, we have included an update on the current position in relation to the sale.

105. The property is a listed building and has been for sale by the council for a number of years (marketed on the basis of retention and redevelopment only). At its meeting on 24 January 2013 the council approved a recommendation to fund a feasibility study by Argyll Community Housing Association (ACHA) from the Strategic Housing Fund to examine possible development options covering retention and conversion of the school building and also demolition and new build on the site. Our work concluded that utilisation of the fund for a feasibility study to explore the development of a site for affordable housing is a legitimate use of these resources.

106. At its meeting on 11 June 2014, Oban, Lorn & the Isles Area Committee (OLIAC) agreed to recommend to the council the sale of the property to ACHA for the sum of £1 on the basis of a new build development of thirty seven dwellings. However prior to the meeting of the Council on 26 June 2014 a new offer to purchase Rockfield was received and the Council agreed that in light of the new information, a closing date be set for offers to be reported back to the next OLIAC. The marketing of the property that took place arising from the decision taken by the Council in June 2014 confirmed the general presumption against the demolition of listed buildings but also directed potential bidders to the Scottish Historic Environment Policy which stipulates the criteria under which consideration may be given to demolition

107. The property was re-advertised for sale and by the closing date

of 8 August 2014, a number of offers had been received. These were considered by OLIAC in private session at its meeting on 14 August 2014. The Committee agreed to continue consideration of this matter to a Special Area Committee held on Wednesday 10 September 2014.

108. The current position is that at the September meeting, a preferred bidder was agreed. Although the preferred bidder has been asked to submit their business plan by the end of December 2014, it will not be considered by the Area Committee until their next scheduled meeting which is in February 2015. We will continue to monitor the sale of this property.

Follow up on the Sale of Castle Toward

109. Our Annual Report on the 2012/13 Audit reported on the council's sale of Castle Toward. At that time we reported on an informal expression of interest from the South Cowal Community Development Company (SCCDC) in relation to a potential registration of a community interest and/or buy out of Castle Toward in terms of the Land Reform (Scotland) Act 2003.

110. Since then SCCDC formally submitted a Community Right to Buy application to Scottish Ministers in March 2014 in respect of Castle Toward which was subsequently approved. The Scottish Government appointed the District Valuer to assess the market value of the property who returned a property

valuation of £1.75 million.

111. At its meeting of 26 June 2014 the Council was advised that SCCDC had lodged a formal appeal to the District Valuer's valuation. As a result of the appeal the Council were advised that the date by which SCCDC has to complete the sale and take possession had been extended by an extra 2 months until 5 November 2014.

112. To support the acquisition, SCCDC have been awarded a grant of £0.750 million from the Scottish Land Fund. A request for the Council to consider applying a discount to the valuation provided by the District Valuer has also been made by SCCDC.

113. At its meeting on 21 August 2014, the Policy and Resources Committee agreed to extend the Right to Buy deadline for the conclusion of the purchase of the Castle Toward estate until 31st December 2014 in order to allow SCCDC time to provide additional information in relation to their Business Plan and in relation to State Aid. We will continue to monitor the sale of this property.

Lease Agreements for Council Properties

114. In 2012/13 we reported that the council planned to undertake a review to confirm that all properties leased to or occupied under license by outside parties are covered by valid legal agreements. This was to ensure that all parties have clarity over maintenance and occupancy responsibilities. Internal

Audit has reported that this review has been completed. No new legal agreements were required following this review.

ICT audit

115. For the first time in 2012/13, councils had to apply to connect to the Public Services Network (PSN) to allow the sharing of electronic data with other public bodies, such as the Department of Works and Pensions. This entailed complying with the strict security measures of the PSN Code of Connection which, if fully met, resulted in the issue of a compliance certificate. The application and approval process is subject to annual review and could result in a disruption to operations and service delivery if there were any non compliance issues.

116. The council carried out a substantial programme of work in 2013/14 (approximately £0.230 million including staff costs) to bring its network into a position of compliance with the PSN security requirements and thereby achieve unconditional PSN accreditation. This required investment in new hardware and software as well as diverting staff resources from planned tasks.

117. Investment is being sustained with a budget of £0.133 million earmarked for PSN activity in 2014/15 to maintain a compliance standard. Changes to work practices such as the introduction of a more rigorous software patching / upgrade

regime is impacting upon workload and has increased out of hours working for support staff. Also, to maintain a risk profile in line with accreditation standards, work was needed to harden the interface between the education service network and the corporate network.

118. Looking forward, health and social care integration is likely to create new challenges relating to PSN requirements particularly if the NHS continues to be outwith the PSN compliance framework. We will continue to monitor developments in this area.

Arrangements for the prevention and detection of fraud

119. The council's arrangements in relation to the prevention and detection of fraud and irregularities were satisfactory.

120. Argyll and Bute Council participates in the National Fraud Initiative (NFI). The NFI uses electronic data analysis techniques to compare information held on individuals by different public sector bodies and different financial systems, to identify data matches that might indicate the existence of fraud or error.

121. The Council input to the NFI exercise is largely complete with only a few areas still to be finalised or further investigated. Housing benefit match testing identified 3 cases where fraud had already been uncovered by the fraud department. These

amounted to £24,316. These cases have been referred to the Procurator Fiscal.

122. Overall, we concluded that the council has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

123. The arrangements for the prevention and detection of corruption in Argyll and Bute Council are satisfactory and we are not aware of any specific issues that we need to record in this report.

Integration of adult health and social care

124. The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act provides the framework for the integration of health and social care services in Scotland. This will require a change in the council's governance arrangements over a range of services.
125. NHS Highland and Argyll and Bute Council have agreed the services that will come together as Argyll and Bute's Health and Social Care Partnership. The chosen model is that of an enhanced strategic partnership building on the current partnership strengths – this aligns with a “body corporate”

model as the preferred delivery vehicle.

126. The statutory implementation date is April 2016, however it is planned that from 1 April 2015 all NHS services in Argyll and Bute (planning, delivery and commissioned services), and Adult and Children and Families Social Work Services of Argyll and Bute Council will deliver a single, integrated service. The proposed budget for the new Health and Social Care Partnership includes around £160 million Health Board and £50 million council funding. The scope of services was agreed by NHS Highland Board on 3 June and by the council at its meeting on 26 June.

127. Integration will be complex and challenging to ensure that integration is delivered within the required timescales and that the arrangements are functional and fit for purpose. This will require:

- The establishment of a local integrated partnership and related governance arrangements.
- Integrated budgets for health and social care.
- Joint responsibility for strategic and locality planning in the area served.

128. The council is continuing to monitor progress in this area.

Welfare Reform

129. The council recognises the impact that the changes to the UK welfare system could have on resources and service provision.

Governance and accountability

2013/14 was a period of significant change with council tax benefits being replaced by the new Council Tax Reduction Scheme and the introduction of the Scottish Welfare Fund. Councils continue to face uncertainties over the roll out of the Universal Credit and there is the potential for even further reforms after the Scottish independence referendum.

130. Throughout 2013/14 the council's multi discipline Welfare Reform Working Group (WRWG) has provided regular updates to Strategic Management Team (SMT) on progress in respect of the council's delivery of DHP and Scottish Welfare Fund (SWF) services.

131. The council is in communication with the DWP to become a pilot site for the delivery of a 'triage' service which provides support, training, work preparation and job opportunities to help people in receipt of benefits back to work.

132. Overall, we concluded that Argyll and Bute council is well sighted on the welfare reform agenda and is proactive in putting in place arrangements to mitigate the impact of welfare reform locally.

Housing and council tax benefits performance audit

133. A risk assessment of the council's housing benefit service was carried out by Audit Scotland in May 2014 with the results reported in July 2014. The report noted significant changes and

improvements since our last risk assessment in June 2011. Of the original 17 risks identified in 2011 some 13 have been fully completed, 2 actions are ongoing and 2 actions remain outstanding.

134. In completing or partially completing 15 of these risks, the council has made a positive contribution to the delivery of the benefit service.

135. Although the council demonstrates awareness of what constitutes an effective, efficient and secure benefits service, there are two risks outstanding and two risks where action is ongoing from our previous risk assessment and, a number of new risks have been identified. The new risks include:

- updating key council documents to ensure that they reflect current policy and procedures
- ensuring that appropriate evidence is requested by staff at the first point of contact to enable claims to be processed
- addressing the reasons why the council has failed to meet its financial accuracy target of 95% since 2010/11
- determining the effectiveness of the approach for linking intervention outcomes to the value of overpayment/underpayment to inform future intervention strategies
- addressing the reasons for the declining trend in the percentage of sanctions arising from completed investigations.

Governance and accountability

136. Management have agreed an action plan to address these issues and these will be followed-up a future date to confirm implementation.

Outlook

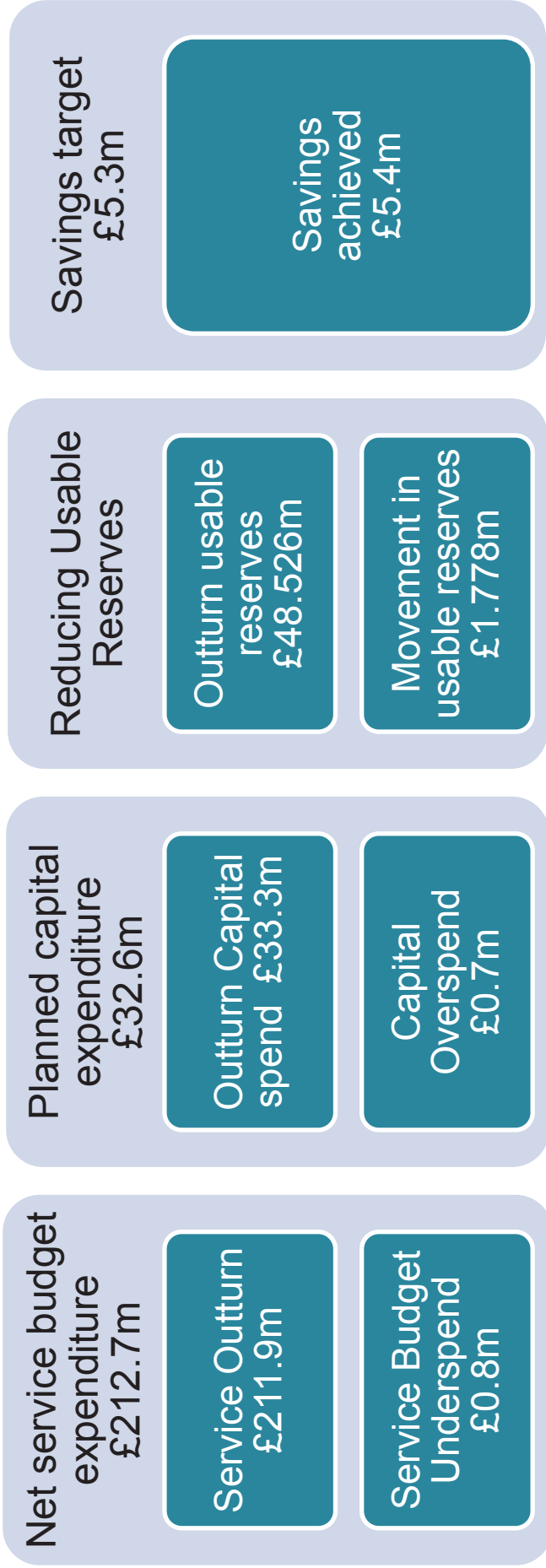
137. Councils continue to face rising demands for services alongside managing major reforms in welfare and health and social care. There is now a greater need than ever for strong governance and leadership. Improved scrutiny of policy and services will also be central to ensuring the effective use of resources

138. Relating to specific service areas, there are to be major changes in councils' responsibilities for the investigation of fraud. The new Single Fraud Investigation Service (SFIS) is a national fraud investigation service within the Department for Works and Pensions which will take over the responsibility for

the investigation of housing benefit frauds. The investigation of the Local Council Tax Reduction Scheme and corporate frauds will remain within councils.

139. Responsibility for the investigation of Housing Benefit fraud is currently being planned to transfer to a new Fraud and Error Service (FES) nationally. This will be administered by the Department of Work and Pensions. The roll-out of this new service will be implemented across councils on a phased basis during the period July 2014 and March 2016.

Financial position



140. In 2013/14 the council spent £256.765 million on the provision of public services. It achieved a surplus on the provision of services of £1.694 million and an accounting deficit of £5.917 million. However, this includes certain elements of income and expenditure that are accounted for to comply with the Code of Practice on Local Authority Accounting, which are then adjusted to show their impact on statutory council reserves. Following these adjustments there is a decrease in the general

fund balance of £2.097 million.

141. Overall the performance against budget was an underspend of £3.360 million, representing 1.33% of net service expenditure. The council underspent against its departmental controllable budget by £0.842 million (0.40% of the 2013/14 revenue budget).

142. Usable reserves are part of a council's strategic financial

Financial position

management and councils will often have target levels of reserves. As shown in Exhibit 1, the overall level of usable reserves held by the council decreased by £1.778 million compared to the previous year and totalled £48.526 million. The main reason for this is a decrease in the General Fund balance of £2.097 million.

Exhibit 1: Usable reserves

Description	31 March 2013 £million	31 March 2014 £million
General Fund	46.1	44.0
Capital Funds	3.3	3.5
Repair and Renewal Fund	0.9	1.0
Total Usable Reserves	50.3	48.5

Source: Argyll and Bute Council 2013/14 financial statements

143. The closing balance General Fund balance at 31 March 2014 is made up of earmarked commitments of £30.372 million and an unallocated balance of £13.669 million, or 5.6% of the net revenue expenditure (2012/13: 4.1%). The council's policy is to maintain uncommitted reserves at a minimum of 1.5% of budgeted net revenue expenditure.

144. The main earmarked balances include £7.484 million for the Strategic Housing Fund generated from Council Tax on second homes, £3.0 million earmarked as a revenue contribution to

capital as a contribution to Dunoon and Campbeltown Schools, £9.5 million contribution to investment in affordable housing and £7.298 million earmarked from service budget underspends to support corporate and service improvement plans.

145. Whilst the balance on the General Fund is reducing, it remains significant and in terms of uncommitted reserves, is considerably in excess of the minimum target set by the council. The budgetary outlook is one of significant longer term savings. In his Revenue Budget Outlook Report submitted to the Council in February 2014, the Head of Strategic Finance informed members that they may wish to consider how best to utilise the General Fund Balance in due course given the various financial pressures the Council faces and any cost and investment requirements arising from the development of the delivery plans for the SOA.

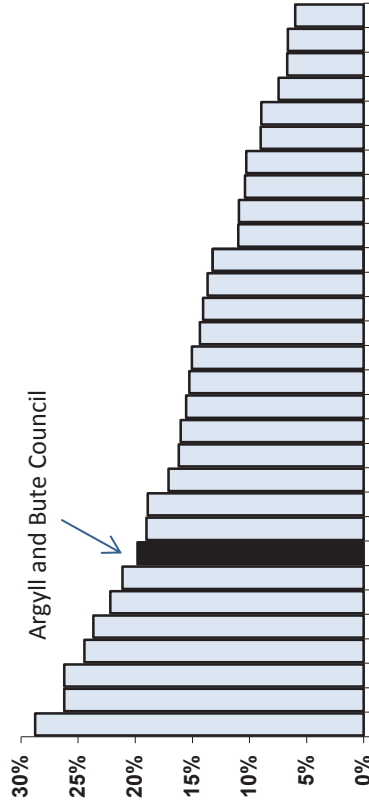
146. The use of the 'free' balance on the General Fund Reserve was considered by the Policy and Resources Committee at its August 2014 meeting. The Committee agreed that use of the free balance on the general fund be directed exclusively to the theme of economy and jobs and proposals to increase income / reduce costs for the Council. The committee also agreed that further investigation be carried out on the scope to undertake further borrowing which would create further investment in the these areas but which would not result in a net increase in the burden on the council's revenue budget.

Financial position

147. Exhibit 2 below presents the council's usable reserves position in relation to net revenue stream for the year in comparison to other Scottish councils (net revenue stream being presented as general revenue grant, council tax, non domestic rates and dwelling rents). Argyll and Bute Council's position is higher than the median level (15%).

148. The council therefore needs to continue to ensure that it strikes a balance between meeting current obligations and preparing for future commitments and possible reductions in funding. This is discussed further at paragraphs 155 to 159 below.

Exhibit 2: Total usable reserves as a proportion of net revenue stream (%)



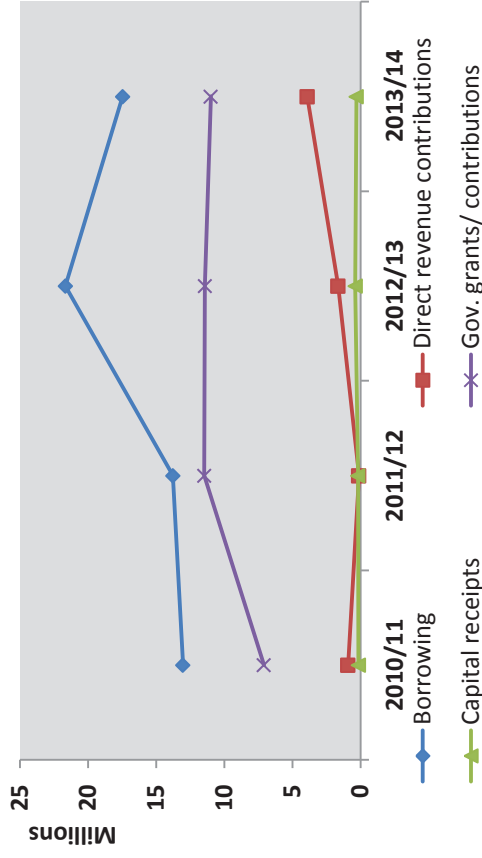
Source: Scottish councils' unaudited accounts 2013/14

Capital investment and performance 2013/14

149. Total capital expenditure for 2013/14 was £33.285 million. Investment during the year included £20.073 million on asset sustainability, £3.575 million on service development and £9.637 million on strategic change. The capital programme was funded as shown at Exhibit 3 below:

150. The council has reported an overspend against the planned level of capital expenditure of £0.697 million or 2.1% of the total programme for 2013/14.

Exhibit 3: Sources of finance for capital expenditure 2010/11 – 2013/14



Source: Argyll and Bute Council 2010/11 to 2013/14 financial statements

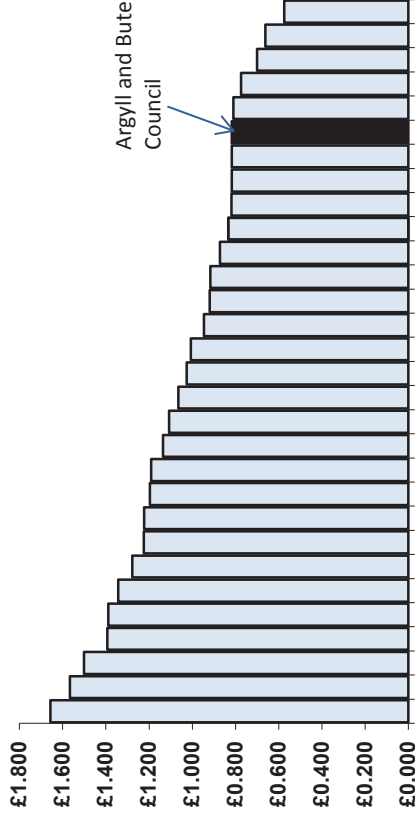
Treasury Management

151. Levels of debt may impact on any council's budget flexibility going forward as revenue resource has to be set-a-side to service that debt. The impact that debt levels have on net revenue expenditure will be affected by interest rates and repayment periods.
152. Argyll and Bute Council's underlying need to borrow or capital financing requirement (CFR) at 31 March 2014 was £256.463 million while net external borrowing was £161.181 million.
153. As shown at Exhibit 3, capital spend in the year was mainly funded through borrowing. The council's level of net borrowing in 2013/14 has increased marginally. As shown in Exhibit 4, the council's net external debt as a proportion of net revenue stream continues to remain in the lower range relative to other Scottish councils.

154. Audit Scotland has, on behalf of the Accounts Commission, recently completed a national review of borrowing and treasury management in councils. This involved discussions with members and officers as well as audit visits to a number of selected fieldwork councils. The review focused on the affordability and sustainability of borrowing and governance arrangements and considered how councils demonstrate best value in their treasury management functions. The national report is planned for publication in January 2015. We will provide members with a summary of the key findings as part of

our audit progress reports to Audit Committee.

Exhibit 4: Net external debt as a proportion of net revenue stream (£m)



Source: Scottish councils' unaudited accounts 2013/14

Outlook

155. The political leadership has focussed on maintaining financial stability. At its February 2014 meeting, the council approved its budget for 2014/15 in accordance with its new budget approach, agreed in November 2013. The new approach aims to maintain stability and to preserve services where possible by seeking one per cent savings (£1.8 million) across all service areas in 2014/15 and 2015/16, from a total annual revenue budget of £245 million. At the time of approving the budget for

Financial position

2014/15, there was a projected funding surplus of £1.02 million in 2014/15 and £3.1 million in 2015/16.

156. The latest projected year end outturn at 31 August 2014 is an overspend of £1.384 million. This is mainly due to overspends in adult care, refuse collection and coastal protection works, shortfall in car parking income, unrecoverable costs for dangerous buildings and inability to realise service review saving within music instructors offset by savings with school and public transport.

157. A report presented to the Policy and Resources Committee in October 2014 updated members on changes to the budget assumptions used when preparing the 2015/16 budget and providing an assessment of the impact. The main change to the budget update is the reduction in grant funding of £2.557 million due to updating the finance settlement indicators rather than the flat cash approach. There are further funding adjustments of £0.963 million relating to Children and Young Persons (Scotland) Act and also the transfer of the A83. There are adjustments to the base budget of £1.228 million, employee cost pressures of £0.400 million and cost and demand pressures of £0.566 million. The overall impact is a projected surplus for 2015/16 of £0.343 million.

158. The longer-term budgetary outlook is more challenging. The council estimates it will require to reduce expenditure over the period 2016/17 to 2019/20 by an average of around three per cent or £8 million per annum, building up to £28.565 million in 2019/20. This equates to approximately £77 million in total over the four-year period. This is around 7.5 per cent less across those years than the £1.033 billion expenditure currently forecast by the council. Achieving these savings will require fundamental decisions to be made by councillors about service provision and delivery.

159. The council plans to use the two-year period of financial stability (2014/15 and 2015/16) to develop and put in place proposals to address the longer-term funding outlook and to consider how resources are aligned to the Single Outcome Agreement (SOA) 2013-23 and council priorities, future savings and options for additional income.

Recommendation 5

Financial statements

Audit opinion

160. We have given an unqualified opinion that the financial statements of Argyll and Bute Council for 2013/14 give a true and fair view of the state of the affairs of the council and its group as at 31 March and of the income and expenditure for the year then ended.

Other information published with the financial statements

161. Auditors review and report on other information published with the financial statements, including the explanatory foreword, annual governance statement and the remuneration report. We have nothing to report in respect of these statements.

Legality

162. Through our planned audit work we consider the legality of the council's financial transactions. This includes obtaining written assurances from the Proper Officer. There are no legality issues arising from our audit which require to be reported.

The audit of charities financial statements

163. The Charities Accounts (Scotland) Regulations 2006 (the 2006

Regulations) sets out the accounting and auditing rules for Scottish charities. These required, for the first time in 2013/14, a full audit of all registered charities accounts where a local authority or some members are the sole trustees.

164. Argyll and Bute Council had 11 funds which were subject to the full charities financial statements audit for 2013/14.

165. Auditors of registered charities' statement of accounts have responsibilities to:

- audit and express an opinion on whether the charity's financial statements give a true and fair view and are properly prepared in accordance with charities legislation
- read the trustees' annual report and express an opinion as to whether it is consistent with the financial statements
- report on other matters by exception to the trustees and to the Office of the Scottish Charity Regulator (OSCR).

166. We have given an unqualified opinion on these matters with respect to the 2013/14 financial statements of the eleven charities registered by Argyll and Bute Council.

167. In our report to trustees we highlighted that:

- There are no trust deeds or governing documents available for two of the Trusts and three of the component Trusts within Argyll and Bute Council Charitable Trusts.
- Eight of the Trusts remained dormant, with no donations, expenditure or payment of grants.

Financial statements

- The council were unable to locate certificates in support of investments held by three of the Trusts.
 - The Oban Swimming Pool (Atlantis Leisure) asset was revalued during the year but the revaluation was not reflected in the financial statements.
168. In resolution of these issues:
- The council is to provide a copy of relevant documentation, to support the purpose and terms of all Trusts. If unable to be traced, the trustees should liaise with OSCR, as appropriate, and consider preparing new governance documents.
 - The council is in discussion with OSCR to progress reorganisation proposals to wind up dormant trusts and redistribute the funds.
 - The council has written to stock investor intermediaries to request duplicate investment certificate.
 - The revalued asset figure for Oban Swimming Pool is disclosed in the financial statements.

Group accounts

169. Local authorities are required to prepare group accounts in addition to their own council's accounts where they have a material interest in other organisations.
170. Argyll and Bute Council has accounted for the financial results of three associates and the Common Good Funds in its group

accounts for 2013/14. The overall effect of consolidating these balances on the group balance sheet is to increase total reserves and net assets by £7.562 million.

171. The net assets of the group at 31 March 2014 totalled £182.387 million, compared to a net liability position of £77.873 million in 2012/13. The positive movement is mainly due to the transfer of Police and Fire functions to the new authorities from 1 April 2013 and the removal of their pension liabilities from the group accounts.

Accounting issues arising

Presentational and monetary adjustments

172. A number of presentational and monetary adjustments were identified in the financial statements during the course of our audit. These were discussed with management who agreed to amend the unaudited financial statements. The effect of these adjustments was to increase expenditure and decrease net assets by £0.500 million. These related to an increase in the Equal Pay provision and the recognition of a provision for retrospective disturbance allowance payments for Roads and Amenity Services staff.
173. In addition, a small number of other unadjusted errors (totalling £1.609 million) were identified during the course of the audit, where if adjustments had been made they would have increased expenditure and decreased net assets by £0.011

Financial statements

million.

Whole of government accounts

174. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. The council submitted the consolidation pack for audit by the deadline. This has been audited and submitted to the Scottish Government.

