



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

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

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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 2005/2006.

Accounting Policies

The Statement of Accounting Policies sets out the basis upon which the Financial Statements have been prepared and explains the accounting treatment of both general and specific items. The Council continues to adopt the accounting practices recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authorities (Scotland) Accounts Advisory Committee (LA(S)AAC). The annual accounts for 2005/2006 have been prepared in compliance with the Code of Practice on Local Authority Accounting in the United Kingdom 2005: A Statement of Recommended Practice (SORP). The format of the Consolidated Revenue Account reflects the requirements of the Best Value Accounting Code of Practice 2005 - Scotland (BVACOP).

The Financial Statements

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

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

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

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

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

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

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

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

Statement of Responsibilities

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

Statement on the System of Internal Financial Control

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

Major Changes in Accounting Practice

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

General Fund

The following table summarises how the deficit for the year has arisen. For the purpose of comparison, the budget for 2005/2006 has been taken as the original approved budget agreed by Committee. Adjustments to budget have also been made in respect of additional revenue support grant and items transferred from revenue to capital.

| Savings on Budget: | £'m |
|---|----------------|
| Savings in Loan Charges | 0.506 |
| Increased Collections on Local Taxes | 1.506 |
| Overall Overspend by Departments Against Budget | (0.171) |
| Sub-Total - Outturn Compared to Budget | 1.841 |
| Change in earmarked funds | 1.784 |
| Equal Pay Settlement | (4.128) |
| Deficit for Year Per Accounts | (0.503) |

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

Significant Trading Organisations

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

Housing Revenue Account

The HRA balance stands at £1.756 at 31 March 2006 and is an increase of £0.741m from the 31 March 2005 balance of £1.015m. The main factors giving rise to the increase in the balance are as follows:

| | £'m |
|--|--------------|
| Contribution to Capital Financing Account | (0.274) |
| (Increase) in Repairs and Maintenance | (0.441) |
| Decrease in Supervision and Management | 0.138 |
| Reduction in Capital Financing | 1.150 |
| Bad Debts Written Off | (0.020) |
| Increase in Bad Debt Provision | (0.066) |
| Other Variations in Expenditure | 0.092 |
| Decreased / (Increased) Expenditure | 0.579 |
| Increase in Rental Income | 0.025 |
| Other Variations in Income | 0.372 |
| Deduct Budgeted Deficit | (0.280) |
| (Decreased) / Increased Income | 0.117 |
| Surplus for Year | 0.696 |
| Contribution to General Fund | - |
| Interest Earned on Balance | 0.045 |
| Increase to HRA Balance | 0.741 |

The saving in capital financing costs arises largely from advancing the amortisation of credit balances of the HRA in the loans fund related to accumulated capital receipts. This has been actioned in preparation for the transfer of the housing stock during 2006. It will create a surplus in the HRA to meet the proportion of loans early redemption premium estimated at around £1.9m that will be charged to the HRA on the date of transfer of the housing stock.

Capital Expenditure and Borrowing

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

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

The Council approved a set of prudential indicators for 2005/2006 and managed capital expenditure and borrowing within these approved limits.

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

| | £'m |
|--|---------------|
| Gross Capital Expenditure | 33.628 |
| Less: | |
| Capital Receipts | 5.225 |
| Government Grants and Other Contributions | 7.358 |
| Revenue Contributions | 0.572 |
| Contribution from Useable Capital Receipts Reserve | 0.466 |
| Net Capital Expenditure | 20.007 |

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

Property Valuations

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

Pensions Liability

Pension costs have been recognised in accordance with FRS17. As a result of this a liability of £65.681m is recorded in the Council's balance sheet. This represents the Council's share of the deficit on Strathclyde Pension Fund. This liability is offset by a Pensions Fund reserve of an equivalent amount.

Hymans Robertson (Independent Actuaries) were instructed by Glasgow City Council, the administering authority to the Strathclyde Pension Fund, to undertake calculations in respect of the Local Government Pension Scheme on behalf of Argyll and Bute Council as at 31 March 2006. Their calculations have been carried out in accordance with Guidance Note 36: Accounting for Retirement Benefits under FRS17, issued by the Institute and the Faculty of Actuaries.

