



**ACCOUNTS FOR THE PERIOD**

**1 APRIL 2006 TO 31 MARCH 2007**

**Argyll and Bute Council**  
Comhairle Earra Ghàidheal agus Bhòid

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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 2006/2007.

## 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 2006/2007 have been prepared in compliance with the Code of Practice on Local Authority Accounting in the United Kingdom 2006: A Statement of Recommended Practice (SORP). The format of the Income and Expenditure Account reflects the requirements of the Best Value Accounting Code of Practice 2006 - Scotland (BVACOP).

## THE CORE SINGLE ENTITY FINANCIAL STATEMENTS

The following statements are grouped together to give the 'core' single entity financial statements for the local authority:

*The Income and Expenditure Account* reports the net cost for the year of all the functions for which the authority is responsible and demonstrates how that cost has been financed from general government grants and income from local taxpayers.

*The Statement of Movement on the General Fund Balance* shows the amounts in addition to the Income and Expenditure Account surplus or deficit for the year that are by statute and non-statutory proper practices charged or credited to the General Fund in determining the movement on the General Fund for the year.

*The Statement of Total Recognised Gains and Losses (STRGL)* shows all gains and losses experienced by a local authority, not just those that are reflected in the Income and Expenditure Account. It is necessary to consider all gains and losses recognised in a period when assessing the financial result for the period.

*The 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 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. Cash is defined for the purposes of this statement, as cash in hand and deposits repayable on demand less overdrafts repayable on demand.

*The Notes to the Core Financial Statements* give further information on the local authority's core financial statements.

## THE SUPPLEMENTARY SINGLE ENTITY FINANCIAL STATEMENTS

The following statements make up the 'supplementary' single entity financial statements for the local authority:

*The Housing Revenue Account Statements* reflect the statutory requirement to separately account for local authority housing provision, as defined in the Housing (Scotland) Act 1987. The HRA statement has three parts:

- HRA Income and Expenditure Account – which shows in more detail the income and expenditure on HRA services included in the whole authority Income and Expenditure Account.
- Statement of Movement on the Housing Revenue Account Balance – which shows how the HRA Income and Expenditure Account surplus or deficit for the year reconciles to the movement on the Housing Revenue Account Balance for the year.
- Notes to the Housing Revenue Account – which gives additional information on the HRA.

*The Council Tax Income Account* shows the net income raised from council taxes under the Local Government Finance Act 1992.

*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 Income and Expenditure Account.

## THE GROUP ACCOUNTS

The following statements make up the 'Group Accounts' for the local authority:

*The Group Income and Expenditure Account* combines the Income and Expenditure Account 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.

*Reconciliation of the Single Entity Surplus or Deficit for the Year to the Group Surplus or Deficit* – the main reconciling items here are:

- Deduction of subsidiary and associate dividend income and other distributions.
- Addition of the surplus / deficits attributable to subsidiaries, associated and joint ventures.

*The Group Statement of Total Recognised Gains and Losses* shows all gains and losses experienced by the group as a whole, not just those that are reflected in the Group Income and Expenditure Account. It is necessary to consider all gains and losses recognised in a period when assessing the Group's financial result for the period.

*The Group Balance Sheet* brings together all the assets and liabilities of the Group. It is the statement of the resources of the Group and the means by which they have been financed.

*Notes to the Group Accounts* give further information on the local authority's Group Accounts.

## STATEMENT OF RESPONSIBILITIES

This statement sets out the respective financial responsibilities of the authority and the chief financial officer for the accounts. In Argyll and Bute Council the chief financial officer is 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.

## GOING CONCERN

The accounts have been prepared on a going concern basis. Further information regarding this matter can be found in note 6 to the group accounts on pages 52 to 54.

## MAJOR CHANGES IN ACCOUNTING PRACTICE

The 2006 SORP introduced the following changes to the statement of accounts:

- Removal of the capital financing charge and replacement of the Consolidated Revenue Account (CRA) with an Income and Expenditure Account and Statement of Movement on the General Fund Balance. The new Income and Expenditure account now reflects the requirements of UK Generally Accepted Accounting Practices (GAAP), whilst the Statement of Movement on the General Fund Balance shows the amount that would, in accordance with the 2005 SORP, have been reported as the surplus or deficit on the CRA for the year.
- Not all the gains and losses experienced by an authority should be reflected in the Income and Expenditure Account. The 2006 SORP requires that in accordance with FRS 3 - Reporting Financial Performance, all gains and losses should be included in a Statement of Total Recognised Gains and Losses (STRGL). This new statement includes gains on revaluations of fixed assets and pension actuarial gains and losses.
- The format of the Housing Revenue Account has been changed in the light of the replacement of the CRA with an Income and Expenditure Account to give a Housing Revenue Income and Expenditure Account and a Statement of Movement on the Housing Revenue Account Balance.
- Finally, the 'core' single entity financial statements have now been grouped together (i.e. Income and Expenditure Account, Statement of Movement on the General Fund Balance, STRGL, Balance Sheet and Cash Flow Statement) followed by notes to the core statements followed by the 'supplementary' statements (i.e. Housing Revenue Account Statements and Notes, Council Tax Income Account and Notes and the Non-Domestic Rate Income Account and Notes).

In preparing the 2006/07 accounts in accordance with the new SORP, the Council also restated its 2005/06 accounts resulting in the Council's reported deficit for the year increasing from £0.367m to £5.050m. The increase in the deficit is the result of the implementation of the 2006 SORP; however, statutory adjustments ensure that there is no overall impact on the Council's General Fund position.

## INCOME AND EXPENDITURE ACCOUNT

The following key issues have affected the Income and Expenditure Account during 2006/07. The Council transferred its housing stock with a net book value of £44.766m to Argyll Community Housing Association (ACHA) on 21 November 2006 under a large scale voluntary transfer agreement. As part of this arrangement, the Scottish Executive repaid the Council's outstanding house loan debt of £36.451m, together with a further £1.327m to cover the existing premium incurred when the Council rescheduled its debt some years ago. The Scottish Executive also met 'breakage' costs of £9.483m charges by the Public Works Loans Board in respect of early repayment of debt. This is the main reason for

- Housing Services (HRA) showing a net income of £10.828m (includes grant received from Scottish Executive for 'breakage costs'),
- Net Loss on Disposal of Fixed Assets standing at £4.998m (£36.451m received from Scottish Executive taken as proceeds of disposal for Council House stock) and
- Interest Payable and Similar Charges being £9.7m higher than 2005/06 (reflects the early redemption premium paid on loans repaid prematurely by the Scottish Executive and associated 'breakage costs').

Another comment to make at this stage in respect of the Income and Expenditure Account relates to Housing Services (Non HRA) where the 2005/06 provision of £1.577m for a creditor to pay over council tax from second homes to registered social landlords has been transferred to the General Fund Balance and held there as an earmarked balance. This accounts for the net income on that service of £929,000. A further £1.6m of income from council tax on second homes was collected in 2006/07 to give a balance of £3.177m held awaiting distribution.

Finally, the Council accounted for unspent Scottish Executive grants as creditors in 2005/06. In 2006/07, unspent grants are included in the Income and Expenditure Account as income and then earmarked within the General Fund. The result of this is to increase grant funding by £2.991m in 2006/07.

### EXPLANATION OF MOVEMENT IN GENERAL FUND

The following table summarises the movement in the General Fund for 2006/07. The "real savings" against budget amount to £1.566m. The remainder of the movements of £8.479m relate to timing differences between actual and budgeted income and expenditure.

	<b>£'m</b>
Savings in Loan Charges	0.400
Additional Interest Earned	0.460
Additional Council Tax Income	1.437
Provision for Single Status in excess of budget	(0.996)
Departmental underspends against budget after adjusting for earmarking	0.265
<b>Outturn against budget</b>	<b>1.566</b>
Second home council tax income held pending allocation to housing projects	3.173
Unspent grant monies carried forward to 2007-08	2.991
Contribution received but unspent 2006-07 budget	0.927
Proposed earmarking of unspent 2006-07 budget	1.962
Savings identified during budget for carry forward to 2007-08	0.098
<b>Sub-Total</b>	<b>10.717</b>
Earmarked sums transferred to budget during 2006-07	(1.144)
Budgeted transfer to PPP Smoothing Funds	2.400
Budgeted transfer from General Fund Balance 2006-07	(1.928)
<b>Movement on General Fund Balance 2006-07</b>	<b>10.045</b>

The "free" General Fund Balance stands at £0.231m at 31 March 2007. There are a range of balances earmarked within the General Fund Balance. The statement below summarises these.

	<b>£'m</b>
1.9% Basic Contingency	4.020
PPP Smoothing Funds	6.587
Council tax on second homes held pending redistribution	3.173
Agreed contribution to balance 2007-08 budget	1.928
Savings carried forward from 2006-07 to balance budget 2007-08	0.098
Unspent grant income carried from 2006-07 to 2007-08	2.991
Unspent contributions carried from 2006-07 to 2007-08	0.927
Budget carried forward from 2006-07 to 2007-08	1.962
Projects transferred from Capital	0.741
Earmarking from 2006-07 carried forward to 2007-08	2.140
<b>Total Commitments</b>	<b>24.567</b>
Total General Fund Balance	24.798
<b>Movement on General Fund Balance 2006-07</b>	<b>0.231</b>

### SIGNIFICANT TRADING ORGANISATIONS

Councils are required to identify their Significant Trading Organisations. Significant Trading Organisations must achieve a breakeven financial position over a rolling three year period. Information on the financial performance of Significant Trading Organisations is given in the Accounts and this is laid out in note 3 of the Notes to the Core Financial Statements. During 2006/2007 the Roads and Lighting trading account and the Waste Management trading account achieved a surplus. The Leisure, Catering & Cleaning and Building Maintenance trading accounts all returned deficits for the year and failed to achieve a breakeven position over the rolling three year period. Any surplus or deficit is treated as part of the General Fund.

### HOUSING REVENUE ACCOUNT

The HRA balance stands at £0.255m at 31 March 2007 and is a decrease of £1.501m from the 31 March 2006 balance of £1.756m. The reduction in the HRA balance during 2006/07 can largely be attributed to the write down of the HRA proportion of early redemption premium of £1.3m previously carried on the balance sheet but charged to the HRA on stock transfer. The Council's housing stock was transferred to Argyll Community Housing Association (ACHA) on the 21 November 2006. The Housing Revenue Account has now been closed and the residual balances transferred to the General Fund. These balances have been earmarked as part of the Strategic Housing Fund.

The Council transferred its housing stock at nil value to ACHA. The Scottish Executive repaid on the Council's behalf the outstanding loan debt related to the HRA of £36.4m, a further repayment equivalent to the HRA share of early redemption premium of £1.3m and loan breakage costs of £9.5m.

### 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 2006/2007 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:

	<b>£'m</b>
Gross Capital Expenditure	37.072
Less:	
Capital Receipts	0.687
Government Grants and Other Contributions	10.276
Revenue Contributions	0.347
<b>Net Capital Expenditure</b>	<b>25.762</b>

The external borrowing of the Council at 31 March 2007 amounted to £157.841m. The majority of this was financed by the Public Works Loan Board (£131.344m), with the remainder coming mainly from the money market. During the year the Council completed £35.7m of new external borrowing. This was used to finance capital expenditure incurred during the year. The Council also prematurely repaid loans of £37.4m.

#### **PROPERTY VALUATIONS**

In accordance with the 2006 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 2006/2007.

#### **PENSIONS LIABILITY**

Pension costs have been recognised in accordance with FRS17. As a result of this a liability of £34.782m 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 2007. 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 Note 6 to the Group Accounts on pages 52 to 54.

