



## **Audited Financial Statements**

for the year ended 31 March 2014



## LANGUAGE OPTIONS

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	<b>Page</b>
Explanatory Foreword by the Head of Strategic Finance	4-11
Statement of Responsibilities for the Statement of Accounts	12
Statement of Governance and Internal Control	13-16
The Remuneration Report	17-30
Statement of Movement in Reserves – Movement in 2013-14	31-32
Statement of Movement in Reserves – Comparative Movement in 2012-13	33-34
Statement of Comprehensive Income and Expenditure	35-36
Balance Sheet	37-38
Cash Flow Statement	39
Notes to the Financial Statements (See Page 2-3)	40-96
Council Tax Income Account	97
Notes to the Council Tax Income Account	98
Non Domestic Rate Income Account	99
Notes to the Non Domestic Rate Income Account	100
Group Statement of Movement in Reserves – Movement in 2013-14	101
Group Statement of Movement in Reserves – Comparative Movement 2012-13	102
Group Statement of Comprehensive Income and Expenditure	103-104
Group Balance Sheet	105-106
Notes to the Group Financial Statements	107-109
Independent Auditor’s Report	110-111

Note No		Page
1	Summary of Significant Accounting Policies	40-52
2	Accounting Standards Issued But Not Yet Adopted	52-53
3	Critical Judgements in Applying Accounting Policies	53
4	Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty	53-55
5	Transfers to/from Earmarked Reserves	56
6	Amounts Reported for Resource Allocation Decisions	57-60
7	Other Operating Income and Expenditure	61
8	Significant Trading Organisations	61
9	Agency Income	61
10	Community Care and Health (Scotland) Act 2002	61-62
11	Waste Management Public Private Partnership	62
12	Fees Payable to Audit Scotland	62
13	Grant Income	63
14	Related Parties	63-64
15	Property, Plant and Equipment	65-69
16	Heritage Assets	69
17	Intangible Assets	70
18	Investment Property	71
19	Schools Non-Profit Distributing Organisation (NPDO)	72-73
20	Finance and Operating Leases	73-74
21	Long Term Debtors	75
22	Debtors	75
23	Assets Held for Sale	76
24	Cash and Cash Equivalents	76
25	Creditors	76
26	Financial Instruments Disclosures	77-80
27	Other Liabilities	81

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<b>Note No</b>		<b>Page</b>
28	Provisions	81-82
29	Defined Benefit Pension Schemes	82-90
30	Unusable Reserves	90-91
31	Usable Reserves	91-92
32	Contingent Liabilities	92
33	Termination Benefits	93
34	Trust Funds and Other Third Party Funds	93
35	Common Good Funds	94
36	Cash Flow Statement – Operating Activities	95
37	Cash Flow Statement – Investing Activities	95
38	Cash Flow Statement – Financing Activities	96

### INTRODUCTION

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

### THE FINANCIAL STATEMENTS

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

The financial statements comprise:

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

### FINANCIAL PERFORMANCE

#### Statement of Movement in Reserves

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

The Council's reserves are split into Usable and Unusable Reserves. Usable reserves are those which are backed by actual resources and can be applied to fund expenditure or reduce local taxation. Unusable reserves are not backed by resources and are required purely for accounting purposes, these reserves do not represent resources available for the Council to utilise.

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

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

A number of adjustments are made between Council reserves to reflect the correct charge to Council Tax for the year. The net adjustment to the surplus per the Comprehensive Income and Expenditure Statement to reflect the impact on Council Tax is a debit of £3.791m. In summary this debit represents the difference between:

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

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

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

### General Fund Reserve

The balance on the General Fund at 31 March 2014 stands at £44.041m compared to £46.138m at 31 March 2013, a decrease of £2.097m. The "free" General Fund Balance stands at £13.669m at 31 March 2014. This equates to 5.6% of the net revenue expenditure for 2014-15, the Council has a policy of maintaining an unallocated balance in the General Fund Reserve equivalent to 1.5% of budgeted net revenue expenditure. There are a range of balances earmarked within the General Fund, these total £30.372m and are laid out in note 5 on page 56. The main balances include £7.484m for the Strategic Housing Fund generated from Council Tax on second homes, £3.0m earmarked as a revenue contribution to capital as a contribution to Dunoon and Campbeltown Schools, £9.5m contribution to investment in affordable housing and £7.298m earmarked from service budget underspends to support corporate and service improvement plans.

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

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



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

### Performance against budget

At the year-end, expenditure excluding Joint Board requisitions and severance was underspent by £0.842m. The table below is a summary of the year-end actual expenditure for each department compared to the annual budget.

	(over) /underspend £m	% of annual budget £m
Chief Executive's Unit	0.097	4.27%
Community Services	(0.270)	(0.21)%
Customer Services	1.544	4.14%
Development and Infrastructure Services	<u>(0.529)</u>	<u>(1.48%)</u>
<b>Departmental Outturn</b>	<b>0.842</b>	<b>0.40%</b>
Non-Departmental expenditure	1.120	3.19%
Joint Boards and Severance Costs	<u>0.868</u>	<u>19.33%</u>
<b>Expenditure Outturn</b>	<b>2.830</b>	<b>1.12%</b>
Funding	<u>0.530</u>	<u>0.21%</u>
<b>Outturn Total</b>	<b>3.360</b>	<b>1.33%</b>

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

### Comprehensive Income and Expenditure Statement

The Council ended the year with an accounting deficit of £5.917m for 2013-14 compared to a surplus of £3.655m in 2012-13, this is the accounting surplus based on the IFRS compliant accounts rather than the movement in the General Fund Balance. The total Comprehensive Income and Expenditure for 2013-14 represents the decrease in the net worth of the Council from £180.742m at 31 March 2013 to £174.825m at 31 March 2014. This is a decrease in the net worth of the Council in accounting terms and does not represent a decrease in the spending power of the Council.

The total Comprehensive Income and Expenditure comprises a surplus on the provision of services of £1.694m and a surplus on the revaluation of Long Term Assets of £4.387m; these are partly offset by an actuarial loss on the pension fund assets/liability of £11.998m.

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

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

### Balance Sheet

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

The value of long term assets has increased from £500.353m at 31 March 2013 to £514.498m at 31 March 2014, an increase of £14.145m (2.8%). This comprises the net of an overall upward revaluation of fixed assets, capital expenditure in the year, less the value of long term assets disposed.

Total current assets have decreased from £63.678m at 31 March 2013 to £57.652m at 31 March 2014, a decrease of £6.026m. The main reason for this being a decrease in Cash and Cash Equivalents of £5.793m from £11.868m at 31 March 2013 to £6.075m at 31 March 2014.

Total current liabilities have increased from £42.899m at 31 March 2013 to £48.746m at 31 March 2014, an increase of £5.847m. Short term borrowing has increased by £7.703m from £3.739m at 31 March 2013 to £11.442m at 31 March 2014, partly offset by Short term creditors which have decreased by £2.313m from £35.295m to £32.982m. In addition, there has been an increase in short term provisions of £0.240m, which relates to the settling of equal pay claims and severance costs associated with employees leaving the Council under redundancy and early retirement.

Overall, long term liabilities have increased from £340.390m at 31 March 2013 to £348.579m at 31 March 2014. The increase of £8.189m is primarily due to the increase in the IAS19 valuation of the pension scheme liability from £99.864m to £118.337m, partly offset by a decrease in Borrowing Repayable within a period of 12 Months of £8.351m.

### Cash Flow Statement

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

### Pension Liability

As noted above the IAS19 valuation of the pension scheme liability has increased from £99.864m at 31 March 2013 to £118.337m at 31 March 2014. This pension liability represents the best estimate of the current value of pension benefits that will have to be funded by the Council. The liability relates to benefits earned by existing or previous employees up to 31 March 2014.

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

Hymans Robertson (Independent Actuaries) were instructed by Glasgow City Council, the administering authority to the Strathclyde Pension Fund, to undertake calculations in respect of the Local Government Pension Scheme on behalf of Argyll and Bute Council as at 31 March 2014. Their calculations have been carried out in accordance with Guidance Note 36: Accounting for Retirement Benefits under IAS19, issued by the Institute and the Faculty of Actuaries.

### Significant Trading Organisations

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

### Capital Expenditure and Borrowing

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

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

The Council approved a set of prudential indicators for 2013-14 and managed capital expenditure and borrowing within these approved limits.

## Explanatory Foreword by the Head of Strategic Finance



Capital expenditure was incurred across a range of services enhancing the value, useful life or working capacity of the Council's assets. This included investments in schools, offices, other premises and facilities, information technology and roads. Details of capital expenditure are as follows:

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

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

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

The external borrowing of the Council at 31 March 2014 amounted to £161.181m. The majority of this was financed by the Public Works Loan Board (£108.066m), with the remainder coming mainly from the money market.

During the year the Council completed £0.702m of new external borrowing. This was used to finance capital expenditure incurred during the year. The Council also repaid loans of £0.141m.

### PROVISIONS AND CONTINGENT LIABILITIES

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

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

### CHANGES IN ACCOUNTING POLICY

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

### GROUP ACCOUNTS

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

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

The following statements make up the "Group Accounts" for the Council:

- The Group Movement in Reserves Statement shows the movement in the year of the different reserves the Council holds, along with the movement in the Council's share of the reserves of its associates.
- The Group Comprehensive Income and Expenditure Statement combines the Income and Expenditure Figures for the Council with the Council's share of the operating results of each associate.
- The Group Balance Sheet brings together all the assets and liabilities of the group, and combines the Council's assets and liabilities with its share of each associate's net assets or liabilities.
- The notes to the Group Accounts give further information on the Council's group accounts.

### FUTURE OUTLOOK

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

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

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

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

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

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

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

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



Bruce West  
Head of Strategic Finance  
**26 September 2014**

## THE AUTHORITY'S RESPONSIBILITIES

The Council is required:

- to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Head of Strategic Finance.
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- to approve the audited Statement of Accounts at a meeting of the Council within two months of receipt of the audit certificate.

## THE HEAD OF STRATEGIC FINANCE'S RESPONSIBILITIES

The Head of Strategic Finance is responsible for the preparation of the Council's Statement of Accounts, which in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code of Practice), are required to show a true and fair view of the financial position of the Council as at 31 March 2014 and its income and expenditure for the year ended on that date.

In preparing this Statement of Accounts, the Head of Strategic Finance has:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Local Authority Code of Practice 2013-14.

The Head of Strategic Finance has also:

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

This Statement of Accounts show a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31 March 2014.

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

Bruce West  
Head of Strategic Finance  
**26 September 2014**

## BACKGROUND

Argyll and Bute Council conducts its business in accordance with the law and proper standards. The Council has a duty to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to the economic, efficient and effective use of public money.

In discharging these responsibilities, the Council has put in place proper arrangements for the governance of its affairs and the stewardship of the resources at its disposal. The Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles and reflects the requirements of the CIPFA/SOLACE Framework Note for Scottish Authorities – Delivering Good Governance in Local Government (2007).

A copy of the Code may be obtained from the Head of Governance and Law, Argyll and Bute Council, Kilmory, Lochgilphead, PA31 8RT.

## THE GOVERNANCE FRAMEWORK

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

- focusing on the purpose of the Council and on outcomes for the community, and creating and implementing a vision for the local area;
- members and officers working together to achieve a common purpose with clearly defined functions and roles;
- promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
- taking informed and transparent decisions which are subject to effective scrutiny, and managing risk;
- developing the capacity and capability of members and officers to be effective;
- engaging with local people and other stakeholders to ensure robust public accountability;
- setting out and reviewing as appropriate the arrangements for governance and the roles and responsibilities of elected members and employees in standing orders, a scheme of delegation, financial and security regulations and codes of conduct for elected members and employees;
- having in place job descriptions, a system of performance review and development and management and leadership development programmes to set out the roles and responsibilities of and support for the development needs of senior officers;
- ongoing development of an elected member development programme. This includes a range of approach from a CPD framework, 360 degree feedback and self-assessment. A programme of seminar around leadership, governance and functional topics has been developed;
- incorporating an anti-fraud strategy in to the Council's financial and security regulations. This sets out the arrangements for prevention of fraud and corruption and also detection and investigation of fraud and corruption; and
- developing governance over partnerships to ensure effective joint working and delivery of Council objectives. This includes arrangements for governance of the community planning partnership, management committee and chief officer level. Performance of police and fire services is reported to the Performance Review and Scrutiny Committee.



## GOVERNANCE ROLES AND RESPONSIBILITIES

Argyll and Bute Council has put in place appropriate management and reporting arrangements to enable it to satisfy itself that its approach to corporate governance is adequate and effective in practice. The Executive Director of Customer Services as Monitoring Officer has responsibility for:

- overseeing the implementation of the Code of Corporate Governance and monitoring its operation; and
- reporting annually to the Council on compliance with the Code and any changes required to maintain it and ensure its effectiveness.

Account has been taken of the results of reviews of internal control that have been carried out within each council service. Specific responsibilities are assigned to the Head of Strategic Finance to ensure that public funds are properly accounted for.

## AUDIT SCOTLAND STATUTORY REPORT

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

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

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

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

## INTERNAL FINANCIAL CONTROL

In ensuring that an effective system of internal financial control is maintained and operated in connection with the resources concerned, this statement also covers the other bodies whose activities are incorporated into our Group Accounts, i.e.

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

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

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

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

### **RISK MANAGEMENT**

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

### **INTERNAL AUDIT**

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

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

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

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

## ISSUES FOR FURTHER DEVELOPMENT

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

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

## ASSURANCE

The review of the effectiveness of the system of governance and internal financial control is informed by:

- the work of officers within the Council;
- the work of Internal Audit as described above;
- the work of External Audit;
- the Statements of Governance and/or Internal Control provided by the bodies incorporated into our Group Accounts;
- external review and inspection reports; and
- recommendations from the Audit Committee.

It is the Council's view that the systems for governance and internal control are operating effectively within Argyll and Bute Council and the aforementioned bodies during 2013-14 and that there are no significant weaknesses. This assurance is limited, however, to the work undertaken during the year and the evidence available at the time of preparing this statement.



CLlr Dick Walsh  
Leader



Sally Loudon  
Chief Executive



Bruce West  
Head of Strategic Finance

26 September 2014

## BACKGROUND

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

## REMUNERATION POLICY AND ARRANGEMENTS

### Councillors

The remuneration of councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007 (SSI No 2007/183). The Regulations provide for the grading of councillors for the purposes of remuneration arrangements, as the Leader of the Council, the Civic Head (Provost), senior councillors or councillors. The Leader of the Council and the Provost cannot be the same person for the purposes of payment of remuneration. A senior councillor is a councillor who holds a significant position of responsibility in the Council's political management structure.

