



**UNAUDITED ACCOUNTS FOR THE PERIOD
1 APRIL 2003 TO 31 MARCH 2004**

Argyll and Bute Council
Comhairle Earra Ghàidheal agus Bhòid

	<u>Page</u>
FOREWORD BY THE HEAD OF STRATEGIC FINANCE	3 – 6
STATEMENT OF ACCOUNTING POLICIES	7 – 9
CONSOLIDATED REVENUE ACCOUNT	10
NOTES TO THE CONSOLIDATED REVENUE ACCOUNT	11 – 17
HOUSING REVENUE ACCOUNT	18
COUNCIL TAX INCOME ACCOUNT	19 – 20
NON-DOMESTIC RATE INCOME ACCOUNT	21
CONSOLIDATED BALANCE SHEET	22
NOTES TO THE CONSOLIDATED BALANCE SHEET	23 – 30
STATEMENT OF TOTAL MOVEMENT ON RESERVES	31 – 33
CONSOLIDATED CASH FLOW STATEMENT	34
NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT	35 – 36
STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS	37
STATEMENT ON THE SYSTEM OF INTERNAL FINANCIAL CONTROL	38

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 2003/2004.

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. The surplus or deficit is carried to the Statement of Total Movement on Reserves. The notes to the Consolidated Revenue Account provide additional information on some costs and income included within the Consolidated Revenue Account.

Housing Revenue Account

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

Council Tax Income Account

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

Non-domestic Rate Income Account

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

Consolidated Balance Sheet

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

Statement of Total Movement in Reserves

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

Consolidated Cash Flow Statement

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

Statement of Responsibilities

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

Statement on the System of Internal Financial Control

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

Major Changes in Accounting Practice

The Council continues to adopt the accounting practices recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authorities (Scotland) Accounts Advisory Committee (LA(S)AAC). The annual accounts for 2003/2004 have been prepared in compliance with the 2003 Statement of Recommended Practice (SORP). The format of the Consolidated Revenue Account reflects the requirements of the Best Value Accounting Code of Practice (BVACOP).

Financial Reporting Standard 17 (FRS17) - "Retirement Benefits" is to be implemented over a three year period into Public Sector Accounts, with 2003/04 being the third year. For the financial year ended 31 March 2004 the full impact of FRS17 is shown through the Consolidated Revenue Account and the Balance Sheet. This impact has been reversed out of the Consolidated Revenue Account as a Contribution to/(from) Pensions Reserve to reflect that there should be no impact on the "Amount to be met from Government Grants and Local Taxation. A note to the Balance Sheet is required of the balance sheet asset or liability of retirement benefits as calculated in accordance with FRS17 and an analysis of the movement of the surplus / deficit over the financial year. Also shown within the Consolidated Revenue Account is the history of gains and losses expressed as a percentage of assets and / or liabilities. These disclosures comply with the SORP.

Hymans Robertson (Independent Actuaries) were instructed by Glasgow City Council, the administering authority to the Strathclyde Pension Fund, to undertake calculations in respect of the Local Government Pension Scheme on behalf of Argyll and Bute Council as at 31 March 2004. Their calculations have been carried out in accordance with Guidance Note 36: Accounting for Retirement Benefits under FRS17 issued by the Institute and the Faculty of Actuaries.

Property Valuations

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

General Fund

The following table summarises how the surplus for the year has arisen. For the purpose of comparison, the budget for 2003/2004 has been taken as the original approved budget plus any supplementary estimates agreed by Committee. Adjustments to budget have also been made in respect of additional revenue support grant and items transferred from revenue to capital.

	£'m
Savings on Budget:	
Savings in Loan Charges	0.385
Increased Collections on Local Taxes	0.975
Overall Savings by Departments Against Budget	0.419
Sub-Total	1.779
Funding to be Carried Forward and Earmarked in Reserve	5.758
Earmarked Funding at Start of Year	(1.671)
Transfer From DLO/DSO Reserves	0.208
Surplus for Year Per Accounts	6.074

The General Fund Reserve at 31 March 2003 amounted to £5.707m of which £1.671m was earmarked. This left a "free" balance of £4.036m. The "free" Reserve now stands at £6.023m and the overall Reserve stands at £11.781m when earmarked funds are included.

	£'m
"Free" Reserve at 31 March 2003	4.036
Surplus From Loan Charges, Local Tax Income and Departmental Savings	1.779
Transfer From DLO/DSO Reserves	0.208
"Free" Reserve at 31 March 2004	6.023
Funding to be Carried Forward and Earmarked in Reserve	5.758
Total Reserve Per Accounts	11.781

Significant Trading Organisations

The requirement to maintain separate accounts for Direct Labour Organisations and Direct Service Organisations under the Compulsory Competitive Tendering legislation ended on 31 March 2003. Councils are now required to identify their Significant Trading Organisations. Significant Trading Organisations must achieve a breakeven financial position over a rolling three year period. This rolling three year period will not commence until 2005/2006 (i.e. the first full three financial years following 31 March 2003). Information on the financial performance of Significant Trading Organisations must be given in the Accounts and this is laid out in note 6 of the Consolidated Revenue Account.

During 2003/2004 the Council's Significant Trading Organisations achieved a surplus of £0.115m. The surplus is part of the General Fund. All the Significant Trading Organisations met their financial objective. In a period of financial constraints the overall contribution is a welcome outcome and reflects positively upon the Council's management of trading activities.

Housing Revenue Account

The HRA balance stands at £0.474m at 31 March 2004 and is an increase of £0.051m from the 31 March 2003 balance of £0.423m. The main factors giving rise to the reduction in the balance are as follows:

	£'m
Reduction in Repairs and Maintenance	0.045
Reduction in Supervision and Management	0.188
Reduction in Capital Financing	0.178
Net Increase in Other Income Less Other Expenditure	0.175
Increased Income	0.586
Void House Rents and Provision for Bad Debts	(0.103)
Reduction in Rental Income	(0.299)
Other Movements	(0.133)
Increased Expenditure	(0.535)
Surplus for Year	0.051

A contribution of £0.327m to supplement the capital expenditure programme took place during the year in line with the approved budget.

Capital Expenditure and Borrowing

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	19.131	2.007
Usable Capital Receipts	2.162	1.673
Capital Financed from Current Revenue	0.016	0.327
Gross Consent	21.309	4.007
Capital Expenditure	20.274	3.648
Excess Expenditure (Receipts)	(1.035)	(0.359)

This includes Public Transport Fund projects where the underspend was £1.826m. After adjusting for this, the position on the main capital programme expenditure exceeded consent and receipts by £0.791m. Full use of the tolerance limits on capital expenditure was planned.

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.

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

The external borrowing of the Council at 31 March 2004 amounted to £196.28m. The majority of this was financed by the Public Works Loan Board (£169.18m), with the remainder coming mainly from the money market. During the year the Council completed £1.25m of new external borrowing. This was used to finance capital expenditure incurred during the year. The Council carried out several debt rescheduling exercises totalling £39m during the year, resulting in a change in the repayment profile of the loans outstanding and a reduction in interest rates payable and also repaid prematurely debt of £21.22m.

Statement on the System of Internal Financial Control

Some weaknesses in the system of financial control were identified during the year. Most of these were rectified between the time of Internal Audit identifying the weakness and preparation of this report.

Other Significant Matters

The Council has secured funding under the new housing partnership programme. This funding has been utilised to carry out an option appraisal and feasibility study for a large scale voluntary transfer of the housing stock. The Council is now in the implementation phase in the lead up to full stock transfer. Preparation of the business plan will take place over the next six months with approval "in principle" to proceed being sought by the end of 2004. A ballot of tenants is planned for early 2005.

