UNAUDITED ACCOUNTS

# GRAMPIAN VALUATION JOINT BOARD

## ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2017

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اگر آپ کو مورے کونسل سے کسی دیگر زبان یا صورت میں معلومات درکار
ہوں مثلاً بریلے، آڈیو ٹیپ یا بڑے حروف تو مہربانی فرما کر رابطہ
فرمائیں:

Treasurer to the Board, Financial Services, High Street, Elgin, IV30 1BX

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# Contents

## MANAGEMENT COMMENTARY

### Strategy and objectives

Unlike local authorities that are charged with providing a wide range of services within their local authority area, the Assessor and Electoral Registration Officer is charged with the provision of valuation assessment and registration services across Aberdeen City Council, Aberdeenshire Council and Moray Council areas.

These services are strictly defined and regulated by statute which the Assessor and Electoral Registration Officer, as an independent statutory official has to provide in partnership with the Grampian Valuation Joint Board. The Board is required to appoint and resource the Assessor; the constituent authorities are required to appoint and resource an Electoral Registration Officer (ERO). By agreement, the Board has undertaken this responsibility on behalf of the three local authorities within the Grampian area.

The priorities for 2016/17 were

- Complete and accurate registers of electors for the Scottish Parliamentary General Election of 5 May 2016 and the Referendum on membership of the European Union that was held on 23 June 2016;

- Conduct a full household canvass under the individual electoral registration (IER) regime;

- Deliver the 2017 general revaluation of all non-domestic properties;

- Preparation for the reintroduction of shooting rights to the valuation roll;

- Publish revised registers by 1 December 2016;

- Maintain a complete and accurate Valuation roll in terms of the Local Government (Scotland) Act 1975;

- Maintain a complete and accurate valuation list in terms of the Local Government Finance Act 1992.

### Monitoring regimes

The Electoral Commission has a performance monitoring framework in place for EROs across the UK.

The Cabinet Office in its capacity as lead department for the implementation of individual electoral registration across the UK required performance returns from EROs that were shared with the Electoral Commission.

Key performance indicators set by the Board and submitted to the Scottish Government monitor the operational performance in terms of the valuation list and valuation roll.

**MANAGEMENT COMMENTARY (continued)**

## Business model

The organisation delivers the outcomes that are required by statute in a dual strand approach with the Board providing resources and oversight and the Assessor & ERO delivering the specialised professional services of valuation assessment and registration from offices in Aberdeen, Banff and Elgin.

The Assessor & ERO works closely with the other Scottish Assessors and EROs via the Scottish Assessors Association (SAA) to deliver a service across Aberdeen City, Aberdeenshire and Moray council areas that is consistent with that being delivered across all 32 local authority areas in Scotland. The sharing of expertise and representation through the SAA is a unique example of shared services across Scotland that includes a single website and data source for the public and government.

Key performance indicators measure the effectiveness of the organisation's valuation assessment role and the Electoral Commission's performance framework monitors the registration outcomes.

During 2016/17 the organisation met all the demands placed upon it in terms of valuation assessment and registration, against a background of continued intense electoral activity, and the overhead of delivering for the revaluation of all non-domestic properties in 2017.

The principal risks and uncertainties relate to national policy and the provision of resources. Whilst it is recognised that the organisation has a history of successfully implementing change over successive periods, particularly in relation to assessment for domestic taxation and electoral registration, uncertainties continue to impact on the organisation. This is illustrated on the valuation side by the uncertainty over the appropriate decapitalisation rate for contractors basis valuations. On the electoral side of the business the former Prime Minister's announcement on 20 February 2016 that a referendum on membership of the EU would take place on 23 June 2016 illustrates the uncertainty that forward planning needs to be capable of absorbing. The failure of the national registration application website on 7 June and the resulting 2 day extension to the registration application deadline tested the capability of the service to respond positively and effectively in contingency mode.

## A fair review of the business

In terms of our priorities –

*Complete and accurate registers of electors for the Scottish Parliamentary General Election of 5 May 2016 and the Referendum on membership of the European Union that was held on 23 June 2016*
The Scottish Parliamentary election was the first Scotland-wide election where 16 and 17 year olds could vote as a matter of course. (16 and 17 year olds were entitled to vote in the referendum on independence held on 18 September 2014, but at that time electoral law had not been amended to allow young voters to participate in Scottish Parliamentary and local government elections as a matter of course). The election calendar is generally more certain with fixed terms of parliaments but the announcement of the EU referendum and the subsequent unplanned extension to the application deadline by 48 hours presented the organisation with significant challenges, as did the volume of overseas electors registering to participate in the referendum (overseas electors are not entitled to participate in local government and Scottish Parliamentary elections and their registration only lasts for 12 months, so they tend to register ahead of UK parliamentary elections only)

**MANAGEMENT COMMENTARY (continued)**

**A fair review of the business (continued)**

We managed our publicity and engagement activities to focus on school pupils from the age of 14 onwards as this was the first year when they would be able to register to vote as a matter of course and secured media coverage of the work that we were doing. The Electoral Commission's report on the Scottish Parliamentary election was that it was well-run and the high levels of voter confidence were testament to the experience and hard work of the Returning Officers, Electoral Registration Officers and their staff. The Electoral Commission's report on the EU referendum also praised Electoral Registration Officers for their hard work and ability to respond to the timetable extension brought about by the technical difficulties experienced by the government digital service's website.

*Conduct a full household canvass under the individual electoral registration (IER) regime.*
The canvass of 276,438 households achieved a return rate of 79% by 1 December 2016 was an improvement on the corresponding return rate of 76% as at 1 December 2015. We have continued to chase up non-returns and by 31 March 2017 the return rate had risen to 86%. We have also managed to increase the proportion of households who respond to the canvass by automated response channels such as online, text or automated telephone options from 64,040 in 2015 to 79,606 in 2016. Automated responses are more efficient as they do not require back-office processing.

*Deliver the 2017 general revaluation of all non-domestic properties.*
The Scottish Government required draft values to be made available to them via the shared Assessors Portal (website) by 30 September 2016. The 25,521 non-domestic subjects were revalued on time and the draft values made available to the Scottish Government. The draft values were subsequently made available online to the public in tandem with the Scottish Government's draft budget proposals and the valuation roll formally made up on 15 March 2017 with valuation notices issued to the proprietor, tenant and occupier of each property. The Assessor gave a series of presentations to ratepayers, business groups and politicians following the publication of the draft values.

*Preparation for the reintroduction of shooting rights to the valuation roll.*
Since the exemption of shooting rights from non-domestic rates in 1995 there has been no definitive all-Scotland data source that would provide the location and owner/occupier information for shooting rights. Since the exemption was removed by the Land Reform Act in 2016, Assessors have been working closely with national agencies such as SNH to obtain address data. Using this data we issued 4,410 questionnaires to land managers and the analysis of the resultant data is underway.

*Publish revised registers that marked the end of the IER transition period by 1 December 2015.*
Statistical data on our registration activities has been submitted to the Electoral Commission and its report on the December 2016 registers has not identified any shortfall in performance. The Electoral Commission has also established that all EROs in Scotland met their performance standards albeit that due to technical problems that hindered the provision of statistical information that was encountered by some EROs, the Commission has delayed publication of its finalised performance report until May.

**MANAGEMENT COMMENTARY (continued)**

## A fair review of the business (continued)

*Maintain a complete and accurate Valuation roll in terms of the Local Government (Scotland) Act 1975*
*&*
*Maintain a complete and accurate valuation list in terms of the Local Government Finance Act 1992*

The last two priorities use of quantitative target based performance indicators rather than qualitative measures and as such can at times be misleading. In terms of overall numbers, the number of assessments of domestic and non-domestic properties being made within the 90 day performance timeframe when compared to the previous year was almost unchanged with 4,267 assessments in 2016/17 compared to 4,296 for the previous year. In both domestic and non-domestic categories we did not achieve the targets of 94% of new dwellings being banded in the 90 day timeframe nor 60% of amendments to the valuation roll within the same 90 day timeframe. The corresponding percentages are 92% and 56%. The valuation roll performance threshold was reduced to from 77% to 60% for 2016/17 to reflect the resource overhead of completing the revaluation during 2016/17. The corresponding performance for the last year a revaluation was completed (2009/10) was also 56%. Whilst this suggests that valuation roll performance has not improved, the 2016/17 performance has been achieved whilst we carried out the additional and unique task of reviewing some 1,000 non-domestic assessment to establish whether they required to be sub-divided to reflect a recent Supreme Court decision concerning offices in London. The outcome of that exercise was the re-assessment of 610 non-domestic subjects and the creation of an additional 262 entries in the valuation roll that were in place for the 2017/18 roll coming into force on 1 April 2017.

In overall terms the organisation met its priorities for 2016/17. The major commitment to Revaluation 2017 along with the requirement to deliver not only the Scottish Parliamentary elections but also the EU referendum and its associated challenges of a technical problem with the national website challenged our ability to deliver. The organisation has nevertheless responded and delivered, meeting its original priorities regardless.

## Future developments

The priorities over the next two years will be to largely complete the Revaluation appeal process, add the shooting rights to the valuation roll and continue in our work to improve the efficiency of the current system of electoral registration with a view to informing stakeholders on measures that might make the system more sustainable.

These priorities involve unknowns. Ratepayers' appeals against their assessments are by their very nature driven by the ratepayer rather than the Assessor. Our role is therefore essentially reactive; however we have embarked on a proactive series of presentations that seek to set out the lands valuation framework for assessment.
The return of shooting rights to the valuation roll is scheduled for completion by September 2017 and legal advice is currently being sought as to the precise definition of what has been anticipated by some industry experts to be a very significant task.

The Barclay Commission is currently reviewing the system of non-domestic rates in Scotland and is set to report in July 2017. The government has undertaken to move swiftly to implement recommendations that may impact on this organisation.

## Future developments (continued)

The Scotland Act that extends devolution to voter registration has yet to be fully commenced and it is anticipated that EROs will be working with both the UK and Scottish legislatures towards a less prescribed and more streamlined & cost effective approach to individual electoral registration. This will inevitably lead to further process and system changes.

## Key performance indicators (KPI's)

The organisation's code of corporate governance established a KPI reporting and three-year review regime. They seek to quantify the effectiveness of the organisation's activities in relation to the valuation roll of non-domestic property assessments and the valuation list of domestic property council tax band allocations. The Assessor and ERO provides performance reports at every meeting of the Board and an annual public performance report is published online.

The Electoral Commission has reviewed the performance framework for electoral registration officers and for 2016/17 is focussing on qualitative performance monitoring in preference to target-based quantitative indices. This reflects the concerns expressed above regarding reliance on quantitative indicators.