When determining the level of remuneration for councillors the Scottish Ministers consider the recommendations of the Scottish Local Authority Remuneration Committee (SLARC). SLARC is an advisory Non-Departmental Public Body set up in 2005 to advise Scottish Ministers on the remuneration, allowances and expenses incurred by local authority councillors.

The Regulations also provide for the banding of local authorities – Argyll and Bute is in Band B, the Council has determined the level of remuneration for councillors within that banding. The salary that is to be paid to the Leader of the Council is set out in the Regulations. For 2013-14 the salary for the Leader of Argyll and Bute Council is £32,470. The Regulations permit the council to remunerate one Civic Head. The Regulations set out the maximum salary that may be paid to that Civic Head. The Council's Civic Head is The Provost and their remuneration is set at £24,353 which is the maximum allowed for Local Authorities in Band B.

The Regulations also set out the remuneration that may be paid to senior councillors in addition to the Leader and Civic Head and the total number of senior councillors the Council may have. The maximum yearly amount that may be paid to a senior councillor is 75% of the total yearly amount payable to the Leader of the Council. The total yearly amount payable by the Council for remuneration of all its senior councillors shall not exceed £0.284m. The Council is able to exercise local flexibility in the determination of the precise number of senior councillors up to a maximum of 14 and their salary within these maximum limits. The Council's policy is to pay the maximum salary of £24,353 to each appointed spokesperson and the Chair of the Protective Services and Licensing Committee. Chairs of Area Committees without a spokesperson's remit are paid a salary of £19,962.

In 2013-14 Argyll and Bute Council had 12 senior councillors in the administration up to 26 September 2013 and 14 senior councillors in the administration from 31 October 2013. The total salary remuneration for senior councillors during 2013-14 was £0.259m. The Regulations also permit the Council to pay contributions or other payments as required to the Local Government Pension Scheme in respect of those councillors who elect to become councillor members of the pension scheme.

### Senior Employees

The salary of senior employees is set by reference to national arrangements. The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services sets the salaries for the Chief Executives of Scottish local authorities. Circular CO/144 sets the amount of salary for the Chief Executive of Argyll and Bute Council for the period 2008 to 2014. The salaries of the Executive Directors and Heads of Service are based on a fixed percentage of the Chief Executive's salary in two bandings. Executive Directors receive 80% of the amount of the Chief Executive's salary and Heads of Service 75% of Executive Director's salary. This equates to Chief Officers Salary Scale Point (SCP) 43 for Executive Directors and (SCP) 29 for Heads of Service.

## COUNCILLORS' REMUNERATION

Councillors' payments are made in accordance with the Local Government (Scotland) Act 2004 (Remuneration) Regulations 2007 and The Local Government (Allowances and Expenses) (Scotland) Regulations 2007.

The total amount of councillors' remuneration paid by the Council during the year was:

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

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

## The Remuneration Report

### SENIOR COUNCILLORS' REMUNERATION

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

Senior Members	Responsibility	2013-14				2012-13
		Salary, Fees and Allowances £	Taxable Expenses £	Non-cash Expenses & Benefits-in-kind £	Total Remuneration £	Total Remuneration £
Councillor Isobel Strong	Provost (from 22/05/12 to 31/10/13)	15,207	-	-	15,207	19,933
Councillor Len Scoullar	Provost and Lead Councillor for Island Affairs (from 31/10/13), European Issues Spokesperson (from 6/12/10 to 3/5/12)	9,185	-	-	9,185	3,238
Councillor Roddy McCuish	Leader and Lead Councillor for European Affairs (from 23/5/13 to 26/9/13), Depute Leader and Lead Councillor for European Affairs (from 14/02/13 to 23/5/13), Leader (from 22/05/12 to 14/02/13)	17,614	32	-	17,646	26,123
Councillor James Robb	Lead Councillor for Strategic Finance (from 23/5/13 to 26/9/13), Leader and Lead Councillor for Strategic Finance (from 14/02/13 to 23/5/13), Lead Councillor for Strategic Finance and European Affairs (from 22/05/12 to 14/02/13)	14,115	-	-	14,115	20,693
Councillor Dick Walsh	Leader (from 26/9/13), Lead Councillor for Strategic Finance (from 31/10/13), Lead Councillor for the Opposition (from 22/5/12 to 26/9/13), Leader (to 3/5/12)	26,011	669	-	26,680	20,828
Councillor Douglas Philand	Depute Provost and Lead Councillor for Adult Care (from 31/10/13), Depute Provost and Area Leader for Mid Argyll, Kintyre and the Islands (from 21/03/13 to 31/10/13), Depute Provost and Lead Councillor for Human Resources and Sport (from 22/05/12 to 21/03/13),	21,434	-	-	21,434	19,933

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

Senior Members	Responsibility	2013-14				2012-13
		Salary, Fees and Allowances £	Taxable Expenses £	Non-cash Expenses & Benefits-in-kind £	Total Remuneration £	Total Remuneration £
Councillor Aileen Morton	Lead Councillor for Education, Lifelong Learning and Strategic IT Services (from 31/10/13)	8,675	-	-	8,675	-
Councillor David Kinniburgh	Chair of Planning, Protective Services and Licensing Committee (from 31/10/13)	8,675	-	-	8,675	-
Councillor Mary Jean Devon	Lead Councillor for Children and Families (from 22/5/12)	21,519	-	-	21,519	19,933
Councillor Rory Colville	Chair of Mid Argyll, Kintyre and the Islands Area Committee (from 31/10/13), Third Sector and Communities Spokesperson (from 6/12/10 to 3/5/12)	7,232	-	-	7,232	3,164
Councillor Alistair MacDougall	Chair of Oban, Lorn and the Isles Area Committee (from 31/10/13)	7,232	-	-	7,232	-
Councillor Robert E MacIntyre	Chair of Bute and Cowal Area Committee (from 22/05/12), Leader of the Opposition (from 6/12/10 to 3/5/12)	19,904	-	-	19,904	19,203
Councillor Gary Mulvaney	Chair of Helensburgh and Lomond Area Committee (from 31/10/13)	7,232	-	-	7,232	-
Councillor George Freeman	Lead Councillor for Community, Culture and Strategic Housing (from 21/3/13 to 26/9/13). Lead Councillor for Housing (from 22/5/12 to 21/3/13)	12,844	117	-	12,961	20,331
Councillor Sandy Taylor	Lead Councillor for Planning and Regulatory Services (from 22/05/12 to 26/9/13)	12,844	-	-	12,844	19,933
Councillor Louise Glen-Lee	Lead Councillor for Community, Culture, Customer and Communication (from 22/5/12 to 21/3/13), Lead Councillor for Support and Customer Services (from 21/3/13 to 26/9/13)	12,844	319	-	13,163	20,503



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

## EMPLOYEES' REMUNERATION

The Local Authority Accounts (Scotland) Regulations 1985 (Amended 2011) requires local authorities to provide an analysis of the number of employees whose remuneration in the year was £50,000 or more, including those classified as senior employees who are subject to separate disclosure requirements. The definition of remuneration includes all sums paid to or receivable by an employee, expense allowances chargeable to tax and the monetary value of benefits received other than in cash. This definition therefore includes all payments made to the employee in respect of agreed employment terminations or retirements. However, employer pension contributions are excluded from the definition.

Readers should be aware when making comparisons between years that, due to contractual incremental pay increases, the number of employees covered by this disclosure will increase each year. In addition, payments made in respect of agreed employment terminations or retirements can also distort the number and/or banding of employees.

The number of employees whose remuneration, excluding employer pension contributions and including redundancy/retirement payments, that was £50,000 or more in bands of £5,000 was:

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

## SENIOR EMPLOYEES' REMUNERATION

The Local Authority Accounts (Scotland) Regulations 1985 (Amended 2011) requires the separate disclosure and analysis of remuneration for senior employees (defined by the regulations) as those employees forming part of the Council's senior management team, or holding certain statutory posts, whose salary is over £50,000 and any additional employee whose salary is over £150,000.

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

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

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

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

The senior employees included in the table include any local authority employee:

- Who has responsibility for management of the local authority to the extent that the person has power to direct or control the major activities of the authority (including activities involving the expenditure of money), during the year to which the Report relates, whether solely or collectively with another person;
- Who holds a post that is politically restricted by reason of section 2(1) (a), (b) or (c) of the Local Government and Housing Act 1989; or
- Whose annual remuneration is £150,000 or more.

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

## PENSION BENEFITS

Pension benefits for councillors and local government employees are provided through the Local Government Pension Scheme (LGPS).

Councillors' pension benefits are based on career average pay. The councillor's pay for each year or part year ending 31 March (other than the pay in the final year commencing 1 April) is increased by the increase in the cost of living, as measured by the appropriate index (or indices) between the end of that year and the last day of the month in which their membership of the scheme ends. The total of the revalued pay is then divided by the period of membership to calculate the career average pay. This is the value used to calculate the pension benefits.

For local government employees this is a final salary pension scheme. This means that pension benefits are based on the final year's pay and the number of years that person has been a member of the scheme.

The scheme's normal retirement age for both councillors and employees is 65.

From 1 April 2009 a five tier contribution system was introduced with contributions from scheme members being based on how much pay falls into each tier. This is designed to give more equality between the cost and benefits of scheme membership. Prior to 2009 contributions rates were set at 6% for all non-manual employees.

The tiers and members contribution rates for 2013-14 remain at the 2012-13 rates and are as follows:

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

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

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

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

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

## SENIOR COUNCILLORS' PENSION BENEFITS

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

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

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

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

## SENIOR EMPLOYEES' PENSION BENEFITS

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

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

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

## EMPLOYEE EXIT PACKAGES

The numbers of exit packages with cost per band for compulsory and other redundancies are set out in the table below:

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

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

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



The total cost of £0.945m in the table above includes exit packages that have been agreed and charged to the Council's Comprehensive Income and Expenditure Statement in the current year. These costs include all exit packages agreed by 31 March in each year, this does not necessarily mean that these payments have been made, for example an employee could have subsequently been re-deployed to an alternative post within the Council. The Council's Balance Sheet includes a provision at 31 March 2014 of £0.339m, this represents the amount which has yet to be paid out by the Council, this amount is included within the bands above.

The supplementary Termination Benefits Note 33 on page 93 provides more information on the exit packages agreed in the last two financial years.

A handwritten signature in black ink that reads 'Dick Walsh'.

Dick Walsh  
**Leader**

A handwritten signature in black ink that reads 'Sally Loudon'.

Sally Loudon  
**Chief Executive**

**26 September 2014**

## Statement of Movement in Reserves

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

## Statement of Movement in Reserves

Statutory Repayment of Debt - Loans Fund Advances	17,875			17,875		(17,875)				(17,875)	-
Statutory Repayment of Debt - Finance Leases	19			19		(19)				(19)	-
Statutory Repayment of Debt - NPDO Finance	1,547			1,547		(1,547)				(1,547)	-
<b>Total Statutory Adjustments</b>	<b>3,604</b>	<b>-</b>	<b>(454)</b>	<b>3,150</b>	<b>3,335</b>	<b>(12,693)</b>	<b>6,475</b>	<b>(373)</b>	<b>106</b>	<b>(3,150)</b>	<b>-</b>
<b>Net (Increase)/Decrease before Transfers to Other Statutory Reserves</b>	<b>1,910</b>	<b>-</b>	<b>(454)</b>	<b>1,456</b>	<b>(1,052)</b>	<b>(12,693)</b>	<b>18,473</b>	<b>(373)</b>	<b>106</b>	<b>4,461</b>	<b>5,917</b>
<i>Other Transfers required by Statute</i>											
Transfer to/from Other Statutory Reserves	187	(175)	310	322		(322)				(322)	-
<b>(Increase)/Decrease in Year</b>	<b>2,097</b>	<b>(175)</b>	<b>(144)</b>	<b>1,778</b>	<b>(1,052)</b>	<b>(13,015)</b>	<b>18,473</b>	<b>(373)</b>	<b>106</b>	<b>4,139</b>	<b>5,917</b>
<b>Balance at 31 March 2014 Carried Forward</b>	<b>(44,041)</b>	<b>(1,025)</b>	<b>(3,460)</b>	<b>(48,526)</b>	<b>(56,113)</b>	<b>(198,230)</b>	<b>118,337</b>	<b>4,889</b>	<b>4,818</b>	<b>(126,299)</b>	<b>(174,825)</b>

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

## Statement of Movement in Reserves

Comparative Movements in 2012-13	Usable Reserves (Note 31)				Unusable Reserves (Note 30)						Total Reserves
	General Fund Balance	Repairs and Renewals Fund	Capital Funds	Total Usable Reserves	Revaluation Reserve	Capital Adjustment Account	Pensions Reserve	Financial Instrument Adjustment Account	Accumulated Absences Account	Total Unusable Reserves	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
<b>Balance at 31 March 2012</b>	<b>(34,572)</b>	<b>(532)</b>	<b>(3,092)</b>	<b>(38,196)</b>	<b>(55,337)</b>	<b>(172,873)</b>	<b>79,092</b>	<b>5,634</b>	<b>4,593</b>	<b>(138,891)</b>	<b>(177,087)</b>
(Surplus)/Deficit on Provision of Services	(19,795)			(19,795)						-	(19,795)
Other Comprehensive Expenditure and Income					(2,027)		18,167			16,140	16,140
<b>Total Comprehensive Expenditure and Income</b>	<b>(19,795)</b>	<b>-</b>	<b>-</b>	<b>(19,795)</b>	<b>(2,027)</b>	<b>-</b>	<b>18,167</b>	<b>-</b>	<b>-</b>	<b>16,140</b>	<b>(3,655)</b>
<b>Adjustments between accounting basis and funding basis under regulations:</b>											
Adjustment between CAA and Revaluation Reserve for depreciation that is related to the revaluation balance rather than historic cost.				-	2,303	(2,303)				-	-
Amortisation of Intangible Assets	(131)			(131)		131				131	-
Depreciation and of Non-current Assets	(19,356)			(19,356)		19,356				19,356	-
Impairment of Non-current Assets	(1,352)			(1,352)		1,352				1,352	-
Capital Grants and Contributions credited to the Comprehensive Income and Expenditure	11,428			11,428		(11,428)				(11,428)	-
Capital Expenditure Charged to the General Fund	1,650			1,650		(1,650)				(1,650)	-
Net Gain or Loss on Sale of Non-current Assets	(2,077)		(394)	(2,471)		2,471				2,471	-
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	372			372				(372)		(372)	-
Employee Benefits	(119)			(119)					119	119	-
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under pension scheme regulations	(2,605)			(2,605)			2,605			2,605	-