#### **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 on page 8.

**OTHER SIGNIFICANT MATTERS**

The most significant transaction to occur during 2006/07 was the transfer of the Council's housing stock to ACHA on 21 November 2006. The key financial matters arising from that are outlined above.

The Council signed off financial close on stage 2 of its non profit distributing organisation (NPDO) variant of a public private partnership (PPP) for schools. Work on all schools is well underway. Schools will become fully available to the Council during 2007 with all schools being completed by early 2008.

The Council is progressing implementation of the single status agenda. The job evaluation exercise has been concluded and a pay and grading model and terms and conditions have been issued for consultation. The Council is presently considering the response to the consultation exercise.

**CONCLUSION**

The Council ends the 2006/07 financial year on a relatively stable footing with a small excess beyond its basic 1.9% General Fund Contingency and a sound basis of financial control.

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

Bruce West  
Head of Strategic Finance  
28 September 2007



### **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 2007 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 2007.

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

Bruce West  
Head of Strategic Finance  
28 September 2007

This statement is given in respect of the statement of accounts for Argyll and Bute Council for the financial year ended 31 March 2007. The statement covers also the other bodies whose activities are incorporated into our Group Accounts, i.e.

- Strathclyde Joint Police board
- Strathclyde Fire and Rescue Joint Board
- Dunbartonshire and Argyll & Bute Valuation Board
- Strathclyde Partnership for Transport
- Strathclyde Concessionary Travel Scheme Joint Committee
- Argyll, Bute and the Dunbartonshires' Criminal Justice Social Work Partnership

With respect to Argyll & Bute Council and the above named bodies 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 and the above named bodies. In particular the system includes:

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

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


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

- the work of Directors and managers within the Council;
- the work of internal auditors as described above;
- the external auditors in their annual audit letter and other reports; and
- the Statements of Internal Control provided by the above named bodies.

The following areas have been identified for further development by the Council:

- The approach to asset management including consideration of funding the investment requirements for schools, roads and other assets and embed the revised approach to capital planning based around business cases and gateway reviews.
- Improve the approach to performance management through adoption of an improvement and development framework, implementation of its performance management system, refining the linkages between corporate and service and financial planning, and development of a financial strategy.
- The implementation of the action plans arising from both the Best Value Review of Social Work and that of the Social Work Inspection Agency will be significant issues to be taken forward in 2007-08.
- The risk management framework will continue to be developed and embedded within the Council.
- There will be ongoing development to achieving full compliance with the Code of Practice – Following the Public Pound.
- Implementation of the Single Status agreement.

In summary, the year-end outturn has resulted in a generally satisfactory position and Internal Audit's Annual Report and the Assurance Statements received from the named bodies, allow 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  
28 September 2007

## 1. GENERAL PRINCIPLES

The statement of accounts summarises the Council's transactions for the 2006/2007 financial year and its position at the year-end of 31 March 2007. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2006: A Statement of Recommended Practice (the 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 2006 – 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.

These two cost categories are accounted for as separate headings in the Income and Expenditure, 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 at 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 service 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 Income and Expenditure Account after Net Operating Expenditure.

## 5. RETIREMENT BENEFITS

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

### 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 5.4% (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
  - Unitised 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 which the employees worked
- Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Net Cost of Services in the Income and Expenditure Account 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 in the Income and Expenditure Account.
- 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 in the Income and Expenditure Account.
- 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 in the Income and Expenditure Account as part of Non Distributed Costs
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Statement of Total Recognised Gains and Losses.
- 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 Statement of Movement on the General Fund Balance this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and 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 service 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 Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of the disposal).

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

#### 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 relevant service 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:

- Depreciation
- 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 council is not required to raise council tax to cover depreciation, impairment losses or amortisations. These transactions are reversed out through the Statement of Movement on the General Fund Balance, by way of an adjusting transaction with the Capital Financing Account for the difference between the two.

### 9. LEASES

#### 9.1 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 Net Operating Expenditure in the Income and Expenditure 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.

#### 9.2 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.

### 10. REPURCHASE OF BORROWING

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure 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.

### 11. 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.

### 12. 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 service 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 now be required, the provision is reversed and credited back to the relevant service 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 service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

### **13. RESERVES**

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Statement of Movement on the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in the year to score against the Net Cost of Services in the Income and Expenditure Account. The reserve is then appropriated back into the General Fund Balance statement 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.

### **14. 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.

### **15. 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.

### **16. PRIVATE FINANCE INITIATIVE (PFI)**

PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the services passes to the PFI contractor. Payments made by the council under a contract are generally charged to reflect the value of services received in each financial year.

#### *16.1 Prepayments*

A prepayment for services receivable under the contract arises when assets are transferred to the control of the PFI contractor, usually at the start of the scheme. The difference between the value of the asset at the date of transfer and any residual value that might accrue to the authority at the end of the contract is treated as a contribution made to the contractor and is accounted for as a prepayment. The prepayment is written down (charged) to the respective revenue account over the life of the contract to show the full value of services received in each year. However, as the charge is a notional one, it is reversed out in the Statement of Movement in the General fund Balance to remove any impact on council tax or rents.

Dowry payments, made at the start of the contract, which result in lower unitary payments over the life of the contract are accounted for by setting up the contribution (dowry) as a prepayment for services receivable and writing the balance down to revenue over the life of the contract as services are received to reflect their real cost.

#### *16.2 Reversionary Interests*

The council has passed control of certain land and buildings over to the PFI contractor, but this property will return to the council at the end of the scheme (reversionary interests). An assessment has been made of the net present value that these assets will have at the end of the scheme (unenhanced) and a reversionary interest asset has been created in the council's balance sheet.

As the asset is stated initially at net present value, over the life of the scheme, the discount will need to be unwound by earmarking (decreasing) part of the unitary payment to ensure the reversionary interest is recorded at current prices when the interests revert to the council.

#### *16.3 Residual Interests*

Where assets created or enhanced under the PFI scheme are to pass to the council at the end of the scheme at a cost less than the fair value (including nil or residual interests), an amount equal to the difference between the fair value and the payment to be made at the end of the contract is built up as a long term debtor over the contract life by reducing the amount of the unitary payment charged to revenue.

This account summarises the resources that have been generated and consumed in providing services and managing the council during the last year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees in the year.

2005/06 Net Expenditure £'000	Note	2006/07			
		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	
	<b>Council Services:</b>				
87,944	Education Services	111,572	18,764	92,808	
2,517	Housing Services (Non-HRA)	38,197	39,126	(929)	
(1,775)	Housing Services (HRA) - Discontinuing Operation	1	8,320	19,148	(10,828)
7,839	Cultural and Related Services	9,796	902	8,894	
13,060	Environmental Services	18,895	3,707	15,188	
16,897	Roads and Transport Services	22,434	6,928	15,506	
934	Trading Services	3,815	2,679	1,136	
3,333	Planning and Development Services	8,261	5,098	3,163	
40,665	Social Work	53,557	13,207	40,350	
	<b>Central Services:</b>				
3,571	- Corporate and Democratic Core	4,575	479	4,096	
1,168	- Non Distributed Costs	2,007	4,989	(2,982)	
2,011	- Central Services to the Public	3,317	1,094	2,223	
2,153	- Other Operating Income and Expenditure	2	1,250	-	1,250
9,514	Strathclyde Police Joint Board	9,883	-	9,883	
5,239	Strathclyde Fire and Rescue Joint Board	5,315	-	5,315	
<b>195,070</b>	<b>Net Cost of Services</b>	<b>301,194</b>	<b>116,121</b>	<b>185,073</b>	
(2,888)	Net (Gain)/loss on Disposal of Fixed Assets			4,998	
15,018	Interest Payable and Similar charges			24,728	
(886)	Interest and Investment Income			(1,600)	
605	Pension Interest Cost and Expected Return on Pension Assets			(2,740)	
<b>206,919</b>	<b>Net Operating Expenditure</b>			<b>210,459</b>	
	<b>Income from Taxation and General Government Grants:</b>				
124,555	General Government Grants			131,957	
34,249	Non-domestic rates Redistribution			33,828	
43,065	Council Tax Income			45,059	
<b>(5,050)</b>	<b>Surplus / (Deficit) for the Year</b>			<b>385</b>	

The Income and Expenditure Account shows the council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the authority is required to raise council tax on a different accounting basis, the main differences being

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

The General Fund Balance compares the council's spending against the council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to funds and reserves.

This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund Balance.

2005/06 £'000		2006/07 £'000
(5,050)	Surplus/(Deficit) for the Year on the Income and Expenditure Account	385
4,683	Net Additional amount required by statute or non-statutory proper practice to be debited or credited to the General Fund for the year	9,660
	<i>See Supplement</i>	
<b>(367)</b>	<b>Increase/(Decrease) in General Fund Balance for the Year</b>	<b>10,045</b>
15,120	Balance on General Fund Brought Forward	14,753
<b>14,753</b>	<b>Balance on General Fund Carried Forward</b>	<b>24,798</b>



**SUPPLEMENT NOTE OF RECONCILING ITEMS FOR THE STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE**

2005/06 £'000		2006/07 £'000	£'000
	<i>Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year</i>		
7	Amortisation of Intangible Fixed Assets	18	
22,843	Depreciation and Impairment of Fixed Assets	27,039	
(1,238)	Amortisation of Deferred Government Grants	(1,586)	
-	Capital Element of Finance Lease Payments	(363)	
(2,888)	Net Gain or Loss on Sale of Assets	4,903	
2,286	Net Charges made for retirement benefits in accordance with FRS 17	(3,539)	
21,010			26,472
	<i>Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General fund Balance for the year</i>		
(15,232)	Loans fund principal repayments	(17,279)	
(572)	Capital expenditure charged in year to the General Fund Balance	(346)	
(15,804)			(17,625)
	<i>Transfers to or from the General fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year</i>		
(696)	Transfer to/from HRA Balance	1,501	
173	Transfer to/from Other Funds	(688)	
(523)			813
4,683	<b>Net Additional amount required to be credited to the General Fund Balance for the year</b>		<b>9,660</b>

This statement brings together all the gains and losses of the council for the year and shows the aggregate increase in its net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

2005/06 £'000		2006/07 £'000
(5,050)	<b>Surplus / (Deficit) on the Income and Expenditure Account for the Year</b>	<b>385</b>
(16,152)	Deficit Arising on Revaluation of Fixed Assets	(2,121)
17,029	Actuarial Gain on Pension Assets and Liabilities	27,360
<b>(4,173)</b>	<b>Total Recognised Gains / (Losses) for the Year</b>	<b>25,624</b>

2005/06 £'000	Note	2006/07 £'000
<b>Fixed Assets</b>		
49	13	155
		<i>Intangible Assets</i>
		<i>Tangible Fixed Assets</i>
	14.1	Operational Assets
44,091		- Council Dwellings
173,161		- Other Land and Buildings
6,588		- Vehicles, Plant, Furniture and Equipment
90,138		- Infrastructure Assets
1,783		- Community Assets
	14.2	Non-operational Assets
6,624		- Investment Property
19,288		- Assets Under Construction
8,300		- Surplus Assets, held for Disposal
<b>350,022</b>		<b>313,332</b>
1,229	17	Long-Term Debtors
9,104	18	Deferred Premiums on Early Repayment of Debt
<b>360,355</b>		<b>321,646</b>
<b>Total Long Term Assets</b>		
<b>Current Assets</b>		
609		253
18,681	19	16,604
24,635		6,215
<b>404,280</b>		<b>23,072</b>
<b>Total Assets</b>		
<b>Current Liabilities</b>		
(551)	21	(539)
(36,540)	20	(31,033)
(2,885)		(6,480)
<b>364,304</b>		<b>(38,052)</b>
<b>Total Assets less Current Liabilities</b>		
(222,565)	21	(157,302)
(30,001)	22	(38,691)
(465)	16.3	(1,470)
(821)	23	(4,026)
(65,681)	27.6	(34,782)
<b>44,771</b>		<b>(236,271)</b>
<b>Total Assets less Liabilities</b>		
<i>Financed by:</i>		
86,283	29.1	38,261
6,012	29.2	36,988
-	29.3	2,539
(65,681)	29.4	(34,782)
1,648	29.5	2,336
1,756		255
14,753	30	24,798
<b>44,771</b>		<b>70,395</b>
<b>Total Net Worth</b>		