Report to those charged with governance

175. We presented to the Audit Committee, on 26 September 2014, our report to those charged with governance (ISA 260). The primary purpose of that report is to communicate the significant findings arising from our audit prior to finalisation of the independent auditor's report. The main points are set out in the following paragraphs.

176. **Landfill sites:** The council owns three active landfill sites. As a result it has responsibilities regarding the restoration and aftercare costs of the sites. To comply with accounting requirements IAS 37, Provisions, contingent liabilities and contingent assets, the council should recognise these costs as a provision in its Balance Sheet. At 31 March 2014 the Valuation Office Agency placed a value of £1.595 million on the necessary works for a period of 60 years, following the cessation of tipping operations. However finance officers have stated that they do not have all of the necessary information to

accurately account for these obligations in 2013/14. The council has provided evidence to support their view that this is not material to the accounts and the decision has been taken not to amend the accounts. This amount is therefore reflected as an unadjusted error. The Council will process an adjustment in the 2014/15 accounts to recognise a provision for the restoration and aftercare costs of the three landfill sites.

177. **Equal pay claims:** The ultimate cost to the Council of the claims made under the Equal Pay Act 1970 remains uncertain and it is likely that resolution of the issue will take some time. Following receipt of updated information from the council's legal department, finance officers increased the Council's Equal Pay provision at 31 March 2014 by £368,000 to adequately reflect the potential liability. Actual settlements are subject to the outcome of several national test legal cases. The council have disclosed a contingent liability for any additional future claims that may potentially arise pending the outcome of the test legal cases. The potential equal pay liability will be reviewed on an annual basis.

178. **Reduction in net assets - Due to changes in assumptions about Employee Benefits - Pension fund liabilities:** There has been an increase in the pension liability of £18.473 million from £99.864 million at 31 March 2013 to £118.337 million at 31 March 2014. This has been due to falling bond yields being only partially offset by better than expected investment performance. The calculation of the liability is assessed by

Financial statements

professional actuaries each year and is an estimated figure. The increase in the pension liability in 2013/14 is part of a complex calculation which is subject to estimation and assumption about a range of factors which affect the valuation of the underlying assets and liabilities. 2014 is a triennial valuation year and therefore the Council will be updated on its long term position both in terms of its funding position and contribution rates.

179. Assurance is obtained from the triennial valuations of the pension fund carried out by Strathclyde Pension Fund, which assures that the pension fund remains adequately funded. The financial statements have been prepared on the basis of these assumptions.

180. Sale of Kilbowie House, Oban: Kilbowie House is a surplus asset and is being marketed for sale. During 2013, the Council appointed an external firm of surveyors and estate agents, to apply a commercial approach to marketing the property, with a view to obtaining best consideration. They provided the valuation of £450,000 on which the property was marketed. During 2014 several bids were received for the property and considered by the Oban, Lorne and the Isles Area Committee (OLIAC) in accordance with the Corporate Asset Management Strategy. The OLIAC rejected the offers as they were significantly below the marketing valuation, and would not represent best value for the Council. However we have established that Kilbowie House is included in the council's

fixed asset register and accounts with a value that is significantly lower than the marketing valuation. The council's figure reflects the latest valuation of the property at March 2013, as part of the council's rolling asset revaluation programme. When evaluating the bids for Kilbowie House the OLIAC were made aware of the marketing valuation but not the asset register value. In our opinion members should be provided with this information to enable them to consider the range of valuations placed on assets when they are evaluating offers.

181. The property is currently back on the market with a closing date to be set once it is considered sufficient expressions of interest have been received. We recommend that members are advised of both the marketing valuation and the asset register value for assets when they are evaluating offer bids.

Outlook

182. The financial statements of the council are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). New standards apply from 2014/15 which will affect the group financial statements and include a change to the definition of control. This will require a reassessment of the group boundary and potentially further consolidations and disclosures.

183. In the longer term The 2016/17 Code requires highways to be measured for the first time on a depreciated replacement cost

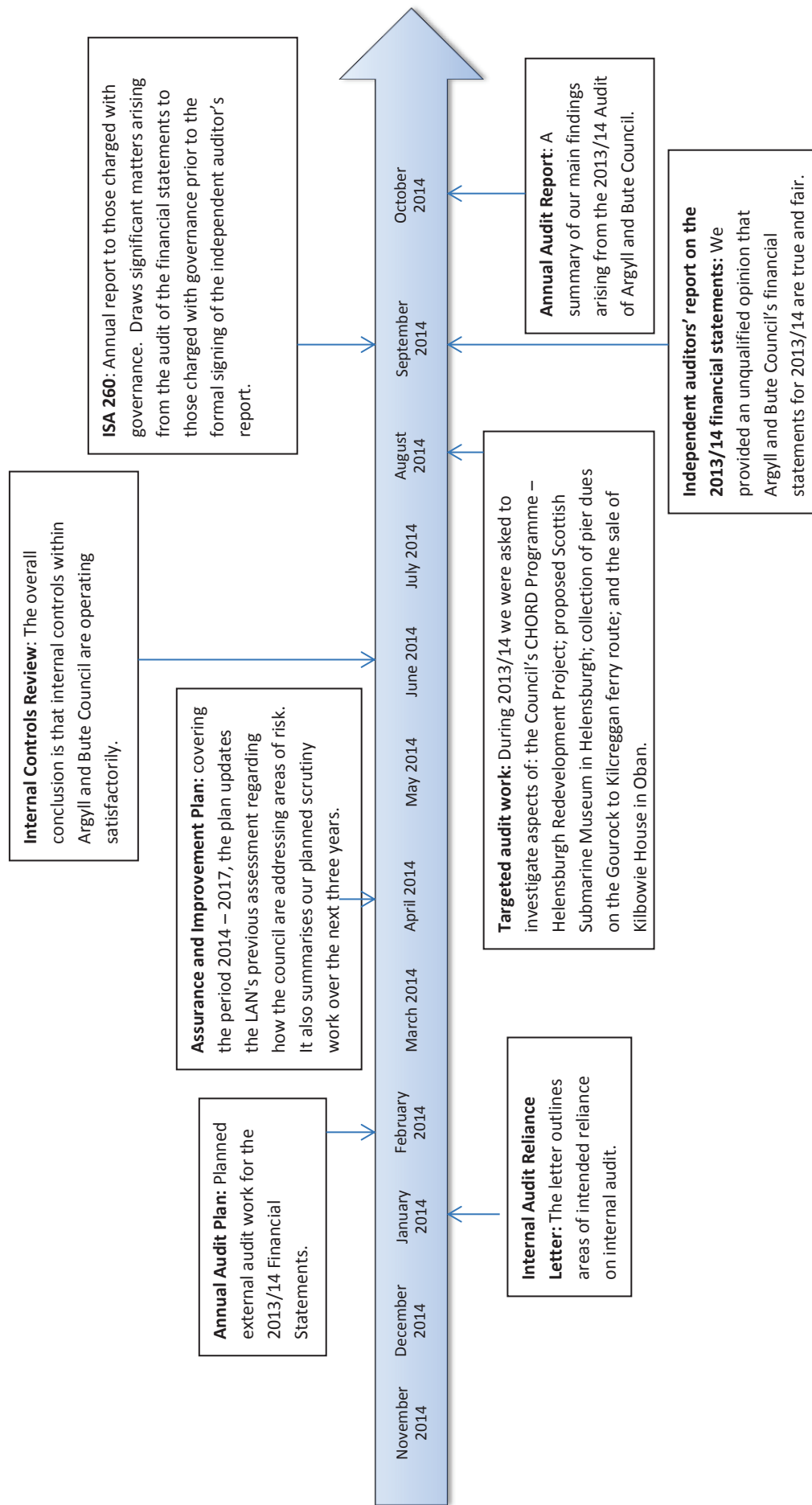
Financial statements

basis. This represents a change in accounting policy from 1 April 2016 which will require a revised opening balance sheet as at 1 April 2015 and comparative information in respect of 2015/16. This is a major change in the valuation basis for highways and will require the availability of complete and accurate management information on highway assets. The council should ensure it is planning ahead to allow full compliance with the Code.

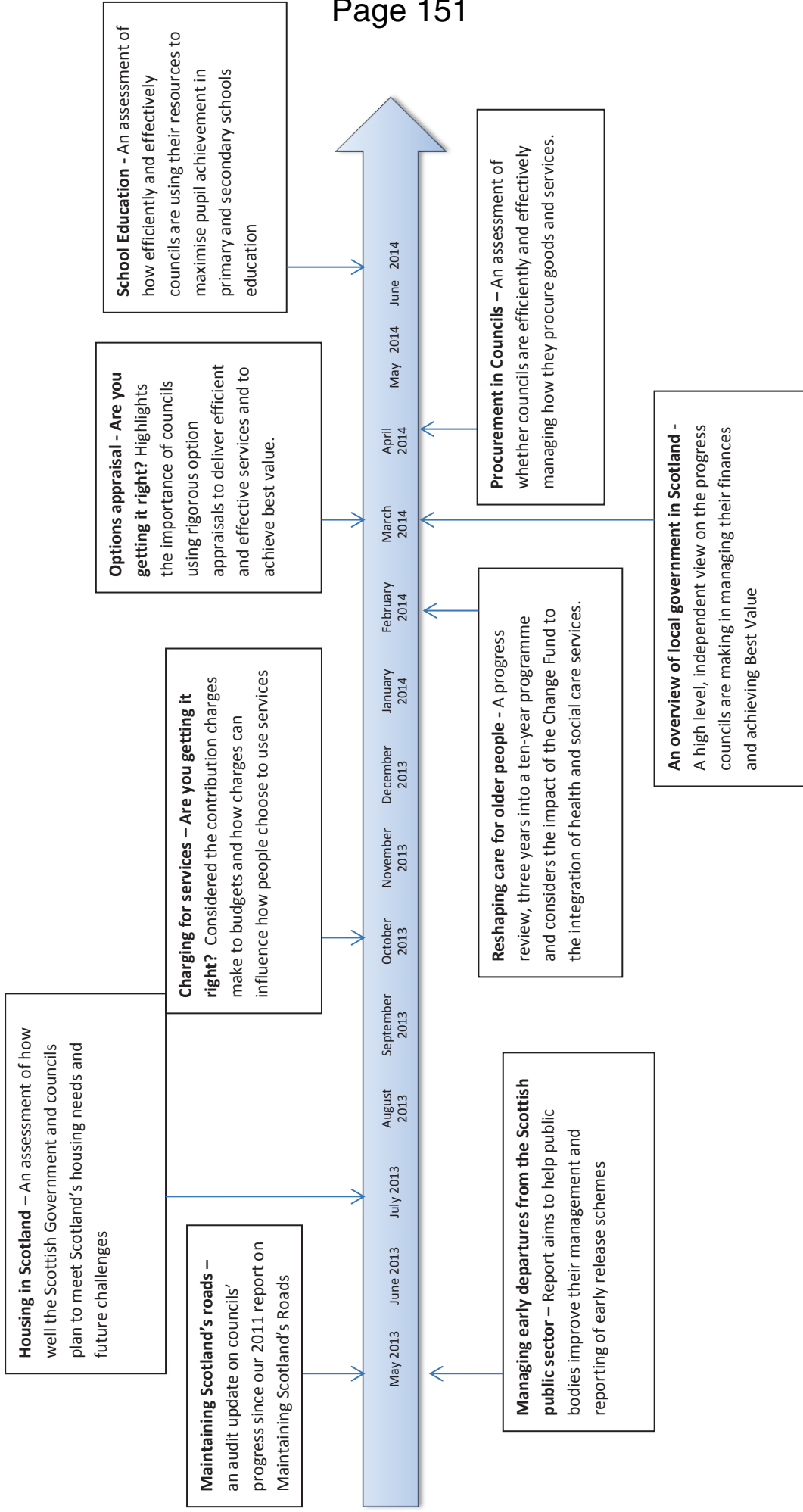
184. The revised Local Authority Accounts (Scotland) Regulations 2014 apply for financial years 2014/15 onwards. The regulations set out in more detail what is required in respect of financial management and internal control, and in respect of the annual accounts themselves. Some of the changes include the requirement for the unaudited accounts to be considered by the Audit Committee. This can take place following submission

to the auditor and up to 31 August if necessary. In addition the audited accounts must be considered and approved for signature by the Audit Committee by 30 September with publication on the council's website by 31 October.

Appendix I – Summary of Argyll and Bute Council local audit reports 2013/14



Appendix II – Summary of Audit Scotland national reports 2013/14



Appendix III – Significant audit risks

Appendix III – Significant audit risks

The table below sets out the key audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure
<p>Financial management and sustainability</p> <p>The council will continue to face increasing demand and cost pressures for its services in the foreseeable future. It is facing a significant funding gap over the next seven years.</p> <p><i>Risk: the council may be unable to achieve the required savings without compromising service delivery.</i></p>	<p>The council has an unallocated balance of £13.669 million in the General Fund balance at 31 March 2014.</p> <p>Review of budget setting and budget strategy papers.</p> <p>On going review of budget monitoring arrangements and reports.</p> <p>The council plans to use the two-year period of financial stability (2014/15 and 2015/16) to develop and put in place proposals to address the longer-term funding outlook.</p> <p>Management are aware that difficult decisions will need to be made going forward, and will continue to monitor and scrutinise progress against savings targets.</p>

Appendix III – Significant audit risks

Audit Risk	Assurance procedure
<p>Equal pay claims</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><i>Risk: there is a risk that the ultimate cost to the council is greater than anticipated and that the year end provision may be materially mis-stated.</i></p>	<p>The year end equal pay provision was audited as part of the financial statements testing. This identified the requirements for a provision of £0.400 million in its 2013/14 financial statements in respect of potential expenditure arising from outstanding equal pay claims.</p> <p>The council has included a contingent liability for a small number of remaining claims where the outcome of the applications is unknown and there is insufficient information to allow the potential cost to be provided for.</p> <p>The potential equal pay liability is reviewed on an annual basis.</p>
<p>Health and social care integration</p> <p>The council and NHS Highland have yet to agree an appropriate model for taking forward integration.</p> <p><i>Risk: plans to support health and social care integration are not sufficiently developed to support effective implementation of new arrangements by 1 April 2015, impacting health and social care service delivery.</i></p>	<p>Argyll and Bute Council and NHS Highland agreed in May 2014 to progress health and social care integration based on a body corporate model.</p> <p>Progress on health and social care integration was monitored during the year.</p> <p>The Chief Executive of Argyll and Bute Council is working closely with the Chief Executive of NHS Highland to oversee the work required to deliver the new partnership arrangements in line with the statutory timescales outlined in legislation.</p> <p>The scope of services was agreed by NHS Highland Board on 3 June and by the council at its meeting on 26 June.</p>

Appendix III – Significant audit risks

Audit Risk	Assurance procedure
<p>New committee structure In June 2013 the council set up a short life working group to review political management arrangements and structures. In January 2014 the Council approved their recommendation to adopt a service committee model with separate committees for Policy and Resources, Community Services and Environment Development and infrastructure. <i>Risk: until the new committee structure is fully embedded across the council there is a risk that inappropriate decisions may be made.</i></p>	<p>The new committee structure has been operating from May 2014 onwards.</p> <p>On going review of governance and accountability arrangements.</p> <p>Documented review of committee minutes.</p> <p>The statutory report follow up concluded that the new political management arrangements provide a foundation for improved governance but that it was too early to assess their effectiveness.</p>
<p>Statutory report follow up A statutory section 102 report was submitted by the Controller of Audit to the Accounts Commission in October 2013. Follow up work will be carried out to assess the progress made in addressing the report findings. <i>Risk: insufficient progress in addressing the findings from the statutory report could hamper the decision making process and result in corporate objectives not being met.</i></p>	<p>Follow up work has been carried out with a report issued in June 2014. The follow-up audit report was considered by the Accounts Commission at its meeting on 19 June. The Commission accepted the Controller of Audit's report and is encouraged that the council is making progress against its previous findings of October 2013. It agreed however, that it is too early to assess the effectiveness of actions and plans being implemented and there is still much work to be done.</p> <p>At its meeting on 25 September 2014, the council agreed a further 10 actions points as a consequence of the follow-up report in order to support continued improvement.</p>

Appendix III – Significant audit risks

Audit Risk	Assurance procedure
<p>Prior year issues A number of findings from our 2012/13 work require to be addressed. <i>Risk: insufficient progress in addressing prior year issues could impact on our audit of the 2013/14 financial statements.</i></p>	<p>Issues raised in our 2012/13 Annual Audit Report have been followed up in accordance with our Annual Audit Plan and, where relevant, included in this report.</p>

Appendix III – Significant audit risks

Audit Risk	Assurance procedure
<p>Castle Toward</p> <p>In February 2010 the council's agents marketed Castle Toward on the open market. In June 2013, the council were informed that the successful bidder was now of the view that it was no longer possible to proceed with the transaction and development as envisaged by them. The property will be re-marketed.</p> <p><i>Risk: the council may be unable to obtain best value in the disposal of Castle Toward. Also, its value disclosed in the financial statements may be materially mis-stated.</i></p>	<p>We have continued to monitor developments with sale of Castle Toward.</p> <p>We have monitored the council's compliance with the statutory Community Right to Buy procedure.</p> <p>South Cowal Community Development Company have formally submitted a Community Right to Buy application to Scottish Ministers which was subsequently approved. The Scottish Government appointed the District Valuer to assess the market value of the property who returned a property valuation of £1.75 million.</p>
<p>Charities</p> <p>Argyll and Bute Council currently administers 22 Trust Funds having charitable status, where members are the sole trustees of the fund. These funds will require an independent audit certificate for the year ended 31 March 2014.</p> <p><i>Risk: the requirements of the Charities Act are not met in the financial statements. Also, charitable trusts may be used for purposes outwith those outlined in the trust deeds.</i></p>	<p>Re-organisation of charities during the year reduced the number of charitable trusts to eleven. All were audited and given an unqualified audit opinion.</p> <p>Trust deeds were obtained and examined to ensure that funds were used for the proper purposes.</p>

Appendix IV – Action plan

Appendix IV – Action plan

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
1/16	<p>Governance Statement During the audit we asked that the council revise the 2013/14 Corporate Governance Statement to include a range of issues that had been omitted from the unaudited version.</p> <p>Risk The council may not disclose all weaknesses in internal control in the accounts, which is important to demonstrate openness and accountability.</p> <p>Recommendation The process for ensuring the 2014/15 governance statement is complete is to be reviewed.</p>	The content of the Governance Statement and the process for preparing the Governance Statement will be reviewed for 2014-15 financial year end.	Head of Strategic Finance	30 June 2015

Appendix IV – Action plan

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
2/17	<p>Consideration of items in public/private session.</p> <p>The council have explained that consideration is given on each occasion as to whether a report should be held in private. Members of the public have told us that they would like to see more information available on key issues.</p> <p>Risk</p> <p>If all deliberations are held in private session, members of the public do not have access to information which explains decisions being taken by their elected representatives.</p> <p>Recommendation</p> <p>The Council should review the range of reports that it discusses in private and consider whether it is getting the balance right between open and closed consideration of items.</p>	<p>The Council has in place a process that has served it well for many years and provides a check at pre agenda stage as to whether matters should properly be taken in private. The Committee are the final arbiters as to whether a matter is properly to be taken in private and this is minuted. The Council will explain to any inquirer the reasons why a matter is being dealt with in public in writing. The Council has a good record of compliance with FOI regulations and this will be kept under review in respect of committee items taken in private. The Council will carry out a review in summer 2015 to identify any items taken in private that were subject to inquiry from the media and/or members of the public as to their being taken in private.</p>	Head of Governance and Law	31 July 2015

Appendix IV – Action plan

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
3/19	<p>External funding requests - Scottish Submarine Museum</p> <p>After considering how the submarine museum funding was dealt with, officers have acknowledged that the process for considering external funding requests needs to be formalised.</p> <p>Risk</p> <p>The council may not consider external funding requests in a robust way, which secures best value in the use of public funds.</p> <p>Recommendation</p> <p>A timetable for implementation of the formal process for considering external funding requests is to be set.</p>	<p>A report on the process will be prepared for December Policy and Resources Committee</p>	<p>Head of Strategic Finance</p>	<p>11 December 2014</p>

Appendix IV – Action plan

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
4/19	<p>Gourock to Kilreggan Ferry Service</p> <p>As a result of late payment, most invoices issued to Clydelink for berthing dues have been subject to follow up action through the corporate sundry debtor process. The current position is that the last 3 invoices issued to Clydelink remain unpaid and discussions are ongoing with SPT.</p> <p>Risk</p> <p>The council may not receive all berthing fees due.</p> <p>Recommendation</p> <p>The council should consider obtaining a signed agreement from Clydelink, enabling SPT to pay monies due directly to the council.</p>	<p>The Council will contact both Clydelink and SPT to seek to put this in place.</p>	<p>Head of Economic Development and Strategic Transportation</p>	<p>30 November 2014</p>

Appendix IV – Action plan

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
5/30	<p>Financial sustainability</p> <p>The council continues to operate in a funding environment which is subject to sustained pressure to deliver more with less. The council faces a significant challenge to identify the required savings of approximately £77 million over the period 2016/17 to 2019/20.</p> <p>Risk</p> <p>The council is unable to achieve required savings unless fundamental decisions are made by councillors about service provision and delivery.</p> <p>Recommendation</p> <p>The council should ensure that robust plans are produced covering all required savings linked to service delivery proposals.</p>	<p>The Council agreed in November 2013 and February 2014 to use the relative financial stability of its budget position in 2014-15 and 2015-16 to develop a longer term approach to addressing future financial challenges. Proposals will be developed over the period to 31 March 2016 with progress reports to members at relevant stages.</p>	Head of Strategic Finance	31 March 2016

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AUDIT COMMITTEE DEVELOPMENT DAY ACTION PLAN

1. SUMMARY

- 1.1 This report provides a progress update to in respect of the Audit Committee Development Day Action Plan for 2014/15.

2. RECOMMENDATIONS

- 2.1 The Audit Committee note the content of this report.

3. DETAIL

- 3.1 The Audit Committee at its development day agreed a number of actions which have been collated and presented in Appendix 1.
- 3.2 The draft action plan follows a thematic approach covering the undernoted areas;
- Assurance Mapping,
 - Audit Committee Effectiveness,
 - Delivering Impact
- 3.3 Action point 1 is now complete with the Committee agreeing to adopt a “3 lines of defence” model in respect of assurance mapping. Action point 4 is also complete with a report submitted to November meeting of the Council.

Progress continues to be made in relation to:

- Draft Assurance Map
- Audit Committee Effectiveness – Self Assessment

4. CONCLUSION

- 4.1 The action plan is currently on track.

5. IMPLICATIONS

5.1	Policy:	None
5.2	Financial:	None
5.3	Personnel:	None
5.4	Legal:	None
5.5	Equal Opportunities:	None
5.6	Risk	None
5.7	Customer Service	None

For further information please contact Internal Audit (01369 708505)

Kevin Anderson
Chief Internal Auditor
5 DECEMBER 2014

Appendix 1 – Audit Committee Development Day: Action Plan

No.	Issue arising	Proposed action	Lead responsibility	By (date):	Comment
Assurance mapping					
1.	Lack of clarity about sources of assurance and the respective roles of the Audit Committee and Performance Review and Scrutiny Committee	A draft outline of assurance mapping process/options will be presented to the June Audit Committee Assurance map to consider respective roles of the PRS Committee and the Audit Committee including: <ul style="list-style-type: none"> ■ clarity of roles ■ areas of overlap ■ scope for collaboration 	Grant Thornton	June 2014	Complete
2.	Assurance Mapping	Draft Assurance Map utilising 3 lines of defence model	Grant Thornton	Dec 2014	On Track
Audit Committee Effectiveness					
3.	Clarity about potential gaps against new Audit Committee best practice guidance	Use CIPFA Checklist to review current performance of the Audit Committee, and areas for improvement. Scope to include: <ul style="list-style-type: none"> ■ Defining success criteria for the Committee for 2014-15 ■ How the committee considers the effectiveness of internal audit and external audit, including progress reporting. ■ Effectiveness discussion session (Dec) 	Chair of the AC, but facilitated by CIPFA/GT partnership	Revised December 2014	On Track
4.	Increasing the impact of the audit committee, and the understanding of the role the committee plays in the internal control framework	<ul style="list-style-type: none"> ■ Chair / Vice-Chair to reflect on content of the Annual Report, including PS/IAS developments and risk management achievements ■ Chair to present Annual Report to the Council meeting in November 2014 	Chair of the AC	November 2014	Complete

No.	Issue arising	Proposed action	Lead responsibility	By (date):	Comment
5.	Managing the length of meetings and quality of discussion	Chair and Vice Chair to consider key papers for discussion at pre-agenda meetings, and allocate any papers that can be noted only.	Chair and Vice Chair of the AC	June 2014 and ongoing	On track
Delivering impact					
6.	Accountability / Officer ownership of actions and attendance at Audit Committee meetings	<ul style="list-style-type: none"> Head of Strategic Finance to ensure that SMT members attend Audit Committee Meetings where required. 	Head of Strategic Finance	On-Going	On track
7.	Ensuring that the Audit Committee can input to potential scope and coverage of internal audit to meet their assurance requirements	<ul style="list-style-type: none"> IA to prepare indicative 2015-16 annual audit plan for December audit committee meeting, to ensure that Audit Committee members have the opportunity to input to the plan 	Internal audit	December 2014	On -track
8.	Improving the impact of internal audit	<ul style="list-style-type: none"> To review the format of progress reports, to ensure that they focus on key risks To ensure that internal audit findings are clear, and risks properly articulated 	Internal audit	March 2015	On-Track

ARGYLL AND BUTE COUNCIL**COUNCIL****STRATEGIC FINANCE****27 NOVEMBER 2014**

AUDITED ACCOUNTS 2013-14

1. EXECUTIVE SUMMARY

- 1.1 This report sets out the outcome of the External Auditors (Audit Scotland) audit of the Council's financial statements for 2013-14. The audited accounts incorporating the audit certificate are attached along with a set of summary accounts and a financial snapshot which can fit on a single sheet of paper all related to 2013-14 financial year.
- 1.2 The accounts were completed and submitted by the statutory date of 30 June 2014. The audit has been completed within the timescale of 30 September 2014, set by Audit Scotland. The audit certificate includes no qualifications. External Audit was able to conclude that the accounts represented a true and fair view of the Council's financial position at the 31 March 2014.
- 1.3 The significant changes made to the audited accounts were:
- An increase in the Equal Pay Provision of £0.368m
 - To provide for Standby Payments for Development and Infrastructure Services of £0.132m
- 1.4 The effect of these adjustments was to reduce the Surplus on the Provision of Services by £0.500m which reduced the General Fund Balance by a similar amount from £44.541m to £44.041m.
- 1.5 The external audit report identifies 2 errors where it was agreed not to amend the accounts. These would have reduced the General Fund Balance by £0.011m.
- 1.6 The financial position of the Council based on the audited accounts can be summarised as follows:
- Surplus on provision of services for 2013-14 £1.694m
 - Total assets less liabilities at 31 March 2014 £174.825m
 - General fund balance at 31 March 2014 £44.041m of which £29.454m was earmarked.
- 1.7 The audited accounts and terms of the audit certificate are noted and the summary accounts and financial snapshot are also noted.

