

# **BOOKLET A**

**AGENDA ITEM 7  
REPORT NO. VAL/5/17**

**Highland and Western Isles**

**Valuation Joint Board**

**Annual Accounts**

**(Unaudited)**

**2016/17**



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HIGHLAND AND WESTERN ISLES VALUATION JOINT BOARD  
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## MANAGEMENT COMMENTARY

The Highland and Western Isles Valuation Joint Board succeeded the Joint Valuation Committee on 1st April 1996, following a local government reorganisation, for the discharge of certain statutory functions relating to the preparation, publishing and maintenance of both the Valuation Roll and Council Tax List (Valuation List). The Assessor also provides the electoral registration function on behalf of both island areas. All three documents (Valuation Roll, Council Tax Valuation List and Electoral Register) are available for public inspection at the Assessor's offices and at public libraries.

The Highland and Western Isles Valuation Joint Board is one of the 10 joint boards in Scotland appointed by combinations of local authorities; there are 4 boards appointed by single local authorities making 14 boards in total. Each board appoints an independent assessor to ensure that valuations are seen to be free from political influence or interference. This is essential to the performance of the Assessor's statutory duties which can involve situations where the interests of the local authority and the ratepayer may conflict.

The Assessor and Electoral Registration Officer (ERO) is William Gillies, MRICS. Robert Shepherd, MRICS, is the Assistant Assessor and ERO, Frank Finlayson, MRICS, and Norman MacKenzie, MRICS are Assistant Assessors. Copies of the minutes of meetings and audited accounts of the Board are available on the Assessors website – [www.highland.gov.uk/hwi-vjb](http://www.highland.gov.uk/hwi-vjb)

### The Board Composition

The Board is a separate public body from the two constituent authorities, but draws its membership from them. The Board Members for 2016/17 are named below:

Highland Council (substantive)	Highland Council (substitute)	Western Isles Council (substantive)	Western Isles Council (substitute)
Mr K Gowans (Convener)	Mrs C Caddick	Mr J MacKay (Vice Convener)	Mr R MacKinnon
Mr A MacKinnon	Miss J Campbell	Mr A MacLeod	Mr G Murray
Mr G Sinclair	Mr N Donald		
Mr F Parr	Mrs L MacDonald		
Mrs H Carmichael	Mr C Fraser		
Mr L Fraser	Mr J Gordon		
Mr A Graham	Mr J Gray		
Mrs M Paterson	Vacant		

The purpose of the Management Commentary is to inform all users of the accounts, to help them assess how the Board has performed during 2016/17 and understand the year-end financial position as at 31 March 2017. In addition, it provides a narrative on the financial outlook for the Board during financial year 2016/17 and beyond.

### Background

Each of the 32 local Councils within Scotland is a valuation authority and is responsible for appointing an Assessor either individually or through a valuation joint board, who must in turn compile and maintain a Valuation Roll and a Council Tax Valuation List.

The functions of the Assessor are different from those of most other Local Government Officers, whose duties are to carry out the policies of Authorities, as determined by elected

councillors. The Assessor is required to balance the interests of individual ratepayers against those of others, in terms of valuation levels and must carry out his duties in accordance with the Valuation Acts. The independence of the Assessor is necessary to ensure that decisions are made on considerations of value, without political pressure. The actions of the Assessor are subject to scrutiny however, through an appeals process.

### **The Statutory Framework**

The accounting framework defines local authorities as councils constituted under section 2 of the Local Government (Scotland) Act 1994 and the Valuation Joint Boards (Scotland) Order 1995; the Strathclyde Partnership for Transport and those bodies to which section 106(1) of the Local Government (Scotland) Act 1973 applies (i.e. committees, joint committees and joint boards, the members of which are appointed by local authorities and charities, etc).

In Scotland the local authority accounting framework is enacted as follows:

- the Local Government (Scotland) Act 1973, section 96, requires Scottish authorities to keep accounts;
- the Local Government in Scotland Act 2003, section 12 places a duty of Best Value on the authority and also a duty to observe proper accounting practices; the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) supported by International Financial Reporting Standards (IFRS), the Service Reporting Accounting Code of Practice (SeRCOP) and the Prudential Framework and other statutory guidance issued under section 12 of the 2003 Act, defines proper accounting practices for local authorities in the UK;
- the Local Authority Accounts (Scotland) Amendment Regulations 2014 (SSI No.2014/200) amended the Local Authority Accounts (Scotland) Regulations 1985 (SI No.1985/267) to require local authorities in Scotland prepare a Remuneration Report as part of the annual statutory accounts;
- under paragraph 21 of the Local Authority Accounts (Scotland) Regulations 2014 (Finance circular 7/2014) the proper officer is responsible for certifying that the Financial Statements give a true and fair view of the financial position of the local authority and its group for the year then ended. The certification includes a statement to this effect as part of the Statement of Responsibilities and by signing the Balance Sheet. This certification is required before the Annual Accounts are submitted to the appointed auditor. The proper officer re-certifies the audited Annual Accounts after they have been approved for signature by the local authority or a committee of the local authority, in this case the Highland and Western Isles Valuation Joint Board. The proper officer, known as the Treasurer, is the Director of Finance of Highland Council; and
- The Code was developed by the CIPFA/LASAAC Code Board under the oversight of the Financial Reporting Advisory Board and has effect for financial years commencing on or after 1 April 2013.

The Code reiterates the primacy of legislative requirements whereby the overriding principle of public sector accounts is that where an accounting treatment is prescribed by law the legal requirement must be applied

The overriding requirement of the Code is that the Annual Accounts provide a true and fair

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view of the financial position and the financial transactions of the Board.

### Performance Information

2016/17 was a very busy year for the Board and its employees.

Firstly, the Scottish Parliamentary Election was held in May of 2016 followed by a referendum on 23 June 2016 to decide the question of “should the United Kingdom remain a member of the European Union?”