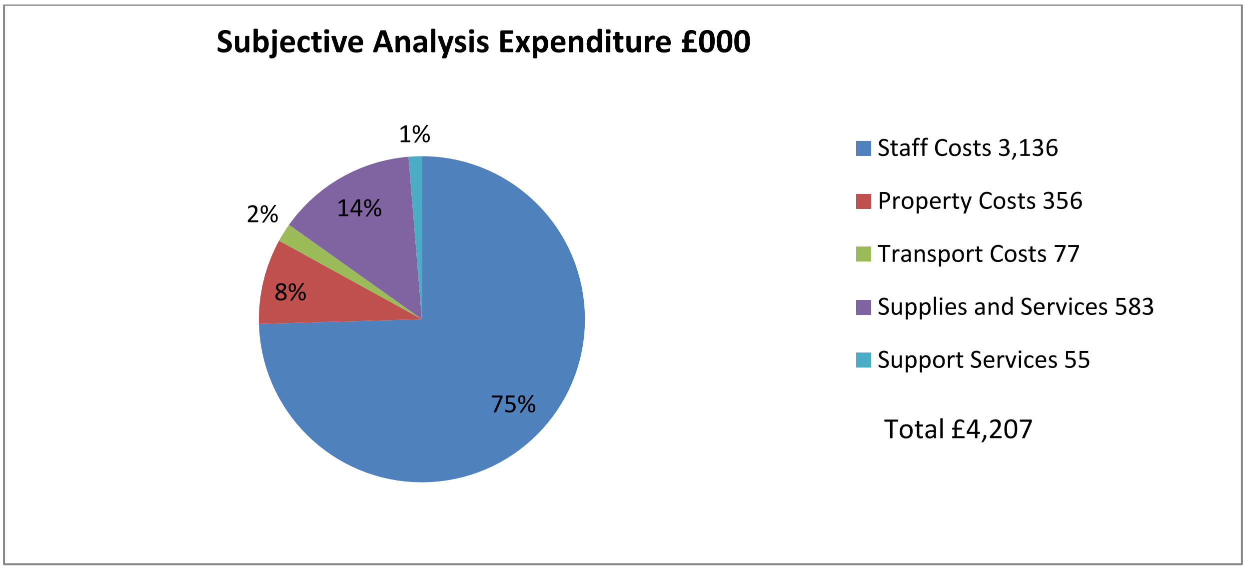
## Financial Performance for 2016/17

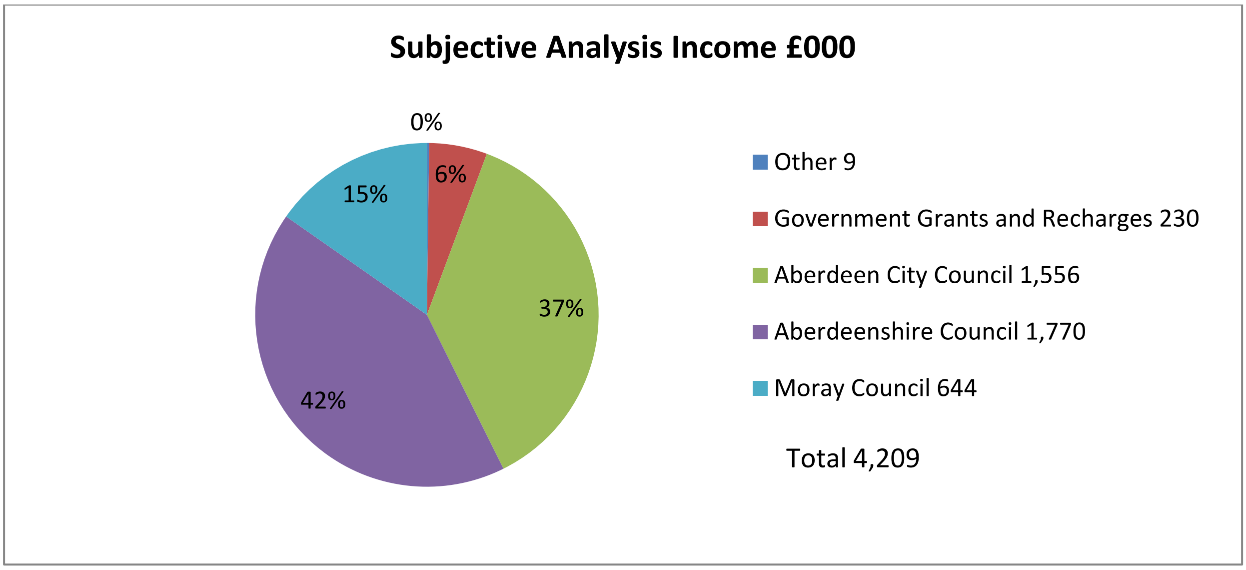
The public sector in Scotland is facing severe financial pressures. The main challenge in preparing the 2016/17 budget was the request from the constituent authorities to continue to achieve savings. With employee costs representing over 74% of the revenue expenditure budget, there was little scope to make efficiencies without impacting on the level of service. Despite inflationary and operational pressures in some areas of the budget, some efficiencies in working practices were also reflected and the 2016/17 revenue budget increase compared to 2015/16 was 4.6% in cash terms. 39% of the increase related to anticipated pay awards, anniversary increments and related overheads. A contingency budget of £0.04m was approved for overtime that was anticipated with the revaluation exercise, with the proviso that if any amount was not used in 2016/17 the balance would be returned to the constituent authorities. £0.003m of expenditure was actually spent on overtime for valuation staff working on the revaluation, which means that the unspent balance will be refunded to authorities

At the meeting of the Board on the 29 January 2016, the revenue budget for 2016/17 was approved at £4.196m (2015/16 £4.011m). The actual expenditure requisitioned from the constituent authorities was £3.961m (2015/16 £3.780m). This resulted in an underspend of £0.235m for the year. Of this total, £0.226m will be returned to constituent authorities and £0.009m transferred into the General Fund Reserve.

**MANAGEMENT COMMENTARY (continued)**

<u>**Financial Performance for 2016/17 (continued)**</u>




The main reason for the underspend in staff costs was vacant posts. Property Costs had an overspend against budget, relating to a roof repair and window replacements at the Elgin office. Supplies and Services expenditure was under budget on postages and IT maintenance and support. The anticipated overtime budget required for revaluation works was not fully utilised, creating an underspend against budget.

**MANAGEMENT COMMENTARY (continued)**

__**Financial Performance for 2016/17 (continued)**__

The table below shows a summary of the figures for the main variances between actual and budget for the year to 31 March.

| 2015/16 £000 | | 2016/17 £000 |
|---|---|---|
| 165 | Staff Costs | 106 |
| (57) | Property Costs | (22) |
| - | Transport Costs | 13 |
| - | Supplies and Services | 80 |
| - | Support Services | - |
| - | Overtime working - Revaluation | 37 |
| 123 | Income | 21 |
| **231** | **Net Underspend Against Budget** | **235** |

The Comprehensive Income and Expenditure Statement shows a deficit of £0.261m on the provision of services for the year. After allowing for the reversal of statutory charges for International Accounting Standard 19 (IAS19) of £0.242m, depreciation totalling £0.021m, the net transfer to the General Fund is £0.002m. The net transfer comprises £0.007m transferred from the General Fund for government grant carried forward from 2015/16 which was spent in full in 2016/17 and £0.009m in respect of the 2017/18 underspend transferred to the General Fund in accordance with the Board's Reserves Policy.

The layout of the Comprehensive Income and Expenditure Statement is slightly different this year. The Board is no longer required to report Cost of Services expenditure in accordance with the Service Reporting Code of Practice (SeRCOP), but instead report Cost of Services based on segmental reporting to management during the year. As the Board reports all of its activities as one service, the disclosure changes are fairly minimal in that the costs of Corporate and Democratic Core activities are no longer separately identified within Cost of Services.

The Movement in Reserves Statement has also been amended slightly to improve clarity. There is no longer a split of Total Comprehensive Income and Expenditure between the Provision of Services and Other Comprehensive Income and Expenditure. Transfers to Other Statutory Reserves are now incorporated within the line Adjustments between Accounting basis and Funding basis under regulations. A new note, Expenditure and Funding Analysis has been combined with the note Adjustments between the Accounting basis and Funding basis under regulation to explain the relationship between the Comprehensive Income and Expenditure Statement and the Transfer to the General Fund.

## Principal risks and uncertainties

The organisation maintains and reviews an operational and strategic risk register.

The principal risks and uncertainties relate to a fairly dynamic valuation assessment and registration statutory framework. Funding responsibilities between central and local government are similarly fluid and the requirement to deliver enhanced services and reduced demands on the public purse present major challenges.

Apart from the normal control measures in terms of financial and operational planning, the Assessor and ERO is seeking to mitigate such risk and uncertainty through partnership working via the SAA and also external agencies. He is Vice-President of the SAA, Chairs the SAA Electoral Registration Committee, a member of the Electoral Management Board for Scotland, a member of the RICS rating practice group and the Institute of revenues Rating and Valuation. He also works with COSLA, the Scottish Government, UK Government, the Electoral Commission, the Scottish Parliament Political Parties Panel and has given evidence to the Barclay Commission and the Local Government and Communities Committee in the last 12 months. Through these roles the organisation has a unique insight into potential developments in the valuation assessment and registration fields and therefore is able to minimise uncertainty as far as is possible.

## Retirement Benefits

Employees are eligible to join the North East Scotland Pension Fund, a Local Government Pension Scheme (LGPS), administered by Aberdeen City Council. Note 23 to the annual accounts details the income and expenditure charged to the Comprehensive Income and Expenditure Statement in respect of the North East Scotland Pension Fund, based upon estimates provided by MERCER, the actuary to the Fund. The liability on the North East Scotland Pension Fund and a pensions reserve are incorporated on the balance sheet. In the Comprehensive Income and Expenditure Statement, the cost of retirement benefits is recognised in the Net Cost of Services when earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge that is funded by requisitions is based on the contribution payable to the pension scheme in the year, so the cost of retirement benefits is adjusted out in the Movement in Reserves Statement. The Balance Sheet shows that the Board has a net pension liability of £6.625m as at 31 March 2017 (31 March 2016 £3.911m). The main assumption to determine the liabilities is the discount rate which is set by the value of high quality corporate bond yields. A lower discount rate leads to a higher value being placed on scheme liabilities. A decrease in yield values has meant that the discount rate at 31 March 2017 was 2.5%, compared to 3.5% at 31 March 2016, resulting in a considerable increase in the value of pension liabilities.

**MANAGEMENT COMMENTARY (continued)**

## Going Concern

The accrual of pension liabilities has a significant impact on the Balance Sheet at 31 March 2017 which shows an excess of liabilities over assets of £5.764m (£3.066m at 31 March 2016). The North East Scotland Pension Fund is required to carry out actuarial valuations every three years. The methodology that will be used to calculate the value of liabilities as at 31 March 2017 will not reflect the value of bond yields and will instead use real returns to determine the discount rate. The results of the triennial valuation will be used to establish the funding levels of the whole Pension Fund and the funding level for each participating employer to meet the commitments of the Fund. The constituent authorities of the Board are required to fund the liabilities of the Board as they fall due. Accordingly, it has been considered appropriate to adopt a going concern basis for the preparation of these Annual Accounts.

Councillor to be appointed
Convener

Ian H Milton BSc(Hons) FRICS IRRV AEA(Cert-Scotland)
Assessor and Electoral Registrations Officer

Margaret Wilson CPFA
Treasurer

## GLOSSARY OF TERMS

### EXPENDITURE

**Employee Costs:**
Includes direct employee expenses such as salaries and overtime, employer's national insurance and superannuation contributions. Indirect employee expenses include relocation cost, interview expenses, training and staff advertising.

**Property Costs:**
Includes property costs such as rent, rates, repairs and maintenance and premises-related contributions at the area offices in Banff, Elgin and Woodhill House headquarters. The service charge for Woodhill House is also included. Energy costs, water services and premises insurance as well as fixtures and fittings, grounds maintenance and cleaning supplies are also included.

**Transport Costs:**
This includes all costs associated with the provision, hire or use of transport, including staff travel allowances and public transport.

**Supplies and Services:**
Includes the cost of purchasing equipment, furniture and materials used in the operation or administration of the service. Other Supplies and Services expenses include printing, stationery, catering and provision of protective clothing. Also included are canvass expenses and valuation appeal panel costs.

**Support Services;**
This is a charge from Moray Council for services that support the Board in its provision of services to the public. These include the functions of Legal Services, Finance, Internal Audit, and Human Resources.

**Corporate Democratic Core (CDC):**
These are costs associated with democratic representation and include Members expenses and costs relating to the corporate management of the Board.

**Non Distributed Costs (NDC):**
These are costs which cannot be allocated to the cost of a service such as the cost of discretionary benefits awarded to employees retiring early and past service gains.

**Depreciation:**
Depreciation is a charge to the Comprehensive Income & Expenditure Account, reflecting the decline in value of assets as a result of their usage or ageing.

**Impairment:**
Impairment is a charge to the Comprehensive Income and Expenditure Account, reflecting that the recoverable amount of an asset is less than its carrying amount.

## GLOSSARY OF TERMS (Continued)

### INCOME

**Customer and Client Receipts:**
Income received for services provided.

**Requisitions:**
Funding received from the constituent authorities for which the Board provides a service.

### OTHER

**CIPFA**
The Chartered Institute of Public Finance and Accountancy

**LASAAC**
Local Authority (Scotland) Accounts Advisory Committee

**IFRS**
International Financial Reporting Standard

**The Code**
The Code of Practice on Local Authority Accounting in the United Kingdom

**SeRCOP**
Service Reporting Code of Practice

**Fair Value**
IFRS 13 defines fair value as the price that would be received to sell and asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). When measuring fair value, an entity uses the assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk.

**Current Value**
For operational land and buildings, current value is the amount that would be paid for the asset in its existing use.

**Economic Cost**
The total cost of performing an activity or following a decision or course of action.

## STATEMENT OF RESPONSIBILITIES FOR THE ANNUAL ACCOUNTS

### The Board's Responsibilities

The Board is required to: -

- make arrangements for the proper administration of its financial affairs and to secure that the proper officer of the Board has the responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). In the Valuation Joint Board, that officer is the Treasurer to the Board.

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

- ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government Scotland Act 2003).

- approve the audited Annual Accounts for signature.

### The Treasurer's Responsibilities

The Treasurer to the Board is responsible for the preparation of the Board's Annual Accounts in accordance with proper practices as required by legislation and as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Accounting Code).