In common with other Councils a significant investment in school building is required. The Council has been successful in securing revenue support towards a Public Private Partnership for school buildings. The Council is developing a Pathfinder Non-Profit Distributing Organisation (NPDO) approach for the PPP. The project is currently in the procurement phase. During 2003/2004 an invitation to negotiate was issued and bids received were evaluated, leading to the appointment of a provisional preferred bidder. The Council is working with the provisional preferred bidder to finalise their selection as preferred bidder. Financial close is planned during 2004/2005.

Restructuring

During 2003/2004 the Council carried out an internal restructuring. Major business and organisation change of this nature always represents a potential risk to the control environment. However the year end outturn has resulted in a generally satisfactory position and Internal Audit's annual report allows me to take comfort that, other than as outlined above, reasonable assurance can be placed on the adequacy and effectiveness of the Council's Internal Financial Control System.

Prudential Code

Until 31 March 2004 local authority capital expenditure was controlled by capital spending consent issued under Section 94 of the Local Government (Scotland) Act 1973. This limited the amount of capital expenditure a council can incur. From 1 April 2004 these consents were abolished and local authority capital expenditure and borrowing are now regulated by the Prudential Code, a regime of self regulation.

Under the Prudential Code the Council must ensure that

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

Conclusion

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

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

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

Bruce West
Head of Strategic Finance
June 15, 2004

The Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (the SORP) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

1. ACCRUALS OF INCOME AND EXPENDITURE

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

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

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

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

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

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

2. OVERHEADS

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

3. PENSIONS

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

3.1 Teachers

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

3.2 Other Employees

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

Financial Reporting Standard 17 (FRS17) - "Retirement Benefits" is to be implemented over a three year period into Public Sector Accounts with 2003/2004 being the third year. For the financial year ended 31 March 2004 the full impact of FRS17 is reflected within the accounts.

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

4. CAPITAL ACCOUNTING

4.1 Accounting Policy Statement

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

4.2 Fixed Assets

a) Categories of assets

Fixed assets are categorised into classes as follows:

Operational assets:

- Council Dwellings;
- Other Land and Buildings;
- Vehicles, Plant and Equipment;
- Infrastructure Assets, e.g. highways;
- Community Assets, e.g. museum exhibits, parks;

Non-operational Assets, e.g. investment properties, surplus properties.

b) Recognition

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

c) Measurement

Infrastructure and community assets are included in the balance sheet at historical cost, net of depreciation where appropriate.

Operational land and property is divided into two distinct categories for valuation purposes.

Where there is no discernable market value in respect of the continuation of existing use, properties will be valued on the basis of a depreciated replacement cost, net of obsolescence and depreciation.

Where operational properties are considered to be devoted to a use to which there is a discernable market, such properties will be valued on the market value in existing use basis.

Non-operational land and properties and other non-operational assets, including investment properties and assets that are surplus to requirement, are included in the balance sheet at market value.

d) Revaluations

When an asset is included in the balance sheet at current value, it is formally revalued at intervals of not more than five years and the revised amount is included in the balance sheet. The difference between the value and the amount at which the asset was included in the balance sheet prior to the latest revaluation is credited or debited to a fixed asset restatement reserve. The Council has a rolling programme in place to revalue all of its property assets over a five year period.

e) Disposals

The receipts arising from the disposal of fixed assets have been dealt with on an accruals basis, and the net book value of the asset disposed of written off against the fixed asset restatement reserve.

f) Depreciation

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

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

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

g) Charges for the use of Fixed Assets

General fund service revenue accounts, central support services and trading services are charged with a capital charge for all fixed assets used in the provision of the service. Such charges cover the annual provision for depreciation, where appropriate, plus a capital financing charge determined by applying a specified notional rate of interest to the net amount at which the asset is included in the balance sheet. Capital charges in the HRA cover the statutory capital financing charges. The notional interest rate is 3.5% for assets other than infrastructure and community assets, where it is 4.625%. Interest payable, including interest payable under finance leases, and provision for depreciation are charged to an asset management revenue account.

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

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

4.3 DEFERRED CHARGES

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

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

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

One exception to this is where expenditure is incurred in the provision of wheeled bins in write off to service revenue account over a ten year period, on the basis that the bins will have a useful life of ten years and will provide benefit to the Council in the operation of refuse collection services for that period.

4.4 GOVERNMENT GRANTS

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

4.5 FINANCE LEASES

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

5. STOCK & WORK IN PROGRESS

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

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

6. RESERVE FUNDS

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

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.

7. OPERATING LEASES

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

8. 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.

9. 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.

10. PUBLIC PRIVATE PARTNERSHIP

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

11. POST BALANCE SHEET EVENTS

Where a material post balance sheet event occurs which:

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

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

12. PROVISIONS

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

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

13. PROVISIONS FOR BAD AND DOUBTFUL DEBTS

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

14. VALUE ADDED TAX (VAT)

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

2002/03		2003/04		
Actual Net Expenditure £'000	Note	Actual Gross Expenditure £'000	Actual Gross Income £'000	Actual Net Expenditure £'000
Council Services				
71,609	Education Services	90,363	15,749	74,614
10,948	Environmental Services	21,681	10,316	11,365
7,613	Cultural and Related Services	10,711	3,348	7,363
3,010	Planning and Development Services	4,623	1,484	3,139
30,799	Social Work Services	71,147	40,639	30,508
4,733	Housing Services (Non-HRA)	21,142	19,205	1,937
19,553	Roads and Transport Services	30,214	10,650	19,564
895	Trading Services	2,532	1,570	962
Central Services				
1,350	- Central Services to the Public	2,845	1,180	1,665
3,037	- Corporate and Democratic Core	3,487	108	3,379
1,341	- Non-distributed Costs	1,325	-	1,325
(116)	- Other Operating Income and Expenditure	90	123	(33)
12,803	Payments to Joint Boards	14,344	-	14,344
167,575	General Fund Services	274,504	104,372	170,132
636	Housing Revenue Account	14,784	14,968	(184)
168,211	Net Cost of Services	289,288	119,340	169,948
(73)	(Surplus)/Deficit on Trading Undertakings not included in Net Cost of Services			(108)
(1,196)	Asset Management Revenue Account			3,503
-	Gains/losses on the repurchase or early settlement of borrowing			-
(8,894)	Interest and investment income			(7,748)
7,639	Pensions interest cost and expected return on pension assets			9,014
165,687	Net Operating Expenditure			174,609
(636)	Surplus/(deficit) transferred to/(from) HRA Balances			184
(1,966)	Contribution to/(from) Funds and Earmarked Reserves			(248)
(133)	Contribution to/(from) HRA Balance			(143)
(3,119)	Reconciling amount for loans fund repayment			(218)
624	Contribution to/(from) the pensions reserve			(1,159)
160,457	Amount to be met from Government Grants and Local Taxation			173,025
99,463	General Government Grants			109,147
36,383	Income from Council Tax			37,419
29,831	Non-domestic Rates Redistribution			32,533
5,220	Net General Fund Surplus / (Deficit)			6,074
487	Balance on General Fund Brought Forward			5,707
5,707	Balance on General Fund Carried Forward			11,781

1. Joint Boards

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

2002/03 £'000		2003/04 £'000
369	Strathclyde Passenger Transport	398
7,079	Strathclyde Police Joint Board	8,207
4,197	Strathclyde Fire Joint Board	4,580
1,131	Dunbartonshire and Argyll & Bute Valuation Joint Board	1,132
27	Authorities Buying Consortium	27
12,803	Total Joint Boards	14,344

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.

