ARGYLL AND BUTE COUNCIL
FINANCE

AUDIT COMMITTEE
8 NOVEMBER 2001

AUDIT OF ACCOUNTS 2000/2001
MEMBERS' LETTER, AUDIT CERTIFICATE AND CERTIFIED ACCOUNTS

1 SUMMARY

In accordance with the legislation, the Certified Accounts, Audit Certificate and the External Auditors' Letter to Members were submitted to the Council meeting on 1 November 2001. Copies are attached to this report.

The external auditors have issued a clear audit certificate and all DLO/DSO operations achieved the financial objective of at least break even.

The completion of the audit of accounts for the year 2000/2001 within the timescale set by Audit Scotland means that the Council continues to be completely up-to-date in completion and audit of accounts.

An Action Plan is included as Appendix 1 of the auditors Final Report to Members. It is important that agreed actions are completed timeously and internal audit should monitor and report to the Audit Committee on compliance with the Action Plan.

2. RECOMMENDATION

Internal audit monitor adherence to the Action Plan and submit a report to the Audit Committee during the course of the year 2002.

Stewart McGregor
Director of Finance
9 October 2001
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ACCOUNTS FOR THE PERIOD

1 APRIL 2000 TO 31 MARCH 2001

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Introduction

This foreword is intended as a comment on Argyll and Bute Council's financial position as presented within the Statement of Accounts for the financial year 2000/2001.

Statement of Responsibilities

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

Accounting Policies

The Statement of Accounting Policies sets out the basis upon which the Financial Statements have been prepared, and explains the accounting treatment of both general and specific items.

The Financial Statements

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

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

Summary DLO/DSO Revenue and Appropriation Account
gives the summarised financial outturn for each DLO/DSO for the financial year. It also shows how the overall surplus or deficit is dealt with. A note to the statement indicates whether the DLO/DSO's have achieved their statutory financial objective. The overall DLO/DSO position is carried to the Consolidated Revenue Account and Statement of Total Movement on Reserves.

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

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

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

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

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

Major Changes in Accounting Practice

The Council continues to adopt the accounting practices recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authorities (Scotland) Accounts Advisory Committee (LA(S)AAC). In accordance with best accounting practice the deferred charge balance as at 31 March 2000 has been written out of the balance sheet to the Capital Financing Reserve. Deferred charges arising during the year have been charged in full to the relevant service department's revenue account. The budget figures have been adjusted to aid comparison.

Further more to comply with the 2000 Statement of Recommended Practice (SORP) depreciation has been charged on all operational buildings, again the budget figures have been adjusted to aid comparison.

During 2000/2001 the Council carried out a review of its approach to allocating central support service costs. The outcome is an increase in the transparency, clarity and robustness of these allocations. This has resulted in a number of changes in the allocations to individual services with the budget being adjusted for comparison. The most notable adjustment being a reduction in allocations to the Housing Revenue Account of £0.171m. Except for the Housing Revenue Account budgets have been adjusted to aid comparison.

Property Valuations

It is the intention of Argyll and Bute Council that all land and property inherited from the former District and Regional Councils be revalued through a rolling programme of revaluation. This programme was started during 1999/2000 with all properties of the former Argyll and Bute District Council being valued together with all other properties which had a valuation as at 1 April 1999 greater than £1m. This programme of revaluation continued during 2000/01 with the revaluation of all Primary Schools and 84 of the non-operational buildings.

Council dwellings were revalued at the 31st March 2001.

Asset Impairment

In compliance with Financial Reporting Standard 11, Impairment of Fixed Assets and Goodwill, the Council has reviewed the valuations of its assets at 31 March 2001 to assess any reduction in asset valuations. Arising from these impairment reviews the Council has reduced the valuation of Hermitage Academy and Campbeltown Swimming Pool by £6m and £0.5m respectively. These reductions are reflected in the actual expenditure of Education and Development and Environment Services for the year.

Consolidated Revenue Account

The general fund balance at 31 March 2001 amounted to £0.085m. This is an increase of £0.072m on the budget balance of £0.013m. However it should be noted the Council has forward commitments of £0.468m to be funded from this in respect of specific projects related to the interim award of the Special Islands Needs Allowance (SINA).

The general fund balance of £0.085m can be analysed as follows:

	£m	£m
Budgeted utilisation of reserves		(0.351)
Transfer from HRA to General Fund		0.364
Budgeted working balance		0.013
Surplus brought forward from 1999/2000		0.332
Supplementary estimate re feasibilty study in Education capital funding		(0.110)
Increased Income		
Savings in loan charges	0.800	
Increase in council tax and community charge collection	0.150	
Contribution by DLO/DSO	0.389	
Underspend on projects funded from interim SINA award	0.468	
Other	0.039	
	1.846	
Increased expenditure		
Education	(1.164)	
Transportation and Property Services	(0.529)	
Foot and Mouth precautionary measures	(0.132)	
Reduction in Central Support Allocation to HRA	(0.171)	
	(1.996)	
		(0.150)
General Fund balance 31 March 2001		**0.085**

During the year the Council took precautionary measures with regard to the national foot and mouth outbreaks. The amount of expenditure incurred during 2000/2001 was £0.132m. This cost was met by the Development and Environment Services and has been included in the total expenditure chargeable against Section 83 of the Local Government (Scotland) Act 1973.

The income and expenditure of the Education service reflects additional central government grant funding of £1.2m allocated to schools which has been spent on additional staffing and school supplies. This income and expenditure was additional to budget.

The major reasons for increases in Education expenditure include cleaning and catering costs, pupil transport and teaching staff costs. The contributing factors within Transportation and Property Services include additional costs related to winter maintenance of roads, unbudgeted staff costs and reduced income levels.

DLO/DSO's

During 2000/2001 the Council's DLO/DSO's achieved a surplus of £0.389m. The surplus has been taken as a contribution to the General Fund. All DLO/DSO's met their statutory financial objective. In a period of financial constraints this is a welcome outcome and reflects positively upon the Council's management of direct services.

Housing Revenue Account

The balance on the HRA reserve stands at £1.573m at 31 March 2001. This compares to a budgeted balance of £1.811m. The main factors giving rise to the reduction of £0.238m in the reserve are as follows:

Housing Revenue Account (Continued)	£'m
Savings in capital financing costs and interest	0.178
Increase in other income	0.305
Reduction in central support service allocation	0.171
Increased Income	**0.654**
Additional expenditure on repairs and maintenance	(0.518)
Void house rents and provision for bad debts	(0.299)
Other movements	(0.075)
Increased Expenditure	**(0.892)**
Reduction in HRA Reserve	**(0.238)**

Budgeted contributions of £0.7m to supplement the capital expenditure programme and a transfer to the general fund of £0.364m were made.

Capital Expenditure

The Council incurs capital expenditure within limits laid down by the Scottish Executive who issue consents under Section 94 of the Local Government (Scotland) Act 1973. Capital receipts (from the sale of buildings, land, etc.) and private sector contributions are used to enhance these consents, subject to certain Scottish Executive restrictions placed on the use of receipts. Details of capital expenditure are as follows:

	Composite Programme £'m	Housing Revenue Account £'m
Net Allocation	10.882	1.675
Usable Capital Receipts	1.282	0.800
Capital Financed from Current Revenue	0.134	0.700
Gross Consent	**12.298**	**3.175**
Capital Expenditure	**12.837**	**3.175**
Excess Expenditure	**0.539**	**-**

The excess expenditure on the composite programme, which was planned, is within tolerance limits allowed and will be offset against the consent available in 2001/2002. Containing expenditure within the tolerance limit demonstrates effective management of the substantial capital investment programmes and the continuing pressure upon these programmes. The composite programme includes all services other than Police, Fire and the Housing Revenue Account. Joint Boards control capital expenditure on Police and Fire and are reported separately thereon. The Housing Revenue Account covers capital expenditure on the Council's stock of houses. The composite programme includes additional consent in relation to the redevelopment of Port Askaig Harbour which the Council secured in competition, securing much needed additional investment in the Council area.

Other Significant Matters

The Council has been active in progressing a range of initiatives which although not directly affecting the financial position for the 2000/2001 financial year are worthy of mention in order to gain a full understanding of the Council's business.

Over the last 2 years the Council has been developing a public private partnership to secure the necessary capital investment to meet the Council's long term waste disposal needs. The contract was signed during September 2001.

The Council secured funding under the new housing partnerships programme. This funding has been utilised to carry out an options appraisal study for large scale voluntary transfer of the housing stock. The options appraisal is well underway and the outcome of this will be considered over the next year.

In common with other Councils a significant investment in school buildings is required. The Council has adopted a proactive approach to this and allocated funding during 2000/2001 for a feasibility study to investigate how this investment might be achieved. To supplement this the Council secured £0.200m of Scottish Executive funding to develop an outline business case for its education capital investment proposals. This exercise is now underway.

Conclusion

The Council ends the year with a small general fund surplus. However this is committed to projects already underway. Improvements in council tax collection, savings in loan charges, effective management of DLO/DSOs and containment of expenditure in most departments has offset the over expenditure on Education and Transportation and Property Services. There is a small reduction in the HRA reserve. In overall terms the Council has achieved its objectives in fully utilising capital consents.

The Council will continue to pursue initiatives to secure additional funding. Budgetary control will be scrutinised to improve financial control within Education and Transportation and Property Services.

Stewart McGregor

Stewart McGregor
Director of Finance
20 September, 2001

THE AUTHORITY'S RESPONSIBILITIES

The Authority is required:

1. to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance.

2. to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

THE DIRECTOR OF FINANCE'S RESPONSIBILITIES

The Director of Finance is responsible for the preparation of the authority's statement of accounts, which in terms of the CIPFA/LA(S)AAC Code of Practice on Local Authority Accounting in Great Britain ("The Code of Practice"), is required to present fairly, the financial position of the authority as at 31 March 2001 and its income and expenditure for the year ended on that date.

In preparing this statement of accounts, the Director of Finance has:

1. selected suitable accounting policies and applied them consistently;

2. made judgements and estimates that were reasonable and prudent;

3. complied with "The Code of Practice".

The Director of Finance has also:

1. kept proper accounting records which were up to date;

2. taken reasonable steps for the prevention and detection of fraud and other irregularities.

The Accounts have been prepared in accordance with the Code of Practice for the publication of Financial Information. Due regard has been given to the Statements of Recommended Practice and Accounting Standards as they apply to Local Authorities in Great Britain.

1. **REVENUE ACCOUNTS**

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

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

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

Interest payable on external borrowing and internal interest has been accrued in the period to which it relates on the basis of the overall economic effect of the borrowing.

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

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

2. **OVERHEADS**

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

3. **PENSIONS**

The cost of providing pensions for employees is charged to the revenue account in accordance with the statutory requirements governing the particular pension schemes to which the Council contributes.

The accounting treatment followed by the Council is not in accordance with the Statement of Standard Accounting Practice 24 (SSAP24), "Accounting for Pension Costs", which requires that the pension costs should be charged to revenue in such a manner as to provide a substantially level charge for current and future pension costs. It is not considered appropriate to reflect non-cash items of this nature in the accounts of the Council and, therefore, the charge for the year represents only the actual contributions paid.

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

4. **CAPITAL ACCOUNTING**

Accounting Policy Statement

The accounts have been drawn up in accordance with the Code of Practice on Local Authority Accounting in Great Britain, which is recognised by statute as representing proper accounting practices. In Scotland the status of the 1993 Code is derived from the Scottish Office Circular 5/1985 and not from a statutory source. Services have been charged for the assets based on their value rather than on the financing costs of debt outstanding on the asset.

Fixed Assets

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

Disposal of Fixed Assets

The receipts arising from the disposal of fixed assets have been dealt with on an accruals basis. Those of a capital nature are credited to the Capital Financing Reserve.

Depreciation

This policy complies with the requirements of the 2000 SORP which incorporated the introduction of Financial Reporting Standard 15 (FRS15), "Tangible Fixed Assets".

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

5. **DEFERRED CHARGES**

Deferred charges are items that have been charged to the capital account of the authority, but which do not result in the acquisition of a tangible asset for the authority. On the 31 March 2000 these were valued at £43.561m, £34.789m of which was for Argyll and Bute Council investing in private sector housing stock by way of repair, improvement and disablement grants. On 31 March 2001, in line with best accounting practice, these are now shown to have no value as Argyll and Bute Council derives no beneficial ownership of such investment.

Deferred charges arising during the financial year have been written out immediately with service revenue accounts being charged on the basis of the benefit that the service receives as a result of the expenditure. Adjustments have been made through the contribution to the Capital Financing Reserve so that there is no net impact on the amount to be met from government grants and local taxation.

6. **STOCK & WORK IN PROGRESS**

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

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

7. **PROVISION FOR BAD AND DOUBTFUL DEBT**

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

8. **INSURANCE FUND**

An insurance fund has been established in accordance with the Local Government (Scotland) Act 1994.

9. **RESERVE FUNDS**

A Repairs and Renewals Fund has been established in accordance with the Local Government (Scotland) Act 1975. Reserve Funds for the Direct Labour and Direct Service Organisations have been established in accordance with the relevant CIPFA Code of Practice. A Capital Fund has also been established within the Direct Labour Organisation.

10. **LEASING**

All current leases are classified as 'operating leases' as defined by Statement of Standard Accounting Practice 21 (SSAP 21), 'Accounting for Leases and Hire Purchase Contracts'. The annual rentals are charged to the appropriate Revenue Account.

11. **ASSETS FINANCED BY COVENANT SCHEMES**

The accounting treatment of assets financed under Covenant Schemes is in accordance with Section 4.1 of Guidance Note 1 - Covenant Schemes Accounting Treatment and Disclosures - issued by the Local Authority (Scotland) Accounts Advisory Committee (LA(S)AAC). The Council's indebtedness is recorded as a Deferred Covenant Liability in the Consolidated Balance Sheet. The assets have been valued in accordance with Note 4 above.

12. **LOANS FUND**

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

13. **DIRECT LABOUR AND DIRECT SERVICE ORGANISATIONS**

Accounts for the Direct Labour and Direct Service Organisations are included in summary format in this document. A detailed set of accounts as required by statute are available on request from Council Headquarters. The Consolidated Revenue Account and Balance Sheet include entries from these as appropriate.

14. **MAJOR CHANGES IN ACCOUNTING PRACTICE**

In accordance with best accounting practice the deferred charge balance as at 31 March 2000 has been written out of the balance sheet to the Capital Financing Reserve. Deferred charges arising during the year have been charged in full to the relevant service department's revenue account. The budget figures have been adjusted to aid comparison.