Bruce West  
Head of Strategic Finance  
28 September 2007

2005/06 Actual £'000		Note	2006/07 Actual £'000
	<b>REVENUE ACTIVITIES</b>		
	<i>Cash outflows</i>		
126,222	Cash Paid for and on Behalf of Employees		123,729
130,107	Other Operating Cash Payments		94,938
8,703	Housing Benefit Paid Out		11,247
676	National Non-domestic Rate Payments to National Pool		-
<b>265,708</b>	<b>Total Cash Outflows</b>		<b>229,914</b>
	<i>Cash inflows</i>		
7,542	Rents (after rebates)		4,921
37,146	Council Tax Income		39,116
33,781	Non-domestic Rate Receipts		34,388
33	Community Charge		25
122,726	Revenue Support Grant		130,518
21,667	DWP Grants for Benefits		22,285
26,312	Other Government Grants	31	30,270
24,601	Cash Received for Goods and Services		22,183
9,206	Other Operating Cash Receipts		18,683
<b>283,014</b>	<b>Total Cash Inflows</b>		<b>302,389</b>
<b>17,306</b>	<b>Net Cash Inflow From Revenue Activities</b>	32	<b>72,475</b>
	<b>SERVICING OF FINANCE</b>		
	<i>Cash outflows</i>		
13,419	Interest paid		13,859
45	Interest element of finance lease		(35)
<b>13,464</b>	<b>Total Cash Outflows</b>		<b>13,824</b>
	<i>Cash inflows</i>		
883	Interest received		1,048
<b>883</b>	<b>Total Cash Inflows</b>		<b>1,048</b>
<b>(12,581)</b>	<b>Net Cash (Outflow) From Servicing of Finance</b>		<b>(12,776)</b>
	<b>CAPITAL ACTIVITIES</b>		
	<i>Cash outflows</i>		
30,445	Purchase of Fixed Assets		29,653
-	Other Capital Cash Payments		30
<b>30,445</b>	<b>Total Cash Outflows</b>		<b>29,683</b>
	<i>Cash inflows</i>		
5,071	Sale of Fixed Assets		3,226
8,119	Capital Grants Received		10,276
276	Other Capital Cash Receipts		57
<b>13,466</b>	<b>Total Cash Inflows</b>		<b>13,559</b>
<b>(16,979)</b>	<b>Cash (Outflow) From Capital</b>		<b>(16,124)</b>

Continued from previous page.

2005/06 Actual £'000	Note	2006/07 Actual £'000
<u>(12,254)</u>		<u>43,575</u>
	<b>Net Cash Inflow / (Outflow) Before Financing</b>	
	<b>FINANCING</b>	
	<b>Cash outflows</b>	
19,174	Repayments of Amounts Borrowed	100,942
<u>102</u>	Capital element of Finance Lease Rental Payments	<u>315</u>
<b>19,276</b>	<b>Total Cash Outflows</b>	<b>101,257</b>
	<b>Cash inflows</b>	
<u>44,002</u>	New Loans Raised	<u>35,667</u>
<b>44,002</b>	<b>Total Cash Inflows</b>	<b>35,667</b>
<u>24,726</u>	<b>Net Cash Inflow / (Outflow) From Financing</b>	<u>(65,590)</u>
<u>12,472</u>	<b>Net Increase / (Decrease) in Cash</b>	<u>(22,015)</u>

### 1. DISCONTINUED OPERATIONS

The Council's housing stock was transferred to Argyll Community Housing Association (ACHA) on the 21 November 2006. The Council's Housing Revenue Account has been closed from the commencement of the new financial year and all retained balances transferred to the General Fund. Further information on the Housing Stock Transfer can be found in the notes to the Housing Revenue Account on page 43.

### 2. OTHER OPERATING INCOME AND EXPENDITURE

The expenditure of £1.250m shown in the Other Operating Income and Expenditure line on the Income and Expenditure Account consists entirely of the requisition paid to Dunbartonshire and Argyll & Bute Joint Valuation Board.

### 3. 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:

#### 3.1 Roads and Lighting Trading Account

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

	2004/05 Actual £'000	2005/06 Actual £'000	2006/07 Actual £'000	3 Year Actual Performance £'000
Turnover	11,241	11,664	11,621	34,526
Expenditure	11,224	11,594	11,413	34,231
<b>Surplus</b>	<b>17</b>	<b>70</b>	<b>208</b>	<b>295</b>

#### 3.2 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 break-even over a three year period. Trading Account status was reviewed in the course of 2006/07 with a report going to Council in February 2007. As a result, Trading Account status has been removed from 2007/08 onwards.

	2004/05 Actual £'000	2005/06 Actual £'000	2006/07 Actual £'000	3 Year Actual Performance £'000
Turnover	5,266	4,839	5,279	15,384
Expenditure	5,255	4,580	5,050	14,885
<b>Surplus</b>	<b>11</b>	<b>259</b>	<b>229</b>	<b>499</b>

#### 3.3 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 break-even over a three year period. Trading Account status was reviewed in the course of 2006/07 with a report going to Council in January 2007. As a result, responsibility for Leisure Facilities budgets has been transferred to Operational Services from Community Services and Trading Account status has been removed from 2007/08 onwards. Deficits have occurred in 2005/06 and 2006/07 as a result of equal pay settlements and single status provisions which were budgeted for centrally rather than against each cost centre.

	2004/05 Actual £'000	2005/06 Actual £'000	2006/07 Actual £'000	3 Year Actual Performance £'000
Turnover	2,742	3,390	3,747	9,879
Expenditure	2,769	3,547	4,030	10,346
<b>(Deficit)</b>	<b>(27)</b>	<b>(157)</b>	<b>(283)</b>	<b>(467)</b>

### 3.4 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 break-even over a three year period. Deficits have occurred in 2005/06 and 2006/07 as a result of equal pay settlements and single status provisions which were budgeted for centrally rather than against each cost centre.

	2004/05 Actual £'000	2005/06 Actual £'000	2006/07 Actual £'000	3 Year Actual Performance £'000
Turnover	7,479	7,185	7,106	21,770
Expenditure	7,478	8,761	8,165	24,404
<b>Surplus/(Deficit)</b>	<b>1</b>	<b>(1,576)</b>	<b>(1,059)</b>	<b>(2,634)</b>

### 3.5 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 break-even over a three year period. During the course of 2006/07 the Building Maintenance Service was disbanded in November 2006, with the majority of staff being transferred to the new Registered Social Landlord (ACHA) under TUPE regulations. A small team of 9 remained who will form a new Building Maintenance Team under the direct control of Property Services. As a result the Trading Account has ceased.

	2004/05 Actual £'000	2005/06 Actual £'000	2006/07 Actual £'000	3 Year Actual Performance £'000
Turnover	2,695	2,496	1,494	6,685
Expenditure	2,692	2,467	1,752	6,911
<b>Surplus/(Deficit)</b>	<b>3</b>	<b>29</b>	<b>(258)</b>	<b>(226)</b>

## 4. 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 £0.557m was incurred during 2006/07 and is included within service expenditure as follows:

2005/06 £'000		2006/07 £'000
307	Staff Advertising	273
29	Leaflets and publications	16
119	Statutory notices	136
162	Other	132
<b>617</b>	<b>Total</b>	<b>557</b>

## 5. AGENCY INCOME

The Council have an ongoing agency agreement with Scottish Water to collect domestic water and sewerage charges. During 2006/07 income from this agreement amounted to £0.229m.

2005/06 £'000		2006/07 £'000
225	Scottish Water	229
<b>225</b>	<b>Agency Income</b>	<b>229</b>

## 6. LOCAL AUTHORITY (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 £1.065m and the related expenditure was £1.035m. The goods and services provided during the year were as follows:

Name of Body	Purpose of Work	Income	Expenditure
		£'000	£'000
North Lanarkshire Council	Cleaning and Catering - Kilbowie OC	169	155
Strathclyde Police	Cleaning of Police Stations	109	62
Strathclyde Fire and Rescue	Maintenance of Fire Stations	398	338
Various Public Bodies	Grounds Maintenance	9	8
Various Councils	Provision of Health Packs	3	-
Various Councils	Provision of SEN Assistant Support	19	19
NHS Highland	Provision of Care for the Elderly	113	127
Various Councils	Provision of Care for the Elderly	81	132
West Dunbartonshire Council	Section 23 Payments - Out of Authority Pupils	156	186
West Dunbartonshire Council	Pupil Transport	8	8
		<b>1,065</b>	<b>1,035</b>

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

The Council has a joint working arrangement with NHS Highland whereby it provides certain types of care of the elderly and services for those with learning disabilities or mental health problems. During 2006/07 income from this source amounted to £4.153m and the related expenditure was £5.370m. These sums can be analysed as follows:

Purpose of Services	Income	Expenditure
	£'000	£'000
Care of the Elderly	1,495	1,811
Provision of Services for People with Learning Disabilities	2,054	2,958
Provision of Services for People with Mental Health Needs	604	601
	<b>4,153</b>	<b>5,370</b>

## 8. MEMBERS' ALLOWANCES

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

2005/06		2006/07
£'000		£'000
220	Basic Allowance	220
240	Special Responsibility Allowance	267
<b>460</b>	<b>Total Allowances</b>	<b>487</b>

## 9. OFFICERS' EMOLUMENTS

The number of employees whose remuneration, excluding pension contributions, was £50,000 or more in bands of £10,000 was:

2005/06		2006/07
No.		No.
24	£50,000 - £59,999	23
2	£60,000 - £69,999	2
4	£70,000 - £79,999	5
-	£80,000 - £89,999	1
1	£90,000 - £99,999	1



### 10. 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 £4.471m which represents the value of the service provided from 1 April 2006 to 31 March 2007. Under the agreement the Council is committed to paying the following sums:

Period	£'000
2007/12	25,184
2012/17	28,265
2017/22	31,396
2022/27	29,980
<b>Total Allowances</b>	<b>114,825</b>

This equates to £5.741m per annum over the life of the contract.