Local Government legislation provides that local authorities have an obligation to meet the expenditure of the Joint Boards of which they are constituent members. As a consequence Argyll and Bute Council has additional liabilities arising from the pension deficits of:

- Strathclyde Police Board
- Strathclyde Fire Board
- Dunbartonshire and Argyll & Bute Valuation Board

Further information regarding these deficits can be found in the annual report and accounts of the relevant bodies.

Statement on the System of Internal Financial Control

In overall terms the Council has an adequate and effective system of internal financial control. There are however some areas where improvements are required and these are noted in the Statement on the System of Internal Financial Control.

Other Significant Matters

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

In common with other Councils a significant investment in school buildings is required. The Council has been successful in securing revenue support towards a Public Private Partnership (PPP) for school buildings. The Council has developed a Pathfinder Non-Profit Distributing Organisation (NPDO) approach for the PPP. Financial close for Stage 1 covering 9 schools on 4 sites was achieved during September 2005 and Stage 2 covering a further school will be achieved in the near future. Work on all Stage 1 sites is well under way with building completion on all schools scheduled for early 2008.

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

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

Conclusion

The Council ends the year with a slightly decreased general fund balance. This is a better position than expected given the full impact of the equal pay settlement has been processed through the 2005/06 financial year: continuing improvements in council tax collection, savings in loan charges and containment of expenditure in departments have contributed to this position.

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



Bruce West
Head of Strategic Finance
16 June 2006

1. GENERAL PRINCIPLES

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

2. ACCRUALS OF INCOME AND EXPENDITURE

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

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

3. OVERHEADS AND SUPPORT SERVICES

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

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

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

4. GOVERNMENT GRANTS AND CONTRIBUTIONS (REVENUE)

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

5. PENSIONS

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

5.1 Teachers

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

5.2 Local Government Pension Scheme

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

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

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

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

5.3 *Discretionary Benefits*

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

6. INTANGIBLE FIXED ASSETS

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

7. TANGIBLE FIXED ASSETS

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

7.1 *Recognition*

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

7.2 *Measurement*

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

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

Net current replacement cost is assessed as:

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

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

7.3 *Impairment*

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

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

7.4 *Disposals*

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

7.5 Depreciation

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

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

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

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

7.6 Grants and Contributions

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

8. CHARGES TO REVENUE FOR FIXED ASSETS

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

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

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

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

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

9. DEFERRED CHARGES

Deferred charges represent capitalised expenditure that does not result in, or remain matched with, tangible fixed assets. Expenditure is written off to the service revenue account in the year in which the expenditure is incurred on the basis that no long-term benefit accrues directly to the authority from the expenditure.

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

10. LEASES

10.1 Finance Leases

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

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

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

10.2 Operating Leases

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

11. REPURCHASE OF BORROWING

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

12. STOCK AND WORK IN PROGRESS

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

13. PROVISIONS

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

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

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

14. RESERVES

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

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

15. VALUE ADDED TAX (VAT)

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

16. INTERESTS IN COMPANIES AND OTHER ENTITIES

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

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

1. Joint Boards

Payments are made to Police, Fire, Passenger Transport and Valuation Joint Boards and to the Authorities Buying Consortium. Details of all amounts paid to Joint Boards and where these amounts appear within the Consolidated Revenue Account are shown below:

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

2. Asset Management Revenue Account

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

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

3. Contributions to Capital Financing Account

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

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

4. General Fund Balance Carried Forward

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

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

5. Finance and Operating Leases

5.1 Finance Leases

The authority holds various vehicles under finance leases. The finance lease payment for the year amounted to £0.147m.

| 2004/05 | | 2005/06 |
|------------|--------------|------------|
| £'000 | | £'000 |
| 147 | Vehicles | 147 |
| 147 | Total | 147 |

5.2 Operating Leases

The Council uses land, buildings, vehicles, plant and equipment financed under the terms of an operating lease. The amounts paid under these arrangements in 2005/06 were as follows:

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

6. Significant Trading Organisations

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

6.1 Roads and Lighting Trading Account

The Council runs its Roads and Lighting Service on the basis of agreements concluded between the Service Managers, the relevant Council Departments and external organisations. The Service maintains the road network throughout Argyll & Bute excluding Trunk Roads (which are the responsibility of the Scottish Executive). The Trading objective is to breakeven over a three year period.