## Statement of Movement in Reserves

Statutory Repayment of Debt - Loans Fund Advances	18,639			<b>18,639</b>		(18,639)				<b>(18,639)</b>	-
Statutory Repayment of Debt - Finance Leases	25			<b>25</b>		(25)				<b>(25)</b>	-
Statutory Repayment of Debt - NPDO Finance	1,424			<b>1,424</b>		(1,424)				<b>(1,424)</b>	-
<b>Total Statutory Adjustments</b>	<b>7,898</b>	-	<b>(394)</b>	<b>7,504</b>	<b>2,303</b>	<b>(12,159)</b>	<b>2,605</b>	<b>(372)</b>	<b>119</b>	<b>(7,504)</b>	-
<b>Net (Increase)/Decrease before Transfers to Other Statutory Reserves</b>	<b>(11,897)</b>	-	<b>(394)</b>	<b>(12,291)</b>	<b>276</b>	<b>(12,159)</b>	<b>20,772</b>	<b>(372)</b>	<b>119</b>	<b>8,636</b>	<b>(3,655)</b>
<i>Other Transfers required by Statute</i>											
Transfer to/from Other Statutory Reserves	331	(318)	170	<b>183</b>		(183)				(183)	-
<b>(Increase)/Decrease in Year</b>	<b>(11,566)</b>	<b>(318)</b>	<b>(224)</b>	<b>(12,108)</b>	<b>276</b>	<b>(12,342)</b>	<b>20,772</b>	<b>(372)</b>	<b>119</b>	<b>8,453</b>	<b>(3,655)</b>
<b>Balance at 31 March 2013 Carried Forward</b>	<b>(46,138)</b>	<b>(850)</b>	<b>(3,316)</b>	<b>(50,304)</b>	<b>(55,061)</b>	<b>(185,215)</b>	<b>99,864</b>	<b>5,262</b>	<b>4,712</b>	<b>(130,438)</b>	<b>(180,742)</b>

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

## Statement of Comprehensive Income and Expenditure

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

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

## Statement of Comprehensive Income and Expenditure

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

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



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

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories:

- The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and statutory limitations on their use (for example the capital receipts reserve that may only be used to fund capital expenditure or repay debt).
- The second category of reserves are those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

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



Bruce West  
Head of Strategic Finance  
26 September 2014

## Cash Flow Statement

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

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

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2013-14 financial year and its position at the year-end of 31 March 2014. The Council is required to prepare an annual Statement of Accounts by the Local Authority Accounts (Scotland) Regulations 1985, which section 12 of the Local Government in Scotland Act 2003 requires to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2013-14 and the Service Reporting Code of Practice for Local Authorities 2013-14 (SeRCOP), supported by International Financial Reporting Standards (IFRS).

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

#### 1.2 Accruals of Income and Expenditure

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

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

### 1.3 Cash and Cash Equivalents

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

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

### 1.4 Changes in Accounting Policies, Estimates and Errors

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

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

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

### 1.5 Charges to Revenue for Non-Current Assets

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

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

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

### 1.6 Employee Benefits

#### 1.6.1 Benefits Payable during Employment

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

#### 1.6.2 Termination Benefits

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

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

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

### 1.6.3 Post-Employment Benefits

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

#### a) Teachers

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

#### b) Local Government Pension Scheme

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

- The liabilities of the Strathclyde Pension Fund attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 4.3% (based on the indicative rate of return on a “high quality corporate bond of equivalent term and currency to the liability” (as measured by the yield on iboxx Sterling Corporates Index, AA over 15 years)).
- The assets of the Strathclyde Pension Fund attributable to the Council are included in the balance sheet at their fair value:
  - Quoted securities – current bid price
  - Unquoted securities – professional estimate
  - Unitised securities – current bid price
  - Property – market value

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

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

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

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

### 1.6.4 Post Employment Discretionary Benefits

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

### 1.7 Events after the Reporting Period

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

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

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

### 1.8 Exceptional Items

When items of income and expenditure are material, their nature and amount are disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to the understanding of the Council's financial performance.

### 1.9 Financial Liabilities

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

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

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

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

### 1.10 Government Grants and Contributions

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

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

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

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

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

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

### 1.11 Heritage Assets

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

#### The Art Collections

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

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

#### Inveraray Jail and Courthouse and “Other” Historic Buildings

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

#### Archaeology and “Other” Museum Exhibits

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

#### Heritage Assets – General

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



### 1.12 Intangible Assets

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

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

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

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

### 1.13 Interests in Companies and Other Entities

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

### 1.14 Inventories

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

### 1.15 Investment Properties

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

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

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

### 1.16 Leases

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

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

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

#### 1.16.1 The Council as Lessee

##### a) Finance Leases

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

Lease payments are apportioned between:

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

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

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

##### b) Operating Leases

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

#### 1.16.2 The Council as Lessor

##### a) Finance Leases

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

Lease rentals receivable are apportioned between:

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

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

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

### b) Operating Leases

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

### 1.17 Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2013-14 – Scotland (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

### 1.18 Assets Held for Sale

Property, land and buildings are classified as *Assets Held for Sale* when the following criteria are met:

- The property is available for immediate sale in its present condition.
- The sale must be highly probable; and an active programme to locate a buyer and complete the plan must have been initiated.
- The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value.

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

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

### 1.19 Property, Plant and Equipment

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

#### 1.19.1 Recognition

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

#### 1.19.2 Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

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

### 1.19.3 Impairment

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

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

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

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

### 1.19.4 Disposals

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

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

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

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

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

### 1.19.5 Depreciation

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

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

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

### 1.20 Private Finance Initiative (PFI) and Similar Contracts

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

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

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

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

- Fair value of the services received during the year, debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- Annual Finance Cost – this is calculated by applying the implicit interest rate in the lease to the opening lease liability for the period, this is debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator.
- Lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

### 1.21 Provisions, Contingent Liabilities and Contingent Assets

#### 1.21.1 Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation, and measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

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

### 1.21.2 Contingent Liabilities

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

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

### 1.21.3 Contingent Assets

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

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

## 1.22 Reserves

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

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

## 1.23 VAT

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

## 2. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

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

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

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

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

### 3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

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

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

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

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

### 4. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council’s Balance Sheet at 31 March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:



Item	Uncertainties	Effect if Actual Results Differ from Assumptions															
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives.	<p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.</p> <p>It is estimated that the annual depreciation charge for buildings would increase by £1.4m for every year that useful lives had to be reduced.</p>															
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	<p>The effects on the net pension’s liability of changes in individual assumptions can be measured. The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out as follows:</p> <table border="1" data-bbox="1220 895 2139 1406"> <thead> <tr> <th data-bbox="1220 895 1641 1062">Sensitivities at 31 March 2014</th> <th data-bbox="1641 895 1906 1062">Approximate % Increase to Employer Obligation</th> <th data-bbox="1906 895 2139 1062">Approximate monetary amount £’000</th> </tr> </thead> <tbody> <tr> <td data-bbox="1220 1062 1641 1150">0.5% decrease in real discount rate</td> <td data-bbox="1641 1062 1906 1150">12%</td> <td data-bbox="1906 1062 2139 1150">69,018</td> </tr> <tr> <td data-bbox="1220 1150 1641 1238">1 year increase in member life expectancy</td> <td data-bbox="1641 1150 1906 1238">3%</td> <td data-bbox="1906 1150 2139 1238">17,127</td> </tr> <tr> <td data-bbox="1220 1238 1641 1326">0.5% increase in salary increase rate</td> <td data-bbox="1641 1238 1906 1326">5%</td> <td data-bbox="1906 1238 2139 1326">29,449</td> </tr> <tr> <td data-bbox="1220 1326 1641 1406">0.5% increase in pension increase rate</td> <td data-bbox="1641 1326 1906 1406">8%</td> <td data-bbox="1906 1326 2139 1406">49,031</td> </tr> </tbody> </table>	Sensitivities at 31 March 2014	Approximate % Increase to Employer Obligation	Approximate monetary amount £’000	0.5% decrease in real discount rate	12%	69,018	1 year increase in member life expectancy	3%	17,127	0.5% increase in salary increase rate	5%	29,449	0.5% increase in pension increase rate	8%	49,031
Sensitivities at 31 March 2014	Approximate % Increase to Employer Obligation	Approximate monetary amount £’000															
0.5% decrease in real discount rate	12%	69,018															
1 year increase in member life expectancy	3%	17,127															
0.5% increase in salary increase rate	5%	29,449															
0.5% increase in pension increase rate	8%	49,031															

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

### 5. TRANSFERS TO/FROM EARMARKED RESERVES

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

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

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

## 6. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

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

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

### 6.1 Departmental Information for the year ended 31 March 2014

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

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

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

## 6.2 Reconciliation to Net Cost of Services in Comprehensive Income and Expenditure Statement

The reconciliation below shows how the figures in the analysis of departmental income and expenditure relate to the total Net Cost of Services in the Comprehensive Income and Expenditure Statement.

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

### 6.3 Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of departmental income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2013-14	Service Analysis £'000	Services not in Analysis £'000	Not Reported to Management £'000	Not Included in I&E £'000	Total Net Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, Charges and Other Service Income	(99,788)	(146)	-	612	(99,322)	(577)	(99,899)
Surplus or Deficit on Associated and Joint Ventures	-	-	-	-	-	-	-
Interest and Investment Income	-	-	-	-	-	(634)	(634)
Income from Council Tax	-	-	-	-	-	(42,066)	(42,066)
Government Grants and Contributions	(3,016)	-	-	-	(3,016)	(216,393)	(219,409)
<b>Total Income</b>	<b>(102,804)</b>	<b>(146)</b>	<b>-</b>	<b>612</b>	<b>(102,338)</b>	<b>(259,670)</b>	<b>(362,008)</b>
Employee Expenses	127,838	1,964	4,321	(320)	133,803	350	134,153
Other Service Expenses	186,462	1,334	3,564	(12)	191,348	131	191,479
Depreciation, Amortisation and Impairment	-	-	10,806	-	10,806	-	10,806
Interest Payments, Net Pension Interest Expense	-	-	-	-	-	22,644	22,644
Precepts, Levies and Requisitions	-	1,206	-	(1,141)	65	1,141	1,206
Gain or Loss on Disposal of Assets	-	-	-	-	-	26	26
<b>Total Operating Expenses</b>	<b>314,300</b>	<b>4,504</b>	<b>18,691</b>	<b>(1,473)</b>	<b>336,022</b>	<b>24,292</b>	<b>360,314</b>
<b>Surplus or Deficit on the Provision of Services</b>	<b>211,496</b>	<b>4,358</b>	<b>18,691</b>	<b>(861)</b>	<b>233,684</b>	<b>(235,378)</b>	<b>(1,694)</b>

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

**7. OTHER OPERATING INCOME AND EXPENDITURE**

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

**8. SIGNIFICANT TRADING ORGANISATIONS**

Trading units are units within a service where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the authority or other organisations. During 2013-14 a review of the Roads and Lighting Trading Account and the Catering and Cleaning Trading Account was performed to consider whether they met the definition of a trading operation, it was decided in view of their limited trading with external organisations and the general public that both trading accounts should cease from the 1<sup>st</sup> April 2013 and their operations be included within the appropriate service expenditure head.

**9. AGENCY INCOME**

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

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

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

**10. COMMUNITY CARE AND HEALTH (SCOTLAND) ACT 2002**

During 2013-14, under the Community Care and Health (Scotland) Act 2002, the Council continued to develop services which centred on joint working with the Argyll & Bute Community Health Partnership (CHP) and NHS Highland within the Argyll and Bute Health and Social Care Partnership.

The aspiration of the CHP is to work together to fully integrate the delivery of health and social care services, focusing on achieving good outcomes for all those who use our services and have an efficient, cost effective and seamless delivery of service.

During 2013-14 the Partnership included provision of services to older people, supporting people with a learning disability and provision of support to adults who have a mental health difficulty.

Budgets are currently aligned which means that each Partner organisation holds their own element of the budget and records the income and expenditure that relates to the part of the service for which they are responsible.



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

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

### 11. WASTE MANAGEMENT PUBLIC PRIVATE PARTNERSHIP

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

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

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

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

### 12. FEES PAYABLE TO AUDIT SCOTLAND

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

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

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

**13. GRANT INCOME**

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

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

**14. RELATED PARTIES**

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

The aim of the Financial Reporting Standard dealing with Related Parties is to highlight instances where influence and control has been exercised over an external organisation by the Council, and where an elected member, their close family or someone in their household, has the ability to exercise the influence or control. Elected members and Senior Officers have completed a signed declaration on Related Party Interests and these have been used to compile this disclosure.

**14.1 Scottish Government**

The Scottish Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework, within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 6 on reporting for resource allocation decisions and also in Note 13 – Grant Income.

## Notes to the Financial Statements

### 14.2 Members

Members of the council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2013-14 is shown in the Remuneration Report on page 18.

During the year there were two companies in which members had a significant interest and where the total of transactions exceeded £10,000.

Transactions in which Members have a significant interest	Expenditure £'000
Bute Conservation Trust	69
MacDougall's Garage	33

### 14.3 Other Related Bodies

This category relates to transactions with entities which are controlled or significantly influenced by the Authority.

During the year transactions with other related bodies were as follows:

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

Given the relationships the Council has with other organisations and partners it is possible that some related party transactions may exist. However, the purpose of the requirement to complete the disclosure is to provide additional information to the users of the Financial Statements and, by declaring possible instances, there is no suggestion that any inappropriate transactions have taken place.

## Notes to the Financial Statements

### 15. PROPERTY, PLANT AND EQUIPMENT

#### 15.1 Movement in Property, Plant and Equipment

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

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

### 15.2 Valuation of Property, Plant and Equipment

IAS 16 – Property, Plant and Equipment has been adapted for the public sector by IPSAS 17 – Property, Plant and Equipment. Under IPSAS 17 each category of Property, Plant and Equipment is valued as follows:

- Infrastructure, community assets and assets under construction are valued at historical cost
- Vehicles, plant and equipment are valued at depreciated historical cost as a proxy for fair value
- All other classes of assets are valued at fair value. Where there is no market based evidence of fair value because of the specialist nature of the asset and the asset is rarely sold then an estimate of fair value is made using a depreciated replacement cost approach.