In preparing these annual accounts, the Treasurer has: -

- selected suitable accounting policies and then applied them consistently;

- made judgements and estimates that were reasonable and prudent;

- complied with legislation;

- complied with the local authority Accounting Code (in so far as it is compatible with legislation).

**STATEMENT OF RESPONSIBILITIES FOR THE ANNUAL ACCOUNTS (Continued)**

**The Treasurer's Responsibilities (continued)**

The Treasurer has also

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

I certify that the financial statements give a true and fair view of the financial position of the Board at the reporting date and the transactions of the Board for the year ended 31 March 2017.

Margaret Wilson, CPFA
Treasurer

31 May 2017

## ANNUAL GOVERNANCE STATEMENT – 2016/17

### Scope of responsibility

The Board was established in terms of The Valuation Joint Boards (Scotland) Order 1995 and is the valuation authority for Aberdeen City Council, Aberdeenshire Council and The Moray Council. The Board is responsible for the provision of valuation assessment services for local taxation purposes.

Through an agreement to share services, the Board also provides electoral registration services for the same three constituent authorities.

The Board is responsible for ensuring that its business is conducted in accordance with the law and proper standards. It must ensure that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively.

The Board is considered to be a local authority in terms of the Local Government etc. (Scotland) Act 1994 and has a duty to deliver continuous improvement as set out in the Local Government in Scotland Act 2003.

In discharging this overall responsibility, the Board is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its valuation and registration functions. This includes arrangements for the management of risk.

### Responsibility for delivery - members and officers

In terms of the above order, the Board membership comprises 6 members appointed by Aberdeen City Council, 6 members appointed by Aberdeenshire Council and 3 members appointed by The Moray Council.

Also in terms of the order, the Board appointed a Convener, depute Convener, Clerk and Treasurer. The role of the Clerk is to ensure the proper conduct of the board's business and that of the Treasurer is to ensure that the Board operates effective financial information and control systems and complies with all financial regulatory requirements.

To fulfil its operational role, the Board is responsible for the appointment of an Assessor, and deputes as appropriate, in terms of section 27 of the Local Government etc. (Scotland) Act 1994. In practice the Assessor and deputes manage the provision of valuation assessment services on a day to day basis, with the Board providing resources, a governance framework and a monitoring regime for financial and operational performance.

The Local Government (Qualifications of Assessors) (Scotland) Order 1995 requires the Assessor and deputes to be qualified chartered surveyors. The Lands Valuation Acts and the Local Government Finance Act 1992 require that these senior officials exercise their assessment duties wholly independently of the valuation authority or government, thus providing the taxpayer and wider citizenship along with local and central government with confidence in the integrity of the assessment basis, which is subject to the scrutiny of the local valuation appeal committees, the Lands Tribunal for Scotland and the Lands Valuation Appeal Court.

The Assessor is also appointed as the Electoral Registration Officer (ERO) for the Board's three constituent authorities. This too is a statutory position with the ERO and deputes appointed in terms of section 8 of the Representation of the People Act 1983.

## Responsibility for delivery - members and officers (continued)

As in the case of the Assessor, the ERO is an independent statutory official and as such is personally liable for the registration service provided. The ERO's decisions are subject to the scrutiny of the Sheriff and the Registration Appeal Court, and ultimately the Supreme and European Courts.

The Board has approved and adopted a local code of corporate governance that is available at www.grampian-vjb.gov.uk

An updated 'CIPFA/SOLACE' Framework 'Delivering Good Governance in Local Government' was published in early 2016 to guide the preparation of Annual Governance Statements applicable for financial year 2016/17 onwards. Associated guidance for Scottish Authorities was published in November 2016. The Framework's overall aim is 'to ensure that resources are directed in accordance with agreed policy and according to priorities; that there is sound and inclusive decision making; and that there is clear accountability for the use of these resources in order to achieve desired outcomes for service users and communities'.

This governance framework guidance envisages the wider responsibilities of a multi-purpose local authority rather than those that are limited to specialised valuation assessment and registration services. This annual governance statement explains how the Board has complied with the 2016 code, reflecting the particular nature of the Board's remit.

## The purpose of the governance framework

The governance framework comprises the systems, processes, cultures and values by which the Board is directed and controlled, and the activities used to engage with the community. It enables the Board to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective valuation assessment and registration services.

The system of internal control is a significant part of that framework and is designed to manage risk to an acceptable level, and provide reasonable, but not absolute, assurance that the statutory requirements of the Assessor and ERO are met and policies, aims and objectives can be delivered. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Board's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

## The governance framework

The key elements of the systems and processes that comprise the Board's governance arrangements are described in terms of the seven principles of good governance defined in the framework and summarised as follows:

### Governance Principle 1 - behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.

High standards of behaviour are essential to good governance. There is an expectation that elected members and senior officers will exercise leadership through exemplary standards of behaviour, and ensure those values are replicated effectively throughout the organisation.

This is achieved through promotion of codes of conduct, and registers of interests which record any potential areas where conflicts of interest might arise.

The Board's code of conduct provides a clear standard in terms of conduct and behaviour, as does the Board's personnel related policies that deal with mainstreaming equalities into the fabric of the organisation, dignity of the individual, whistleblowing, special leave and personal development. These policies go beyond behavioural matters and reflect the positive approach to workforce development to the extent that career development schemes are in place across all three service strands; non-domestic property valuation assessment, domestic property valuation assessment and electoral registration. As such, career pathways are available to almost all staff.

In order to avoid duplication the Board relies on the registers of interests and gifts maintained by the relevant constituent authorities for elected members. A register of gifts is however maintained for the organisation's officials. The Assessor & ERO and deputes are bound by the policies of the Board and also must adhere to the professional standards regime set by the RICS.

Issues relating to actions taken or not taken by officials can be addressed internally through the new complaints handling procedure that was implemented in 2016 with revised reporting procedure that reflect advice from the Scottish Public Service Ombudsman (SPSO). The revised reporting procedure has led to an increase in reported complaints, but this reflects the fact that the organisation has implemented a more accessible complaints handling procedure that is encouraging feedback on how the valuation and registration services and being delivered. All feedback is recorded rather than only those matters that met the high threshold of a written complaint that the former complaints procedure required. This move to more open and more accessible complaints handling reflects the ethos of the organisation as a whole with a culture of listening and doing things better being driven by the Assessor & ERO.

The organisation maintained its commitment to combating fraud during the year by assisting with the National Fraud Initiative. The Assessor & ERO also works closely with Police Scotland, providing pre-election briefings and if necessary referring suspected fraudulent registration or absent vote applications.

**The governance framework (continued)**

**Governance Principle 2 – ensuring openness and comprehensive stakeholder engagement.**

The Board's decision-making processes are well established with decisions concerning finance, performance and governance being taken by the Board. Standing orders and regulations govern how decisions are made and appropriate legal, financial and other professional advice is considered as part of the decision-making process.

At an operational level, stakeholder involvement falls within the domain of the Assessor & ERO. 2016/17 saw the completion of a significant project to encourage young voter registration following the extension of the franchise. In addition innovative research work using private sector data to improve the registration rates across the private rented housing sector was praised by the Minister for the Constitution in submissions to a House of Commons committee[1]. On the valuation front the roll-out of the 2017 revaluation of non-domestic properties was a major challenge for UK and Scottish governments, Assessors and the business community. The Assessor and ERO engaged on a series of over a dozen presentations ranging from a Cross Party Parliamentary group in Holyrood to local business associations across the NE of Scotland. Specific presentations were tailored to meet the requirements of the fishing and hospitality sectors whereas others focussed on particular localities in the Grampian area.

Through engagement with external stakeholders such as the Electoral Commission, the Cabinet Office, the Scottish Government, the Electoral Management Board for Scotland (EMB), the Valuation Office (and harmonisation partner organisations in Ireland), the Institute of Revenues Rating and Valuation (IRRV), the Royal Institution of Chartered Surveyors (RICS) and the three constituent local authorities, the Assessor & ERO draws on these resources and has developed engagement strategies that reflect the prevailing service requirements.

The Board's performance management framework is reviewed regularly to drive continuous improvement and ensure effective monitoring of progress and outcomes against stated objectives. Reporting arrangements include regular updates to the Board, the Electoral Commission, the Electoral Management Board, the Scottish Government, and online publication of annual performance reports.

Protocols are in place to meet requests made under the Freedom of Information Act and Assessors through the Scottish Assessors Association have established procedures to improve the response standards where common requests for information are made.

[1] https://hansard.parliament.uk/commons/2017-04-24/debates/1709ff1c-9931-4f03-ba78-7f9203a88999/DraftElectoralRegistrationPilotScheme(England)(Amendment)Order2017DraftElectoralRegistrationPilotScheme(EnglandAndWales)Order2017DraftElectoralRegistr

## The governance framework (continued)

### Governance Principle 3 – defining outcomes in terms of sustainable economic, social and environmental benefits.

The Board, being focussed around delivery of specialised valuation and registration services has a limited role to play in the wider community planning aspects anticipated by the governance framework set out by CIPFA/Solace. Nevertheless, the two services delivered by the Board are foundation stones to local government and democracy at local, national and international levels, as the services provide the means to raise local taxation and to conduct elections/referendums.

The service plan requires outcomes that are essentially driven by statute. The non-domestic revaluation values were published on 15 March 2017. Domestic taxation that was reviewed by the Local Tax Commission that reported in late 2015 continues largely unchanged and the electoral registration system is now settling down after a period of intense change following the introduction of individual electoral registration along with the enfranchisement of 16 and 17 year olds.

The Assessor and ERO is Vice President of the Scottish Assessors Association (SAA) and through this non-statutory voluntary association, the 14 Assessors and 2 independent EROs[2] that provide valuation assessment and registration services across the 32 local authority areas in Scotland share expertise and resources through this association to deliver unified and modern services. The SAA engages with a wide range of third parties in the public and private sector including the Scottish Ratepayers Forum and Harmonisation Steering Committee.

### Governance Principle 4 – determining the interventions necessary to optimise the achievement of intended outcomes.

As a specialised outcome – orientated organisation; producing, maintaining and defending valuation rolls, lists and electoral registers; outcomes essentially drive the organisation's agenda. The Board and the Assessor & ERO recognises the financial challenges they face and through established reporting arrangements ensure that Board members have full detail of resource inputs and performance outputs. Regular and detailed financial reports are made to the Board and the outcomes for the organisation that are largely driven by statute, are monitored in terms of performance.

The Management Team focus on these outcomes and work closely to innovate and optimise them. A significant review of delivery of administrative services has been completed during the year with benefits in terms of service delivery, performance and also staff development and satisfaction. At a national scale the research being undertaken into use of external data sources is part of a drive to increase the effectiveness of the canvass process that is currently recognised at a national level as not being sustainable in the medium to long-term[3].

[2] Dundee and Fife opted to provide registration services independently and contribute to the SAA Electoral Registration Committee.
[3] https://www.electoralcommission.org.uk/__data/assets/pdf_file/0005/213377/The-December-2015-electoral-registers-in-Great-Britain-REPORT.pdf

**The governance framework (continued)**

Workforce planning remains a particular focus given the demands on the organisation to deliver revaluations and complete and accurate electoral registers along with their corresponding absent voter records. In this regard the review of the 2016 electoral canvass has led to a move to concentrate resources within the autumn canvass period.

**Governance Principle 5 - developing the entity's capacity, including the capability of its leadership and the individuals within it.**

This element of governance is designed to ensure that both elected members and officers have the knowledge, skills and capacity to enable them to understand and fulfil their respective roles effectively.

Roles of elected members and officers are clearly defined and constructive working relationships are achieved to ensure clear relationships between the Board, the Assessor and ERO, corporate stakeholders and the public.

Standing orders regulate the form and content of board meetings and the Board's financial regulations provide a framework for financial decisions. Performance reports are made at each board meeting and the Board's key performance indicators are subject to regular periodic review.

At an individual level the Assessor & ERO provides a briefing after the periodic local government elections when the Board membership will be updated. As part of its commitment to lifelong learning, the Board also uses the IRRV Scottish conference as a cost effective source of professional training for both members and officials. To foster a personal development culture and seek to retain personnel the organisation operates an internal recruitment procedure that encourages personal development and ultimately improve leadership capacity.

New employees receive induction training on arrival and in the vast majority of cases are able to participate in a career grade development scheme that seeks to promote personal and professional development. Surveyors, who are members of the RICS, are subject to additional compulsory continuing professional development training that is monitored by the RICS.

The organisation's training officer is responsible for monitoring training provision and recording progress. The training officer is also responsible for identifying appropriate training opportunities and the distribution of training opportunities is reported in public performance reports / equalities mainstreaming reports.