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

6.2 Waste Management Trading Account

The Council runs its Waste Management Service on the basis of agreements concluded between the Service Managers, the relevant Council Departments and external organisations. The Service includes Waste Collection, Street Sweeping and Skip Services. The Trading objective is to breakeven over a three year period.

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

6.3 Leisure Trading Account

The Council runs its Leisure Trading Service on the basis of an agreement concluded between the Service Managers and the Community Services Department. The Service is responsible for the running of all Council owned Swimming Pools, Halls and Sport Centres. The Trading objective is to breakeven over a three year period.

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

6.4 Catering and Cleaning Trading Account

The Council runs its Catering and Cleaning Service on the basis of agreements concluded between the Service Managers, the relevant Council Departments and external organisations. The Service provides Catering and Cleaning to all Schools and Council Offices as well as providing a Cleaning service to external clients such as Police Stations and Outdoor Centres. The Trading objective is to breakeven over a three year period.

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

6.5 Building Maintenance Trading Account

The Council runs its Building Maintenance Service on the basis of agreements concluded between the Service Managers, the relevant Council Departments and external organisations. The Service provides Building Maintenance to all Council owned buildings as well as providing a service to external clients such as the Fire Brigade. The Trading objective is to breakeven over a three year period.

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

7. Local Government Act 1986 - Separate Publicity Account

The Council is required under Section 5 of the Act to maintain a separate account for publicity. Expenditure of £0.617m was incurred during 2005/06 and is included within service expenditure as follows:

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

8. Agency Income

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

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

9. Local Authorities (Goods and Services) Act 1970

The Council is empowered by this Act to provide goods and services to other public bodies. Income from these services amounted to £1.218m and the related expenditure was £1.206m. The goods and services provided during the year were as follows:

| Name of Body | Purpose of work | Income £'000 | Expenditure £'000 |
|-----------------------------------|---|-----------------|----------------------|
| North Lanarkshire Council | Cleaning and Catering - Kilbowie OC | 164 | 149 |
| Strathclyde Police | Cleaning of Police Stations | 79 | 68 |
| Strathclyde Fire | Maintenance of Fire Stations | 554 | 469 |
| Various Public Bodies | Grounds Maintenance | 9 | 8 |
| Various Councils | Provision of Science Packs And Health Packs | 7 | 14 |
| Various Councils | Provision of Auxiliary Support | 22 | 22 |
| Various Councils | Provision of Pre-School TEDEY Software | 3 | 3 |
| Lomond & Argyll Primary NHS Trust | Provision of Care for the Elderly | 110 | 125 |
| Various Councils | Provision of Care for the Elderly | 53 | 130 |
| West Dunbartonshire Council | Provision of Special Education Needs | 217 | 218 |
| | | 1,218 | 1,206 |

10. Health Act 1999 Pooled Funds and Similar Arrangements

The Council has a joint working arrangement with NHS Argyll and Clyde whereby it provides certain types of care of the elderly and services for those with learning disabilities or mental health problems. During 2005/06 income from this source amounted to £3.805m and the related expenditure was £4.963m. These sums can be analysed as follows:

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

11. Teachers Pensions - Administered by Scottish Public Pensions Agency

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

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

12. Members' Allowances

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

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

13. Officers' Emoluments

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

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

14. Waste Management Public Private Partnership

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

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

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

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

15. Fees Payable to Audit Scotland

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

| £'000 | | £'000 |
|------------|--|------------|
| 272 | Fees payable to Audit Scotland with regard to external audit services carried out by the appointed auditor | 272 |
| <u>272</u> | | <u>272</u> |

16. Related Party Transactions

During the year transactions with related parties arose as follows:

| | Income £'000 | Expenditure £'000 |
|---|-----------------|----------------------|
| Central Government and Agencies: | | |
| Revenue Grants: | | |
| Revenue Support Grant | 124,555 | |
| Non-domestic Rates | 34,249 | |
| Housing Benefits / Support Grant | 15,923 | |
| Council Tax Benefit Subsidy | 5,374 | |
| Other Government Grants | 25,484 | |
| | <u>205,585</u> | |
| Capital Grants: | | |
| European Grants | 1,518 | |
| Sportscotland | 199 | |
| AIE - Campbeltown Community Project | 522 | |
| School Buildings Improvements Fund | 1,943 | |
| Other Government Capital Grants | 3,123 | |
| | <u>7,305</u> | |