AUDITED ACCOUNTS 2013- 2014

2. INTRODUCTION

- 2.1 The external auditors (Audit Scotland) have completed their audit of the Council's accounts for the year to 31 March 2014. The audited accounts incorporating the audit certificate for 2013-14 are attached. The audit certificate contains no qualifications.

3. RECOMMENDATIONS

- 3.1 The audited accounts and terms of the audit certificate are noted and the summary accounts and financial snapshot are also noted.

4. DETAIL

- 4.1 The audited accounts including the audit certificate are attached.
- 4.2 Also attached are a set of summary accounts and a financial snapshot which fits on a single sheet of paper. These are based on the audited accounts but have not been audited themselves.
- 4.3 The accounts were completed and submitted by the statutory date of 30 June 2014. The audit has been completed within the timescale of 30 September 2014, set by Audit Scotland.
- 4.4 The audit certificate on the Council's accounts for the year ended 31 March 2014 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 2014.
- 4.5 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.
- An increase in the Equal Pay Provision of £0.368m.
 - An increase in the accrued expenditure in relation to standby pay for Development and Infrastructure Services staff of £0.132m.
- 4.6 The table below reconciles the changes from unaudited accounts to audited accounts for the Surplus on Provision of Services, the General Fund Balance and Total Assets less Liabilities.

	Surplus On Provision of Services £m	General Fund Balance £m	Total Assets Less Liabilities £m
Unaudited Accounts	2.194	44.541	175.325
Increase in Equal Pay Provision	(0.368)	(0.368)	(0.368)
Standby Provision for Development and Infrastructure	(0.132)	(0.132)	(0.132)
Audited Accounts	1.694	44.041	174.825

4.7 The committed funds within the General Fund Balance were £29.454m per the audited accounts. This leaves a free General Fund Balance of £13.669m. This equates to 5.6% of the Council's budgeted net expenditure for 2014-15 and exceeds the agreed contingency level approved as part of the 2014-15 budget process. In August 2014 the Policy and Resources Committee agreed the use of the free balance on the general fund be directed exclusively to the theme of economy and jobs and proposals to increase income / reduce costs for the Council with further reports to be brought forward setting out more detailed proposals.

4.8 The external audit report identifies 2 errors where it was agreed not to amend the accounts. These would have reduced the General Fund Balance by £0.011m. They comprise.

	£m
Under accrual of Creditors invoices	(0.011)
Provision for future restoration and aftercare costs for landfill sites - It was decided not to increase the value of landfill sites and create an offsetting provision to reflect the restoration and aftercare costs of landfill sites. Any impact on income and expenditure from changes to the discounted cash flow values of these costs would have been offset by statutory mitigation with no impact on the General Fund balance. Accordingly a view was taken these would not be material adjustments. The impact on the balance sheet would have been:	
• Property, Plant and Equipment	1.595
• Provisions	(1.595)
Net unadjusted error	(0.011)

5. CONCLUSION

5.1 This report advises members on the conclusion of the audit of the accounts. The external auditor's certificate is unqualified. The audit was completed within the required timescales. Minimal adjustments were made to the accounts during the audit process.

6. IMPLICATIONS

6.1	Policy –	None.
6.2	Financial -	None
6.3	Legal -	None.
6.4	HR -	None.
6.5	Equalities -	None.
6.6	Risk -	None.
6.7	Customer Service -	None.

Bruce West, Head of Strategic Finance
Dick Walsh Council Leader and Policy Lead for Strategic Finance

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

Appendix 1 – Summary of Main Changes to Financial Statements Arising from Audit

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

Section of Financial Statements Changes	Audited Accounts £000s	Unaudited Accounts £000s	Change £000s	Comments / Explanation
Comprehensive income & Expenditure Account (Pages 35-36 of audited accounts)				
Net cost of service	233,684	233,149	535 (Dr)	Increase in Equal Pay Provision of £400k and inclusion of a provision for Standby Pay of £132k for Development and Infrastructure Services. Re-classification of income from net cost of service to Interest and Investment Income
Total Financing and Investment Income and Expenditure	22,010	22,045	(35) (Cr)	Re-classification of £0.035m of income from net cost of service to Interest and Investment Income
(Surplus) / Deficit on Provision of Services	(1,694)	(2,194)	500 (Dr)	Net effect of above
Statement of Movement in Reserves (Pages 31-32 of audited accounts)				
Surplus) / Deficit on Provision of Services	(1,694)	(2,194)	500 (Dr)	See Comprehensive Income and Expenditure Account above.
Increase / (Decrease) in General Fund Balance for the Year	2,097	1,597	500 (Dr)	Net effect of above
Balance on General Fund Carried Forward	(44,041)	(44,541)	500 (Dr)	Net effect of above
Balance Sheet (Page 37 of audited accounts)				
Current Liabilities - Provisions	(2,423)	(1,863)	560 (Cr)	Increase in Equal Pay Provision by £0.368m and new provision for Standby Pay of £0.132m. Re-classification of Provisions from Long Term to Current £0.060m
Long-term Liabilities - Provisions	(101)	(161)	60 (Dr)	Re-classification of Provisions from Long Term to Current £0.060m.
Total assets less liability	174,825	175,325	500 (Cr)	Net effect of above

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Audited Financial Statements

for the year ended 31 March 2014

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

INTRODUCTION

The Financial Statements demonstrate the Council's stewardship of the public funds it controls. The financial results for 2013-14 are set out on pages 31 to 39. Note 1 to the Financial Statements on pages 40 to 52 sets out the Summary of Significant Accounting Policies adopted by the Council to ensure that the Financial Statements give a "true and fair view" of our financial performance.

THE FINANCIAL STATEMENTS

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

The financial statements comprise:

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

FINANCIAL PERFORMANCE

Statement of Movement in Reserves

The total Council reserves have decreased from £180.742m at 31 March 2013 to £174.825m at 31 March 2014, a decrease of £5.917m. This is represented by a Surplus on Provision of Services of £1.694m offset by a deficit in Other Comprehensive Income and Expenditure of £7.611m.

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 £4.139m from £130.438m at 31 March 2013 to £126.299m at 31 March 2014. The main reasons for this are an increase in the Pension Reserve Liability of £18.473m, partly offset by a surplus on the revaluation of fixed assets of £4.387m and the transfer of £10.998m from the Comprehensive Income and Expenditure Statement for Capital Grants.

The Usable Reserves have decreased from £50.304m at 31 March 2013 to £48.526m at 31 March 2014, a decrease of £1.778m. The main reason for this is a decrease in the General Fund Balance of £2.097m.

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 £3.791m. In summary this debit represents the difference between:

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

Explanatory Foreword by the Head of Strategic Finance

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

The net surplus on the Provision of Services on the Comprehensive Income and Expenditure Statement of £1.694m less the adjustments to reflect impact on Council Tax of £3.791m equates to the decrease on the balance on the General Fund of £2.097m.

General Fund Reserve

The balance on the General Fund at 31 March 2014 stands at £44.041m compared to £46.138m at 31 March 2013, a decrease of £2.097m. The "free" General Fund Balance stands at £13.669m at 31 March 2014. This equates to 5.6% of the net revenue expenditure for 2014-15, 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 £30.372m and are laid out in note 5 on page 56. The main balances include £7.484m for the Strategic Housing Fund generated from Council Tax on second homes, £3.0m earmarked as a revenue contribution to capital as a contribution to Dunoon and Campbeltown Schools, £9.5m contribution to investment in affordable housing and £7.298m earmarked from service budget underspends to support corporate and service improvement plans.

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

	£m	£m
Balance on General Fund 31 March 2013		46.138
Release of sums previously earmarked to service budgets 2013-14		(9.314)
Supplementary Estimates agreed during 2013-14		(0.062)
Budgeted Contribution to General Fund Balance 2013-14		(1.051)
		35.711
Add outturn for 2013-14:		
Increase in Council Tax income	0.530	
Joint Boards Reserve Redistribution	0.170	
One off Severance Costs for 2013-14	0.698	
Net underspend on departmental and other expenditure compared to budget	1.962	
Surplus against budget 2013-14		3.360
Contributions to Earmarked Reserves 2013-14:		
Council Tax collection on second homes	2.061	
Funds earmarked by departments from budgets	2.909	
		4.970
Balance on General Fund 31 March 2014		44.041

Explanatory Foreword by the Head of Strategic Finance

The release of sums already earmarked to service budgets of £9.314m consists of funds released to services of amounts previously earmarked for specific purposes, for example unspent budget within the Devolved Management of Resources Scheme of Delegation for Schools, Strategic Housing Fund payments and unspent grant and third party contributions required for specific purposes.

Performance against budget

At the year-end, expenditure excluding Joint Board requisitions and severance was underspent by £0.842m. 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	0.097	4.27%
Community Services	(0.270)	(0.21)%
Customer Services	1.544	4.14%
Development and Infrastructure Services	<u>(0.529)</u>	<u>(1.48%)</u>
Departmental Outturn	0.842	0.40%
Non-Departmental expenditure	1.120	3.19%
Joint Boards and Severance Costs	<u>0.868</u>	<u>19.33%</u>
Expenditure Outturn	2.830	1.12%
Funding	<u>0.530</u>	<u>0.21%</u>
Outturn Total	3.360	1.33%

The underspend in the Chief Executives Unit relates to vacancy savings. In Community Services there was an overall overspend due to an increase in the equal pay provision. The underspend in Customer Services is due to procurement savings. The overspend in Development and Infrastructure Services mainly relates to the additional costs associated with winter maintenance and coastal protection. The projected year-end position for the departments was forecast and monitored during 2013-14 and steps were taken to ensure that overall the departmental year-end variance position was not unfavourable.

Comprehensive Income and Expenditure Statement

The Council ended the year with an accounting deficit of £5.917m for 2013-14 compared to a surplus of £3.655m in 2012-13, 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 2013-14 represents the decrease in the net worth of the Council from £180.742m at 31 March 2013 to £174.825m at 31 March 2014. 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 £1.694m and a surplus on the revaluation of Long Term Assets of £4.387m; these are partly offset by an actuarial loss on the pension fund assets/liability of £11.998m.

Explanatory Foreword by the Head of Strategic Finance

The surplus on the provision of services of £1.694m compares to a surplus of £19.795m for 2012-13. The main factors contributing to these changes are as follows:

- Taxation and Non-Specific Grant Income decreased from £274.177m to £258.459m, a decrease of £15.718m (5.7%). This decrease in income reflects a general year on year decrease in General Government Grants and a reduction in Council Tax income due to the transfer of funds in respect of Police and Fire which have been transferred out of local government.
- Financing and Investment Income and Expenditure increased from £19.888m in 2012-13 to £22.010m in 2013-14, an increase of £2.122m (10.7%). The increase is due to a rise in interest payable and similar charges, a fall in interest and investment income and a decrease in the expected return on pension assets.
- Other Operating Income and Expenditure decreased from £2.974m in 2012-13 to £1.071m in 2013-14, a decrease of £1.903m (64%). This is due to a decrease in the loss on disposal of long term assets.
- The Net Cost of Services has increased from £231.520m in 2012-13 to £233.684m in 2013-14, an increase of £2.164m (0.9%). This is an increase in expenditure in accounting terms and does not necessarily represent a true increase in spend on services by the Council. This increase would have been greater but for the transfer of Police and Fire services out of local government in 2013-14 (Expenditure in 2012-13 of £11.856m).

Balance Sheet

As indicated above the accounting net worth of the Council has decreased by £5.917m from £180.742m at 31 March 2013 to £174.825m at 31 March 2014.

The value of long term assets has increased from £500.353m at 31 March 2013 to £514.498m at 31 March 2014, an increase of £14.145m (2.8%). 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 decreased from £63.678m at 31 March 2013 to £57.652m at 31 March 2014, a decrease of £6.026m. The main reason for this being a decrease in Cash and Cash Equivalents of £5.793m from £11.868m at 31 March 2013 to £6.075m at 31 March 2014.

Total current liabilities have increased from £42.899m at 31 March 2013 to £48.746m at 31 March 2014, an increase of £5.847m. Short term borrowing has increased by £7.703m from £3.739m at 31 March 2013 to £11.442m at 31 March 2014, partly offset by Short term creditors which have decreased by £2.313m from £35.295m to £32.982m. In addition, there has been an increase in short term provisions of £0.240m, 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 £340.390m at 31 March 2013 to £348.579m at 31 March 2014. The increase of £8.189m is primarily due to the increase in the IAS19 valuation of the pension scheme liability from £99.864m to £118.337m, partly offset by a decrease in Borrowing Repayable within a period of 12 Months of £8.351m.

Explanatory Foreword by the Head of Strategic Finance

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 2013 was £11.868m and decreased by £5.793m to £6.075m at 31 March 2014. The Net Cash Flows from Operating Activities have decreased from £27.191m at 31 March 2013 to £5.335m at 31 March 2014, this decrease of £21.856m represents a decrease in the Council's expenditure being funded from taxation and grant income. Cash outflows for Investment Activities have decreased from £29.473m during 2012-13 to £10.133m in 2013-14, as a result of a decrease in the purchase of long term assets and a year on year reduction in the value of surplus cash investments made during the year. Cash flows from Financing Activities were an inflow of £1.337m during 2012-13 and £0.995m during 2013-14, this change relates to £0.410m of other receipts from financing activities during 2013-14 which was in relation to Short and Long Term Borrowing.

Pension Liability

As noted above the IAS19 valuation of the pension scheme liability has increased from £99.864m at 31 March 2013 to £118.337m at 31 March 2014. 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 2014.

These benefits are expressed in current value terms rather than the cash amount that will actually be paid out. This is to allow for the 'time value of money', whereby the value of cash received now is regarded as higher than cash received, for example, in ten years' time, since the money received now could be invested and would earn interest or returns during the ten years. In order to adjust the pension liability cash flows for the time value of money, a discount factor based on corporate bonds is used.

Hymans Robertson (Independent Actuaries) were instructed by Glasgow City Council, the administering authority to the Strathclyde Pension Fund, to undertake calculations in respect of the Local Government Pension Scheme on behalf of Argyll and Bute Council as at 31 March 2014. 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

During 2013-14 a review of the Roads and Lighting Trading Account and the Catering and Cleaning Trading Account was performed to consider whether they met the definition of a trading operation, it was decided in view of their limited trading with external organisations and the general public that both trading accounts should cease from the 1st April 2013 and their operations be included within the appropriate service expenditure head.

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 2013-14 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:

	£'m
Gross Capital Expenditure	32.685
Less: Capital Receipts	0.310
Government Grants and Other Contributions	10.998
Revenue Contributions	3.910
Balance Funded from Borrowing	17.467

The capital financing requirement at 31 March 2014 was £256.463m. This was financed as follows:

	£'m
Long Term Borrowing	151.520
Short Term Borrowing	9.661
Schools NPDO Finance Lease Liability	79.604
Internal Funds	15.678
	256.463

The external borrowing of the Council at 31 March 2014 amounted to £161.181m. 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 £0.702m of new external borrowing. This was used to finance capital expenditure incurred during the year. The Council also repaid loans of £0.141m.

PROVISIONS AND CONTINGENT LIABILITIES

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

- Severance costs - a number of employees have either taken or been offered a redundancy package as part of the Council Modernisation programme. A provision of £0.338m has been created in 2013-14 for the termination benefits for employees who have accepted redundancy but are not planned to leave until after 31 March 2014. Termination costs for all Council employees who have accepted redundancy by 31 March 2014 have been accounted for in 2013-14 or in previous years.
- Equal Pay - the Council settled most of the remaining outstanding claims during 2012-13. A provision was held for claims where settlement offers were made and a reliable estimate could be made of the liability. There is a provision of £0.400m remaining and there are a few further outstanding claims where the settlement amount cannot be estimated reliably enough to provide for the costs.
- Utilities Provision - a total of £0.726m has been provided for to cover the cost of a potential liability in relation to discrepancies in charges for utility costs.

CHANGES IN ACCOUNTING POLICY

The Code has introduced one material change to the accounting policies in relation to accounting policy 1.6.3 Post-Employment Benefits on pages 42 to 43. The impact of this change in policy requires the 2012-13 prior year statements (Statement of Movement in Reserves and Statement of Comprehensive Income and Expenditure and Cash Flow Statement) and associated notes to be restated. The specific impact of the restatements is outlined in note 29 on page 82.

Explanatory Foreword by the Head of Strategic Finance

GROUP ACCOUNTS

The Group Accounts have been prepared and for the first time do not include the Strathclyde Police Joint Board and Strathclyde Fire and Rescue Joint Board after the formation of the new single police and fire and rescue services on 1 April 2013. The joint board arrangements have ceased and are no longer part of the authority's group arrangements. Consequently, the opening balance sheet has been adjusted to reflect the assets, liabilities and reserves transferred to the relevant new bodies on 1 April 2013.

The opening balance sheet was adjusted from a net liability position of £77.873m to a net asset position of £185.239m. During the year this revised opening position decreased by £2.852m to £182.387m. This movement can be mainly attributed to a reduction in Argyll and Bute Council's single entity reserve position of £5.917m offset by an increase in Common Good reserve of £3.724m.

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 financial outlook for 2014-15 and 2015-16 is one of relative financial stability. The Council adopted a 2 year budget for 2014-15 and 2015-16 in February 2014. This will see budgetary savings based on achieving 1% cashable efficiency savings for each of these financial years. The 2 years of financial stability will allow time to carry out a longer term review of the resources available to the Council and how they are used to deliver on priorities and objectives.

The Council as part of the community planning partnership (CPP) has agreed an ambitious single outcome agreement (SOA) which has an overall objective of reversing economic and population decline. Economic and population decline along with further reductions in public sector funding set out a very challenging agenda for the period beyond 2016-17 and it is important the Council with the CPP seeks to address these for the longer term.

The review of how the Council uses its resources to deliver on priorities and objectives and also the delivery plans that underpin the SOA will be important in mapping out the future financial plans of the Council. Related to this the Council agreed in February 2014 to consider how best to utilise the free balance on the General Fund Reserve to support economic development and population growth.

The Council will continue to monitor the financial implications of new commitments around the Children and Young Peoples Act, extension of free pre-school education and extension of free school meals. The Council continues to work actively in responding to the challenges arising from the welfare reform agenda. The integration of health and social care represents a significant change to delivery of key local government services. The Council is working in partnership with NHS Highland to ensure the integration of health and social care service in Argyll and Bute from 1 April 2015.

Explanatory Foreword by the Head of Strategic Finance

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

	2014-15 £m	2015-16 £m	2016-17 £m
Total Capital Expenditure	50.185	44.218	18.570
<i>Funded by:</i>			
Borrowing	30.499	27.160	-
Capital Grant	12.887	11.756	10.640
Contribution from Smoothing Funds	3.000	-	-
Contribution from Revenue Budget	1.155	0.286	-
Capital Receipts	2.644	5.016	7.930

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

The Council in common with many other organisations is facing a period of significant financial challenge. However it moves forward from a sound financial base in terms of reserves and control of expenditure and with clear plans to maintain financial sustainability. The financial position will be monitored on an on-going basis during 2014-15 and the revenue budget and capital plan reviewed for 2015-16.



Bruce West
Head of Strategic Finance
26 September 2014

THE AUTHORITY'S RESPONSIBILITIES

The Council is required:

- to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Head of Strategic Finance.
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- to 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 2014 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 2013-14.

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 2014.



Bruce West
Head of Strategic Finance
26 September 2014

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, Argyll and Bute Council, Kilmory, Lochgilphead, PA31 8RT.

THE GOVERNANCE FRAMEWORK

The Code of Corporate Governance details how the Council will demonstrate compliance with the fundamental principles of Corporate Governance for public sector bodies based on the following key elements:

- 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;
- engaging with local people and other stakeholders to ensure robust public accountability;
- setting out and reviewing as appropriate the arrangements for governance and the roles and responsibilities of elected members and employees in standing orders, a scheme of delegation, financial and security regulations and codes of conduct for elected members and employees;
- having in place job descriptions, a system of performance review and development and management and leadership development programmes to set out the roles and responsibilities of and support for the development needs of senior officers;
- ongoing development of an elected member development programme. This includes a range of approach from a CPD framework, 360 degree feedback and self-assessment. A programme of seminar around leadership, governance and functional topics has been developed;
- incorporating an anti-fraud strategy in to the Council's financial and security regulations. This sets out the arrangements for prevention of fraud and corruption and also detection and investigation of fraud and corruption; and
- developing governance over partnerships to ensure effective joint working and delivery of Council objectives. This includes arrangements for governance of the community planning partnership, management committee and chief officer level. Performance of police and fire services is reported to the Performance Review and Scrutiny Committee.

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.

AUDIT SCOTLAND STATUTORY REPORT

The Council was the subject of statutory report by the Controller of Audit during 2013-14. The report considered the effectiveness of councillor to councillor and councillor to officer working relationships. The Accounts Commission considered the statutory report and its findings can be summarised as follows:

- serious concern about substantial risks to the council caused by the instability of elected member leadership;
- the quality of leadership of the Council has been inadequate;
- elected members need to achieve a more effective balance between focusing on local issues and priorities and the longer term strategic objectives of the council;
- the role of Monitoring Officer needs to be afforded trust and respect and members must have confidence in the comprehensiveness of information provided by officers;
- the council's current political management arrangements are not fit for purpose; and
- elected members and officers must work together to ensure fuller use of training and of external support.

The council accepted the statutory report and agreed an action plan addressing the matters raised in the report. A follow up visit was carried out by Audit Scotland during April and May 2014 and a report issued in June 2014. The follow up report notes that:

- the Council had responded constructively to the statutory report and is making progress with improvement work in line with planned timescales although it is too early to assess the effectiveness of the actions completed;
- the political leadership and political dynamics of the council are more stable and the risk to the council is currently reduced but future significant challenges will provide a test to stability;
- new political management arrangements provide a sound basis for improved governance and these will require support to ensure they are fully effective; and
- planned work on training and development and forward planning should support improvement in scrutiny and address the need for improved engagement by elected members.

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.

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

Statement of Governance and Internal Control

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

The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by officers within the Council and the above named bodies. In particular the system includes:

- comprehensive budgeting systems;
- regular reviews by the Council and the above named bodies of periodic and annual financial reports which indicate financial performance against forecast;
- setting targets to measure financial and other performance;
- the preparation of regular financial reports which indicate actual expenditure against forecast;
- clearly defined capital expenditure guidelines;
- project management disciplines;
- guidance relating to financial processes, procedures and regulations; and
- an effective Internal Audit Section.

RISK MANAGEMENT

The Council's Risk Management and Business Continuity Strategies continued to be developed in 2013-14. Regular updates on risk management were submitted to the Audit Committee. A detailed review of the Strategic Risk Register was undertaken during 2013-14. Operational Risk Registers were reviewed and updated on a regular basis. A separate internal audit of risk management was carried out during the year.

INTERNAL AUDIT

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

The Chief Internal Auditor provides the Audit Committee with an annual report on internal audit activity in the Council. Staffing levels and time spent addressing the new Public Sector Internal Audit substantially reduced the time spent on internal audits and the scope of the audit plan was revised with some audits carried forward to 2014-15. The annual report includes an independent opinion on the adequacy and effectiveness of the Council's systems of governance and internal control and concludes that systems for internal control were effective during 2013-14 with no identified material weaknesses.

The Chairman and Vice Chairman are independent lay members of the Audit Committee.

During 2013-14 the Council assessed its internal audit function against the new Public Sector Internal Audit Standards. Arising from that an action plan was prepared to address improvement in relation to internal audit. Good progress is being made with this plan.

Statement of Governance and Internal Control

ISSUES FOR FURTHER DEVELOPMENT

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

- development of delivery plans for the single outcome agreement (SOA) and ensuring this is reflected in council priorities;
- ensuring resources and budget are aligned to support council priorities and SOA delivery plans;
- ongoing development of performance management and improving performance scrutiny;
- reviewing arrangements for partnership governance given increasing importance of community planning and the single outcome agreement and the integration of health and social care;
- further development of risk management to ensure risk management and business continuity are embedded within the council.
- ensuring the internal audit function is fully resourced and work is planned to ensure the 2014-15 audit plan is delivered and that further improvements in the development of internal audit are achieved;
- the action plan prepared in response to the Audit Scotland Statutory report continues to be delivered timeously;
- reviewing arrangements for collection of income in relation to piers and harbours;
- the Council will consider external audit management letters in respect of Helensburgh CHORD and the Submarine Museum; and
- during 2013-14 the Council received 1,103 FOI requests of which 1,048 (95%) were responded to within the required timescale.

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 2013-14 and that there are no significant weaknesses. This assurance is limited, however, to the work undertaken during the year and the evidence available at the time of preparing this statement.



Cllr Dick Walsh
Leader



Sally Loudon
Chief Executive



Bruce West
Head of Strategic Finance

26 September 2014

The Remuneration Report

BACKGROUND

The Local Authority Accounts (Scotland) Amendment Regulations 2011 amended the Local Authority Accounts (Scotland) Regulations 1985 to require Scottish Local Authorities to prepare a Remuneration Report as part of its Annual Financial Statements. All information disclosed in the tables in this Remuneration Report has been audited by Audit Scotland. All other sections within the Remuneration Report have been reviewed by Audit Scotland to ensure it is consistent with the Financial Statements.

REMUNERATION POLICY AND ARRANGEMENTS

Councillors

The remuneration of councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007 (SSI No 2007/183). 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 2013-14 the salary for the Leader of Argyll and Bute Council is £32,470. The Regulations permit the council to remunerate one Civic Head. The Regulations set out the maximum salary that may be paid to that Civic Head. The Council's Civic Head is The Provost and their remuneration is set at £24,353 which is the maximum allowed for Local Authorities in Band B.