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is re-valued at least every five years. This includes Other Land and Buildings and Surplus Assets.

Revaluations of council owned Land and Property were carried out at 31 March 2014 in accordance with the Council’s rolling programme of revaluations. The revaluations have been carried out by Hugh Blake, M.R.I.C.S, Estates Manager for Argyll and Bute Council. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

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

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

## Notes to the Financial Statements

### 15.3 Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Buildings – straight-line allocation over the useful life of the property as estimated by the valuer (20 to 50 years)
- Infrastructure – straight-line allocation over 40 years
- Vehicles, Plant and Equipment - straight-line allocation over the useful life of the asset as determined by a suitably qualified officer (3 to 20 years)
- Vessels – straight line allocation over 25 years

### 15.4 Summary of Capital Expenditure and Financing

Capital expenditure involves the creation of assets, the benefit of which will be available to future rates and council taxpayers. It is financed from borrowing, capital receipts and capital grants. The cost of the asset is effectively borne over a period of years. In 2013-14 total spending on capital projects was £32.685m.

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

### 15.5 Commitments under Capital Contracts

At 31 March 2014, the Council had commitments on capital contracts of £12.588m. This expenditure will be funded from a combination of government grants, borrowing and income from selling assets and contributions from Revenue Accounts. Similar commitments at 31 March 2013 were £7.162m. The major commitments are:

	£'000
Helensburgh Office Project	6,344
Campbeltown Old Quay	1,700
School Building Improvements (Various Locations)	1,084
Kilmory - Biomass	807
A83 South of Musdale (Contribution to Road Widening)	450
Vehicle Purchases	387
Roads Reconstruction (Various Locations)	291
Kintyre Renewal Hub - New Quay Fenders	207
Soroba Lane Bridge	182

### 16. HERITAGE ASSETS

Financial Reporting Standard (FRS) 30 – *Heritage Assets* was adopted in 2011-12 as part of the 2011-12 Code of Practice.

The main heritage assets held by the Council are two art collections and Inveraray Jail and Courthouse. The Council holds other heritage assets which are not valued and shown on the balance sheet. Further details on the council's heritage assets policy can be found in note 1.11 on page 45.

Reconciliation of the carrying value of heritage assets held by the Council:

Movements in 2013-14	Art Collections £'000	Heritage Property £'000	Total £'000
<b>Cost or Valuation</b>			
<b>Net Book Value at 1 April 2013</b>	<b>1,148</b>	<b>176</b>	<b>1,324</b>
Additions	-	47	47
Disposals	-	-	-
Revaluations	-	-	-
Depreciation	-	-	-
<b>At 31 March 2014</b>	<b>1,148</b>	<b>223</b>	<b>1,371</b>



## Notes to the Financial Statements

### 17. INTANGIBLE ASSETS

Intangible assets relate wholly to software licences purchased during the year and these are shown at cost. This cost is charged to the relevant service lines within the Comprehensive Income and Expenditure Account over the economic life of the licences, assessed as five years. The movement in intangible assets during the year was:

Movements in 2013-14	Purchased Software Licences 2013-14 £'000
<b>Cost or Valuation</b>	
<b>At 1 April 2013</b>	<b>813</b>
Additions	254
Disposals	-
Reclassifications	-
<b>At 31 March 2014</b>	<b>1,067</b>
<b>Depreciation and Impairments</b>	
<b>At 1 April 2013</b>	<b>(610)</b>
Charge for 2013-14	(106)
Disposals	-
<b>At 31 March 2014</b>	<b>(716)</b>
<b>Balance Sheet amount at 1 April 2014</b>	<b>351</b>
<b>Balance Sheet amount at 1 April 2013</b>	<b>203</b>

Comparative Movements in 2012-13	Purchased Software Licences 2012-13 £'000
<b>Cost or Valuation</b>	
<b>At 1 April 2012</b>	<b>811</b>
Additions	2
Disposals	-
Reclassifications	-
<b>At 31 March 2013</b>	<b>813</b>
<b>Depreciation and Impairments</b>	
<b>At 1 April 2012</b>	<b>(479)</b>
Charge for 2012-13	(131)
Disposals	-
<b>At 31 March 2013</b>	<b>(610)</b>
<b>Balance Sheet amount at 1 April 2013</b>	<b>203</b>
<b>Balance Sheet amount at 1 April 2012</b>	<b>332</b>

### 18. INVESTMENT PROPERTY

Investment property has been accounted for in accordance with IAS 4 - Investment Property, except where interpretations or adaptations to fit the public sector are detailed in the Code. The definition of an investment property in the context of the public sector is one that is used solely to earn rentals or for capital appreciation or both.

The value of investment property is initially measured at cost and thereafter measured at fair value. The fair value of investment property reflects market conditions at 31 March 2014. Revaluations of investment properties were carried out at 31 March 2014 by Hugh Blake, M.R.I.C.S, Estates Manager for Argyll and Bute Council.

#### 18.1 Movement in Investment Property

The movement in investment property during 2013-14 was:

Movements in 2013-14	Investment Properties £'000
<b>Cost or Valuation</b>	
<b>At 1 April 2013</b>	<b>6,397</b>
Acquisitions	-
Disposals	-
Net Gains/Losses from fair value adjustments	(116)
Transfers	-
<b>At 31 March 2014</b>	<b>6,281</b>

Comparative Movements in 2012-13	Investment Properties £'000
<b>Cost or Valuation</b>	
<b>At 1 April 2012</b>	<b>5,647</b>
Acquisitions	-
Disposals	-
Net Gains/Losses from fair value adjustments	750
Transfers	-
<b>At 31 March 2013</b>	<b>6,397</b>

#### 18.2 Investment Property Income and Expenditure

The following items of income and expenditure have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

	2013-14 £'000	2012-13 £'000
Rental Income from Investment Property	98	95
Direct operating expenses arising from investment property	-	-
<b>Net gain/(loss)</b>	<b>98</b>	<b>95</b>

### 19. SCHOOLS NON-PROFIT DISTRIBUTING ORGANISATION (NPDO)

During 2007-08 two secondary schools, two joint campuses and one primary campus, developed as part of the non-profit distributing organisation (NPDO) variant of a public private partnership, became operational. When the agreement ends in 2035 the provider will hand the five school complexes back to the Council, it is expected at that point in time each school will have an estimated life of 30 years remaining.

#### 19.1 Assets Held under Schools NPDO Contract

Five schools were constructed under the Schools NPDO Contract; Hermitage Academy, Dunoon Grammar, Lochgilphead Joint Campus, Rothesay Joint Campus and Oban Primary Campus. The construction costs of the buildings, adjusted for revaluations on 31 March 2013 and depreciation to date are included as part of Other Land and Buildings as follows:

Movements in 2013-14	Land & Buildings £'000
<b>Cost or Valuation</b>	
<b>At 1 April 2013</b>	<b>93,179</b>
Additions	-
Revaluations	-
<b>At 31 March 2014</b>	<b>93,179</b>
<b>Depreciation and Impairments</b>	
<b>At 1 April 2013</b>	<b>(5)</b>
Charge for 2013-14	(1,700)
Revaluations	-
<b>At 31 March 2014</b>	<b>(1,705)</b>
<b>Balance Sheet amount at 1 April 2014</b>	<b>91,474</b>
<b>Balance Sheet amount at 1 April 2013</b>	<b>93,174</b>

#### 19.2 Schools NPDO Finance Lease Liability

The finance lease liability arising from the Schools NPDO contract is as follows:

Movements in 2013-14	£'000
<b>Balance at 1 April 2013</b>	<b>(81,152)</b>
Repayments	1,547
<b>Schools NPDO Finance Lease Liability at 31 March 2014</b>	<b>(79,605)</b>
Split:	
Obligations payable within 1 year	(1,734)
Obligations payable after 1 year	(77,871)
<b>Schools NPDO Finance Lease Liability at 31 March 2014</b>	<b>(79,605)</b>

## Notes to the Financial Statements

### 19.3 Payments due to Operator under Schools NPDO Contract

The Council is committed to paying the following sums under the Schools NPDO contract:

Future Repayment Periods	Repayment of Liability £'000	Lifecycle Costs £'000	Payment of Interest £'000	Service Charges £'000	Total Payments £'000
2014 - 2015	1,734	-	8,068	4,209	14,011
2015 - 2020	10,205	-	37,648	24,457	72,310
2020 - 2025	14,888	945	31,994	28,600	76,427
2025 - 2030	22,156	2,891	23,246	32,793	81,086
2030 - 2035	30,622	3,181	9,891	33,799	77,493
<b>Total</b>	<b>79,605</b>	<b>7,017</b>	<b>110,847</b>	<b>123,858</b>	<b>321,327</b>

## 20. FINANCE AND OPERATING LEASES

### 20.1 Finance Leases – Amounts Paid to Lessors

The Authority holds various vehicles under finance leases. The finance lease payment for the year amounted to £0.018m.

	2013-14 £'000	2012-13 £'000
Vehicles	18	39
<b>Total</b>	<b>18</b>	<b>39</b>

### 20.2 Operating Leases – Amounts Paid to Lessors

The Council uses land, buildings, vehicles, plant and equipment financed under the terms of an operating lease. The amounts paid under these arrangements in 2013-14 were as follows:

	2013-14 £'000	2012-13 £'000
Land and Buildings	278	278
Vehicles	245	559
Plant and Equipment	164	53
<b>Total</b>	<b>687</b>	<b>890</b>

## Notes to the Financial Statements

### 20.3 Assets Held Under Finance Leases

The following values of assets are held under finance leases by the Council, accounted for as part of long term assets.

Movements in 2013-14	Vehicles, Plant and Equipment £'000
Value at 1 April 2013	18
Additions	-
Depreciation	(18)
Value at 31 March 2014	-

There are no outstanding obligations to make payments under these finance leases (excluding finance costs) as at 31 March 2014.

### 20.4 Assets Held Under Operating Leases

The Council was committed at 31 March 2014 to making payments of £0.588m under operating leases comprising the following elements:

	Other Land and Buildings £'000	Vehicles, Plant and Equipment £'000
Leases expiring within 1 year	16	143
Leases expiring between 1 and 5 years	42	201
Leases expiring after 5 years	162	24
Value at 31 March 2014	220	368

**21. LONG TERM DEBTORS**

	31st March 2014 £'000	31st March 2013 £'000
House Loans	66	76
Waste PPP Historic Contamination Fund	750	750
Charging Orders - Care Home Fees	934	824
Strategic Housing Fund Loans to Registered Social Landlords	2,161	1,813
Other Long Term Debtors	100	100
<b>Total Long Term Debtors</b>	<b>4,011</b>	<b>3,563</b>

**22. DEBTORS**

		31 March 2014		31 March 2013	
		£'000	£'000	£'000	£'000
Arrears of Local Taxation	Council Tax	12,510		12,091	
	Less: Provision for Bad Debts	(10,439)		(10,007)	
			2,071		2,084
	Community Charge	7,550		7,550	
	Less: Provision for Bad Debts	(7,550)		(7,550)	
			-		-
Housing Benefits Overpayments		929		823	
	Less: Provision for Bad Debts	(703)		(589)	
			226		234
Debtor Accounts		2,844		2,925	
	Less: Provision for Bad Debts	(692)		(791)	
			2,152		2,134
VAT Recoverable from HMRC			3,742		1,610
Strategic Housing Fund Loans due within 1 Year			1,847		-
Other Debtors			5,996		8,409
<b>Total Debtors</b>			<b>16,034</b>		<b>14,471</b>

## Notes to the Financial Statements

### 23. ASSETS HELD FOR SALE

The movement in assets held for sale during 2013-14 was:

Movements in 2013-14	2013-14 £'000	2012-13 £'000
<b>Balance outstanding at start of year</b>	<b>1,708</b>	<b>2,153</b>
Assets newly classified as held for sale (Property, Plant and Equipment)	553	177
Revaluation losses	(480)	-
Revaluation gains	-	-
Impairment losses	-	-
Assets declassified as held for sale (Property, Plant and Equipment)	(1,604)	(65)
Assets Sold	(24)	(557)
<b>Balance outstanding at year-end</b>	<b>153</b>	<b>1,708</b>

### 24. CASH AND CASH EQUIVALENTS

The balance of Cash and Cash Equivalents is made up of the following elements:

	31 March 2014 £'000	31 March 2013 £'000
Cash held by the Authority	62	62
Cash in transit	80	2,813
Short term deposits with banks	9,350	14,032
Bank Current Accounts (Overdraft)	(3,417)	(5,039)
<b>Total Cash and Cash Equivalents</b>	<b>6,075</b>	<b>11,868</b>

### 25. CREDITORS

	31 March 2014 £'000	31 March 2013 £'000
Accrued Payrolls and Superannuation	6,122	5,418
Accrued Employer's National Insurance Contributions and PAYE	2,296	2,264
Accrual for Short Term Accumulating Absences	4,818	4,712
Creditors System Liability	7,037	6,121
Accrued Expenditure	4,908	5,899
Other Creditors	7,801	10,881
<b>Total Creditors</b>	<b>32,982</b>	<b>35,295</b>

### 26. FINANCIAL INSTRUMENTS DISCLOSURES

#### 26.1 Types of Financial Instruments

Accounting regulations require the “financial instruments” (investment, lending and borrowing of the Council) shown on the balance sheet to be further analysed into various defined categories. The investments, lending and borrowing disclosed in the Balance Sheet are made up of the following categories of “financial instruments”:

	31 March 2014		31 March 2013	
	Long Term £'000	Current £'000	Long Term £'000	Current £'000
<b>Investments and Lending</b>				
Loans and Receivables	4,011	57,109	3,563	61,339
<b>Borrowing</b>				
Financial Liabilities at amortised cost	230,141	46,158	240,225	40,600

#### 26.2 Fair Value of Assets and Liabilities Carried at Amortised Cost

Financial assets (represented by lending and receivables) and financial liabilities (represented by borrowings) are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining period of the instrument, using the following assumptions:

- Estimated interest rates at 31 March 2014 for loans from the PWLB were taken from the appropriate interest rate notice and for other loans receivable and payable from market rates obtained by our treasury advisors.
- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values are calculated as follows:

	31 March 2014		31 March 2013	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
<b>Lending</b>				
Loans and Receivables	61,120	61,227	64,902	64,981
<b>Borrowing</b>				
Financial Liabilities	276,299	302,512	280,825	319,323

The fair value is greater than the carrying amount because the Council's lending figure includes a number of loans where the interest rate receivable is higher than the rates available for similar loans at the balance sheet date. The commitment to receive interest above the current market rates increases the amount the Council would receive if it agreed the early repayment of loans.