2002/03 £'000		2003/04 £'000
12,704	Charge for Depreciation/Impairment	13,597
16,466	External Interest Payable	15,415
(29,807)	Capital Charges	(24,888)
(559)	Release of Government Grant	(621)
(1,196)	Net Expenditure / (Income)	3,503

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.

2002/03 £'000		2003/04 £'000
604	Capital Financed from Current Revenue - General Fund	16
12,086	Principal Loans Fund Instalment	13,499
(12,704)	Depreciation/Impairment	(13,597)
(3,664)	Deferred Charges Written off to Revenue	(757)
559	Release of Government Grant	621
(3,119)	Total Contribution to Capital Financing Reserve	(218)

4. General Fund Balance Carried Forward

The following committed sums are included in the General Fund balance carried forward of £11.781m:-

	£'000
Waste Management PPP	1,086
Corporate Property Strategy	30
Modernising Government Fund	43
Digital Communities	245
Area Budgets	15
Risk Management Fund	41
Works Committed and Commenced Prior to Start of Financial Year on Roads Projects	386
Community Safety Forum Contributing to Drugs Rehabilitation	4
Community Safety Partnership	82
Social Work Funding	2,710
Underspends in 2003/04 Used to Fund Savings in 2004/05 Budget	994
IT Top Slice	92
Change Management	30
Total Committed Funds	5,758

5. Operating Lease Rentals Paid

The Council uses land, buildings, vehicles, plant and equipment financed under the terms of an operating lease. The amounts paid under these arrangements in 2003/04 are as follows:

2002/03		2003/04
£'000		£'000
68	Land and Buildings	95
895	Vehicles	1,037
203	Plant and Equipment	315
1,166	Total	1,447

In respect of vehicles the Council recovered £0.089m of leased car costs from its employees during 2003/04.

The Council is committed to making payments of £1.557m under operating leases in 2004/05. These can be analysed as follows:

	£'000
Leases expiring in 2004/2005	215
Leases expiring between 2005/2006 and 2008/2009	1,056
Leases expiring after 2008/2009 onwards	286
Total	1,557

6. Significant Trading Organisations

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

Roads and Lighting Trading Account Year Ended 2004

2002/03	2002/2003 Actual		2003/04	2003/04	3 Year	
Target	£'000		Actual	Target	Target	Actual
£'000	£'000		£'000	£'000	£'000	£'000
		Turnover	12,906	10,465		
		Expenditure	12,823	10,415		
-	-	Surplus/(Deficit)	83	50	-	-

Waste Management Trading Account Year Ended 2004

2002/03	2002/2003 Actual		2003/04	2003/04	3 Year	
Target	£'000		Actual	Target	Target	Actual
£'000	£'000		£'000	£'000	£'000	£'000
		Turnover	4,990	4,775		
		Expenditure	4,982	4,770		
-	-	Surplus/(Deficit)	8	5	-	-

Leisure Trading Account Year Ended 2004

2002/03	2002/2003 Actual		2003/04	2003/04	3 Year	
Target	£'000		Actual	Target	Target	Actual
£'000	£'000		£'000	£'000	£'000	£'000
		Turnover	2,898	3,150		
		Expenditure	2,884	3,145		
-	-	Surplus/(Deficit)	14	5	-	-

Catering and Cleaning Trading Account Year Ended 2004

2002/03 Target £'000	2002/2003 Actual £'000		2003/04 Actual £'000	2003/04 Target £'000	3 Year Target £'000	3 Year Actual Performance £'000
		Turnover	7,157	6,996		
		Expenditure	7,153	6,993		
<u>-</u>	<u>-</u>	Surplus/(Deficit)	<u>4</u>	<u>3</u>	<u>-</u>	<u>-</u>

Building Maintenance Trading Account Year Ended 2004

2002/03 Target £'000	2002/2003 Actual £'000		2003/04 Actual £'000	2003/04 Target £'000	3 Year Target £'000	3 Year Actual Performance £'000
		Turnover	2,633	1,809		
		Expenditure	2,627	1,804		
<u>-</u>	<u>-</u>	Surplus/(Deficit)	<u>6</u>	<u>5</u>	<u>-</u>	<u>-</u>

7. Local Government Act 1986 - Separate Publicity Account

The Council is required under Section 5 of the Act to maintain a separate account for publicity. Expenditure of £0.578m was incurred during 2003/04 and is included within service expenditure as follows:

2002/03 £'000		2003/04 £'000
220	Staff advertising	333
18	Leaflets and publications	42
74	Statutory notices	69
145	Other	134
<u>457</u>	Total	<u>578</u>

8. Agency Income

The Council has agency agreements with the Scottish Veteran Garden City Association and the Margaret Blackwood Housing Association whereby the Council arranges for maintenance to be carried out on their housing stock. There is also an ongoing agency agreement with Scottish Water to collect domestic water and sewerage charges. During 2003/04 income from these agreements amounted to £0.181m (2002/03 - £0.176m).

2002/03 £'000		2003/04 £'000
1	Scottish Veteran Garden City Association and Margaret Blackwood Housing Association - repair of houses	1
175	Scottish Water	180
<u>176</u>	Agency Income	<u>181</u>

9. Local Authorities (Goods and Services) Act 1970

The Council is empowered by this Act to provide goods and services to other public bodies. Income from these services amounted to £0.733m. The goods and services provided during the year were as follows:

Name of Body	Purpose of work	Income £'000	Expenditure £'000
North Lanarkshire Council	Cleaning and Catering - Kilbowie OC	111	100
Strathclyde Police	Cleaning of Police Stations	108	98
Strathclyde Fire	Maintenance of Fire Stations	180	163
Various Public Bodies	Grounds Maintenance	53	50
Various Councils	Provision Of Science Packs And Health Packs	18	14
Various Councils	Staff Support	8	8
Inverclyde Council	Teacher Cover Primary Schools Schools	1	1
West Dunbartonshire Council	Provision Of Special Education Needs	254	242
		733	676

10. Health Act 1999 Pooled Funds and Similar Arrangements

The Council has a joint working arrangement with NHS Argyll and Clyde whereby it provides, but NHS Argyll and Clyde pays for, certain types of care of the elderly and services for those with learning disabilities or mental health problems. During 2003/04 income from this source amounted to £2.895m and the related expenditure was £5.116m. These sums can be analysed as follows:

Purpose of Service	Income £'000	Expenditure £'000
Care of the elderly	1,466	2,580
Provision of services for people with learning disabilities	1,137	1,984
Provision of services for people with mental health problems	292	552
	2,895	5,116

11. Teachers Pensions - Administered by Scottish Public Pensions Agency

2002/03		2003/04
2,026	Amount paid over (£'000)	3,006
6.90%	Rate of contribution (%)	6.90%
436	Amount of added years awarded by the Council (£'000)	445
7	Discretionary payments made by the council (£'000)	-

From 1 April 1999 the Council became responsible for the "Strain on the Fund" costs resulting from early retirements, and during 2003/04 these amounted to £300,815.