Individual Electoral Registration (IER) continues to require additional resource to comply with the statutory regime in terms of both staffing and materials.

In addition to normal maintenance of both the Valuation Roll and the Council Tax list, a revaluation for non-domestic rates was undertaken in financial year 2016/17 with preparatory work having commenced during the financial year 2015/16. Following an intensive period of workload, valuation staff completed the revaluation within agreed timetables. New rateable values, effective from 1<sup>st</sup> April 2017, were delivered to constituent local authorities as required, to allow timeous annual billing. The continuing very high demands made on the administration and clerical sections by the needs of IER restricted their capacity to operate in support of the valuation sections.

All of the above factors have their effect on performance.

### Key Performance Indicators – 2016/2017

Valuation Roll	2016/17	2015/16
Total number of entries	20,239	20,158
Total Rateable Value	£385.0m	£340.0m
No of amendments effected	1,746	1,691
Amendments within time periods (%)		
0-3 months	57	55
3-6 months	17	18
Over 6 months	26	27
<b>Council Tax</b>		
Total no. of entries	139,474	138,208
Adjustment to band D equivalent	131,099	129,767
New entries added	1,401	1,648
New entries within time periods (%)		
0-3 months	72	77
3-6 months	21	16
Over 6 months	7	7
<b>General</b>		
Costs of All permanent staff	£1.844m	£1.811m
Number of FTE staff as at 1 April each year	47.7	49.8

There has been a slight improvement in performance relating to the Valuation Roll as measured by the key performance indicators (KPI's), and this is measured against a slight

increase in the total number of amendments made to the valuation roll over the period. The KPI's for council tax demonstrate a measurable reduction in performance as measured by the KPI's, with approximately 6% less new entries being made within 3 months. This is against a background of a 15% reduction in the total number of new entries. This outturn reflects the draw on resources as a consequence of the increased workload load relating to the non-domestic subjects revaluation and the continued pressures of IER.

### **Primary Financial Statements**

The Annual Accounts summarise the Highland and Western Isles Valuation Joint Board's transactions for the year, its year-end position at 31 March 2017 and its cash flows. The Annual Accounts are prepared in accordance with the International Accounting Standards Board (IASB) Framework for the Preparation and Presentation of Financial Statements (the IASB Framework) as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom.

A description of the purpose of the Primary Financial Statements has been included immediately prior to the five statements: the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Expenditure and Funding Analysis, Balance Sheet and Cash Flow Statement. These five Statements are accompanied by Notes to the Accounts which set out the Accounting Policies adopted by the Board and provide more detailed analysis of the figures disclosed on the face of the primary financial statements.

The Primary Financial Statements and Notes to the Accounts, including the accounting policies, form the relevant Annual Accounts for the purpose of the auditor's certificate and opinion.

### **Financial Performance**

The purpose of the Annual Accounts is to present a public statement on the stewardship of funds for the benefit of both members of the Valuation Joint Board and the public. The Valuation Joint Board is funded by Highland Council and Western Isles Council. The Board normally meets four times a year, with its budget meeting taking place in January. The Valuation Joint Board's budget is its prime annual financial planning document and actual expenditure is monitored against it during the year.

The Board's financial results for the year, compared against budget, are as shown below.



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**Budget Performance Statement  
For the year ended 31 March 2017**

2015/16 Actual £000		Budget £000	<b>2016/17</b>	
			Actual £000	Variance £000
1,938	Staff costs	2,034	1,917	(117)
250	Property costs	273	252	(21)
173	Administration expenses	304	294	(10)
5	Transport and plant costs	5	5	-
479	Supplies and services	380	390	10
9	Members Expenses	10	11	1
<b>2,854</b>	<b>Gross expenditure</b>	<b>3,006</b>	<b>2,869</b>	<b>(137)</b>
(3)	Sales of register etc	(4)	(3)	1
(242)	Specific Grants	(140)	(182)	(42)
(2)	Interest on revenue balances	(1)	(2)	(1)
<b>(247)</b>	<b>Gross income</b>	<b>(145)</b>	<b>(187)</b>	<b>(42)</b>
<b>2,607</b>	<b>Net expenditure</b>	<b>2,861</b>	<b>2,682</b>	<b>(179)</b>
	Transfer to Reserves	-	9	9
<b>(2,607)</b>	<b>Requisition Income</b>	<b>(2,861)</b>	<b>(2,691)</b>	<b>170</b>
<b>-</b>		<b>-</b>	<b>-</b>	<b>-</b>

The net budgeted expenditure of the Board in 2016/17 was £2.861m (2015/16 £2.661m). Actual net expenditure is £2.681m (2015/16 £2.607m). There was an underspend in 2016/17 of £0.179m (2015/16 £0.054m underspend). £0.009m of this underspend was transferred to reserves, with the remaining £0.170m returned to the constituent authorities in the same proportion as requisition funding. The main variations from budget during the year were as follows:

- The variance in the staffing budget was largely due to delays in filling of vacancies and changes in contractual hours of staff throughout the financial year with a significant reduction in overtime and travel costs.
- The underspend in property costs was largely due to lower rent and service charges than had been anticipated together with savings in gas and cleaning costs.
- The underspend in administration costs is largely due to postages in respect of electoral registration which are now funded as part of the printing contract with Fujitsu which largely accounts for the apparent overspend in supplies and services.
- Supplies and services are overspent as a consequence of additional printing and posting costs as a consequence of IER.

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- The variance in income of £0.042m greater than budget reflects additional unanticipated funding from the Cabinet Office for the EU Referendum of £0.038m

On 19 September 2014 Individual Electoral Registration (IER) was introduced in Scotland. Prior to 19 September one person in every household was responsible for registering everyone else who lived at an address. Under IER each person is now required to register to vote individually, rather than by household.

Under Individual Electoral Registration 'identifying information' such as dates of birth and national insurance numbers have to be provided when applying to register and application are verified with the Department of Work and Pensions before individuals are added to the register. Anyone unable to supply this information can provide an alternative specified form of evidence of their identity.