Functions and roles of statutory posts including the Clerk, Treasurer and Assessor & ERO are clearly defined and the postholders work closely together to achieve the objectives of the organisation.

**The governance framework (continued)**

**Governance Principle 6 – managing risks and performance through robust internal control and strong public financial management.**

The Board's decision-making process is well established with governance, finance and performance issues being reported at board meetings that take place in public (unless exempt under statutory provision) and the board reports are published online and made available to the media. Rules and procedures govern how decisions are made and appropriate legal, financial and other professional advice is considered as part of the decision-making process. Scrutiny is secured through internal and external audit.

Decisions of the Assessor & ERO are subject to public scrutiny, scrutiny via an appeal and complaint process to the respective judicial bodies and external stakeholders that monitor performance such as the Electoral Commission and the Electoral Management Board for Scotland. In addition the SAA website provides practice notes that provide details on how rateable values are determined and allows individual taxpayers to look up the assessment of every non-domestic and domestic property in Scotland.

Risk management is a fundamental part of the organisation's decision making process and as such is a standing item on the Assessor & ERO's management team quarterly agenda, with the Board reviewing the risk register on an annual basis.

To mitigate against and control risk the Board's system of internal control is based on a framework of financial regulations, regular management information, administrative procedures, management supervision and a code of corporate governance. Establishing and maintaining an effective system of internal control is a management function. The Board, through its consideration of reports by internal and external auditors, monitors the effectiveness of internal control procedures.

Policies to combat fraud, theft, bribery and corruption are in place, not only in order to protect public finance, but also to ensure the veracity of the statutory rolls, lists and registers that the Assessor & ERO is required to provide. The Assessor and ERO works closely with Police Scotland at a local and national level and through the requirement to work with the Government Digital Service our IT facilities must meet and maintain Public Service Network accreditation.

A performance management system is in place which calls for reporting of established performance measures to the Board at quarterly intervals throughout the year. An annual Public Performance Report is also published

Strong financial management procedures are secured through the work of the Treasurer appointed in terms of s.95 of the Local Government (Scotland) Act 1973. This officer provides advice to the Board and Assessor & ERO on all financial matters and ensures the timely production and reporting of budget estimates, budget monitoring reports and annual accounts.

## The governance framework (continued)

### Governance Principle 7 – implementing good practices in transparency, reporting, and audit to deliver effective accountability.

Board business is conducted through an established cycle of quarterly meetings held in public (unless exempt under statutory provision). Meeting dates are published in advance. Reports follow a corporate style and include: the purpose of the report, information relevant to the matter under consideration, a conclusion and recommendations. Minutes of meetings are prepared and are published on the Board's website.

Information is disseminated in many forms targeted at different audiences for different purposes ranging from statutory returns that follow prescribed layouts, through to media releases and presentations which may be focussed on specific groups of service users.

Assurance and accountability oversight is a key role for the Board which comprises members of a variety of political backgrounds. The Board receives reports on the work of the internal auditor and the external auditor placing particular focus on recommendations arising from audit work and on the corrective actions proposed by the officials of the Board.

**Review of effectiveness of governance arrangements**

The review of effectiveness of the governance framework including the system of internal control is pursued throughout the year by various means involving:

- **The Board**

In practice, governance arrangements are monitored over the year with board meetings taking place four times during each year. Every time the Board meets, it considers reports on financial and operational performance. It also considers annual public performance and audit reports along with reports on governance.

- **The management team**

The management team which has overall responsibility for good governance arrangements, comprises the Assessor & ERO, two deputes, four assistant assessors and the principal admin officer. The management team is scheduled to meet on a quarterly basis and considers corporate issues such as finance, personnel, performance and risk management along with an overview of service related issues that are handled by two service orientated groups – the technical and admin groups.

- **The technical and admin groups**

These two groups also normally meet quarterly and focus on specialised service related planning and delivery. These groups foster co-operative working across the Aberdeen, Banff and Elgin offices of the organisation and also benefit from input from the Scottish Assessors Association representatives. They provide technical solutions to valuation assessment and electoral registration issues. Membership includes the management team and team leaders, with input from junior members of staff too, that seeks to capture the widest range of expertise and experience and also provide an inclusive insight into the decision making process to all members of the organisation. In the approach to the Revaluation in 2017, a group dedicated to deliver the revaluation has been established.

- **The Assessor and ERO**

The Assessor & ERO has the statutory responsibility for the valuation rolls, valuation lists and electoral registers. The Assessor performs the statutory role of Monitoring Officer under the Local Government and Housing Act 1989, which covers the duty to ensure that no enactments, rules of law, or codes of practice are breached, and that the organisation is not involved in maladministration or injustice as defined in the Local Government (Scotland) Act 1975.

- **The Treasurer**

The Treasurer has statutory responsibility for the Board's financial affairs in terms of Section 95 of the Local Government (Scotland) Act 1973. This officer provides relevant financial advice and support to the Assessor and ERO and elected members at meetings of the board and otherwise as required. The Board's financial management arrangements generally conform to the governance requirements of the CIPFA statement on the role of the chief financial officer, and whilst the Treasurer is not a member of the management team, she is actively involved in, and is able to influence, decision-making processes.

**Review of effectiveness of governance arrangements (continued)**

The Treasurer is responsible for ensuring that an effective system of internal financial control is maintained. 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 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. The system includes comprehensive budget setting and monitoring arrangements and the preparation of regular financial reports indicating actual expenditure against forecasts that are reported at each board meeting.

- **Internal Audit**

Internal Audit is an assurance function that primarily provides an independent and objective opinion to the Board on the control environment comprising risk management, internal control, and governance by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

The Internal Audit Manager is accountable on a day-to-day basis to the Treasurer and to the Board.

Internal audit and the subsequent report by the external auditors in their annual audit letter and in other reports, informs the effectiveness of the financial control environment as an element of the Board's governance arrangements. No fundamental control weaknesses were reported during the period covered by this statement. It is the opinion of the Internal Audit Manager that reasonable assurance can be placed on the Board's internal financial control systems in place for the year ended 31 March 2017.

- **External Agencies**

In addition to the various internal review processes and the financial audit referred to above, no external agencies actively examine aspects of the Board's governance arrangements. The way the organisation delivers its valuation and registration services is however subject to scrutiny by external agencies, with the valuation assessment aspect reported to the Scottish Government and subject to a case by case scrutiny on appeal; and the Electoral Commission and Electoral Management Board reviewing and reporting on the performance of the ERO.

## Significant governance issues

Securing good governance has been and remains of prime importance to elected members and senior officials of the board; a considerable task at a time when budgets are reducing, and major changes in services are being introduced, such as the introduction of individual electoral registration.

The key governance challenges going forward will involve

- Working towards an efficient system of individual electoral registration particularly against an uncertain funding background whereby the Board has been granted funding from central sources for 2016/17 and beyond for the lifetime of the current UK government. With the announcement of an extraordinary UK Parliamentary General Election to be held on 8 June, the long-term funding commitment from central government remains unclear.

- Managing the resourcing required to defend challenges to the valuation roll for the years 2015/16, 2016/17 and the revaluation roll that came into force from 1 April 2017. The Assessor is always in a reactive rather than proactive position and must therefore be capable in terms of expertise and resources to meet any challenge.

- Finalising a resourced and sustainable four-year plan; forward financial planning has been particularly challenging against a dynamic implementation and new redesign of individual electoral registration, the move to increase the number of non-domestic properties in the valuation roll by removing statutory exemptions from shooting rights, the reactive nature of valuation appeal resolution, the current review of NDR and the Scottish Government's commitment to review electoral administration following the transfer of further powers in terms of the Scotland Act.

- Implementing equalities mainstreaming objectives and building on this work to identify new equality outcomes from April 2017.

- Meeting the challenges of regulatory measures concerning records management, data security and protection; and reconciling at an operational level the conflict between the two national agendas of open data and data protection.

- Ensuring established performance reporting procedures remain aligned to the service demands and external agency requirements; and

- Evaluating current consultation arrangements to ensure customer focus is a key consideration in informing service delivery decisions.

## Concluding Remarks

In our respective roles as Convener of the Board and Assessor & ERO, we are committed to good governance and recognise the contribution it makes to securing delivery of service outcomes in an effective and efficient manner. This annual governance statement summarises the Board's current governance arrangements, and affirms our commitment to ensuring they are regularly reviewed and remain fit for purpose.

Councillor to be appointed
Convener

Ian H Milton BSc(Hons) FRICS IRRV AEA(Cert-Scotland)
Assessor & Electoral Registration Officer

**REMUNERATION REPORT**

This report has been written to provide details of the Grampian Valuation Joint Board's remuneration arrangements for its senior councillors and senior employees. This is required under the Local Authority Accounts (Scotland) Amendment Regulations 2014.

All information disclosed in the tables 1 to 5 in this Remuneration Report will be audited by the external auditors Audit Scotland. The other sections of the Remuneration Report will be reviewed by Audit Scotland to ensure that they are consistent with the financial statements.

**Remuneration of Councillors**

The remuneration of councillors is regulated by The Local Governance (Scotland) Act 2004 (Remuneration and Severance Payments) Amendment Regulations 2015. These regulations set out the amounts a councillor may be paid for being a Convener or Vice-Convener of a Joint Board. This is inclusive of any amounts payable to them as either a councillor or senior councillor of their own Local Authority.

The Board consists of 15 members comprising 6 from Aberdeen City Council, 6 from Aberdeenshire Council and 3 from Moray Council. The local authority of which the Convener or Vice Convener is a member pays the remuneration appropriate to the member's work with the joint board. Conveners receive a remuneration which when added to their existing remuneration as a Councillor/Senior Councillor equals 75 percent of the Leader of a "Band A" council, i.e. £21,118 per annum. The Vice Convener's remuneration is calculated on the basis of the basic salary plus 75 percent of the difference between the basic salary and the Convener's salary, i.e. £20,063 per annum. These rates are effective for the year ending 31 March 2017.

The Board has an arrangement with each Council which remunerates the Convener and Vice-Convener/s to reimburse the Council for the additional costs of that councillor arising from them being a Convener or Vice-Convener of the Board.

Details of these payments are shown on Table 1 and Table 2 on the next page.

**Remuneration of Senior Councillors, Convener and Vice-Convener**

Councillor Shepherd is Convener of the Grampian Valuation Joint Board until May 2017. The Board pays a Special Responsibility Allowance to the Convener of the Board. Details of his salary are included in the remuneration report for Moray Council.

Councillor Owen is Depute Convener of the Board until May 2017. She receives a Special Responsibility Allowance from Aberdeenshire Council for her role as Chair of the Scrutiny and Audit Committee and so no additional award is made for undertaking duties for the Valuation Board. This allowance is paid for in full by Aberdeenshire Council and will be included in their remuneration report. All other Councillors' expenses are paid directly by the authority that they serve and will also be included in the individual authority's remuneration report.

**REMUNERATION REPORT (continued)**

**Remuneration of Senior Councillors, Convener and Vice-Convener (Table 1)**
The Board paid a Special Responsibility Allowance to the Convener of the Board. Details of this payment are shown below.

| Councillor Name and Responsibility | Salary, fees and allowances | Taxable Expenses | Total Remuneration 2016/17 | Total Remuneration 2015/16 |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| Councillor Shepherd, Convener | 4,225 | - | 4,225 | 1,616 |
| Total | 4,225 | - | 4,225 | 1,616 |

The remuneration for 2015/16 is for the period 11 November 2015 to 31 March 2016 only, while 2016/17 is a full year effect.

**Remuneration of Councillors (Table 2)**

The Grampian Valuation Joint Board paid the following salaries, allowances and expenses for all councillors (including senior councillors) during the year. It includes expenses met directly by the Board and expenses reimbursed to Councillors.

| Type of Remuneration | 2016/17 | 2015/16 |
|---|---|---|
| | £ | £ |
| Salaries | 4,225 | 1,616 |
| Expenses | 980 | 1,064 |
| **TOTAL** | **5,205** | **2,680** |

**Remuneration of Senior Employees**

The Local Authority Accounts (Scotland) Amendment Regulations 2014 require remuneration information to be disclosed for senior employees and these are categorised by the following criteria:

i. A person who has responsibility for the management of a local authority to the extent that the person has power to direct or control the major activities of the authority whether solely or collectively with other persons.
ii. A 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.
iii. A person whose annual remuneration, including any annual remuneration from a local authority subsidiary body is £150,000 or more.

**REMUNERATION REPORT (continued)**

**Remuneration of Senior Employees (continued)**

These regulations apply equally to Joint Boards and remuneration disclosure is therefore required for the Assessor and Electoral Registration Officer (ERO) and two Depute Assessor and Depute Electoral Registration Officers who are deemed to be senior employees for the Grampian Valuation Joint Board. Details are shown on Table 3 below.