The fair value is greater than the carrying amount because the Council's borrowing figure includes a number of loans where the interest rate payable is higher than the rates available for similar loans at



the balance sheet date. The commitment to pay interest above the current market rates increases the amount the Council would have to pay if it agreed to early repayment of the loans.

### 26.3 Gains and Losses on Financial Instruments

There are no gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments.

### 26.4 Nature and Extent of Risks arising from Financial Instruments

The Council's management of treasury risks actively works to minimise the Council's exposure to the unpredictability of financial markets and to protect the financial resources available to fund services. The Council has fully adopted CIPFA's Code of Treasury Management Practices and has written principles for overall risk management as well as written policies and procedures covering specific areas such as credit risk, liquidity risk and market risk.

### 26.5 Credit Risk

Credit risk arises from the short-term lending of surplus funds to banks, building societies and other local authorities as well as credit exposures to the Council's customers. It is the policy of the Council to place deposits only with a limited number of high quality UK banks whose credit rating is independently assessed as sufficiently secure by the Council's treasury advisers and to restrict lending to a prudent maximum amount for each institution.

The following analysis summarises the Council's potential maximum exposure to credit risk, based on past experience and current market conditions. No credit limits were exceeded during the financial year and the Council expects full repayment on the due date of deposits placed with its counterparties.

	Amount at 31 March 2014 £'000	Historical Experience of Non-payment adjusted for Market Conditions at 31 March 2014 %	Estimated Maximum Exposure to Default and Uncollectibility £'000
Deposits with Banks	9,350	-	-

The information in respect of the Council's debtors can be found in note 21 and 22. The Debtor Accounts represents the amounts owed by the Council's customers; Other Debtors include prepaid expenditure, accrued income and money owed to the Council in respect of projects being carried out under partnerships where the Council is the lead partner. The bad debt provision shown in note 22 represents the Council's assessment of the likely recoverability of the debt outstanding.

The credit risk around unprovided for debt is considered to be low. Debtors relate to the normal business of the council and credit is issued on the council's standard credit terms. There are no significant amounts past due but not impaired where recoverability is considered to be an issue.

### 26.6 Liquidity Risk

The Council's main source of borrowing is the Treasury's Public Works Loans Board (PWLb). There is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments. The Council has safeguards in place to ensure that a significant proportion of its borrowings does not mature for repayment at any one time in the future to reduce the financial impact of re-borrowing at a time of unfavourable interest rates. The Council's policy is to ensure that not more than 30% of the loans are due to mature within any financial year and 60% within a rolling five-year period through a combination of prudent planning of new loans taken out and, where it is economic to do so, making early repayments.

The maturity analysis of financial liabilities is as follows:

Maturity analysis of financial liabilities	31 March 2014 £'000	31 March 2013 £'000
Less than one year	46,158	40,600
Between one and two years	12,337	9,901
Between two and five years	29,183	38,485
More than five years	188,621	191,839
	<b>276,299</b>	<b>280,825</b>

All other amounts due to the Council for council tax, non-domestic rates and other income are due to be paid in less than one year.

### 26.7 Market Risk

Changes in market interest rates influence the interest payable on borrowings and on interest receivable on surplus funds invested. For example, a rise in interest rates would mean an increase in the interest charged on borrowing at variable rates and an increased cost to the taxpayer. An increase in interest rates would also mean an increase in the income received on lending at variable rates and a reduction in cost for the taxpayer.

Changes in market rates also affect the notional “fair value” of lending and borrowing. For example, a rise in interest rates would reduce the “fair value” of both lending and borrowing at fixed rates. Changes in “fair value” of lending and borrowing do not impact upon the taxpayer and are confined to prescribed presentational aspects in the Accounts.

The Council has a variety of strategies for managing the uncertainty of future interest rates and the financial impact on the Council.

It is the policy of the Council to limit its exposure to variable rate borrowing to a maximum of 30% of what it borrows.

During periods of falling rates and where it is economically advantageous to do so, the Council will consider the repayment and restructuring of fixed interest rate debt.

The Council takes the daily advice from its specialist treasury advisers and actively monitors changes in interest rates to inform decisions on the lending of surplus funds, new borrowings and restructuring of existing borrowings.

Any potential for a financial impact on the Council is also significantly limited by the Scottish Government’s grant distribution mechanism that automatically adjusts for changes in interest rates in the government grant support the Council receives for “loan charges”.

## Notes to the Financial Statements

To illustrate the impact of changes in interest rates upon the Council, the following table shows the financial effect if rates had been 1% higher at 31 March 2014, with all other variables held constant:

	31 March 2014 £'000
<b>Impact on tax-payer</b>	
Increase on interest payable on variable rate borrowings	13
Increase in interest receivable on variable rate lending	-
Increases in government grant receivable for "loan charges"	-
<b>Net effect on Statement of Comprehensive Income &amp; Expenditure</b>	<b>13</b>

	31 March 2014 £'000
<b>Other accounting presentational changes</b>	
A decrease in the "fair value" of fixed rate borrowing (disclosure confined to the notes to the financial statements)	20,750

The impact of a 1% fall in the interest rates would be as above but with the changes being reversed.

### 26.8 Price Risk

The Council has no investment classified as "available-for-sale".

### 26.9 Foreign Exchange Risk

The Council does not lend or borrow in foreign currencies and has no exposure to gains or losses arising from movements in exchange rates.

### 26.10 Short-Term Deposits

The short-term deposits arise as a result of the timing of expenditure and associated income and movements in fund and revenue balances. The Council adopts a proactive but prudent approach to its Treasury Management operations, which are governed by the fully revised edition of CIPFA's Code of Practice on Treasury Management.

	31 March 2014 £'000	31 March 2013 £'000
Banks	9,350	14,032

### 26.11 Short-Term Borrowing

The Common Good and the various Trust Funds administered by the Council had monies temporarily invested with the Council's loans fund during the year. The amounts at 31 March 2014 are shown in the table below. Further details of the nature and amounts of the funds of the Common Good and Trust Funds are shown in notes 34 and 35 on pages 93 to 94.

	31 March 2014 £'000	31 March 2013 £'000
Common Good	100	100
Trust Funds	1,264	1,246

## Notes to the Financial Statements

### 27. OTHER LIABILITIES

Other liabilities consist of liabilities which by arrangement are payable at some point in the future or paid off by an annual sum over a period of time. Other liabilities total £80.355m as at 31 March 2014 and comprise the following:

Movements in 2013-14	Opening Balance 31 March 2013 £'000	Movement in Year £'000	Closing Balance 31 March 2014 £'000
Finance Lease Liability (See note 20.3)	(18)	18	-
Schools NPDO Finance Lease Liability (See note 19.2)	(81,152)	1,547	(79,605)
Land Contamination	(750)	-	(750)
<b>Total Other Liabilities</b>	<b>(81,920)</b>	<b>1,565</b>	<b>(80,355)</b>
Split:			
Short Term Liabilities (due within 1 year)			(1,734)
Long Term Liabilities (due after 1 year)			(78,621)
<b>Total Other Liabilities</b>			<b>(80,355)</b>

### 28. PROVISIONS

	Opening Balance 31 March 2013 £'000	Additional Provision £'000	Amounts Used £'000	Unused Amounts Reversed £'000	Closing Balance at 31 March 2014 £'000
SRC Insurance Claims	(181)		12	148	(21)
Equal Pay Claims	(32)	(400)		32	(400)
Income due to Registered Social Landlords	(60)	(20)			(80)
Reorganisation Redundancy Costs	(909)	(49)	620		(338)
Utilities Provision	(1,013)			287	(726)
Other Provisions	(289)	(880)	130	80	(959)
<b>Total Provisions</b>	<b>(2,484)</b>	<b>(1,349)</b>	<b>762</b>	<b>547</b>	<b>(2,524)</b>
Split:					
Short Term Provisions (due within 1 year)					(2,423)
Long Term Provisions (due after 1 year)					(101)
<b>Total Other Liabilities</b>					<b>(2,524)</b>

Liabilities have continued to arise in respect of the former Strathclyde Regional Council's operations. Cost sharing arrangements are in place with the other eleven authorities that make up the former Strathclyde Region. Argyll and Bute Council's share of liabilities, which materialise in the future, will be approximately 4.75%. At present, potential liabilities in respect of insurance claims and various legal actions could cost the Council £0.021m.

A provision was created at the end of 2005-06 in relation to the 9% of female employees in catering, cleaning and home care services who had not accepted the Council's equal pay settlement. The Council is nearing agreement on the final settlement for Equal Pay claims. There are further outstanding claims where the settlement amount cannot be estimated reliably enough to provide for the costs.

The Council reduced the discount on council tax from second homes to 10% during 2005-06. The additional council tax income invoiced during 2013-14 amounted to £1.944m; this amount is to be paid to registered social landlords to invest in social housing. A provision for cash not yet collected, due to be paid to registered social landlords, has been created amounting to £0.080m.

As with previous years, liabilities have arisen in respect of employees who will be made redundant as a result of restructuring. The Council has had significant budget savings to make and there will be an ongoing requirement to make savings in future years. The Council invited all employees to express an interest in voluntary redundancy. As a result of service review and other savings agreed as part of the budget process for 2011-12 to 2013-14 a number of employees have subsequently either taken or have been offered a redundancy package. The additional costs for employees terminated on or before 31 March 2014 were incurred in-year. For the employees who have confirmed acceptance of redundancy but have left or are leaving after 31 March 2014, a provision of £0.049m has been created during 2013-14. For further information refer to note 33 - Termination Benefits.

The utilities provision was created during 2011-12 to cover a potential liability in relation to discrepancies in charges for utility costs, £0.287m has been utilised this during 2013-14 resulting in a total provision of £0.726m.

The "other" provisions include funds to cover legal expenses in respect of recent court cases which the council will have to incur and also an amount in relation to the schools NPDO service charges which have been withheld from the operator. These amounts will require to be settled during 2014-15.

## 29. DEFINED BENEFIT PENSION SCHEMES

### Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

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

#### *Teachers*

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

### **Local Government Pension Scheme**

This is administered by Strathclyde Pension Fund – this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets. The contributions are based on rates determined by the Fund's professionally qualified actuary and based on triennial valuations of the Fund.

The principal risks to the authority of the scheme are the longevity assumptions, statutory changes to the scheme, changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund the amounts due by statute as described in the accounting policies note.

#### **29.1 Accrued Pensions Contribution**

Due to the timing of salary processing, not all employee and employer contributions have been paid to the Pensions Schemes by the 31 March 2014. These payments have been accrued and are included within the creditors figure on the balance sheet. These have been paid during April 2014. The amounts are as follows:

- Local Government Pension Scheme – £1.197m
- Teachers' scheme – £0.715m

#### **29.2 Transactions in Respect of the Local Government Pensions Scheme**

The latest formal valuation of the Strathclyde Pension Fund for funding purposes was at 31 March 2011. The independent actuaries appointed by the Council are Hymans Robertson and they have assumed that employees have continued to earn new benefits on the same basis as the latest formal valuation and that the employer's pensionable payroll over the year to 31 March 2014 remains substantially stable with new entrants replacing any leavers.

We recognise the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund via the Movement in Reserves Statement during the year:

	2013-14 £'000	2012-13 £'000
<b>Comprehensive Income and Expenditure Statement:</b>		
<b>Cost of Services:</b>		
<i>Service cost comprising:</i>		
Current Service Cost	13,946	10,659
Past Service Cost (Including Curtailments)	444	1,370
<b>Net Cost of Services</b>	<b>14,390</b>	<b>12,029</b>
Net Interest Expense	4,537	3,395
<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	<b>18,927</b>	<b>15,424</b>
<b>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>		
Return on Assets (excluding amounts included in net interest)	(9,712)	(37,691)
Other Experience	203	155
Change in Financial Assumptions	21,507	55,703
<b>Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement</b>	<b>30,925</b>	<b>33,591</b>
<b>Statement of Movement in Reserves:</b>		
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(6,475)	(2,605)
<b>Actual Amount charged against the General Fund Balance for pensions in the year:</b>		
Employer's Contributions Payable to the Scheme	<b>12,452</b>	<b>12,819</b>

### 29.3 Assets and Liabilities in Relation to Post-Employment Benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	2013-14 £'000	2012-13 £'000
<b>Defined Benefit Obligation at 1 April</b>	<b>534,974</b>	<b>459,779</b>
Current Service Cost	13,946	10,659
Past Service Costs including Curtailments	444	1,370
Interest Cost	24,090	22,006
Contributions by Scheme Participants	3,347	3,265
Re-measurement Gains and (Losses)	21,710	55,858
Estimated Benefits Paid	(16,989)	(17,963)
<b>Defined Benefit Obligation at 31 March</b>	<b>581,522</b>	<b>534,974</b>

## Notes to the Financial Statements

Reconciliation of fair value of the scheme (plan) assets:

	£'000	£'000
<b>Fair Value of Employer Assets at 1 April</b>	<b>435,110</b>	<b>380,687</b>
<b>Re-measurement Gains and (Losses):</b>		
Expected Rate of Return on Pension Fund Assets	9,712	37,691
Actuarial Gains and Losses	-	-
Interest Income on Plan Assets	19,553	18,611
Employers Contributions	12,452	12,819
Contributions by Scheme Participants	3,347	3,265
Estimated Benefits Paid	(16,989)	(17,963)
<b>Fair Value of Employer Assets at 31 March</b>	<b>463,185</b>	<b>435,110</b>

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

### 29.4 Pensions Assets and Liabilities Recognised in the Balance Sheet

	2013-14 £'000	2012-13 £'000
<b>Local Government Pension Scheme</b>		
Present Value of Funded Liabilities	(553,500)	(507,422)
Present Value of Unfunded Liabilities	(28,022)	(27,552)
Fair Value of Employer Assets	463,185	435,110
<b>(Deficit) in the Scheme</b>	<b>(118,337)</b>	<b>(99,864)</b>

The liabilities show the underlying commitments that the authority has in the long run to pay post-employment (retirement) benefits.