The introduction of IER brought about changes to working practices, the introduction of new electoral software and staff training. This was the biggest change to the way people register to vote in over 100 years.

As a consequence of these changes there continue to be additional demands on resource over and above that required previously for electoral registration.

### Reserves

In accordance with CIPFA guidance "Reserves and Balances in a Local Authority" the Board has determined that General Fund balances should be retained for contingencies and for specific initiatives. The Board agreed that the amount transferred to the General Fund will be restricted to 3% of the total budget in the year of the transfer and the cumulative balance should not exceed 5% of the total budget in that year. As a result of an increase to the budget requisitions in 2016/17, £0.09m was transferred to the General Fund Reserve to bring this up to the reserve limit. The remainder of the surplus for the year was returned to constituent authorities.

The balance on the Board's General Fund is as follows:

Balance at 01/04/16 £000		Balance at 31/03/17 £000
133	General Fund Balance	142

The reserves are held as a contingency to deal with any pressures arising during future years.

The final requisition has been allocated to the constituent authorities as follows:

2015/16		Constituent Authority	2016/17	
£000	% share		£000	% Share
2,329	89.3	The Highland Council	2,404	89.3
278	10.7	Comhairle Nan Eilean Siar	287	10.7
		Total	2,691	100.0
2,607	100.0		2,691	100.0

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**Statement of Requisitions 2016/17**

Constituent Authority	Population	Budget requisition	Actual requisition	Balance due to constituent authority
	No.	£000	£000	£000
Highland Council	232,132	2,556	2,404	(152)
Comhairle Nan Eilean Siar	27,684	305	287	(18)
<b>Total</b>	<b>259,816</b>	<b>2,861</b>	<b>2,691</b>	<b>(170)</b>

**Provisions, Contingencies and Write-offs**

The Board is not aware of any eventualities which may have a material effect on the financial position and has made no provisions for such eventualities.

In general, any contingent liabilities known to the Board are covered by insurance arrangements.

There were no write offs during the year.

**Retirement Benefits**

International Accounting Standard (IAS) 19 has been fully adopted in preparing the accounts of the Board. The standard prescribes how employing organisations are to account for pension benefits earned by employees in the year and the associated pension assets and liabilities.

Employees are eligible to join the Local Government Pension Scheme (LGPS), administered by the Highland Council. Note 14 to the Core Statements details the income and expenditure charged to the income and expenditure account under IAS 19 in respect of the Local Government Scheme, based upon assessments provided by the Actuary to the Scheme.

The Balance Sheet on Page 29 shows that the Board has a net pension liability of £8.079m as at 31 March 2017 (31 March 2016 £5.162m) due to the accrual of pension liabilities in accordance with IAS 19.

The pension liability represents the best estimate of the current value of pension benefits that will have to be funded by the Board. The liability relates to benefits earned by existing or previous employees up to 31 March 2017.

These benefits are expressed in current value terms rather than the cash amount that will actually be paid out. This is to allow for the 'time value of money', whereby the value of cash received now is regarded as higher than cash received in the future. In order to adjust the pension liability cash flows for the time value of money a discount factor based on corporate bond rates is used.

## **Service Changes and Future Developments**

The previously anticipated 2015 revaluation has been deferred until 2017 allowing some relief from the overlap of appeal disposal and revaluation preparation. While most appeals from the 2010 revaluation have now been concluded, there remain a small number of cases referred for hearing by the Lands Tribunal. However, by their nature, these appeals tend to be high value and complex appeals.

Electoral registration continued to see high levels of activity through 2016 and this is set to continue through 2017. The Scottish Parliamentary Election was held in May 2016 followed by the European Referendum in June 2016. Local Government elections were scheduled for May 2017 and a General Election has now been called for June 2017. Thereafter it is anticipated that there will be a period of relief from the intense election activity of the previous few years.

In the autumn another full canvass will take place in terms of the system of IER. Changes have been made to legislation that will allow for an increased volume of communication together with a corresponding reduction in mailing costs. Every effort will be made to maximise any potential saving.

Opportunities to deploy mobile technology are being investigated with a view to improving the efficiency of the canvass.

The Service continues to plan with a view to minimising the costs associated with the continued additional volume of mail and canvassing associated with individual registration together with the cost of complying with the increased checking requirements. The UK Government continues to provide additional grant for continuing additional costs, however, the actual costs continue to contain a degree of uncertainty. In total £181,581 was received in 2016/17 from the UK government for electoral registration purposes.

The 2017 revaluation was completed on time and in accordance with statutory requirements and provision of draft valuation information was made available to government, ratepayers and other stakeholders in accordance with Scottish Government guidelines. Certain sectors have seen very significant increase in their rating liability and it is anticipated that there shall be increasing pressure to deal with appeals more quickly than in the past. It is expected that the Valuation Appeal Committees will look to hear their first diet of appeals in the first half of the new calendar year.

The Barclay review of Business Rates in Scotland is scheduled to report during the summer and it is expected to recommend changes to the rating system. The implications of any changes will require to be considered following the outcome of the review and the Government's response.

Shooting Rights have been reintroduced into the valuation roll with effect from April 2017. Work is ongoing in conjunction with other Assessors in Scotland to make valuation roll entries by the end of the summer. It is anticipated that this will be followed by significant levels of appeal in this sector as the legislation is tested.

In setting its budget for 2017/18 the Valuation Joint Board agreed a marginal decrease in the requisitions for the constituent authorities. This is a challenging financial position given the actual reduction in Scottish Government grant to local authorities and there shall be continuing pressure to produce efficiency savings in the coming years. This will place significant pressure on the statutory basis for the services provided by the Assessor and

Electoral Registration Officer. The Valuation Joint Board needs to sustain sufficient resources to ensure the delivery of services that are crucial for both elections and tax revenues for councils. As such the Assessor needs to ensure proper dialogue with the constituent authorities so that there is a full financial plan and adequate resources for the future at a time when councils are facing continued significant reductions in funding.