### 11. FEES PAYABLE TO AUDIT SCOTLAND

In 2006/07 the following fees relating to external audit and inspection were incurred:

2005/06 £'000		2006/07 £'000
272	Fees payable to Audit Scotland with regard to external audit services carried out by the appointed Auditor	286
<b>272</b>		<b>286</b>

## 12. RELATED PARTY TRANSACTIONS

During the year transactions with related parties arose as follows:

		<b>Income</b>
		<b>£'000</b>
<b>Central Government and Agencies</b>		
Revenue Grants:	Revenue Support Grant	131,957
	Non-Domestic Rates	33,828
	Housing Benefits/Support Grant	16,156
	Council Tax Benefit Subsidy	5,639
	Other Government Grants	28,629
		<u>216,209</u>
Capital Grants:	European Grants	1,977
	Sportscotland / Lottery	890
	AIE - Argyll Air Services	1,493
	School Fund	2,717
	Other Government Capital Grants	3,131
		<u>10,208</u>

	<b>Income</b>	<b>Expenditure</b>
	<b>£'000</b>	<b>£'000</b>
<b>Related Bodies:</b>		
Transactions with related bodies during the year totalled	666	20,707

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

Joint Boards		16,475
Strathclyde Partnership for Transport		629
Argyll, the Isles, Loch Lomond, Stirling and the Trossachs Tourist Board		179
Bute Council on Alcohol		56
Bute Youth Project		10
Convention of Scottish Local Authorities (COSLA)		80
Cowal Council on Alcohol and Drugs		110
Argyll, Bute and the Dunbartonshires' Criminal Justice Social Work Partnership	666	674
Dunoon and Cowal Youth Project		18
Helensburgh Addiction Rehabilitation Team		38
Islay and Jura Community Enterprise		83
Kintyre Alcohol and Drugs Advisory Service		36
Mid Argyll Community Enterprises		44
Nadair Trust		17
NHS		1,833
Oban Addiction Support and Information Services (OASIS)		43
Oban and Lorn Enterprises - Atlantis Leisure		373
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	<b>£'000</b>
	94

### 13. MOVEMENT IN INTANGIBLE FIXED ASSETS

	Purchased Software Licences £'000
<b>Original Cost at 31/03/06</b>	56
Accumulated Depreciation	(7)
<b>Net Book Value at 31/03/06</b>	<b>49</b>
<i>Movement in 2006/07</i>	
Expenditure in Year	97
Transfers from Under Construction	27
Depreciation	(18)
<b>Net Book Value at 31/03/07</b>	<b>155</b>

### 14. FIXED ASSETS

#### 14.1 Movement in Operational Fixed Assets

	Council Dwellings £'000	Other Land & Buildings £'000	Vehicles Plant & Equipment £'000	Infrastructure Assets £'000	Community Assets £'000	Total 2006/07 £'000	Total 2005/06 £'000
<b>Certified Valuation at 31/03/06</b>	44,091	216,512					
Accumulated Depreciation		(43,351)					
<b>Net Book Value at 31/03/06</b>	<b>44,091</b>	<b>173,161</b>	<b>6,588</b>	<b>90,138</b>	<b>1,783</b>	<b>315,761</b>	<b>328,811</b>
<i>Movement in 2006/07</i>							
Expenditure in Year	2,131	9,054	1,589	7,830	34	20,638	24,061
Assets Acquired Under Finance Leases			791			791	-
Adjustment Finance Leases			529			529	-
Disposals	(45,280)	(4)	(483)			(45,767)	(2,243)
Revaluations		1,034				1,034	(16,997)
Transfers from Non Operational Assets		9,685	348	3,827	95	13,955	5,075
Depreciation	(942)	(19,907)	(2,112)	(4,078)		(27,039)	(22,946)
<b>Net Book Value at 31/03/07</b>	<b>-</b>	<b>173,023</b>	<b>7,250</b>	<b>97,717</b>	<b>1,912</b>	<b>279,902</b>	<b>315,761</b>

The adjustment for Finance Leases relates to vehicles included in the 2005-06 accounts as operating leases, subsequently they were discovered to be finance leases and an adjustment made to include them as assets within the Vehicles, Plant and Equipment category.

### 14.2 Movement in Non-Operational Fixed Assets

	Investment Properties	Assets Under Construction	Surplus Assets Held for Disposal	Total 2006/07	Total 2005/06
	£'000	£'000	£'000	£'000	£'000
<b>Certified Valuation at 31/03/06</b>	<b>6,624</b>		<b>9,006</b>		
Accumulated Depreciation			(706)		
<b>Net Book Value at 31/03/06</b>	<b>6,624</b>	<b>19,288</b>	<b>8,300</b>	<b>34,212</b>	<b>28,997</b>
<i>Movement in 2006/07</i>					
Expenditure in Year		16,337		16,337	9,539
Disposals	(94)		(40)	(134)	(94)
Revaluations	158		(3,313)	(3,155)	845
Transfers to Operational Assets		(13,998)		(13,998)	(5,075)
Transfers from Assets Under Construction	16			16	-
Write off to Revenue		(3)		(3)	-
<b>Net Book Value at 31/03/07</b>	<b>6,704</b>	<b>21,624</b>	<b>4,947</b>	<b>33,275</b>	<b>34,212</b>

### 14.3 Valuation of Operational Fixed Assets

	Other Land & Buildings	Vehicles Plant & Equipment	Infrastructure Assets	Community Assets	Total 2006/07
	£'000	£'000	£'000	£'000	£'000
Valued at historical Cost		7,250	97,717	1,912	106,879
Valued at Current Value in:					
2006/2007	52,053				52,053
2005/2006	36,627				36,627
2004/2005	58,313				58,313
2003/2004	15,024				15,024
2002/2003	9,849				9,849
2001/2002	48				48
2000/2001	31				31
1999/2000	1,045				1,045
Inherited Value	33				33
<b>Total</b>	<b>173,023</b>	<b>7,250</b>	<b>97,717</b>	<b>1,912</b>	<b>279,902</b>

#### 14.4 Valuation of Non-Operational Fixed Assets

	Investment Properties £'000	Assets Under Construction £'000	Surplus Assets Held for Disposal £'000	Total 2006/07 £'000
Valued at historical Cost		21,624		21,624
Valued at Current Value in:				
2006/2007	2,490		1,945	4,435
2005/2006	1,289		763	2,052
2004/2005	631		90	721
2003/2004	1,440		1,659	3,099
2002/2003	540		392	932
2001/2002	1		0	1
2000/2001	45		5	50
1999/2000	268		93	361
<b>Total</b>	<b>6,704</b>	<b>21,624</b>	<b>4,947</b>	<b>33,275</b>

#### 14.5 Fixed Assets Information on Assets Held on 31 March 2007

	No.		No.
<b>OPERATIONAL BUILDINGS</b>		<b>OPERATIONAL EQUIPMENT</b>	
Administrative Buildings	55	Vehicles and Heavy Plant	298
Depots	33		
Social Work Homes for the Elderly	7	<b>INFRASTRUCTURE ASSETS</b>	
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		
Nursery Schools	4	<b>COMMUNITY ASSETS</b>	
Halls	8	Parks/Play Areas	62
Sports Centres	1	Civic Regalia (Provosts' Chains)	4
Swimming Pools	5	Civic Regalia (Bailies' Chains)	1
Museums and Libraries	10	Cemeteries	125
Community Centres	8	War Memorials	54
Crematoria	1	Works of Art	299
Public Conveniences	78		
Travelling Persons Sites	3	<b>COUNCIL DWELLINGS</b>	-
Airports	1		

## 15. SUMMARY OF CAPITAL EXPENDITURE AND FINANCING

	31 March 2007	31 March 2006
	£'000	£'000
<b>Opening Capital Financing Requirement</b>	<b>228,114</b>	<b>223,617</b>
<b>Capital Investment:</b>		
Operational Assets - Expenditure	20,638	24,061
Operational Assets - Finance Leases	1,320	-
Non-Operational Assets	16,337	9,539
Intangible Assets	97	28
<b>Total Capital Investment</b>	<b>38,392</b>	<b>33,628</b>
<b>Sources of Finance:</b>		
Capital Receipts	(41,070)	(5,225)
Government Grants	(10,276)	(7,358)
Capital Financed from Current Revenue	(346)	(572)
Repayment of External Loans	(17,279)	(15,232)
Capital Element of Finance Lease Payments	(363)	(103)
Capital Receipts from Useable Capital Receipts Reserve	2,539	(467)
Other	10	(174)
<b>Total Funding</b>	<b>(66,785)</b>	<b>(29,131)</b>
<b>Closing Capital Financing Requirement</b>	<b>199,721</b>	<b>228,114</b>

## 16. FINANCE AND OPERATING LEASES

### 16.1 Finance Leases – Amounts Paid to Lessors

The Authority holds various vehicles under finance leases. The finance lease payment for the year amounted to £0.280m.

2005/06		2006/07
£'000		£'000
147	Vehicles	280
<b>147</b>	<b>Total</b>	<b>280</b>

### 16.2 Operating Leases – Amounts Paid to Lessors

The Council uses land, buildings, vehicles, plant and equipment financed under the terms of an operating lease. The amounts paid under these arrangements in 2006/07 were as follows:

2005/06		2006/07
£'000		£'000
172	Land and Buildings	175
1,153	Vehicles	1,338
185	Plant and Equipment	183
<b>1,510</b>		<b>1,696</b>

### 16.3 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
<b>Value at 1 April 2006</b>	<b>465</b>
Additions	791
Depreciation	(315)
Adjustment for 2005-06	529
<b>Value at 31 March 2007</b>	<b>1,470</b>

Outstanding obligations to make payments under these finance lease (excluding finance costs) as at 31 March 2007, accounted for as part of long-term liabilities are as follows:

	Vehicles, Plant and Equipment £'000
Obligations payable within 1 year	419
Obligations payable between 1 and 5 years	1,051
<b>Total Liabilities at 31 March 2007</b>	<b>1,470</b>

### 16.4 Assets Held Under Operating Leases

The authority was committed at 31 March 2007 to making payments of £1.696m under operating leases in 2007/08 comprising the following elements:

	Other Land and Buildings £'000	Vehicles, Plant and Equipment £'000
Leases expiring within 1 year	21	265
Leases expiring between 1 and 5 years	25	1,238
Leases expiring after 5 years	129	18
<b>Value at 31 March 2007</b>	<b>175</b>	<b>1,521</b>

## 17. LONG TERM DEBTORS

	31 March 2007 £'000	31 March 2006 £'000
House Loans	329	388
Waste PPP Historic Contamination Fund	750	841
<b>Total Long Term Debtors at 31 March 2007</b>	<b>1,079</b>	<b>1,229</b>

### 18. 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, the 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 charge to the Council's loans fund over the period of the new debt borrowed.