Related Bodies:

Transactions with related bodies during the year totalled 20,666

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

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

Other Related Party Transactions:

Transactions in which members have a significant interest

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

| | |
|---------------|----|
| Trident Taxis | 82 |
|---------------|----|

17. Pension – Local Government Superannuation (Scotland) Scheme

As stated in note 5 of the Statement of Accounting Policies, the Council participates in the Local Government Pension Scheme administered by the City of Glasgow Council's Strathclyde Pension Fund. This Fund provides members with defined benefits relating to pay and service. The contributions are based on rates determined by the Fund's professionally qualified actuary and based on triennial valuations of the Fund. The following transactions have been made during the year in relation to the Local Government Pension Scheme:

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

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

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

1. Gross Rent Income

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

2. Housing Stock

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

3. Rent Arrears and Bad Debts

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

In accordance with the latest assessment of potential recovery and in order to reflect due prudence, the provision for bad debts, in respect of rent arrears, has been adjusted to £0.239m (2004/05 - £0.173m); this represents an increase of £0.066m. The share of the sundry debtor account provision has remained the same.

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

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

1. Calculation of the Council Tax

Dwellings are valued by the Assessor and placed within a valuation band ranging from the lowest "A" to the highest "H". The Council Tax charge is calculated using the Council Tax Base, Band D equivalent as below. This value is then decreased or increased dependent upon the band of the dwelling. The charge for each band for 2005/06 was as follows:

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

2. Calculation of the Council Tax Base 2005/06

| Council Tax Base | A | B | C | D | E | F | G | H | Total |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|------------|---------------|
| Total Number of Properties | 8,076 | 9,528 | 9,201 | 5,574 | 6,760 | 3,510 | 2,375 | 222 | 45,246 |
| Less - Exemptions / Deductions | 1,058 | 702 | 943 | 446 | 525 | 203 | 132 | 31 | 4,040 |
| - Adjustment for Single Chargepayers | 905 | 980 | 763 | 414 | 359 | 147 | 87 | 6 | 3,661 |
| Effective Number of Properties | 6,113 | 7,846 | 7,495 | 4,714 | 5,876 | 3,160 | 2,156 | 185 | 37,545 |
| Band D Equivalent Factor (ratio) | 6/9 | 7/9 | 8/9 | 9/9 | 11/9 | 13/9 | 15/9 | 18/9 | |
| Band D Equivalent Number of Properties | 4,075 | 6,102 | 6,662 | 4,714 | 7,182 | 4,564 | 3,593 | 370 | 37,262 |
| Add Contribution in lieu in respect of Class 18 dwellings (Band D Equivalent) | | | | | | | | | 458 |
| Nominal Tax Yield | | | | | | | | | 37,720 |
| Less Provision for Non-Collection - 4.97% | | | | | | | | | 1,873 |
| Council Tax Base 2005/06 - Number of Band D equivalents | | | | | | | | | 35,847 |

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

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

NOTES TO THE NON-DOMESTIC RATE INCOME ACCOUNT

1. Analysis of Rateable Values

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

2. Non-Domestic Rate Charge

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

3. Calculation of Rate Charge for Each Property

The rates charge for each subject is determined by the rateable value placed upon it by the Assessor multiplied by the Rate per £ announced each year by the Government.