### **Events after the Balance Sheet**

Events after the Balance Sheet date until the date of signing of the accounts have been taken into consideration.

### **Going Concern**

A going concern basis of accounting has been adopted in the preparation of the financial statements as future actuarial valuations of the pension scheme will consider the appropriate employer's rate to meet the commitments of the Scheme. The constituent authorities of the Board are required to fund the liabilities of the Board as they fall due.

The IAS 19 Pension and Injury Benefits Liabilities of £8.079m has a substantial impact on the net worth of the Board as recorded in the Balance Sheet, resulting in a negative overall balance of £7.959m.

### **Acknowledgement**

I conclude my report by thanking the staff of my service for their support during the year and my colleagues in other services and the Highland and Western Isles Valuation Joint Board for their continued co-operation.

Derek Yule B.Com, FCPFA, IRRV (Hons)  
Treasurer

Ken Gowans, Cert SocSci, PG Cert TQFE, MFA  
Convener

William Gillies MRICS, IRRV (Hons)  
Assessor and Electoral Registration Officer

15 June 2017

## **STATEMENT OF RESPONSIBILITIES**

### **The Valuation Joint Board's Responsibilities**

The Valuation Joint Board is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that the appointed Treasurer has responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). For the Joint Board, that officer is the Director of Finance, Highland Council.
- 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 in Scotland Act 2003).
- Approve the Annual Accounts for signature.

Ken Gowans, Cert SocSci, PG Cert TQFE, MFA  
Convener

30 September 2017

### **The Treasurer's Responsibilities**

The Treasurer is responsible for the preparation of the Joint 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 (the Accounting Code).

In preparing the 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).

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 Annual Accounts give a true and fair view of the financial position of the Valuation Joint Board at the reporting date and the transactions of the Board for the year ended 31 March 2017.

Derek Yule B.Com, FCPFA, IRRV (Hons)  
Treasurer

15 June 2017

## **ANNUAL GOVERNANCE STATEMENT**

### **Scope of responsibility**

Highland and Western Isles Valuation Joint Board is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Board also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Highland and Western Isles Valuation Joint Board is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, including arrangements for the management of risk.

Highland and Western Isles Valuation Joint Board has approved and adopted a code of corporate governance, an "Overview of Governance Arrangements", a copy of which is available on The Highland Council website, at [www.highland.gov.uk](http://www.highland.gov.uk) or can be obtained from the Assessor and ERO, Moray House, 16-18 Bank Street, Inverness, IV1 1QY. This statement explains how Highland and Western Isles Valuation Joint Board has complied with this code and also meets the requirements of The Local Authority Accounts (Scotland) Regulations 2014, which requires all relevant bodies to prepare an annual governance statement.

### **The purpose of the Governance Framework**

The governance framework comprises the systems and processes, culture and values by which the Board is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. 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 and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Highland and Western Isles Valuation Joint Board for the year ended 31 March 2017 and up to the date of approval of the Board's Annual Accounts.

### **The Governance Framework**

The key elements of the systems and processes that comprise the Board's governance arrangements include the following:

- identifying and communicating the Board's vision of its purpose and intended outcomes for citizens and service users
- reviewing the Board's vision and the implications for its governance arrangements



- translating the vision into objectives for the Board and its partnerships
- measuring the quality of services for users, for ensuring they are delivered in accordance with the Board's objectives and for ensuring that they represent the best use of resources and value for money
- developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff
- reviewing the effectiveness of the Board's decision-making framework, including delegation arrangements, decision making in partnerships and robustness of data quality
- reviewing the effectiveness of the framework for identifying and managing risks and demonstrating clear accountability

Further detail is provided in the "Overview of Governance Arrangements".

### **Review of effectiveness**

Highland and Western Isles Valuation Joint Board has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control.

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

- Financial and budget monitoring;
- The work of managers within the Valuation Board;
- The work of the internal auditors as described below, and
- The external auditors in their annual audit letter and other reports.

The work undertaken by the Internal Audit Section during the year to 31 March 2017 consists of that undertaken directly for the Board and indirectly where the Highland Council's financial systems are used. For this year, the planned work included:

- A review of the systems of internal control for the financial year 2016/17.
- An audit of the Debtors and Income Systems. This audit had the opinion of "Substantial Assurance" and 1 medium grade recommendation was made

Audit recommendations are action tracked to ensure that the management agreed actions have been satisfactorily implemented. This process also allows for revision of the agreed action target dates and where these cannot be met, the Corporate Audit Manager should be contacted to agree a revised target date. Delays in receiving responses to action tracking requests have occurred but the planned meetings (see update on significant governance issues below) will include review of any outstanding management agreed actions.

Despite the above issues, on the basis of the work undertaken during the year, it was considered that the key systems operate in a sound manner and that there has been no fundamental breakdown in control resulting in material discrepancy. However as no system

of control can provide absolute assurance against material loss, nor can Internal Audit give that assurance, it is the audit opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Board's internal control systems for the year to 31 March 2017.