	<b>£'000</b>
<b>Balance at 1 April 2006</b>	<b>9,104</b>
New Premiums / (Discounts)	(382)
(Debit) to Income and Expenditure Account	(1,487)
<b>Balance at 31 March 2007</b>	<b>7,235</b>

### 19. DEBTORS

	<b>31 March 2007</b>		<b>31 March 2006</b>	
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Arrears of Local Taxation				
Council Tax	13,035		12,774	
Less: Provision for Bad Debts	(10,375)		(10,301)	
		2,660		2,473
Community Charge	7,572		7,601	
Less: Provision for Bad Debts	(7,572)		(7,601)	
		-		-
Non-Domestic Rates	1,350		2,055	
Less: Provision for Bad Debts	(735)		(934)	
		615		1,121
Housing Benefits Overpayments	886		811	
Less: Provision for Bad Debts	(693)		(637)	
		193		174
Debtor Accounts	3,063		3,183	
Less: Provision for Bad Debts	(566)		(385)	
		2,497		2,798
VAT Recoverable		2,114		2,223
Other Debtors		8,525		9,892
<b>Total Debtors</b>		<b>16,604</b>		<b>18,681</b>



## 20. CREDITORS

	31 March 2007	31 March 2006
	£'000	£'000
Loans Fund Interest	1,520	2,464
Accrued Payrolls and Superannuation	5,088	5,066
Accrued Employer's National Insurance Contributions and PAYE	2,502	2,432
Payables Liability	7,902	6,712
Registered Social Landlord Creditor - now within Earmarked Reserves	-	1,518
Deferred Grants - now within Earmarked Reserves	-	2,141
Accrued Expenditure	8,772	10,217
Other Creditors	5,249	5,990
<b>Total Creditors</b>	<b>31,033</b>	<b>36,540</b>

## 21. ANALYSIS OF BORROWING

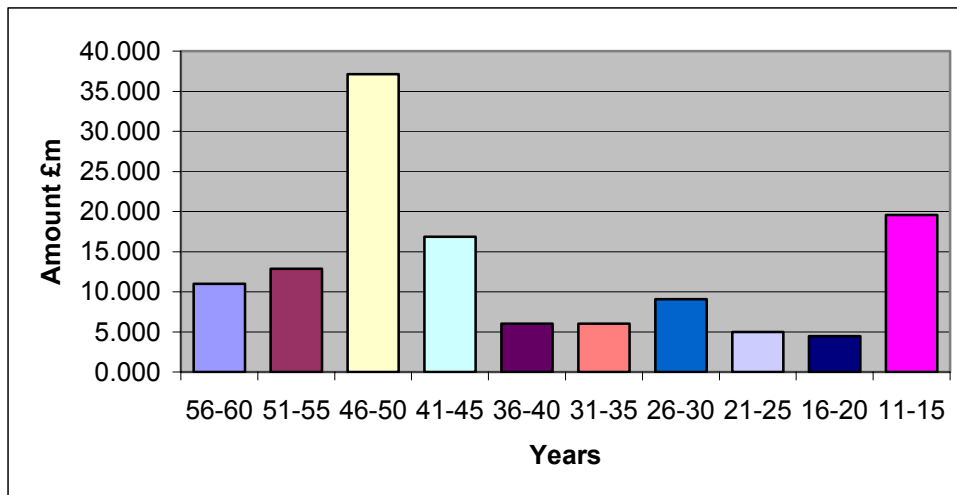
### 21.1 Source of Loan

	31 March 2007	31 March 2006
	£'000	£'000
Public Work Loan Board	131,344	196,560
Money Market	25,755	25,755
EIB	212	296
Other Loans	530	505
<b>Total Outstanding Loans</b>	<b>157,841</b>	<b>223,116</b>

### 21.2 MATURITY OF LOANS

	31 March 2007	31 March 2006
	£'000	£'000
Borrowings Repayable on Demand or within 12 Months	539	551
<b>Borrowings Repayable on Demand or within 12 Months</b>	<b>539</b>	<b>551</b>
1 - 2 years	107	87
2 - 5 years	1,819	9,083
6 - 10 years	27,360	32,823
Over 10 years (see graph)	128,016	180,572
<b>Total Outstanding Loans</b>	<b>157,302</b>	<b>222,565</b>
<b>Total Outstanding Loans</b>	<b>157,841</b>	<b>223,116</b>

The following graph shows an additional analysis of how the £128.016m of long term loans over 10 years, shown in the table above, is repayable.



## 22. DEFERRED GOVERNMENT GRANTS

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.

	£'000
<b>Balance at 1 April 2006</b>	<b>30,001</b>
Grants Received During the Year to Finance Capital Projects	10,276
Credit to Revenue Account During the Year	(1,586)
<b>Balance at 31 March 2007</b>	<b>38,691</b>

### 23. 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 £0.060m. Full provision for this amount has been made.

A provision was created at the end of 2005/06 in relation to the 9% of female employees in catering, cleaning and home care services who had not accepted the Council's equal pay settlement. During 2006/07, further settlements have been paid in full and the provision has, therefore, reduced in line with the staff that have not yet signed acceptance.

During 2006/07 the Council have developed a new Pay and Grading Model and also revised Terms and Conditions and this is out to employees and Trade Unions for Consultation. Where the proposed new grade results in an increase in pay, then this will be backdated to 1 April 2006. A provision has been created based on the pay and grading model issued for consultation and estimating the cost of backdating pay increase to 1 April 2006 for staff who will receive a pay increase.

The Council reduced the discount on council tax from second homes to 10% during 2005/06. The additional council tax income invoiced amounted to £1.710m, 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 £0.050m.

As within previous years, Liabilities have also arisen in respect of employees who will be made redundant as a result of restructuring. In line with the SORP, the authority has raised valid expectations to those affected by announcing the features of the plan or actually starting to implement it. The increase to the provision within 2006/07 relates to staff changes as a result of the implementation of recommendations of the Social Work Scrutiny Review.

Operational Services have created a number of provisions during 2006/07. There are two main provisions that make up the large majority of the balance:

- Shanks do not have approval for their compost product from SEPA and if the composting was judged to be non-compliant, then Argyll and Bute Council would be required to pay a penalty for tonnage over the Biodegradable Municipal Waste limit.
- Shanks are progressing Pollution Prevention Control (PPC) Permit applications for Garbreck and Glengorm Landfill Sites and have advised that Argyll and Bute Council are potentially liable to meet the costs in relation to these applications.

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	Movement in Year	Closing Balance
	£'000	£'000	£'000
SRC Insurance Claims	(87)	27	(60)
Equal Pay Claims	(336)	114	(222)
Single Status Provision	-	(2,596)	(2,596)
Income due to Registered Social Landlords (Additional Council Tax on Second Homes)	(98)	48	(50)
Reorganisation Redundancy Costs	(300)	(134)	(434)
Operational Services - various provisions	-	(664)	(664)
<b>Total Provisions</b>	<b>(821)</b>	<b>(3,205)</b>	<b>(4,026)</b>

### 24. 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.

The Council has a number of applications for equal pay at various stages of completion at Industrial Tribunals. The final outcomes of these applications are unknown at this time, although there is the possibility that the Council may lose at least some of these cases. There is also the potential for other equal pay claims whose costs may be met by the Council. No financial provision has been made in 2006/07 Accounts given the uncertainties that surround both the final outcomes and the settlement levels.

During the year the Council transferred its housing stock to Argyll Community Housing Association (ACHA). Some council houses involved in the transfer had been built on land not owned by the Council. The transfer agreement requires the Council to purchase this land and transfer it to ACHA at nil cost. A price has yet to be negotiated with the landowners and therefore a reliable estimate cannot be made of the obligation at this stage.

## 25. COMMITMENTS UNDER CAPITAL CONTRACTS

At 31 March 2007, the Council had commitments on capital contracts of £16.471m. This expenditure will be funded from a combination of government grants, borrowing, income from selling assets and contributions from Revenue Accounts.

	£'000
ICT and Financial Services	232
Community Services	2,199
Infrastructure and Transport	12,393
Operational Services	1,647
<b>Total</b>	<b>16,471</b>

## 26. 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 Balance Sheet.

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

	Income £'000	Expenditure £'000	Net Assets £'000	Reserves £'000
Campbeltown Common Good Fund	27	28	507	507
Oban Common Good Fund	54	147	804	804
Inveraray Common Good Fund	-	-	1	1
Lochgilthead Common Good Fund	-	-	6	6
Dunoon Common Good Fund	-	-	7	7
Rothesay Common Good Fund	8	6	133	133
Argyll Education Trust	20	7	261	261
GM Duncan Trust	4	1	83	83
McDougall Trust	25	-	544	544
Various Other Trust Funds	22	1	463	463
<b>Total Trust Funds</b>	<b>160</b>	<b>190</b>	<b>2,809</b>	<b>2,809</b>

Argyll Education Trust: this is made up of a number of small trusts to award prizes, bursaries, etc. to pupils and ex-pupils of schools within the former Argyll County Council area. GM Duncan Trust: for the provision of fuel, clothing and foodstuffs for the needy of Campbeltown. McDougall Trust: for the provision of sheltered housing on the Ross of Mull.

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.

## 27. PENSIONS ASSETS AND LIABILITIES – FRS17 DISCLOSURE

In accordance with Financial Reporting Standard 17 – "Retirement Benefits (FRS17)" the Council is required to disclose certain information concerning assets, liabilities, income and expenditure related to pension schemes for its employees. However, the Council is not required to record such information for the Teachers Pensions Scheme as the liability for payment of pensions rest ultimately with the Scottish Executive.

### 27.1 Accrued Pensions Contribution

Due to the timing of salary processing, not all employee and employer contributions have been paid to the Pensions Schemes by the 31 March 2007. These payments have been accrued and are included within the creditors figure on the balance sheet. These have been paid during April 2007. The amounts are as follows:

Local Government Pension Scheme – £1,033,782

Teachers' Scheme – £528,934

## 27.2 Summary of Transactions in Respect of the Local Government Pensions 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 pension's liabilities and investment assets. The Strathclyde Pension Fund Office oversees the operation of this scheme. The contributions are based on rates determined by the Fund's professionally qualified actuary and based on triennial valuations of the Fund.

The latest formal valuation of the Strathclyde Pension Fund for funding purposes was 31 March 2005. The independent actuaries appointed by the Council are Hymans Robertson and they have assumed that employees have continued to earn new benefits on the same basis as the latest formal valuation and that the employer's pensionable payroll over the year to 31 March 2007 remains substantially stable with new entrants replacing any leavers.

The following transactions have been made during the year in relation to the Local Government Pension Scheme.

2005/06 £'000		2006/07 £'000
	<b>Net Cost of Services:</b>	
9,477	Current Service Cost	11,897
869	Past Service Cost	(3,639)
111	Settlements and Curtailments	408
-	Provision for Teachers Premature Retirement Scheme	
	<b>Net Operating Expenditure:</b>	
17,674	Interest Cost	18,428
(17,069)	Expected Return on Employer Assets	(21,168)
	<b>Amounts to be met from Government Grants and Local Taxation:</b>	
(2,286)	Movement on Pension Reserve	3,539
	<b>Actual Amount charged against Council Tax for pension in the year:</b>	
<u>8,776</u>	Employer's Contributions Payable to the Scheme	<u>9,465</u>

## 27.3 ACTUARIAL GAINS AND LOSSES ON THE PENSION RESERVE

The actuarial gains and losses identified as movements on the Pensions Reserve in 2006/07 have been analysed over the following categories, measures as absolute amounts and as a percentage of assets and liabilities at 31 March 2007. Comparatives figures for the previous year are also included.

	2006/07		2005/06	
	£'000	%	£'000	%
Differences Between the Expected and Actual Return on Assets	256	0.08%	48,981	15.84%
Differences Between Actuarial Assumptions about Liabilities and Actual Experience	1,071	0.29%	9,656	2.57%
Change in the Demographic and Financial Assumptions used to Estimate Liabilities	26,033		(41,608)	
<b>Actuarial Gain / (Loss) in Pension Plan</b>	<u>27,360</u>		<u>17,029</u>	

## 27.4 FINANCIAL ASSUMPTIONS

The main assumptions used by Hymans Robertson in the calculations for the Local Government Pensions Scheme were as follows:

	31 March 2007	31 March 2006
	% per annum	% per annum
Price Increases	3.2%	3.1%
Salary Increases	4.7%	4.6%
Pension Increases	3.2%	3.1%
Discount Rate	5.4%	4.9%

## 27.5 FAIR VALUE OF ASSETS

Assets in the Strathclyde Pension Fund are valued at fair value, principally market value for investments, and consist of the following categories shown by the proportion of the total assets held by the fund.