12. Members' Allowances

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

2002/03 £'000		2003/04 £'000
209	Basic Allowance	210
203	Special Responsibility Allowance	215
412	Total Allowances	425

13. Officers' Emoluments

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

2002/03			2003/04
No	Remuneration Band		No
50	£40,000 - £49,999		32
28	£50,000 - £59,999		18
6	£60,000 - £69,999		3
3	£70,000 - £79,999		4
-	£80,000 - £89,999		-
1	£90,000 - £99,999		1
-	£100,000 - £109,999		-
-	£110,000 - £119,999		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	109,147	
Non-domestic Rates	32,534	
Housing Benefits / Support Grant	14,445	
Council Tax Benefit Subsidy	4,752	
Other Government Grants	23,173	
Capital Grants: European Grants	193	
Sportscotland	341	
School Buildings Improvements Fund	737	
Other Government Capital Grants	228	

Related Bodies:

Transactions with related bodies during the year totalled 16,976

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

Joint Boards (see note 1 for further details)	14,344
Strathclyde Passenger Transport - Concessionary Fares	1,808
Argyll, the Islands, Loch Lomond, Stirling and the Trossachs Tourist Board	22
Bute Council on Alcohol	38
COSLA	83
Dunoon and Cowal Youth Project	19
Islay and Jura Community Enterprise	71
Nadair Trust	13
NHS Argyll and Clyde	227
Oban and Lorn Enterprises - Atlantis Leisure	296

Other Related Party Transactions:

Transactions in which members have a significant interest 69

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

	£'000
Trident Taxis	62

15. Waste Management Public Private Partnership

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

The Council has paid a service charge of £4.111m which represents the value of the service provided from 1 April 2003 to 31 March 2004. Under the agreement the Council is committed to paying the following sums:

Period	£'000
2004/07	14,105
2007/12	25,497
2012/17	28,265
2017/22	31,396
2022/27	29,980
Total	129,243

This equates to £5.573m per annum over the life of the contract.

16. Fees Payable to Audit Scotland

In 2003/04 the following fees relating to external audit and inspection were incurred:

2002/2003 £'000		2003/2004 £'000
190	Fees payable to Audit Scotland with regard to external audit services carried out by the appointed auditor	223
4	Fees payable in respect of other services provided by the appointed auditor	1
194		224

17. Pension – Local Government Superannuation (Scotland) Scheme

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

17.1 Amount Charged to Operating Profit

The following table shows an analysis of the pension costs that would have been charged to operating profit under FRS 17: -

	Year to 31 March 2004 £'000	Year to 31 March 2004 % of Payroll
Amount Charged to Operating Profit		
Service Costs	6,054	14.2%
Past Service Costs	23	0.1%
Curtailments and Settlements	773	1.8%
Decrease in Irrecoverable Surplus	-	-
Total Operating Charge (A)	6,850	16.1%
Amount Credited to Other Finance Income		
Expected Return on Employer Assets	7,748	18.2%
Interest on Pension Scheme Liabilities	(9,014)	-21.1%
Net Return (B)	(1,266)	-2.9%
Net Revenue Account Cost (A)-(B)	8,116	19.0%

17. Pension Costs - FRS 17 Disclosure Continued

17.2 Analysis of Amount Recognised in Statement of Total Recognised Gains and Losses (STRGL)

	Year to 31 March 2004 £'000
Actual return less expected return on pension scheme assets	19,563
Experience gains and losses arising on the scheme liabilities	(512)
Changes in financial assumptions underlying the present value of the scheme liabilities	-
Actuarial gain / (loss) in pension plan	19,051
Increase / (decrease) in irrecoverable surplus from membership fall and other factors	-
Actuarial gain / (loss) recognised in the STRGL	19,051

17.3 History of Experience Gains and Losses

Difference between the expected and actual return on assets	19,563
Value of assets	138,298
Percentage of assets	14.1%
Experience gains / losses on liabilities	(512)
Present value of liabilities	161,310
Percentage of the present value of liabilities	-0.3%
Actuarial gains / losses recognised in STRGL	19,051
Present value of liabilities	161,310
Percentage of the present value of liabilities	11.8%

Further details on pension assets and liabilities are provided in note 14 to the balance sheet.

2002/03 Actual £'000		2003/04 Actual £'000	2003/04 Budget £'000
Expenditure			
4,713	Repairs and Maintenance	4,549	4,594
4,050	Supervision and Management	4,230	4,418
4,766	Capital Financing Costs	4,382	4,560
615	Void House Rents	684	696
62	Bad Debt Write Off	115	
8	Increase in Provision for Bad or Doubtful Debts		
588	Other expenditure	497	517
700	Contribution to Capital Financing Reserve	327	380
15,502	Total Expenditure	14,784	15,165
Income			
13,842	Rent of houses (gross)	13,714	14,013
92	Non-dwelling Rents	88	100
168	Housing Support Grant	149	149
20	Decrease in Provision for Bad or Doubtful Debts	78	-
744	Other Income	939	903
14,866	Total Income	14,968	15,165
(636)	(Deficit) / Surplus for Year	184	-
1,151	Balance on Housing Revenue Account Brought Forward	423	423
41	Interest Earned on Balance	10	-
(133)	Contribution to General Fund	(143)	-
423	Balance on Housing Revenue Account Carried Forward	474	423

NOTES TO THE HOUSING REVENUE ACCOUNT

1. Gross Rent Income

This is the total rent income for the year. Average annual rent charges were £42.65 per week in 2003/04 (2002/03 £41.10)

2. Housing Stock

2002/03 No		2003/04 No
198	Sheltered Housing	198
3,251	Other Houses	3,059
1,589	Tenement Flats	1,559
1,272	Other Flats	1,232
6,310	Total Housing Stock	6,048

3. Rent Arrears and Bad Debts

Rent arrears at 31/3/2004 were £0.324m (31/3/2003 - £0.391m) and this equated to an average rent arrears per house of £54 (2002/03 - £62).

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 £0.189m (2002/03 - £0.234m); this represents an increase of £0.045m. The HRA share of the sundry debtor account provision for bad debts decreased by £0.033m.

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

2002/03		2003/04
Actual		Actual
£'000		£'000
44,686	Gross Council Tax Levied and Contributions in Lieu	46,151
	Less:	
(250)	Council Tax Benefits (Net of Government Grant)	(253)
(7,146)	Other Discounts and Reductions	(7,530)
(1,730)	Provision for Bad and Doubtful Debts	(1,786)
35,560	Total for 2003/04	36,582
823	Adjustment to Previous Years' Community Charge and Council Tax	837
36,383	Transfers to General Fund	37,419

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, i.e. Band D equivalents as below. This value is then decreased or increased dependent upon the band of the dwelling. The charge for each band for 2003/04 was as follows:

Band	Valuation Band	% Band D	£ per year
A	Under £27,000	67%	£ 689.33
B	£27,000 - £35,000	78%	£ 804.22
C	£35,000 - £45,000	89%	£ 919.11
D	£45,000 - £58,000	100%	£ 1,034.00
E	£58,000 - £80,000	122%	£ 1,263.78
F	£80,000 - £106,000	144%	£ 1,493.56
G	£106,000 - £212,000	167%	£ 1,723.33
H	Over £212,000	200%	£ 2,068.00

NOTES TO THE COUNCIL TAX INCOME ACCOUNT – Continued
2. Calculation of the Council Tax Base 2003/04

Council Tax Base	A	B	C	D	E	F	G	H	Total
Total Number of Properties	8,084	9,484	9,374	5,468	6,578	3,402	2,256	211	44,857
Less - Exemptions / Deductions	1,020	644	1,162	415	524	185	119	32	4,101
- Adjustment for Single Chargepayers	917	964	727	400	338	145	80	5	3,576
Effective Number of Properties	6,147	7,876	7,485	4,653	5,716	3,072	2,057	174	37,180
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	4,098	6,126	6,653	4,653	6,986	4,437	3,428	348	36,729
Add Contribution in lieu in respect of Class 18 dwellings (Band D Equivalent)									518
Nominal Tax Yield									37,247
Less Provision for Non-Collection - 5.4%									2,011
Council Tax Base 2003/04 - Number of Band D equivalents									35,236

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.