Further more to comply with the 2000 Statement of Recommended Practice (SORP) depreciation has been charged on all operational buildings, again the budget figures have been adjusted to aid comparison.

During 2000/2001 the Council carried out a review of its approach to allocating central support service costs. The outcome is an increase in the transparency, clarity and robustness of these allocations. This has resulted in a number of changes in the allocations to individual services with the budget being adjusted for comparison.

CONSOLIDATED REVENUE ACCOUNT for the year ended 31 March 2001

1999/00 Actual Net Expenditure £'000		Note	2000/01 Actual Gross Expenditure £'000	Actual Gross Income £'000	Actual Net Expenditure £'000	Budget Net Expenditure £'000
	Council Services					
56,292	Education		76,019	8,754	67,265	58,690
17,022	Development and Environment Service		24,794	6,069	18,725	18,146
20,484	Social Work and Housing Service		45,076	18,813	26,263	25,462
1,106	Housing Revenue Account		14,518	14,135	383	17
19,898	Roads and Transportation Service		38,430	18,457	19,973	19,551
1,817	Central Services to the Public		3,005	1,190	1,815	2,172
2,262	Corporate and Democratic Core		3,379	87	3,292	3,327
11,279	Joint Boards	1	11,466	-	11,466	11,191
130,160	**Net Cost of Services**		**216,687**	**67,505**	**149,182**	**138,556**
39	Net (income) / expenditure on the Asset Management Revenue Account	2			830	(298)
130,199	**Net Operating Expenditure**				**150,012**	**138,258**
(1,106)	Surplus/(deficit) transferred to/from HRA Balances				(383)	(17)
(54)	Contribution from Funds and Earmarked Reserves				(757)	(757)
6,261	Contributions to/(from) Capital Financing Reserve	3			(9,614)	461
(280)	Contribution from DLO/DSO				(389)	-
135,020	**Amount to be met from Government Grants and Local Taxpayers**				**138,869**	**137,945**
30,652	Council Tax				32,984	32,877
76,818	Revenue Support Grant				75,852	75,371
25,472	Non-domestic Rates				29,231	29,221
314	Community Charge and Old Rates				191	125
(1,764)	**(Deficit) / Surplus for Year**				**(611)**	**(351)**
	Transfer from HRA Reserves				364	
2,096	General Fund Surplus Brought Forward				332	
332	**General Fund Surplus Carried Forward**				**85**	

During the year the valuations of Hermitage Academy and Campbeltown Swimming Pool were revised down to reflect a permanent impairment in value. This amounted to an additional charge of £6.071m being made to the Education service account and £0.511m being made to the Development and Environment service account.

The budget net expenditure per the Consolidated Revenue Account has been revised to reflect charges for depreciation on operation buildings (£3,923,000) and the write-off of deferred charges (£3,341,000) not initially budgeted, the approval to finance items of expenditure from Funds and Earmarked Reserves (£757,000). The budget has also been adjusted to reflect the revised allocation of central support costs. This has no overall affect on the net cost of services.

1. Joint Boards

This account shows payments to the Police, Fire, Passenger Transport and Valuation Joint Boards and to the Authorities Buying Consortium.

1999/2000		2000/01
£'000		£'000
262	Strathclyde Passenger Transport	352
6,481	Strathclyde Police Joint Board	6,406
3,512	Strathclyde Fire Joint Board	3,641
1,006	Dunbartonshire and Argyll & Bute Valuation Joint Board	1,038
18	Authorities Buying Consortium	29
11,279	**Total Joint Boards**	**11,466**

2. Asset Management Revenue Account

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

1999/2000		2000/01
£'000		£'000
4,056	Charge for Depreciation/Impairment	16,562
17,978	External Interest Payable	17,921
(21,526)	Capital Charges	(33,165)
(469)	Release of Government Grant	(488)
39	**Net Expenditure / (Income)**	**830**

3. Contributions to Capital Financing Reserve

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

1999/2000		2000/01
£'000		£'000
643	Capital Financed from Current Revenue - General Fund	134
9,205	Principal Loans Fund Instalment	9,667
(4,056)	Depreciation/Impairment	(16,562)
	Deferred Charges Written off to Revenue	(3,341)
469	Release of Government Grant	488
6,261	**Total Contribution to Capital Financing Reserve**	**(9,614)**

4. Operating Lease Rentals Paid

The Council uses land, buildings, vehicles, plant and equipment financed under the terms of an operating lease. The amount paid under these arrangements in 2000/01 are as follows:

1999/2000		2000/01
£'000		£'000
113	Land and Buildings	68
521	Vehicles	887
558	Plant and Equipment	395
1,192	**Total**	**1,350**

In respect of vehicles the Council recovered £0.121m of leased car costs from its employees during 2000/01.

The Council is committed to making payments of £1,148,000 under operating leases in 2001/2002. These can be analysed as follows:

	£'000
Leases expiring in 2001/02	109
Leases expiring between 2002/2003 and 2005/2006	527
Leases expiring after 2005/2006 onwards	512
Total	**1,148**

5. Local Government Act 1973, Section 83 Expenditure

The Council's expenditure under this statute, which is for the benefit of local residents, is limited to the product of £3.80 and the population of the Council's area. For 2000/01 that limit was £0.337m with expenditure of £0.324m being incurred and included within service expenditure. This expenditure covered the cost of Leisure Management Grants, Joint Twinning and the precautionary measures taken with regards to the national outbreak of foot and mouth disease.

6. Local Government Act 1986 - Separate Publicity Account

The Council is required under Section 5 of the Act to maintain a separate account for publicity. Expenditure of £0.404m was incurred during 2000/01 and is included within service expenditure as follows:

1999/2000 £'000		2000/01 £'000
181	Staff advertising	172
16	Leaflets and publications	21
60	Statutory notices	64
155	Other	147
412	**Total**	**404**

7. Agency Income

The Council has an agency agreement with Scottish Homes whereby the Council collects rents on their behalf and arranges for maintenance work to be carried out on their housing stock. In addition the Council has an agency agreement with the West of Scotland Water Authority to collect water and sewerage rates.

1999/2000 £'000		2000/01 £'000
1	Scottish Homes - collection of rents	1
3	Scottish Homes - repair of houses	1
161	West of Scotland Water Authority	161
165		**163**
-	Agency Expenditure	-
165		**163**

8. Local Authorities (Goods and Services) Act 1970

The Council is empowered by this Act to provide goods and services to other public bodies. Income from these services amounted to £4.624m and the related expenditure was £4.582m. The goods and services provided were as follows:

	Income £'000	Expenditure £'000
Joint Finance and Resource Transfer	1,659	1,659
North Lanarkshire Council - Cleaning Outdoor Centre	73	66
Trunk Road Maintenance	2,445	2,428
Education - Provision of Special Needs	203	196
Strathclyde Police	106	99
Strathclyde Fire Brigade	127	125
Scottish Homes	6	5
Kirkcare	5	4
	4,624	**4,582**

9. Pensions - Local Government Superannuation (Scotland) Scheme

The Council participates in the Superannuation Fund administered by City of Glasgow Council's Strathclyde Pension Fund. This Fund provides members with defined benefits related to pay and service. The contributions are based on rates determined by the Fund's professionally qualified actuary and based on triennial valuations of the Fund, the most recent of which was at 31 March 1999 and set employers contributions as follows:

2000/01 - 200% of employees contributions
2001/02 - 210% of employees contributions
2002/03 - 220% of employees contributions

The value of assets of the scheme as at 31 March 1999 did not exceed 105% of the value of the liabilities of the scheme.

1999/2000 £'000		2000/01 £'000
3,240	**Pension costs charged to the accounts (£)**	**4,055**
10.20%	as a percentage of pensionable pay (%)	12.00%
16	**Discretionary payments made by the council (£)**	**10**
0.05%	as a percentage of pensionable pay (%)	0.029%
377	**Expenditure on added years awarded (£)**	-
1.19%	as a percentage of pensionable pay (%)	

The capital cost of discretionary increases in pensions payments agreed by the authority are:	£'000
in the year	**77**
in earlier years	**12,946**

This includes both retirals from Argyll and Bute Council itself, and retirals from predecessor authorities for which Argyll and Bute Council is still making payments.

10. Teachers Pensions - Administered by Scottish Public Pensions Agency

1999/2000 £'000		2000/01 £'000
1,612	**Amount paid over (£)**	**1,696**
6.90%	Rate of contribution (%)	6.90%
441	**Amount of added years awarded by the Council (£)**	**431**
56	**Discretionary payments made by the council (£)**	-

11. Pensions - Accounting Policy

The accounting treatment followed by the Council is not in accordance with Standard Statement of Accounting Practice 24 (SSAP 24). Under SSAP 24 pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the Council benefits from the employees' services and spreading the effects of variations from regular cost over the expected average remaining service lives of members of the scheme. The Council does not have sufficient information available to it to disclose what the pension charge to operating costs would have been had SSAP 24 been adopted.

12. Members' Allowances

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

1999/2000 £'000		2000/01 £'000
192	Basic Allowance	195
176	Special Responsibility Allowance	190
368	**Total Allowances**	**385**

13. Officers' Emoluments

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

1999/2000 No	Remuneration Band	2000/01 No
30	£40,000 - £49,999	34
3	£50,000 - £59,999	2
6	£60,000 - £69,999	6
1	£70,000 - £79,999	1

14. Related Party Transactions

During the year transactions with related parties arose as follows:

		Income £'000	Expenditure £'000
Central Government and Agencies:			
Revenue Grants:	Revenue Support Grant	75,852	
	Non-domestic Rates	29,231	
	Housing Benefits / Support Grant	13,100	
	Council Tax Benefit Subsidy	4,523	
	Other Government Grants	6,772	
Capital Grants:	European Grants	111	
	Sports Lottery	92	
	Argyll and the Islands Enterprise	47	
	Scottish Natural Heritage	6	
	New Deal for Schools	600	
	Other Government Capital Grants	347	
Related Bodies:			
Joint Boards (see note 1 for further details)			11,466
Strathclyde Passenger Transport - Concessionary Fares			727
Other Related Party Transactions:			
Companies in which members have a significant interest			88

During the year there were various companies in which members had a significant interest where the total of transactions exceeded £5,000, these are as follows:

	£'000
Islay Development Company	14
Oban FM	5
Scottish Milk Limited	5
Tiree CommunityBusiness Limited	13
Trident Taxis	42

15. Year 2000

The total cost of making all Council systems Year 2000 compliant was £0.528m. This expenditure was charged through the Council's capital programme during 1998/999, 1999/2000 and 2000/2001. The Council achieved a satisfactory state of readiness prior to 1 January 2000 and as a result the impact on systems due to the "Millenium Bug" was minimal.

HOUSING REVENUE ACCOUNT for the year ended 31 March 2001

1999/2000 Actual £'000		2000/2001 Actual £'000	2000/2001 Budget £'000
	Expenditure		
3,883	Repairs and Maintenance	4,502	3,984
3,553	Supervision and Management	3,647	3,732
5,227	Capital Financing Costs	4,953	5,003
307	Void House Rents	402	240
28	Bad Debt Write Off	-	-
24	Provision for bad or doubtful debts	137	-
114	Other expenditure	177	128
1,700	Contribution to Capital Financing Reserve	700	700
14,836	**Total Expenditure**	14,518	13,787
	Income		
13,212	Rent of houses (gross)	13,501	13,437
57	Non-dwelling rents	51	55
93	Housing Support Grant	93	93
368	Other income	490	185
13,730	**Total Income**	14,135	13,770
(1,106)	**(Deficit) / Surplus for Year**	(383)	(17)
3,298	**Surplus Brought Forward**	2,192	2,192
-	**Interest Earned on Surplus Brought Forward**	128	-
-	**Contribution to General Fund**	(364)	(364)
2,192	**Surplus Retained in Housing Revenue Account**	1,573	1,811

NOTES TO THE HOUSING REVENUE ACCOUNT

1. Gross Rent Income

This is the total rent income for the year. Average annual rent charges were £37.95 per week in 2000/01 (1999/2000 £36.45)

2. Housing Stock

1999/2000 No		2000/01 No
182	Sheltered Housing	198
3,592	Other houses	3,556
1,658	Tenement flats	1,664
1,453	Other flats	1,330
6,885	**Total Housing Stock**	6,748

3. Rent Arrears and Bad Debts

Rent arrears at 31/3/2001 were £0.472m (31/3/2000 - £0.322m) and this equated to an average rent arrears per house of £70 (1999/2000 - £47)

In accordance with the latest assessment of potential recovery and in order to reflect due prudence, the provision for bad debts has been adjusted to £0.272m (1999/2000 - £0.144m), this represents an increase of £0.128m.

SUMMARY DLO/DSO REVENUE AND APPROPRIATION ACCOUNT

1999/2000 (Surplus) Deficit Actual £'000		2000/01 Turnover Actual £'000	Total Expenditure Actual £'000	(Surplus) Deficit Actual £'000
	DLO			
(95)	Property Maintenance	3,148	3,125	(23)
(4)	Roads - Local	8,015	7,878	(137)
(40)	Roads - Trunk	2,445	2,428	(17)
	DSO			
(37)	Vehicle Maintenance	1,732	1,586	(146)
(6)	Ground Maintenance	2,533	2,515	(18)
(2)	Street Cleansing	865	858	(7)
(51)	Refuse Collection	1,442	1,426	(16)
-	Leisure Management	750	743	(7)
(42)	Catering	2,433	2,427	(6)
(3)	Cleaning	1,247	1,235	(12)
(280)	**TOTAL**	**24,610**	**24,221**	**(389)**

Appropriation Account

	Deficit (Surplus) £'000	Transfer to General Fund £'000	Transfer to Reserve Fund £'000	Balance 31/3/01 £'000
2000/01	(389)	389	-	-

NOTES TO THE SUMMARY DLO/DSO REVENUE AND APPROPRIATION ACCOUNT

1. Further information

The detailed accounts for the Direct Labour and Direct Services Organisations are contained in a separate Annual Report, which is published in accordance with the appropriate legislation and is available on request from Council Headquarters.

2. Statutory Financial Objectives

The statutory financial objective for all DSO's and DLO's is to break-even-after applying the CIPFA Code of Practice on Capital Accounting. All Direct Labour and Direct Service Organisations have achieved the statutory financial objective.