The salary of senior employees is set by reference to national arrangements. The Scottish Joint Negotiating Committee (SJNC) sets the terms and conditions and pay bandings for senior employees but remuneration levels and payscales are set locally and were last agreed by the Board on 23 January 2004.

**Remuneration of Senior Employees of the Board (Table 3)**

| Name and Post Title | Salary, fees and allowances | Taxable Expenses | Total Remuneration 2016/17 | Total Remuneration 2015/16 |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| Ian Milton<br>Assessor & ERO | 105,990 | 638 | 106,628 | 105,392 |
| Gavin Oag<br>Depute Assessor & ERO | 82,653 | 573 | 83,226 | 82,284 |
| Mark Adam<br>Depute Assessor & ERO | 73,667 | 759 | 74,426 | 73,630 |
| **TOTAL** | **262,310** | **1,970** | **264,280** | **261,306** |

The Treasurer and the Clerk to the Board do not receive remuneration from the Valuation Board. The duties of the posts are covered by the post holders' substantive posts in Moray Council.

**Pension Benefits**

Pension benefits for councillors and local government employees are provided through the North East Scotland Pension Fund, a Local Government Pension Scheme.

Councillors' pension benefits are based on career average pay. For benefits earned up to 31 March 2017, 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 in the month in which their membership of the scheme ends. The total of the revalued pay is then divided by the year of membership to calculate the career average pay. This is the value used to calculate the pension benefits.

The Board would pay a contribution to the Pension Fund for the Convener and Depute Convener's pensions if they are members of the scheme and this is based on a percentage of the cost of the Special Responsibility Allowance. The Board paid a proportion of the Special Responsibility Allowance for the Convener, but as he is not a member of the Local Government Pension Scheme, no pension contributions were payable.

**REMUNERATION REPORT (continued)**

**Pension Benefits (continued)**

For local government employees, up until 31 March 2015 pension benefits accrued are based on final salary. 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. Benefits earned from 1 April 2015 are based on 'career average'. The scheme's normal retirement age for both councillors and employees is 65 for benefits up to 31 March 2015 and the State Pension Age for benefits built up after 1 April 2015.

In addition, 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 table of allocation of rates for 2016/17 and 2015/16 is shown below. The member contribution rates for 2016/17 are the same as for 2015/16, and the earnings bands also remain unchanged.

| **Whole time earnings (2015/16 in brackets)** | **Contribution rate 2016/17** | **Contribution rate 2015/16** |
|---|---|---|
| On earnings up to and including £20,500 (£20,500) | 5.50% | 5.50% |
| On earnings above £20,500 and up to £25,000 (£20,500 and up to £25,000) | 7.25% | 7.25% |
| On earnings above £25,000 and up to £34,400 (£25,000 and up to £34,400) | 8.50% | 8.50% |
| On earnings above £34,400 and up to £45,800 (£34,400 and up to £45,800) | 9.50% | 9.50% |
| On earnings above £45,800 ( £45,800) | 12.00% | 12.00% |

If a person works part-time, their contribution rate 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) some pension for a lump sum up to the limit set by the Finance Act 2004. Up until 31 March 2015, the accrual rate guarantees a pension based on 1/60$^{th}$ of the final pensionable salary and years of pensionable service. (Prior to 2009 the accrual rate guaranteed a pension based on 1/80$^{th}$ and a lump sum based on 3/80$^{th}$ of the final pensionable salary and years of pensionable service). From 1 April 2015, the accrual rate guarantees a pension of 1/49$^{th}$ of pensionable pay for each year. At the end of each year the benefits are revalued and increased by inflation.

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.

**REMUNERATION REPORT (continued)**

**Pension Benefits (continued)**

**Senior Employees (Table 4)**

The pension entitlements of Senior Employees for the year to 31 March are shown in the table below, together with the contribution made by the Board to each Senior Employees' pension during the year.

| | In-year pension contributions | | | Accrued pension benefits | |
|---|---|---|---|---|---|
| | For the year to 31 March 2017 | For the year to 31 March 2016 | | As at 31 March 2017 | Difference from March 2016 |
| | £ | £ | | £ | £ |
| Ian Milton<br>Assessor and ERO | 20,429 | 20,226 | Pension<br>Lump Sum | 47,618<br>98,080 | 2,632<br>971 |
| Gavin Oag<br>Depute Assessor & ERO | 15,925 | 15,767 | Pension<br>Lump Sum | 31,513<br>59,637 | 1,996<br>591 |
| Mark Adam<br>Depute Assessor & ERO | 14,190 | 14,050 | Pension<br>Lump Sum | 31,873<br>64,518 | 1,816<br>639 |
| **Total** | **50,544** | **50,043** | | **333,239** | **8,645** |

All senior employees shown in the tables above are members of the North East Scotland Pension Fund. The pension figures shown relate to the benefits that the person has accrued as a consequence of their total local government service and not just their current appointment.

**REMUNERATION REPORT (continued)**

## General Disclosure by Pay Band

The Regulations require information to be provided for the number of persons whose remuneration is £50,000 or more. This information is disclosed in bands of £5,000 and is shown on Table 5 below.

## General Disclosure by Pay Band (Table 5)

The Table includes the remuneration of the senior employees detailed in Table 3.

| Remuneration Band | Number of Employees | |
|---|---|---|
| | **2016-17** | **2015-16** |
| £50,000 - £54,999 | 2 | 6 |
| £55,000 - £59,999 | 2 | - |
| £70,000 - £74,999 | 1 | 1 |
| £80,000 - £84,999 | 1 | 1 |
| £105,000 - £109,999 | 1 | 1 |
| **Total** | **7** | **9** |

Councillor to be appointed
Convener

Ian H Milton BSc(Hons) FRICS IRRV AEA(Cert-Scotland)
Assessor & Electoral Registration Officer

**COMPREHENSIVE INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2017**

This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the expenditure to be funded from requisitions. The Board raises requisitions from the three constituent Local Authorities in accordance with statute and this is different from the accounting cost. The effect on the General Fund is shown in the Movement in Reserves Statement and Note 7 Expenditure and Funding Analysis and Adjustments between Accounting Basis and Funding Basis under Regulations.

| 31 March 2016 Restated | | | | | 31 March 2017 | | |
|---|---|---|---|---|---|---|---|
| £000 | £000 | £000 | | | £000 | £000 | £000 |
| Expenditure | Income | Net | | Note | Expenditure | Income | Net |
| 4,381 | (338) | 4,043 | Rating and Council Tax Valuation and Electoral Registration | | 4,342 | (237) | 4,105 |
| **4,381** | **(338)** | **4,043** | **Cost Of Services** | | **4,342** | **(237)** | **4,105** |
| 145 | (3) | 142 | Financing and Investment Income and Expenditure | 9 | 128 | (2) | 126 |
| | | (3,789) | Requisitions and Non-Specific Grant Income | | | | (3,970) |
| | | **396** | **Deficit on Provision of Services** | 8 | | | **261** |
| | | (1,128) | Remeasurement of the Net Defined Benefit Liability | 23 | | | 2,437 |
| | | **(1,128)** | **Other Comprehensive Income and Expenditure** | | | | **2,437** |
| | | **(732)** | **Total Comprehensive Income and Expenditure** | | | | **2,698** |

## MOVEMENT IN RESERVES STATEMENT FOR THE YEAR ENDED 31 MARCH 2017

This Statement shows the movement in the year on the different reserves held by the Board, analysed into 'usable reserves' and ‘unusable reserves’. Usable reserves are those that can be applied to fund expenditure subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the capital fund that may only be used to fund capital expenditure or repay debt). Unusable reserves include 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.

The Statement shows how the movements in the year of the Board’s reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable against requisitions for the year. The Net Increase/(Decrease) line shows the statutory General Fund movements in the year.

Details are tabulated for 2015/16 for comparative purposes.

| | General Fund<br>**£000** | Capital Fund<br>**£000** | Total Usable Reserves<br>**£000** | Unusable Reserves (Note 17)<br>**£000** | Total Board Reserves<br>**£000** |
|---|---|---|---|---|---|
| **Balance at 31 March 2015** | **240** | **73** | **313** | **(4,111)** | **(3,798)** |
| Total Comprehensive Income and Expenditure | (396) | 0 | (396) | 1,128 | 732 |
| Adjustments between accounting basis & funding basis under regulations | 363 | 0 | 363 | (363) | 0 |
| **Increase / (Decrease) in Year** | **(33)** | **0** | **(33)** | **765** | **732** |
| **Balance at 31 March 2016** | **207** | **73** | **280** | **(3,346)** | **(3,066)** |

**MOVEMENT IN RESERVES STATEMENT FOR THE YEAR ENDED 31 MARCH 2017 (continued)**

| | General Fund £000 | Capital Fund £000 | Total Usable Reserves £000 | Unusable Reserves (Note 17) £000 | Total Board Reserves £000 |
|---|---|---|---|---|---|
| **Balance at 31 March 2016** | **207** | **73** | **280** | **(3,346)** | **(3,066)** |
| Total Comprehensive Income and Expenditure | (261) | - | (261) | (2,437) | (2,698) |
| Adjustments between accounting basis & funding basis under regulations | 263 | - | 263 | (263) | - |
| **Increase / (Decrease) in Year** | **2** | **0** | **2** | **(2,700)** | **(2,698)** |
| **Balance at 31 March 2017** | **209** | **73** | **282** | **(6,046)** | **(5,764)** |

**BALANCE SHEET AS AT 31 MARCH 2017**

The Balance Sheet shows the value as at the Balance Sheet date of assets and liabilities recognised by the Board. The net assets of the Board (assets less liabilities) are matched by the reserves held by the Board.
Reserves are reported in two categories. The first category of reserves is usable reserves, i.e. those reserves that the Board may use to provide services. The second category of reserves is unusable reserves, i.e. those that the Board is not able to use to provide services.

| 31 March 2016 £000 | | Note | 31 March 2017 £000 |
|---|---|---|---|
| 670 | Property, Plant & Equipment | 10 | 649 |
| 4 | Long Term Debtors | 11 | 1 |
| **674** | **Long Term Assets** | | **650** |
| 188 | Short Term Debtors | 12 | 25 |
| 482 | Cash and Cash Equivalents | 13 | 699 |
| **670** | **Current Assets** | | **724** |
| (499) | Short Term Creditors | 14 | (513) |
| **(499)** | **Current Liabilities** | | **(513)** |
| (3,911) | Other Long Term Liabilities | 23 | (6,625) |
| **(3,911)** | **Long Term Liabilities** | | **(6,625)** |
| **(3,066)** | **Net Liabilities** | | **(5,764)** |
| | Usable reserves | 16 | |
| 207 | General Fund | | 209 |
| 73 | Capital Fund | | 73 |
| **280** | **Total** | | **282** |
| | Unusable Reserves | 17 | |
| 226 | Revaluation Reserve | | 223 |
| 444 | Capital Adjustment Account | | 426 |
| (3,911) | Pensions Reserve | | (6,625) |
| (105) | Employee Statutory Adjustment Account | | (70) |
| **(3,346)** | **Total** | | **(6,046)** |
| **(3,066)** | **Total Reserves** | | **(5,764)** |

The notes on Pages 41 to 70 form part of the Financial Statements.

**Margaret Wilson, CPFA**
**Treasurer**
**31 May 2017**

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2017

The Cash Flow statement shows the changes in cash and cash equivalents of the Board during the financial year. The statement shows how the Board generates and uses cash and cash equivalents by classifying cash flows as; operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Board are funded by way of requisition and grant income or from the recipients of services provided by the Board. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Board's future service delivery, i.e. assets.

| 31 March 2016 £000 | | 31 March 2017 £000 |
|---|---|---|
| 396 | Net deficit on the provision of services | 261 |
| (283) | Adjust net deficit on the provision of services for non cash movements (Note 19) | (478) |
| 113 | Net cash flows from Operating Activities | (217) |
| 113 | Net (increase) in cash and cash equivalents | (217) |
| 595 | Cash and cash equivalents at the beginning of the financial year | 482 |
| 482 | Cash and cash equivalents at the end of the financial year | 699 |

## NOTES TO THE ACCOUNTS

### Note 1 Accounting Policies

### General Principles

The Annual Accounts summarise the Board's transactions for the 2016/17 financial year and its position at the year-end of 31 March 2017. The Board is required to prepare Annual Accounts by the Local Authority Accounts (Scotland) Regulations 2014, which section 12 of the Local Government in Scotland Act 2003 require 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 2016/17 and the Service Reporting Code of Practice 2016/17, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act. The principal accounting policies have been applied consistently throughout the year. The accounting convention adopted in the Annual Accounts is principally historical cost, modified by the revaluation of property, plant and equipment.