| 2004/05 £'000 | Note | 2005/06 £'000 |
|------------------|---|------------------|
| | Fixed Assets | |
| 28 | <i>Intangible Fixed Assets</i> | 49 |
| | <i>Tangible Fixed Assets</i> | |
| | Operational Assets | 2.1 |
| 68,370 | - Council Dwellings | 72,470 |
| 177,024 | - Other Land and Buildings | 173,161 |
| 5,956 | - Vehicles, Plant and Equipment | 6,588 |
| 75,771 | - Infrastructure Assets | 90,138 |
| 1,690 | - Community Assets | 1,783 |
| | Non-operational Assets | 2.2 |
| 5,935 | - Investment Property | 6,624 |
| 14,962 | - Assets Under Construction | 19,288 |
| 8,100 | - Surplus Assets held for Disposal | 8,300 |
| 357,836 | Total Fixed Assets | 378,401 |
| 1,419 | Long Term Debtors | 6 |
| 359,255 | Total Long Term Assets | 379,630 |
| | Current Assets | |
| 678 | Stock and Work in Progress | 609 |
| 18,055 | Debtors | 7 |
| 13,128 | Cash and Bank | 24,635 |
| 391,116 | Total Assets | 423,419 |
| | Current Liabilities | |
| (4,517) | Short Term Borrowing | 8.2 |
| (44,433) | Creditors | (551) |
| (3,850) | Bank Overdraft | (36,540) |
| 338,316 | Total Assets less Current Liabilities | (2,885) |
| (193,771) | Long Term Borrowing | 8.2 |
| (567) | Deferred Liability - Finance Leases | (222,565) |
| (388) | Provisions | (465) |
| (81,535) | Liability Related to Defined Benefit Pension Scheme | 9 |
| 62,055 | Total Assets less Liabilities | 15.1 |
| | <i>Financed by:</i> | |
| 104,772 | Fixed Asset Restatement Account | 114,662 |
| 6,168 | Capital Financing Account | 6,012 |
| 467 | Useable Capital Receipts Reserve | - |
| 23,881 | Deferred Government Grants and Contributions | 30,001 |
| (9,653) | Deferred (Premiums) / Discounts | (9,104) |
| (81,535) | Pensions Reserve | (65,681) |
| 15,120 | General Fund Balance | 14,617 |
| 1,015 | Housing Revenue Account Balance | 1,756 |
| 1,820 | Repairs and Renewals Funds | 1,648 |
| 62,055 | Total Net Worth | 93,911 |



Bruce West
 Head of Strategic Finance
 16 June 2006

1. Movement in Intangible Assets

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

2.1 Movement in Operational Fixed Assets

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

2.2 Movement in Non-Operational Fixed Assets

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

2.3 Valuation of Operational Fixed Assets

Council dwellings were revalued at 31 March 2005 by the District Valuer for Scotland South West, W.R Duthie, F.R.I.C.S., on the basis of Existing Use Value for Social Housing as defined in Practice Statement 4.1 of the Royal Institute of Chartered Surveyors (RICS) Appraisal and Valuation Manual, the definition of which is as follows:

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

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

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

| | Council Dwellings | Other Land & Buildings | Vehicles Plant & Equipment | Infrastructure Assets | Community Assets | Total 2005/06 |
|-----------------------------|--------------------------|-----------------------------------|---------------------------------------|------------------------------|-------------------------|----------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Valued at historical cost | | | 6,588 | 90,138 | 1,783 | 98,509 |
| Valued at current value in: | | | | | | |
| 2005/2006 | 72,470 | 39,003 | | | | 111,473 |
| 2004/2005 | | 87,938 | | | | 87,938 |
| 2003/2004 | | 15,866 | | | | 15,866 |
| 2002/2003 | | 29,127 | | | | 29,127 |
| 2001/2002 | | 49 | | | | 49 |
| 2000/2001 | | 42 | | | | 42 |
| 1999/2000 | | 1,100 | | | | 1,100 |
| Inherited Value | | 36 | | | | 36 |
| Total | 72,470 | 173,161 | 6,588 | 90,138 | 1,783 | 344,140 |

2.4 Valuation of Non-Operational Fixed Assets

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

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

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

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

| | 2005/06 | | 2005/06 |
|-----------------------------------|---------|----------------------------------|---------|
| | No. | | No. |
| OPERATIONAL BUILDINGS | | | |
| Administrative Buildings | 52 | OPERATIONAL EQUIPMENT | |
| Depots | 34 | Vehicles and Heavy Plant | 325 |
| Social Work Homes for the Elderly | 7 | INFRASTRUCTURE ASSETS | |
| Social Work Children's Homes | 5 | Highways (miles) | 1,406 |
| Hostels | 6 | Bridges | 954 |
| Primary Schools | 79 | Car Parks | 138 |
| Secondary Schools | 10 | Vessels | 5 |
| Special Schools | 3 | COMMUNITY ASSETS | |
| Nursery Schools | 4 | Parks/Play Areas | 60 |
| Halls | 8 | Civic Regalia (Provosts' Chains) | 4 |
| Sports Centres | 1 | Civic Regalia (Bailies' Chains) | 1 |
| Swimming Pools | 4 | Cemeteries | 125 |
| Museums and Libraries | 10 | War Memorials | 54 |
| Community Centres | 8 | Works of Art | 299 |
| Crematoria | 1 | COUNCIL DWELLINGS | |
| Public Conveniences | 78 | | 5,530 |
| Travelling Persons Sites | 3 | | |
| Airports | 1 | | |

The above is a selection from the asset register of the main asset categories.