## 29.5 Analysis of Pension Fund's Assets

Argyll and Bute Council's share of the Pension Fund's assets at 31 March 2014 comprised:

	2013-14 £'000	2012-13 £'000
Cash and Cash Equivalents	22,152	15,778
Equity Instruments (by industry type)		
Consumer	42,668	37,999
Manufacturing	37,483	34,906
Energy and Utilities	16,964	17,755
Financial Institutions	30,991	29,804
Health and Care	15,885	15,804
Information Technology	25,240	21,799
Sub-total Equity Instruments	169,231	158,067
Bonds (by sector)		
Corporate	3	2
Government	-	-
Sub-total Bonds	3	2
Real Estate		
UK Property	32,448	27,911
Overseas Property	-	-
Sub-total Real Estate	32,448	27,911
Private Equity (All)	43,684	42,010
UK		
Investment Funds and Unit Trusts		
Equities	140,979	132,542
Bonds	53,750	58,611
Commodities	184	264
Infrastructure	656	-
Other	1	1
Sub-total Investment Funds and Unit Trusts	195,570	191,418
Derivatives		
Forward Foreign Exchange Contracts	-	-
Other	98	(76)
Sub-total Derivatives	98	(76)
<b>Total Assets</b>	<b>463,186</b>	<b>435,110</b>

## Notes to the Financial Statements

Fair Value of Pension Fund Assets	2013-14 £'000	2012-13 £'000
Equity Securities		
Quoted in an Active Market	168,875	157,893
Not Quoted in an Active Market	356	174
<b>Sub-total Equity Securities</b>	<b>169,231</b>	<b>158,067</b>

### 29.6 Basis for Estimating Assets and Liabilities

The Council's share of the liabilities of Strathclyde Pension Fund have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on the assumptions about mortality rates, salary levels, etc.

The principal assumptions used by the actuary have been:

Long-term Expected Rate of Return on Assets in the Fund	2013-14 %	2012-13 %
Equity Investments	4.3%	4.5%
Bonds	4.3%	4.5%
Property	4.3%	4.5%
Cash	4.3%	4.5%

Mortality assumptions	2013-14 Years	2012-13 Years
Longevity at 65 for current pensioners:		
Men	21.0	21.0
Women	23.4	23.4
Longevity at 65 for future pensioners:		
Men	23.3	23.3
Women	25.3	25.3

Financial Assumptions	2013-14 %	2012-13 %
Rate of Inflation (CPI)	2.8%	2.8%
Rate of Increase in Salaries	5.1%	5.1%
Rate of Increase in Pensions (CPI)	2.8%	2.8%
Rate for discounting scheme liabilities	4.3%	4.5%

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2009 service and 75% of the maximum tax-free cash for post-April 2009 service.

### 29.7 Asset and Liability Matching (ALM) Strategy

The main fund (Fund 1) of Strathclyde Pension fund does not have an asset and liability matching strategy (ALM) as this is used mainly by mature funds. The Fund does match, to the extent possible, the types of assets invested to the liabilities in the defined benefit obligation. As is required by the pensions and investment regulations, the suitability of various types of investment has been considered, as has the need to diversify investments to reduce the risk of being invested into too narrow a range.

### 29.8 Impact on the Authority's Cash Flow

The objectives of the Fund are to keep employers' contributions at as constant a rate as possible. The Fund has agreed a strategy to achieve a funding rate of 100% in the longer term. The Scheme is a multi-employer defined benefit plan and employers' contributions have been determined so that employee and employer rates are standard across all participating Local Authorities. Employer's contributions have been set at 19.3% for 2014-2015. The next three years will be set following completion of the triennial valuation as at 31 March 2014.

The Fund will need to take account of impending national changes to the Local Government Pension Scheme in Scotland such as the move from 1 April 2015 to a new career average revalued earnings (CARE) scheme for future accruals.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2015 is £10.703m.

The assumed weighted average duration of the defined benefit obligation is 17.8 years (this is different from the mortality assumptions quoted in the table above in "Basis for Estimating Assets and Liabilities").

### 29.9 Change in Accounting Policy IAS19

Argyll and Bute Council implemented a change of accounting policy with effect from 2013-14 financial year relating to the June 2011 amendments to the accounting standard IAS19 Employee Benefits. The key change relates to the expected return on assets. In order to permit a meaningful comparison between financial years, some figures in the previous year's audited financial statements have been amended.

There has been a redistribution of costs within the Comprehensive Income and Expenditure Statement. The pensions interest cost within the Surplus or Deficit on the Provision of Services has increased with a corresponding reduction in actuarial (gains) or losses on pension assets and liabilities in Other Comprehensive Income and Expenditure. Essentially, the expected return on scheme assets that was credited to the Surplus or Deficit on the Provision of Services has been effectively replaced with an equivalent figure using the discount rate.

The effects of the restatement on the financial statements are as follows (only those lines that have changed are shown):

## Notes to the Financial Statements

### Effect on Comprehensive Income and Expenditure Statement

	As Previously Stated 2012-13 £'000	As Restated 2012-13 £'000	Movement 2012-13 £'000
<b>Financing and investment income and expenditure</b>			
Pension interest cost and expected return on pension assets (Restated as "Net Pension Interest Expense")	(18)	3,395	3,413
(Surplus) or deficit on the provision of services	(23,208)	(19,795)	3,413
Actuarial (gains) or losses on pension fund assets and liabilities (Restated as "Other Post Employment Benefits - Pensions")	21,580	18,167	(3,413)
Other comprehensive income and expenditure	19,553	16,140	(3,413)

### Movement in Reserves Statement – Usable Reserves 2012-13

	As Previously Stated 2012-13 £'000	As Restated 2012-13 £'000	Movement 2012-13 £'000
<b>General Fund Balance</b>			
(Surplus) or deficit on the provision of services	(23,208)	(19,795)	3,413
Adjustments between accounting basis and funding basis under regulations	808	(2,605)	(3,413)

### Movement in Reserves Statement – Unusable Reserves 2012-13

	As Previously Stated 2012-13 £'000	As Restated 2012-13 £'000	Movement 2012-13 £'000
<b>Unusable Reserves</b>			
Other comprehensive expenditure and income	16,140	19,553	3,413
Adjustments between accounting basis and funding basis under regulations	(808)	2,605	3,413

## 29.10 Teachers Pensions – Administered By Scottish Public Pensions Agency

Teachers employed by the Authority are members of the Teachers' Pension Scheme administered by the Scottish Government. The Scheme provides teachers with specified benefits upon their retirement, and the Authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is a multi-employer defined benefit scheme. The scheme is unfunded and the Scottish Government uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. Valuations of the notional fund are undertaken every four years.

## Notes to the Financial Statements

The Authority is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of these Financial Statements, it is therefore accounted for on the same basis as a defined contribution scheme. As a proportion of the total contributions into the Teachers' Pension Scheme during the year ended 31 March 2014, the Authority's own contributions equate to 1.46%.

	2013-14 £'000	2012-13 £'000
Amount Paid Over (£'000)	5,036	5,026
Rate of Contribution (%)	14.90%	14.90%
Amount of Added Years Awarded by the Council (£'000)	534	527

The contributions due to be paid to the Teacher's Scheme by Argyll and Bute Council in the next financial year are estimated to be £4.929m.

### 30. UNUSABLE RESERVES

Movements in the Authority's unusable reserves are detailed in the Statement of Movement in Reserves on pages 31 to 32.

#### 30.1 Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and gains are lost
- Used in the provision of services and the gains are consumed through depreciation, or
- Disposed of and the gains realised.

The reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

#### 30.2 Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting on non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations which are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date the Revaluation Reserve was created to hold such gains.

### 30.3 Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Authority uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on Council Tax.

### 30.4 Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority had set aside to meet them. The statutory arrangements will ensure funding will have been set aside by the time the benefits come to be paid.

### 30.5 Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

## 31. USABLE RESERVES

Movements in the Authority's usable reserves are detailed in the Statement of Movement in Reserves on pages 31 to 32.

### 31.1 Capital Funds

The Authority holds two funds which make up the Capital Funds total in the Statement of Movement in Reserves, these are:

#### *Usable Capital Receipts Reserve*

During the 2006-07 financial year and prior to the transfer of the Council's housing stock during November 2006, the receipts from the sale of council houses were transferred to the Usable Capital Receipts Reserve. The amounts held in this reserve can only be used for social housing capital expenditure.

#### *Capital Fund*

During the 2007-08 financial year the Council established a Capital Fund under Section 22 of Schedule 3 of the Local Government (Scotland) Act 1975. All receipts from capital disposals are to be paid into this fund with effect from 14 February 2008.

## Notes to the Financial Statements

### 31.1 Capital Funds Cont'd

The movement in the Usable Capital Receipts Reserve and Capital Fund are as follows:

Movements in 2013-14	Usable Capital Receipts Reserve £'000	Capital Fund £'000	Total Capital Funds £'000
<b>Balance at 1 April 2013</b>	<b>2,744</b>	<b>572</b>	<b>3,316</b>
Proceeds of Disposals	3	451	454
Transfer to Capital Adjustment Account	-	(322)	(322)
Contribution to Loans Fund Charges	-	-	-
Interest Earned	10	2	12
<b>Balance at 31 March 2014</b>	<b>2,757</b>	<b>703</b>	<b>3,460</b>

The movement in the Repairs and Renewals Funds are as follows:

Movements in 2013-14	Balance at 31 March 2013 £'000	Contribution from Revenue £'000	Interest Earned £'000	Contribution to Revenue £'000	Balance at 31 March 2014 £'000
Education	781	396	2	(224)	955
Vehicles	69	-	1	-	70
<b>Total</b>	<b>850</b>	<b>396</b>	<b>3</b>	<b>(224)</b>	<b>1,025</b>

### 32. CONTINGENT LIABILITIES

During the 2006-07 financial year the Council transferred its housing stock to Argyll Community Housing Association (ACHA). Some council houses involved in the transfer had been built on land not owned by the Council. The transfer agreement requires the Council to purchase this land and transfer it to ACHA at nil cost. Some of the outstanding land title issues were resolved during 2013-14 however there are still some landowners where a price has yet to be negotiated and therefore a reliable estimate cannot be made of the obligation at this stage.

The Council settled a number of equal pay claims during 2013-14, however there are a small number remaining where the outcome of the applications are unknown and there is insufficient information to allow the potential cost of these claims to be provided for. There is also the potential for other equal pay claims whose costs may be met by the Council.

Proper accounting practice requires, where appropriate, the costs of restoration and aftercare to be recognised in the valuation of the asset and as a provision as necessary. The Council does not currently consider these costs to be material. We will review the latest guidance on asset decommissioning, issued by LASAAC, during 2014-15 and determine the appropriate accounting treatment for the restoration and aftercare costs for the landfill sites within the council's area.

In a recent legal case, the European Court of Justice ruled that if a worker's remuneration includes contractual commission; their holiday pay must also take account of that commission. All pay elements such as overtime, standby/emergency call outs and commission should be included in the calculation of holiday pay. At this stage the extent of the Council's potential liability is unknown.

### 33. TERMINATION BENEFITS

A number of savings options as a result of service reviews and other savings have been agreed at Council budget meetings to balance the Council budget. A number of these savings options were reliant on a reduction in the Councils staffing levels. The Council had forewarning of the level of savings required to balance the budget and had previously asked all Council employees to express an interest in voluntary redundancy. As a result of the budget savings options approved by the Council a number of employees have had their redundancy application accepted.

Redundancy costs as part of the programme of service reviews have been incurred by the Council since the 2010-11 financial year in relation to the budget savings agreed. In each year provision was made within the financial year for the costs of all employees who had accepted redundancy as at 31 March ending that year, including accounting for costs for employee who confirmed redundancy by 31 March but left or were leaving after this date. The total cost accounted for in 2012-13 was £1.259m for 145 employees and in 2013-14 was £0.945m for 35 employees. These costs are detailed further in the Remuneration Report on pages 29 to 30.

Therefore termination costs for all Council employees who have accepted redundancy by 31 March 2014 have been accounted for in 2013-14, or in previous financial years. There is only one group of employees where there is insufficient information to allow for redundancy costs to be estimated reliably, therefore no actual financial provision can be made for these costs. An amount of £0.338m has been earmarked within the General Fund balance to accommodate these costs as and when the outstanding issues have been resolved.

The reduction in the staffing establishment includes posts from all services across the Council and reductions were in line with the service review and other savings agreed by the Council. There are likely to be further redundancy costs incurred as the Council is required to make further savings to balance the budget in future years.

### 34. TRUST FUNDS AND OTHER THIRD PARTY FUNDS

The Council acts as sole or custodian trustee for 75 trust funds. The funds do not represent assets of the Council, and as such have not been included in the Balance Sheet.

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

	Income £'000	Expenditure £'000	Net Assets £'000	Reserves £'000
Argyll Education Trust	14	3	424	424
GM Duncan Trust	1	1	87	87
MacDougall Trust	2	-	609	609
Various Other Trust Funds	5	1	542	542
<b>Total Trust Funds</b>	<b>22</b>	<b>5</b>	<b>1,662</b>	<b>1,662</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. MacDougall Trust: for the provision of sheltered housing on the Ross of Mull.

Further information on the Trust Funds, administered by Argyll and Bute Council, can be obtained from Strategic Finance within the Chief Executive's Unit.

A number of the trust funds administered by Argyll and Bute Council are charitable trusts and as such are required to comply with current Office of the Scottish Charities Regulator (OSCR) financial reporting requirements. Arrangements have been put in place to ensure that all charities administered by Argyll and Bute Council comply and will continue to comply with these requirements.



## Notes to the Financial Statements

### 35. COMMON GOOD FUNDS

The Council administers the Common Good Accounts for the former Burghs of Oban, Campbeltown, Rothesay, Dunoon, Lochgilphead, Inveraray, Cove and Kilcreggan. The figures below summarise the aggregate income and expenditure for the year as well as providing a snapshot picture of the assets and liabilities at 31 March 2014. The Common Good Funds are for the benefit of the geographical areas of the former burghs. Further information on the Common Good Funds can be obtained from Strategic Finance within the Chief Executive's Unit.