### Accruals and Income and Expenditure

Income and Expenditure activities are accounted for in the year in which they take place, not simply when cash payments are made or received.
Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where the debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

### Non Current Assets

### Property Plant and Equipment

**Recognition:** All expenditure on the acquisition, creation, enhancement or replacement of a part of an asset is capitalised providing the asset yields benefit for more than one year to the Board and the services it provides and the cost can be reliably measured.

Where a component is replaced or restored, the carrying amount of the old component is derecognised and the new component reflected in the carrying amount.

**Measurement:** New assets are measured at cost on an accruals basis and property is revalued at least every five years. Cost includes the original purchase of the asset and the costs attributable to bringing the assets to its working condition for its intended use.

Assets are measured at current value which is Existing Use Value for Land and Buildings and Depreciated Historic Cost for Equipment and Furniture which is used as a proxy for current value.

Revaluation gains are recognised in the Revaluation Reserve, unless the increase is reversing either a previous impairment loss or a previous revaluation loss charged to the Comprehensive Income and Expenditure Statement in which case the revaluation amount is used first to reverse the previous loss and any excess is treated as a revaluation gain and credited to the Revaluation Reserve.

Revaluation losses are recognised in the Revaluation Reserve up to the credit balance existing in respect of that asset and thereafter in the Comprehensive Income and Expenditure Statement.

Revaluation gains and losses charged to the Comprehensive Income and Expenditure Statement are not a charge to the General Fund and are transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

## NOTES TO THE ACCOUNTS (continued)

### Note 1 Accounting Policies (continued)

### Non Current Assets (continued)

### Property, Plant and Equipment (continued)

**Derecognition:** The carrying amount of an item of property, plant and equipment is derecognised when an asset is disposed of or when no future economic benefits or service potential are expected from its use. The value of the asset in the Balance Sheet and any receipt are written to the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal.

The gain or loss on disposal is not a charge against Requisitions, as the cost of non current assets is fully provided for under separate arrangements for Capital Financing. The carrying amount of the non current asset disposal is transferred to the Capital Adjustment Account and the disposal proceeds transferred to the Capital Fund and reported in the Movement in Reserves Statement.

**Depreciation:** Depreciation is provided for on all items of property, plant and equipment with a finite useful life by the systematic allocation of their depreciable amount over their useful lives. An exception is made for land where it can be demonstrated that it has an unlimited useful life. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. Depreciation is calculated using the straight-line method. In the year of acquisition, a full year's depreciation is provided for on all assets. In the year of disposal, no depreciation is charged. Depreciation rates are detailed in Note 10.

Depreciation charged in the Comprehensive Income and Expenditure Statement is not a charge to the General Fund and is transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

Revaluation gains are also depreciated, with an amount equal to the difference between the 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.

**Impairment:** Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired.
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); and
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to 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.

### Requisitions and Contributions

Requisitions and contributions relating to capital and revenue expenditure are accounted for on an accruals basis and recognised immediately in the Comprehensive Income and Expenditure Statement as income, except to the extent that the grant or contribution has a condition(s) (as opposed to restrictions) that the Board has not satisfied.

## Note 1 Accounting Policies (continued)

### Financial Assets and Liabilities

The Board's Financial Assets are Loans and Receivables which have fixed or determinable payments but are not quoted in an active market.

Most of the Board's loans and receivables (debtors) are for less than 12 months or are charged at a market rate of interest. They are initially measured at fair value and are carried at amortised cost, which equates to the actual cash value at 31 March 2017.

Elements of financial assets that are receivable within 12 months of the Balance Sheet date are included in either short-term investments or cash and cash equivalents dependent upon whether or not the asset satisfies the conditions of a cash or cash equivalent asset.

The Board's Liabilities are shown as Creditors in the Balance Sheet and are for less than 12 months. They are initially measured at fair value and are carried at amortised cost, which equates to the actual cash value at 31 March 2017.

### Cash and Cash Equivalents

The Board uses Moray Council's bank account for financial transactions and the balance is invested in the Council's Loans Fund. This balance is repayable on demand and therefore treated as a cash equivalent and is included in the Balance Sheet at amortised cost, which equates to the actual cash value at 31 March 2017.

### Employee Benefits

**Benefits Payable During Employment:** Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave for current employees and are recognised as an expense for services in the year in which employees render service to the Board. As the leave year runs from 1 January to 31 December, an accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is calculated at the wage and salary rates applicable in the following accounting year, being the year in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services so that holiday benefits are charged to revenue in the financial year in which the holiday absence is earned, but Statutory Regulations issued by the Scottish Government allow the Board to reverse out this amount through the Movement in Reserves Statement so that it does not impact on the General Fund.

**Termination Benefits**: Termination benefits are amounts payable as a result of a decision by the Board to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the relevant service line (or discontinued operations) in the Comprehensive Income and Expenditure Statement at the earlier of when the Board can no longer withdraw the offer of those benefits or when the Board recognises costs for a restructuring.

**NOTES TO THE ACCOUNTS (continued)**

**Note 1 Accounting Policies (continued)**

**Employee Benefits (continued)**

**Termination Benefits (continued)**

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Board 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.

**Post Employment Benefits:** The Board is a statutory body in the North East Scotland Pension Fund, a Local Government Pension Scheme administered by Aberdeen City Council, which provides employees with defined benefits related to pay and service.

Statutory provisions require the General Fund balance to be charged with the amount payable by the Board to the pension fund or directly to pensioners in the year, not the amount calculated, according to the relevant accounting standards. 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 any such amounts payable 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 are earned by employees.

The liabilities of the North East Scotland Pension Fund attributable to the Board 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 and employee turnover rates, etc. and projections of future earnings for current employees.

Liabilities are discounted to their value at current prices using a discount rate of 2.5% (based on long-term redemption yields available on AA rated corporate bonds of appropriate duration).

The assets of the North East Scotland Pension Fund attributable to the Board are included in the Balance Sheet at their fair value.

NOTES TO THE ACCOUNTS (continued)

## Note 1 Accounting Policies (continued)

### Going Concern

The Pension Fund overall liability demonstrates the Board's commitment to pay retirement benefits in the long term. As a consequence there is a significant impact on the net worth of the Board as recorded on the Balance Sheet, which shows a net liability. Statutory arrangements for the funding of the deficit mean that the financial position of the Board remains assured. On the basis of this funding arrangement, the Board considers it appropriate that the Annual Accounts should follow the going concern basis of accounting.

### 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 (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 Board's status as a multi-functional, democratic organisation.

Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and past service gains.

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.

### Value Added Tax

VAT is included in the Comprehensive Income and Expenditure Statement only to the extent that it is irrecoverable. The net amount due to or from HM Revenue and Customs in respect of VAT is included as part of debtors or creditors.

### Exceptional Items and Prior Period Adjustments

Exceptional items are those which are separately identified by virtue of their size or incidence to allow a full understanding of the performance of the Board.

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimate do not give rise to a prior period adjustment.

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 Board's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for prior years as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

## NOTES TO THE ACCOUNTS (continued)

### Note 1 Accounting Policies (continued)

**Events after the Reporting Period**

Events after the Balance Sheet date are those events, both favourable and unfavourable that occur between the end of the reporting period (the balance sheet date) and the date when the Annual Accounts are authorised for issue.

There are two types of events:

a) those that provide evidence of conditions that existed at the balance sheet date – the Annual Accounts are adjusted to reflect such events and
b) those that provide evidence of conditions that arose after the balance sheet date – the Annual accounts are not adjusted to reflect such events, but where non-adjusting events would have a material effect, 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 Annual Accounts.

**Leases**

Operating lease payments are reflected under the relevant expenditure heading in the Comprehensive Income and Expenditure Statement, as the rentals become payable. The Board does not have any finance leases.

**Reserves**

The Board sets aside specific amounts as reserves for future policy purposes. 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 or 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 requisitions for the expenditure. Certain reserves are kept to manage the accounting processes for non-current assets, retirement and employee benefits and do not represent usable resources for the Board – these reserves are explained in the relevant policies.

**Usable Reserves**

**General Fund:** The creation of a General Fund was agreed by the Board at its meeting on 28 January 2011. This was introduced to provide the Assessor with some flexibility to investigate any spend to save projects which would require one-off expenditure in order to deliver future budget savings. The reserve will also act as a contingency for any unexpected costs in future years. Transfers are restricted to 3% of revenue budget in any one year subject to the reserve having a cumulative balance not exceeding 5% of revenue budget.

## Note 1 Accounting Policies (continued)

### Usable Reserves (continued)

**Capital Fund:** Under the terms of Schedule 3 to the Local Government (Scotland) Act 1975, the Board has established a Capital Fund and has paid into that fund the receipt in respect of the Board's share from the sale of Woodhill House. Interest earned on the Capital Fund balance is added to the accumulated balance each year.

### Unusable Reserves

The **Capital Adjustment Account** was introduced on 1 April 2007 and reflects the difference between the cost of non current assets consumed and the capital financing set aside to pay for them.

The **Revaluation Reserve** was introduced on 1 April 2007 and reflects the difference between depreciated historical cost and carrying value of non current assets.

The **Pensions Reserve** was introduced on 1 April 2003 and reflects the future requirement to meet pension costs.

The **Employee Statutory Adjustment Account** was introduced on 1 April 2009 to reflect the cost of holiday entitlements and other leave earned by employees but not taken before the year-end which employees can carry forward into the next financial year, as explained more fully in the Accounting Policy on Employee Benefits on page 43.

## Note 2 Accounting Standards That Have Been Issued But Have Not Yet Been Adopted

The Code requires the Board to identify any accounting standards that have been issued but have yet to be adopted and could have a material impact on the accounts.

New or amended standards within the 2017/18 Code relate to the disclosure requirements of defined benefit pension funds. The Board participates in the North East Scotland Local Government Pension Scheme, but as the scheme is administered by Aberdeen City Council, these standards will not apply to the Board.

There is no impact on the 2016/17 Financial Statements.

## Note 3 Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 1, the Treasurer has had to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in the Annual Accounts are:

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

## Note 4 Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Annual Accounts contains estimated figures that are based on assumptions made by the Board about the future or 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 Board's Balance Sheet at 31 March 2017 for which there is significant risk of material adjustment in the forthcoming financial year are as follows:

| Item | Uncertainties | Effect if Actual Results Differ From Assumptions |
|---|---|---|
| Pension 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. | The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £0.579m. |

## NOTES TO THE ACCOUNTS (continued)

### Note 5 Material Items of Income and Expenditure

Where material items of income and expenditure are not disclosed on the face of the Comprehensive Income and Expenditure Statement, the Code requires that the nature and amount of these items are disclosed in a note to the accounts. During 2016/17 the following items are regarded as material:

| Nature | £000 |
|---|---|
| Grant income for Individual Electoral Registration (IER) | 230 |
| | 230 |

The grant received for Individual Electoral Registration (IER) is intended to fund the additional costs incurred by the Board.

### Note 6 Events After The Reporting Period

The unaudited Annual Accounts were issued by Margaret Wilson, Treasurer, on 31 May 2017. Any events that would affect the Balance Sheet at 31 March 2017 have been considered up to this date.

## NOTES TO THE ACCOUNTS (continued)

### Note 7 Expenditure and Funding Analysis and Adjustments between Accounting Basis and Funding Basis under Regulations

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (requisitions and government grants) by the Board in comparison with those resources consumed by the Board in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making.