COUNCIL TAX INCOME ACCOUNT for the year ended 31 March 2001

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

1999/2000 Actual £'000		2000/01 Actual £'000
38,312	Gross Council Tax levied and contributions in lieu	41,443
	Less:	
(252)	Council Tax benefits (net of government grant)	(183)
(6,626)	Other discounts and reductions	(7,087)
(782)	Provision for bad and doubtful debts	(1,189)
30,652	**Net Council Tax Income**	**32,984**

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, ie. Band D equivalents as below. This value is then decreased or increased dependant upon the band of the dwelling. The charge for each band for 2000/01 was as follows:

Band	Valuation Band	% Band D	£ per year
A	Under £27,000	67%	£ 625.33
B	£27,000 - £35,000	78%	£ 729.56
C	£35,000 - £45,000	89%	£ 833.78
D	£45,000 - £58,000	100%	£ 938.00
E	£58,000 - £80,000	122%	£1,146.44
F	£80,000 - £106,000	144%	£1,354.89
G	£106,000 - £212,000	167%	£1,563.33
H	Over £212,000	200%	£1,876.00

NOTES TO THE COUNCIL TAX INCOME ACCOUNT - Continued

2. Calculation of the Council Tax Base 2000/01

Council Tax Base			**A**	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**Total**
Total Number of Properties			8,098	9,372	9,278	5,358	6,438	3,266	2,156	205	44,171
Less	-	Exemptions / Deductions	891	619	1,264	397	518	162	93	28	3,972
	-	Adjustment for Single Chargepayers	915	955	692	382	315	127	73	7	3,466
Effective Number of Properties			**6,292**	**7,798**	**7,322**	**4,579**	**5,605**	**2,977**	**1,990**	**170**	**36,733**
Band D Equivalent Factor (ratio)			6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	
Band D Equivalent Number of Properties			**4,195**	**6,065**	**6,508**	**4,579**	**6,851**	**4,300**	**3,317**	**340**	**36,155**
Add Contribution in lieu in respect of Class 18 dwellings (Band D Equivalent)											750
Nominal Tax Yield											**36,905**
Less Provision for Non-Collection - 5.4%											1,993
Council Tax Base 2000/01 - Number of Band D equivalents											**34,912**

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NON-DOMESTIC RATE INCOME ACCOUNT for the year ended 31 March 2001

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

1999/2000 Actual £'000		2000/01 Actual £'000
30,636	Gross rates levied and contributions in lieu	33,286
	Less:	
(3,998)	Reliefs and other deductions	(5,867)
16	Payment of interest	(19)
(230)	Provision for bad and doubtful debts	(420)
26,424	**Net Non-domestic Rate Income**	**26,980**
8	Adjustments for years prior to introduction of national non-domestic rates pool	10
(960)	Contribution from / (to) national non-domestic rate pool	2,241
25,472	**Guaranteed Rate Income**	**29,231**

NOTES TO THE NON-DOMESTIC RATE INCOME ACCOUNT

1. Analysis of Rateable Values

1999/2000 £		2000/01 £
2,902,925	Industrial and freight transport subjects	3,409,660
31,683,788	Public utilities including British Rail, British Gas, Hydro Electric etc	33,258,234
	Commercial subjects:	
8,280,645	Shops	9,680,920
3,783,285	Offices	4,555,835
5,343,005	Hotels, Boarding Houses etc.	6,819,895
4,421,665	Others	5,596,495
8,284,462	Miscellaneous and formula valued subjects	7,298
64,699,775	**Total Rateable Value**	**63,328,337**

2. Non-Domestic Rate Charge

1999/2000 Pence		2000/01 Pence
48.0p	**Rate Per Pound Properties under £10,000**	**44.8p**
48.9p	**Rate Per Pound Properties over £10,000**	**45.8p**

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.

CONSOLIDATED BALANCE SHEET as at 31 March 2001

1999/2000 £'000		Note		2000/01 £'000
	Fixed Assets	1		
	Operational Assets			
62,364	- Council Dwellings			63,290
152,755	- Other Land and Buildings			156,013
4,233	- Vehicles, Plant and Equipment			3,988
59,384	- Infrastructure Assets			59,868
28	- Community Assets			60
	Non-operational Assets			
10,279	- Non-operational Land and Buildings			15,494
289,043				**298,713**
43,561	Deferred Charges	2		-
1,347	Long Term Debtors			9,065
333,951	**Total Long Term Assets**			**307,778**
	Current Assets			
1,158	- Stock and Work in Progress		1,178	
14,835	- Debtors	5	9,946	
795	- Cash at Bank and in Hand		1,885	13,009
350,739				**320,787**
	Current Liabilities			
(29,765)	- Short Term Borrowing	6	(1,095)	
(15,389)	- Creditors		(27,352)	
(2,315)	- Bank Overdraft		(2,891)	(31,338)
303,270	**Total Assets less Current Liabilities**			**289,449**
(184,996)	Long Term Borrowing	6	(207,659)	
(479)	Deferred Covenant Liability		(399)	
(11,215)	Deferred Government Grants	7	(11,113)	(219,171)
106,580	**Total Assets less Liabilities**			**70,278**
60,836	Fixed Asset Restatement Reserve			74,895
39,748	Capital Financing Reserve			(9,278)
3,369	Earmarked Reserves			2,895
	Balances			
332	- General Fund			85
2,192	- Housing Revenue Account			1,573
103	- DSOs			108
106,580	**Total Equity**			**70,278**

Stewart McGregor

Stewart McGregor
Director of Finance
20 September, 2001

NOTES TO THE CONSOLIDATED BALANCE SHEET as at 31 March 2001

1.1 Movement of Fixed Assets

	Operational Assets							
	Council Dwellings	Other Land and Buildings	Vehicles Plant & Equipment	Infrastructure Assets	Community Assets	Non-Operational Assets	Total	Total 1999/2000
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1/4/00	62,364	152,755	4,233	59,384	28	10,279	289,043	290,588
Expenditure in year	2,966	4,357	1,000	3,582	32	236	12,173	13,492
Revaluations	4,160	9,092				6,803	20,055	(465)
Disposals	(1,156)		(38)	(19)		(483)	(1,696)	(2,072)
Transfers		1,341				(1,341)		(359)
Depreciation	(2,078)	(3,923)	(1,207)	(2,772)			(9,980)	(4,056)
Impairment		(6,582)					(6,582)	
Write off to FARR	(2,966)	(1,027)		(307)			(4,300)	(8,085)
Balance at 31/3/01	**63,290**	**156,013**	**3,988**	**59,868**	**60**	**15,494**	**298,713**	**289,043**

1.2 Valuation of Fixed Assets

	Council Dwellings	Other Land and Buildings	Vehicles Plant & Equipment	Infrastructure Assets	Community Assets	Non-Operational Assets	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Valued at historical cost			3,988	59,868	60		63,916
Valued at current value in:							
2000/2001	63,290	35,648				8,868	107,806
1999/2000		84,773				3,416	88,189
1998/1999							-
1997/1998							-
1996/1997							-
Valuations inherited at 1 April 1996		35,592				3,210	38,802
Total	**63,290**	**156,013**	**3,988**	**59,868**	**60**	**15,494**	**298,713**

In accordance with the Capital Accounting Code of Practice, fixed assets are shown at valuation. The basis on which each category of fixed asset is valued is as follows:

Council Dwellings

The basis of valuation is Existing Use Value for Social Housing as defined in Practice Statement 4.1 of the Royal Institute of Chartered Surveyors (RICS) Appraisal and Valuation Manual, the definition of which is as follows:

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

The valuations were carried out as at 31 March 2001 by an independent valuer, the District Valuer, on the aforementioned basis.

Other Land and Buildings

The basis of valuation is Open Market Value for Existing Use, assessed on either a comparative or depreciated replacement cost basis.

During the current year, revaluations were carried out by the Estates Section of Transportation and Property in accordance with their rolling programme of revaluations. This included revaluations of all schools not revalued during 1999/2000. This programme will continue during 2001/2002.

Vehicles, Plant and Equipment

These assets have been valued using historical cost as a proxy for current replacement cost.

Infrastructure and Community Assets

These assets are valued at depreciated historic cost.

Non Operational Assets

These have been valued on the basis of open market value taking account of existing and alternative uses.

During the current year, revaluations were carried out by the Estates Section of Transportation and Property, on 80 non-operational properties, in accordance with their rolling programme of revaluations. This programme will continue during 2001/2002.

1.3 Fixed Assets Information on Assets Held at 31/3/01

OPERATIONAL BUILDINGS	2000/01 No.
Administrative Buildings	38
Depots	32
Social Work Homes for the Elderly	6
Social Work Children's Homes	4
Social Work Hostels	3
Primary Schools	81
Secondary Schools	10
Special Schools	3
Nursery Schools	3
Halls	10
Sports Centres	1
Swimming Pools	3
Museums and Libraries	10
Community Centres	8
Crematoria	1
Public Conveniences	69
Travelling Persons Sites	3

	2000/01 No.
OPERATIONAL EQUIPMENT	
Vehicles and Heavy Plant	347
INFRASTRUCTURE ASSETS	
Highways (miles)	1,406
Bridges	954
COMMUNITY ASSETS	
Play Areas	52
Parks	25
Civic Regalia (Provosts' Chains)	4
Civic Regalia (Bailies' Chains)	1
Cemeteries	66
COUNCIL DWELLINGS	6,748

2. Deferred Charges

	Balance at 1/4/00 £'000	Write off Opening Bal £'000	Expenditure during year £'000	Receipts during year £'000	Capital Discharged £'000	Balance at 31/3/01 £'000
Improvement Grants	34,789	(34,789)				-
Slum Clearance	389	(389)				-
Other	8,383	(8,383)				-
Total	**43,561**	**(43,561)**	**-**	**-**	**-**	**-**
Total 1999/2000	**42,218**	**-**	**2,942**	**-**	**(1,599)**	**43,561**

3. Spending on Capital Projects During the Year

Capital expenditure involves the creation of assets, the benefit of which will be available to future rate and council taxpayers. It is financed from borrowing and therefore the cost of the assets is effectively borne over a period of years. In 2000/01 gross capital expenditure totalled £16.012m, offset by capital income of £3.516m, as follows:

	31 March 2001 £'000	31 March 2000 £'000
Education Services	2,574	3,496
Development and Environment Services	1,976	2,043
Social and Housing Services	3,485	3,244
Housing Revenue Account	3,175	4,178
Transportation and Property Services	3,459	2,448
Central Support	1,343	1,078
Total Expenditure	**16,012**	**16,487**
Financed by:		
Sale of Council Houses	689	743
Sale of Other Assets	612	305
Grants	1,203	1,129
Other Capital Receipts	178	414
Capital from Current Revenue	834	2,343
Borrowing	12,496	11,553
Total Financing	**16,012**	**16,487**

4. Assets Held Under Finance Leases

There were no assets held under finance leases during the year.

5. Debtors

		2000/2001	£'000	1999/2000	£'000
Arrears of Local Taxation	Council Tax	11,324		10,221	
	less: provision for bad debts	(9,256)		(7,842)	
			2,068		2,379
	Community Charge	8,060		8,270	
	less: provision for bad debts	(8,016)		(8,226)	
			44		44
	Non-domestic Rates	2,434		2,516	
	less: provision for bad debts	(1,972)		(1,853)	
			462		663
House Rents		373		202	
less: provision for bad debts		(272)		(144)	
			101		58
Debtor Accounts		3,866		4,228	
less: provision for bad debts		(813)		(1,015)	
			3,053		3,213
Government Grants					3,895
VAT Recoverable			1,417		1,789
Other Debtors			2,801		2794
Total Debtors			**9,946**		**14,835**

6. Analysis of Borrowing

6.1 Source of Loan

	31 March 2001 £'000	31 March 2000 £'000
Public Works Loan Board	187,819	185,910
Money Market	18,500	26,026
EIB	2,164	2,590
Other Loans	271	235
Total Outstanding Loans	**208,754**	**214,761**

6.2 Maturity of Loans

	31 March 2001 £'000	31 March 2000 £'000
Borrowings repayable on demand or within 12 months	1,095	29,765
Borrowings repayable on demand or within 12 months	**1,095**	**29,765**
1 - 2 years	1,292	1,048
2 - 5 years	2,714	3,959
6 - 10 years	1,409	16,291
Over 10 years	202,244	163,698
Total Long and Medium Term Loans	**207,659**	**184,996**
Total Outstanding Loans	**208,754**	**214,761**

7. Deferred Government Grants	£'000
Balance at 1 April 2000	**11,215**
Grants received during the year to finance capital projects	386
Credit to revenue account during the year	(488)
Balance at 31 March 2001	**11,113**

8. Analysis of Net Assets Employed

	As at 31 March 2001			
	General Fund £'000	HRA £'000	DSO/DLO's £'000	Total £'000
Assets				
Fixed Assets	235,423	63,290	-	298,713
Deferred Charges	-	-	-	-
Long Term Debtors	9,065	-	-	9,065
Stock and Work in Progress	199	-	979	1,178
Debtors	9,700	193	53	9,946
Cash at Bank and in Hand	1,885	-	-	1,885
Liabilities				
Short Term Borrowing	(1,139)	25	19	(1,095)
Creditors	(23,491)	(1,595)	(2,266)	(27,352)
Bank Overdraft	(2,891)	-	-	(2,891)
Long Term Borrowing	(161,934)	(45,652)	(73)	(207,659)
Deferred Covenant Liability	(399)	-	-	(399)
Government Grants Deferred	(11,113)	-	-	(11,113)
Total Net Assets Employed	**55,305**	**16,261**	**(1,288)**	**70,278**

9. Insurance Fund

An Insurance Fund has been established in accordance with the Local Government (Scotland) Act 1994. The balance at 31 March 2001 was £1.234m (1999/2000 - £1.178m). The fund represents contributions made from the General Fund and does not yet cover specific uninsured risks.

10. Contingent Gains and Liabilities

The Council has inherited a number of applications for equal pay at various stages of completion at Industrial Tribunals. The final outcome of these applications is unknown at this time, although there is the possibility that the Council may lose at least some of these cases. No financial provision has been made in the 2000/2001 Accounts given the uncertainties which surround both the final outcomes and the settlement levels.