In 2010 CIPFA issued its Statement on the Role of the Chief Financial Officer in Local Government together with an application note enabling authorities to review the effectiveness of their own governance arrangements by reference to best practice and using self-assessment. This review has been undertaken and the arrangements within the Valuation Board are broadly compliant with the CIPFA Statement. One area of exception is the requirement for the Chief Financial Officer (the Treasurer) to report directly to the Chief Executive (the Assessor and Electoral Registration Officer) and be a member of the leadership team. With regard to the Valuation Service the following arrangements are in place which contributes to delivering the same impact:

- The Valuation Board's Financial Regulations recognise the Treasurer as being "responsible for the proper financial administration of the Board's affairs, and acts as financial adviser to the Board". In addition, the Regulations require:
  - That the Assessor and Electoral Registration Officer ensures that all spending conforms to proper accounting standards and will seek appropriate clarification on such matters from the Treasurer.
  - The accounting procedures, records of the Board and Annual Accounts to be prepared in accordance with directions provided by the Treasurer.
  - Reports to the Board containing financial implications to be discussed with the Treasurer.
- The Treasurer's staff work closely with the Valuation Service staff regarding financial matters.
- It is considered that the review of the effectiveness of the governance framework by the Valuation Joint Board provides reassurance that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

### **Significant governance issues**

Update on significant governance issues previously reported:

The 2015/16 AGS highlighted particular concerns with regard to the robustness of the risk management process and the failure to implement the management agreed actions in response to audit reports. To address this changes are to be made to the risk management process to ensure that this is robust and accords with best practice. Details will be provided to the Valuation Joint Board meeting on 27/06/17. In addition, in order to improve the Internal Audit process, six-monthly meetings will be held with the Assessor and ERO and the Corporate Audit Manager to discuss audit matters and to address any outstanding issues. The first such meeting will take place on 12/06/17

Over the coming year, the Board will take steps to address the above matters to further enhance governance arrangements. This will then address the need for improvements that

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were identified in the review of effectiveness. The implementation and operation of these improvements will be monitored as part of the next annual review.

Ken Gowans, Cert SocSci, PG Cert TQFE, MFA  
Convener

William Gillies MRICS  
Assessor and Electoral Registration Officer

30 September 2017

## **REMUNERATION REPORT**

All information disclosed in the tables at paragraphs 3 and 4 in the Remuneration Report will be audited by Grant Thornton LLP. The other sections of the Remuneration Report will be reviewed by Grant Thornton LLP to ensure that they are consistent with the financial statements.

### **1. Appointments**

Appointments of senior employees in the Valuation Board (Assessor and Electoral Registration Officer, Assistant Assessor and Electoral Registration Officer, and Assistant Assessors) are made by the Board. The Assessor is responsible for making any further appointments and ensuring that they are made in accordance with staff structures approved by the Board.

### **2. Remuneration Policy**

#### **2.1 Senior Employees**

There is no national salary mechanism in place for Assessors. It is up to individual authorities and Boards to determine these salaries. As such, the salaries of senior employees (Assessor and Electoral Registration Officer, Assistant Assessor and Electoral Registration Officer, and Assistant Assessors) are set and approved by the Board, based on advice received from the Highland Council's Human Resources Department. The current grading for the post of Assessor and Electoral Registration Officer was agreed by the Board in August 2013.

No other benefits are received by senior employees of the Board.

#### **2.2 Senior Councillors**

The Convener and Vice-convener of the Highland and Western Isles Valuation Joint Board are remunerated by the Council of which they are a council member.

The remuneration of councillors is regulated by the Local Government (Scotland) Act 2004 (Remuneration) Regulations 2007 (SSI No. 2007/183). The regulations provide for the grading of councillors for the purpose of remuneration arrangements, as either the Leader of the Council, The Civic Head, Senior Councillors or Councillors. These regulations also 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 amount payable to them as either a councillor or senior councillor.

The Board has an arrangement with each Council who remunerates the Convener and Vice-Convener to reimburse the Council for the additional costs of that councillor arising from them being a Convener or Vice-Convener of the Board. The disclosures made in this report are limited to the amounts paid to the Council by the Board for remuneration and does not reflect the full value of the remuneration that may be paid to the councillor.

### 3. Remuneration

#### 3.1 Remuneration of Senior Employees of the Board

Total Remuneration including salary, fees and allowances

2015/16	Name and Post Title	2016/17
£		£
91,007	William Gillies, Assessor and Electoral Registration Officer	<b>92,301</b>
59,145	Robert Shepherd, Assistant Assessor and Electoral Registration Officer	<b>61,089</b>
54,093	Frank Finlayson, Assistant Assessor	<b>55,896</b>
51,236	Norman MacKenzie, Assistant Assessor	<b>52,998</b>

The senior employees included in the table include any employee:

- Who has responsibility for management of the Board to the extent that the person has power to direct or control the major activities of the Board (including activities involving the expenditure of money), during the year to which the report relates, whether solely or collectively with other persons;
- Who, as respects all or most of the duties of his post, is required to report directly or is directly accountable to the head of the Board's paid service;
- Who holds a post that is politically restricted by reason of section 2(1) (a), (b) or (c) of the Local Government and Housing Act 1989; or
- Whose annual remuneration is £150,000 or more.

The Board also receives services from the Treasurer and the Clerk under a Service Level Agreement with Highland Council. The individuals involved receive no additional payments for carrying out these roles and are included in the Council's remuneration report.

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### 3.2 Remuneration by Pay Band

Analysis of Employees Earning Over £50,000

2015/16		2016/17
Number	Salary Band	Number
2	£50,000-£54,999	1
1	£55,000-£59,999	1
-	£60,000-£64,999	1
1	£90,000-£94,999	1

### 3.3 Senior Councillors and Conveners and Vice Conveners of Joint Boards

The following table provides total details of the remuneration including salary, fees and allowances paid to the Convener and Vice-Convener of the Highlands and Western Isles Valuation Joint Board.

2015/16	Councillor Name and Responsibility	2016/17
£		£
1,929	H Carmichael - Convener to 16/09/15	-
2,254	K Gowans - Convener from 17/09/15	4,225
3,138	J MacKay – Vice Convener	3,045

### 3.4 Remuneration Paid to Councillors

The Board paid the following salaries, allowances and expenses to all councillors (including the senior councillors above) during the year.