The Regulations also set out the remuneration that may be paid to senior councillors in addition to the Leader and Civic Head and the total number of senior councillors the Council may have. The maximum yearly amount that may be paid to a senior councillor is 75% of the total yearly amount payable to the Leader of the Council. The total yearly amount payable by the Council for remuneration of all its senior councillors shall not exceed £0.284m. 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.

In 2013-14 Argyll and Bute Council had 12 senior councillors in the administration up to 26 September 2013 and 14 senior councillors in the administration from 31 October 2013. The total salary remuneration for senior councillors during 2013-14 was £0.259m. 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 2014. 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.

The Remuneration Report

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	2013-14	2012-13
	Actual £'000	Actual £'000
Basic Councillor Salaries	365	362
Leader and Provost's Salary	59	58
Senior Councillor Salaries	259	264
Other Expenses and Allowances paid to Members	175	169
Total Allowances	858	853

The annual return of councillors' salaries and expenses for 2013-14 is available for any member of the public to view at all Council libraries and public offices during normal working hours. It is also available on the Council's website at <http://www.argyll-bute.gov.uk/council-and-government/councillors-and-community-councillors>.

The Remuneration Report

SENIOR COUNCILLORS' REMUNERATION

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

Senior Members	Responsibility	2013-14			2012-13
		Salary, Fees and Allowances £	Taxable Expenses £	Non-cash Expenses & Benefits-in-kind £	Total Remuneration £
Councillor Isobel Strong	Provost (from 22/05/12 to 31/10/13)	15,207	-	-	19,933
Councillor Len Scoullar	Provost and Lead Councillor for Island Affairs (from 31/10/13), European Issues Spokesperson (from 6/12/10 to 3/5/12)	9,185	-	-	3,238
Councillor Roddy McCuish	Leader and Lead Councillor for European Affairs (from 23/5/13 to 26/9/13), Depute Leader and Lead Councillor for European Affairs (from 14/02/13 to 23/5/13), Leader (from 22/05/12 to 14/02/13)	17,614	32	-	26,123
Councillor James Robb	Lead Councillor for Strategic Finance (from 23/5/13 to 26/9/13), Leader and Lead Councillor for Strategic Finance (from 14/02/13 to 23/5/13), Lead Councillor for Strategic Finance and European Affairs (from 22/05/12 to 14/02/13)	14,115	-	-	20,693
Councillor Dick Walsh	Leader (from 26/9/13), Lead Councillor for Strategic Finance (from 31/10/13), Lead Councillor for the Opposition (from 22/5/12 to 26/9/13), Leader (to 3/5/12)	26,011	669	-	20,828
Councillor Douglas Philand	Depute Provost and Lead Councillor for Adult Care (from 31/10/13), Depute Provost and Area Leader for Mid Argyll, Kintyre and the Islands (from 21/03/13 to 31/10/13), Depute Provost and Lead Councillor for Human Resources and Sport (from 22/05/12 to 21/03/13),	21,434	-	-	19,933

The Remuneration Report

Senior Members	Responsibility	Salary, Fees and Allowances £	Taxable Expenses £	Non-cash Expenses & Benefits-in-kind £	Total Remuneration £	Total Remuneration £
Councillor Ellen Morton	Depute Leader (from 26/9/13), Lead Councillor for Roads, Amenity Services, Infrastructure, Asset Management and Special Projects (from 31/10/13), Education and Lifelong Learning Spokesperson (from 6/12/10 to 3/5/12)	8,675	-	-	8,675	3,164
Councillor John Semple	Lead Councillor for Environment, Development and Infrastructure (from 23/8/12 to 26/9/13), Depute Leader (from 22/5/12 to 14/02/13), Lead Councillor for Energy, Development, Infrastructure and Tourism (from 22/5/12 to 23/8/12),	12,844	233	-	13,077	21,058
Councillor Duncan MacIntyre	Lead Councillor for European Affairs, Sustainable Economic Growth and Strategic Transportation (from 31/10/13), Transport and Infrastructure Spokesperson (to 3/5/12)	8,675	-	-	8,675	3,164
Councillor Donald Kelly	Lead Councillor for Improvement, HR, Customer Support and Facility Services (from 31/10/13), Lead Councillor for Renewables and Tourism (from 23/8/12 to 26/9/13), Lead Councillor for Roads and Amenity Services (from 22/5/12 to 23/8/12),	17,937	-	-	17,937	19,933
Councillor Robin Currie	Lead Councillor for Community & Culture and Strategic Housing (from 31/10/13), Rural and Island Affairs, Housing and Gaelic Spokesperson (from 6/12/10 to 3/5/12)	11,010	522	-	11,532	3,277
Councillor Vivien Dance	Lead Councillor for Sustainable Environment, Renewables and Strategic Tourism (from 31/10/13), Chair - Helensburgh and Lomond Area Committee (from 6/12/10 to 3/5/12)	8,675	-	-	8,675	2,593

The Remuneration Report

Senior Members	Responsibility	2013-14			2012-13
		Salary, Fees and Allowances £	Taxable Expenses £	Non-cash Expenses & Benefits-in-kind £	Total Remuneration £
Councillor Aileen Morton	Lead Councillor for Education, Lifelong Learning and Strategic IT Services (from 31/10/13)	8,675	-	-	-
Councillor David Kinniburgh	Chair of Planning, Protective Services and Licensing Committee (from 31/10/13)	8,675	-	-	-
Councillor Mary Jean Devon	Lead Councillor for Children and Families (from 22/5/12)	21,519	-	-	19,933
Councillor Rory Colville	Chair of Mid Argyll, Kintyre and the Islands Area Committee (from 31/10/13), Third Sector and Communities Spokesperson (from 6/12/10 to 3/5/12)	7,232	-	-	3,164
Councillor Alistair MacDougall	Chair of Oban, Lorn and the Isles Area Committee (from 31/10/13)	7,232	-	-	-
Councillor Robert E MacIntyre	Chair of Bute and Cowal Area Committee (from 22/05/12), Leader of the Opposition (from 6/12/10 to 3/5/12)	19,904	-	-	19,203
Councillor Gary Mulvaney	Chair of Helensburgh and Lomond Area Committee (from 31/10/13)	7,232	-	-	-
Councillor George Freeman	Lead Councillor for Community, Culture and Strategic Housing (from 21/3/13 to 26/9/13). Lead Councillor for Housing (from 22/5/12 to 21/3/13)	12,844	117	-	20,331
Councillor Sandy Taylor	Lead Councillor for Planning and Regulatory Services (from 22/05/12 to 26/9/13)	12,844	-	-	19,933
Councillor Louise Glen-Lee	Lead Councillor for Community, Culture, Customer and Communication (from 22/5/12 to 21/3/13), Lead Councillor for Support and Customer Services (from 21/3/13 to 26/9/13)	12,844	319	-	20,503

The Remuneration Report

Senior Members	Responsibility	2013-14			2012-13	
		Salary, Fees and Allowances £	Taxable Expenses £	Non-cash Expenses & Benefits-in-kind £	Total Remuneration £	Total Remuneration £
Councillor Anne Horn	Lead Councillor for Adult Care (from 22/5/12 to 26/9/13)	12,844	-	-	12,844	19,933
Councillor Bruce Marshall	Environment Spokesperson (to 3/5/12)	-	-	-	-	3,164
Councillor Donald MacMillan	Chair - Mid Argyll, Kintyre & Islands Area Committee (to 3/5/12)	-	-	-	-	2,593
Councillor Richard Trail	Lead Councillor for Education and Lifelong Learning (from 21/03/13 to 26/9/13)	14,495	105	-	14,600	-
Councillor Michael Breslin	Lead Councillor for Education and Lifelong Learning (from 22/05/12 to 21/03/13)	-	-	-	-	19,216
Councillor Daniel Kelly	Chair - Protective Services and Licensing Committee (to 3/5/12)	-	-	-	-	3,164
Councillor William Petrie	Provost (to 3/5/12)	-	-	-	-	3,164
Councillor Andrew Nisbet	Social Services Spokesperson (from 6/12/10 to 3/5/12)	-	-	-	-	3,164
Councillor Neil MacKay	Enterprise, Energy, Culture and Tourism Spokesperson (from 6/12/10 to 3/5/12)	-	-	-	-	3,164

The Remuneration Report

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 £	2013-14 Number of Officers	2012-13 Number of Officers
£50,000 - £54,999	25	18
£55,000 - £59,999	17	20
£60,000 - £64,999	4	1
£65,000 - £69,999	9	13
£70,000 - £74,999	5	1
£75,000 - £79,999	3	3
£80,000 - £84,999	2	-
£85,000 - £89,999	-	-
£90,000 - £94,999	2	3
£95,000 - £99,999	-	-
£100,000 - £104,999	-	-
£105,000 - £109,999	-	-
£110,000 - £114,999	1	-
£115,000 - £119,999	-	1
Total	68	60

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 2013-14 there were no employees earning more than £150,000.

The following table sets out the remuneration disclosures for 2013-14 for senior officers:

Post Holder	Salary (Including Fees and Allowances) £	Taxable Expenses £	Benefits other than in cash £	Total Remuneration 2013/14 £	Total Remuneration 2012-13 £
Chief Executive - Sally Loudon	114,303	2,048	-	116,351	118,781
Executive Director of Community Services - Cleland Sneddon	93,656	3,660	-	97,316	97,047
Executive Director of Customer Services - Douglas Hendry	93,922	644	-	94,566	93,273
Executive Director of Development and Infrastructure Services - Alexander MacTaggart (to 10-11-13) <i>(Full year equivalent)</i>	60,724 (92,856)	-	-	60,724 (92,856)	92,770 -
Head of Strategic Finance (Section 95 Financial Officer) - Bruce West	69,587	701	-	70,288	69,172
Head of Adult Care (Section 3 Social Work Officer) - James Robb	69,384	-	-	69,384	68,728
Head of Improvement and HR (Direct Report to Chief Executive) - Jane Fowler	69,384	-	-	69,384	68,728

The Chief Executive's salary of £118,781 in 2012-13 included £3,251 of remuneration for acting as Returning Officer during 2012-13.

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 2013-14, Alexander MacTaggart left the organisation and Pippa Milne was appointed to the role of Executive Director of Development and Infrastructure Services (effective 1 April 2014). Also during 2013-14 the Improvement and HR function was transferred to Customer Services resulting in Jane Fowler, Head of Improvement and HR no longer reporting directly to the Chief Executive (effective from 1 January 2014).

The Remuneration Report

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 2013-14 remain at the 2012-13 rates and are as follows:

Whole time pay	Contribution Rate 2013-14
On earnings up to and including £18,000	5.50%
On earnings above £18,000 and up to £22,000	7.25%
On earnings above £22,000 and up to £30,000	8.50%
On earnings above £30,000 and up to £40,000	9.50%
On earnings above £40,000	12.00%

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

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

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

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

The Remuneration Report

SENIOR COUNCILLORS' PENSION BENEFITS

The pension entitlements for senior councillors for the year to 31 March 2014 are shown in the table below, together with the contribution made by the Council to each senior councillor's pension during the year.

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

Senior Members	In-year pension contributions			Accrued pension benefits	
	For year to 31 March 2014 £	For year to 31 March 2013 £		As at 31 March 2014 £	Difference from 31 March 2013 £
Councillor Roddy McCuish	4,581	5,570	Pension	2,207	435
			Lump Sum	1,476	73
Councillor James Robb	4,201	4,564	Pension	2,230	406
			Lump Sum	1,491	47
Councillor Michael Breslin	3,133	3,897	Pension	720	419
			Lump Sum	-	-
Councillor John Semple	3,956	4,417	Pension	2,278	389
			Lump Sum	1,524	28
Councillor Sandy Taylor	3,956	4,010	Pension	833	517
			Lump Sum	-	-
Councillor Anne Horn	3,956	4,417	Pension	2,061	(4)
			Lump Sum	1,379	(1,107)
Councillor Donald Kelly	4,255	4,417	Pension	2,085	405
			Lump Sum	1,395	64
Councillor Mary Jean Devon	4,453	4,417	Pension	1,995	417
			Lump Sum	1,334	85
Councillor Louise Glen-Lee	3,956	4,417	Pension	837	353
			Lump Sum	-	-
Councillor David Kinniburgh	3,630	3,129	Pension	1,929	351
			Lump Sum	1,578	41
Councillor George Freeman	3,956	4,417	Pension	2,573	400
			Lump Sum	1,721	-
Councillor Ellen Morton	3,630	3,333	Pension	2,219	362
			Lump Sum	1,484	13
Councillor Rory Colville	3,352	3,333	Pension	2,096	336
			Lump Sum	1,402	8

The Remuneration Report

Senior Members	In-year pension contributions			Accrued pension benefits	
	For year to 31 March 2014 £	For year to 31 March 2013 £		As at 31 March 2014 £	Difference from 31 March 2013 £
Councillor Robin Currie	3,777	3,333	Pension	1,914	365
			<i>Lump Sum</i>	722	14
Councillor Len Scoullar	3,729	3,333	Pension	2,352	374
			<i>Lump Sum</i>	1,573	7
Councillor Richard Trail	4,022	2,722	Pension	588	353
			<i>Lump Sum</i>	-	-
Councillor Aileen Morton	3,631	2,722	Pension	554	319
			<i>Lump Sum</i>	-	-
Councillor Gary Mulvaney	3,352	3,129	Pension	1,907	329
			<i>Lump Sum</i>	1,275	26
Councillor Vivien Dance	3,630	3,223	Pension	2,016	354
			<i>Lump Sum</i>	1,348	32
Councillor Bruce Marshall	3,133	3,333	Pension	2,185	321
			<i>Lump Sum</i>	1,461	(14)

The Remuneration Report

SENIOR EMPLOYEES' PENSION BENEFITS

The pension entitlements for senior employees for the year to 31 March 2014 are shown in the table below, together with the contribution made by the Council to each senior employee's pension during the year.

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

Senior Officers	In-year pension contributions			Accrued pension benefits	
	For year to 31 March 2014 £	For year to 31 March 2013 £		As at 31 March 2014 £	Difference from 31 March 2013 £
Chief Executive - Sally Loudon	22,038	22,318	Pension	33,580	(3,451)
			<i>Lump Sum</i>	72,201	684
Executive Director of Community Services - Cleland Sneddon	18,048	17,877	Pension	30,088	1,829
			<i>Lump Sum</i>	66,886	634
Executive Director of Customer Services - Douglas Hendry	18,099	17,828	Pension	37,415	382
			<i>Lump Sum</i>	89,846	(2,778)
Executive Director of Development and Infrastructure Services - Alexander MacTaggart (to 10-11-13)	11,701	17,877	Pension	13,556	1,030
			<i>Lump Sum</i>	19,169	117
Head of Strategic Finance (Section 95 Financial Officer) - Bruce West	13,401	13,200	Pension	28,601	255
			<i>Lump Sum</i>	69,217	(2,141)
Head of Adult Care (Section 3 Social Work Officer) - James Robb	13,363	13,236	Pension	26,276	1,392
			<i>Lump Sum</i>	61,518	582
Head of Improvement and HR (Direct report to Chief Executive) - Jane Fowler	13,363	13,236	Pension	21,702	1,349
			<i>Lump Sum</i>	47,797	454

The Remuneration Report

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	2012/13				Exit Package Cost Band	No	2013/14			
	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	
£	£	£	£	£	£	£	£			
130	269,434	370,421	639,855	71,928	£0 - £20,000	21	49,652	123,200	172,852	33,832
8	24,338	199,709	224,047	42,167	£20,001 - £40,000	4	21,702	88,815	110,517	11,799
4	42,686	137,919	180,605	5,658	£40,001 - £60,000	5	-	253,888	253,888	22,653
3	-	214,941	214,941	47,779	£60,001 - £80,000	2	-	143,210	143,210	18,129
-	-	-	-	-	£80,001 - £100,000	3	88,982	175,428	264,410	36,743
-	-	-	-	-	£100,001 - £150,000	-	-	-	-	-
-	-	-	-	-	£150,001 - £200,000	-	-	-	-	-
145	336,458	922,990	1,259,448	167,532		35	160,336	784,541	944,877	123,156

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

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

The Remuneration Report

The total cost of £0.945m 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 2014 of £0.339m, 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 93 provides more information on the exit packages agreed in the last two financial years.



Dick Walsh
Leader



Sally Loudon
Chief Executive

26 September 2014

Statement of Movement in Reserves

	Usable Reserves (Note 31)				Unusable Reserves (Note 30)						Total Reserves £'000	
	General Fund Balance £'000	Repairs and Renewals Fund £'000	Capital Funds £'000	Total Usable Reserves £'000	Revaluation Reserve £'000	Capital Adjustment Account £'000	Pensions Reserve £'000	Financial Instrument Adjustment Account £'000	Accumulated Absences Account £'000	Total Unusable Reserves £'000		
												£'000
Movements in 2013-14												
Balance at 31 March 2013	(46,138)	(850)	(3,316)	(50,304)	(55,061)	(185,215)	99,864	5,262	4,712	(130,438)	(180,742)	
(Surplus)/Deficit on Provision of Services Other Comprehensive Income and Expenditure	(1,694)			(1,694)	(4,387)		11,998			-	(1,694)	
Total Comprehensive Income and Expenditure	(1,694)	-	-	(1,694)	(4,387)	-	11,998	-	-	7,611	5,917	
Adjustments between accounting basis and funding basis under regulations:												
Adjustment between CAA and Revaluation Reserve for depreciation that is related to the revaluation balance rather than historic cost				-	3,335	(3,335)				-	-	
Amortisation of Intangible Assets	(106)			(106)		106				106	-	
Depreciation of Non-current Assets	(20,996)			(20,996)		20,996				20,996	-	
Impairment of Non-current Assets	(3,409)			(3,409)		3,409				3,409	-	
Capital Grants and Contributions credited to the Comprehensive Income and Expenditure Statement	10,998			10,998		(10,998)				(10,998)	-	
Capital Expenditure Charged to the General Fund	3,910			3,910		(3,910)				(3,910)	-	
Net Gain or Loss on Sale of Non-current Assets	(26)		(454)	(480)		480				480	-	
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	373			373				(373)		(373)	-	
Employee Benefits	(106)			(106)					106	106	-	
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under pension scheme regulations	(6,475)			(6,475)			6,475			6,475	-	

Statement of Movement in Reserves

Statutory Repayment of Debt - Loans Fund Advances	17,875								(17,875)			-
Statutory Repayment of Debt - Finance Leases	19								(19)			-
Statutory Repayment of Debt - NPDO Finance	1,547								(1,547)			-
Total Statutory Adjustments	3,604	-	(454)	3,335	6,475	(373)	106	(3,150)	(3,150)			-
Net (Increase)/Decrease before Transfers to Other Statutory Reserves	1,910	-	(454)	(1,052)	18,473	(373)	106	4,461	(17,875)			5,917
Other Transfers required by Statute												
Transfer to/from Other Statutory Reserves	187	(175)	310	322					(322)			-
(Increase)/Decrease in Year	2,097	(175)	(144)	(1,052)	18,473	(373)	106	4,139	(13,015)			5,917
Balance at 31 March 2014 Carried Forward	(44,041)	(1,025)	(3,460)	(56,113)	118,337	4,889	4,818	(126,299)	(198,230)			(174,825)

This Statement shows the movement in the 2013-14 financial year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The '(Surplus)/Deficit on the provision of services' line shows the true economic cost of providing the Council's services, more details of which are shown in Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting purposes. The 'Net (Increase)/Decrease before Transfers to Other Statutory Reserves' line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

Statement of Movement in Reserves

Comparative Movements in 2012-13	Usable Reserves (Note 31)				Unusable Reserves (Note 30)						Total Reserves £'000
	General Fund Balance £'000	Repairs and Renewals Fund £'000	Capital Funds £'000	Total Usable Reserves £'000	Revaluation Reserve £'000	Capital Adjustment Account £'000	Pensions Reserve £'000	Financial Instrument Adjustment Account £'000	Accumulated Absences Account £'000	Total Unusable Reserves £'000	
Balance at 31 March 2012	(34,572)	(532)	(3,092)	(38,196)	(55,337)	(172,873)	79,092	5,634	4,593	(138,891)	(177,087)
(Surplus)/Deficit on Provision of Services	(19,795)			(19,795)	(2,027)		18,167			-	(19,795)
Other Comprehensive Expenditure and Income											
Total Comprehensive Expenditure and Income	(19,795)	-	-	(19,795)	(2,027)	-	18,167	-	-	16,140	16,140
Adjustments between accounting basis and funding basis under regulations:											
Adjustment between CAA and Revaluation Reserve for depreciation that is related to the revaluation balance rather than historic cost.				-	2,303	(2,303)					
Amortisation of Intangible Assets	(131)			(131)		131				131	
Depreciation and of Non-current Assets	(19,356)			(19,356)		19,356				19,356	
Impairment of Non-current Assets	(1,352)			(1,352)		1,352				1,352	
Capital Grants and Contributions credited to the Comprehensive Income and Expenditure	11,428			11,428		(11,428)				(11,428)	
Capital Expenditure Charged to the General Fund	1,650			1,650		(1,650)				(1,650)	
Net Gain or Loss on Sale of Non-current Assets	(2,077)		(394)	(2,471)		2,471				2,471	
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	372			372				(372)		(372)	
Employee Benefits	(119)			(119)					119	119	
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under pension scheme regulations	(2,605)			(2,605)			2,605			2,605	

Statement of Movement in Reserves

Statutory Repayment of Debt - Loans Fund Advances	18,639																	(18,639)					-
Statutory Repayment of Debt - Finance Leases	25																	(25)					-
Statutory Repayment of Debt - NPDO Finance	1,424																	(1,424)					-
Total Statutory Adjustments	7,898	-	(394)	2,303	2,605	(372)	119	(7,504)															-
Net (Increase)/Decrease before Transfers to Other Statutory Reserves	(11,897)	-	(394)	276	(12,159)	(372)	119	8,636															(3,655)
Other Transfers required by Statute																							
Transfer to/from Other Statutory Reserves	331	(318)	170																				
(Increase)/Decrease in Year	(11,566)	(318)	(224)	276	(12,342)	(372)	119	8,453															(3,655)
Balance at 31 March 2013 Carried Forward	(46,138)	(850)	(3,316)	(55,061)	(185,215)	5,262	4,712	(130,438)															(180,742)

This Statement shows the movement in the 2012-13 financial year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The '(Surplus)/Deficit on the provision of services' line shows the true economic cost of providing the Council's services, more details of which are shown in Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting purposes. The 'Net (Increase)/Decrease before Transfers to Other Statutory Reserves' line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

Statement of Comprehensive Income and Expenditure

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

2012-13			Note	2013-14		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
			Service			
105,237	6,767	98,470	Education Services	108,526	6,885	101,641
31,079	27,234	3,845	Housing Services (Non-HRA)	36,753	28,042	8,711
12,918	2,351	10,567	Cultural and Related Services	13,360	2,345	11,015
21,559	4,542	17,017	Environmental Services	23,222	4,221	19,001
24,913	7,018	17,895	Roads and Transport Services	24,214	6,321	17,893
7,086	4,373	2,713	Trading Services	7,552	4,477	3,075
8,251	4,054	4,197	Planning and Development Services	10,816	5,554	5,262
66,738	9,379	57,359	Social Work	70,096	10,698	59,398
		-	Central Services:			
4,126	103	4,023	- Corporate and Democratic Core	4,353	125	4,228
1,812	5	1,807	- Non Distributed Costs	1,850	2	1,848
3,050	1,279	1,771	- Central Services to the Public	2,912	1,300	1,612
7,308	-	7,308	Strathclyde Police Joint Board	-	-	-
4,548	-	4,548	Strathclyde Fire and Rescue Joint Board	-	-	-
298,625	67,105	231,520	Net Cost of Services	303,654	69,970	233,684

Statement of Comprehensive Income and Expenditure

				26
Other Operating Income and Expenditure:	2,077			(3)
Net (Gain)/loss on Disposal of Long Term Assets	(57)			1,048
(Surplus)/deficit on trading undertakings	954		7	
Other Operating Income and Expenditure				
Total Other Operating Income and Expenditure	2,974			1,071
Financing and Investment Income and Expenditure:				
Interest Payable and Similar charges	17,512			18,107
Interest and Investment Income	(1,019)			(634)
Net Pension Interest Expense	3,395			4,537
Total Financing and Investment Income and Expenditure	19,888			22,010
Taxation and Non-Specific Grant Income:				
General Government Grants	(188,864)			(176,904)
Government Capital Grants and Other Capital Contributions	(11,458)		13	(10,997)
Non-domestic Rates Redistribution	(26,479)			(28,492)
Council Tax Income	(47,376)			(42,066)
Total Taxation and Non-Specific Grant Income	(274,177)			(258,459)
(Surplus)/Deficit on Provision of Services	(19,795)			(1,694)
(Surplus)/Deficit on revaluation of Long Term Assets	(2,027)			(4,387)
Other Post Employment Benefits (Pensions)	18,167		29.2	11,998
Other Comprehensive Income and Expenditure	16,140			7,611
Total Comprehensive Income and Expenditure	(3,655)			5,917

Balance Sheet



31 March 2013		Note	31 March 2014	
£'000	£'000		£'000	£'000
		Long Term Assets		
293,846		Property Plant & Equipment 15		
8,822		- Other Land and Buildings	290,414	
163,822		- Vehicles, Plant, Furniture and Equipment	10,674	
1,466		- Infrastructure Assets	169,555	
3,510		- Community Assets	1,669	
17,400		- Surplus Assets	4,581	
		- Assets Under Construction	25,591	
	488,866	Property Plant & Equipment		502,484
	1,324	Heritage Assets 16		1,371
	203	Intangible Assets 17		351
	6,397	Investment Property 18		6,281
	3,563	Long-Term Debtors 21		4,011
	500,353	Total Long Term Assets		514,498
		Current Assets		
631		Inventories	390	
14,471		Short Term Debtors (Net of Impairment) 22	16,034	
1,708		Assets Held for Sale 23	153	
35,000		Short Term Investments	35,000	
11,868		Cash and Cash Equivalents 24	6,075	
	63,678	Total Current Assets		57,652
		Current Liabilities		
(3,739)		Short-term Borrowing 26	(11,442)	
(35,295)		Short-term Creditors 25	(32,982)	
(116)		Capital Grant Receipts in Advance	(165)	
(2,183)		Provisions 28	(2,423)	
(1,566)		Other Short Term Liabilities 27	(1,734)	
	(42,899)	Total Current Liabilities		(48,746)
		Long-term Liabilities		
(159,871)		Borrowing Repayable within a Period in Excess of 12 Months 26	(151,520)	
(80,354)		Other Long-term liabilities 27	(78,621)	
(301)		Provisions 28	(101)	
(99,864)		Other Long-term liabilities (Pensions) 29	(118,337)	
	(340,390)	Total Long-term Liabilities		(348,579)
	180,742	Total Assets less Liabilities		174,825

Balance Sheet

31 March 2013			Note	31 March 2014	
£'000	£'000			£'000	£'000
		Unusable Reserves	30		
55,061		- Revaluation Reserve		56,113	
185,215		- Capital Adjustment Account		198,230	
(5,262)		- Financial Instruments Adjustment Account		(4,889)	
(99,864)		- Pensions Reserve		(118,337)	
(4,712)		- Accumulated Absences Account		(4,818)	
	130,438				126,299
		Usable Reserves	31		
3,316		- Capital Funds		3,460	
850		- Repairs and Renewals Funds		1,025	
46,138		- General Fund Balance		44,041	
	50,304				48,526
	180,742	Total Reserves			174,825

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 26 June 2014 and the audited financial statements were authorised for issue on 26 September 2014.