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

11. Provisions

Liabilities have continued to arise in respect of the former Strathclyde Regional Council's operations. Cost sharing arrangements are in place with the other eleven authorities which make up the former Strathclyde Region. Argyll and Bute Council's share of liabilities which materialise in the future will be approximately 4%. At present, potential liabilities in respect of insurance claims and various legal actions could cost the Council £0.332m. Full provision for this amount has been made.

A provision in respect of insurance claims and various legal actions from the former Strathclyde Regional Council was set up during the 1999/2000 financial year, this was adjusted during 2000/01 to reflect the overall movement in the claims position during the year. This provision complies with the requirements of FRS 12 (Financial Reporting Standard 12 - Provisions, Contingent Liabilities and Contingent Assets) and meets the following criteria:

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

	£'000
Opening Balance	(364)
Movement in the Year	32
Closing Balance	(332)

12. Commitments Under Capital Contracts

At 31 March 2001, the Council had commitments on capital contracts of £8.272m. This expenditure will be funded from a combination of government capital consent (borrowing), income from selling assets and contributions from Revenue Accounts.

	£'000
Administration Buildings and Equipment	494
Information Technology	124
Development and Environment Services	984
Education	2,476
Social Work	279
Roads	1,080
Housing	2,436
Flood Prevention	292
Miscellaenous	107
	8,272

13. The Castle Trust

Argyll and Bute Council, East Renfrewshire Council and Glasgow City Council have entered a joint venture to operate the two educational outdoor centres at Ardentinny and Castle Toward.

14. Trust Funds and Other Third Party Funds

The Council acts as sole or custodian trustee for 76 trust funds and 6 common good funds. In neither case do the funds represent assets of the Council, and as such have not been included in the Consolidated Balance Sheet. The funds have not been subject to an independent audit.

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

	Income £'000	Expenditure £'000	Assets £'000	Liabilities £'000
Campbeltown Common Good Fund	33	19	426	426
Oban Common Good Fund	58	44	730	730
Inveraray Common Good Fund	-	-	1	1
Lochgilphead Common Good Fund	-	-	5	5
Dunoon Common Good Fund	-	-	8	8
Rothesay Common Good Fund	7	2	98	98
Argyll Education Trust	18	9	193	193
GM Duncan Trust	4	5	72	72
McDougall Trust	24	8	426	426
Moore's Mortification Fund	5	-	100	100
Various Other Trust Funds	22	3	357	357
Total Trust Funds	**171**	**90**	**2,416**	**2,416**

Purpose of Common Good Funds:

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

Purpose of Trust Funds:

GM Duncan Trust: for the provision of fuel, clothing and foodstuffs for the needy of Campbeltown. McDougall Trust: for the provision of sheltered housing on the Ross of Mull. Moore's Mortification Fund: to provide benefits to the needy of that part of the Parish of Cardross lying between Auchentroe and Keppoch. Argyll Education Trust: this is made up of a number of small trusts to award prizes, bursaries, etc. to pupils and ex pupils of schools within the former Argyll County Council area. Further information on the Common Good and Trust Funds, administered by Argyll and Bute Council, can be obtained from the Treasury Section of the Finance Department.

15. European Monetary Union

As at 31 March 2001, the Council had incurred no expenditure and had made no commitments in respect of the costs associated with the introduction of the Euro. Prior to entry into full Euro trading, a significant review of all systems will require to be undertaken. Consequently an estimate of costs is not available at this stage.

STATEMENT OF MOVEMENT ON RESERVES for the year ended 31 March 2001

	CAPITAL RESERVES			REVENUE RESERVES			
	Fixed Asset Restatement Reserve	Capital Financing Reserve	Earmarked Reserves	General Fund	Housing Revenue Account	DLO/DSO	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 April 2000	60,836	39,748	3,369	332	2,192	103	106,580
Net surplus/(deficit) for year				(611)	(383)	389	(605)
Unrealised (gains)/loss, from revaluation of fixed assets	20,055						20,055
Interest			194		128	5	327
Contribution (to) / from General Fund		(9,614)	89	364	(364)	(389)	(9,914)
Contribution (to) / from HRA		700					700
Capital Discharged on House Loans		(111)					(111)
Net Book Value of assets disposed of	(1,696)						(1,696)
Capital Receipts Applied		3,561					3,561
Expenditure			(757)				(757)
Write off Deferred Charges at 1 April 2000		(43,562)					(43,562)
Expenditure not through Fixed Asset Register	(4,300)						(4,300)
Balance at 31 March 2001	74,895	(9,278)	2,895	85	1,573	108	70,278

NOTES TO THE STATEMENT OF MOVEMENT OF RESERVES

1. Fixed Asset Restatement Reserve

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

2. Capital Financing Reserve

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

3. Earmarked Reserves

	Balance at 1 April 2000	Contributions	Interest	Appropriation to CRA	Balance at 31 March 2001
	£'000	£'000	£'000	£'000	£'000
Education Reserves	353	89	19	(119)	342
Repairs and Renewals - Vehicles	552		32		584
Repairs and Renewals - General	1,205		70	(626)	649
Insurance Fund	1,178		68	(12)	1,234
DLO Capital Fund	81		5		86
Total Earmarked Reserves	3,369	89	194	(757)	2,895

4. Revenue Reserves

Revenue reserves are made up of the annual movements in the Consolidated Revenue Account, Housing Revenue Account and the DSO/DLO Appropriation Account. The Housing Revenue Account reserves carried forward are ring-fenced and as such can only be used for the benefit of Council House Tenants. Revenue reserves can be used to meet both capital and revenue expenditure.

CONSOLIDATED CASH FLOW STATEMENT for the year ended 31 March 2001

1999/2000 Actual £'000		Note	2000/01 Actual £'000
	REVENUE ACTIVITIES		
	Cash outflows		
83,742	Cash Paid for and on Behalf of Employees		87,151
74,076	Other Operating Cash Payments		65,866
4,757	Housing Benefit Paid Out		6,460
1,804	National Non-domestic Rate Payments to National Pool		
164,379	**Total Cash Outflows**		**159,477**
	Cash inflows		
6,672	Rents (after rebates)		6,949
26,094	Council Tax Income		28,717
25,424	Non-domestic Rate Receipts		30,014
314	Community Charge		191
76,818	Revenue Support Grant		75,852
16,734	DSS Grants for Benefits		17,531
5,107	Other Government Grants	1	6,865
19,630	Cash Received for Goods and Services		16,291
	National Non-domestic Rate Receipts from National Pool		7,393
5,058	Other Operating Cash Receipts		5,536
181,851	**Total Cash Inflows**		**195,339**
17,472	**Net Cash Inflow / (Outflow) From Revenue Activities**	2	**35,862**
	SERVICING OF FINANCE		
	Cash outflows		
16,760	Interest paid		22,561
16,760	**Total Cash Outflows**		**22,561**
	Cash inflows		
41	Interest received		107
41	**Total Cash Inflows**		**107**
(16,719)	**Net Cash Inflow / (Outflow) From Servicing of Finance**		**(22,454)**
	CAPITAL ACTIVITIES		
	Cash outflows		
3,814	Purchase of Fixed Assets		5,525
8,800	Other Capital Cash Payments		5,456
12,614	**Total Cash Outflows**		**10,981**
	Cash Inflows		
2,954	Sale of Fixed Assets		2,959
1,025	Capital Grants Received		1,008
878	Other Capital Cash Receipts		127
4,857	**Total Cash Inflows**		**4,094**
(7,757)	**Cash Inflow (Outflow) From Capital**		**(6,887)**
(7,004)	**Net Cash Inflow / (Outflow) Before Financing**		**6,521**
	FINANCING		
	Cash outflows		
183,783	Repayments of Amounts Borrowed		101,470
183,783	**Total Cash Outflows**		**101,470**
	Cash Inflows		
190,533	New Loans Raised		95,463
190,533	**Total Cash Inflows**		**95,463**
6,750	**Net Cash Inflow / (Outflow) From Financing**		**(6,007)**
(254)	**(Decrease) / Increase in Cash and Cash Equivalents**	3	**514**

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

1. Other Government Grants

1999/2000 £'000		2000/01 £'000
211	Housing Support Grant	93
239	Rural Transport Grant	253
2,094	Pre School Education Grants	2,475
258	Gaelic Education Grants	258
2,160	Other Educational Grants (e.g. Excellence Fund)	3,540
145	Other Grants (e.g. Civil Defence)	246
5,107	**Total "Other Government Grants"**	**6,865**

2. Net Cash Flow Reconciliation

1999/2000 £'000		2000/01 £'000
(1,764)	Surplus/(Deficit) for Year	(611)
(1,106)	Add back: Transfer to HRA Balance	(383)
(2,870)		**(994)**
257	Movements in Reserves	(469)
22,926	Adjustments Not Involving Movement in Funds	21,786
492	(Increase)/Decrease in Stocks	(20)
(774)	(Increase)/Decrease in Debtors	4,937
(4,259)	Increase/(Decrease in Creditors)	10,622
15,772	**Revenue Activities Net Cash Flow**	**35,862**

3. Analysis of Net Debt

	As at 31 March 2001 £'000	As at 1 April 2000 £'000	Cash Flow £'000
Cash at Bank and in Hand	1,885	795	1,090
Bank Overdraft	(2,891)	(2,315)	(576)
Increase in Cash and Cash Equivalents	**(1,006)**	**(1,520)**	**514**
Debt due within one year	(1,095)	(29,765)	28,670
Debt due after one year	(207,659)	(184,996)	(22,663)
Total Debt	**(208,754)**	**(214,761)**	**6,007**
Total	**(209,760)**	**(216,281)**	**6,521**

4. Reconciliation of Movement in Cash to Net Debt

1999/2000 £'000		2000/01 £'000
(254)	Increase / (Decrease) in Cash in Period	514
(6,750)	Increase / (Decrease) in Debt Financing	6,007
(7,004)	**Movement in Debt in Period**	**6,521**
(209,277)	Net Debt as at 1 April 2000	(216,281)
(216,281)	**Net Debt as at 1 April 2001**	**(209,760)**

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AUDIT CERTIFICATE TO THE MEMBERS OF ARGYLL AND BUTE COUNCIL AND THE ACCOUNTS COMMISSION FOR SCOTLAND

1. As auditors, appointed under statute by the Accounts Commission for Scotland, we have audited the accounts of Argyll and Bute Council for the year ended 31 March 2001, an abstract of which is set out on pages 5 to 26.

Respective responsibilities of management and auditors in relation to the accounts

2. As stated on page 5, the management of Argyll and Bute Council is responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on the abstract of accounts and to report that opinion to you.

Basis of opinion

3. We have conducted our audit in accordance with the requirements of Part VII of the Local Government (Scotland) Act 1973 and of the Code of Audit Practice approved by the Commission. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by management in the preparation of the accounts and of whether the accounting policies are appropriate to Argyll and Bute Council's circumstances, consistently applied and adequately disclosed.

4. We planned and performed our audit of the accounts so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

5. In our opinion, the abstract of accounts presents fairly, in accordance with the accounting policies set out on pages 6 to 7, the financial position of Argyll and Bute Council as at 31 March 2001 and its income and expenditure for the year then ended.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Glasgow
20 September 2001

ARGYLL & BUTE COUNCIL

Argyll
Bute
COUNCIL

FINAL REPORT TO MEMBERS 2000/2001

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The Controller of Audit
Accounts Commission for Scotland
18 George Street
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EH2 2QU

20 September 2001

Ladies and Gentlemen

Final Report to Members 2000/2001

We have completed our audit of Argyll & Bute Council (the "Council") accounts for the year ended 31 March 2001.

The Final Report is primarily designed to direct your attention to matters of significance that have arisen out of the 2000/2001 audit process and to confirm what action has been agreed with management to address the areas of concern which have been identified.

Our statutory duties as your external auditor are contained within the Local Government (Scotland) Act 1973 as amended by the NHS and Community Care Act 1990. These duties and the responsibilities which are derived from them are contained in greater detail within the Code of Audit Practice which has been approved and issued by the Accounts Commission for Scotland. Section 1 and Appendix 2 of the report outline our key responsibilities and the responsibilities of management in this regard.

The matters dealt with in this Final Report came to our notice during the conduct of our normal audit procedures, which we carried out in accordance with the framework and principles embodied within the Code. It is emphasised that the Final Report should not be interpreted as providing legal or other advice to the Council or any other party.

We would like to take this opportunity to offer our thanks to those members of management and staff who have assisted us during the course of the audit.

Yours faithfully

PricewaterhouseCoopers

PricewaterhouseCoopers

CONTENTS

EXECUTIVE SUMMARY

The Final Report is designed to direct your attention to matters of significance that have arisen out of the 2000/2001 audit process and to confirm action agreed with management to address any areas of concern which have been identified. **It is important that members consider the detailed comments within the Report and do not rely solely on the Executive Summary.**

EXECUTIVE SUMMARY	PAGE
Audit Opinions	
• Our certificate on the Council's financial statements for the year ended 31 March 2001 is unqualified.	6
• We note that all DLO/DSO operations have achieved the financial objective of break even.	6
Financial Statements	
• The outturn on the Consolidated Revenue Account was a deficit for the year of £611,000 and, in addition, the Council transferred £364,000 from the Housing Revenue Account Reserves and utilised a substantial proportion of brought forward General Fund Reserves to cover the deficit. As a result, an accumulated surplus of £85,000 is being carried forward to 2001/02.	7
• We note that a number of variances arising were not evident until fairly late in the financial year and we understand that the Council is currently undertaking an overall review of the individual service department budget setting and budget monitoring processes. Effective budgetary control procedures will become even more important in 2001/02 in view of the small level of general fund surplus carried forward and available to offset against any potential future overspends.	8
• The financial statements and supporting schedules were presented to us for audit within the agreed timetable and were appropriate in terms of clarity and completeness. As in previous years, we have continued to note an improvement in the working papers provided to us by the Council during the course of the audit. This year we are particularly pleased to note that detailed plans were prepared by the finance department which assisted in the timely preparation of the accounts and our audit.	10

EXECUTIVE SUMMARY (CONTINUED)

EXECUTIVE SUMMARY	PAGE
Financial Statements (Continued)	
• The Council identified two asset impairments, in accordance with FRS 11 "Impairment of Fixed Assets and Goodwill". These related to: – Hermitage Academy, where the carrying value was reduced by £6.1 million; and – Campbeltown Swimming Pool, where the carrying value was reduced by £0.5 million. We are satisfied that these reductions in value are in compliance with accounting standards.	10
• In 1999/2000 we reported that the Council had appointed Enviros Aspinwall to perform a specialist valuation of the waste management landfill sites as part of the Public Private Partnership ("PPP") proposal. At that time they identified that significant costs would be required to be incurred to bring the sites up to required environmental standards. While the current estimate of these environmental improvement costs remain significant, the liability for the costs has largely been transferred to the PPP contractor who will assume responsibility for these sites, under the terms of an agreement signed in September 2001. As the liability is no longer likely to be met by the Council, no provision for these environmental clean up costs has been made in the Council's accounts. Under the PPP arrangement, the Council retains an element of residual responsibility in respect of specific environmental rectification which may be necessary in certain circumstances. Management believe that such costs as may arise will be met by grant funding and the matter is disclosed as a contingent liability in the notes to the accounts.	11
• Further details of our findings arising from work on the financial statements are included within Section III.	
Financial Systems and Internal Control Environment	
• During 2000/2001 we have issued two Interim Management Letters which contained a number of control matters for attention of management.	16
• In addition to these letters, we have specifically reviewed the Council's arrangements in respect of internal audit, budget setting and control and reconciliation arrangements during the year. Further details arising from our work on systems are detailed in Section IV.	