2002/03 Actual £'000		2003/04 Actual £'000
32,362	Gross rates levied	27,691
	Less:	
(2,613)	Reliefs and other deductions	(2,182)
(21)	Payment of interest	(300)
118	Provision for bad and doubtful debts	(389)
<u>29,846</u>	Net Non-domestic Rate Income	<u>24,820</u>
5	Adjustments for years prior to introduction of national non-domestic rate pool	2
(20)	Contribution from / (to) national non-domestic rate pool	7,711
<u>29,831</u>	Guaranteed Rate Income	<u>32,533</u>

NOTES TO THE NON-DOMESTIC RATE INCOME ACCOUNT

1. Analysis of Rateable Values

2002/03 £		2003/04 £
3,515,190	Industrial and freight transport subjects	3,392,020
37,775,337	Public utilities including Telecomms, Rail, Gas and Electricity Companies	36,355,931
	Commercial subjects:	9,519,550
9,501,080	Shops	4,517,005
4,559,750	Offices	6,596,840
6,813,520	Hotels, Boarding Houses etc.	5,462,395
5,570,495	Others	
7,967,519	Formula valued subjects	7,951,411
<u>75,702,891</u>	Total Rateable Value	<u>73,795,152</u>

2. Non-Domestic Rate Charge

2002/03 Pence		2003/04 Pence
45.8p	Rate Per Pound Properties under £10,000	47.8p
47.8p	Rate Per Pound Properties over £10,000	47.8p
<u>0.0p</u>	Supplementary Rate Per Pound for Properties over £25,000	<u>0.6p</u>

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.

2002/03 £'000	Note	2003/04 £'000
Fixed Assets		
	1.1	
64,696	- Council Dwellings	64,725
167,972	- Other Land and Buildings	163,092
4,208	- Vehicles, Plant and Equipment	4,184
58,310	- Infrastructure Assets	63,304
124	- Community Assets	329
	1.2	
380	- Vehicles, Plant and Equipment Under Construction	212
7,297	- Infrastructure Under Construction	9,801
2,582	- Buildings Under Construction	3,014
7,435	- Non-operational Land and Buildings	13,648
313,004	Total Fixed Assets	322,309
418	Deferred Charges	559
9,598	Long Term Debtors	11,667
323,020	Total Long Term Assets	334,535
Current Assets		
743	- Stock and Work in Progress	652
11,609	- Debtors	11,298
2,000	- Investments	-
8,097	- Cash at Bank and in Hand	850
345,469	Total Assets	347,335
Current Liabilities		
(580)	- Short Term Borrowing	(3,702)
(28,760)	- Creditors	(34,370)
(2,978)	- Bank Overdraft	(3,670)
313,151	Total Assets less Current Liabilities	305,593
(216,923)	Long Term Borrowing	(192,574)
(239)	Deferred Covenant Liability	-
(417)	Provisions	(843)
-	Liability related to defined benefit pension scheme	(23,011)
95,572	Total Assets less Liabilities	89,165
Capital Reserves:		
81,357	- Fixed Asset Restatement Reserve	84,432
(5,926)	- Capital Financing Reserve	214
400	- Useable Capital Receipts Reserve	400
11,751	- Deferred Government Grants and Contributions	13,238
905	- Earmarked Reserves	809
	- Pensions Reserve	(23,011)
Revenue Reserves:		
5,707	- General Fund	11,781
423	- Housing Revenue Account Balance	474
111	- DSO/DLO's	-
844	- Earmarked Reserves	828
95,572	Total Net Worth	89,165



Bruce West
 Head of Strategic Finance
 June 15, 2004

1.1 Movement on Operational Fixed Assets

	Council Dwellings £'000	Other Land & Buildings £'000	Vehicles Plant & Equipment £'000	Infrastructure Assets £'000	Community Assets £'000	Total 2003/04 £'000	Total 2002/03 £'000
Certified Valuation at 31/3/03	64,696	190,766					
Accumulated Depreciation	-	(16,212)					
Accumulated Impairment	-	(6,582)					
Net Book Value at 31/03/03	64,696	167,972	4,208	58,310	124	295,310	287,799
<i>Movement in 2003/04</i>							
Expenditure in Year	3,403	3,465	1,090	2,145	143	10,246	10,682
Disposals	(2,916)	(442)	(87)			(3,445)	(2,726)
Revaluations	1,697	4,497		9		6,203	11,142
Transfers (to) / from Non Operational Assets		(5,439)	387	5,906	62	916	1,117
Depreciation	(2,155)	(6,961)	(1,414)	(3,066)		(13,596)	(12,704)
Impairment						-	-
Net Book Value at 31/03/04	64,725	163,092	4,184	63,304	329	295,634	295,310

1.2 Movement on Non-Operational Fixed Assets

	Vehicles Plant & Equipment Under Construction £'000	Infrastructure Under Construction £'000	Buildings Under Construction £'000	Non Operational Land & Buildings £'000	Total 2003/04 £'000	Total 2002/03 £'000
Certified Valuation at 31/3/03				7,435		
Accumulated Depreciation				-		
Accumulated Impairment				-		
Net Book Value at 31/03/03	380	7,297	2,582	7,435	17,694	14,384
<i>Movement in 2003/04</i>						
Expenditure in Year	219	8,495	860	6	9,580	6,648
Disposals		(85)		(575)	(660)	(85)
Revaluations				977	977	(2,136)
Transfers (to) / from Operational Assets	(387)	(5,906)	(428)	5,805	(916)	(1,117)
Depreciation				-	-	-
Impairment				-	-	-
Net Book Value at 31/03/04	212	9,801	3,014	13,648	26,675	17,694

1.3 Valuation of Operational Fixed Assets

Council dwellings were revalued at 31 March 2004 by the District Valuer for Scotland South West, Brian J Kerr, F.R.I.C.S., on the basis of Existing Use Value for Social Housing as defined in Practice Statement 4.1 of the Royal Institute of Chartered Surveyors (RICS) Appraisal and Valuation Manual, the definition of which is as follows:

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

During the current year, revaluations on operational land and buildings were carried out by Nicholas S. Allan, M.R.I.C.S., Estates Manager for Argyll and Bute Council, in accordance with the Council's rolling programme of revaluations. The basis of valuation is set out in the Statement of Accounting policies on pages 7 to 9.

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

	Council Dwellings	Other Land & Buildings	Vehicles Plant & Equipment	Infrastructure Assets	Community Assets	Total 2003/04
	£'000	£'000	£'000	£'000	£'000	£'000
Valued at historical cost			4,184	63,304	329	67,817
Valued at current value in:						
2003/2004	64,725	16,867				81,592
2002/2003		30,233				30,233
2001/2002		52				52
2000/2001		32,490				32,490
1999/2000		83,315				83,315
Valuations inherited at 01/04/96		135				135
Total	64,725	163,092	4,184	63,304	329	295,634

1.4 Valuation of Non-Operational Fixed Assets

During the current year, revaluations on non-operational land and buildings were carried out by Nicholas S. Allan, M.R.I.C.S., Estates Manager for Argyll and Bute Council, in accordance with the Council's rolling programme of revaluations. The basis of valuation is set out in the Statement of Accounting policies on pages 7 to 9.