Bruce West
Head of Strategic Finance
26 September 2014

Cash Flow Statement

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

2012-13 £'000		Note	2013-14 £'000
(19,795)	Net (Surplus) or Deficit on the Provision of Services		(1,694)
(16,551)	Adjustments to net surplus or deficit on the provision of services for non-cash movements		(12,655)
9,155	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		9,014
(27,191)	Net Cash Flows from Operating Activities	36	(5,335)
29,473	Investing Activities	37	10,133
1,337	Financing Activities	38	995
3,619	Net Increase or Decrease in Cash and Cash Equivalents		5,793
(15,487)	Cash and Cash Equivalents at the beginning of the Reporting Period		(11,868)
(11,868)	Cash and Cash Equivalents at the end of the Reporting Period	24	(6,075)

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2013-14 financial year and its position at the year-end of 31 March 2014. 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 requires 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 2013-14 and the Service Reporting Code of Practice for Local Authorities 2013-14 (SeRCOP), supported by International Financial Reporting Standards (IFRS).

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

1.2 Accruals of Income and Expenditure

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

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

Notes to the Financial Statements

1.3 Cash and Cash Equivalents

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

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

1.4 Changes in Accounting Policies, Estimates and Errors

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

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

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

1.5 Charges to Revenue for Non-Current Assets

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

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

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

1.6 Employee Benefits

1.6.1 Benefits Payable during Employment

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

1.6.2 Termination Benefits

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

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

Notes to the Financial Statements

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

1.6.3 Post-Employment Benefits

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

a) Teachers

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

b) Local Government Pension Scheme

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

- The liabilities of the Strathclyde Pension Fund attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 4.3% (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

Adoption of the 2011 amendments to IAS 19 Employee Benefits and IAS 1 Presentation of Financial Statements are effective for accounting years starting on or after 1 January 2013 and, in accordance with IAS 8 Changes in Accounting Policies, these changes will be retrospectively applied for the prior accounting period where material. Any prior year impact is reported in Note 29 to the accounts. New classes of components for defined benefit costs and new recognition criteria for service costs are recognised in the financial statements.

- The change in the net pension's liability is analysed into the following components:
 - Current service cost – the increase in liabilities as a result of years' service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
 - Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years, charged to the Non Distributed Costs in the Comprehensive Income and Expenditure Statement.

Notes to the Financial Statements

- Net interest on the net defined benefit liability (asset), i.e. net interest expenses for the Council – The change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period, taking into account any changes in the net defined liability (asset) during the period as a result of contribution and benefit payments.
- Re-measurements comprising
 - The return on plan assets – Excluding amounts included in the net interest on the net defined benefit liability (asset), charged to the Pension Reserve as Other Comprehensive Income and Expenditure.
 - Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions, charged to the Pensions Reserve
- Contributions paid to the Strathclyde Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

1.6.4 Post Employment Discretionary Benefits

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

1.7 Events after the Reporting Period

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

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

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

Notes to the Financial Statements

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.

1.9 Financial Liabilities

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

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

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

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

1.10 Government Grants and Contributions

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

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

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

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

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

Notes to the Financial Statements

Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account once they have been applied.

1.11 Heritage Assets

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

The Art Collections

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

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

Inveraray Jail and Courthouse and “Other” Historic Buildings

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

Archaeology and “Other” Museum Exhibits

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

Heritage Assets – General

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

Notes to the Financial Statements

1.12 Intangible Assets

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

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

Intangible assets are measured initially at cost. Amounts are not revalued, as the fair value of the assets held by the Council cannot be determined by reference to an active market. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service lines in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service lines in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

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

1.13 Interests in Companies and Other Entities

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

1.14 Inventories

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

1.15 Investment Properties

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

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

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

Notes to the Financial Statements

1.16 Leases

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

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

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

1.16.1 The Council as Lessee

a) Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability.

Lease payments are apportioned between:

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

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

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

b) Operating Leases

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

1.16.2 The Council as Lessor

a) Finance Leases

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

Lease rentals receivable are apportioned between:

Notes to the Financial Statements

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

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

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

b) Operating Leases

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

1.17 Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2013-14 – 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.

Notes to the Financial Statements

- The sale should be expected to qualify for recognition as a completed sale within one year (although events or circumstances may extend the period to complete the sale beyond one year).

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

1.19 Property, Plant and Equipment

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

1.19.1 Recognition

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

1.19.2 Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

Notes to the Financial Statements

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

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

1.19.3 Impairment

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

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

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve, the carrying amount of the asset is written down against the relevant service lines in the Comprehensive Income and Expenditure Statement

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

1.19.4 Disposals

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

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

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

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

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

Notes to the Financial Statements

1.19.5 Depreciation

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

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

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

1.20 Private Finance Initiative (PFI) and Similar Contracts

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

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

Fixed assets recognised on the Balance Sheet are re-valued and depreciated in the same way as Property, Plant and Equipment owned by the Council.

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

- Fair value of the services received during the year, debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- 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 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.

Notes to the Financial Statements

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

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

1.21.2 Contingent Liabilities

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

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

1.21.3 Contingent Assets

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

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

1.22 Reserves

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

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

1.23 VAT

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

2. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

For 2013-14, the material accounting policy changes that need to be reported relate to group accounts and are covered by revisions to three standards namely IFRS 10 – Consolidated Financial Statements, IFRS 11 – Joint Arrangements and IFRS 12 – Disclosure of Interests in Other Entities. The 2014-15 Code requires implementation of the changes of accounting policy from 1 April 2014. There is no impact of these changes on the accounts covering the 2013-14 financial year.

Broadly, these changes amend the definition of control for accounting purposes in group accounts. These revisions impact upon the current accounting treatment of the Council's interest in other entities. The Council is currently considering the entities within its group and at this stage does not expect material change.

There are revisions to four other standards, none of which are considered to make any material change to the Council's current financial reporting, namely, IAS 27 – Separate Financial Statements,

Notes to the Financial Statements

IAS 28 – Investments in Associates and Joint Ventures, IAS 32 – Financial Instruments: Presentation and IAS1 – Presentation of Financial Statements.

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

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

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

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

Holiday Pay Accrual: Unused holiday entitlement earned at 31 March 2014 but not taken at that date has been quantified on the basis of a 5% sample of all non-term time Council employees. The calculation in respect of unused holidays for term time staff in schools is based on actual leave entitlement as at 31 March and no estimation is required for these staff. The liability shown in the 2013-14 financial statements in respect of the holiday pay accrual is £4.818m.

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 2014 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 £1.4m 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 2014</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">12%</td> <td data-bbox="1062 103 1150 333">69,018</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">17,127</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">5%</td> <td data-bbox="1238 103 1326 333">29,449</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">8%</td> <td data-bbox="1326 103 1406 333">49,031</td> </tr> </tbody> </table>	Sensitivities at 31 March 2014	Approximate % Increase to Employer Obligation	Approximate monetary amount £'000	0.5% decrease in real discount rate	12%	69,018	1 year increase in member life expectancy	3%	17,127	0.5% increase in salary increase rate	5%	29,449	0.5% increase in pension increase rate	8%	49,031
Sensitivities at 31 March 2014	Approximate % Increase to Employer Obligation	Approximate monetary amount £'000															
0.5% decrease in real discount rate	12%	69,018															
1 year increase in member life expectancy	3%	17,127															
0.5% increase in salary increase rate	5%	29,449															
0.5% increase in pension increase rate	8%	49,031															

Notes to the Financial Statements



Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Arrears	At 31 March 2014, the Council had a balance of sundry debtors of £2.844m. A review of significant balances suggested an allowance of 24.3% (£0.692m) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate an increase of the allowance by 10% would increase the bad debt provision required by £0.283m.

Notes to the Financial Statements

5. TRANSFERS TO/FROM EARMARKED RESERVES

The Council has ring-fenced £30.372m of the balance on the General Fund as follows:

Ring-fenced Balances	Balance 1 April 2013 £'000	Funds Used £'000	Contributions to Funds £'000	Balance 31 March 2014 £'000
Revenue from Additional Council Tax on Second Homes (Strategic Housing Fund)	10,183	(4,760)	2,061	7,484
Unspent Grants	1,473	(1,144)	650	979
Contributions Carried Forward	268	(69)	56	255
Unspent Budget Carried Forward	8,171	(2,504)	1,631	7,298
School Budget Carry Forwards	946	(630)	571	887
Unspent Budget Required for Existing Legal Commitments	230	(34)	-	196
CHORD	657	(237)	-	420
Revenue Contribution to Capital (Dunoon and Campbeltown Schools)	3,000	-	-	3,000
Investment in Affordable Housing	9,500	-	-	9,500
Severance Costs	236	(209)	-	27
Reserve Committed for 2013-14 Budget	1,054	(1,054)	-	0
Reserve Committed for 2014-15 Budget	326	-	-	326
Total Ring-fenced	36,044	(10,641)	4,969	30,372
Unallocated	10,094		3,575	13,669
Total General Fund Balance	46,138	(10,641)	8,544	44,041

The unallocated balance of £13.669m is 5.6% of the Council's budgeted net expenditure for 2014-15.

6. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

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

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

6.1 Departmental Information for the year ended 31 March 2014

The income and expenditure of the Council's principal departments recorded in the budget reports for the 2013-14 year is as follows:

Departmental Income and Expenditure 2013-14	Community Services £'000	Development and Infrastructure Services £'000	Customer Services £'000	Chief Executive's Unit £'000	Total £'000
Fees, Charges and Other Service Income	(18,209)	(38,752)	(42,649)	(178)	(99,788)
Government Grants	(2,227)	-	(789)	-	(3,016)
Total Income	(20,436)	(38,752)	(43,438)	(178)	(102,804)
Employee Expenses	85,113	22,116	16,775	3,834	127,838
Other Operating Expenses	73,687	52,698	59,566	511	186,462
Total Operating Expenses	158,800	74,814	76,341	4,345	314,300
Net Cost of Services	138,364	36,062	32,903	4,167	211,496

Notes to the Financial Statements

Departmental Income and Expenditure 2012-13						
Comparative Figures						
	Community Services £'000	Development and Infrastructure Services £'000	Customer Services £'000	Chief Executive's Unit £'000	Total £'000	
Fees, Charges and Other Service Income	(16,156)	(38,770)	(19,438)	(186)	(74,550)	
Government Grants	(2,317)	(62)	(24,310)	-	(26,689)	
Total Income	(18,473)	(38,832)	(43,748)	(186)	(101,239)	
Employee Expenses	83,892	21,936	14,961	5,530	126,319	
Other Operating Expenses	67,620	48,514	59,147	700	175,981	
Total Operating Expenses	151,512	70,450	74,108	6,230	302,300	
Net Cost of Services	133,039	31,618	30,360	6,044	201,061	

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.

	2013-14 £'000	2012-13 £'000
Cost of Services in Service Analysis	211,496	201,061
Add Services not included in Main Analysis	4,358	16,297
Add Amounts not Reported to Management	18,691	14,899
Remove Amounts Reported to Management not Included in Comprehensive Income and Expenditure Statement	(861)	(772)
Net Cost of Services in Comprehensive Income and Expenditure Statement	233,684	231,485

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.

2013-14	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	(99,788)	(146)	-	612	(99,322)	(577)	(99,899)
Surplus or Deficit on Associated and Joint Ventures	-	-	-	-	-	-	-
Interest and Investment Income	-	-	-	-	-	(634)	(634)
Income from Council Tax	-	-	-	-	-	(42,066)	(42,066)
Government Grants and Contributions	(3,016)	-	-	-	(3,016)	(216,393)	(219,409)
Total Income	(102,804)	(146)	-	612	(102,338)	(259,670)	(362,008)
Employee Expenses	127,838	1,964	4,321	(320)	133,803	350	134,153
Other Service Expenses	186,462	1,334	3,564	(12)	191,348	131	191,479
Depreciation, Amortisation and Impairment	-	-	10,806	-	10,806	-	10,806
Interest Payments, Net Pension Interest Expense	-	-	-	-	-	22,644	22,644
Precepts, Levies and Requisitions	-	1,206	-	(1,141)	65	1,141	1,206
Gain or Loss on Disposal of Assets	-	-	-	-	-	26	26
Total Operating Expenses	314,300	4,504	18,691	(1,473)	336,022	24,292	360,314
Surplus or Deficit on the Provision of Services	211,496	4,358	18,691	(861)	233,684	(235,378)	(1,694)

Notes to the Financial Statements

2012-13 Comparative Figures	Service Analysis £'000	Services not in Analysis £'000	Not Reported to Management £'000	Not Included in I&E £'000	Total Net Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, Charges and Other Service Income	(74,550)	(375)	-	538	(74,387)	(354)	(74,741)
Surplus or Deficit on Associated and Joint Ventures	-	-	-	-	-	(57)	(57)
Interest and Investment Income	-	-	-	-	-	(1,037)	(1,037)
Income from Council Tax	-	-	-	-	-	(47,376)	(47,376)
Government Grants and Contributions	(26,689)	-	-	-	(26,689)	(226,801)	(253,490)
Total Income	(101,239)	(375)	-	538	(101,076)	(275,625)	(376,701)
Employee Expenses	126,319	1,785	1,293	-	129,397	-	129,397
Other Service Expenses	175,981	1,656	3,781	(2)	181,416	-	181,416
Depreciation, Amortisation and Impairment	-	-	9,825	-	9,825	-	9,825
Interest Payments, Net Pension Interest Expense	-	-	-	-	-	20,925	20,925
Precepts, Levies and Requisitions	-	13,231	-	(1,308)	11,923	1,308	13,231
Gain or Loss on Disposal of Assets	-	-	-	-	-	2,077	2,077
Total Operating Expenses	302,300	16,672	14,899	(1,310)	332,561	24,310	356,871
Surplus or Deficit on the Provision of Services	201,061	16,297	14,899	(772)	231,485	(251,315)	(19,830)

Notes to the Financial Statements

7. OTHER OPERATING INCOME AND EXPENDITURE

The expenditure of £1.048m shown in the Other Operating Income and Expenditure line on the Statement of Comprehensive Income and Expenditure consists mainly of the requisition paid to Dunbartonshire and Argyll & Bute Joint Valuation Board of £1.141m offset by £0.130m of backdated VAT income received as a result of claims being made under the "Fleming" case law principle.

8. SIGNIFICANT TRADING ORGANISATIONS

Trading units are units within a service 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. During 2013-14 a review of the Roads and Lighting Trading Account and the Catering and Cleaning Trading Account was performed to consider whether they met the definition of a trading operation, it was decided in view of their limited trading with external organisations and the general public that both trading accounts should cease from the 1st April 2013 and their operations be included within the appropriate service expenditure head.

9. AGENCY INCOME

The Council have an on-going agency agreement with Scottish Water to collect domestic water and sewerage charges. During 2013-14 income from this agreement amounted to £0.265m.

Agency Income	2013-14 Actual £'000	2012-13 Actual £'000
Scottish Water	265	244
Total	265	244

The Council also acts as agent for the Scottish Government in the collection of non-domestic rate income. Further information on the collection of non-domestic rate income can be found on pages 99 to 100.

10. COMMUNITY CARE AND HEALTH (SCOTLAND) ACT 2002

During 2013-14, 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 CHP 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 2013-14 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.

Notes to the Financial Statements

During 2013-14 income received by the Council from this source amounted to £5.696m and the related expenditure was £7.429m. This can be analysed as follows:

Purpose of Services	Income £'000	Expenditure £'000
Care of the Elderly	2,455	3,478
Provision of Services for People with Learning Disabilities	2,146	2,805
Provision of Services for People with Mental Health Needs	1,095	1,146
Total	5,696	7,429

11. WASTE MANAGEMENT PUBLIC PRIVATE PARTNERSHIP

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

The Council has paid a service charge of £5.283m (2012-13 £5.176m) which represents the value of the service provided from 1 April 2013 to 31 March 2014. Under the agreement the Council is committed to paying the following sums:

Future Repayment Periods	£'000
2014 - 2015	5,432
2015 - 2020	29,133
2020 - 2025	32,460
2025 - 2027	9,444
Total	76,469

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

12. FEES PAYABLE TO AUDIT SCOTLAND

In 2013-14 the following fees relating to external audit and inspection were incurred:

Auditor's Remuneration	2013-14 £'000	2012-13 £'000
Fees payable to Audit Scotland with regard to external audit services carried out by the appointed Auditor	277	253
Total Remuneration	277	253

The fee for 2013-14 includes £9,900 for the audit of the Council's charitable trusts.

Notes to the Financial Statements

13. GRANT INCOME

The Council credited the following grants to the Comprehensive Income and Expenditure Statement in 2013-14:

Grant Income	2013-14 £'000	2012-13 £'000
Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	176,904	188,864
Non Domestic Rates	28,492	26,479
Specific Capital Grant	77	97
General Capital Grant	8,532	8,746
European Regional Development Fund (ERDF)	1,592	1,049
SUSTRANS	171	161
Sport Scotland	-	316
Other Grants	545	248
Other Government Capital Grants	80	841
Total	216,393	226,801
Credited to Services		
Scottish Government Specific Grants	472	375
General Capital Grant - Private Sector Housing Improvement Grants	1,362	1,074
Housing Benefit Subsidy	23,424	23,355
Council Tax Benefit Subsidy	-	5,913
Other Revenue Government Grants	1,713	1,800
Total	26,971	32,517

14. RELATED PARTIES

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

The aim of the Financial Reporting Standard dealing with Related Parties is to highlight instances where influence and control has been exercised over an external organisation by the Council, and where an elected member, their close family or someone in their household, has the ability to exercise the influence or control. Elected members and Senior Officers have 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 2013-14 is shown in the Remuneration Report on page 18.

During the year there were two companies 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
Bute Conservation Trust	69
MacDougall's Garage	33

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	1,034
<i>Of these, transactions with the following exceeded £10,000:</i>	
Argyll, the Isles, Loch Lomond, Stirling and the Trossachs Tourist Board	109
Scotland Excel	66
Convention of Scottish Local Authorities (COSLA)	61
Cowal Council on Alcohol and Drugs	49
Helensburgh Addiction Rehabilitation Team	77
Islay and Jura Community Enterprise	25
Kintyre Alcohol and Drugs Advisory Service	32
Argyll and Bute Citizens Advice Bureaux	61
Mid Argyll Community Enterprise	61
Oban Addiction Support and Information Services (OASIS)	44
Oban and Lorn Community Enterprise - Atlantis Leisure	441
Total	1,026

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 2013-14	Other Land & Buildings £'000	Vehicles Plant & Equipment £'000	Infra-structure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total 2013-14 £'000
Cost or Valuation	314,281	22,191	214,710	1,468	3,656	17,400	573,706
At 1 April 2013	7,803	4,165	9,882	203	-	10,331	32,384
Additions	(4,334)	-	-	-	224	-	(4,110)
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(5,459)	-	-	-	(224)	-	(5,683)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(527)	(728)	-	-	(75)	-	(1,330)
Derecognition - Disposals	-	-	-	-	-	-	-
Derecognition - Other	(110)	-	-	-	-	-	-
Assets reclassified (to)/from Held for Sale	497	762	881	-	1,175	-	1,065
Other movements in cost or valuation	-	-	-	-	-	(2,140)	-
At 31 March 2014	312,151	26,390	225,473	1,671	4,756	25,591	596,032
Depreciation and Impairments							
At 1 April 2013	(20,435)	(13,369)	(50,888)	(2)	(146)	-	(84,840)
Depreciation Charge for 2013-14	(12,801)	(3,071)	(5,030)	-	(94)	-	(20,996)
Depreciation written out to the Revaluation Reserve	8,529	-	-	-	12	-	8,541
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	2,802	-	-	-	25	-	2,827
Derecognition - Disposals	150	724	-	-	-	-	874
Other movements in depreciation and impairment	18	-	-	-	28	-	46
At 31 March 2014	(21,737)	(15,716)	(55,918)	(2)	(175)	-	(93,548)
Balance Sheet amount at 1 April 2014	290,414	10,674	169,555	1,669	4,581	25,591	502,484
Balance Sheet amount at 1 April 2013	293,846	8,822	163,822	1,466	3,510	17,400	488,866

Notes to the Financial Statements

Comparative Movements in 2012-13	Other Land & Buildings £'000	Vehicles Plant & Equipment £'000	Infra- structure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total 2012-13 £'000
Cost or Valuation							
At 1 April 2012	319,897	19,940	199,895	1,340	5,506	11,723	558,301
Additions	6,989	4,872	8,889	128	(2)	14,262	35,138
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(11,871)	-	-	-	148	-	(11,723)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(2,004)	-	-	-	(918)	-	(2,922)
Derecognition - Disposals	(1,229)	(2,621)	-	-	(1,068)	-	(4,918)
Derecognition - Other	-	-	-	-	-	-	-
Assets reclassified (to)/from Held for Sale	(110)	-	-	-	(60)	-	(170)
Other movements in cost or valuation	2,609	-	5,926	-	50	(8,585)	-
At 31 March 2013	314,281	22,191	214,710	1,468	3,656	17,400	573,706
Depreciation and Impairments							
At 1 April 2012	(23,434)	(13,156)	(46,134)	(2)	(389)	-	(83,115)
Depreciation Charge for 2012-13	(11,627)	(2,821)	(4,754)	-	(154)	-	(19,356)
Depreciation written out to the Revaluation Reserve	13,690	-	-	-	60	-	13,750
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	579	-	-	-	241	-	820
Derecognition - Disposals	335	2,608	-	-	60	-	3,003
Other movements in depreciation and impairment	22	-	-	-	36	-	58
At 31 March 2013	(20,435)	(13,369)	(50,888)	(2)	(146)	-	(84,840)
Balance Sheet amount at 1 April 2013	293,846	8,822	163,822	1,466	3,510	17,400	488,866
Balance Sheet amount at 1 April 2012	296,463	6,784	153,761	1,338	5,117	11,723	475,186

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 2014 in accordance with the Council's rolling programme of revaluations. The revaluations have been carried out by Hugh Blake, M.R.I.C.S, Estates Manager for Argyll and Bute Council. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

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

Valued at Fair Value as at:	Other Land & Buildings £'000	Corporate Surplus Assets £'000
31 March 2014	57,874	2,865
31 March 2013	133,914	364
31 March 2012	16,893	441
31 March 2011	32,481	215
31 March 2010	49,252	696
Total Cost or Valuation	290,414	4,581

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 2013-14 total spending on capital projects was £32.685m.

	2013-14 £'000	2012-13 £'000
Opening Capital Financing Requirement	258,398	256,617
Capital Investment:		
Property Plant and Equipment:		
Other Land and Buildings	7,803	6,989
Vehicles, Plant, Furniture and Equipment	4,165	4,872
Infrastructure Assets	9,882	8,889
Community Assets	203	128
Surplus Assets	-	(2)
Assets Under construction	10,331	14,262
Heritage Assets	47	-
Intangible Assets	254	2
Total Capital Investment	32,685	35,140
Sources of Finance:		
Capital Receipts	(454)	(394)
Government Grants	(10,998)	(11,428)
Capital Financed from Current Revenue	(3,910)	(1,650)
Repayment of External Loans	(17,875)	(18,679)
Capital Element of Finance Lease Payments	(19)	(25)
Capital Element of Schools NPDO Payments	(1,547)	(1,424)
Capital Receipts transferred to Capital Fund	454	394
Capital Receipts Used from Capital Fund	(310)	(94)
Other	39	(59)
Total Funding	(34,620)	(33,359)
Closing Capital Financing Requirement	256,463	258,398

Notes to the Financial Statements

15.5 Commitments under Capital Contracts

At 31 March 2014, the Council had commitments on capital contracts of £12.588m. 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 2013 were £7.162m. The major commitments are:

	£'000
Helensburgh Office Project	6,344
Campbeltown Old Quay	1,700
School Building Improvements (Various Locations)	1,084
Kilmory - Biomass	807
A83 South of Musdale (Contribution to Road Widening)	450
Vehicle Purchases	387
Roads Reconstruction (Various Locations)	291
Kintyre Renewal Hub - New Quay Fenders	207
Soroba Lane Bridge	182

16. HERITAGE ASSETS

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

The main heritage assets held by the Council are two art collections and Inveraray Jail and Courthouse. The Council holds other heritage assets which are not valued and shown on the balance sheet. Further details on the council's heritage assets policy can be found in note 1.11 on page 45.