EXECUTIVE SUMMARY (CONTINUED)

EXECUTIVE SUMMARY	PAGE
Best Value	
• Our Best Value programme comprised reviewing the Performance Management and Planning framework of the following services : – Personnel Department - Health and Safety; – Transportation and Property Services Department - Transport Services; and, – Corporate and Legal - Registration Services.	22
• Findings relating to these reviews are included in Section V.	
Value for Money	
• The following value for money studies were undertaken during the year : – Review of internal audit, and; – Education Property Risk Management	25
• Findings relating to these reviews are included in Section VI.	
Performance Indicators	
• We have considered and reported upon the general standard of the Council's arrangements for collecting and reporting statutory performance indicators. A number of indicators in the following areas did not meet the specified requirements: – Benefits administration - Gross administration costs; – Benefits administration - Applicants processed within required time; – Housing - Response repairs; – Libraries - Stock turnover; – Libraries - Use of libraries; – Roads and Lighting -Traffic light repairs response; – Roads and Lighting - Street light repairs response; – Social Work - Respite Care; – Social Work - Criminal Justice - Social inquiry reports; – Social Work - Criminal Justice - Probation; and – Social Work - Criminal Justice - Community Service.	30
• Management should take corrective action to ensure that these indicators meet the specified requirements in future years.	
• Our overall findings are included in Section VII.	

EXECUTIVE SUMMARY (CONTINUED)

EXECUTIVE SUMMARY	PAGE
Legal Matters	
• Through discussions with management, reviewing Council minutes and noting the role of the Monitoring Officer, we have endeavoured to keep under review the legality of transactions or events that have a significant financial consequence.	32
• The Council's Public Private Partnership with Shanks Group plc for waste management within Argyll and Bute was signed in September 2001. The Council has received an opinion from independent financial advisers that the PPP transaction can be accounted for off balance sheet. As part of our audit work we have reviewed this opinion and concur that it appears appropriate.	
• Findings relating to our review of legal matters are included in Section VII.	
Conclusion	
• Matters raised in this Final Report have been discussed previously with executive management. Our two Interim Management Letters and this Final Report to Members are supported with management action plans and we recommend that these should be monitored formally by Management and by Members through the new Audit Committee process to ensure that agreed action will be implemented within the agreed timescales.	

SECTION I - PUBLIC SECTOR AUDIT

The Nature of Public Sector Audit

1.01 It is generally acknowledged that Public Sector Audit involves a wider public interest dimension to the audit of public funds. There is therefore a reasonable public expectation that the Council expends its funds only for duly authorised purposes, there is a high standard of probity and resources are applied to best effect.

1.02
- These matters are reflected in the areas of audit focus which are outlined in the Accounts Commission's Code of Audit Practice (The Code). This includes the need for a public sector auditor to place an audit certificate on the financial statements (Section II of this report) and to consider the adequacy of the Council's internal financial controls (Section III), as well as considering the arrangements the Council has in place for:

- The implementation of a Best Value ethos throughout the Council's operations (Section IV);
- The collection, recording and publishing of prescribed performance data (Section V);
- Securing economy, efficiency, and effectiveness in its use of resources (Section VI); and
- Ensuring the legality of significant transactions or events with a financial consequence.

1.03 Within Appendix 2, we have noted in greater detail the respective duties of management and external audit in relation to the areas of audit focus noted above.

SECTION II – AUDIT OPINIONS

Accounting Code of Practice

2.01 Under the terms of our appointment as auditors to the Council we are required to issue two specific audit opinions.

Audit Certificate on the Annual Accounts

2.02 The Local Government (Scotland) Act 1973 requires that, following the completion of an audit, the auditors shall place on the abstract of accounts a certificate which sets out the basis on which they have formed their audit opinion.

2.03 This is our opinion on the accounts which states :

- that the audit has been conducted in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Code of Audit Practice;
- the respective responsibility of management and auditors in relation to the accounts; and
- whether, in our opinion, the accounts present fairly the financial position of the Council as at 31 March 2001.

2.04 **Our audit certificate for the year ended 31 March 2001, which is in the format prescribed by the Accounts Commission, is unqualified.**

Audit Certificate on the Annual Accounts of the DLOs/DSOs

2.05 We are required to provide an opinion on the statements contained within the Annual Report for the Council's Direct Labour and Direct Service Organisations. Scottish Office Circular (8/96) issued in March 1996 amended the required financial objective from a 6% rate of return on capital employed to the achievement of a break even position.

2.06 We note that all DLO/DSO operations have achieved the required financial objective of break even and, as a result, our audit opinions are unqualified.

SECTION III – FINANCIAL STATEMENTS

Basis of Preparation of Annual Accounts/Financial Statements

3.01 The Council's financial statements need to comply with the Code of Practice on Local Authority Accounting in Great Britain, a Statement of Recommended Practice ("the SORP"). This is in accordance with the Scottish Office circular 5/1985 which indicates that local authorities should follow recommendations made by LASAAC regarding the form of accounts and accounting practice.

Audit Adjustments to the Financial Statements

3.02 As a result of our audit work, adjustments to the format of and figures within the financial statements were made in respect of the following principal items :

- Movement of £162,000 between the bank and creditors' balances per the Council's year end reconcilation (paragraph 4.09);
- Adjustment of £700,000 to the housing revenue account (HRA) disclosure for "capital funded from current revenue". The SORP requires that capital funded from current revenue should be included under expenditure in the HRA with the corresponding entry being made through the General Fund capital financing reserve; and
- Adjustment of £757,000 to the consolidated revenue account to include the gross income and gross expenditure for approved projects financed by funds and earmarked reserves.

These adjustments reclassify items within the accounts and do not impact the results of the CRA and HRA.

Financial Performance 2000/2001

3.03 The outturn on the Consolidated Revenue Account was a deficit for the year of £611,000 and, in addition, the Council transferred £364,000 from the Housing Revenue Account reserves and utilised a substantial proportion of brought forward General Fund Reserves to cover the deficit. As a result, an accumulated surplus of £85,000 is being carried forward to 2001/02.

SECTION III – FINANCIAL STATEMENTS (CONTINUED)

Financial Performance 2000/2001 (Continued)

3.04 The movements from original budget are analysed as follows:

	£'000	£'000
Original forecast budget deficit		
(to be funded from brought forward surplus)		(351)
Supplementary estimate re: feasibility study for Education project		(110)
Revised forecast budget		(461)
Increased income from:		
Savings in loan charges	800	
Collection of Council tax and community charge	150	
Contribution by DLO/DSOs	389	
Underspend on projects funded by Special Islands Needs Award	468	
Other	39	
	1,846	
Increased expenditure from:		
Education services	1,164	
Transport and property services	529	
Foot and mouth precautionary measures	132	
Reduction in central support allocation to HRA	171	
	1,996	(150)
Actual reported deficit		(611)

3.05 The unbudgeted expenditure incurred by both the Education Department and Transport and Property Services was not fully anticipated until relatively late in the financial year. At February 2001 the Education service had forecast a projected variance of £518,000 compared to a final outturn of £1,161,000 for the year. This eventual overspend has been reported to the Strategic Policy Committee as being attributable to the following principal headings:

	£'000
Catering, cleaning and janitorial costs	272
New opportunities funds	112
School transport	376
Anticipated savings not achieved	417
Other	(13)
	1,164

SECTION III – FINANCIAL STATEMENTS (CONTINUED)

Financial Performance 2000/2001 (Continued)

3.06 At February 2001, the Transportation and Property Service had forecast a projected overspend of £446,000, compared to a final outturn of £529,000 for the year. This eventual overspend has been reported as being attributable to the following:

	£'000
Roads: salt and grit charges	122
Property services: employee costs and underbudgeting	154
Contract services: underbudgeting, operational deficits and unrecovered costs	253
	529

3.07 The extent of the adverse variances reported at the year end, and the significant increase in these variances between the February reporting cycle and the year end suggests that improvements in budgetary control are required. The need for these improvements is particularly important given the small level of General Fund surplus carried forward at 31 March 2001 which may be available for offset against any potential future deficits.

In our 1999/2000 report to members we made a number of recommendations on the council's budgetary control arrangements. In particular we recommended that:

- Management should seek to improve budget phasing for all areas of income and expenditure.
- Management should implement budget reporting variance analysis at a service level for cost inputs.
- Members and management should consider requesting a regular monitoring report from each of the service departments reporting their progress in implementing material savings initiatives.

We consider that limited progress has been made in 2000/01 in implementing these recommendations.

We note that the Council is currently undertaking an overall review of the individual service department budgets and budget monitoring processes. **Members should monitor management's progress in achieving improvements in the current budgeting system and consider recommendations arising from the review.**

Submission of Accounts

3.09 The Council was required to submit a copy of the Abstract of the Accounts to the Controller of Audit by 30 June 2001 and we were pleased to note that this target was achieved.

SECTION III – FINANCIAL STATEMENTS (CONTINUED)

Audit Process

3.10 The financial statements and supporting schedules were presented to us for audit within the agreed timetable. While a small number of areas within the statements did not originally comply fully with the requirements of the SORP, these were discussed with the Director of Finance and the majority amended. Areas of detailed non-compliance will be reported in our final management letter.

3.11 The target date set by the Accounts Commission for the completion of the audit was 30 September 2001 which was achieved.

3.12 As in previous years, we have continued to note an improvement in the working papers provided to us by the Council during the course of the audit. This year we are particularly pleased to report that detailed plans were prepared by the finance department which assisted in the timely preparation of the accounts and our audit.

3.13 We are grateful for the time and assistance made available by the Director of Finance and his staff during the audit process.

Application of FRS 11 – Impairment of Fixed Assets and Goodwill

3.14 Financial Reporting Standard "FRS 11 – Impairment of Fixed Assets and Goodwill" is intended to ensure that fixed assets are recorded in the balance sheet at no more than their recoverable amount. An impairment of a fixed asset occurs due to an event which reduces the value of the fixed asset.

3.15 During 2000/2001 the Council has identified two asset impairments during the financial year. These relate to Hermitage Academy (£6,071,112), and Campbeltown swimming pool (£511,326).

3.16 Both of these impairments were deemed to reflect a general fall in the economic benefit of the asset. Hermitage Academy was identified as impaired after an independent structural survey which followed complaints from concerned parents and staff, and Campbeltown swimming pool was closed following the identification of structural defects and the presence of asbestos materials within the building.

3.17 In accordance with FRS 11 these impairments have been recognised as an expense in the service revenue accounts, and have also been reflected in the asset management revenue account to avoid the need for the impairment costs to be met by council tax payers.

3.18 In 1999/2000 an asset revaluation was undertaken by the Council's Estates department. This resulted in an uplift of £1.9 million to the valuation of Hermitage Academy. This year, following the independent structural survey and revaluation, an impairment of £6.1 million has been recognised. **Management should reconsider the procedures for obtaining rolling revaluations and identifying impairments, with a view to minimising fluctuations in asset values from one year to the next.**

SECTION III - FINANCIAL STATEMENTS (CONTINUED)

Application of FRS 12 – Provisions, contingent liabilities and contingent assets

3.19 Financial Reporting Standard "FRS 12 – Provisions, contingent liabilities and contingent assets requires that appropriate recognition criteria are applied to provisions and contingent assets and liabilities and that the disclosure enables users of the accounts to understand the nature, timing and amount of such items. A provision should only be recognised when there is :

- a present obligation arising from a past event;
- probability that a transfer of economic benefits will be required to settle the obligation; and
- probability that a reliable estimate can be made of the amount of the obligation. FRS12 tightens the rules for the creation of provisions, contingent liabilities and contingent assets by applying more rigorous criteria.

3.20 The Council has made provision in 1999/2000 in respect of insurance claims and legal actions relating back to the former Strathclyde Regional Council. Glasgow City Council advised the Council during 1999/2000 of these liabilities, and have provided supporting details for expenditure against the provision arising during 2000/2001. The value of the closing provision is £0.33m and we are satisfied that this provision complies with FRS 12.

3.21 In 1999/2000 we reported that the Council had appointed Enviros Aspinwall to perform a specialist valuation of the waste management landfill sites as part of the Public Private Partnership (PPP) proposal. At that time they identified that significant costs would need to be incurred to bring the land up to the required environmental standards. Following the signature of the waste management PPP contract with Shanks Group plc in September 2001, the potential liability for the environmental costs has been largely assumed by the PPP contractor. The Council has assumed that the estimate of costs not covered by the contractor will be funded by the Council. This has been disclosed as a contingent liability in the accounts.

SECTION III – FINANCIAL STATEMENTS (CONTINUED)

Application of FRS15 – Tangible Fixed Assets

3.22 "FRS 15- Tangible Fixed Assets" has a significant impact on the way that the Council accounts for its fixed assets and results in the Council's accounts moving more into line with Generally Accepted Accounting Practice ("GAAP").

3.23 The main difference between GAAP and previous practice related to the treatment of depreciation. The most immediate impact is that Local Authorities are no longer able to use the argument that, as fixed assets are regularly repaired and maintained, no depreciation needs to be charged on fixed assets.

3.24 We have noted that the Council has applied depreciation across their Building Assets for the first time during 2000/01, the in-house valuer having attributed useful economic lives to these assets to comply with the standard. Building depreciation recorded in the consolidated revenue account has increased by £3.6 million. While the introduction of FRS 15 will increase the total depreciation charge in a local authorities accounts, the accounting is such that charges do not result in higher expenditure that has to be met by council taxpayers.