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

	Vehicles Plant & Equipment Under Construction	Infrastructure Under Construction	Buildings Under Construction	Non Operational Land & Buildings	Total 2003/04
	£'000	£'000	£'000	£'000	£'000
Valued at historical cost	212	9,801	3,014		13,027
Valued at current value in:					
2003/2004				3,137	3,137
2002/2003				3,092	3,092
2001/2002				5,175	5,175
2000/2001				1,187	1,187
1999/2000				1,057	1,057
Valuations inherited at 01/04/96				-	-
Total	212	9,801	3,014	13,648	26,675

1.5 Fixed Assets Information on Assets Held at 31/3/04

	2003/04 No.		2003/04 No.
OPERATIONAL BUILDINGS		OPERATIONAL EQUIPMENT	
Administrative Buildings	50	Vehicles and Heavy Plant	296
Depots	32		
Social Work Homes for the Elderly	7	INFRASTRUCTURE ASSETS	
Social Work Children's Homes	5	Highways (miles)	1,406
Social Work Hostels	3	Bridges	954
Primary Schools	80	Car Parks	138
Secondary Schools	10	Vessels	5
Special Schools	3		
Nursery Schools	3	COMMUNITY ASSETS	
Halls	8	Play Areas	58
Sports Centres	1	Parks	25
Swimming Pools	4	Civic Regalia (Provosts' Chains)	4
Museums and Libraries	10	Civic Regalia (Baillies' Chains)	1
Community Centres	9	Cemeteries	125
Crematoria	1	War Memorials	54
Public Conveniences	75		
Travelling Persons Sites	3	COUNCIL DWELLINGS	5,943
Airports	1		

2. Summary of Capital Expenditure and Financing

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 2003/04 gross capital expenditure totalled £23.922m, offset by capital income of £4.177m, as follows:

	31 March 2004 £'000	31 March 2003 £'000
Capital Investment:		
Operational Assets	10,246	10,682
Non-operational Assets	9,580	6,648
Deferred Charges	898	4,082
Other Capital Payments	3,112	545
Other Adjustments for Cash Accounting	86	(115)
Total Expenditure	23,922	21,842
Sources of Finance:		
Borrowing (S94 consent)	19,745	17,071
Capital Receipts	2,196	2,158
Government Grants and Other Contributions	1,638	1,309
Revenue Contributions	343	1,304
Total Financing	23,922	21,842

3. Assets Held Under Finance Leases

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

4. Movement in Deferred Charges

	Balance at 1 April 2003 £'000	Expenditure in year £'000	Written off to revenue in year £'000	Balance at 31 March 2004 £'000
Improvement Grants	-			-
Other	418	898	(757)	559
Total Deferred Charges	418	898	(757)	559

5. Long Term Debtors

	31 March 2004 £'000	31 March 2003 £'000
Loans Early Repayment Premium	10,203	7,944
House Loans	679	851
Waste PPP Historic Contamination Fund	785	803
Total Long Term Debtors	11,667	9,598

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

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

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

	£'000
Balance at 1 April 2003	803
Contribution from General Fund	(44)
"Top-up" payments during the year	-
Withdrawals by Shanks Group PLC	-
Interest earned on bank account	26
Balance at 31 March 2004	785

6. Debtors

		2003/04		2002/03	
		£'000	£'000	£'000	£'000
Arrears of Local Taxation	Council Tax	11,683		11,660	
	less: provision for bad debts	(11,091)		(10,773)	
			592		887
Community Charge	Community Charge	7,697		7,812	
	less: provision for bad debts	(7,697)		(7,812)	
			-		-
Non-domestic Rates	Non-domestic Rates	1,513		1,774	
	less: provision for bad debts	(1,327)		(1,518)	
			186		256
House Rents	House Rents	253		264	
	less: provision for bad debts	(189)		(234)	
			64		30
Debtor Accounts	Debtor Accounts	2,760		3,789	
	less: provision for bad debts	(411)		(621)	
			2,349		3,168
Government Grants			1,420		424
VAT Recoverable			2,349		1,989
Other Debtors			4,338		4,855
Total Debtors			11,298		11,609

7. Analysis of Borrowing

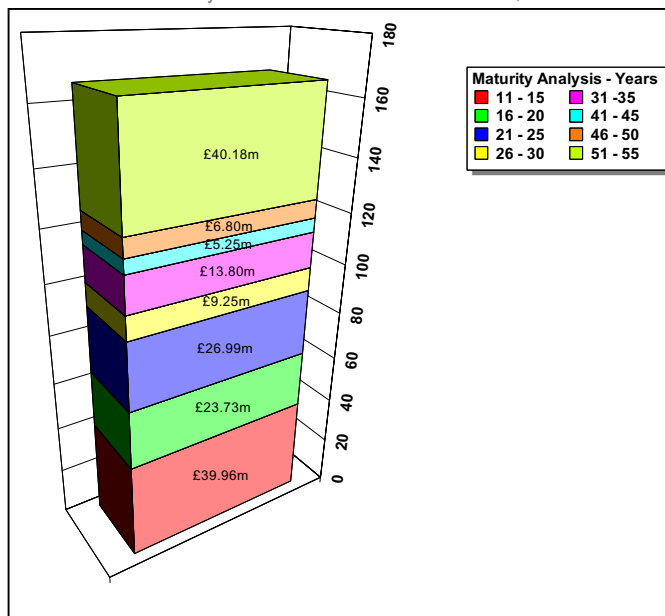
7.1 Source of Loan

	31 March 2004 £'000	31 March 2003 £'000
Public Works Loan Board	169,178	195,538
Money Market	25,755	20,580
EIB	830	963
Other Loans	513	422
Total Outstanding Loans	196,276	217,503

7.2 Maturity of Loans

	31 March 2004 £'000	31 March 2003 £'000
Borrowings repayable on demand or within 12 months	3,702	580
Borrowings repayable on demand or within 12 months	3,702	580
1 - 2 years	4,054	3,270
2 - 5 years	8,272	430
6 - 10 years	14,294	11,020
Over 10 years (see graph below)	165,954	202,203
Total Long and Medium Term Loans	192,574	216,923
Total Outstanding Loans	196,276	217,503

The following graph shows an additional analysis of how the £165.954m of loans, shown in the table above, is repayable.



8. Provisions

Liabilities have continued to arise in respect of the former Strathclyde Regional Council's operations. Cost sharing arrangements are in place with the other eleven authorities that make up the former Strathclyde Region. Argyll and Bute Council's share of liabilities, which materialise in the future, will be approximately 4.75%. At present, potential liabilities in respect of insurance claims and various legal actions could cost the Council £0.009m. Full provision for this amount has been made.

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

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

8. Provisions Continued

Both these provisions comply with the requirements of Financial Reporting Standard 12 - "Provisions, Contingent Liabilities and Contingent Assets" (FRS 12) and meet the following criteria:

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

	Opening Balance £'000	Movement in Year £'000	Closing Balance £'000
SRC Insurance Claims	(143)	43	(100)
Reorganisation Redundancy Costs	(274)	(49)	(323)
Teachers' Premature Retirement Scheme	-	(420)	(420)
Total Provisions	(417)	(426)	(843)

9. Analysis of Net Assets Employed

	As at 31 March 2004		
	General Fund £'000	HRA £'000	Total £'000
Assets			
Fixed Assets	257,584	64,725	322,309
Deferred Charges	559	-	559
Long Term Debtors	11,667	-	11,667
Stock and Work in Progress	652		652
Debtors	11,298		11,298
Investments	-	-	-
Cash at Bank and in Hand	850	-	850
Liabilities			
Short Term Borrowing	(3,702)		(3,702)
Creditors	(34,370)		(34,370)
Bank Overdraft	(3,670)	-	(3,670)
Long Term Borrowing	(192,574)		(192,574)
Deferred Covenant Liability	-	-	-
Provisions	(843)	-	(843)
Liability Related to Defined Benefit Pension Scheme	(23,011)	-	(23,011)
Total Net Assets Employed	24,440	64,725	89,165

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 2003/2004 Accounts given the uncertainties that surround both the final outcomes and the settlement levels.

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

11. Commitments Under Capital Contracts

At 31 March 2004, the Council had commitments on capital contracts of £9.845m. This expenditure will be funded from a combination of government grants, borrowing, income from selling assets and contributions from Revenue Accounts.