2015/16	Type of Remuneration	2016/17
£		£
7,321	Salaries	8,114
2,075	Expenses	2,575
<b>9,396</b>	<b>Total</b>	<b>10,689</b>

The annual return of Councillors' salaries and expenses for 2016/17 is available for any member of the public to view at all public offices and is also available on the Council's website at <http://www.highland.gov.uk/yourcouncil/finance/accountingandbudgeting/membersexpenses.htm>

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#### 4. Pension Benefits

The pension entitlements of senior employees for the year to 31 March 2017 are shown in the table below, together with the contribution made by the Board to each Senior Employee's pension during the year.

Name and Post Title	In-year pension contributions		Accrued Pension Benefits	
	For year to 31/3/17	For year to 31/3/16	As at 31/3/17	Difference from March 2016
	£	£	£000	£000
William Gillies, Assessor and Electoral Registration Officer	17,381	16,756	Pension	3
			Lump Sum	1
Robert Shepherd, Assistant Assessor and Electoral Registration Officer	11,451	10,790	Pension	2
			Lump Sum	2
Frank Finlayson, Assistant Assessor	10,464	9,855	Pension	1
			Lump Sum	1
Norman MacKenzie, Assistant Assessor	9,913	9,327	Pension	2
			Lump Sum	3

All senior employees shown in the tables above are members of the Local Government Pension Scheme (LGPS).

The pension figures shown in the table relate to the benefits that the person has accrued as a consequence of their total local government service.

The employer's contribution rate in 2016/17 is 19% of the pensionable salary.

Ken Gowans, Cert SocSci, PG Cert TQFE, MFA  
Convener  
30 September 2017

William Gillies MRICS  
Assessor and Electoral Registration Officer  
30 September 2017

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**MOVEMENT IN RESERVES STATEMENT 2015/16**

This statement shows the movement in the year on the different reserves held by the Board, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Total Comprehensive Income and Expenditure line shows the true economic cost of providing the Board's services. This is different from the statutory amounts required to be charged to the General Fund which can be seen in the Expenditure and Funding Analysis.

	Notes	General Fund	Total Usable Reserves	Pension Reserve	Employee Statutory Mitigation Account	Total Reserves
		£000	£000	£000	£000	£000
<b>Balance at 31 March 2015</b>		<b>133</b>	<b>133</b>	<b>(5,779)</b>	<b>(28)</b>	<b>(5,674)</b>
<b>Movement in reserves during 2015/16</b>						
<b>Total Comprehensive Income and Expenditure</b>	<b>9</b>	<b>(342)</b>	<b>(342)</b>	<b>963</b>	<b>-</b>	<b>621</b>
Adjustments between accounting basis and funding basis under regulations	<b>5</b>	342	<b>342</b>	(346)	4	-
Increase/(decrease) in 2015/16		-	-	617	4	<b>621</b>
<b>Balance at 31 March 2016</b>		<b>133</b>	<b>133</b>	<b>(5,162)</b>	<b>(24)</b>	<b>(5,053)</b>



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**MOVEMENT IN RESERVES STATEMENT 2016/17**

	Notes	General Fund	Total Usable Reserves	Pension Reserve	Employee Statutory Mitigation Account	Total Reserves
		£000	£000	£000	£000	£000
<b>Balance at 31 March 2016</b>		<b>133</b>	<b>133</b>	<b>(5,162)</b>	<b>(24)</b>	<b>(5,053)</b>
<b>Movement in reserves during 2016/17</b>						
<b>Total Comprehensive Income and Expenditure</b>	<b>9</b>	<b>(290)</b>	<b>(290)</b>	<b>(2,616)</b>	<b>-</b>	<b>(2,906)</b>
Adjustments between accounting basis and funding basis under regulations	5	299	299	(301)	2	-
<b>Increase/(decrease) in 2016/17</b>		<b>9</b>	<b>9</b>	<b>(2,917)</b>	<b>2</b>	<b>(2,906)</b>
<b>Balance at 31 March 2017</b>		<b>142</b>	<b>142</b>	<b>(8,079)</b>	<b>(22)</b>	<b>(7,959)</b>

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**COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT**

This statement shows the cost in the year of providing services in accordance with generally accepted accounting practices, rather than expenditure permitted by regulations which is funded by requisitions from the constituent authorities. The funding position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

2015/16				2016/17		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000	Notes	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
2,098	-	2,098	Staff costs	2,039	-	2,039
250	-	250	Property costs	252	-	252
173	-	173	Administration expenses	294	-	294
5	-	5	Transport and plant costs	5	-	5
479	-	479	Supplies and services	390	-	390
9	-	9	Members Expenses	11	-	11
-	(245)	(245)	Income		(185)	(185)
<b>3,014</b>	<b>(245)</b>	<b>2,769</b>	<b>Cost of Services</b>	<b>2,991</b>	<b>(185)</b>	<b>2,806</b>
		180	Financing and Investment income and expenditure			175
		(2,607)	Taxation and non-specific grant income			(2,691)
		<b>342</b>	<b>Deficit on provision of services</b>			<b>290</b>
		171	Return on plan assets (excluding the amount included in net interest expense)			(2,182)
		(945)	Actuarial losses/(gains) arising on changes in financial assumptions			4,767
		(189)	Experience adjustments			31
		<b>(621)</b>	<b>Total comprehensive income and expenditure</b>			<b>2,906</b>

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**EXPENDITURE AND FUNDING ANALYSIS 2015/16**

The Expenditure and Funding Analysis shows how the funding available to the Board for the year has been used in providing services in comparison with those resources consumed or earned by the Board in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure statement.