Revaluation of Assets

3.25 The current system of local authority capital accounting was implemented from 1 April 1994. As part of this process all assets included on the balance sheet are required to be formally revalued at least every five years.

3.26 In recognition of this, the Council has commenced a rolling programme of revaluations during 1999/2000 continuing this exercise through the financial year 2000/2001 and forward into 2001/2002.

3.27 During 1999/2000 the Council revalued 82% by value of its fixed asset balance as at 1 April 1999. This consisted of two main exercises performed by the District Valuer and the Council's own estates department, both in accordance with the Statement of Asset Valuation Practice and Guidance Notes of the Royal Institute of Chartered Surveyors.

3.28 This exercise has been extended during the 2000/2001 financial year, to date the District Valuer has valued the Council housing stock, and the Council's estates department has revalued other properties including non-operational properties. Of these, the Council opted to revalue those classified as 'major' properties, i.e. those with a book value in excess of £1 million during 1999/2000, extending this to include primary schools and other non-operational properties during 2000/2001. This has resulted in £44.5 million (125 properties) being subject to valuation during the year.

SECTION III – FINANCIAL STATEMENTS (CONTINUED)

Revaluation of Assets (Continued)

3.29 As a result, there remains approximately £38.8 million of the Council's property and land (401 properties) which have not been revalued within the last five years. While the Council has not yet achieved full compliance with local authority capital accounting guidance, we understand that formal plans are in place to address the outstanding revaluations during 2001/02. **Management and Members should ensure that the rolling programme of fixed asset revaluations is completed as soon as practical and that, in future, all assets are revalued at least every five years.**

Fixed Asset Register

3.30 Our audit tests have identified a number of assets in the fixed asset register with nil book value, which are not in the Council's ownership. **An exercise to identify and remove these assets from the register should be undertaken as soon as possible.**

3.31 Non-operational assets are disclosed in the March 2001 accounts at a carrying value of £15.5 million. This figure includes £6.8 million in respect of two outdoor centres leased to independent operators. **We consider these assets should be included as operational assets subject to depreciation and an adjustment should be made to correct this classification next year.**

FRS 17 – Retirement Benefits

3.32 The Accounting Standards Board published FRS 17 - Retirement Benefits on 30 November 2000. The standard introduces a completely different methodology of accounting for pension costs and obligations for employers that operate defined benefit pension schemes. Up to and including 2000/2001 the SORP has required pension benefits to be accounted for in revenue accounts on the basis of contributions payable to pension schemes for that year, plus the amounts of benefits payable to pensioners in the year in relation to pay as you go elements.

3.33 The new accounting model for defined benefit schemes in FRS 17 approaches pension cost accounting from a balance sheet perspective. It works on the premise that a surplus or deficit in a pension scheme (measured with reference to the fair values of the scheme assets and liabilities) should be shown on the employer's balance sheet. The overall figures in the performance statements reflect the changes in those fair values year on year. For many organisations this is expected to make material difference to reported surpluses.

3.34 The Council make contributions on behalf of employees into the former Strathclyde Pension Fund which is administered by Glasgow City Council, and also the Teachers Pension Fund administered by the Scottish Public Pensions Agency. Both of these funds provide members of the fund with defined benefits related to pay and service. The Council will therefore be required to comply with the requirements of FRS 17.

SECTION III – FINANCIAL STATEMENTS (CONTINUED)

FRS 17 – Retirement Benefits (Continued)

3.35 The publication of FRS 17 has given a new impetus to resolving the differences between the SORP and UK GAAP for pension cost accounting. The standard has a long implementation period and the new figures do not need to be recognised in the financial statements until the year ending 31 March 2004. However for organisations that defer implementing FRS 17 until it becomes mandatory, progressive footnote disclosures are required for the following:

- For the amounts ended 31 March 2002 – disclosure relating to the closing balance sheet amounts that would be recognised under the accounting requirements of the FRS; and
- For the year ended 31 March 2003 – disclosure relating to opening and closing balance sheet amounts, together with profit and loss and statement of total recognised gains and losses amounts that would be recognised under the accounting requirements of the FRS.

3.36 **Management should ensure that procedures are implemented in readiness for the application of the Financial Reporting Standard 17 – Retirement Benefits in future years.**

Best Value Accounting

3.37 The 2000/2001 SORP adopts best value accounting, through the implementation of Section 2 of the Best Value Accounting Code of Practice. The Best Value regime should have a substantial and direct impact on authorities, with consequent changes in the way in which the statement of accounts is complied with, and the additional information that should be included therein.

3.38 The most notable changes to the abstract of accounts are as follows:

- Net cost of services to include Specific Grant Income;
- New line of "Unapportioned Central Overheads"; and
- New line of "Corporate and Democratic Core".

3.39 It would appear from our testing that the Council has complied with the revised requirements arising from the Best Value Accounting Code of Practice. The 2000/2001 consolidated revenue account has adopted the revised disclosure requirements, with the exception of disclosing a line relating to 'unapportioned central overhead'. The Council undertook a review of the basis of their overhead charges during 2000/2001, revising the basis of their charges. They have therefore assessed that there are no unapportioned overheads within the 2000/2001 abstract of accounts.

SECTION III – FINANCIAL STATEMENTS (CONTINUED)

Central Support Recharges

3.40 The Council apportions the central administration costs to individual service departments in an effort to reflect the full cost of providing the service. We reported in 1999/2000 that the structure of both service and central administration departments had changed significantly during the past few years and we recommended that management, in light of these changes, should reconsider the basis of allocating central administration costs.

3.41 This exercise was commenced through 1999/2000, and work continued on the basis of apportionment through 2000/2001, with the model being applied to the 2000/2001 abstract of accounts.

3.42 Our review of the new allocation process, which is based on a number of spreadsheets, concludes that it appears to be labour intensive to apportion the service department costs in line with the agreed service level agreements. **Consideration should be given to automating this process further, improving the timely allocation of overhead charges through the 2001/2002 financial year.**

SECTION IV – FINANCIAL SYSTEMS AND INTERNAL CONTROL FRAMEWORK

Overview

4.01 We have discharged our audit responsibility in this area, principally by reviewing the monitoring, application and certain computer controls in the main financial systems and assessing the effectiveness of internal audit .

Interim Management Letters and Follow Up of Previous Final Report

4.02 As part of our normal audit process for 2000/2001, we have submitted previously two Management Letters. These letters identified recommendations for improvements in financial controls and accounting and processing systems which were operating within the Council. Only the more significant of these recommendations require to be brought to the attention of Members and these are detailed in the following paragraphs.

4.03 We also identified that management had not yet fully implemented all of the agreed recommendations made in our 1999/2000 Final Report to Members. Of the 19 recommendations, 14 had been actioned for implementation at the year end, with the remaining 5 due to be addressed during 2001/2002.

Budget Setting and Budgetary Control

4.04 In order to properly review and manage the operations of the Council, it is essential that a comprehensive budgetary control system is in place. This system should ensure that timely reporting of financial performance takes place at all levels and action is taken to investigate and act on variations from budget. Budget holders should receive timely and accurate information to allow this. As part of our audit, we ascertain and assess the operation of the Council's budget setting and budgetary control arrangements. Our comments below relate to our findings prior to the year end.

4.05 As in 1999/2000 we noted that the Council's monthly budgetary control reports included a comparison between the actual expenditure to date and budgeted expenditure to date. In our Interim Management Letter we made a number of recommendations that could be further developed and may improve current budget monitoring.

4.06 In particular, at the time of our review (November 2000) we noted that the Transport and Property DSO had only reported on unfavourable variances, and that the Education Department's committee finance report had only explained the total variance when this appeared to relate to variances across a number of budget lines.

4.07 In addition we also noted that there was no formal reporting of the variances arising from the Corporate and Democratic Core. **Members should monitor management's progress in implementing the recommendations made to improve both the level of financial information provided to members, and the formal documentation of actions arising from financial investigations.**

SECTION IV – FINANCIAL SYSTEMS AND INTERNAL CONTROL FRAMEWORK (CONTINUED)

Bank Reconciliations

4.08 Since 1998/99 the Finance Department has made considerable efforts to improve monthly bank reconciliation processes. This was noted in our 1999/2000 Final Report to Members, and during 2000/2001 we have continued to observe an improvement in the reconciliation process with guidance notes on the reconciliations and a reconciliation pro-forma being rolled out during December 2000.

4.09 However, we noted the following in respect of the year end reconciliations of the Income and Housing Benefit bank accounts:

- an audit adjustment totalling £162,622, representing a movement between bank and creditor balances, was required at 31 March 2001. The impact of reconciling items on year end cut off should be formally monitored in future years;
- elements of the Housing benefit bank reconciliation were not supported with detailed back up until after audit enquiries. It was not initially clear, therefore, whether reconciliation had been achieved.

4.10 **We acknowledge the improvements made this year in the overall bank reconciliation processes and recommend that the issues identified above are addressed for 2001/2002.**

Financial Systems

4.11 We have evaluated significant systems and associated internal controls operating within the Council to help form our opinion on the statement of accounts and have provided management with our comments on these systems and controls in our Management Letters. In practice we cannot examine every financial activity and accounting procedure, and we cannot substitute for management's responsibility to maintain adequate systems of internal control. It therefore needs to be recognised that we may not have identified all control weaknesses that may exist.

SECTION IV – FINANCIAL SYSTEMS AND INTERNAL CONTROL FRAMEWORK (CONTINUED)

Financial Systems (Continued)

4.12 The main findings from our review were as follows :

- A number of key control weaknesses have been identified from our review of the Council's general computer controls, principally relating to the absence of documented procedures at a departmental level, the absence of a disaster recovery plan and weaknesses in the physical security of The Graham Williamson IT Centre. In addition we noted that formal change control procedures were not being followed, and recommended that the controls surrounding the security administration of Windows NT and Unix required to be strengthened.

- A number of routine control weaknesses have been identified from our review of the purchases and payables system, principally the absence of sufficient evidence of key reconciliations being performed, and limited formal review of reconciliations currently being undertaken.

- Controls surrounding security administration procedures need to be strengthened for the Roads and Transport costing system.

Arrangements designed to prevent Fraud and Corruption

4.13 To ensure proper stewardship of funds, it is essential that the Council has adequate arrangements in place to minimise the risk of fraud and corruption. These arrangements should include corporate policies in respect of the prevention of fraud and corruption on a Council wide basis as well as detailed controls at an operational level.

4.14 On a cyclical basis we seek assurance that certain policies and procedures exist within the Council relating to the prevention of fraud and corruption. We also rely on the detailed work performed by internal audit on the control environment. Specifically, during 2000/2001, we reviewed the work of internal audit and followed up recommendations made in previous year's management letters.

4.15 It is not our policy to repeat the findings of internal audit, but rather to raise with management additional matters that have come to our attention during the conduct of the audit.

SECTION IV – FINANCIAL SYSTEMS AND INTERNAL CONTROL FRAMEWORK (CONTINUED)

Arrangements designed to prevent Fraud and Corruption (Continued)

4.16 We must emphasise, however, that the responsibility for the prevention and detection of fraud or corruption lies with management and our work does not remove the possibility that fraud or corruption may have occurred and remained undetected.

4.17 The Council does not have formal arrangements in place to enable staff to raise concerns through a defined channel with assured confidentiality ("A Whistleblowing Policy"). The absence of such policies and procedures increases the risk of matters of fraud and corruption coming to light and not being properly dealt with, increasing the Council's exposure to adverse publicity and potential litigation. **We recommend that consideration should be given to implementing formal procedures for staff to raise their concerns over potential fraud and irregularity.**

4.18 In addition as part of our audit, we have submitted to the Accounts Commission fraud and corruption returns detailing instances of fraud during the year as notified to us by the Council. There were no matters reported on this return which we require to bring to the attention of Members.

Audit Committee

4.19 "Local Government Reorganisation and the Stewardship of Public Funds" published by the Accounts Commission encouraged councils to establish a mechanism incorporating the principles of Audit Committees. In a document published around the same time ("Corporate Governance A Framework for Public Service Bodies"), CIPFA also recommended that public service bodies should establish Audit Committees. A report of the Commission on Local Government and The Scottish Parliament has also commented on the advantages of an Audit Committee as a means of providing independent reassurance to councils and their electorate that resources are used properly and cost effectively.

4.20 We are pleased to note that the Audit Committee was established at the Council meeting of 29 June 2000 and met for the first time on 13 November 2000. It appears to us that the Audit Committee has addressed the appropriate areas in its first cycle of meetings.

4.21 **Audit Committee Members should continue to develop the role of the Audit Committee within the Council, monitoring Management's progress in the implementation of internal and external audit recommendations.**

SECTION IV – FINANCIAL SYSTEMS AND INTERNAL CONTROL FRAMEWORK (CONTINUED)

Internal Audit

4.22 As part of our normal audit approach, we have reviewed the work performed by the Council's Internal Audit function which is provided by the Council's in-house team. We considered this function from the main perspectives of audit planning, approach, execution and reporting.

4.23 Early in 2000/01, it was recognised that internal audit resources within the Council were likely to be insufficient to provide adequate coverage of financial systems and controls, sufficient to meet external audit expectations. With the agreement of the Council and Audit Scotland, we were asked to undertake additional audit work on systems and controls, both to provide assurance to the Council and for external audit reliance. As a result of the combined efforts of internal audit and ourselves, we consider that appropriate audit coverage of financial systems has been achieved in 2000/01.

4.24 We have carried out a review of Internal Audit under our value for money work conducted in the financial year, concentrating on the Council's arrangements for internal audit. The summary of our findings from this review are set out in Section VI – Value for Money.

4.25 In view of the value for money study findings and the temporary staffing arrangements during 2000/01, the Finance Department are currently undertaking a strategic review of Internal Audit service, and how they can deliver their annual operational plan on an ongoing basis. Professor Arthur Midwinter of Strathclyde University has conducted an independent review of the internal audit service and has presented his findings to the full Council.

4.26 **We understand that Members and Officers have already considered the options available to provide a sustainable Internal Audit Service. A partnership with a private sector provider has been identified as the preferred option and Members should monitor the early implementation of these arrangements.**

Section 19 of the Social Security Administration (Fraud) Act 1997

4.27 Section 19 of the Social Security Administration (Fraud) Act 1997, which requires claimants to supply National Insurance Numbers (NINOs) and evidence that these numbers were properly allocated to them was applied to Housing Benefit/Council Tax Benefit on 6 September 1999.