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

Movements in 2013-14	Art Collections £'000	Heritage Property £'000	Total £'000
Cost or Valuation			
Net Book Value at 1 April 2013	1,148	176	1,324
Additions	-	47	47
Disposals	-	-	-
Revaluations	-	-	-
Depreciation	-	-	-
At 31 March 2014	1,148	223	1,371

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 2013-14	Purchased Software Licences 2013-14 £'000
Cost or Valuation	
At 1 April 2013	813
Additions	254
Disposals	-
Reclassifications	-
At 31 March 2014	1,067
Depreciation and Impairments	
At 1 April 2013	(610)
Charge for 2013-14	(106)
Disposals	-
At 31 March 2014	(716)
Balance Sheet amount at 1 April 2014	351
Balance Sheet amount at 1 April 2013	203

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

Notes to the Financial Statements

18. INVESTMENT PROPERTY

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

The value of investment property is initially measured at cost and thereafter measured at fair value. The fair value of investment property reflects market conditions at 31 March 2014. Revaluations of investment properties were carried out at 31 March 2014 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 2013-14 was:

Movements in 2013-14	Investment Properties £'000
Cost or Valuation	
At 1 April 2013	6,397
Acquisitions	-
Disposals	-
Net Gains/Losses from fair value adjustments	(116)
Transfers	-
At 31 March 2014	6,281

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

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:

	2013-14 £'000	2012-13 £'000
Rental Income from Investment Property	98	95
Direct operating expenses arising from investment property	-	-
Net gain/(loss)	98	95

Notes to the Financial Statements

19. SCHOOLS NON-PROFIT DISTRIBUTING ORGANISATION (NPDO)

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

19.1 Assets Held under Schools NPDO Contract

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

Movements in 2013-14	Land & Buildings £'000
Cost or Valuation	
At 1 April 2013	93,179
Additions	-
Revaluations	-
At 31 March 2014	93,179
Depreciation and Impairments	
At 1 April 2013	(5)
Charge for 2013-14	(1,700)
Revaluations	-
At 31 March 2014	(1,705)
Balance Sheet amount at 1 April 2014	91,474
Balance Sheet amount at 1 April 2013	93,174

19.2 Schools NPDO Finance Lease Liability

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

Movements in 2013-14	£'000
Balance at 1 April 2013	(81,152)
Repayments	1,547
Schools NPDO Finance Lease Liability at 31 March 2014	(79,605)
Split:	
Obligations payable within 1 year	(1,734)
Obligations payable after 1 year	(77,871)
Schools NPDO Finance Lease Liability at 31 March 2014	(79,605)

Notes to the Financial Statements

19.3 Payments due to Operator under Schools NPDO Contract

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

Future Repayment Periods	Repayment of Liability £'000	Lifecycle Costs £'000	Payment of Interest £'000	Service Charges £'000	Total Payments £'000
2014 - 2015	1,734	-	8,068	4,209	14,011
2015 - 2020	10,205	-	37,648	24,457	72,310
2020 - 2025	14,888	945	31,994	28,600	76,427
2025 - 2030	22,156	2,891	23,246	32,793	81,086
2030 - 2035	30,622	3,181	9,891	33,799	77,493
Total	79,605	7,017	110,847	123,858	321,327

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 £0.018m.

	2013-14 £'000	2012-13 £'000
Vehicles	18	39
Total	18	39

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 2013-14 were as follows:

	2013-14 £'000	2012-13 £'000
Land and Buildings	278	278
Vehicles	245	559
Plant and Equipment	164	53
Total	687	890

Notes to the Financial Statements

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 2013-14	Vehicles, Plant and Equipment £'000
Value at 1 April 2013	18
Additions	-
Depreciation	(18)
Value at 31 March 2014	-

There are no outstanding obligations to make payments under these finance leases (excluding finance costs) as at 31 March 2014.

20.4 Assets Held Under Operating Leases

The Council was committed at 31 March 2014 to making payments of £0.588m under operating leases comprising the following elements:

	Other Land and Buildings £'000	Vehicles, Plant and Equipment £'000
Leases expiring within 1 year	16	143
Leases expiring between 1 and 5 years	42	201
Leases expiring after 5 years	162	24
Value at 31 March 2014	220	368

Notes to the Financial Statements

21. LONG TERM DEBTORS

	31st March 2014 £'000	31st March 2013 £'000
House Loans	66	76
Waste PPP Historic Contamination Fund	750	750
Charging Orders - Care Home Fees	934	824
Strategic Housing Fund Loans to Registered Social Landlords	2,161	1,813
Other Long Term Debtors	100	100
Total Long Term Debtors	4,011	3,563

22. DEBTORS

		31 March 2014		31 March 2013	
		£'000	£'000	£'000	£'000
Arrears of Local Taxation	Council Tax	12,510		12,091	
	Less: Provision for Bad Debts	(10,439)		(10,007)	
			2,071		2,084
	Community Charge	7,550		7,550	
	Less: Provision for Bad Debts	(7,550)		(7,550)	
			-		-
Housing Benefits Overpayments		929		823	
	Less: Provision for Bad Debts	(703)		(589)	
			226		234
Debtor Accounts		2,844		2,925	
	Less: Provision for Bad Debts	(692)		(791)	
			2,152		2,134
VAT Recoverable from HMRC			3,742		1,610
Strategic Housing Fund Loans due within 1 Year			1,847		-
Other Debtors			5,996		8,409
Total Debtors			16,034		14,471

Notes to the Financial Statements

23. ASSETS HELD FOR SALE

The movement in assets held for sale during 2013-14 was:

Movements in 2013-14	2013-14 £'000	2012-13 £'000
Balance outstanding at start of year	1,708	2,153
Assets newly classified as held for sale (Property, Plant and Equipment)	553	177
Revaluation losses	(480)	-
Revaluation gains	-	-
Impairment losses	-	-
Assets declassified as held for sale (Property, Plant and Equipment)	(1,604)	(65)
Assets Sold	(24)	(557)
Balance outstanding at year-end	153	1,708

24. CASH AND CASH EQUIVALENTS

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

	31 March 2014 £'000	31 March 2013 £'000
Cash held by the Authority	62	62
Cash in transit	80	2,813
Short term deposits with banks	9,350	14,032
Bank Current Accounts (Overdraft)	(3,417)	(5,039)
Total Cash and Cash Equivalents	6,075	11,868

25. CREDITORS

	31 March 2014 £'000	31 March 2013 £'000
Accrued Payrolls and Superannuation	6,122	5,418
Accrued Employer's National Insurance Contributions and PAYE	2,296	2,264
Accrual for Short Term Accumulating Absences	4,818	4,712
Creditors System Liability	7,037	6,121
Accrued Expenditure	4,908	5,899
Other Creditors	7,801	10,881
Total Creditors	32,982	35,295

Notes to the Financial Statements

26. FINANCIAL INSTRUMENTS DISCLOSURES

26.1 Types of Financial Instruments

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

	31 March 2014		31 March 2013	
	Long Term £'000	Current £'000	Long Term £'000	Current £'000
Investments and Lending				
Loans and Receivables	4,011	57,109	3,563	61,339
Borrowing				
Financial Liabilities at amortised cost	230,141	46,158	240,225	40,600

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 2014 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 2014		31 March 2013	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Lending				
Loans and Receivables	61,120	61,227	64,902	64,981
Borrowing				
Financial Liabilities	276,299	302,512	280,825	319,323

The fair value is greater than the carrying amount because the Council's lending figure includes a number of loans where the interest rate receivable is higher than the rates available for similar loans at the balance sheet date. The commitment to receive interest above the current market rates increases the amount the Council would receive if it agreed the early repayment of loans.

The fair value is greater than the carrying amount because the Council's borrowing figure includes a number of loans where the interest rate payable is higher than the rates available for similar loans at

Notes to the Financial Statements

the balance sheet date. The commitment to pay interest above the current market rates increases the amount the Council would have to pay 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 whose credit rating is independently assessed as sufficiently secure by the Council's treasury advisers and to restrict lending to a prudent maximum amount for each institution.

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

	Amount at 31 March 2014 £'000	Historical Experience of Non-payment adjusted for Market Conditions at 31 March 2014 %	Estimated Maximum Exposure to Default and Uncollectibility £'000
Deposits with Banks	9,350	-	-

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

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

26.6 Liquidity Risk

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

Notes to the Financial Statements

The maturity analysis of financial liabilities is as follows:

Maturity analysis of financial liabilities	31 March 2014 £'000	31 March 2013 £'000
Less than one year	46,158	40,600
Between one and two years	12,337	9,901
Between two and five years	29,183	38,485
More than five years	188,621	191,839
	276,299	280,825

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

26.7 Market Risk

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

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

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

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

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

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

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

Notes to the Financial Statements

To illustrate the impact of changes in interest rates upon the Council, the following table shows the financial effect if rates had been 1% higher at 31 March 2014, with all other variables held constant:

	31 March 2014 £'000
Impact on tax-payer	
Increase on interest payable on variable rate borrowings	13
Increase in interest receivable on variable rate lending	-
Increases in government grant receivable for "loan charges"	-
Net effect on Statement of Comprehensive Income & Expenditure	13

	31 March 2014 £'000
Other accounting presentational changes	
A decrease in the "fair value" of fixed rate borrowing (disclosure confined to the notes to the financial statements)	20,750

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

26.8 Price Risk

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

26.9 Foreign Exchange Risk

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

26.10 Short-Term Deposits

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

	31 March 2014 £'000	31 March 2013 £'000
Banks	9,350	14,032

26.11 Short-Term Borrowing

The Common Good and the various Trust Funds administered by the Council had monies temporarily invested with the Council's loans fund during the year. The amounts at 31 March 2014 are shown in the table below. Further details of the nature and amounts of the funds of the Common Good and Trust Funds are shown in notes 34 and 35 on pages 93 to 94.

	31 March 2014 £'000	31 March 2013 £'000
Common Good	100	100
Trust Funds	1,264	1,246

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 £80.355m as at 31 March 2014 and comprise the following:

Movements in 2013-14	Opening Balance 31 March 2013 £'000	Movement in Year £'000	Closing Balance 31 March 2014 £'000
Finance Lease Liability (See note 20.3)	(18)	18	-
Schools NPDO Finance Lease Liability (See note 19.2)	(81,152)	1,547	(79,605)
Land Contamination	(750)	-	(750)
Total Other Liabilities	(81,920)	1,565	(80,355)
Split:			
Short Term Liabilities (due within 1 year)			(1,734)
Long Term Liabilities (due after 1 year)			(78,621)
Total Other Liabilities			(80,355)

28. PROVISIONS

	Opening Balance 31 March 2013 £'000	Additional Provision £'000	Amounts Used £'000	Unused Amounts Reversed £'000	Closing Balance at 31 March 2014 £'000
SRC Insurance Claims	(181)		12	148	(21)
Equal Pay Claims	(32)	(400)		32	(400)
Income due to Registered Social Landlords	(60)	(20)			(80)
Reorganisation Redundancy Costs	(909)	(49)	620		(338)
Utilities Provision	(1,013)			287	(726)
Other Provisions	(289)	(880)	130	80	(959)
Total Provisions	(2,484)	(1,349)	762	547	(2,524)
Split:					
Short Term Provisions (due within 1 year)					(2,423)
Long Term Provisions (due after 1 year)					(101)
Total Other Liabilities					(2,524)

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 £0.021m.

Notes to the Financial Statements

A provision was created at the end of 2005-06 in relation to the 9% of female employees in catering, cleaning and home care services who had not accepted the Council's equal pay settlement. The Council is nearing agreement on the final settlement for Equal Pay claims. There are further outstanding claims where the settlement amount cannot be estimated reliably enough to provide for the costs.

The Council reduced the discount on council tax from second homes to 10% during 2005-06. The additional council tax income invoiced during 2013-14 amounted to £1.944m; 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 £0.080m.

As with previous years, liabilities have arisen in respect of employees who will be made redundant as a result of restructuring. The Council has had significant budget savings to make and there will be an ongoing requirement to make savings in future years. The Council invited all employees to express an interest in voluntary redundancy. As a result of service review and other savings agreed as part of the budget process for 2011-12 to 2013-14 a number of employees have subsequently either taken or have been offered a redundancy package. The additional costs for employees terminated on or before 31 March 2014 were incurred in-year. For the employees who have confirmed acceptance of redundancy but have left or are leaving after 31 March 2014, a provision of £0.049m has been created during 2013-14. For further information refer to note 33 - Termination Benefits.

The utilities provision was created during 2011-12 to cover a potential liability in relation to discrepancies in charges for utility costs, £0.287m has been utilised this during 2013-14 resulting in a total provision of £0.726m.

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 2014-15.

29. DEFINED BENEFIT PENSION SCHEMES

Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

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

Teachers

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

Notes to the Financial Statements

Local Government Pension Scheme

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

The principal risks to the authority of the scheme are the longevity assumptions, statutory changes to the scheme, changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund the amounts due by statute as described in the accounting policies note.

29.1 Accrued Pensions Contribution

Due to the timing of salary processing, not all employee and employer contributions have been paid to the Pensions Schemes by the 31 March 2014. These payments have been accrued and are included within the creditors figure on the balance sheet. These have been paid during April 2014. The amounts are as follows:

- Local Government Pension Scheme – £1.197m
- Teachers' scheme – £0.715m

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 2014 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:

Notes to the Financial Statements

	2013-14 £'000	2012-13 £'000
Comprehensive Income and Expenditure Statement:		
Cost of Services:		
<i>Service cost comprising:</i>		
Current Service Cost	13,946	10,659
Past Service Cost (Including Curtailments)	444	1,370
Net Cost of Services	14,390	12,029
Net Interest Expense	4,537	3,395
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	18,927	15,424
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement		
Return on Assets (excluding amounts included in net interest)	(9,712)	(37,691)
Other Experience	203	155
Change in Financial Assumptions	21,507	55,703
Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	30,925	33,591
Statement of Movement in Reserves:		
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(6,475)	(2,605)
Actual Amount charged against the General Fund Balance for pensions in the year:		
Employer's Contributions Payable to the Scheme	12,452	12,819

29.3 Assets and Liabilities in Relation to Post-Employment Benefits

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

	2013-14 £'000	2012-13 £'000
Defined Benefit Obligation at 1 April	534,974	459,779
Current Service Cost	13,946	10,659
Past Service Costs including Curtailments	444	1,370
Interest Cost	24,090	22,006
Contributions by Scheme Participants	3,347	3,265
Re-measurement Gains and (Losses)	21,710	55,858
Estimated Benefits Paid	(16,989)	(17,963)
Defined Benefit Obligation at 31 March	581,522	534,974

Notes to the Financial Statements

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

	£'000	£'000
Fair Value of Employer Assets at 1 April	435,110	380,687
Re-measurement Gains and (Losses):		
Expected Rate of Return on Pension Fund Assets	9,712	37,691
Actuarial Gains and Losses	-	-
Interest Income on Plan Assets	19,553	18,611
Employers Contributions	12,452	12,819
Contributions by Scheme Participants	3,347	3,265
Estimated Benefits Paid	(16,989)	(17,963)
Fair Value of Employer Assets at 31 March	463,185	435,110

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

29.4 Pensions Assets and Liabilities Recognised in the Balance Sheet

	2013-14 £'000	2012-13 £'000
Local Government Pension Scheme		
Present Value of Funded Liabilities	(553,500)	(507,422)
Present Value of Unfunded Liabilities	(28,022)	(27,552)
Fair Value of Employer Assets	463,185	435,110
(Deficit) in the Scheme	(118,337)	(99,864)

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

Notes to the Financial Statements

29.5 Analysis of Pension Fund's Assets

Argyll and Bute Council's share of the Pension Fund's assets at 31 March 2014 comprised:

	2013-14 £'000	2012-13 £'000
Cash and Cash Equivalents	22,152	15,778
Equity Instruments (by industry type)		
Consumer	42,668	37,999
Manufacturing	37,483	34,906
Energy and Utilities	16,964	17,755
Financial Institutions	30,991	29,804
Health and Care	15,885	15,804
Information Technology	25,240	21,799
Sub-total Equity Instruments	169,231	158,067
Bonds (by sector)		
Corporate	3	2
Government	-	-
Sub-total Bonds	3	2
Real Estate		
UK Property	32,448	27,911
Overseas Property	-	-
Sub-total Real Estate	32,448	27,911
Private Equity (All)	43,684	42,010
UK		
Investment Funds and Unit Trusts		
Equities	140,979	132,542
Bonds	53,750	58,611
Commodities	184	264
Infrastructure	656	-
Other	1	1
Sub-total Investment Funds and Unit Trusts	195,570	191,418
Derivatives		
Forward Foreign Exchange Contracts	-	-
Other	98	(76)
Sub-total Derivatives	98	(76)
Total Assets	463,186	435,110

Notes to the Financial Statements

Fair Value of Pension Fund Assets	2013-14 £'000	2012-13 £'000
Equity Securities		
Quoted in an Active Market	168,875	157,893
Not Quoted in an Active Market	356	174
Sub-total Equity Securities	169,231	158,067

29.6 Basis for Estimating Assets and Liabilities

The Council's share of the liabilities of Strathclyde Pension Fund have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on the assumptions about mortality rates, salary levels, etc.

The principal assumptions used by the actuary have been:

Long-term Expected Rate of Return on Assets in the Fund	2013-14 %	2012-13 %
Equity Investments	4.3%	4.5%
Bonds	4.3%	4.5%
Property	4.3%	4.5%
Cash	4.3%	4.5%

Mortality assumptions	2013-14 Years	2012-13 Years
Longevity at 65 for current pensioners:		
Men	21.0	21.0
Women	23.4	23.4
Longevity at 65 for future pensioners:		
Men	23.3	23.3
Women	25.3	25.3

Financial Assumptions	2013-14 %	2012-13 %
Rate of Inflation (CPI)	2.8%	2.8%
Rate of Increase in Salaries	5.1%	5.1%
Rate of Increase in Pensions (CPI)	2.8%	2.8%
Rate for discounting scheme liabilities	4.3%	4.5%

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.

Notes to the Financial Statements

29.7 Asset and Liability Matching (ALM) Strategy

The main fund (Fund 1) of Strathclyde Pension fund does not have an asset and liability matching strategy (ALM) as this is used mainly by mature funds. The Fund does match, to the extent possible, the types of assets invested to the liabilities in the defined benefit obligation. As is required by the pensions and investment regulations, the suitability of various types of investment has been considered, as has the need to diversify investments to reduce the risk of being invested into too narrow a range.

29.8 Impact on the Authority's Cash Flow

The objectives of the Fund are to keep employers' contributions at as constant a rate as possible. The Fund has agreed a strategy to achieve a funding rate of 100% in the longer term. The Scheme is a multi-employer defined benefit plan and employers' contributions have been determined so that employee and employer rates are standard across all participating Local Authorities. Employer's contributions have been set at 19.3% for 2014-2015. The next three years will be set following completion of the triennial valuation as at 31 March 2014.

The Fund will need to take account of impending national changes to the Local Government Pension Scheme in Scotland such as the move from 1 April 2015 to a new career average revalued earnings (CARE) scheme for future accruals.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2015 is £10.703m.

The assumed weighted average duration of the defined benefit obligation is 17.8 years (this is different from the mortality assumptions quoted in the table above in "Basis for Estimating Assets and Liabilities").

29.9 Change in Accounting Policy IAS19

Argyll and Bute Council implemented a change of accounting policy with effect from 2013-14 financial year relating to the June 2011 amendments to the accounting standard IAS19 Employee Benefits. The key change relates to the expected return on assets. In order to permit a meaningful comparison between financial years, some figures in the previous year's audited financial statements have been amended.

There has been a redistribution of costs within the Comprehensive Income and Expenditure Statement. The pensions interest cost within the Surplus or Deficit on the Provision of Services has increased with a corresponding reduction in actuarial (gains) or losses on pension assets and liabilities in Other Comprehensive Income and Expenditure. Essentially, the expected return on scheme assets that was credited to the Surplus or Deficit on the Provision of Services has been effectively replaced with an equivalent figure using the discount rate.

The effects of the restatement on the financial statements are as follows (only those lines that have changed are shown):

Notes to the Financial Statements

Effect on Comprehensive Income and Expenditure Statement

	As Previously Stated 2012-13 £'000	As Restated 2012-13 £'000	Movement 2012-13 £'000
Financing and investment income and expenditure			
Pension interest cost and expected return on pension assets (Restated as "Net Pension Interest Expense")	(18)	3,395	3,413
(Surplus) or deficit on the provision of services	(23,208)	(19,795)	3,413
Actuarial (gains) or losses on pension fund assets and liabilities (Restated as "Other Post Employment Benefits - Pensions")	21,580	18,167	(3,413)
Other comprehensive income and expenditure	19,553	16,140	(3,413)

Movement in Reserves Statement – Usable Reserves 2012-13

	As Previously Stated 2012-13 £'000	As Restated 2012-13 £'000	Movement 2012-13 £'000
General Fund Balance			
(Surplus) or deficit on the provision of services	(23,208)	(19,795)	3,413
Adjustments between accounting basis and funding basis under regulations	808	(2,605)	(3,413)

Movement in Reserves Statement – Unusable Reserves 2012-13

	As Previously Stated 2012-13 £'000	As Restated 2012-13 £'000	Movement 2012-13 £'000
Unusable Reserves			
Other comprehensive expenditure and income	16,140	19,553	3,413
Adjustments between accounting basis and funding basis under regulations	(808)	2,605	3,413

29.10 Teachers Pensions – Administered By Scottish Public Pensions Agency

Teachers employed by the Authority are members of the Teachers' Pension Scheme administered by the Scottish Government. The Scheme provides teachers with specified benefits upon their retirement, and the Authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is a multi-employer defined benefit scheme. The scheme is unfunded and the Scottish Government uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. Valuations of the notional fund are undertaken every four years.

Notes to the Financial Statements

The Authority is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of these Financial Statements, it is therefore accounted for on the same basis as a defined contribution scheme. As a proportion of the total contributions into the Teachers' Pension Scheme during the year ended 31 March 2014, the Authority's own contributions equate to 1.46%.

	2013-14 £'000	2012-13 £'000
Amount Paid Over (£'000)	5,036	5,026
Rate of Contribution (%)	14.90%	14.90%
Amount of Added Years Awarded by the Council (£'000)	534	527

The contributions due to be paid to the Teacher's Scheme by Argyll and Bute Council in the next financial year are estimated to be £4.929m.

30. UNUSABLE RESERVES

Movements in the Authority's unusable reserves are detailed in the Statement of Movement in Reserves on pages 31 to 32.

30.1 Revaluation Reserve

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

- Revalued downwards or impaired and gains are lost
- Used in the provision of services and the gains are consumed through depreciation, or
- Disposed of and the gains realised.

The reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

30.2 Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting on non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations which are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date the Revaluation Reserve was created to hold such gains.

Notes to the Financial Statements

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 Statement of Movement in Reserves on pages 31 to 32.

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

31.1 Capital Funds Cont'd

The movement in the Usable Capital Receipts Reserve and Capital Fund are as follows:

Movements in 2013-14	Usable Capital Receipts Reserve £'000	Capital Fund £'000	Total Capital Funds £'000
Balance at 1 April 2013	2,744	572	3,316
Proceeds of Disposals	3	451	454
Transfer to Capital Adjustment Account	-	(322)	(322)
Contribution to Loans Fund Charges	-	-	-
Interest Earned	10	2	12
Balance at 31 March 2014	2,757	703	3,460

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

Movements in 2013-14	Balance at 31 March 2013 £'000	Contribution from Revenue £'000	Interest Earned £'000	Contribution to Revenue £'000	Balance at 31 March 2014 £'000
Education	781	396	2	(224)	955
Vehicles	69	-	1	-	70
Total	850	396	3	(224)	1,025

32. CONTINGENT LIABILITIES

During the 2006-07 financial year the Council transferred its housing stock to Argyll Community Housing Association (ACHA). Some council houses involved in the transfer had been built on land not owned by the Council. The transfer agreement requires the Council to purchase this land and transfer it to ACHA at nil cost. Some of the outstanding land title issues were resolved during 2013-14 however there are still some landowners where a price has yet to be negotiated and therefore a reliable estimate cannot be made of the obligation at this stage.

The Council settled a number of equal pay claims during 2013-14, however there are a small number remaining where the outcome of the applications are unknown and there is insufficient information to allow the potential cost of these claims to be provided for. There is also the potential for other equal pay claims whose costs may be met by the Council.

Proper accounting practice requires, where appropriate, the costs of restoration and aftercare to be recognised in the valuation of the asset and as a provision as necessary. The Council does not currently consider these costs to be material. We will review the latest guidance on asset decommissioning, issued by LASAAC, during 2014-15 and determine the appropriate accounting treatment for the restoration and aftercare costs for the landfill sites within the council's area.

In a recent legal case, the European Court of Justice ruled that if a worker's remuneration includes contractual commission; their holiday pay must also take account of that commission. All pay elements such as overtime, standby/emergency call outs and commission should be included in the calculation of holiday pay. At this stage the extent of the Council's potential liability is unknown.

Notes to the Financial Statements

33. TERMINATION BENEFITS

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

Redundancy costs as part of the programme of service reviews have been incurred by the Council since the 2010-11 financial year in relation to the budget savings agreed. In each year provision was made within the financial year for the costs of all employees who had accepted redundancy as at 31 March ending that year, including accounting for costs for employee who confirmed redundancy by 31 March but left or were leaving after this date. The total cost accounted for in 2012-13 was £1.259m for 145 employees and in 2013-14 was £0.945m for 35 employees. These costs are detailed further in the Remuneration Report on pages 29 to 30.

Therefore termination costs for all Council employees who have accepted redundancy by 31 March 2014 have been accounted for in 2013-14, or in previous financial years. There is only one group of employees where there is insufficient information to allow for redundancy costs to be estimated reliably, therefore no actual financial provision can be made for these costs. An amount of £0.338m has been earmarked within the General Fund balance to accommodate these costs as and when the outstanding issues have been resolved.

The reduction in the staffing establishment includes posts from all services across the Council and reductions were in line with the service review and other savings agreed by the Council. There are likely to be further redundancy costs incurred as the Council is required to make further savings to balance the budget in future years.

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	14	3	424	424
GM Duncan Trust	1	1	87	87
MacDougall Trust	2	-	609	609
Various Other Trust Funds	5	1	542	542
Total Trust Funds	22	5	1,662	1,662

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

Further information on the Trust Funds, administered by Argyll and Bute Council, can be obtained from Strategic Finance within the Chief Executive's Unit.

A number of the trust funds administered by Argyll and Bute Council are charitable trusts and as such are required to comply with current Office of the Scottish Charities Regulator (OSCR) financial reporting requirements. Arrangements have been put in place to ensure that all charities administered by Argyll and Bute Council comply and will continue to comply with these requirements.