3. Summary of Capital Expenditure and Financing

| | 31 March 2006 | 31 March 2005 |
|--|------------------|------------------|
| | £'000 | £'000 |
| Opening Capital Financing Requirement | 223,617 | 226,322 |
| Capital Investment | | |
| Operational Assets - Expenditure | 24,061 | 11,817 |
| Operational Assets - Finance Leases | | - |
| Non-Operational Assets | 9,537 | 17,033 |
| Deferred Charges | | - |
| Intangible Assets | 28 | 10 |
| Total Capital Investment | 33,626 | 28,860 |
| Sources of Finance: | | |
| Capital Receipts | (5,225) | (5,651) |
| Government Grants | (7,358) | (11,353) |
| Capital Financed from Current Revenue | (572) | (315) |
| Repayment of External Loans | (15,232) | (13,749) |
| Capital Element of Finance Lease Payments | (103) | (133) |
| Capital Receipts from Useable Capital Receipts Reserve | (466) | (359) |
| Other | (174) | (5) |
| Total Funding | (29,130) | (31,565) |
| Closing Capital Financing Requirement | 228,113 | 223,617 |

4. Assets Held Under Finance Leases

The following values of assets are held under finance leases by the authority, accounted for as part of tangible fixed assets:

| | Vehicles, Plant and Equipment £'000 |
|-------------------------------|---|
| Value at 1 April 2005 | 567 |
| Additions | - |
| Depreciation | (102) |
| Disposals | - |
| Value at 31 March 2006 | 465 |

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

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

5. Assets Held Under Operating Leases

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

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

6. Long Term Debtors

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

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

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

| | £'000 |
|-----------------------------------|------------|
| Balance at 1 April 2005 | 818 |
| Contribution to General Fund | - |
| "Top-up" payments during the year | - |
| Withdrawals by Shanks Group PLC | - |
| Interest earned on bank account | 23 |
| Balance at 31 March 2006 | 841 |