<b>Assets (Employer Share)</b>	<b>Return within 2006/07 % per annum</b>	<b>Fund Value at 31 March 2007 £'000</b>	<b>Expected Return 2007/08 % per annum</b>
Equities	7.4%	244,955	7.8%
Bonds	4.6%	40,918	4.9%
Properties	5.5%	33,283	5.8%
Cash	4.6%	14,611	4.9%
<b>Total</b>		<b>333,767</b>	

## 27.6 NET PENSION ASSET/(LIABILITY)

The net pension asset / (liability) of Argyll and Bute Council as at 31 March 2007 is as follows:

	<b>31 March 2007 £'000</b>	<b>31 March 2006 £'000</b>
<b>Estimated Employer Assets</b>	<b>333,767</b>	<b>309,318</b>
Present Value of Scheme Liabilities	346,700	351,230
Present Value of Unfunded Liabilities	21,849	23,769
<b>Total Value of Liabilities</b>	<b>368,549</b>	<b>374,999</b>
<b>Net Pension (Liability)</b>	<b>(34,782)</b>	<b>(65,681)</b>

## 28. 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.

<b>2005/06</b>		<b>2006/07</b>
<b>4,077</b>	<b>Amount Paid Over (£'000)</b>	<b>4,170</b>
<b>12.50%</b>	<b>Rate of Contribution (%)</b>	<b>12.50%</b>
<b>624</b>	<b>Amount of Added Years Awarded by the Council (£'000)</b>	<b>476</b>
<b>13</b>	<b>Discretionary Payments made by the Council</b>	<b>-</b>

## 29. DETAILS OF MOVEMENTS ON RESERVES

### 29.1 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.

	<b>General Fund £'000</b>	<b>HRA Balance £'000</b>	<b>Total £'000</b>
<b>Balance at 1 April 2006</b>			<b>86,283</b>
Surplus / (Deficit) on revaluations, etc.	(2,121)	-	(2,121)
Disposal of Fixed Assets	(621)	(45,280)	(45,901)
<b>Balance at 31 March 2007</b>			<b>38,261</b>

## 29.2 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
<b>Balance at 1 April 2006</b>				<b>6,012</b>
Appropriations: Capital Financed from Current Revenue	170	176	346	
Repayment of External Loans	16,024	1,255	17,279	
Adjustment for 2005-06 Finance Lease Payments	48	-	48	
Capital Element of Finance Lease Payments	315	-	315	
Depreciation Write-off	(26,115)	(942)	(27,057)	
Deferred Government Grants Write-off	1,586	-	1,586	
				(7,483)
Proceeds of Disposals				38,459
<b>Balance at 31 March 2007</b>				<b>36,988</b>

## 29.3 USEABLE CAPITAL RECEIPTS RESERVES

The movements in the Useable Capital Receipts Reserve during 2006/07 are as follows:

	£'000
<b>Balance at 1 April 2006</b>	-
Proceeds of Disposals	2,539
<b>Balance at 31 March 2007</b>	<b>2,539</b>

## 29.4 PENSIONS RESERVE

The movements in the Pensions Reserve during 2006/07 are as follows:

	£'000
<b>Balance at 1 April 2006</b>	<b>(65,681)</b>
Transfer to Revenue	3,539
Actuarial Gain / (Loss) in Pension Plan	27,360
<b>Balance at 31 March 2007</b>	<b>(34,782)</b>

## 29.5 REPAIRS AND RENEWALS FUND

	Balance at 31 March 2006 £'000	Contribution from Revenue £'000	Interest Earned £'000	Appropriation to Revenue £'000	Balance at 31 March 2007 £'000
<b>Revenue Repairs and Renewals Funds:</b>					
Education	747	1,098	63	(385)	1,523
Vehicles	60		3		63
Land Contamination	841	24		(115)	750
<b>Total</b>	<b>1,648</b>	<b>1,122</b>	<b>66</b>	<b>(500)</b>	<b>2,336</b>

### 30. GENERAL FUND BALANCE CARRIED FORWARD

The following committed sums are included within the General Fund balance carried forward of £24.798m:-

	<b>Total £'000</b>
Waste Management PPP	4,038
NPDO Affordability Funding	2,549
Revenue from Additional Council Tax on Second Homes	3,173
Reserve Committed for 2007/08 Budget	1,928
Savings agreed to be carried forward to 2007/08	98
Unspent Grants	2,991
Contributions Carried Forward	927
Unspent Budget Carried Forward	1,962
Previous Earmarking	2,140
Projects transferred from Capital	741
<b>Total Committed Funds</b>	<b>20,547</b>

### 31. ANALYSIS OF GOVERNMENT GRANTS SHOWN IN THE CASH FLOW STATEMENT

<b>2005/06 £'000</b>		<b>2006/07 £'000</b>
32	Associated Schools Group	-
341	Community Regeneration Funding	470
163	Discipline Task Group	327
882	DWP Other Grants	964
342	Education Maintenance Allowance	480
385	Gaelic Education Grants	418
554	Housing Stock Transfer	680
135	Housing Support Grant	87
1,570	National Priorities Action Fund	5,900
1,854	Other Educational Grants	3,044
1,052	Other Grants (e.g. Civil Defence)	1,690
412	Other Social Work Grants	830
45	Pre-school Gaelic Education Grants	94
5,398	Private Sector Housing Grant	1,997
524	Public Transport Grant	28
336	Social Inclusion Partnership	-
12,287	Supporting People	13,261
<b>26,312</b>	<b>Total</b>	<b>30,270</b>



### 32. NET CASH FLOW RECONCILIATION

2005/06 £'000		2006/07 £'000
(367)	Surplus / (Deficit) for Year	10,045
970	Transfers to / (from) HRA Balance	(1,324)
<u>603</u>		<u>8,721</u>
(172)	Movements in Reserves	780
22,902	Adjustments Not Involving Movement in Funds	66,268
69	(Increase) / Decrease in Stocks	356
(1,352)	(Increase) / Decrease in Debtors	2,077
(4,744)	Increase / (Decrease) in Creditors	(5,727)
<u>17,306</u>	<b>Revenue Activities Net Cash Flow</b>	<u>72,475</u>

### 33. ANALYSIS OF NET DEBT

	31 March 2007 £'000	31 March 2006 £'000	Cash Flow £'000
Cash at Bank and in Hand	6,215	24,635	(18,420)
Bank Overdraft	(6,480)	(2,885)	(3,595)
<b>Net Increase / (Decrease) in Cash</b>	<u>(265)</u>	<u>21,750</u>	<u>(22,015)</u>
Debt due within one year	(539)	(551)	12
Debt due after one year	(157,302)	(222,565)	65,263
<b>(Increase) / Decrease in Debt Financing</b>	<u>(157,841)</u>	<u>(223,116)</u>	<u>65,275</u>
<b>Movement in Debt in Period</b>			<u>43,260</u>
<b>Capital Element of Finance Lease</b>			315
<b>Net Cash Inflow from Debt and the Capital Element of Finance Leases</b>			<u>43,575</u>

### 34. RECONCILIATION OF MOVEMENT IN CASH TO NET DEBT

2005/06 £'000		2006/07 £'000
12,472	Increase / (Decrease) in Cash in Period	(22,015)
(24,828)	(Increase) / Decrease in Debt Financing	65,275
<u>(12,356)</u>	Movement in Debt in Period	<u>43,260</u>
(189,010)	Net Debt as at 1 April 2006	(201,366)
<u>(201,366)</u>	<b>Net Debt as at 1 April 2007</b>	<u>(158,106)</u>

2005/06 Actual £'000		2006/07 Actual £'000	£'000
	<b>Income</b>		
13,344	Dwelling Rents	8,803	
79	Non-dwelling Rents	53	
135	Housing Support Grant	87	
1,285	Any Other Income	10,205	
<b>14,843</b>	<b>Total Income</b>		<b>19,148</b>
	<b>Expenditure</b>		
(4,538)	Repairs and Maintenance	(2,933)	
(4,908)	Supervision and Management	(3,489)	
(2,279)	Depreciation	(942)	
(1,266)	Any Other Expenditure	(904)	
<b>(12,991)</b>	<b>Total Expenditure</b>		<b>(8,268)</b>
<b>1,852</b>	<b>Net Cost of HRA Services Per Authority Income and Expenditure Account</b>		<b>10,880</b>
(77)	HRA share of Corporate and Democratic Core		(49)
<b>1,775</b>	<b>Net Cost of HRA Services</b>		<b>10,831</b>
2,355	Gain or (loss) on sale of HRA fixed assets		(6,146)
(2,208)	Interest payable and similar charges		(10,759)
(84)	Amortisation of premiums and discounts		(1,355)
45	Interest and Investment Income		268
(26)	Pensions interest cost and expected return on pensions assets		71
<b>1,857</b>	<b>Surplus / (Deficit) for the Year on HRA Services</b>		<b>(7,090)</b>

This statement brings together all the gains and losses of the Housing Revenue Account for the year and shows the aggregate increase in its net worth. In addition to the surplus / deficit generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

2005/06 Actual £'000		2006/07 Actual £'000
1,857	Surplus/(Deficit) on the HRA Income and Expenditure Account for the Year	(7,090)
(1,116)	Net additional amount required by statute to be (debited) or credited to the HRA Balance for the year	5,589
<b>741</b>	<b>Increase or (decrease) in the Housing Revenue Account Balance</b>	<b>(1,501)</b>
1,015	Housing Revenue Account surplus brought forward	1,756
<b>1,756</b>	<b>Housing Revenue Account surplus carried forward</b>	<b>255</b>

**SUPPLEMENT NOTE OF RECONCILING ITEMS FOR THE STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT BALANCE**

2005/06 £'000		2006/07 £'000	£'000
	<i>Items included in the HRA Income and Expenditure Account but excluded from the movement on the HRA Balance for the year</i>		
2,279	Depreciation and Impairment of Fixed Assets	942	
(2,355)	Net Gain or Loss on Sale of Assets	6,051	
115	Net Charges made for retirement benefits in accordance with FRS 17	27	
<u>39</u>		<u>7,020</u>	<b>7,020</b>
	<i>Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year</i>		
(881)	Loans fund principal repayments	(1,255)	
(274)	Capital expenditure charged in year to the Housing Revenue Account Balance	(176)	
<u>(1,155)</u>		<u>(1,431)</u>	<b>(1,431)</b>
	<i>Transfers to or from the General fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year</i>		
-	Transfer to/from HRA Balance		-
<u>(1,116)</u>	<b>Net Additional amount required to be credited/(debited) to the General Fund Balance for the year</b>	<u>5,589</u>	<b>5,589</b>

### 1. GROSS RENT INCOME

This is the total rent income for the year. Average annual rent charges were £48.00 per week in 2006/07 (2005/06 - £45.59).

### 2. HOUSING STOCK

Prior to stock transfer, the Council's housing stock was made up of a mixture of houses and flats.

The movement in housing stock during the year was:-

	<b>No.</b>
<b>Stock at 1 April 2006</b>	<b>5,530</b>
Disposals in 2006/07: Right to buy sales	(80)
Transferred to Argyll Community Housing Association (ACHA)	(5,450)
<b>Stock at 31 March 2007</b>	<b>-</b>

### 3. RENT ARREARS AND BAD DEBTS

Current Tenant Arrears were sold to Argyll Community Housing Association (ACHA).

Former Tenant Arrears debt was retained by Argyll and Bute Council and amounted to £247,957 on the date of transfer, this debt is now included within the overall debt of the council and has been fully provided for within the accounts.

### 4. LARGE SCALE VOLUNTARY TRANSFER

The Council's housing stock was transferred to Argyll Community Housing Association (ACHA) on the 21 November 2006.