	£'000
Administration Buildings and Equipment	14
Information Technology	-
Development and Environment Services	873
Education	191
Social Work	15
Roads	7,955
Housing	-
Miscellaneous	797
	9,845

12. Trust Funds and Other Third Party Funds

The Council acts as sole or custodian trustee for 75 trust funds and 6 common good funds. In neither case do the funds represent assets of the Council, and as such have not been included in the Consolidated Balance Sheet. 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	25	37	763	763
Oban Common Good Fund	45	25	807	807
Inveraray Common Good Fund	-	-	1	1
Lochgilphead Common Good Fund	-	-	5	5
Dunoon Common Good Fund	-	-	7	7
Rothesay Common Good Fund	16	4	130	130
Argyll Education Trust	12	9	225	225
GM Duncan Trust	3	2	76	76
McDougall Trust	16	-	476	476
Various Other Trust Funds	15	2	406	406
Total Trust Funds	132	79	2,896	2,896

Purpose of Common Good Funds:

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

Purpose of Trust Funds:

GM Duncan Trust: for the provision of fuel, clothing and foodstuffs for the needy of Campbeltown. McDougall Trust: for the provision of sheltered housing on the Ross of Mull. Argyll Education Trust: this is made up of a number of small trusts to award prizes, bursaries, etc. to pupils and ex-pupils of schools within the former Argyll County Council area. Further information on the Common Good and Trust Funds, administered by Argyll and Bute Council, can be obtained from the Corporate Accounting Section of the Finance Department.

13. European Monetary Union

As at 31 March 2004, 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.

14. Pension Assets and Liabilities - FRS 17 Disclosure

In accordance with Financial Reporting Standard No 17 - "Retirement Benefits" (FRS 17) the Council is required to disclose certain information concerning assets, liabilities, income and expenditure related to pension schemes for its employees. As explained in note 3 of the Accounting Policies, the Council participates in two formal schemes, the Local Government Superannuation Scheme, which is administered by Strathclyde Pension Fund and the Teachers' Scheme. The Council is not required to record information related to the Teachers' Scheme as the liability for payment of pensions rests ultimately with the Scottish Executive. In addition, the Council has liabilities for discretionary payments outside the main schemes.

14. Pension Assets and Liabilities – FRS 17 Disclosure Continued

The net pension asset of Argyll and Bute Council as at 31 March 2004 can be calculated as follows:

	31 March 2004	31 March 2003
	£'000	£'000
Estimated Employer Assets (A)	138,298	103,938
Present Value of Scheme Liabilities	147,706	132,875
Present Value of Unfunded Liabilities	13,603	11,966
Total Value of Liabilities (B)	161,309	144,841
Net Pension Asset (A-B)	(23,011)	(40,903)

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

	Long Term Return % per annum	Fund Value at 31 March 2004 £'000	Fund Value at 31 March 2004 %	Expected Return per annum £'000
Assets (Employer Share)				
Equities	7.7%	101,059	73.07	7,782
Bonds	5.1%	19,686	14.23	1,004
Properties	6.5%	11,793	8.53	767
Cash	4.0%	5,761	4.17	230
Total	7.1%	138,299	100.00	9,783

The latest formal valuation of the Strathclyde Pension Fund for funding purposes was at 31 March 2002, with the next formal valuation due at 31 March 2005. Hymans Robertson has assumed that employees have continued to earn new benefits on the same basis as the latest formal valuation and that the employer's pensionable payroll over the year to 31 March 2005 remains substantially stable with new entrants replacing any leavers. The assumptions used by Hymans Robertson (Independent Actuaries) at 31 March 2004 are as follows:

	31 March 2004	31 March 2003
	% per annum	annum
Price Increases	2.9%	2.5%
Salary Increases	4.4%	4.0%
Pension Increases	2.9%	2.5%
Discount Rate	6.5%	6.1%

Movement in Surplus Deficit in the Year

	Year to 31 March 2004 £'000
Surplus / (deficit) at beginning of the year	(40,903)
Current service cost	(6,054)
Employer contributions	5,975
Contributions in respect of Unfunded Benefits	982
Other Income	-
Other outgoings (e.g. expenses, etc)	-
Past service costs	(23)
Impact of settlements and curtailments	(773)
Net return on assets	(1,266)
Actuarial gains / (losses)	19,051
Surplus / (deficit) at end of the year	(23,011)

Capital Reserves	Note 1	Note 2	Useable Capital Receipts Reserve £'000	Note 3	Note 4	Total £'000
	Fixed Asset Restatement Reserve £'000	Capital Financing Reserve £'000		Deferred Gov't Grants £'000	Earmarked Reserves £'000	
Balance at 1 April 2003	81,357	(5,926)	400	11,751	905	88,487
Net Surplus/(Deficit) for year		109		1,487	(96)	1,500
Prior year adjustments						-
Unrealised gains/(loss) from revaluation of fixed assets	7,180					7,180
Impairment gains/(losses) arising from revaluations						-
Other Adjustments	-	247				247
Effects of disposals of fixed assets:						
Cost or value of assets disposed of	(4,105)					(4,105)
Proceeds of disposals		5,784				5,784
Net Surplus/(Deficit)	(4,105)	5,784	-			1,679
Balance at 31 March 2004	84,432	214	400	13,238	809	99,093

Revenue Reserves (Note 5)	Note 4				Total £'000
	General Fund £'000	HRA Balance £'000	DLO/ DSO £'000	Earmarked Reserves £'000	
Balance at 1 April 2003	5,707	423	111	844	7,085
Net Surplus/(Deficit) for year	6,074	184		(16)	6,242
Revenue Interest	-	10		-	10
Other Adjustments / Reserve Transfers		(143)	(111)	-	(254)
Balance at 31 March 2004	11,781	474	-	828	13,083

NOTES TO THE STATEMENT OF TOTAL MOVEMENT ON 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.

	General Fund £'000	HRA Balance £'000	Total £'000
Balance at 1 April 2003			81,357
Surplus on revaluations, etc	5,483	1,697	7,180
Disposal of Fixed Assets	(1,189)	(2,916)	(4,105)
Balance at 31 March 2004			84,432

NOTES TO THE STATEMENT OF TOTAL MOVEMENT ON RESERVES CONTINUED

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.

	General Fund £'000	HRA Balance £'000	Sub Total £'000	Total £'000
Balance at 1 April 2003			(5,926)	(5,926)
Appropriations:				
Capital Financed from Current Revenue	16	327	343	
Repayment of External Loans	11,885	1,614	13,499	
Depreciation Write-off	(11,442)	(2,155)	(13,597)	
Deferred Government Grants Write-off	621	-	621	
Deferred Charges Write-off	(757)	-	(757)	109
Proceeds of Disposals				5,784
Other Adjustments				247
Balance at 31 March 2004				214

3. Deferred Government Grants

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

	£'000
Balance at 1 April 2003	11,751
Grants received during the year to finance capital projects	2,108
Credit to revenue account during the year	(621)
Balance at 31 March 2004	13,238

4. Earmarked Reserves

	Balance at 31 March 2003 £'000	Contribution from CRA £'000	Interest Earned £'000	Appropriation to CRA £'000	Balance at 31 March 2004 £'000
Capital Reserves:					
Repairs and Renewals - Education	808	523	23	(545)	809
DLO Capital Fund	97	-	-	(97)	-
	905	523	23	(642)	809
Revenue Reserves:					
Repairs and Renewals - Vehicles	41	-	2	-	43
Repairs and Renewals - Land Contamination	803	26	-	(44)	785
	844	26	2	(44)	828