#### 35.1 Common Good Income and Expenditure Account for the year ended 31 March 2014

2012-13 Actual £'000		2013-14 Actual £'000
195	Expenditure	175
(87)	Income	(87)
<b>108</b>	<b>(Surplus)/Deficit for the Year</b>	<b>88</b>

#### 35.2 Common Good Balance Sheet at 31 March 2014

2012-13 Actual £'000		2013-14 Actual £'000
942	Tangible Fixed Assets	4,284
1,983	Investments	2,036
137	Current Assets	188
(2)	Current Liabilities	(2)
<b>3,060</b>	<b>Total Assets less Liabilities</b>	<b>6,506</b>
481	Revaluation Reserve	3,961
2,579	Common Good Fund	2,545
<b>3,060</b>	<b>Total Net Worth</b>	<b>6,506</b>

## Notes to the Financial Statements

### 36. CASH FLOW STATEMENT – OPERATING ACTIVITIES

The Net Cash Flows for Operating Activities can be reconciled to the Net (Surplus)/Deficit on the Provision of Services as follows:

	2013-14 £'000	2012-13 £'000
<b>Net (Surplus)/Deficit on Provision of Services</b>	<b>(1,694)</b>	<b>(19,795)</b>
<b>Adjustments to Net (Surplus)/Deficit on the Provision of Service for Non Cash Movements:</b>		
Statutory Adjustments through Statement of Movement in Reserves	3,604	7,898
Transfer to/from Other Statutory Reserves	187	331
Increase/(Decrease) in Inventories	(241)	276
Increase/(Decrease) in Debtors	1,739	(904)
(Increase)/Decrease in Creditors and Provisions	4,402	(3,162)
Other Revenue Adjustments	(22,346)	(20,990)
	<b>(12,655)</b>	<b>(16,551)</b>
<b>Adjustments for items included in the Net (Surplus)/Deficit on the Provision of Services that are Investing and Financing Activities:</b>		
Non Cash Capital	10,580	10,604
Capital Element of Finance Lease Payments	(1,566)	(1,449)
	<b>9,014</b>	<b>9,155</b>
<b>Net Cash Flows from Operating Activities</b>	<b>(5,335)</b>	<b>(27,191)</b>
<b>The cash flows for Operating Activities include the following items:</b>		
Interest Paid on Borrowings	8,564	9,855
Interest Paid on Finance Leases	8,174	8,286
Interest Received on Bank Deposits	(410)	(746)
<b>Net Cash Outflow from Servicing of Finance</b>	<b>16,328</b>	<b>17,395</b>

### 37. CASH FLOW STATEMENT – INVESTING ACTIVITIES

The cash flows for Investing Activities include the following items:

	2013-14 £'000	2012-13 £'000
Purchase of Property, Plant and Equipment, Investment Property and Intangible and Heritage Assets	21,463	26,465
Investments made during year	-	15,000
Proceeds from the Sale of Property, Plant and Equipment and Investment Property	(454)	(394)
Other Receipts from Investing Activities	(10,876)	(11,598)
<b>Net Cash Outflow from Investing Activities</b>	<b>10,133</b>	<b>29,473</b>

## Notes to the Financial Statements

### 38. CASH FLOW STATEMENT – FINANCING ACTIVITIES

The cash flows for Financing Activities include the following items:

	2013-14 £'000	2012-13 £'000
Cash Receipts of Short and Long Term Borrowing	(706)	(296)
Other Receipts from Financing Activities	(6)	97
Cash Payments for the Reduction of the Outstanding Liabilities relating to Finance Leases and on Balance Sheet PFI Contracts	1,566	1,449
Repayments of Short and Long Term Borrowing	141	87
Other Payments from Financing Activities	-	-
<b>Net Cash Outflow from Financing Activities</b>	<b>995</b>	<b>1,337</b>

## Council Tax Income Account



The Council Tax Income Account shows the gross income raised from council tax levied and deductions made under the Local Government Finance Act 1992. The resultant net income is transferred to the Comprehensive Income and Expenditure Statement of the Authority.

2012-13 Actual £'000		2013-14 Actual £'000
54,038	Gross Council Tax Levied and Contributions in Lieu excluding RSL Second Home Additional Income	54,035
	Add Back:	
1,654	RSL Second Home Discount Additional Income	1,924
	Less:	
(7,793)	Other Discounts and Reductions	(13,560)
(994)	Provision for Bad and Doubtful Debts	(997)
<b>46,905</b>	<b>Total</b>	<b>41,402</b>
471	Adjustment to Previous Years' Community Charge and Council Tax	664
<b>47,376</b>	<b>Transfers to General Fund</b>	<b>42,066</b>

## Notes to the Council Tax Income Account

### 1. CALCULATION OF THE COUNCIL TAX

Dwellings are valued by the Assessor and placed within a valuation band ranging from the lowest "A" to the highest "H". The Council Tax charge is calculated using the Council Tax Base, Band D equivalent as below. This value is then decreased or increased dependent upon the band of the dwelling. The charge for each band for 2013-14 was as follows:

Band	Valuation Band	% Band D	£ per year
A	Up to £27,000	67%	785.33
B	£27,001 - £35,000	78%	916.22
C	£35,001 - £45,000	89%	1,047.11
D	£45,001 - £58,000	100%	1,178.00
E	£58,001 - £80,000	122%	1,439.78
F	£80,001 - £106,000	144%	1,701.56
G	£106,001 - £212,000	167%	1,963.33
H	Over £212,000	200%	2,356.00

### 2. CALCULATION OF THE COUNCIL TAX BASE 2013-14

Council Tax Base	A	B	C	D	E	F	G	H	Total
Total Number of Properties	7,687	9,808	9,340	5,978	7,286	4,041	2,726	239	47,105
<b>Less</b> - Exemptions / Deductions	1,015	824	1,057	529	594	253	188	50	4,510
- Adjustment for Single Chargepayers	878	1,015	749	444	420	192	103	6	3,807
<b>Effective Number of Properties</b>	<b>5,794</b>	<b>7,969</b>	<b>7,534</b>	<b>5,005</b>	<b>6,272</b>	<b>3,596</b>	<b>2,435</b>	<b>183</b>	<b>38,788</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>3,863</b>	<b>6,198</b>	<b>6,697</b>	<b>5,005</b>	<b>7,666</b>	<b>5,194</b>	<b>4,058</b>	<b>366</b>	<b>39,047</b>
<b>Add</b> Contribution in lieu in respect of Class 18 dwellings (Band D Equivalent)									494
<b>Nominal Tax Yield</b>									<b>39,541</b>
<b>Less</b> Provision for Non-Collection - 3.25%									1,298
<b>Council Tax Base 2013-14 - Number of Band D equivalents</b>									<b>38,243</b>

## Non Domestic Rate Income Account

The Non-Domestic Rate Account is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Non-Domestic Rate Account. The statement shows the gross income from the rates and deductions made under the Local Government (Scotland) Act 1975 as amended by the Local Government Finance Act 1992 on non-domestic property. The net income is paid to the Scottish Government as a contribution to the national non-domestic rate pool.

2012-13 Actual £'000		2013-14 Actual £'000
36,757	Gross rates levied and Contributions in Lieu	38,669
	Less:	
(9,427)	Reliefs and other deductions	(10,100)
-	Payment of Interest	-
(75)	Provision for Bad and Doubtful Debts	(185)
<b>27,255</b>	<b>Net Non-Domestic Rate Income</b>	<b>28,384</b>
(776)	Contribution (to)/from national non-domestic rate pool	108
<b>26,479</b>	<b>Transfers to General Fund</b>	<b>28,492</b>

## 1. ANALYSIS OF RATEABLE VALUES

	2013-14 £	2012-13 £
Industrial and freight transport subjects	6,546,665	6,286,330
Miscellaneous including Telecomms, Rail, Gas and Electricity Companies	55,602,432	51,996,975
Commercial subjects:		
Shops	13,468,040	12,958,360
Offices	4,925,695	5,033,860
Hotels, Boarding Houses etc.	6,658,775	6,628,775
Others	1,977,520	2,095,090
<b>Total Rateable Value</b>	<b>89,179,127</b>	<b>84,999,390</b>

## 2. NON-DOMESTIC RATE CHARGE

	2013-14 Pence	2012-13 Pence
Rate Per Pound	46.2p	45.0p
Supplementary Rate Per Pound for Properties over £35,000	0.9p	0.8p

## 3. CALCULATION OF RATE CHARGE FOR EACH PROPERTY

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

## Group Statement of Movement in Reserves

This statement shows the movement in the year on the reserves held by the Council plus its share of the reserves of its associates. The Common Good reserves are also fully consolidated into the Group Accounts. The Council's reserves are analysed into those which are "Usable Reserves" (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Council's share of the reserves of Associates is an unusable reserve (i.e. it cannot be used to fund expenditure or reduce taxation).

Movements in 2013-14	Argyll and Bute Council						Council's Share of Reserves of Associates	Total Common Good Reserves	Total Reserves
	Usable Reserves				Total Unusable Reserves	Total Reserves of the Council			
	General Fund Balance	Repairs and Renewals Fund	Capital Funds	Total Usable Reserves					
	£'000	£'000	£'000	£'000	£'000	£'000			
<b>Balance at 31 March 2013</b>	(46,138)	(850)	(3,316)	(50,304)	(130,438)	(180,742)	261,675	(3,060)	77,873
Transfer of Police and Fire Services to Central Government	-	-	-	-	-	-	(263,112)	-	(263,112)
<b>Revised Balance at 1 April 2013</b>	(46,138)	(850)	(3,316)	(50,304)	(130,438)	(180,742)	(1,437)	(3,060)	(185,239)
Surplus/(Deficit) on Provision of Services	(1,694)	-	-	(1,694)	-	(1,694)	79	35	(1,580)
Other Comprehensive Income and Expenditure	-	-	-	-	7,611	7,611	302	(3,481)	4,432
<b>Total Comprehensive Income and Expenditure</b>	(1,694)	-	-	(1,694)	7,611	5,917	381	(3,446)	2,852
<b>Total Statutory Adjustments (See Page 31-32)</b>	3,604	-	(454)	3,150	(3,150)	-	-	-	-
<b>Net (Increase)/Decrease before Transfers to Other Statutory Reserves</b>	1,910	-	(454)	1,456	4,461	5,917	381	(3,446)	2,852
<b>Other Transfers required by Statute</b>									
Transfer to/from Other Statutory Reserves	187	(175)	310	322	(322)	-	-	-	-
<b>(Increase)/Decrease in Year</b>	2,097	(175)	(144)	1,778	4,139	5,917	381	(3,446)	2,852
<b>Balance at 31 March 2014 Carried Forward</b>	(44,041)	(1,025)	(3,460)	(48,526)	(126,299)	(174,825)	(1,056)	(6,506)	(182,387)

The Council's Statement of Movement in Reserves on pages 31 to 32 gives a more detailed analysis of the movement in the Council's usable and unusable reserves during 2013-14.



## Group Statement of Movement in Reserves

This statement shows the comparative movement in the year on reserves held by the Council plus its share of the reserves of its associates. The Common Good reserves are also fully consolidated into the Group Accounts.

Comparative Movements in 2012-13	Argyll and Bute Council						Council's Share of Reserves of Associates	Total Common Good Reserves	Total Reserves
	Usable Reserves				Total Unusable Reserves	Total Reserves of the Council			
	General Fund Balance	Repairs and Renewals Fund	Capital Funds	Total Usable Reserves					
	£'000	£'000	£'000	£'000	£'000	£'000			
<b>Balance at 31 March 2012</b>	(34,572)	(532)	(3,092)	(38,196)	(138,891)	(177,087)	217,454	(2,147)	38,220
Surplus/(Deficit) on Provision of Services	(19,795)	-	-	(19,795)	-	(19,795)	13,370	(107)	(6,532)
Other Comprehensive Expenditure and Income	-	-	-	-	16,140	16,140	30,851	(806)	46,185
<b>Total Comprehensive Expenditure and</b>	<b>(19,795)</b>	<b>0</b>	<b>0</b>	<b>(19,795)</b>	<b>16,140</b>	<b>(3,655)</b>	<b>44,221</b>	<b>(913)</b>	<b>39,653</b>
<b>Total Statutory Adjustments (See Page 33-34)</b>	<b>7,898</b>	<b>-</b>	<b>(394)</b>	<b>7,504</b>	<b>(7,504)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net (Increase)/Decrease before Transfers to Other Statutory Reserves</b>	<b>(11,897)</b>	<b>-</b>	<b>(394)</b>	<b>(12,291)</b>	<b>8,636</b>	<b>(3,655)</b>	<b>44,221</b>	<b>(913)</b>	<b>39,653</b>
<i>Other Transfers required by Statute</i>									
Transfer to/from Other Statutory Reserves	331	(318)	170	183	(183)	-	-	-	-
<b>(Increase)/Decrease in Year</b>	<b>(11,566)</b>	<b>(318)</b>	<b>(224)</b>	<b>(12,108)</b>	<b>8,453</b>	<b>(3,655)</b>	<b>44,221</b>	<b>(913)</b>	<b>39,653</b>
<b>Balance at 31 March 2013 Carried Forward</b>	<b>(46,138)</b>	<b>(850)</b>	<b>(3,316)</b>	<b>(50,304)</b>	<b>(130,438)</b>	<b>(180,742)</b>	<b>261,675</b>	<b>(3,060)</b>	<b>77,873</b>

The Council's Statement of Movement in Reserves on pages 33 to 34 gives a more detailed analysis of the movement in the Council's usable and unusable reserves during 2012-13.

## Group Statement of Comprehensive Income and Expenditure

This statement shows the accounting cost in the year of providing the Council's services and its share of the results of its associates in accordance with International Financial Reporting Standards, rather than the amount to be funded from taxation. Local authorities raise taxation to cover expenditure in accordance with regulations, and this is different from the accounting cost. The taxation position is shown in the Statement of Movement in Reserves on pages 31 to 32.