### 5. HOUSING REVENUE ACCOUNT EXPENDITURE AND INCOME

A number of significant financial transactions are reflected in the 2006/07 Housing Revenue Account as a result of the stock transfer process and the main items can be summarised as follows:-

- At the date of stock transfer the Council had outstanding debt on its housing stock of £36.1m.
- The Scottish Executive repaid the outstanding debt of £36.4m along with a further £1.3m of debt which equated to the HRA's proportion of the early repayment premium.
- The Scottish Executive also met the 'breakage costs' of £9.5m charged by the Public Works Loans Board in respect of the early repayment of the outstanding debt.
- Each of the above transactions was processed through the 2006/07 HRA Income and Expenditure Account and Statement of Movement on the HRA balance resulting in the high capital financing costs and associated income reflected in the statements.
- As a result of income and expenditure relating to the pre-stock transfer period, and a number of residual post-transfer entries, the Housing Revenue Account returned a deficit of £1.501m for 2006-07.
- As at 31 March 2007, the Housing Revenue Account retained a balance of £0.255m. This amount will be transferred to the General Fund and earmarked as part of the Strategic Housing Fund.

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

2005/06 Actual £'000		2006/07 Actual £'000
48,995	Gross Council Tax Levied and Contributions in Lieu excluding RSL Second Home Additional Income	51,059
	Add Back:	
1,518	RSL Second Home Discount Additional Income	1,611
	Less:	
(6,852)	Other Discounts and Reductions	(7,185)
(1,267)	Provision for Bad and Doubtful Debts	(1,132)
<u>42,394</u>	<b>Total for 2006/07</b>	<u>44,353</u>
671	Adjustment to Previous Years' Community Charge and Council Tax	706
<u>43,065</u>	<b>Transfers to General Fund</b>	<u>45,059</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%	771
B	£27,000 - £35,000	78%	899
C	£35,000 - £45,000	89%	1,028
D	£45,000 - £58,000	100%	1,156
E	£58,000 - £80,000	122%	1,413
F	£80,000 - £106,000	144%	1,670
G	£106,000 - £212,000	167%	1,927
H	Over £212,000	200%	2,312

## 2. CALCULATION OF THE COUNCIL TAX BASE 2006/07

Council Tax Base	A	B	C	D	E	F	G	H	Total
Total Number of Properties	7,983	9,516	9,235	5,643	6,810	3,640	2,465	220	45,512
<b>Less</b> - Exemptions / Deductions	1,003	677	927	463	547	203	128	31	3,979
- Adjustment for Single Chargepayers	926	1,005	775	428	370	157	92	5	3,758
<b>Effective Number of Properties</b>	<b>6,054</b>	<b>7,834</b>	<b>7,533</b>	<b>4,752</b>	<b>5,893</b>	<b>3,280</b>	<b>2,245</b>	<b>184</b>	<b>37,775</b>
Band D Equivalent Factor (ratio)	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	
<b>Band D Equivalent Number of Properties</b>	<b>4,036</b>	<b>6,093</b>	<b>6,696</b>	<b>4,752</b>	<b>7,203</b>	<b>4,738</b>	<b>3,742</b>	<b>368</b>	<b>37,628</b>
<b>Add</b> Contribution in lieu in respect of Class 18 dwellings (Band D Equivalent)									454
<b>Nominal Tax Yield</b>									<b>38,082</b>
<b>Less</b> Provision for Non-Collection - 4.67%									1,778
<b>Council Tax Base 2006/07 - Number of Band D equivalents</b>									<b>36,304</b>

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.

<b>2005/06</b>		<b>2006/07</b>
<b>Actual</b>		<b>Actual</b>
<b>£'000</b>		<b>£'000</b>
32,208	Gross rates levied	31,358
	Less:	
(5,276)	Reliefs and other deductions	(4,868)
(1)	Payment of Interest	(5)
(115)	Provision for Bad and Doubtful Debts	14
<b>26,816</b>	<b>Net Non-Domestic Rate Income</b>	<b>26,499</b>
2	Adjustment for years prior to introduction of national non-domestic rate pool	2
7,431	Contribution from national non-domestic rate pool	7,327
<b>34,249</b>	<b>Transfers to General Fund</b>	<b>33,828</b>



### 1. ANALYSIS OF RATEABLE VALUES

2005/06		2006/07
£		£
3,471,355	Industrial and freight transport subjects	3,486,735
36,762,797	Miscellaneous including Telecomms, Rail, Gas and Electricity Companies	39,008,662
	Commercial subjects:	
10,374,220	Shops	10,356,770
4,706,005	Offices	4,676,390
7,158,305	Hotels, Boarding Houses etc.	7,206,275
5,940,925	Others	5,953,545
13,746	Formula valued subjects	296,746
<u>68,427,353</u>	<b>Total Rateable Value</b>	<u>70,985,123</u>

### 2. NON-DOMESTIC RATE CHARGE

2005/06		2006/07
Pence		Pence
46.1p	Rate Per Pound	44.9p
0.45p	Supplementary Rate Per Pound for Properties over £25,000	0.40p

### 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.

2005/06 Net Expenditure £'000		2006/07		
		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
	<b>Council Services</b>			
87,944	Education Services	111,572	18,764	92,808
13,060	Environmental Services	18,895	3,707	15,188
7,839	Cultural and Related Services	9,834	902	8,932
3,333	Planning and Development Services	8,261	5,098	3,163
40,665	Social Work Services	53,557	13,207	40,350
2,517	Housing Services (Non-HRA)	38,197	39,126	(929)
(1,775)	Housing Services (HRA)	8,320	19,148	(10,828)
16,897	Roads and Transport Services	22,434	6,928	15,506
934	Trading Services	3,893	2,679	1,214
	Central Services			
2,073	- Central Services to the Public	3,346	1,094	2,252
3,571	- Corporate and Democratic Core	4,575	479	4,096
1,168	- Non-distributed Costs	2,007	4,989	(2,982)
2,159	- Other Operating Income and Expenditure	1,257	-	1,257
9,514	Strathclyde Police Joint Board	9,883	-	9,883
5,239	Strathclyde Fire Joint Board	5,315	-	5,315
<b>195,138</b>	<b>Net Cost of General Fund Services</b>	<b>301,346</b>	<b>116,121</b>	<b>185,225</b>
699	Share of Operating Results of Associates			1,707
<b>195,837</b>	<b>Net Cost of Services</b>			<b>186,932</b>
(2,888)	Net (Gain)/Loss on Disposal of Fixed Assets			4,998
(3)	Share of Associates (Gain)/Loss on Disposal of Fixed Assets			(12)
15,018	External Interest Payable			24,719
407	Share of Interest Payable by Associate			326
(960)	Interest and Investment Income			(1,702)
(248)	Share of Associate Interest and Investment Income			(242)
605	Pensions interest costs and expected return on pension assets			(2,740)
8,003	Share of Associate Pensions interest costs and expected return on pension assets			8,419
<b>215,771</b>	<b>Net Operating Expenditure</b>			<b>220,698</b>
124,555	General Government Grants			131,957
43,065	Income from Council Tax			45,059
34,249	Distribution from Non-domestic rate pool			33,828
<b>(13,902)</b>	<b>Deficit for Year</b>			<b>(9,854)</b>

**RECONCILIATION OF THE SINGLE ENTITY SURPLUS OR DEFICIT TO THE GROUP  
SURPLUS OR DEFICIT for the year ended 31 March 2007**

2005/06 £'000		2006/07 £'000
(5,050)	Surplus / (Deficit) on Income and Expenditure Account for the Year	385
	Add:	
(8,858)	(Deficit) attributable to Associates	(10,198)
6	Surplus / (Deficit) attributable to Common Good Funds	(41)
<u>(13,902)</u>	<b>Group Account Deficit for the Year</b>	<u>(9,854)</u>

2005/06		2006/07
£'000		£'000
(13,902)	<b>Group Account Deficit for the Year</b>	(9,854)
(16,886)	Deficit on Revaluation of Fixed Assets	(1,915)
1,243	Actuarial Gains on Pension Fund Assets and Liabilities	41,277
(77)	Other Gains or Losses to be Included in the STRGL	51
<b>(29,622)</b>	<b>Total Recognised Gains and (Losses)</b>	<b>29,559</b>

2005/06 £'000		2006/07 £'000
	<b>Fixed Assets</b>	
49	<i>Intangible Fixed Assets</i>	155
	<i>Tangible Fixed Assets</i>	
	Operational Assets	
44,091	- Council Dwellings	-
173,161	- Other Land and Buildings	173,023
6,589	- Vehicles, Plant and Equipment	7,250
90,138	- Infrastructure Assets	97,717
1,833	- Community Assets	1,962
	Non-operational Assets	
6,624	- Investment Property	6,704
19,288	- Assets Under Construction	21,624
8,300	- Surplus Assets held for Disposal	4,947
<b>350,073</b>	<b>Total Fixed Assets</b>	<b>313,382</b>
1,189	Other Long Term Investments	1,230
1,229	Long Term Debtors	1,079
9,104	Deferred Premiums on Early Repayment of Debt	7,235
<b>361,595</b>	<b>Total Long Term Assets</b>	<b>322,926</b>
	<b>Current Assets</b>	
609	Stock and Work in Progress	253
18,698	Debtors	16,622
24,692	Cash and Bank	6,227
<b>405,594</b>	<b>Total Assets</b>	<b>346,028</b>
	<b>Current Liabilities</b>	
(355)	Short Term Borrowing	(389)
(36,540)	Creditors	(31,034)
(2,885)	Bank Overdraft	(6,484)
<b>365,814</b>	<b>Total Assets less Current Liabilities</b>	<b>308,121</b>
(222,565)	Long Term Borrowing	(157,302)
(465)	Deferred Liability - Finance Leases	(1,470)
(30,001)	Government Grants - Deferred	(38,691)
(821)	Provisions	(4,026)
(167,632)	Investment in Associate	(163,642)
(65,681)	Liability Related to Defined Benefit Pension Scheme	(34,782)
<b>(121,351)</b>	<b>Total Assets less Liabilities</b>	<b>(91,792)</b>
	<i>Financed by:</i>	
86,283	Fixed Asset Restatement Account	38,261
6,012	Capital Financing Account	36,988
-	Useable Capital Receipts Reserve	2,539
(65,681)	Pensions Reserve	(34,782)
14,753	General Fund Balance	24,798
(167,632)	Group Reserves	(163,642)
1,510	Common Good Reserves	1,455
1,756	Housing Revenue Account Balance	255
1,648	Repairs and Renewals Funds	2,336
<b>(121,351)</b>	<b>Total Net Worth</b>	<b>(91,792)</b>

*Bruce West*

Bruce West  
 Head of Strategic Finance  
 28 September 2007

## 1. INTRODUCTION

The Code of Practice on Local Authority Accounting in the United Kingdom 2004: A Statement of Recommended Practice (the 2004 SORP) placed a requirement on authorities to consider all their interests in external organisations including limited companies and other statutory bodies. Where the interest is considered to be material, the authority is required to prepare a full set of group accounts in addition to those prepared for Argyll and Bute Council. The Group Accounts are designed to "present fairly" the financial performance and position of the Council's Group. Comparative figures for the previous year have been included where relevant.

## 2. GROUP ACCOUNTING POLICIES

The group accounts are prepared in accordance with the policies set out in the Statement of Accounting Policies on pages 9 to 12 with the exception of the following:

- The Strathclyde Partnership for Transport financial statements has been prepared under the historic cost convention. Therefore all land and buildings are reported at cost less accumulated depreciation.

## 3. COMBINING ENTITIES

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

The Associates which have been incorporated are:

- Strathclyde Joint Police Board
- Strathclyde Fire and Rescue Joint Board
- Dunbartonshire and Argyll & Bute Valuation Joint Board
- Strathclyde Partnership for Transport
- Strathclyde Concessionary Travel Scheme Joint Committee
- Argyll, Bute and the Dunbartonshire's Criminal Justice Social Work Partnership

The accounting period for all entities is 31 March 2007.