7. Debtors

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

8. Analysis of Borrowing

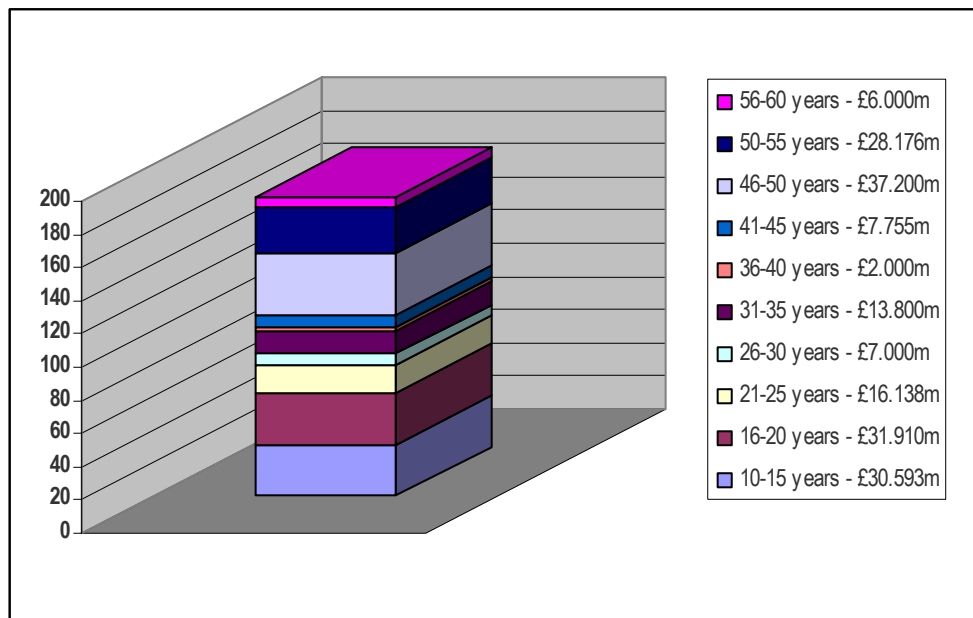
8.1 Source of Loan

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

8.2 Maturity of Loans

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

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



9. Provisions

Liabilities have continued to arise in respect of the former Strathclyde Regional Council's operations. Cost sharing arrangements are in place with the other eleven authorities that make up the former Strathclyde Region. Argyll and Bute Council's share of liabilities, which materialise in the future, will be approximately 4.75%. At present, potential liabilities in respect of insurance claims and various legal actions could cost the Council £0.087m. Full provision for this amount has been made.

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

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

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

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

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

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

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

10. Analysis of Net Assets Employed

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

11. Contingent Gains and Liabilities

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

12. Commitments Under Capital Contracts

At 31 March 2006, the Council had commitments on capital contracts of £8.262m. This expenditure will be funded from a combination of government grants, borrowing, income from selling assets and contributions from Revenue Accounts.

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

13. Trust Funds and Other Third Party Funds

The Council acts as sole or custodian trustee for 75 trust funds and 6 common good funds. In neither case do the funds represent assets of the Council, and as such have not been included in the Consolidated Balance Sheet.

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

| | Income £'000 | Expenditure £'000 | Assets £'000 | Liabilities £'000 |
|-------------------------------|-----------------|----------------------|-----------------|----------------------|
| Campbeltown Common Good Fund | 26 | 27 | 485 | 485 |
| Oban Common Good Fund | 46 | 31 | 881 | 881 |
| Inveraray Common Good Fund | | | 1 | 1 |
| Lochgilphead Common Good Fund | | | 5 | 5 |
| Dunoon Common Good Fund | | | 6 | 6 |
| Rothesay Common Good Fund | 8 | 12 | 131 | 131 |
| Argyll Education Trust | 12 | 9 | 247 | 247 |
| GM Duncan Trust | 3 | 1 | 80 | 80 |
| McDougall Trust | 22 | | 519 | 519 |
| Various Other Trust Funds | 25 | 1 | 447 | 447 |
| Total Trust Funds | 142 | 81 | 2,802 | 2,802 |

Purpose of Common Good Funds:

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

Purpose of Trust Funds:

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

14. European Monetary Union

As at 31 March 2006, the Council had incurred no expenditure and had made no commitments in respect of the costs associated with the introduction of the Euro. Prior to entry into full Euro trading, a significant review of all systems will require to be undertaken. Consequently an estimate of costs is not available at this stage.

15. Pension Assets and Liabilities - FRS 17 Disclosure

In accordance with Financial Reporting Standard 17 - Retirement Benefits (FRS 17) the Council is required to disclose certain information concerning assets, liabilities, income and expenditure related to pension schemes for its employees.

The Council participates in two formal schemes: the Local Government Pension Scheme, administered by Glasgow City Council, and the Teachers' Scheme administered by the Scottish Executive. The Council is not required to record information related to the Teachers' Scheme as the liability for payment of pensions rests ultimately with the Scottish Executive. In addition, the Council has liabilities for discretionary payments outside the main schemes.

Due to the timing of salary processing, not all employee and employer contributions have been paid to the Pension Schemes by the 31 March 2006. These payments have been accrued and are included within the creditors figure on the balance sheet. These will be paid within April. The amounts are as follows:

Local Government Pension Scheme - £897,767

Teachers' Scheme - £524,902

15.1 Local Government Pension Scheme

The Local Government Pension Scheme is a funded scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level estimated to balance the pensions liabilities and investment assets. The Strathclyde Pensions Fund Office oversees the operation of this scheme.

The latest formal valuation of the Strathclyde Pension Fund for funding purposes was at 31 March 2005. Hymans Robertson has assumed that employees have continued to earn new benefits on the same basis as the latest formal valuation and that the employer's pensionable payroll over the year to 31 March 2006 remains substantially stable with new entrants replacing any leavers. The assumptions used by Hymans Robertson (Independent Actuaries) at 31 March 2006 are as follows:

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

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

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

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

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

Local Government legislation provides that local authorities have an obligation to meet the expenditure of the Joint Boards of which they are constituent members. As a consequence Argyll and Bute Council has additional liabilities arising from the pension deficits of:

- Strathclyde Police Board
- Strathclyde Fire Board
- Dunbartonshire and Argyll & Bute Valuation Board

Further information regarding these deficits can be found in the annual report and accounts of the relevant bodies.