5. Revenue Reserves

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

NOTES TO THE STATEMENT OF TOTAL MOVEMENT ON RESERVES CONTINUED

6. Public Private Partnership Surplus

The General Fund balance of £11.781m includes a surplus of £0.060m. This relates to the Waste Management PPP where there was a surplus of funding over expenditure in the 2003/2004 financial year. The following analysis provides more detail on how the surplus for the year was arrived at:

Expenditure	£'000
Payment under the contract	4,496
Historic Contamination	-
Total Expenditure	4,496
Funding	
Argyll and Bute Council Revenue Budget	1,012
Level Playing Field Support	1,290
Strategic Waste Fund	1,654
Capital Virement	600
Total Funding	4,556
2003/04	60

2002/03		Note	2003/04
Actual	REVENUE ACTIVITIES		Actual
£'000	<i>Cash outflows</i>		£'000
98,854	Cash Paid for and on Behalf of Employees		106,820
87,722	Other Operating Cash Payments		107,607
8,943	Housing Benefit Paid Out		7,243
2,582	National Non-domestic Rate Payments to National Pool		995
198,101	Total Cash Outflows		222,665
	<i>Cash inflows</i>		
6,641	Rents (after rebates)		6,623
32,023	Council Tax Income		36,059
30,110	Non-domestic Rate Receipts		30,078
22	Community Charge		
101,529	Revenue Support Grant		126,569
22,270	DSS Grants for Benefits		21,278
9,850	Other Government Grants	1	7,759
18,013	Cash Received for Goods and Services		23,935
9,134	Other Operating Cash Receipts		3,784
229,592	Total Cash Inflows		256,085
31,491	Net Cash Inflow / (Outflow) From Revenue Activities	2	33,420
	SERVICING OF FINANCE		
	<i>Cash outflows</i>		
14,833	Interest paid		14,782
14,833	Total Cash Outflows		14,782
	<i>Cash inflows</i>		
208	Interest received		372
208	Total Cash Inflows		372
(14,625)	Net Cash Inflow / (Outflow) From Servicing of Finance		(14,410)
	CAPITAL ACTIVITIES		
	<i>Cash outflows</i>		
10,994	Purchase of Fixed Assets		11,342
6,679	Other Capital Cash Payments		4,606
17,673	Total Cash Outflows		15,948
	<i>Cash inflows</i>		
5,268	Sale of Fixed Assets		5,783
733	Capital Grants Received		2,099
364	Other Capital Cash Receipts		344
6,365	Total Cash Inflows		8,226
(11,308)	Cash Inflow (Outflow) From Capital		(7,722)
5,558	Net Cash Inflow / (Outflow) Before Financing		11,288
	FINANCING		
	<i>Cash outflows</i>		
11,432	Repayments of Amounts Borrowed		43,073
11,432	Total Cash Outflows		43,073
	<i>Cash inflows</i>		
14,918	New Loans Raised		21,846
14,918	Total Cash Inflows		21,846
3,486	Net Cash Inflow / (Outflow) From Financing		(21,227)
9,044	Net Increase / (Decrease) in Cash	3	(9,939)

1. Other Government Grants

2002/03 £'000		2003/04 £'000
168	Housing Support Grant	149
318	Public Transport Grant	342
270	Pre-school Education Grants	112
4,299	National Priorities Action Fund	1,974
76	Special Education	136
236	Gaelic Education Grants	255
1,134	Other Educational Grants	1,261
273	Children's Change Fund	390
211	DWP Other Grants	470
533	Social Inclusion Partnership	475
1,676	Strategic Waste Fund	1,792
656	Other Grants (e.g. Civil Defence)	403
9,850	Total "Other Government Grants"	7,759

2. Net Cash Flow Reconciliation

2002/03 £'000		2003/04 £'000
5,220	Surplus/(Deficit) for Year	6,074
(636)	Add back: Transfer to HRA Balance	184
4,584		6,258
(1,992)	Movements in Reserves	(205)
24,624	Adjustments Not Involving Movement in Funds	20,786
1,085	(Increase)/Decrease in Stocks	91
1,323	(Increase)/Decrease in Debtors	385
1,867	Increase/(Decrease) in Creditors	6,105
31,491	Revenue Activities Net Cash Flow	33,420

3. Analysis of Net Debt

	As at 31 March 2004 £'000	As at 1 April 2003 £'000	Cash Flow £'000
Investments	-	2,000	(2,000)
Cash at Bank and in Hand	850	8,097	(7,247)
Bank Overdraft	(3,670)	(2,978)	(692)
Net Increase / (Decrease) in Cash	(2,820)	7,119	(9,939)
Debt due within one year	(3,702)	(580)	(3,122)
Debt due after one year	(192,574)	(216,923)	24,349
Increase / (Decrease) in Debt Financing	(196,276)	(217,503)	21,227
Movement in Debt in Period	(199,096)	(210,384)	11,288

4. Reconciliation of Movement in Cash to Net Debt

2002/03 £'000		2003/04 £'000
9,044	Increase / (Decrease) in Cash in Period	(9,939)
(3,487)	Increase / (Decrease) in Debt Financing	21,227
<u>5,557</u>	Movement in Debt in Period	<u>11,288</u>
(215,941)	Net Debt as at 1 April 2003	(210,384)
<u>(210,384)</u>	Net Debt as at 1 April 2004	<u>(199,096)</u>

THE AUTHORITY'S RESPONSIBILITIES

The Authority is required:

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

THE HEAD OF STRATEGIC FINANCE'S RESPONSIBILITIES

The Head of Strategic Finance is responsible for the preparation of the authority's statement of accounts, which in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code of Practice), is required to present fairly, the financial position of the authority as at 31 March 2004 and its income and expenditure for the year ended on that date.

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

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

The Head of Strategic Finance has also:

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

This statement of accounts presents fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2004.



Bruce West
Head of Strategic Finance
June 15, 2004

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

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

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

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

Argyll and Bute Council has an internal audit function, which operates to standards defined in the Chartered Institute of Public Finance and Accountancy's Code of Practice for Internal Audit in Local Government in the United Kingdom. The work of internal audit is informed by an analysis of the risk to which the Council is exposed, and annual internal audit plans are based on the analysis. The Council's Audit Committee endorses the analysis of risk and the internal audit plans. At least annually, the Internal Audit Manager provides the Audit Committee with a report on internal audit activity in the Council. The report includes the Internal Audit Manager's independent opinion on the adequacy and effectiveness of the Council's systems of internal financial control.

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

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

During 2003/2004 Internal Audit has identified a number of areas of potential weakness in the systems of financial control. They are:-

- Following internal reorganisation, revisions to Contract Standing Orders and Financial Regulations have to be formalised. This includes the required changes previously identified in respect of capital control guidelines. These areas are being addressed.
- Formalisation of and improvement to capital project management disciplines were identified last year as areas where action was required to address potential weaknesses. These are currently being addressed by management.
- A risk register has been prepared. However the review of this register and development of a risk management strategy has been delayed. This will be taken forward by the Risk and Governance Manager once appointed.
- A number of fundamental weaknesses were identified in the management of operating leases.
- A number of fundamental weaknesses were identified in the accounting for property assets.

Management have agreed action plans with Internal Audit, which once implemented, will address the potential weaknesses identified.

In addition attention is drawn to the following matters:

- The Council has still to fully develop its approach to asset management strategy and planning. This is a key requirement to underpin borrowing in terms of the prudential code. Arrangements are in place to address this.
- During 2003-04 the Council carried out an internal restructuring. Major business and organisation change of this nature always represents a potential risk to the control environment. However the year end outturn has resulted in a generally satisfactory position and Internal Audit's annual report allows me to take comfort, that other than as outlined above, reasonable assurance can be placed on the adequacy and effectiveness of the Council's Internal Financial Control System.



Bruce West
Head of Strategic Finance
June 15, 2004