Income and Expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

| 31 March 2016 | | | | 31 March 2017 | | |
|---|---|---|---|---|---|---|
| **Net Expenditure chargeable to General Fund £000** | **Adjustments between Funding and Accounting Basis £000** | **Net Expenditure in the Comprehensive Income and Expenditure Statement £000** | | **Net Expenditure chargeable to General Fund £000** | **Adjustments between Funding and Accounting Basis £000** | **Net Expenditure in the Comprehensive Income and Expenditure Statement £000** |
| 3,680 | 363 | 4,043 | Rating and CT valuation & Electoral Registration | 3,842 | 263 | 4,105 |
| 3,680 | 363 | 4,043 | Net Cost of Services | 3,842 | 263 | 4,105 |
| (3,647) | - | (3,647) | Other Income and Expenditure | (3,844) | - | (3,844) |
| 33 | 363 | 396 | (Surplus) or Deficit | (2) | 263 | 261 |
| (240) | | | Opening Balance | (207) | | |
| 33 | | | (Surplus) or Deficit | (2) | | |
| (207) | | | Closing Balance | (209) | | |

## NOTES TO THE ACCOUNTS (continued)

### Note 7 Expenditure and Funding Analysis and Adjustments between Accounting Basis and Funding Basis under Regulations (continued)

### Adjustments between the Funding and Accounting Basis

**2015/16**

| | Adjustment for Capital Purposes £000 | Net Change for Pensions Adjustments £000 | Other Differences £000 | Total Adjustments £000 |
|---|---|---|---|---|
| Rating and CT valuation & Electoral Registration | 35 | 332 | (4) | 363 |
| Net Cost of Services | 35 | 332 | (4) | 363 |
| Other Income and Expenditure | - | - | - | - |
| Difference between the General Fund Surplus and the Comprehensive Income and Expenditure Statement (Surplus) or Deficit | 35 | 332 | (4) | 363 |

**2016/17**

| | Adjustment for Capital Purposes £000 | Net Change for Pensions Adjustments £000 | Other Differences £000 | Total Adjustments £000 |
|---|---|---|---|---|
| Rating and CT valuation & Electoral Registration | 21 | 277 | (35) | 263 |
| Net Cost of Services | 21 | 277 | (35) | 263 |
| Other Income and Expenditure | - | - | - | - |
| Difference between the General Fund Surplus and the Comprehensive Income and Expenditure Statement (Surplus) or Deficit | 21 | 277 | (35) | 263 |

## Note 7 Expenditure and Funding Analysis and Adjustments between Accounting Basis and Funding Basis under Regulations (continued)

**a) Adjustments for Capital Purposes**
This column adds in depreciation and impairment and revaluation gains and losses in the services line.

**b) Net Change for the Pensions Adjustments**
This column reflects the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related income and expenditure.

For the service this reflects the removal of the employer pension contributions made by the Board as allowed by statute and the replacement with current service costs and past service costs.

**c) Other Differences**
This column adjusts for differences between the amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable recognised under statute.

For the service this reconciles the impact of accruals for accumulating compensated absences e.g. holiday pay as required by IAS19 Employee Benefits, to the salaries actually payable in the financial year in accordance with statute.

## NOTES TO THE ACCOUNTS (continued)

### Note 8 Expenditure and Income Analysed by Nature

The Board's expenditure and income is analysed as follows:

**Expenditure and Income**

| | 2015/16 £000 | 2016/17 £000 |
|---|---|---|
| | Rating, Council Tax Valuation and Electoral Registration | Rating, Council Tax Valuation and Electoral Registration |
| Employee benefit expenses | 3,186 | 3,250 |
| Other service expenses | 1,105 | 1,016 |
| Support service recharges | 55 | 55 |
| Depreciation, amortisation and impairment | 35 | 21 |
| Interest payments | 145 | 128 |
| **Total Expenditure** | **4,526** | **4,470** |
| Fees, charges and other service income | (3,794) | (3,977) |
| Government grants and contributions | (333) | (230) |
| Interest and investment income | (3) | (2) |
| **Total Income** | **(4,130)** | **(4,209)** |
| **(Surplus) or deficit on the provision of services** | **396** | **261** |

### Note 9 Financing and Investment Income and Expenditure

| | 2015/16 £000 | 2016/17 £000 |
|---|---|---|
| Pensions interest cost and expected return on pensions assets | 145 | 128 |
| Interest receivable and similar income | (3) | (2) |
| | 142 | 126 |

**NOTES TO THE ACCOUNTS (continued)**

**Note 10 Property, Plant and Equipment**

| | Other Land and Buildings | Vehicles, Plant, Furniture & Equipment | Total Property, Plant and Equipment |
|---|---|---|---|
| | £000 | £000 | £000 |
| **Cost or valuation** | | | |
| At 1 April 2015 | 696 | 210 | 906 |
| **At 31 March 2016** | **696** | **210** | **906** |
| | | | |
| **Accumulated Depreciation and Impairment** | | | |
| At 1 April 2015 | 28 | 173 | 201 |
| Depreciation charge | 14 | 21 | 35 |
| **At 31 March 2016** | **42** | **194** | **236** |
| | | | |
| **Net Book Value** | | | |
| At 31 March 2015 | 668 | 37 | 705 |
| At 31 March 2016 | 654 | 16 | 670 |

| | | | |
|---|---|---|---|
| **Cost or valuation** | | | |
| At 1 April 2016 | 696 | 210 | 906 |
| **At 31 March 2017** | **696** | **210** | **906** |
| | | | |
| **Accumulated Depreciation and Impairment** | | | |
| At 1 April 2016 | 42 | 194 | 236 |
| Depreciation charge | 13 | 8 | 21 |
| **At 31 March 2017** | **55** | **202** | **257** |
| | | | |
| **Net Book Value** | | | |
| At 31 March 2016 | 654 | 16 | 670 |
| At 31 March 2017 | 641 | 8 | 649 |

## NOTES TO THE ACCOUNTS (continued)

### Note 10 Property, Plant and Equipment (continued)

**Depreciation**

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

Other Land & Buildings - 35-60 years, land is not depreciated
Vehicles, Plant, Furniture & Equipment - 10 years

**Revaluations**

The Board carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at current value is revalued at least every five years. The last revaluation of Land and Buildings was done with effect from on 1 April 2013 and the next revaluation is scheduled during 2018/19. All valuations were carried out by Moray Council's Head of Estates in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are based on depreciated historic cost as a proxy for current values.

**Capital Commitments**

At 31 March 2017 the Board had no capital commitments for 2017/18 and future years. (£nil at 31 March 2016).

### Note 11 Long Term Debtors

| | 2015/16<br>£000 | 2016/17<br>£000 |
|---|---|---|
| Car Loans | 4 | 1 |

### Note 12 Short Term Debtors

| | 2015/16<br>£000 | 2016/17<br>£000 |
|---|---|---|
| Central Government bodies | 97 | - |
| Other Local Authorities | 61 | - |
| Other Entities and Individuals | 30 | 25 |
| | 188 | 25 |

**NOTES TO THE ACCOUNTS (continued)**

**Note 13 Cash and Cash Equivalents**

The balance of Cash and Cash Equivalents comprises:

| | 2015/16<br>£000 | 2016/17<br>£000 |
|---|---|---|
| Temporary Investment in the Moray Council Loans Fund | 482 | 699 |

**Note 14 Short Term Creditors**

| | 2015/16<br>£000 | 2016/17<br>£000 |
|---|---|---|
| Central Government bodies | 57 | 61 |
| Other Local Authorities | 303 | 317 |
| Other Entities and Individuals | 139 | 135 |
| | 499 | 513 |

**Note 15 Financial Instruments**

Financial liabilities and financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. In the annual accounts this equates to the invoiced amounts or cash value. These amounts are also the fair values of these assets.

The Board has no material exposure to any of the following financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Board.
- Liquidity risk – the possibility that the Board might not have funds available to meet its commitments to make payments.
- Market risk – the possibility that financial loss might arise for the Board as a result of changes in such measures as interest rates and stock market movements.

:

## NOTES TO THE ACCOUNTS (continued)

### Note 15 Financial Instruments (continued)

The Financial Instruments disclosed in the Balance Sheet are made up of the following categories:

| | Long Term | | Short Term | |
|---|---|---|---|---|
| | **2015/16** | **2016/17** | **2015/16** | **2016/17** |
| | **£000** | **£000** | **£000** | **£000** |
| **Debtors** | | | | |
| Loans & Receivables | 4 | 1 | 6 | 2 |
| Financial Assets carried at contract amounts | - | | 182 | 23 |
| **Total Debtors** | **4** | **1** | **188** | **25** |
| **Creditors** | | | | |
| Financial Liabilities carried at contract amounts | | | 499 | 513 |
| **Cash and Cash Equivalents** | | | | |
| Cash Equivalent carried at contract amounts | | | 482 | 699 |

### Note 16 Usable Reserves

| | 2015/16 | 2016/17 |
|---|---|---|
| **Usable Reserves** | **£000** | **£000** |
| General Fund | 207 | 209 |
| Capital Fund | 73 | 73 |
| **Total Usable Reserves** | **280** | **282** |

Movements in the Board's usable reserves are detailed in the Movement in Reserves Statement on page 35 and also in Note 7 Expenditure and Funding Analysis and Adjustments between Accounting Basis and Funding Basis under Regulations on page 50.

## NOTES TO THE ACCOUNTS (continued)

### Note 17 Unusable Reserves

| | 2015/16 £000 | 2016/17 £000 |
|---|---|---|
| Revaluation Reserve | 226 | 223 |
| Capital Adjustment Account | 444 | 426 |
| Pensions Reserve | (3,911) | (6,625) |
| Employee Statutory Adjustment Account | (105) | (70) |
| | (3,346) | (6,046) |

### Revaluation Reserve

The Revaluation Reserve contains gains made by the Board 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 the 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.

| | 2015/16 £000 | 2016/17 £000 |
|---|---|---|
| **Balance at 1 April** | 231 | 226 |
| Difference between fair value depreciation and historical cost depreciation written off to the Capital Adjustment Account | (5) | (3) |
| **Balance at 31 March** | 226 | 223 |

**NOTES TO THE ACCOUNTS (continued)**

**Note 17 Unusable Reserves (continued)**

**Capital Adjustment Account**

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of 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 are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to an historical cost basis). The Account is credited with the amounts set aside by the Board as finance for the costs of acquisition, construction and enhancement.

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

Note 7 provides details of the source of all the transactions posted to the Account, excluding those involving the Revaluation Reserve.

| | 2015/16 £000 | 2016/17 £000 |
|---|---|---|
| **Balance at 1 April** | 474 | 444 |
| Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement | | |
| Charges for depreciation and impairment of non-current assets | (35) | (21) |
| Adjusting amounts written out of the Revaluation Reserve | 5 | 3 |
| Net written out amount of the cost of non-current assets consumed in the year | (30) | (18) |
| **Balance 31 March** | 444 | 426 |

## NOTES TO THE ACCOUNTS (continued)

### Note 17 Unusable Reserves (continued)

### Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Board accounts 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 Board makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. 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 Board has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

| | 2015/16<br>£000 | 2016/17<br>£000 |
|---|---|---|
| **Balance at 1 April** | (4,707) | (3,911) |
| Remeasurements of the net defined benefit liability/asset | 1,128 | (2,437) |
| Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement | (781) | (747) |
| Employer's pensions contributions and direct payments to pensioners payable in the year | 449 | 470 |
| **Balance at 31 March** | (3,911) | (6,625) |

## NOTES TO THE ACCOUNTS (continued)

### Note 17 Unusable Reserves (continued)

### Employee Statutory Adjustment Account

The Employee Statutory Adjustment 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.

| | 2015/16<br>£000 | 2016/17<br>£000 |
|---|---|---|
| **Balance at 1 April** | (109) | (105) |
| Settlement or cancellation of accrual made at the end of the preceding year | 109 | 105 |
| Amounts accrued at the end of the current year | (105) | (70) |
| **Balance at 31 March** | (105) | (70) |

### Note 18 External Audit Costs

The Board has incurred the following costs in relation to the audit of the Annual Accounts.

| | 2015/16<br>£000 | 2016/17<br>£000 |
|---|---|---|
| Fees payable in respect of external audit services carried out by the appointed Auditor for the year | 8 | 7 |

### Note 19 Cashflow – Analysis of Net Deficit on the provision of services for non cash movements

| | 2015/16<br>£000 | 2016/17<br>£000 |
|---|---|---|
| Depreciation/Impairment charges | (35) | (21) |
| Pension Liability | (332) | (270) |
| Decrease in Debtors | (202) | (166) |
| Decrease in Creditors | 286 | (14) |
| Total | (283) | (471) |

## NOTES TO THE ACCOUNTS (continued)

### Note 20 Requisition and Grant Income

The Board credited the following requisitions to the Comprehensive Income and Expenditure Statement. The requisitions are based on population.

| | 2015/16<br>£000 | 2016/17<br>£000 |
|---|---|---|
| Credited to Requisitions and Non Specific Grant Income: | | |
| Requisition from Aberdeen City Council | 1,572 | 1,644 |
| Requisition from Aberdeenshire Council | 1,785 | 1,871 |
| Requisition from Moray Council | 654 | 681 |
| Total | 4,011 | 4,196 |
| Returned to constituent authorities: | | |
| Aberdeen City Council | 87 | 88 |
| Aberdeenshire Council | 99 | 101 |
| Moray Council | 36 | 37 |
| Total | 222 | 226 |

### Note 21 Leases

**Board as Lessee**

**Operating Leases**

The Board pays Aberdeenshire Council for the rental of their offices within Woodhill House under the terms of operating leases. The amount paid under these terms in 2016/17 was £0.130m (£0.181m in 2015/16). The annual lease payment for the offices has been reduced to £0.125m per annum with effect from 2017/18. The current lease expires on 31 March 2022.