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

Revenue Reserves and Funds (Note 5)

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

Pension Reserve

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

1. Fixed Asset Restatement Account

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

| | General Fund £'000 | HRA Balance £'000 | Total £'000 |
|---------------------------------|--------------------------|-------------------------|----------------|
| Balance at 1 April 2005 | | | 104,772 |
| Surplus on revaluations, etc | 7,336 | 4,891 | 12,227 |
| Disposal of Fixed Assets | (243) | (2,094) | (2,337) |
| Balance at 31 March 2006 | | | 114,662 |

2. Capital Financing Account

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

| | General Fund £'000 | HRA Balance £'000 | Sub Total £'000 | Total £'000 |
|--|--------------------------|-------------------------|-----------------------|----------------|
| Balance at 1 April 2005 | | | | 6,168 |
| Appropriations: | | | | |
| Capital Financed from Current Revenue | 298 | 274 | 572 | |
| Repayment of External Loans | 15,232 | | 15,232 | |
| Capital Element of Finance Lease Payments | 103 | | 103 | |
| Depreciation Write-off | (20,673) | (2,279) | (22,952) | |
| Deferred Government Grants Write-off | 1,238 | | 1,238 | (5,807) |
| Proceeds of Disposals | | | | 5,225 |
| Capital Receipts transferred from Useable Capital Receipts Reserve | | | | 467 |
| Other Adjustments | | | | (41) |
| Balance at 31 March 2006 | | | | 6,012 |

3. Deferred Government Grants

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

| | £'000 |
|---|---------------|
| Balance at 1 April 2005 | 23,881 |
| Grants received during the year to finance capital projects | 7,358 |
| Credit to revenue account during the year | (1,238) |
| Balance at 31 March 2006 | 30,001 |

4. Deferred (Premiums) / Discounts

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

| | |
|--|----------------|
| | £'000 |
| Balance at 1 April 2005 | (9,653) |
| New (Premiums) / Discounts | (3) |
| Debit / (Credit) to Asset Management Revenue Account | 552 |
| Balance at 31 March 2006 | (9,104) |

5. Repairs and Renewals Funds

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

6. Revenue Reserves and Funds

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

7. Public Private Partnership Surplus

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

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

8. Actuarial Gain / (Loss) in Pension Plan

The Pension Reserve includes an Actuarial Loss in the Pension Plan. The following analysis provides more detail on how this loss was arrived at, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2006. Comparative figures are also noted for the previous three financial years:

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

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

Continued on next page.

Continued from previous page.

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

1. Other Government Grants

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

2. Net Cash Flow Reconciliation

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

3. Analysis of Net Debt

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

4. Reconciliation of Movement in Cash to Net Debt

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

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

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

Capital Reserves

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

Revenue Reserves and Other Funds

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

Pension Reserve

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

1. Combining Entities

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

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

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

The Associates which have been incorporated are:

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

The accounting period for all entities is 31 March 2006.

2. Nature of Combination

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

3. Financial Impact of Consolidation

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

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

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

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

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

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

5. Group Cash Flow Statement

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

THE AUTHORITY'S RESPONSIBILITIES

The Authority is required:

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

THE HEAD OF STRATEGIC FINANCE'S RESPONSIBILITIES

The Head of Strategic Finance is responsible for the preparation of the authority's statement of accounts, which in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code of Practice), is required to present fairly, the financial position of the authority as at 31 March 2006 and its income and expenditure for the year ended on that date.

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

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

The Head of Strategic Finance has also:

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

This statement of accounts presents fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2006.

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

Bruce West
Head of Strategic Finance
16 June 2006

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

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

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

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

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

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

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

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

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

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

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

In summary the year-end outturn has resulted in a generally satisfactory position and internal audit's annual report allows me to take comfort that other than as outlined above, reasonable assurance can be placed on the adequacy and effectiveness of the Council's Internal Financial Control System.



Bruce West
Head of Strategic Finance
16 June 2006