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 2014. 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 2014

2012-13 Actual £'000		2013-14 Actual £'000
195	Expenditure	175
(87)	Income	(87)
108	(Surplus)/Deficit for the Year	88

35.2 Common Good Balance Sheet at 31 March 2014

2012-13 Actual £'000		2013-14 Actual £'000
942	Tangible Fixed Assets	4,284
1,983	Investments	2,036
137	Current Assets	188
(2)	Current Liabilities	(2)
3,060	Total Assets less Liabilities	6,506
481	Revaluation Reserve	3,961
2,579	Common Good Fund	2,545
3,060	Total Net Worth	6,506

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:

	2013-14 £'000	2012-13 £'000
Net (Surplus)/Deficit on Provision of Services	(1,694)	(19,795)
Adjustments to Net (Surplus)/Deficit on the Provision of Service for Non Cash Movements:		
Statutory Adjustments through Statement of Movement in Reserves	3,604	7,898
Transfer to/from Other Statutory Reserves	187	331
Increase/(Decrease) in Inventories	(241)	276
Increase/(Decrease) in Debtors	1,739	(904)
(Increase)/Decrease in Creditors and Provisions	4,402	(3,162)
Other Revenue Adjustments	(22,346)	(20,990)
	(12,655)	(16,551)
Adjustments for items included in the Net (Surplus)/Deficit on the Provision of Services that are Investing and Financing Activities:		
Non Cash Capital	10,580	10,604
Capital Element of Finance Lease Payments	(1,566)	(1,449)
	9,014	9,155
Net Cash Flows from Operating Activities	(5,335)	(27,191)
The cash flows for Operating Activities include the following items:		
Interest Paid on Borrowings	8,564	9,855
Interest Paid on Finance Leases	8,174	8,286
Interest Received on Bank Deposits	(410)	(746)
Net Cash Outflow from Servicing of Finance	16,328	17,395

37. CASH FLOW STATEMENT – INVESTING ACTIVITIES

The cash flows for Investing Activities include the following items:

	2013-14 £'000	2012-13 £'000
Purchase of Property, Plant and Equipment, Investment Property and Intangible and Heritage Assets	21,463	26,465
Investments made during year	-	15,000
Proceeds from the Sale of Property, Plant and Equipment and Investment Property	(454)	(394)
Other Receipts from Investing Activities	(10,876)	(11,598)
Net Cash Outflow from Investing Activities	10,133	29,473

Notes to the Financial Statements

38. CASH FLOW STATEMENT – FINANCING ACTIVITIES

The cash flows for Financing Activities include the following items:

	2013-14 £'000	2012-13 £'000
Cash Receipts of Short and Long Term Borrowing	(706)	(296)
Other Receipts from Financing Activities	(6)	97
Cash Payments for the Reduction of the Outstanding Liabilities relating to Finance Leases and on Balance Sheet PFI Contracts	1,566	1,449
Repayments of Short and Long Term Borrowing	141	87
Other Payments from Financing Activities	-	-
Net Cash Outflow from Financing Activities	995	1,337

Council Tax Income Account

The Council Tax Income Account shows the gross income raised from council tax levied and deductions made under the Local Government Finance Act 1992. The resultant net income is transferred to the Comprehensive Income and Expenditure Statement of the Authority.

2012-13 Actual £'000		2013-14 Actual £'000
54,038	Gross Council Tax Levied and Contributions in Lieu excluding RSL Second Home Additional Income	54,035
	Add Back:	
1,654	RSL Second Home Discount Additional Income	1,924
	Less:	
(7,793)	Other Discounts and Reductions	(13,560)
(994)	Provision for Bad and Doubtful Debts	(997)
46,905	Total	41,402
471	Adjustment to Previous Years' Community Charge and Council Tax	664
47,376	Transfers to General Fund	42,066

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 2013-14 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 2013-14

Council Tax Base	A	B	C	D	E	F	G	H	Total
Total Number of Properties	7,687	9,808	9,340	5,978	7,286	4,041	2,726	239	47,105
Less - Exemptions / Deductions	1,015	824	1,057	529	594	253	188	50	4,510
- Adjustment for Single Chargepayers	878	1,015	749	444	420	192	103	6	3,807
Effective Number of Properties	5,794	7,969	7,534	5,005	6,272	3,596	2,435	183	38,788
Band D Equivalent Factor (ratio)	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	
Band D Equivalent Number of Properties	3,863	6,198	6,697	5,005	7,666	5,194	4,058	366	39,047
Add Contribution in lieu in respect of Class 18 dwellings (Band D Equivalent)									494
Nominal Tax Yield									39,541
Less Provision for Non-Collection - 3.25%									1,298
Council Tax Base 2013-14 - Number of Band D equivalents									38,243

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.

2012-13 Actual £'000		2013-14 Actual £'000
36,757	Gross rates levied and Contributions in Lieu	38,669
	Less:	
(9,427)	Reliefs and other deductions	(10,100)
-	Payment of Interest	-
(75)	Provision for Bad and Doubtful Debts	(185)
27,255	Net Non-Domestic Rate Income	28,384
(776)	Contribution (to)/from national non-domestic rate pool	108
26,479	Transfers to General Fund	28,492

Notes to the Non Domestic Rate Income Account

1. ANALYSIS OF RATEABLE VALUES

	2013-14 £	2012-13 £
Industrial and freight transport subjects	6,546,665	6,286,330
Miscellaneous including Telecomms, Rail, Gas and Electricity Companies	55,602,432	51,996,975
Commercial subjects:		
Shops	13,468,040	12,958,360
Offices	4,925,695	5,033,860
Hotels, Boarding Houses etc.	6,658,775	6,628,775
Others	1,977,520	2,095,090
Total Rateable Value	89,179,127	84,999,390

2. NON-DOMESTIC RATE CHARGE

	2013-14 Pence	2012-13 Pence
Rate Per Pound	46.2p	45.0p
Supplementary Rate Per Pound for Properties over £35,000	0.9p	0.8p

3. CALCULATION OF RATE CHARGE FOR EACH PROPERTY

The rates charge for each subject is determined by the rateable value placed upon it by the Assessor multiplied by the Rate per £ announced each year by the Government.

Group Statement of Movement in Reserves

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

	Argyll and Bute Council							Council's Share of Reserves of Associates £'000	Total Common Good Reserves £'000	Total Reserves £'000
	Usable Reserves			Total Usable Reserves £'000	Total Unusable Reserves £'000	Total Reserves of the Council £'000	Total Reserves of Associates £'000			
	General Fund Balance	Repairs and Renewals Fund	Capital Funds							
	£'000	£'000	£'000	£'000	£'000	£'000	£'000			
Movements in 2013-14										
Balance at 31 March 2013	(46,138)	(850)	(3,316)	(50,304)	(130,438)	(180,742)	261,675	(3,060)	77,873	
Transfer of Police and Fire Services to Central Government	-	-	-	-	-	-	(263,112)	-	(263,112)	
Revised Balance at 1 April 2013	(46,138)	(850)	(3,316)	(50,304)	(130,438)	(180,742)	(1,437)	(3,060)	(185,239)	
Surplus/(Deficit) on Provision of Services	(1,694)	-	-	(1,694)	-	(1,694)	79	35	(1,580)	
Other Comprehensive Income and Expenditure	-	-	-	-	7,611	7,611	302	(3,481)	4,432	
Total Comprehensive Income and Expenditure	(1,694)	-	-	(1,694)	7,611	5,917	381	(3,446)	2,852	
Total Statutory Adjustments (See Page 31-32)	3,604	-	(454)	3,150	(3,150)	-	-	-	-	
Net (Increase)/Decrease before Transfers to Other Statutory Reserves	1,910	-	(454)	1,456	4,461	5,917	381	(3,446)	2,852	
<i>Other Transfers required by Statute</i>										
Transfer to/from Other Statutory Reserves	187	(175)	310	322	(322)	-	-	-	-	
(Increase)/Decrease in Year	2,097	(175)	(144)	1,778	4,139	5,917	381	(3,446)	2,852	
Balance at 31 March 2014 Carried Forward	(44,041)	(1,025)	(3,460)	(48,526)	(126,299)	(174,825)	(1,056)	(6,506)	(182,387)	

The Council's Statement of Movement in Reserves on pages 31 to 32 gives a more detailed analysis of the movement in the Council's usable and unusable reserves during 2013-14.

Group Statement of Movement in Reserves



This statement shows the comparative movement in the year on 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 2012-13	Argyll and Bute Council							Council's Share of Reserves of Associates	Total Common Good Reserves	Total Reserves		
	Usable Reserves			Total Unusable Reserves	Total Reserves of the Council	£'000	£'000				£'000	£'000
	General Fund Balance	Repairs and Renewals Fund	Capital Funds									
				£'000	£'000	£'000	£'000				£'000	
Balance at 31 March 2012	(34,572)	(532)	(3,092)	(38,196)	(138,891)	(177,087)	217,454	(2,147)	38,220			
Surplus/(Deficit) on Provision of Services	(19,795)	-	-	(19,795)	-	(19,795)	13,370	(107)	(6,532)			
Other Comprehensive Expenditure and Income	-	-	-	-	16,140	16,140	30,851	(806)	46,185			
Total Comprehensive Expenditure and	(19,795)	0	0	(19,795)	16,140	(3,655)	44,221	(913)	39,653			
Total Statutory Adjustments (See Page 33-34)	7,898	-	(394)	7,504	(7,504)	-	-	-	-			
Net (Increase)/Decrease before Transfers to Other Statutory Reserves	(11,897)	-	(394)	(12,291)	8,636	(3,655)	44,221	(913)	39,653			
<i>Other Transfers required by Statute</i>												
Transfer to/from Other Statutory Reserves	331	(318)	170	183	(183)	-	-	-	-			
(Increase)/Decrease in Year	(11,566)	(318)	(224)	(12,108)	8,453	(3,655)	44,221	(913)	39,653			
Balance at 31 March 2013 Carried Forward	(46,138)	(850)	(3,316)	(50,304)	(130,438)	(180,742)	261,675	(3,060)	77,873			

The Council's Statement of Movement in Reserves on pages 33 to 34 gives a more detailed analysis of the movement in the Council's usable and unusable reserves during 2012-13.

Group Statement of Comprehensive Income and Expenditure

This statement shows the accounting cost in the year of providing the Council's services and its share of the results of its associates in accordance with International Financial Reporting Standards, rather than the amount to be funded from taxation. Local authorities raise taxation to cover expenditure in accordance with regulations, and this is different from the accounting cost. The taxation position is shown in the Statement of Movement in Reserves on pages 31 to 32.

2012-13			Note	2013-14		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
			Service			
105,237	6,767	98,470	Education Services	108,526	6,885	101,641
31,079	27,234	3,845	Housing Services (Non-HRA)	36,753	28,042	8,711
12,918	2,351	10,567	Cultural and Related Services	13,360	2,345	11,015
21,559	4,542	17,017	Environmental Services	23,222	4,221	19,001
24,913	7,018	17,895	Roads and Transport Services	24,214	6,321	17,893
7,086	4,373	2,713	Trading Services	7,552	4,477	3,075
8,251	4,054	4,197	Planning and Development Services	10,816	5,554	5,262
66,738	9,379	57,359	Social Work	70,096	10,698	59,398
-	-	-	Central Services:	-	-	-
4,126	103	4,023	- Corporate and Democratic Core	4,353	125	4,228
1,812	5	1,807	- Non Distributed Costs	1,850	2	1,848
3,248	1,279	1,969	- Central Services to the Public	3,091	1,300	1,791
7,308	-	7,308	Strathclyde Police Joint Board	-	-	-
4,548	-	4,548	Strathclyde Fire and Rescue Joint Board	-	-	-
42,891	29,521	13,370	Associates Accounted for on an Equity Basis	3,147	3,068	79
341,714	96,626	245,088	Net Cost of Services	306,980	73,038	233,942

Group Statement of Comprehensive Income and Expenditure

			26
Other Operating Income and Expenditure:			(3)
Net (Gain)/loss on Disposal of Fixed Assets	2,077		1,048
(Surplus)/deficit on trading undertakings	(57)		
Other Operating Income and Expenditure	954		
Total Other Operating Income and Expenditure	2,974		1,071
Financing and Investment Income and Expenditure:			
Interest Payable and Similar charges	17,512		18,107
Interest and Investment Income	(1,324)		(778)
Net Pension Interest Expense	3,395		4,537
Total Financing and Investment Income and Expenditure	19,583		21,866
Taxation and Non-Specific Grant Income:			
General Government Grants	(188,864)		(176,904)
Government Capital Grants and Other Capital Contributions	(11,458)		(10,997)
Non-domestic Rates Redistribution	(26,479)		(28,492)
Council Tax Income	(47,376)		(42,066)
Total Taxation and Non-Specific Grant Income	(274,177)		(258,459)
(Surplus)/Deficit on Provision of Services	(6,532)		(1,580)
(Surplus)/Deficit on revaluation of Fixed Assets	(2,833)		(4,387)
Other Post Employment Benefits (Pensions)	18,167		11,998
Share of Other Comprehensive Income and Expenditure of Associates and Common Good Funds	30,851		(3,179)
Other Comprehensive Income and Expenditure	46,185		4,432
Total Comprehensive Income and Expenditure	39,653		2,852

Group Balance Sheet



31 March 2013	Note 1	Adjusted Opening Balance 1 April 2013		31 March 2014	
				£'000	£'000
			Long Term Assets		
293,846		293,846	Property Plant & Equipment		
8,822		8,822	- Other Land and Buildings	290,414	
163,822		163,822	- Vehicles, Plant, Furniture and Equipment	10,674	
2,408		2,408	- Infrastructure Assets	169,555	
3,510		3,510	- Community Assets	5,954	
17,400		17,400	- Surplus Assets	4,581	
			- Assets Under Construction	25,591	
489,808	-	489,808	Property Plant & Equipment		506,769
1,324		1,324	Heritage Assets		1,371
203		203	Intangible Assets		351
6,397		6,397	Investment Property		6,281
3,563		3,563	Long-Term Debtors		4,011
1,983		1,983	Long-Term Investments		2,036
2,646		2,646	Investment in Associates		2,626
505,924	-	505,924	Total Long Term Assets		523,445
			Current Assets		
631		631	Inventories	390	
14,477		14,477	Short Term Debtors (Net of Impairment)	16,073	
1,708		1,708	Assets Held for Sale	153	
35,000		35,000	Short Term Investments	35,000	
11,899		11,899	Cash and Cash Equivalents	6,121	
63,715	-	63,715	Total Current Assets		57,737
			Current Liabilities		
(3,639)		(3,639)	Short-term Borrowing	(11,442)	
(35,297)		(35,297)	Short-term Creditors	(32,882)	
(116)		(116)	Capital Grant Receipts in Advance	(165)	
(2,183)		(2,183)	Provisions	(2,423)	
(1,566)		(1,566)	Other Short Term Liabilities	(1,734)	
(42,801)	-	(42,801)	Total Current Liabilities		(48,646)
			Long-term Liabilities		
(159,871)		(159,871)	Borrowing Repayable within a Period in Excess of 12 Months	(151,520)	
(80,354)		(80,354)	Other Long-term liabilities	(78,621)	
(301)		(301)	Provisions	(101)	
(99,864)		(99,864)	Other Long-term liabilities (Pensions)	(118,337)	
(264,321)	263,112	(1,209)	Liabilities in Associates	(1,570)	
(604,711)	263,112	(341,599)	Total Long-term Liabilities		(350,149)
(77,873)	263,112	185,239	Total Assets less Liabilities		182,387

Group Balance Sheet



31 March 2013	Note 1	Adjusted Opening Balance 1 April 2013		31 March 2014	
				£'000	£'000
55,339		55,339	Unusable Reserves		
185,215		185,215	- Revaluation Reserve	56,113	
(5,262)		(5,262)	- Capital Adjustment Account	198,230	
(99,864)		(99,864)	- Financial Instruments Adjustment Account	(4,889)	
(4,712)		(4,712)	- Pensions Reserve	(118,337)	
			- Accumulated Absences Account	(4,818)	
130,716		130,716			126,299
			Usable Reserves		
3,316		3,316	- Capital Funds	3,460	
850		850	- Repairs and Renewals Funds	1,025	
46,138		46,138	- General Fund Balance	44,041	
50,304		50,304			48,526
(261,675)	263,112	1,437	Group Reserves		1,056
2,782		2,782	Common Good Reserves		6,506
(77,873)	263,112	185,239	Total Reserves		182,387

The Balance sheet is a snapshot of the value at the 31 March 2014 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
26 September 2014

Note 1:

On the 1 April 2013 police and fire services transferred to the Scottish Government. The joint board arrangements have ceased and are no longer part of the authority's group arrangements. Consequently, the opening balance sheet has been adjusted to reflect the assets, liabilities and reserves transferred to the relevant new bodies on 1 April 2013.

Notes to the Group Financial Statements

1. INTRODUCTION

The Code of Practice on Local Authority Accounting in the United Kingdom 2013-14: Based on International Financial Reporting Standards places a requirement on Councils to consider all their interests in external organisations including limited companies and other statutory bodies. Where the interest is considered to be material, the Council is required to prepare a full set of group accounts in addition to those prepared for Argyll and Bute Council. The Group Accounts are designed to show “a true and fair view” of the financial performance and position of the Council’s Group.

On the 1 April 2013 police and fire services transferred to the Scottish Government. The joint board arrangements have ceased and are no longer part of the authority’s group arrangements. Consequently, the opening balance sheet has been adjusted to reflect the assets, liabilities and reserves transferred to the relevant new bodies on 1 April 2013.

2. GROUP ACCOUNTING POLICIES

The group accounts are prepared in accordance with the policies set out in Note 1 to the Financial Statements on pages 40 to 52.

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

3. COMBINING ENTITIES

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

The Associates which have been incorporated are:

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

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

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

The accounting period for all entities is 31 March 2014.

4. NON MATERIAL INTEREST IN OTHER ENTITIES

The Council has an interest in Scotland Excel. Scotland Excel took up the activities of the Authorities Buying Consortium and similar bodies across the Scottish local authority sector on 1 April 2008. Renfrewshire Council prepare the financial statements for Scotland Excel in its role as lead authority. Scotland Excel is a not-for-profit organisation funded mainly by the 28 participating Scottish local authorities. Argyll and Bute Council contributed £0.067m towards Scotland Excel in the 2013-14 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

Notes to the Group Financial Statements

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.

5. NATURE OF COMBINATION

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

6. FINANCIAL IMPACT OF CONSOLIDATION

The effect of inclusion of the Associates and Common Good Funds on the Group Balance Sheet is to increase both reserves and net worth by £7.562m. This gives an overall net asset position for the Group of £182.387m.

All associates have prepared their accounts on a 'going concern' basis. For Strathclyde Passenger Transport Authority and the Joint Valuation Board funding arrangements between the Scottish Government and constituent authorities remains assured. In common with these public bodies, the Council's Group Accounts have been prepared on a 'going concern' basis as there is no reason to suggest that future funding will not continue.

7. FURTHER DETAILS ON CONSOLIDATION

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

Strathclyde Partnership for Transport

Strathclyde Partnership for Transport was formed on 1 April 2006 as the successor to the Strathclyde Passenger Transport Authority. It is a Joint Committee of all Councils in the West of Scotland plus Dumfries and Galloway Council. In association with the related Structure Planning Committees, the Partnership's remit included the promotion of joint working to set out the policy framework for achieving the most effective management, development and integration of the transport network across boundaries in the medium to longer term through the Joint Transport Strategy. The Council contributed £0.606m or 1.62% of the Board's estimated net running costs during 2013-14 and accounted for £2.559m 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 2013-14 the Council contributed £0.176m 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

Notes to the Group Financial Statements

for Argyll and Bute, West Dunbartonshire and East Dunbartonshire Councils. The Board's running costs are met by the three Councils. During 2013-14 Argyll and Bute Council contributed £1.141m towards estimated running costs and accounted for £1.570m of Balance Sheet Liabilities within the Group Balance Sheet. The accounts of the Board are subject to independent audit and are available from the Treasurer to Dunbartonshire and Argyll and Bute Valuation Joint Board, Council Offices, Garshake Road, Dumbarton G82 3PU.

The following disclosures are also required for Dunbartonshire and Argyll and Bute Valuation Joint Board because the Council's interest exceeds the 25% threshold for accounting purposes:-

	2013/14 £'m	2012/13 £'m
Argyll and Bute Council has a 48.1% share of:		
Gross Income	2.745	2.458
Net (Surplus)/Deficit	0.191	0.203
Long Term Assets	0.847	0.873
Current Assets	0.644	0.876
Liabilities due within one year	(0.126)	(0.452)
Liabilities due over one year	-	-
Pension Liability	(4.544)	(3.810)
Capital and Revenue Reserves	(3.178)	(2.513)

8. REPORTING AUTHORITY ADJUSTMENTS

A number of adjustments are required to the Council's Statement of Comprehensive Income and Expenditure (pages 35 to 36) 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 94 have been fully consolidated into the Group Accounts. This adjustment increases the net assets and reserves of Argyll and Bute Council's Group by £6.506m

9. GROUP CASH FLOW STATEMENT

The impact of the incorporation of the associates has no effect upon the Cash Flow statement for Argyll and Bute Council on page 39. Only the Common Good transactions would have an impact. However, this impact is not material enough for a separate Group Cash Flow Statement to be prepared.

Independent Auditor's Report

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 2014 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and authority only Statements of Movement in Reserves, Statements of Comprehensive Income and Expenditure and Balance Sheets, the authority only Cash-Flow Statement, the Council Tax Income Account, the Non-domestic Rate Account 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 2013/14 (the 2013/14 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 annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2013/14 Code of the state of the affairs of the group and of the body as at 31 March 2014 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 2013/14 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

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
4th Floor
8 Nelson Mandela Place
Glasgow G2 1BT

30 September 2014



Financial summary — 2013/14

This Summary provides an overview of our financial position and the key issues that have arisen during the financial year. It provides information on revenue and capital income and expenditure for the year, assets and liabilities, borrowing and reserves with a comment on the future outlook.

The full set of annual accounts is available on our website at

http://www.argyll-bute.gov.uk/sites/default/files/financial_statements_2013-14_signed.pdf

During 2013-14 the council's net worth reduced by £5.9m. This resulted from a surplus in the provision of services of £1.7m and surplus on the revaluation of long term assets of £4.4m, partly offset by an actuarial loss on the pension fund assets/liabilities of £12.0m. In terms of departmental expenditure this was under budget by £0.8m. The council spent £32.7m investing in fixed assets during the year.

The financial outlook for 2014-15 and 2015-16 is one of relative financial stability. The council adopted a two-year budget for 2014-15 and 2015-16 in February 2014, based on achieving 1% cashable efficiency savings for each of these financial years.

Revenue expenditure—the day-to-day costs of delivering our services

Revenue expenditure includes the cost of employing staff, operating and maintaining buildings, the cost of goods and services purchased from suppliers and the cost of financing borrowing. Statutory adjustments are required to ensure the General Fund balance reflects statutory requirements in relation to pension costs and the cost of borrowing.

	Actual 13/14	Budget 13/14	Budget Variance	Actual 12/13	Variance 12/13	Actual Variance Year on Year
	£m	£m	£m	£m	£m	£m
Net cost of services	233.7	243.9	10.2	231.5	7.7	2.2
Other operating income and expenditure	1.1	2.2	1.2	3.0	(2.2)	(1.9)
Finance and investment income and expenditure	22.0	(0.0)	(22.1)	19.9	(16.6)	2.1
Total expenditure	256.8	246.0	(10.7)	254.4	(11.1)	2.4
Taxation and non specific grants	(258.5)	(255.3)	3.2	(274.2)	3.4	15.7
(Surplus)/deficit on provision of services	(1.7)	(9.3)	(7.6)	(19.8)	(7.7)	18.1
Statutory adjustments	3.8	9.3	5.5	8.2	(2.3)	(4.4)
(Increase)/decrease in General Fund Balance	2.1	0.1	(2.0)	(11.6)	(9.9)	13.7

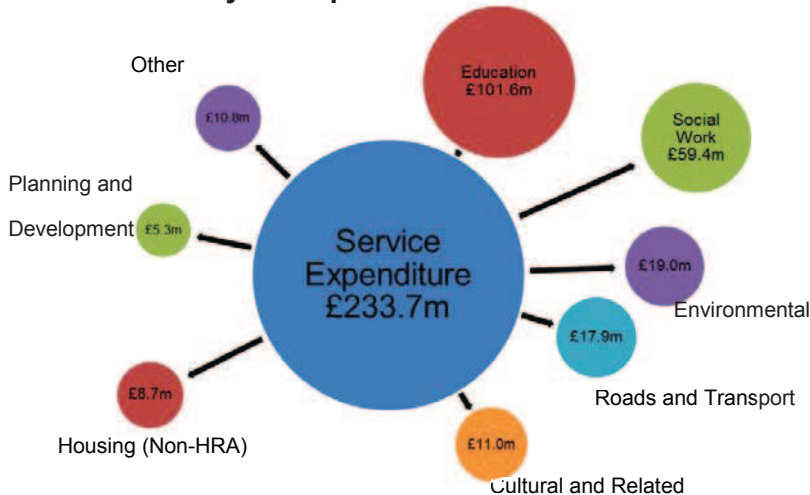
The net cost of service provision was £233.7m with total expenditure of £256.8m which was offset by taxation and non-specific grants totalling £258.5m. This left a surplus on the provision of service of £1.7m which after statutory adjustments of £3.8m resulted in a decrease in the general fund balance of £2.1m.

Total expenditure increased by £2.4m from 2012-13. Expenditure on services increased by £14.0m. This was offset by a reduction in police and fire service costs of £11.9m following the transfer of these from local government in April 2013.

The departmental controllable expenditure for 2013-14 was an underspend of £0.8m compared to budget excluding Joint Board requisitions and severance costs. When all expenditure and income is included the final outturn was an underspend compared to budget of £3.4m.

What the money was spent on—by service

What the money was spent on? £'m



The total net cost of council services in 2013/14 was £233.7m.

Education—the largest proportion of net cost of service at £101.6m (43.5%)

Education services is the largest proportion of net cost of service £101.6m (43.5%). This provides 73 primary schools, 5 secondary schools, 3 3-18 schools, 2 joint campuses – educates 10,675 pupils of which 5,680 primary and 4,979 secondary and 16 special needs and employs 868 full time equivalent teachers.

Social work services are next largest at £59.4m (25.4% of net cost of services). This provides services for 24 adult care residential units, 3 adult care day centres, 7 learning disability resource centres, 3 children's services residential units, 2 hostels, 134 looked after and accommodated children, 355 learning disability clients, 513 clients in care homes and 1,248 adults receiving free personal and nursing care.