4.28 However, in order to ease authorities' application of Section 19, the DSS made provision for authorities to phase in the application of Section 19 for renewal cases only over a two year period. All new cases still had to comply with the requirements of Section 19 from 6 September 1999.

SECTION IV – FINANCIAL SYSTEMS AND INTERNAL CONTROL FRAMEWORK (CONTINUED)

Section 19 of the Social Security Administration (Fraud) Act 1997 (Continued)

4.29 The responsibility for ensuring that the correct Section 19 procedures are in place rests with local authority Housing Benefit/Council Tax Benefit management. Any benefit paid on claims made on or after 6 September 1999, where the necessary NINO information has not been collected, is an unlawful payment and therefore not eligible for subsidy.

4.30 In 1999/2000 we reported that the Council's compliance with Section 19 of the Social Security Administration (Fraud) Act 1997 would be reviewed through our detailed testing of the 1999/2000 Housing Benefit and Council Tax Benefit grant claim. This sample testing indicated that the Section 19 provisions had been applied to Council Tax Benefit, and we were advised that the Council would introduce compliance with the Act to Housing Benefit during 2000/2001. Sample testing of the 2000/2001 Benefit grant claim indicates that this has now been implemented.

SECTION V – BEST VALUE

Introduction

5.01 Best Value was introduced in Scotland in 1997, and a Best Value Task Force was established to develop the framework and timetable for implementing Best Value in Scottish councils. The Best Value Task Force included representatives of The Scottish Executive, the Convention of Scottish Local Authorities ("CoSLA") and the Accounts Commission.

5.02 As part of the auditor's statutory responsibilities, we are required to satisfy ourselves whether a local authority has in place appropriate management arrangements to secure value for money in its use of resources. With the introduction of the Best Value regime for councils, the Performance Management and Planning ("PMP") audit has been used to review the progress that councils are making in implementing the framework set out by the Best Value Task Force.

Performance Management and Planning Audit

5.03 In 2000/01, the PMP audit ("PMP2") has been carried out in accordance with guidance issued by Audit Scotland and has been applied at corporate level and within three services selected for review through agreement between the Council and ourselves. Separate reports have been prepared in respect of these corporate and service reviews.

5.04 A number of factors were considered in deciding on the service areas for review, including the organisational structure of the Council, the existence of a distinct service plan, clear management and reporting structures, the size of the service area and the scope of completed Best Value reviews. The following service areas were reviewed :

- Personnel Services - Health and Safety;
- Transportation and Property Services - Transport Services; and
- Corporate and Legal - Registration Services.

5.05 Each service area selected for audit was required to prepare a written submission that covered ten criteria grouped under the four PMP questions. This formed the basis for the audit.

SECTION V – BEST VALUE (CONTINUED)

Performance Management and Planning Audit (Continued)

5.06 The results of each service review are summarised below :

	Overall Assessment of Status		
	Health And Safety	**Transport Services**	**Registration Services**
Clear leadership for a Best Value approach is provided by elected members, the Service Head and the senior management team.	**A**	**B**	**B**
We understand the needs, expectations and priorities of all our stakeholders.	**A**	**B**	**B**
We carry out effective Best Value reviews.	**B**	**B**	**B**
We have detailed and realistic plans for achieving our goals.	**A**	**B**	**B**
We make best use of our people.	**A**	**C**	**B**
We make best use of our assets.	**A**	**C**	**B**
We have sound financial control and reporting.	**A**	**B**	**B**
We actively support continuous improvement.	**B**	**B**	**B**
We monitor and control our overall performance.	**B**	**B**	**B**
We have an effective approach to public performance reporting.	**A**	**B**	**C**

Key :

A Sound approaches are largely in place in line with Best Value expectations.

B Many elements of a sound approach are in place, but with scope for some improvements.

C A significant level of improvement is required and this is adequately recognised in the improvement actions.

D A significant level of improvement is required and this is <u>not</u> adequately recognised in the improvement actions.

5.07 The key issues identified from these reports are summarised below. **The Council should :**

- **develop a more structured framework for reporting to stakeholders and the public;**
- **develop a system of performance indicators to enable the Services' performance to be monitored;**
- **involve stakeholders in future Best Value reviews;**
- **develop and formalise benchmarking information with similar providers; and**
- **develop effective monitoring arrangements to enable management to progress Best Value within the Services.**

SECTION V – BEST VALUE

Performance Management and Planning Audit (Continued)

5.08 **Members should make themselves aware of those areas categorised C and seek regular updates to ensure management undertake the required corrective action to meet Best Value expectations.**

Prior Year Performance Management and Planning Audits

5.09 In 1999/2000, three service areas were selected for PMP audit ("PMP1") and each was required to prepare a written submission covering the PMP criteria. The written submissions focused primarily on the extent to which the services met the PMP criteria in 1999/2000 and resulted in the production of a list of planned improvements to the services' PMP framework.

5.10 One of the core criteria for Best Value is the achievement of continuous improvement and, as part of the PMP2 review, each service's progress in achieving the improvements agreed in PMP1 has been reviewed.

5.11 The PMP follow up review is intended to assess :

- the extent to which a PMP framework is in place; and
- whether improvement actions have been identified to address areas of weakness and what progress has been made in implementing planned improvement actions.

5.12 Separate reports have been produced in respect of the implementation of agreed improvement actions for Non-Domestic Rates, Sheltered Housing and Estates Management. **The key findings from these reports are as follows :**

- **develop and formalise benchmarking information with similar providers;**
- **implement a Performance Development Review programme for all staff;**
- **develop and report performance indicators to members; and**
- **arrange the development of clear evaluation criteria for assessing results of consultation exercises, identifying the required resources in advance and introducing SMART objectives to measure the success of each exercise.**

5.13 **Members should ensure that those actions agreed by Management in relation to our Best Value reviews are implemented.**

SECTION VI - VALUE FOR MONEY

Introduction

6.01 As part of our responsibilities under the Local Government (Scotland) Act 1973, we consider the overall arrangements that have been made by the Council for securing value for money (economy, efficiency and effectiveness) from its resources.

6.02 In terms of this responsibility, the following studies have been undertaken in relation to 2000/2001:

- Schools Property Risk Management;
- Review of Internal Audit; and
- Administration in Schools.

6.03 In addition, the following two studies from previous years are in the final stages of completion:

- Rent Arrears management; and
- Refuse Collection.

2000/2001 VFM Studies

Schools Property Risk Management

6.04 In January 1997, the Accounts Commission published *"a safer place: property risk management in schools" (" a safer place")*, reporting the findings of a national value for money study of property risks in schools. That report:

- Identified that crime is the major risk to school property; at that time, councils were losing some £12 million a year from property crime in schools;
- Encouraged councils to adopt a corporate commitment to risk management; and
- Set out a framework for action, making specific recommendations on how councils should reduce avoidable losses by taking steps to protect schools most vulnerable to property crime.

6.05 The study carried out in 2000/2001 follows up the 1997 study for Argyll and Bute Council, using the Accounts Commission template, providing an up to date picture of schools property crime, and reviewing the council's progress in implementing the recommendations from *"a safer place"*.

SECTION VI - VALUE FOR MONEY (CONTINUED)

Schools Property Risk Management (continued)

6.06 It was identified that Argyll and Bute Council has clearly implemented a significant proportion of the 1997 study's recommendations, and this may have contributed to the Council's success in reducing the level of property related crime. The national report indicates that the Council lies within the lowest 10 councils for vandalism costs per school.

6.07 However, many of the approaches and actions recommended in *"a safer place"* remain valid. In particular, it was identified that the Council should:

- Strengthen its organisational commitment to risk management, giving consideration to reporting to councillors the progress made in reducing property related risks.
- Develop their corporate support for local solutions, in particular encouraging all its schools and local communities to develop a shared understanding of the need to protect schools from property crime, and support any local action that is taken.

6.08 A draft report that provides detailed audit findings and recommendations will be issued in the near future.

Review of Internal Audit

6.09 In conducting this study, the Commission wished to help councils achieve Best Value from their internal audit arrangements. The main objectives were to:

- Assess the extent to which the council's internal audit services meet the standards of good practice set out in the CIPFA Code of Practice for internal audit in local government ("the Code");
- Promote best practice in internal audit; and
- Make recommendations that will help the council to develop a Best Value internal audit service.

6.10 Based on the results of the study, the Commission has classified each council in one of the following 4 bands, according to their level of compliance with the Code:

- Band 1: Councils that most fully comply with the Code;
- Band 2: Councils that generally comply with the Code;
- Band 3: Councils that partially comply with the Code; and
- Band 4: Councils that generally do not comply with the Code.

SECTION VI - VALUE FOR MONEY (CONTINUED)

6.11 Argyll and Bute Council was classified as band 4, the main findings being as follows:

- Internal Audit's strategic plan does not establish a clear link between the Council's corporate aims and objectives and those of internal audit.
- Internal Audit does not have up to date documentation of the Council's main systems.
- The lack of internal audit experience amongst the internal audit staff is a major source of difficulties. The staff often lack understanding of the objectives of the work they are undertaking and as a result, the audit work completed is inadequate to address the control objectives.
- From our review of Internal Audit working papers, we noted that they do not contain adequate details to support findings, conclusions and recommendations. In particular, there is no clear link between the work recorded on working papers and the points raised in reports.
- The Internal Audit Manager does not issue a formal report to the responsible finance officer on the basis for demonstrating compliance with Section 95 of the Local Government (Scotland) Act 1973.

6.12 These findings were relayed to Audit Scotland, who produced a national report in August 2001 that summarises the findings of the studies carried out at all other Scottish local authorities. No council complied fully with the Code, although four councils were found to comply most fully with over 85% compliance.

6.13 The key findings identified in the national report are summarised as follows:

- Internal audit units comply most fully with the Code with regard to maintaining independence, managing the controlling their work and promoting and maintaining professional standards;
- Areas of the Code where many councils need to improve include clarifying terms of reference, basing internal audit work on a comprehensive risk assessment, reporting and follow up arrangements and meeting staff training and development needs;
- Further opportunities for improvement of internal audit services exist in areas such as the introduction of audit committees, expansion in the use of information technology and more effective management of resources, and
- All internal audit services should embrace a culture of continuous improvement.

6.14 A draft report which provides detailed audit findings and recommendations will be issued separately.

SECTION VI - VALUE FOR MONEY (CONTINUED)

Administration in Schools

6.15 Good administration is essential to the smooth running of Scotland's schools. If administration is not handled efficiently and effectively, teachers may be diverted unnecessarily from tasks which are central to teaching and to raising attainment. This study was based on "Time for Teaching" which was carried out jointly by the Accounts Commission for Scotland and HM Inspectors of Schools. It looked at the ways in which administration is handled in schools, using the three questions below as a focus for the study :

Question	Implications
1. Are there administrative tasks currently done by teachers and other staff which could give better value for money by using different methods?	Could simply doing the tasks in a different way save time or increase its effectiveness? An aspect of this question is whether a task or part of a task is needed at all.
2. Are there administrative tasks which could give better VFM with the use of information and communication technology?	Could task be handled more efficiently or effectively by using ICT more or differently? Is there enough equipment of the right type?
3. Are there administration tasks which could give better VFM if done by other people?	Do teachers need to be involved or could other staff carry out the work as effectively and at lower cost?

6.16 Improving administration in schools was identified by the Accounts Commission as a study following consultation with councils in Scotland. The study aims to encourage and assist councils to look at the ways in which administration is handled in schools. It focused on administration, in particular, the time it requires from teachers – time that could be spent developing materials, planning for lessons and other initiatives aimed at increasing attainment.

6.17 The report recommends that councils tackle at each of three levels:

- Working with schools;
- Reviewing education department policies and practices; and
- Working with other Council departments and external agencies.

SECTION VI - VALUE FOR MONEY (CONTINUED)

Administration in Schools (Continued)

6.18 The Accounts Commission provided the Council with a choice of how to approach the self-assessment process. Either to use the methodology contained in the Accounts Commission's guide on Time for Teaching – Improving Administration in Scottish Schools or to develop its own methodology to address the Time for Teaching recommendations. The Council chose to use the self-assessment process material contained in the guide and use the results to develop an action plan.

6.19 The audit consisted of reviewing the Council's arrangements for developing an action plan which addresses the report's recommendations. The purpose of our review was to :

- Discuss with key personnel their duties and responsibilities with respect to the self assessment process and the development of an action plan.

- Review a sample of evidence provided by the Council in support of their self assessment and assess whether the evidence supports the Council's self assessment.

6.20 **Our key findings were that :**

- **The self assessment had been performed in accordance with Audit Scotland guidance;**
- **Each action identified had been assessed against SMART criteria (specific, measurable, actionable, realistic and time based).**

1999/2000 Value for Money Reviews

6.21 In our Final report to Members for 1999/2000, we advised Members of progress in respect of the reviews carried out. The current status of each review is as follows:

- Rent Arrears Management – Draft report submitted to the Council; and
- Refuse Collection – Draft report submitted to the Council.

Members should ensure that those actions agreed by Management in relation to our Value for Money reviews are implemented.

SECTION VII - PERFORMANCE INDICATORS

7.01 It is the responsibility of the Council to ensure that, as far as practicable, the information which is published is complete and accurate.

7.02 There are 65 performance indicators in total, all of which have been graded by us as either 'A' or 'X' as follows:

A - The data appears to be reliable in material respects
X - The lack of available systems, and/or reliable data, and/or decision rules has resulted in the authority producing information which, in the auditor's view is unreliable.

7.03 A number of 'X' gradings were allocated to the following indicators:

- Benefits administration – Gross administration costs
- Benefits administration – Applicants processed within required time
- Housing – Response Repairs
- Libraries – Stock turnover
- Libraries – Use of libraries
- Roads & Lighting – Traffic light repairs response
- Roads & Lighting – Street light repairs response
- Social Work – Respite care
- Social Work – Criminal Justice – Social inquiry reports
- Social Work – Criminal Justice – Probation
- Social Work – Criminal Justice – Community Service

7.04 The main reasons for these 'X' gradings may be summarised as follows:

- The system could not provide an adequate audit trail; or
- Council staff could not provide back up details; or
- Supporting documentation was not always retained; or
- Council staff failed to compile the indicator in accordance with the Accounts Commission definitions.

7.05 In 1999/2000 and 1998/99 we reported a number of qualified performance indicators and made a number of recommendations in our Performance Indicator Management Letters.