2015/16	Notes	Net Expenditure chargeable to the General Fund	Adjustments between Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
		£000	£000	£000
Staff costs		1,938	160	2,098
Property costs		250	-	250
Administration expenses		173	-	173
Transport and plant costs		5	-	5
Supplies and services		479	-	479
Members Expenses		9	-	9
Income		(245)	-	(245)
<b>Net Cost of Services</b>	8	2,609	160	2,769
Other Income and Expenditure:	8	(2,609)	182	(2,427)
<b>(Surplus)/Deficit</b>		-	<b>342</b>	<b>342</b>
<b>General Fund Movements:</b>				
Opening Balance		(133)		
(Surplus)/Deficit on General Fund		-		
<b>Closing Balance</b>		<b>(133)</b>		

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**EXPENDITURE AND FUNDING ANALYSIS 2016/17**

<b>2016/17</b>	Notes	<b>Net Expenditure chargeable to the General Fund</b>	<b>Adjustments between Funding and Accounting Basis</b>	<b>Net Expenditure in the Comprehensive Income and Expenditure Statement</b>
		<b>£000</b>	<b>£000</b>	<b>£000</b>
Staff costs		1,917	122	2,039
Property costs		252	-	252
Administration expenses		294	-	294
Transport and plant costs		5	-	5
Supplies and services		390	-	390
Members Expenses		11	-	11
Income		(185)	-	(185)
<b>Net Cost of Services</b>	8	2,684	122	2,806
Other Income and Expenditure:	8	(2,693)	177	(2,516)
<b>(Surplus)/Deficit</b>		<b>(9)</b>	<b>299</b>	<b>290</b>
<b>General Fund Movements:</b>				
Opening Balance		(133)		
(Surplus)/Deficit on General Fund		(9)		
<b>Closing Balance</b>		<b>(142)</b>		

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## BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the 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, subject to the need to maintain a prudent level of reserves. The second category of reserves is those that the Board is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Pension Reserve) and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

31/03/16		Notes	£000	31/03/17
£000			£000	£000
	<b>Current assets</b>			
180	Short term debtors	16	39	
270	Cash and cash equivalents	11	514	
<u>450</u>				<u>553</u>
(341)	Short term creditors	19	(433)	
<u>(341)</u>	<b>Current liabilities</b>			<u>(433)</u>
(5,162)	Other long term liabilities	13	(8,079)	
<u>(5,162)</u>	<b>Long term liabilities</b>			<u>(8,079)</u>
<u>(5,053)</u>	<b>Net liabilities</b>			<u>(7,959)</u>
133	General Fund		142	
(5,162)	Pension Reserve	9	(8,079)	
(24)	Employee Statutory Mitigation Account	9	(22)	
				<u>(7,959)</u>
<u>(5,053)</u>	<b>Total reserves</b>			<u>(7,959)</u>

Derek Yule B.Com, FCPFA, IRRV (Hons)  
Treasurer  
15 June 2017

## CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents held by the Board during the reporting period. 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 requisitions 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. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Board.

31/03/16	Notes	31/03/17
£000		£000
(342)	Net deficit on the provision of services	(290)
216	Adjust net deficit on the provision of services for non-cash movements	534
2	Adjust for items included in the net deficit on the provision of services that are investing and financing activities	2
(124)	Net cash inflow/(outflow) from operating activities	246
(2)	Financing activities	(2)
(126)	Net increase/(decrease) in cash and cash equivalents	244
396	Cash and cash equivalents at the beginning of the year	270
270	<b>Cash and cash equivalents at the end of the year</b>	<b>514</b>

## **ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS**

Explanations are provided for the basis of the figures included within the Accounts and the policies adopted particularly where there is more than one acceptable basis. Notes are included to provide detail of certain aspects contained within the core financial statements.

### **1. ACCOUNTING POLICIES**

#### **General principles**

The Annual Accounts summarise the transactions of the Board for the 2016/17 financial year and its position at the year end. The Board is required to prepare Annual Accounts by the Local Authority Accounts (Scotland) Regulations 2014 and section 12 of the Local Government in Scotland Act 2003 requires that they 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 Code of Practice 2016/17, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Annual Accounts is historical cost.

#### **Accruals of income and expenditure**

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

- Revenue from the sale of goods is recognised when the Board transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Board.
- Revenue from the provision of services is recognised when the Board can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Board.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including those rendered by officers of the Board) are recorded as expenditure when the services are received, rather than when payments are made.
- Where income and expenditure have 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 there is evidence that debts are unlikely to be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

#### **Cash and cash equivalents**

The Highland Council loans fund provides all the day to day banking requirements of the Board. The balance of £0.514m (2015/16 £0.270m) represents the positive balance in Valuation Board funds that temporarily sits with the Highland Council loans fund.

## Employee benefits

### Benefits payable during employment

Short-term employee benefits (those that fall due wholly within 12 months of the year-end), such as wages and salaries, bonuses, paid annual leave and paid sick leave for current employees, are recognised as an expense in the year in which the employees render service to the Board. An accrual is made against services in the Surplus or Deficit on the Provision of Services for the cost of holiday entitlements and other forms of leave earned by employees but not taken before the year-end and which employees can carry forward into the next financial year. The accrual is made at the remuneration rates applicable in the following financial year and is required under statute to be reversed out of the General Fund balance by a credit to the Employee Statutory Mitigation Account in the Movement in Reserves Statement.

### Post-Employment Benefits

Employees of the Board are admitted to the Highland Council Pension Fund which administers the Local Government Pension Scheme. As of 1<sup>st</sup> April 2015 this is a defined benefit career average revalued earnings (CARE) scheme. In addition the Board has liabilities for discretionary pension payments outside the main scheme.

### Local Government Pension Scheme

The Local Government Pension Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Highland Council Pension Fund attributable to the Board are included in the Balance Sheet on an actuarial basis using the projected unit credit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projected earnings of current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 2.5% (based on the indicative rate of return on the iBOxx AA rated over 15 year corporate bond index).
- The assets of the Highland Council Pension Fund attributable to the Board are included in the Balance Sheet at their fair value as below:
  - quoted securities – current bid price
  - unquoted securities – professional estimate
  - unitised securities – current bid price
  - property – market value



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

**Service cost comprising:**

- current service cost – the increase in liabilities as a result of years of service accrued in the year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
- past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs.
- net interest on the defined benefit liability, ie net interest expense for the Board – the change during the period in the net defined liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the net defined benefit obligation at the beginning of the period – taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

**Remeasurements of the net defined benefit liability (asset) comprising:**

- the return on pension plan assets – excluding amounts included in net interest on the net pensions liability – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to Pensions Reserve as Other Comprehensive Income and Expenditure.