Social work—£59.4m (25.4% of net cost of services)

2,500,000m² of grass cutting, collecting waste from 47,800 homes and more—£19.0m (8.1% of net cost of services)

Environmental Services spent £19.0m (8.1% of net cost of services). This provides services relating to 131 burial grounds undertaking an average of 565 burials per annum, 2,500,000m² of grass cutting, waste collection from 47,800 households and 19,570 tonnes of waste disposal.

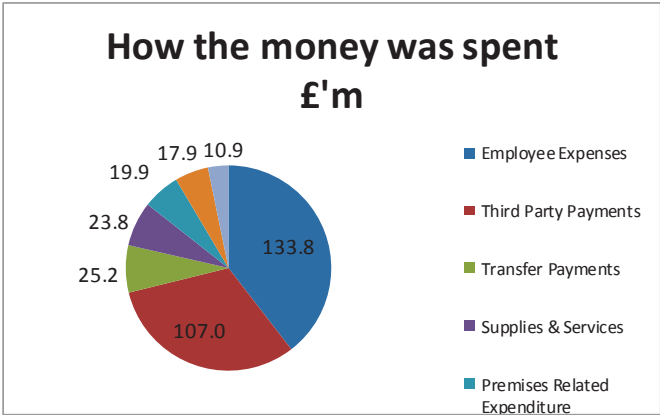
1,406 miles of roads, 954 bridges, maintenance—£17.9m (7.7%)

Roads and Transportation services spent £17.9m (7.7% of net cost of services). This includes provision of 1,406 miles of roads, winter maintenance, 954 bridges and 138 car parks.

- Cultural and Related services represent £11.0m or 4.7%. This relates to services including one museum, seven halls, 13 libraries (four of which are mobile) with a stock of around 200,000 books and five sports and leisure centres.
- Housing Services (non-HRA) represent £8.7m or 3.7%. This relates to services including 147 leased tenancies for homeless individuals, 600 instances of housing support and advice per quarter.
- Planning and development services represent £5.3m or 2.3%. Services include 1,260 building warrants received in the year, 1,098 planning applications determined and 101 business start-ups supported in the year.
- Other services amount to £10.8m (4.6%) and this includes corporate and democratic core, trading services, non-distributable costs and central services to the public. This includes registrars of births, deaths and marriages which undertook 2,680 registrations including 465 civil marriages and 13 civil partnerships in 2013/2014.

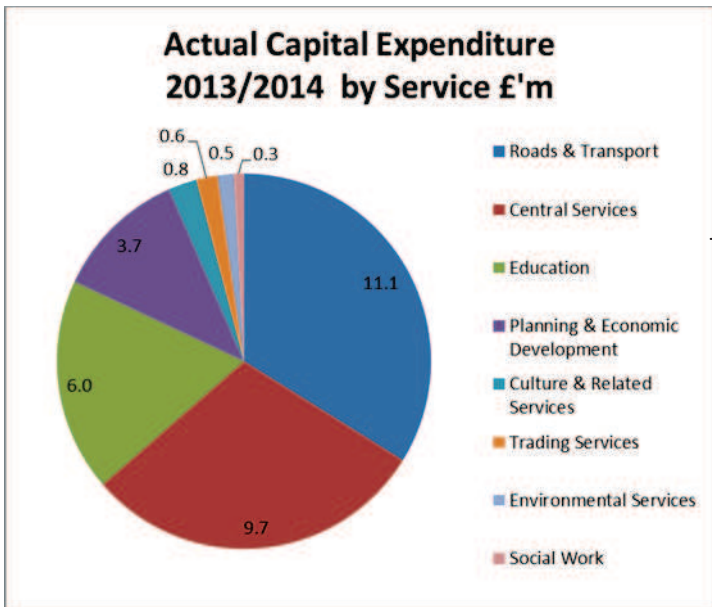
How the money was spent

This sets out the different types of costs incurred by the council. In addition to the net cost of services of £233.7m income amounted to £104.8m resulting in gross expenditure of £338.5m. Employee expenses represent the largest proportion at £133.8m (39.5% of gross expenditure). The other significant cost is third party payments (payments to external parties such as contractors and voluntary organisations) - these represent £107.0m (31.6%). Other costs are all less significant - transfer payments £25.2m, supplies and services £23.8m, premises £19.9m, transport £17.9m and capital costs £10.9m which range from between 7% and 3% of gross expenditure.



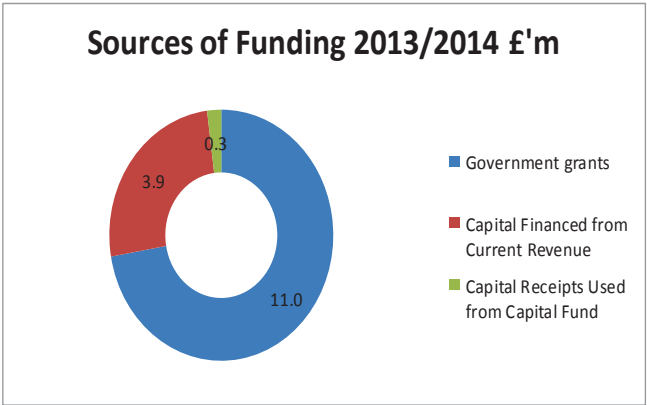
Capital expenditure—expenditure on council assets

This is money spent on acquiring or enhancing fixed assets such as land, buildings and equipment. Capital expenditure is funded from capital receipts, grants, revenue contributions. The net amount of capital expenditure each year is funded by borrowing. The table below shows the gross capital expenditure for 2012/2013 and 2013/2014 and the funding from capital receipts, government grants and other contributions and revenue contributions. The net capital expenditure (expenditure less income) is funded from borrowing.



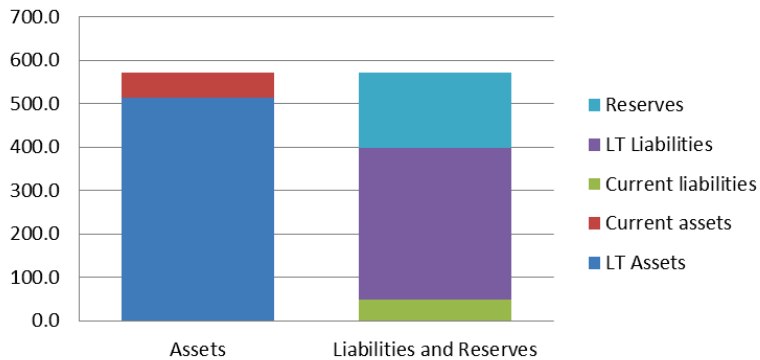
Gross capital expenditure was £32.7m. £11.1m related to roads and transportation, £9.7m to central services, £6.0m to education services, £3.7m to planning and economic development and the remaining £2.2m to culture & related, trading, environmental and social work services.

£11.0m of the £15.2m capital funding is from government grants, this represents 72.3% of the total funding. The remaining funding is from capital financed from current revenue £3.9m or 25.7% and capital receipts used from capital fund £0.3m or 2.0%.



Balance Sheet—our assets and liabilities

Assets and Liabilities £'m



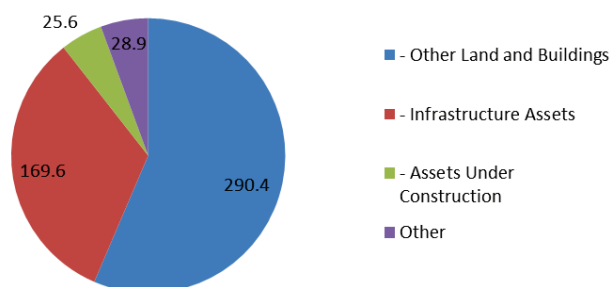
The balance sheet shows the value at the balance sheet date of the assets and liabilities recognised by the council. Net assets (assets less liabilities) are matched by the reserves held by the council.

The net assets of the council reduced by £5.9m from £180.7m at 31 March 2013 to £174.8m at 31 March 2014.

Summary of Balance Sheet	31 March 2013 £'m	31 March 2014 £'m
Long term assets - Property, plant and equipment, heritage assets and long term debtors. The increase is a result of revaluation, capital expenditure less disposal and depreciation	500.4	514.5
Current assets - Stock, short term debtors, assets held for sale, short term investments and cash. The decrease is a result of a lower level of cash in the bank at 31 March 2014.	63.7	57.7
Current liabilities - Short term borrowing, creditors, provisions and other short term liabilities. The increase is a mainly due to some borrowing now being payable within 12 months.	-42.9	-48.7
Long term liabilities - Not due for payment for at least 12 months and comprise borrowing, payments due under the NPDO, provisions and pensions liability. The increase is mainly due to an increase in pension liability.	-340.4	-348.6
Total reserves	180.7	174.8

Long-term assets

Value of Long Term Asset By Type £'m



The value of the council's long term assets has increased from £500.4m at 31 March 2013 to £514.5m at 31 March 2014, an increase of £14.1m (2.8%). This comprises the net of an overall upward revaluation of fixed assets, capital expenditure in the year, less the value of fixed assets disposed.

Long-term assets

The main long term assets held by the council are land and buildings which account for £290.4m (56.4%).

Infrastructure assets account for £169.6m (33.0%).

Assets under construction amount to £25.6m (5.0%).

Other assets include vehicles, plant, equipment, investment property, surplus assets, long term debtors, community assets, heritage assets and software licences. These account for the remaining £28.9m (5.6%).

Argyll and Bute Council's long-term assets include:

- **89 schools**
- **2,312 km of roads**
- **1,001 bridges**
- **9 libraries**
- **7 halls**
- **4 swimming pools**

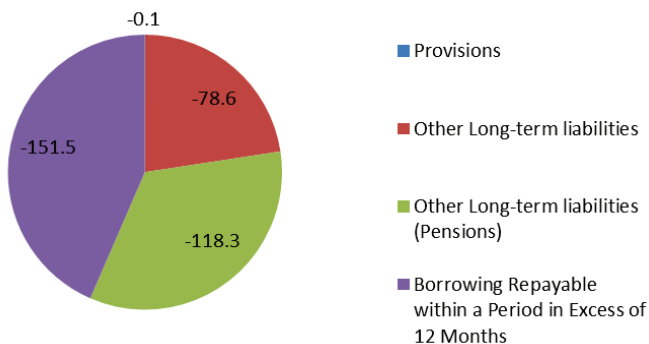
Current assets and liabilities

Total current assets have decreased from £63.7m at 31 March 2013 to £57.7m at 31 March 2014 - a decrease of £6.0m. The main reason for this is a decrease in cash and cash equivalents of £5.8m from £11.9m at 31 March 2013 to £6.1m at 31 March 2014.

Total current liabilities have increased from £42.9m at 31 March 2013 to £48.7m at 31 March 2014—an increase of £5.8m. Short term borrowing has increased by £7.7m from £3.7m at 31 March 2013 to £11.4m at 31 March 2014, partly offset by short term creditors which have decreased by £2.3m from £35.3m to £33.0m.

Overall, long term liabilities have increased from £340.4m at 31 March 2013 to £348.6 at 31 March 2014. The increase of £8.2m is primarily due to the increase in the valuation of the pension scheme liability from £99.9m to £118.3m partly offset by a reduction in borrowing repayable beyond 12 months of £8.4m.

Type and Value of Long-Term Liabilities £'m



The main long term liabilities are borrowing that is due to be repaid in over a year £151.5m (43.5%), pensions liability £118.3m (33.9%), other long term liabilities, which include schools NPDO and land contamination amount to £78.6m (22.6%) and provisions make up the final £0.1m.

Treasury management—taking care of our borrowing and investments

Treasury management is taking care of our borrowing, cash flow and investments. We have to make sure that these bring the best possible returns so that the council can continue to deliver its essential services, while at the same time managing and planning for any risks.

The Capital Financing Requirement (CFR) is the amount of money that the council needs to borrow to finance the assets it uses to deliver services.

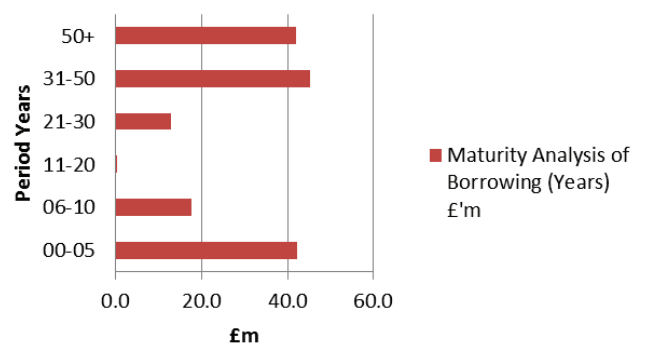
	31 March 2014 £m	31 March 2013 £m
Capital Finance Requirement	256.5	258.4
Borrowing incl NPDO	-240.8	-242.1
Over (Under Borrowed)	-15.7	-16.3

The table above sets out a comparison of the CFR with the council's actual borrowing which shows that the council was under-borrowed at both 31 March 2013 and 2014. This has occurred because the council is using part of its reserves to fund capital expenditure. This use of reserves has had the impact of reducing the cash the council has had to invest on the money markets; this was a strategic decision as the rates of return on investments are lower than the interest rate that the council would have to pay if it borrowed money.

Borrowing

The council borrows money to finance capital expenditure. Borrowing allows us to spread the cost of capital expenditure over a number of years. The maturity profile reflects when loans are due for repayment. At 31st March 2014, the total sum of money borrowed from external sources was £161.8m. Most of this was financed by the Public Works Loan Board (£108.1m) with the rest coming mainly from the money market.

Maturity Analysis of Borrowing (Years) £'m



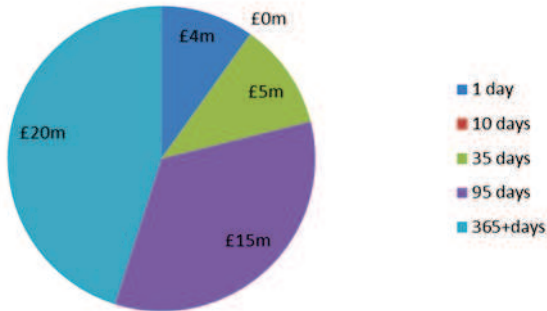
Find our full accounts online at

http://www.argyll-bute.gov.uk/sites/default/files/financial_statements_2013-14_signed.pdf



Investments

Investments by Maturity Period



At 31 March 2014 the council had investments of £44m. The chart above shows when these are due for repayment.

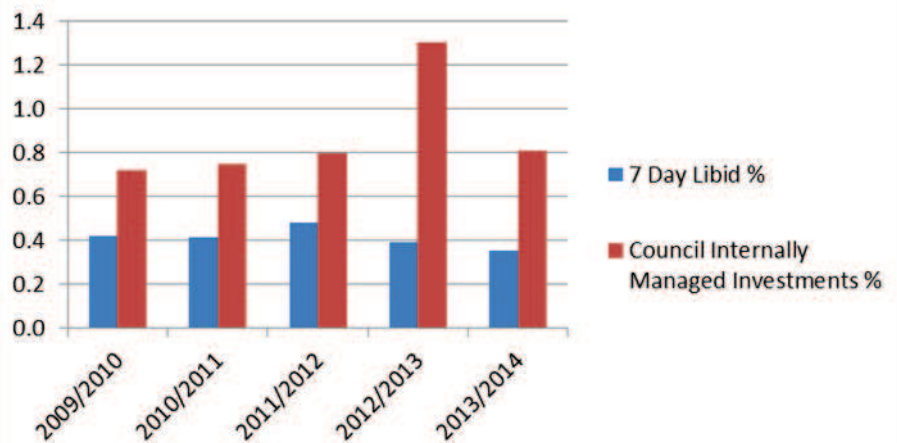
Our investment strategy is designed to optimise the rate of return allowing for the requirements to have cash available to make payments and to ensure that the money invested is repaid to the council in full.

To achieve these objectives the council places cash with a number of different banks for periods ranging from overnight to one year, depending on the credit rating of the bank and the limits that have been set within the investment strategy relating to each institution.

The chart on the right shows the trend in average interest rates over the last five years.

The trend has been one of increasing returns due to the availability of attractive rates of interest from the banks these rates declined in 2013-2014.

Average interest rates 2009-2014



Reserves

Reserves can be usable or unusable:

Usable reserves:

- Backed by actual resources
- Can be applied to fund expenditure or reduce local taxation

Unusable reserves:

- Required purely for accounting purposes
- Do not represent resources available for the council to use

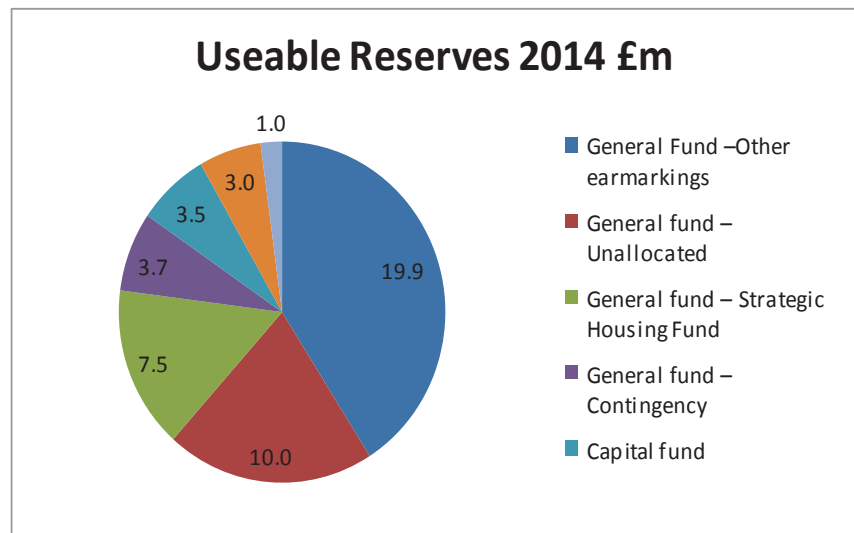
Reserves

The council has total reserves of £174.8m, but most of these (£126.3m) are unusable reserves which are purely for accounting purposes and do not represent resources available for use. Usable reserves were £48.5m at 31st March 2014.

	31 March 2013 £m	31 March 2014 £m
Unusable reserves	130.4	126.3
Capital fund	3.3	3.5
Renewal and repairs fund	0.9	1.0
General fund – Contingency	3.7	3.7
General fund – Strategic Housing Fund	10.2	7.5
General fund – Schools Capital	3.0	3.0
General Fund –Other earmarkings	22.9	19.9
General fund – Unallocated	6.4	10.0
Total reserves	180.7	174.8

Unusable reserves have decreased by £4.1m from £130.4m at 31 March 2013 to £126.3m at 31 March 2014 due to an increase in the pension liability, a surplus on revaluation reserve and a transfer for capital grants.

Usable reserves have decreased by £1.8m from £50.3m at 31 March 2013 to **£48.5m** at 31 March 2014.



The main movements in useable reserves are as follows:

- Strategic housing fund has decreased by £2.7m
- Earmarkings have decreased by £3.0m
- Unallocated reserves have increased by £3.6m

Future outlook

The financial outlook for 2014-15 and 2015-16 is one of relative financial stability. The council adopted a two-year budget for 2014/15 and 2015/16 in February 2014. This will see budgetary savings based on achieving 1% cashable efficiency savings for each of these financial years. The two years of financial stability will allow time to carry out a longer term review of the resources available to the council and how they are used to deliver on priorities and objectives. The three-year capital plan has been agreed by the council for the periods to 2015-16, with a gross spend of £50.2m in 2014-15 and £44.2m in 2015-16.





Financial Snapshot 2013/14

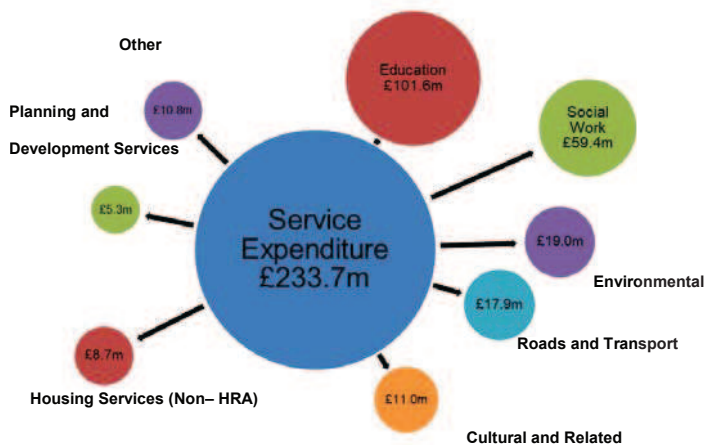
An outline of Argyll and Bute Council's financial position during the 2013/14 period, highlighting the key issues over the year.

Revenue expenditure—the day-to-day costs of delivering our services

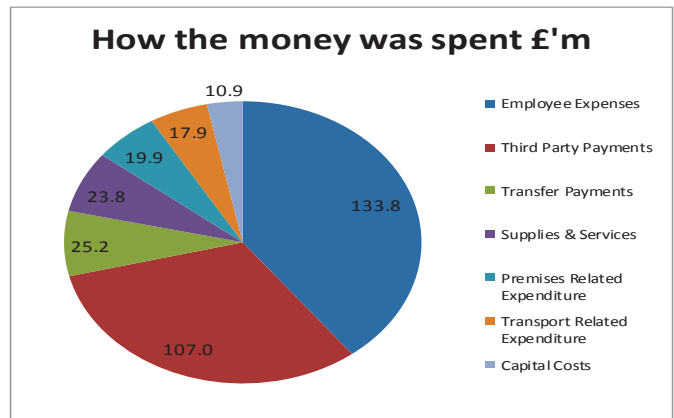
	Actual 13/14 £m
Net cost of services	233.7
Other operating income and expenditure	1.1
Finance and investment income and expenditure	22.0
Total expenditure	256.8
Taxation and non specific grants	(258.5)
(Surplus)/deficit on provision of services	(1.7)
Statutory adjustments	3.8
(Increase)/decrease in General Fund Balance	2.1

- During 2013/14 we spent £233.7m on services.
- Most of this was spent on Education and Social Work which account for 69% of the net cost of services.
- The gross cost of services was £338.5 with the cost of employing staff and payments to contractors and outside agencies representing the 2 biggest costs and 71% of the gross cost.

What the money was spent on? £'m



How the money was spent £'m



Capital expenditure—spending on our assets

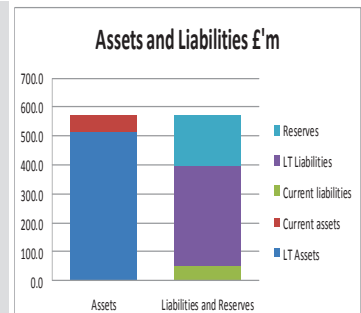
Capital expenditure is the money spent on acquiring or enhancing fixed assets like buildings, land, roads and equipment. It is funded by income from sales of assets, government grants and contributions from reserves and the revenue budget with the balance coming from borrowing. During 2013/14 capital expenditure was £32.7m with capital funding of £15.2m resulting in borrowing of £17.5m.

	Actual 13/14 £m
Gross capital expenditure	32.7
Capital funding	15.2
Borrowing	17.5

Balance Sheet—our assets and liabilities

Long term assets include buildings, land, roads and equipment. Current assets are mainly monies owed to the council and cash held in bank accounts or on investment. Current liabilities are sums we are due to pay within the next financial year. Long term liabilities include long term borrowing, future payments for NPDO and pension liabilities.

Net assets (comprising long term and current assets less current and longer term liabilities) is represented by the council's reserves. The council's net assets are £174.8m.



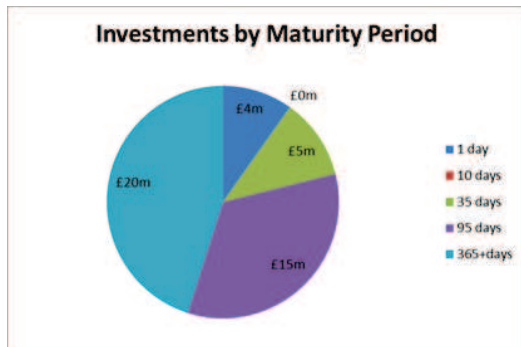


Financial Snapshot 2013/14

An outline of Argyll and Bute Council's financial position during the 2013/14 period, highlighting the key issues over the year.

Treasury management—our borrowing and investments

Treasury management is taking care of our borrowing, cash flow and investments. We have to make sure that these bring the best possible returns so that the council can continue to deliver its essential services, while at the same time managing and planning for any risks.

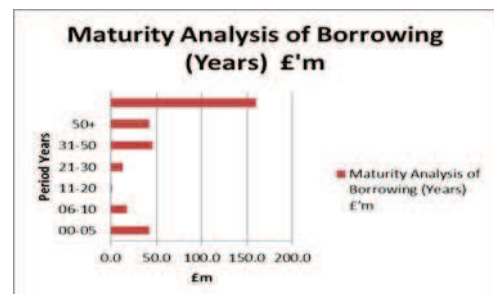


Our investment strategy aims to optimise the rate of return. This helps us to ensure we have money available to make payments when we need to, and also to make sure that the money invested is repaid to the council in full.

To achieve this we place money with a number of different banks for periods ranging from overnight to one year, depending on the credit rating of the bank and the limits relating to that institution and set out within our investment strategy.

Borrowing

At 31st March 2014, the total sum of money borrowed from external sources was £161.8m. Most of this was financed by the Public Works Loan Board (£108.1m) with the rest coming mainly from the money market.



Reserves—amounts set aside for specific purposes

Reserves can be usable or unusable. Usable reserves are those backed by actual resources and can be applied to fund expenditure or reduce local taxation. Unusable resources are required purely for accounting purposes—they do not represent resources available for the council to use. The council holds a total of £174.8m in reserves. Usable reserves sit at £48.5m

Unusable reserves have decreased by £4.1m to £126.3m, due to an increase in the pension liability, a surplus on revaluation reserve and a transfer for capital grants.

	31 March 2014 £m
Unusable reserves	126.3
Capital fund	3.5
Renewal and repairs fund	1.0
General fund – Contingency	3.7
General fund – Strategic Housing Fund	7.5
General fund – Schools Capital	3.0
General Fund –Other earmarkings	19.9
General fund – Unallocated	10.0
Total reserves	174.8