The future minimum lease payments due under non-cancellable leases in future years are:

| | 2015/16<br>£000 | 2016/17<br>£000 |
|---|---|---|
| Not later than one year | 130 | 125 |
| Later than one year and not later than five years | - | 500 |
| | 130 | 625 |

## NOTES TO THE ACCOUNTS (continued)

### Note 22 Related Parties

The Board is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the Board or to be controlled or influenced by the Board. Disclosure of these transactions allows readers to assess the extent to which the Board 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 Board.

### Constituent Authorities

The constituent authorities have the potential to control or influence the Board as they provide the majority of the Board's funding. Details are shown in Note 20. The Board also made payments to the constituent authorities in the normal course of business. The amounts are detailed below:

| | 2015/16 £000 | 2016/17 £000 |
|---|---|---|
| Aberdeen City Council | 1 | 2 |
| Aberdeenshire Council | 367 | 265 |
| Moray Council | 87 | 3 |

The amounts owed to the constituent authorities for requisitions and normal business activities at 31 March were:

| | 2015/16 £000 | 2016/17 £000 |
|---|---|---|
| Aberdeen City Council | 87 | 89 |
| Aberdeenshire Council | 130 | 141 |
| Moray Council | 36 | 37 |

### Members

Members of the Board have direct control over the Board's financial and operating policies. The total of members' allowances paid is shown in the Remuneration Report.

**NOTES TO THE ACCOUNTS (continued)**

**Note 23 Defined Benefit Pension Scheme**

Participation in Pension Scheme

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

The Board participates in the North East Scotland Pension Fund, a Local Government Pension Scheme, which is administered by Aberdeen City Council. Up until 31 March 2015 pension benefits accrued are based on final salary. 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. Benefits earned from 1 April 2015 are based on career average salary. The Scheme is a funded defined benefit scheme, meaning that the Board and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets over a period of time.

The North East Scotland Pension Fund is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the Pensions Committee. The Committee is comprised of nine elected members of Aberdeen City Council. Policy is determined in accordance with the Pensions Fund Regulations. Following the introduction of The Local Government Pension Scheme (Governance) (Scotland) Regulations 2015, the Pension Fund took the opportunity to review its governance arrangements. To comply with these regulations, the Pension Fund implemented a Pension Board with representation from Unions and Employers from the 1 April 2015. With the introduction of the Pension Board, the Joint Investment Advisory Committee was disbanded.

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

Transactions relating to Post-employment Benefits

In relation to the North East Scotland Pension Fund, the Board recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required to be made against requisitions is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out in the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement during the year:

**Note 23 Defined Benefit Pension Scheme (continued)**

| **COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT** | **2015/16** | **2016/17** |
|---|---|---|
| | **£000** | **£000** |
| **Cost of Services:** | | |
| Current Service Cost and administration expenses | 636 | 619 |
| **Financing and Investment Income and Expenditure:** | | |
| Net Interest Expense | 145 | 128 |
| Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services | 781 | 747 |
| **Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement.** | | |
| Remeasurement of the Net Defined Benefit Liability comprising: | | |
| Expected return on pension fund assets | 294 | (4,414) |
| Actuarial (gain)/loss on financial assumptions | (1,422) | 6,851 |
| **Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement.** | (1,128) | 2,437 |
| | | |
| **MOVEMENT IN RESERVES STATEMENT** | | |
| Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code | (781) | (747) |
| **Actual amount charged against requisitions for pensions in the year** | 449 | 470 |

NOTES TO THE ACCOUNTS (continued)

**Note 23 Defined Benefit Pension Scheme (continued)**

Pensions Assets and Liabilities Recognised in the Balance Sheet

The change in the net pensions liability is analysed into the following components:

Current Service Cost: The increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.

Net Interest on the Net Defined Benefit Liability: The change during the year in the net defined benefit liability that arises from the passage of time – charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. It is the difference between the interest (increase) in the value of the liabilities as the benefits are one year closer to being paid and the interest on pension assets based on assets held at the start of the year. The calculation is based on the discount rate in force at the beginning of the year.

Remeasurements: This comprises the Return on Plan Assets (excluding amounts included in the Net Interest on the Net Defined Benefit Liability) and Actuarial Gains and Losses which are 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 as Other Comprehensive Income and Expenditure.

Contributions Paid to the Pension Fund: Cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

The amount included in the Balance Sheet arising from the Board's obligation in respect of its defined benefit plan is as follows:

| | 31 March 2016 | 31 March 2017 |
|---|---|---|
| | £000 | £000 |
| Present value of the defined benefit obligation | (28,911) | (36,477) |
| Fair value of plan assets | 25,000 | 29,852 |
| **Net liability arising from defined benefit obligation** | **(3,911)** | **(6,625)** |

**NOTES TO THE ACCOUNTS (continued)**

**Note 23 Defined Benefit Pension Scheme (continued)**

The reconciliation of the Board's share of the present value of the North East Scotland Pension Fund's defined benefit liability is as follows:

| | 2016 | 2017 |
|---|---|---|
| | £000 | £000 |
| **1 April** | (29,409) | (28,911) |
| Current Service Cost | (627) | (610) |
| Interest on pension liabilities | (932) | (996) |
| Remeasurements: | | |
| Gain/(Loss) on financial assumptions | 1,422 | (6,851) |
| Contributions by scheme participants | (150) | (159) |
| Benefits Paid | 785 | 1,050 |
| **31 March** | **(28,911)** | **(36,477)** |

The reconciliation of the movements in the Board's share of the fair value of the North East Pension Fund's assets is as follows:

| | 2016 | 2017 |
|---|---|---|
| | £000 | £000 |
| **1 April** | 24,702 | 25,000 |
| Interest on plan assets | 787 | 868 |
| Remeasurements (assets) | (294) | 4,414 |
| Administration expenses | (9) | (9) |
| Employer Contributions | 449 | 470 |
| Contributions by scheme participants | 150 | 159 |
| Benefits Paid | (785) | (1,050) |
| **31 March** | **25,000** | **29,852** |

The Board's share of the Pension Fund's assets is:

| | | | 31 March 2016 |
|---|---|---|---|
| | Quoted Prices in Active Markets | Prices not Quoted in Active Markets | Totals |
| | £000 | £000 | £000 |
| U.K. Equities | 8,575 | - | 8,575 |
| Overseas Equities | 9,750 | - | 9,750 |
| U.K Government Bonds | 1,600 | - | 1,600 |
| Other Government Bonds | 1,150 | - | 1,150 |
| Other U.K. Bonds | 100 | - | 100 |
| Other non U.K. Bonds | 475 | - | 475 |
| Property | - | 2,125 | 2,125 |
| Private Equity | - | 975 | 975 |
| Global Infrastructure | - | 75 | 75 |
| Cash Instruments | - | 175 | 175 |
| **Total Assets** | **21,650** | **3,350** | **25,000** |

**NOTES TO THE ACCOUNTS (continued)**

**Note 23 Defined Benefit Pension Scheme (continued)**

| | | | 31 March 2017 |
|---|---|---|---|
| | Quoted Prices in Active Markets | Prices not Quoted in Active Markets | Totals |
| | £000 | £000 | £000 |
| U.K. Equities | 10,282 | | 10,282 |
| Overseas Equities | 10,024 | | 10,024 |
| U.K Government Bonds | 2,329 | | 2,329 |
| Other Government Bonds | 985 | | 985 |
| Other U.K. Bonds | 90 | | 90 |
| Other non U.K. Bonds | 388 | | 388 |
| Property | | 2,090 | 2,090 |
| Private Equity | | 1,493 | 1,493 |
| Global Infrastructure | | 81 | 81 |
| Cash Instruments | | 478 | 478 |
| Diversified Growth Funds | | 1,612 | 1,612 |
| **Total Assets** | **24,098** | **5,754** | **29,852** |

Basis for Estimating Assets and Liabilities

The most recent valuation was carried out as at 31 March 2014 and has been updated by Mercer Limited, independent actuaries to the North East Scotland Pension Fund, in order to assess the liabilities of the Fund as at 31 March 2017. Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc.

The principal assumptions used by the actuary have been:

| | 31 March 2016 | 31 March 2017 |
|---|---|---|
| Financial assumptions: | | |
| Discount rate | 3.50% | 2.50% |
| Rate of increase in salaries | 3.50% | 3.80% |
| Rate of increase in pensions | 2.00% | 2.30% |
| Rate of CPI inflation | 2.00% | 2.30% |
| Mortality assumptions: | | |
| Longevity at 65 for current pensioners: | | |
| Men | 22.2 | 22.3 |
| Women | 24.8 | 24.9 |
| Longevity at 65 for future pensioners: | | |
| Men | 24.4 | 24.5 |
| Women | 27.6 | 27.8 |

**NOTES TO THE ACCOUNTS (continued)**

**Note 23 Defined Benefit Pension Scheme (continued)**

Sensitivity Analysis

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table on the previous page. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period, and assume for each change that the assumption analysed changes while all the other assumptions remain constant. The assumption in longevity, for example, assumes that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

The effects of a 0.1% increase/decrease in the rate for discounting scheme liabilities, the rate of inflation, and the rate of increase in salaries and a 1 year increase/decrease in life expectancy are shown in the table below:

Sensitivity Analysis as at 31 March 2017

| | **Central position** | **+ 0.1% p.a. discount rate** | **+ 0.1% p.a. inflation** | **+ 0.1% p.a. pay growth** | **+1 year increase in life expectancy** |
|---|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** | **£000** |
| Liabilities | 36,477 | 35,898 | 37,066 | 36,657 | 37,194 |
| Assets | (29,852) | (29,852) | (29,852) | (29,852) | (29,852) |
| Fund Deficit | 6,625 | 6,046 | 7,214 | 6,805 | 7,342 |

| | **Central position** | **- 0.1% p.a. discount rate** | **- 0.1% p.a. inflation** | **- 0.1% p.a. pay growth** | **-1 year increase in life expectancy** |
|---|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** | **£000** |
| Liabilities | 36,477 | 37,056 | 35,888 | 36,297 | 35,760 |
| Assets | (29,852) | (29,852) | (29,852) | (29,852) | (29,852) |
| Fund Deficit | 6,625 | 7,204 | 6,036 | 6,445 | 5,908 |

## NOTES TO THE ACCOUNTS (continued)

### Note 23 Defined Benefit Pension Scheme (continued)

Funding Strategy Statement (FSS)

The FSS sets out how the administering authority balances the potentially conflicting aims of affordability of contributions, transparency of process, stability of employers' contributions, and prudence in the funding basis.

The Pension Committee's long-term funding objective is to achieve and maintain assets equal to 100% of projected accrued liabilities, assessed on an ongoing basis. The current actuarial valuation of the Fund is effective as at 31 March 2014 and the results indicate that overall the assets represented 94% of projected accrued liabilities at the valuation date. Investments that would most closely match the pension liabilities would be gilts, predominantly index-linked, reflecting the nature of the Fund's liabilities. However, the Fund invests in other assets, in the expectation that these will provide higher returns albeit without any guarantee that higher returns will be achieved over any particular year. The benefit of higher investment return is that, over the long term, a higher level of funding should achieve lower employer contribution rates. However the additional investment returns from growth assets come with a price: greater volatility relative to the liabilities thus introducing risk. There is a trade-off between the benefits of additional investment return from greater exposure to growth assets and the greater predictability from having greater exposure to liability matching assets. The Pensions Committee has considered this trade-off and defined a strategic benchmark to achieve the long term investment returns required to achieve the Fund objective: equities 65%, property 10%, bonds 10%, alternative assets (including private equity) 15%. There is no strategic allocation to cash.

The asset proportions of the Fund at 31 March 2017, with March 2016 in brackets were: equities, including alternatives 78.7% (77.5%), bonds 12.7% (13.33%), property 7.0% (8.5%) and cash 1.6% (0.7%). This is based on the Board's proportion of assets held as supplied by the actuary, rather than the proportions held by the fund as a whole.

Impact on the Board's Cash Flows

The Fund aims to keep employers' contribution at as constant a rate as possible. The Pensions Committee has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over an average deficit recovery period of 19 years, with a maximum recovery period of 19 years. Funding levels are monitored on a quarterly basis. The next triennial valuation is as at 31 March 2017 and will be completed during 2017/18.

The projected employer contributions expected to be made to the Local Government Pension Scheme in the year to 31 March 2017 is £0.457m.

The weighted average duration of the liabilities for scheme members at the 31 March 2014 valuation is 16 years.