2012-13			Note	2013-14		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Service	Gross Expenditure £'000	Gross Income £'000
105,237	6,767	98,470	Education Services	108,526	6,885	101,641
31,079	27,234	3,845	Housing Services (Non-HRA)	36,753	28,042	8,711
12,918	2,351	10,567	Cultural and Related Services	13,360	2,345	11,015
21,559	4,542	17,017	Environmental Services	23,222	4,221	19,001
24,913	7,018	17,895	Roads and Transport Services	24,214	6,321	17,893
7,086	4,373	2,713	Trading Services	7,552	4,477	3,075
8,251	4,054	4,197	Planning and Development Services	10,816	5,554	5,262
66,738	9,379	57,359	Social Work	70,096	10,698	59,398
-	-	-	Central Services:	-	-	-
4,126	103	4,023	- Corporate and Democratic Core	4,353	125	4,228
1,812	5	1,807	- Non Distributed Costs	1,850	2	1,848
3,248	1,279	1,969	- Central Services to the Public	3,091	1,300	1,791
7,308	-	7,308	Strathclyde Police Joint Board	-	-	-
4,548	-	4,548	Strathclyde Fire and Rescue Joint Board	-	-	-
42,891	29,521	13,370	Associates Accounted for on an Equity Basis	3,147	3,068	79
<b>341,714</b>	<b>96,626</b>	<b>245,088</b>	<b>Net Cost of Services</b>	<b>306,980</b>	<b>73,038</b>	<b>233,942</b>

## Group Statement of Comprehensive Income and Expenditure

		<b>Other Operating Income and Expenditure:</b>	
	2,077	Net (Gain)/loss on Disposal of Fixed Assets	26
	(57)	(Surplus)/deficit on trading undertakings	(3)
	954	Other Operating Income and Expenditure	1,048
	<b>2,974</b>	<b>Total Other Operating Income and Expenditure</b>	<b>1,071</b>
		<b>Financing and Investment Income and Expenditure:</b>	
	17,512	Interest Payable and Similar charges	18,107
	(1,324)	Interest and Investment Income	(778)
	3,395	Net Pension Interest Expense	4,537
	<b>19,583</b>	<b>Total Financing and Investment Income and Expenditure</b>	<b>21,866</b>
		<b>Taxation and Non-Specific Grant Income:</b>	
	(188,864)	General Government Grants	(176,904)
	(11,458)	Government Capital Grants and Other Capital Contributions	(10,997)
	(26,479)	Non-domestic Rates Redistribution	(28,492)
	(47,376)	Council Tax Income	(42,066)
	<b>(274,177)</b>	<b>Total Taxation and Non-Specific Grant Income</b>	<b>(258,459)</b>
	<b>(6,532)</b>	<b>(Surplus)/Deficit on Provision of Services</b>	<b>(1,580)</b>
	(2,833)	(Surplus)/Deficit on revaluation of Fixed Assets	(4,387)
	18,167	Other Post Employment Benefits (Pensions)	11,998
	30,851	Share of Other Comprehensive Income and Expenditure of Associates and Common Good Funds	(3,179)
	<b>46,185</b>	<b>Other Comprehensive Income and Expenditure</b>	<b>4,432</b>
	<b>39,653</b>	<b>Total Comprehensive Income and Expenditure</b>	<b>2,852</b>

31 March 2013	Note 1	Adjusted Opening Balance 1 April 2013		31 March 2014	
				£'000	£'000
			<b>Long Term Assets</b>		
293,846		293,846	Property Plant & Equipment		
8,822		8,822	- Other Land and Buildings	290,414	
163,822		163,822	- Vehicles, Plant, Furniture and Equipment	10,674	
2,408		2,408	- Infrastructure Assets	169,555	
3,510		3,510	- Community Assets	5,954	
17,400		17,400	- Surplus Assets	4,581	
			- Assets Under Construction	25,591	
<b>489,808</b>	-	<b>489,808</b>	Property Plant & Equipment		<b>506,769</b>
1,324		1,324	Heritage Assets		1,371
203		203	Intangible Assets		351
6,397		6,397	Investment Property		6,281
3,563		3,563	Long-Term Debtors		4,011
1,983		1,983	Long-Term Investments		2,036
2,646		2,646	Investment in Associates		2,626
<b>505,924</b>	-	<b>505,924</b>	<b>Total Long Term Assets</b>		<b>523,445</b>
			<b>Current Assets</b>		
631		631	Inventories	390	
14,477		14,477	Short Term Debtors (Net of Impairment)	16,073	
1,708		1,708	Assets Held for Sale	153	
35,000		35,000	Short Term Investments	35,000	
11,899		11,899	Cash and Cash Equivalents	6,121	
<b>63,715</b>	-	<b>63,715</b>	<b>Total Current Assets</b>		<b>57,737</b>
			<b>Current Liabilities</b>		
(3,639)		(3,639)	Short-term Borrowing	(11,442)	
(35,297)		(35,297)	Short-term Creditors	(32,882)	
(116)		(116)	Capital Grant Receipts in Advance	(165)	
(2,183)		(2,183)	Provisions	(2,423)	
(1,566)		(1,566)	Other Short Term Liabilities	(1,734)	
<b>(42,801)</b>	-	<b>(42,801)</b>	<b>Total Current Liabilities</b>		<b>(48,646)</b>
			<b>Long-term Liabilities</b>		
(159,871)		(159,871)	Borrowing Repayable within a Period in Excess of 12 Months	(151,520)	
(80,354)		(80,354)	Other Long-term liabilities	(78,621)	
(301)		(301)	Provisions	(101)	
(99,864)		(99,864)	Other Long-term liabilities (Pensions)	(118,337)	
(264,321)	263,112	(1,209)	Liabilities in Associates	(1,570)	
<b>(604,711)</b>	<b>263,112</b>	<b>(341,599)</b>	<b>Total Long-term Liabilities</b>		<b>(350,149)</b>
<b>(77,873)</b>	<b>263,112</b>	<b>185,239</b>	<b>Total Assets less Liabilities</b>		<b>182,387</b>

31 March 2013	Note 1	Adjusted Opening Balance 1 April 2013		31 March 2014	
				£'000	£'000
55,339		55,339	<b>Unusable Reserves</b>		
185,215		185,215	- Revaluation Reserve	56,113	
(5,262)		(5,262)	- Capital Adjustment Account	198,230	
(99,864)		(99,864)	- Financial Instruments Adjustment Account	(4,889)	
(4,712)		(4,712)	- Pensions Reserve	(118,337)	
			- Accumulated Absences Account	(4,818)	
<b>130,716</b>		<b>130,716</b>			126,299
			<b>Usable Reserves</b>		
3,316		3,316	- Capital Funds	3,460	
850		850	- Repairs and Renewals Funds	1,025	
46,138		46,138	- General Fund Balance	44,041	
<b>50,304</b>		<b>50,304</b>			48,526
(261,675)	263,112	1,437	<b>Group Reserves</b>		1,056
2,782		2,782	<b>Common Good Reserves</b>		6,506
<b>(77,873)</b>	<b>263,112</b>	<b>185,239</b>	<b>Total Reserves</b>		<b>182,387</b>

The Balance sheet is a snapshot of the value at the 31 March 2014 of the assets and liabilities recognised by the Council and its share of the net assets or liabilities of its associates and Common Good funds. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. The net investment or liability in its associates is matched by its share of the reserves of the associates (i.e. its group reserves).



Bruce West  
Head of Strategic Finance  
26 September 2014

### Note 1:

On the 1 April 2013 police and fire services transferred to the Scottish Government. The joint board arrangements have ceased and are no longer part of the authority's group arrangements. Consequently, the opening balance sheet has been adjusted to reflect the assets, liabilities and reserves transferred to the relevant new bodies on 1 April 2013.

### 1. INTRODUCTION

The Code of Practice on Local Authority Accounting in the United Kingdom 2013-14: Based on International Financial Reporting Standards places a requirement on Councils to consider all their interests in external organisations including limited companies and other statutory bodies. Where the interest is considered to be material, the Council is required to prepare a full set of group accounts in addition to those prepared for Argyll and Bute Council. The Group Accounts are designed to show “a true and fair view” of the financial performance and position of the Council’s Group.

On the 1 April 2013 police and fire services transferred to the Scottish Government. The joint board arrangements have ceased and are no longer part of the authority’s group arrangements. Consequently, the opening balance sheet has been adjusted to reflect the assets, liabilities and reserves transferred to the relevant new bodies on 1 April 2013.

### 2. GROUP ACCOUNTING POLICIES

The group accounts are prepared in accordance with the policies set out in Note 1 to the Financial Statements on pages 40 to 52.

- The Strathclyde Partnership for Transport and Strathclyde Concessionary Travel Scheme Joint Committee financial statements have been prepared under the historic cost convention.

### 3. COMBINING ENTITIES

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

The Associates which have been incorporated are:

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

Under accounting standards, the Council is required to include the results of the above organisations as “associates” because it has “significant influence” over their financial and operating policies. The Council has no shares in or ownership of any of these organisations which are entirely independent of the Council under law and for taxation.

Two of the three Joint Boards (SPT and Concessionary Travel) are included within the Group Accounts under the wider definition of an “associate” although the Council holds less than 20% of voting rights that is normally presumed to confer significant influence. This is in view of the funding arrangements between the constituent Councils and the Joint Boards.

The accounting period for all entities is 31 March 2014.

### 4. NON MATERIAL INTEREST IN OTHER ENTITIES

The Council has an interest in Scotland Excel. Scotland Excel took up the activities of the Authorities Buying Consortium and similar bodies across the Scottish local authority sector on 1 April 2008. Renfrewshire Council prepare the financial statements for Scotland Excel in its role as lead authority. Scotland Excel is a not-for-profit organisation funded mainly by the 28 participating Scottish local authorities. Argyll and Bute Council contributed £0.067m towards Scotland Excel in the 2013-14 financial year.

The Council also has an interest in the Highlands and Islands Transport Partnership (HITRANS). The Partnership was established as one of the seven Scottish Regional Transport Partnerships. The Transport (Scotland) Act 2005 requires these Partnerships to prepare Transport Strategies for their

## Notes to the Group Financial Statements

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regions which will enhance economic well-being; promote safety; social inclusion and equal opportunity; plan for a sustainable transport system; and integrate across boundaries with other partnerships.

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

### 5. NATURE OF COMBINATION

The Council inherited its interest in these entities following the reorganisation of local government in 1996. An acquisition basis has been used as the basis of consolidation. However, as no consideration was given for this interest there is no goodwill involved in these instances.

### 6. FINANCIAL IMPACT OF CONSOLIDATION

The effect of inclusion of the Associates and Common Good Funds on the Group Balance Sheet is to increase both reserves and net worth by £7.562m. This gives an overall net asset position for the Group of £182.387m.

All associates have prepared their accounts on a 'going concern' basis. For Strathclyde Passenger Transport Authority and the Joint Valuation Board funding arrangements between the Scottish Government and constituent authorities remains assured. In common with these public bodies, the Council's Group Accounts have been prepared on a 'going concern' basis as there is no reason to suggest that future funding will not continue.

### 7. FURTHER DETAILS ON CONSOLIDATION

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

#### **Strathclyde Partnership for Transport**

Strathclyde Partnership for Transport was formed on 1 April 2006 as the successor to the Strathclyde Passenger Transport Authority. It is a Joint Committee of all Councils in the West of Scotland plus Dumfries and Galloway Council. In association with the related Structure Planning Committees, the Partnership's remit included the promotion of joint working to set out the policy framework for achieving the most effective management, development and integration of the transport network across boundaries in the medium to longer term through the Joint Transport Strategy. The Council contributed £0.606m or 1.62% of the Board's estimated net running costs during 2013-14 and accounted for £2.559m of the Balance Sheet Assets within the Group Balance Sheet. The accounts of the Board are subject to independent audit and are available from the Treasurer to Strathclyde Partnership for Transport, Consort House, 12 West George Street, Glasgow G2 1HN.

#### **Strathclyde Concessionary Travel Scheme Joint Board**

This body comprises the 12 local authorities within the West of Scotland which oversees the operations of the concessionary fares scheme for public transport within its area. The costs of the scheme are met by a combination of funding from the 12 constituent councils and direct grant funding from the Scottish Government. During 2013-14 the Council contributed £0.176m or 4.14% of the net annual running costs and accounted for £0.067m of the Balance Sheet Assets within the Group Balance Sheet. The accounts of the Board are subject to independent audit and are available from the Treasurer to Strathclyde Concessionary Travel Scheme, Consort House, 12 West George Street, Glasgow G2 1HN.

#### **Dunbartonshire and Argyll and Bute Valuation Joint Board**

This body was formed in October 1995 at local government reorganisation by a Statutory Instrument and is responsible for the maintenance of the electoral, council tax and non-domestic rates registers

## Notes to the Group Financial Statements

for Argyll and Bute, West Dunbartonshire and East Dunbartonshire Councils. The Board's running costs are met by the three Councils. During 2013-14 Argyll and Bute Council contributed £1.141m towards estimated running costs and accounted for £1.570m of Balance Sheet Liabilities within the Group Balance Sheet. The accounts of the Board are subject to independent audit and are available from the Treasurer to Dunbartonshire and Argyll and Bute Valuation Joint Board, Council Offices, Garshake Road, Dumbarton G82 3PU.

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

	2013/14 £'m	2012/13 £'m
Argyll and Bute Council has a 48.1% share of:		
Gross Income	2.745	2.458
Net (Surplus)/Deficit	0.191	0.203
Long Term Assets	0.847	0.873
Current Assets	0.644	0.876
Liabilities due within one year	(0.126)	(0.452)
Liabilities due over one year	-	-
Pension Liability	(4.544)	(3.810)
Capital and Revenue Reserves	(3.178)	(2.513)

### 8. REPORTING AUTHORITY ADJUSTMENTS

A number of adjustments are required to the Council's Statement of Comprehensive Income and Expenditure (pages 35 to 36) for group accounting purposes. These can be summarised as follows:

- All intra-group transactions have been removed from the Group Accounts as part of the subsidiary consolidation process.
- The Common Good Funds described in note 35 of the Notes to the Financial Statements on page 94 have been fully consolidated into the Group Accounts. This adjustment increases the net assets and reserves of Argyll and Bute Council's Group by £6.506m

### 9. GROUP CASH FLOW STATEMENT

The impact of the incorporation of the associates has no effect upon the Cash Flow statement for Argyll and Bute Council on page 39. Only the Common Good transactions would have an impact. However, this impact is not material enough for a separate Group Cash Flow Statement to be prepared.



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

I certify that I have audited the financial statements of Argyll and Bute Council and its group for the year ended 31 March 2014 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and authority only Statements of Movement in Reserves, Statements of Comprehensive Income and Expenditure and Balance Sheets, the authority only Cash-Flow Statement, the Council Tax Income Account, the Non-domestic Rate Account and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the 2013/14 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

### Respective responsibilities of the Responsible Financial Officer and auditor

As explained more fully in the Statement of Responsibilities, the Head of Strategic Finance is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Strategic Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2013/14 Code of the state of the affairs of the group and of the body as at 31 March 2014 and of the income and expenditure of the group and the body for the year then ended;
- have been properly prepared in accordance with IFRS's as adopted by the European Union, as interpreted and adapted by the 2013/14 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

## Independent Auditor's Report

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### Opinion on other prescribed matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 1985; and
- the information given in the Explanatory Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which I am required to report by exception

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Statement of Governance and Internal Control does not comply with Delivering Good Governance in Local Government; or
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.



Fiona Mitchell-Knight FCA  
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8 Nelson Mandela Place  
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**30 September 2014**