7.06 These letters highlighted that there was a need to raise the profile of the performance indicator process through a greater emphasis on improved co-ordination arrangements, better quality supporting documentation, improved monitoring and a greater commitment at a departmental level.

7.07 The results of the 2000/01 process highlights that 11 indicators were graded as "X", of which 4 were indicators previously graded "X", four were new indicators and one changed from "A" in the previous year to "X". Our recommendations for improvements in this process are still valid this year.

SECTION VII - PERFORMANCE INDICATORS (CONTINUED)

7.08 We have been informed that the Council Management Team has developed a Performance Management and Planning Framework that will be rolled out across the Council during 2001/2002. This framework will encourage departments to incorporate both statutory and local performance indicators within their service plans and report upon how well the service is performing against these on a quarterly basis.

7.09 **Members should review the arrangements within individual departments for ensuring that qualifications on performance indicators are removed for 2001/2002.**

SECTION VIII - LEGAL MATTERS

Introduction

8.01 We plan and perform our audit procedures recognising that non-compliance by the Council with statute or regulations may materially affect the financial statements. In addition, as part of our normal audit process we are alert to the legality of certain significant transactions and events with a financial consequence.

8.02 In considering the arrangements put in place by the Council with reference to legality, we have focused our attention on significant areas of decision making within the Council which may involve unlawful expenditure or courses of action which may be illegal and which might lead to a loss or deficiency.

8.03 It is emphasised that the responsibility for assessing the legality of such matters rests with management and that by reporting in this Section, we do not purport to offer advice to the Council or any other party.

8.04 During 2000/2001, we have assessed the Council's arrangements as they relate to legality by :

- reviewing general arrangements in place for ensuring the legality of transactions, eg, the role of the monitoring officer;
- reviewing the minutes of the Council's principal committees;
- holding discussions with officers;
- having regard to the Council's implementation of significant new legislation or statutory requirements;
- taking account of advice issued by the Accounts Commission and Audit Scotland; and
- reviewing statutory requirements concerning the accounts.

8.05 In addition, specific national issues which we considered during 2000/2001 related to:

- DLO/DSO statutory targets;
- Termination payments;
- Debt restructuring;
- PPP; and
- Electors' Questions/Objections.

SECTION VIII - LEGAL MATTERS (CONTINUED)

DLO/DSO Statutory Targets

8.06 We reviewed all the Council's DLOs/DSOs for the achievement of their statutory financial objective, ie, to break even. This is detailed in Section III.

Termination Payments

8.07 Our review included testing of a sample of individuals who had left the Council during 2000/2001 to identify if such payments existed. In addition, we also reviewed certain individual redundancy packages to ensure that these complied with standard conditions. This sample testing did not identify any specific termination payments which were outwith standard level authority redundancy packages.

Debt Restructuring

8.09 During the 1999/2000 and 2000/01 financial years the Council refinanced a number of their long term loans to take advantage of lower interest rates. The Council takes professional advice from their brokers in respect of these transactions.

8.10 The restructuring of debt often incurs either a premium or discount on the repayment of the original principal. We can confirm that the Council has complied with CIPFA's guidance on the accounting treatment of premiums, which states that the premium should be amortised over the term of the new loan.

Public Private Partnerships

8.11 In 1999/2000 we reported that the Department of Development and Environmental Services was at an advanced stage of negotiating the Council's public private partnership proposal for waste management within Argyll & Bute.

8.12 In recent years the Government has undertaken a fundamental reappraisal of waste management policy in an effort to ensure that waste is treated in an environmentally sustainable manner. This policy has significant cost implications for the Council, which until recently used landfill as the cheapest and easiest method of waste disposal. From October 1996 the government imposed a landfill tax on all waste currently taken to landfill sites and stricter regulatory standards have been introduced in relation to the landfill of waste.

8.13 The Council estimated that to meet future environmental targets a significant amount of capital investment would be required and submitted an outline business case to the Scottish Office in June 1998.

SECTION VIII - LEGAL MATTERS (CONTINUED)

Public Private Partnerships (Continued)

8.14 The last two years have seen a number of important developments with regard to the accounting treatment of private finance initiative ("PFI") transactions. In May 1997, the "Bates" report on PFI acknowledged that uncertainty surrounding the accounting treatment was a barrier to progress and recommended that the Treasury should issue interim accounting guidance, pending the deliberations of the Accounting Standards Board ("ASB"). The Treasury obliged and published PFI Technical Note No 1 on 29 September 1997 (the "Interim Guidance").

8.15 Subsequently, following the publication of the ASB Application Note in September 1998 the Treasury has developed new accounting guidance, in the form of PFI Technical Note 1 (Revised) "How to Account for PFI Transactions" (the "TN"). The objective of the TN is to complement the Application Note by providing additional practical guidance for certain public sector bodies on key aspects of the Application Note. The TN was issued in final form on 24 June 1999.

8.16 The introduction of the Application Note and the TN has meant that we have had to consider the separability of the contract, whether SSAP 21 or FRS 5 applies and assess certain Treasury determined quantitative, qualitative and other indicators of risk transfer. We have reviewed details of the Council's preferred option and have been able to concur with view taken by the Council's independent financial advisers that the project should not be capitalised on the Council's balance sheet.

Data Protection Act

8.17 The main provision of the Data Protection Act 1998 came into force on 1 March 2000. The Act implements the proposals of the EU Data Protection Directive (95/46/EC) and establishes a single overall data protection framework based on the existing data protection laws. It aims to achieve a balance between an individual's rights to privacy in the handling of information about them, and information users' needs in processing information to provide the services which individuals require.

8.18 As part of our audit testing we assessed the Council's arrangements to assess whether arrangements appeared to be in place for:

- Staff dealing with personal information should be aware of the need for compliance with the Act; and
- A specific officer should have been designated responsible for data protection within the Council and should ensure that all data processing within the organisation is in compliance with the terms of the Act.

8.19 Our review indicated that the Council has appointed a data protection officer who has taken a number of steps to address the implications arising from the Act. In particular we have noted that a series of seminars have been held within each department, with leaflets being distributed to employees to notify them of their responsibilities under the Act. In addition we have been informed that staff induction has been revised to include details of the Act.

SECTION VIII - LEGAL MATTERS (CONTINUED)

Electors' Questions/Objections

8.20 We did not receive any electors' questions or objections during 2000/2001 that required external audit investigation.

Report Reference	Issue	Agreed Action	Responsible for Implementation	Due Date
3.07	Members should monitor management's progress in achieving improvements to the current budget monitoring system and consider recommendations arising from the review.	Progress reports on improvements in the budget monitoring process will be submitted to the Audit Committee	Bruce West Head of Accounting	Ongoing reporting to Audit Committee
3.18	Management should reconsider the procedures for obtaining rolling revaluations and identifying impairments, with a view to minimising fluctuations in asset values from one year to the next.	The impairments identified in 2000/2001 result from more detailed structural surveys as opposed to a simple valuation. It is not practical to carry out a structural survey each time a valuation is carried out. However, valuers will be asked to identify assets where a structural survey may be required.	Bruce West Head of Accounting Nick Allen Estates	For 2001/2002 revaluations
3.29	Management and Members should ensure that the rolling programme of fixed asset revaluations is completed as soon as practical and that, in future, all assets are revalued at least every five years.	The revaluation programme will continue to ensure revaluations are brought up to date	Bruce West Head of Accounting Nick Allen Estates	Ongoing
3.30	An exercise to identify and remove assets with nil book value from the register should be undertaken as soon as possible.	This review will be carried out during 2001/2002	Tommy Armour Cap Prog Co-ordinator	31/3/02
3.31	We consider the 2 outdoor centres should be included as operational assets subject to depreciation and an adjustment should be made to correct this classification next year.	This will be carried out during 2001/2002	Tommy Armour Cap Prog Co-ordinator	31/3/02
3.36	Management should ensure that procedures are implemented in readiness for the application of the Financial Reporting Standard 17 – Retirement Benefits in future years.	Consideration will be given to the actions required to comply with FRS17, in conjunction with Strathclyde Pension Fund, and taking account of further guidance issued on its application.	Bruce West Head of Accounting	Ongoing

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Report Reference	Issue	Agreed Action	Responsible for Implementation	Due Date
3.42	Consideration should be given to automating the Central Support Recharge process further, improving the timely allocation of overhead charges through the 2001/2002 financial year.	Plan to move central support allocations onto a computerized system is being developed.	Bruce West Head of Accounting	31/3/2002
4.07	Members should monitor management's progress in implementing the recommendations made to improve both the level of financial information provided to members, and the formal documentation of actions arising from financial investigations.	Reporting of progress will be covered by actions outlined in response to para 3.07.	Bruce West Head of Accounting	Ongoing report to Audit Committee
		Arising from the review of budget monitoring a number of changes will be required to documentation produced as part of budget monitoring. These changes require to be implemented in each department.	Each Director	In accordance with timetable for budget monitoring
4.10	We acknowledge the improvements made this year in the overall bank reconciliation processes and recommend that the shortcomings detailed above are addressed for 2001/02.	A review of cut-off procedure will take place for income account next year end.	Bruce West Head of Accounting	For 2001/2002 year end
		The issue affecting the housing benefit bank account arose mainly as a consequence of the industrial action within IT. However points raised are noted.	Donald MacVicar Head of Housing Management	N/A

4.17	A Whistleblowing Procedure	A Whistleblowing Procedure has been introduced as part of the Council, Public Interest Disclosure Policy and was approved by Committee after submission by Corporate and Legal Services Director, Mr N Stewart as Monitoring Officer. immediately.	Nigel Stewart Director of Corporate & Legal Services	N./A
4.21	Audit Committee Members should continue to develop the role of the Audit Committee within the Council, monitoring Management's progress in the implementation of internal and external audit recommendations.	Details of audits completed and external audit reports received will be reported to the Audit Committee. Implementation of recommendations will be reviewed as part of the follow-up process by Internal Audit with a summary reported to the Audit committee.	Audit Committee	Ongoing
4.26	We understand that Members and Officers have already considered the options available to provide a sustainable Internal Audit Service. A partnership with a private sector provider has been identified as the preferred option and Members should monitor the early implementation of these arrangements.	Progress reports on the development will be submitted to the Audit Committee.	Stewart McGregor Director of Finance	Ongoing for period of development and 3 year duration of partnership

Report Reference	Issue	Agreed Action	Responsible for Implementation	Due Date
5.13	Members should ensure that those actions agreed by Management in relation to our Best Value reviews have been implemented by Management.	Internal Audit will review progress on the implementation of Best Value Review recommendations by external auditor and report to the Audit Committee	Internal Audit Management	First report by 31/3/2002
6.21	Members should ensure that those actions agreed by Management in relation to our Value for Money reviews have been implemented by Management.	Internal Audit will review progress on the implementation of Value for Money recommendations by external auditor and report to the Audit Committee	Internal Audit Managers	First report by 31/3/2002
7.09	Members should review arrangements in individual departments for ensuring that qualifications on performance indicators are removed for 2001/02.	Each department will report on the action proposed to address the issues identified by external audit to the SPC/Audit Committee.	Each Director	31/12/2001
		Internal Audit will review progress on the collection of performance indicators, including departmental action plans, and report to the Audit Committee	Internal Audit Management	First report by 31/3/2002

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RESPECTIVE RESPONSIBILITIES OF MANAGEMENT AND THE AUDITOR

	Management responsibility	Auditor responsibility
General Stewardship	Accountable for the way it has discharged its stewardship of public funds.	Provides an independent and objective consideration of the stewardship function.
Controls Framework	It is the responsibility of Members and officers to decide the extent of the internal control systems which are appropriate to the Council. In this regard, a strong internal audit function is an important feature of an effective internal control system.	We assess certain control features of the Council's main financial systems and report on any significant control weaknesses that come to our attention from this normal audit process.
Fraud and Corruption	The primary responsibility for the prevention and detection of fraud and corruption rests with management.	Our responsibility is to give consideration to the arrangements made by management in this regard.
Financial Statements	The possibility for ensuring the preparation of financial statements which present a fair statement of the financial position of the Council rests with management.	We need to be satisfied that evidence from our audit testing is sufficient to give us a reasonable basis for our opinion that the financial statements present fairly the financial position of the Council at the year end and its income and expenditure for the year.
Value for Money	It is management's responsibility to ensure that arrangements are in place that are designed to achieve economy, efficiency and effectiveness in the use of resources.	We consider by examination of the accounts or otherwise certain of the Council's management arrangements for securing economy, efficiency and effectiveness in its use of resources.
Legality	The responsibility for ensuring the legality of all activities and transactions rests with management.	As part of our normal audit process, we consider the Council's arrangements for ensuring the legality of transactions or events with a significant financial consequence.

OTHER REPORTS SUBMITTED BY US RELATING TO 2000/2001

- First Interim Management Letter
- Second Interim Management Letter
- Personnel (Health and Safety) – Best Value Report
- Corporate and Legal (Registration Services) – Best Value Report
- Transportation and Property Services: Transport Services – Best Value Report
- Finance (Non-Domestic Rates) – Best Value Follow Up Report
- Housing (Sheltered Housing) – Best Value Follow Up Report
- Transport and Property Services (Estates Management) – Best Value Follow Up Report
- Performance Indicators
- Various correspondence, principally with the Director of Finance, mainly relating to technical and accounting matters

AUDIT CERTIFICATE TO THE MEMBERS OF ARGYLL AND BUTE COUNCIL AND THE ACCOUNTS COMMISSION FOR SCOTLAND

As auditors, appointed under statute by the Accounts Commission for Scotland, we have audited the accounts of Argyll and Bute Council for the year ended 31 March 2001, an abstract of which is set out on pages 5 to 26.

Respective responsibilities of management and auditors in relation to the accounts

As stated on page 5, the management of Argyll and Bute Council is responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on the abstract of accounts and to report that opinion to you.

Basis of opinion

We have conducted our audit in accordance with the requirements of Part VII of the Local Government (Scotland) Act 1973 and of the Code of Audit Practice approved by the Commission. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by management in the preparation of the accounts and of whether the accounting policies are appropriate to Argyll and Bute Council's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit of the accounts so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion, the abstract of accounts presents fairly, in accordance with the accounting policies set out on pages 6 to 7, the financial position of Argyll and Bute Council as at 31 March 2001 and its income and expenditure for the year then ended.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Glasgow

20 September 2001