## 4. NON MATERIAL INTEREST IN OTHER ENTITIES

The Council has an interest in the Authorities Buying Consortium. The Authorities Buying Consortium is a Joint Committee of all councils in the West of Scotland. It is the largest non profit making purchasing agency in Scotland and serves the buying need of the public sector, charities and voluntary organisations.

The Council also has an interest in the Highlands and Islands Transport Partnership (HITRANS). The Partnership was established as one of the seven Scottish Regional Transport Partnerships. The Transport (Scotland) Act 2005 requires these Partnerships to prepare Transport Strategies for their regions which will enhance economic well being; promote safety, social inclusion and equal opportunity; plan for a sustainable transport system; and integrate across boundaries with other partnerships.

These entities are part of the Council's group for the purposes of Group Accounts. As such it is recognised that the nature of the relationship with these bodies should be included within these notes. However, it has been decided that the Council's share of the net worth of these entities is not material to a fair understanding of the financial position of the Council, and so they have not been consolidated into the Group Accounts.

## 5. 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.

## 6. FINANCIAL IMPACT OF CONSOLIDATION

The effect of inclusion of the Associates and Common Good Funds on the Group Balance Sheet is to decrease both reserves and net worth by £162.187m. This gives an overall net liability for the Group of £91.792m. 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 £'m	Argyll and Bute Council's Group Share £'m
Strathclyde Joint Police Board	3,459.450	137.340
Strathclyde Fire and Rescue Joint Board	912.071	35.662
Strathclyde Partnership for Transport	3.844	0.049
<b>Total Pension Liability of Associates</b>	<b>4,375.365</b>	<b>173.051</b>

The Police and Fire Schemes are unfunded with no attributable assets. However, the Scottish Executive effectively underwrites these liabilities through provision within the Revenue Support Grant System. This means that the financing of police and fire pensions is raised in the year the pensions are actually paid and offset by recognition within the revenue stream from the Scottish Executive.

All associates have prepared their accounts on a 'going concern' basis with the exception of the Argyll, Bute and the Dunbartonshire's Criminal Justice Social Work Partnership who have prepared their accounts on a non-going concern basis, the Partnership is no longer trading under this name from 1 April 2007 but has been formed into the North Strathclyde Criminal Justice Authority.

For the remaining Associates statutory arrangements in place with the Scottish Executive and constituent authorities for the funding of the deficit on Police and Fire pensions means that the financial position of the Boards remains assured. Similarly, for Strathclyde Passenger Transport Authority and the Joint Valuation Board funding arrangements between the Scottish Executive and constituent authorities remains assured. In common with these public bodies, the Council's Group Accounts have been prepared on a 'going concern' basis as there is no reason to suggest that future funding will not continue.

## 7. FURTHER DETAILS ON CONSOLIDATION

Due to the significant impact upon the reported figures of the Group Accounts further information in respect of the Associate Entities outlined above can be summarised as follows:-

### Strathclyde Police Joint Board

Strathclyde Police Joint Board is the statutory corporate body established under the Strathclyde Combined Police Area Amalgamation Order 1975 and provides a comprehensive range of policing services on behalf of the 12 constituent local authorities in the West of Scotland. During 2006/07 the Council contributed £9.886m or 1.8% of the Board's estimated running costs and its share of the net liability on the balance sheet is £133.163m and is included in the Group Balance Sheet. The accounts of the Board are subject to independent audit and can be obtained from the Treasurer to Strathclyde Police Joint Board, Glasgow City Chambers, Glasgow G2 1DU.

### Strathclyde Fire Joint Board

This is the statutory body responsible for supervising the activities of Strathclyde Fire and Rescue Service. Strathclyde Fire and Rescue provides fire and emergency cover for the 12 constituent local authorities in the West of Scotland. The Council contributed £5.239m to the Boards revenue costs in 2006/07 or 3.91% and has accounted for £30.924m as its representative share of the Net Balance Sheet Liabilities within the Group Balance Sheet. The accounts of the Board are subject to independent audit scrutiny and available from the Treasurer to Strathclyde Fire Joint Board, Bothwell Road, Hamilton ML3 0EA.

### Strathclyde Partnership for Transport

This is the statutory body responsible for formulating the public transport policy for the 12 local authorities in the West of Scotland. The greater part of the funding comes from the Scottish Executive in the form of Special Rail Grant which finances the rail franchise payments and ensures the delivery of rail services within the Board's area as specified within the rail franchise agreement. The Council contributed £0.427m or 1.25% of the Board's estimated net running costs during 2006/07 and accounted for £0.463m of the Net Balance Sheet Liabilities within the Group Balance Sheet. The accounts of the Board are subject to independent audit and are available from the Treasurer to Strathclyde Partnership for Transport, Consort House, 12 West George Street, Glasgow G2 1HN.

### Strathclyde Concessionary Travel Scheme Joint Board

This body comprises the 12 local authorities within the West of Scotland which oversees the operations of the concessionary fares scheme for public transport within its area. The costs of the scheme are met by a combination of funding from the 12 constituent councils and direct grant funding from the Scottish Executive. From 1 April 2006 the rollout of the national concessionary fares scheme has seen a significant funding change with the vast majority of funding now coming directly from the Scottish Executive. During 2006/07 the Council contributed £0.199m or 5.04% of the net annual running costs and accounted for £0.502m of the Net Balance Sheet Assets within the Group Balance Sheet. The accounts of the Board are subject to independent audit and are available from the Treasurer to Strathclyde Concessionary Travel Scheme, Consort House, 12 West George Street, Glasgow G2 1HN.

### Dunbartonshire and Argyll and Bute Valuation Joint Board

This body was formed in 1996 at local government reorganisation by an Act of Parliament and is responsible for the maintenance of the electoral, council tax and non-domestic rates registers for Argyll and Bute, West Dunbartonshire and East Dunbartonshire Councils. The Board's running costs are met by the three Councils. During 2006/07 Argyll and Bute Council contributed £1.221m towards estimated running costs and accounted for £0.365m of Net

Balance Sheet Assets within the Group Balance Sheet. The accounts of the Board are subject to independent audit and are available from the Treasurer to Dunbartonshire and Argyll and Bute Valuation Joint Board, Council Offices, Garshake Road, Dumbarton G82 3PU.

The following disclosures are also required for Dunbartonshire and Argyll and Bute Valuation Joint Board because the Council's interest exceeds the 25% threshold for accounting purposes:-

	2006/07	2005/06
	£'m	£'m
Argyll and Bute Council has a 47.5% share of:		
Gross Income	2.598	2.623
Net Surplus (Deficit)	0.610	(0.025)
Fixed Assets	0.614	0.629
Current Assets	0.426	0.341
Liabilities due within one year	(0.404)	(0.322)
Liabilities due over one year	(0.027)	-
Retirement Benefit Asset	0.158	(0.487)

### Argyll, Bute and the Dunbartonshires' Criminal Justice Social Work Partnership

This is a Joint Committee set up to jointly provide the delivery of Social Work Criminal Justice Services for East Dunbartonshire Council, West Dunbartonshire Council and Argyll and Bute Council. Each of the 3 councils has appointed 2 members to the Joint Committee. The overall objectives of the Joint Committee are agreed objectives of the constituent authorities to satisfy their duties regarding the provision and management of Social Work Criminal Justice services, and the appropriate delegations have been made by the 3 authorities to ensure that the Joint Committee can carry out this service effectively. The cost of this service to Argyll and Bute Council is recharged to West Dunbartonshire Council who are the lead authority for compiling the accounts for the Joint Committee. In the main this is fully funded by the Scottish Executive. The income and expenditure associated with this is incorporated into the consolidated revenue account of Argyll and Bute Council. The Council's share of the net year end asset is £0.041m (33.3%), and this has been reflected in the group balance sheet. The accounts of the Joint Committee are subject to independent audit and are available from the Treasurer to Argyll, Bute and the Dunbartonshires' Criminal Justice Social Work Partnership, Council Offices, Garshake Road, Dumbarton G82 3PU.

The following disclosures are also required for Argyll, Bute and the Dunbartonshires' Criminal Justice Social Work Partnership because the Council's interest exceeds the 25% threshold for accounting purposes:-

	2006/07	2005/06
	£'m	£'m
Argyll and Bute Council has a 33.3% share of:		
Gross Income	3.142	2.928
Net Surplus (Deficit)	(0.013)	0.047
Fixed Assets	0.124	0.111
Current Assets	0.499	0.701
Liabilities due within one year	(0.499)	(0.701)
Capital and Revenue Reserves	0.124	0.111

## 8. REPORTING AUTHORITY ADJUSTMENTS

A number of adjustments are required to the Council's Income and Expenditure Account (page 13) for group accounting purposes. These can be summarised as follows:

- All intra-group transactions have been removed from the Group Accounts as part of the subsidiary consolidation process.
- The Common Good Funds described in note 26 of the Notes to the Core Financial Statements on page 34 have been fully consolidated into the Group Accounts. This adjustment increases the net assets and reserves of Argyll and Bute Council's Group by £1.455m.

## 9. GROUP CASH FLOW STATEMENT

The impact of the incorporation of the associates has no effect upon the Cash Flow statement for Argyll and Bute Council on pages 18 to 19. Only the Common Good transactions would have an impact. However, this impact is not material enough for a separate Group Cash Flow Statement to be prepared.



## Independent auditor's report to the members of Argyll and Bute Council and the Accounts Commission for Scotland

We certify that we have audited the financial statements of Argyll and Bute Council and its group for the year ended 31 March 2007 under Part VII of the Local Government (Scotland) Act 1973. These comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Statement of Total Recognised Gains and Losses, Balance Sheet and Cash-Flow Statement, the Housing Revenue Account Income and Expenditure Account, Statement of Movement on the HRA Balance, the Council Tax Income Account, the Non-Domestic Rate Income Accounts, and the Group Accounts and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Accounts Commission for Scotland, We do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

## Respective responsibilities of the Council, Head of Strategic Finance and auditor

The Council's, and Head of Strategic Finance's, responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2006 - A Statement of Recommended Practice (the 2006 SORP) are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission.

We report our opinion as to whether the financial statements present fairly the financial position of the Council and its group in accordance with applicable laws and regulations and the 2006 SORP, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973. We also report if, in our opinion, the Foreword is not consistent with the financial statements, if the Council has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We review whether the Statement on the System of Internal Financial Control reflects the Council's compliance with the 2006 SORP. We report if, in our opinion, it does not comply with the 2006 SORP or if it is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the Statement covers all risk and controls. Neither are we required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures.

We read the other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Foreword. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## Basis of audit opinion

We conducted our audit in accordance with Part VII of the Local Government (Scotland) Act 1973 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Accounts Commission. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Head of Strategic Finance in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Council's and its group's circumstances, consistently applied and adequately disclosed.

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

## Opinion

In our opinion

- the financial statements present fairly, in accordance with applicable laws and regulations and the 2006 SORP, the financial position of the Council and its group as at 31 March 2007 and its income and expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

### Failure to comply with a statutory requirement

It has not been necessary to qualify our opinion in respect of the following matter. The Council has a statutory duty under section 10 of the Local Government in Scotland Act 2003 to conduct each of its significant trading operations so that income is not less than expenditure over each three year period.

The Council failed to comply with this statutory requirement for the three year period ending 31 March 2007 in respect of the following significant trading operations:

- Leisure Trading Account;
- Catering and Cleaning Trading Account; and
- Building Maintenance Trading Account.

*Grant Thornton UK LLP*

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28 September 2007