**Contributions paid to the Highland Council pension fund**

- cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, 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 pensioners 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 on 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.

**Discretionary Benefits**

The Board also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and

accounted for using the same policies as are applied to the Local Government Pension Scheme.

### **Events after the reporting period**

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

#### Adjusting events

- those that provide evidence of conditions that existed at the end of the reporting period – the Annual Accounts are adjusted to reflect such events.

#### Non-adjusting events

- those that are indicative of conditions that arose after the reporting period – the Annual Accounts are not adjusted to reflect such events, but where a category of 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.

### **Government grants and contributions**

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

- the Board will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Board are not credited to the Comprehensive Income and Expenditure Account until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants/contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

### **Leases**

#### Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the

lease, even if this does not match the pattern of payments (e.g., there is a rent-free period at the commencement of the lease).

### **Property, plant and equipment**

The Board does not currently hold fixed assets. Any expenditure on the acquisition or creation of property, plant and equipment will be capitalised on an accruals basis provided it yields benefits to the Board and the services that it provides for more than one financial year. A de minimis level of £20,000 has been applied to all asset categories.

### **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 Code of Practice 2016/17 (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.

### **Contingent liabilities**

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

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

### **Reserves**

The General Fund Reserve is at the maximum level permitted.

The Pension Reserve and the Employee Statutory Mitigation Account are kept to manage the accounting processes for employee benefits and retirement benefits and do not represent usable resources for the Board – movements on these reserves are explained in note 10 to the accounts.

### **VAT**

VAT payable is included as an expense only to the extent that it is not recoverable from HM Revenue and Customs. VAT receivable is excluded from income.

## **2. Accounting standards that have been issued but have not yet been adopted**

Amendments to the following accounting standards will be adopted within the 2017/18 Code effective from 1 April 2017. There is therefore no impact on the 2016/17 financial statements.

- Amendment to the reporting of pension fund scheme transaction costs

- Amendment to the reporting of investment concentration

Changes arising from the adoption of these standards are not expected to have any impact on the Revenue Fund balance.

### **3. Critical judgements in applying accounting policies**

In applying the accounting policies set out in Note 1, the Board 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. However, the Board has determined that this uncertainty is not yet sufficient to provide an indication that the Board might need to reduce levels of service provision.

### **4. Assumptions made about the future and other major sources of estimation uncertainty**

The Annual Accounts contain 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 amounts cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The only item in the Board's Balance Sheet at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year is the pension liability. The impact of changes in the assumptions used on the pension liability has been assessed by the actuaries and is illustrated in note 14.

**5. Movement in Reserves Statement – adjustments between accounting basis and funding basis under regulations**

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Board in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Board to meet future capital and revenue expenditure.

<b>2015/16</b>	Notes	General Fund  £000	Pension Reserve  £000	Employee Statutory Mitigation Account £000	<b>Total 2015/16  £000</b>
<b>Adjustments involving the Pensions Reserve</b>					
Reversal of items relating to post-employment benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	14	604	(604)	-	-
Employers' pension contributions and direct payments to pensioners payable in the year	14	(258)	258	-	-
<b>Adjustments involving the Employee Statutory Mitigation Account</b>					
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	10	(4)	-	4	-
<b>Total adjustments</b>		<b>342</b>	<b>(346)</b>	<b>4</b>	<b>-</b>

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2016/17	Notes	General Fund	Pension Reserve	Employee Statutory Mitigation Account	Total 2016/17
		£000	£000	£000	£000
<b>Adjustments involving the Pensions Reserve</b>					
Reversal of items relating to post-employment benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	14	563	(563)	-	-
Employers' pension contributions and direct payments to pensioners payable in the year	14	(262)	262	-	-
<b>Adjustments involving the Employee Statutory Mitigation Account</b>					
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	10	(2)	-	2	-
<b>Total adjustments</b>		<b>299</b>	<b>(301)</b>	<b>2</b>	<b>-</b>

**6. Comprehensive Income and Expenditure Statement: Financing and investment income and expenditure**

2015/16		2016/17
£000		£000
182	Pensions Net Interest	177
(2)	Interest receivable	(2)
<u>180</u>		<u>175</u>

**7. Comprehensive Income and Expenditure Statement: Taxation and non-specific grant income**

2015/16		2016/17
£000		£000
(2,607)	Requisitions from constituent authorities	(2,691)

**8. Note to the Expenditure and Funding Analysis**

This note provides a reconciliation of the main adjustments to Net Expenditure Chargeable to the General Fund to arrive at the amounts in the Comprehensive Income and Expenditure Statement. The relevant transfers between reserves are explained in the Movement in Reserves Statement.

2015/16			
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Amounts	Net Change for the Pensions Adjustments	Adjustment for Employee Annual Leave Accrued	Total Adjustments
	£000	£000	£000
Staff costs	164	(4)	160
Net Cost of Services	<u>164</u>	<u>(4)</u>	<u>160</u>
Other Income and expenditure	182	-	182
Difference between General Fund Surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or deficit on the provision of services	<u>346</u>	<u>(4)</u>	<u>342</u>

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<b>2016/17</b>	Net Change for the Pensions Adjustments	Adjustment for Employee Annual Leave Accrued	Total Adjustments
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Amounts	£000	£000	£000
Staff costs	123	(1)	122
Net Cost of Services	123	(1)	122
Other Income and expenditure	177	-	177
Difference between General Fund Surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or deficit on the provision of services	<b>300</b>	<b>(1)</b>	<b>299</b>

## 9. Balance Sheet – unusable reserves

### (a) 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 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.



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<b>Pensions Reserve</b>		
2015/16 £000		2016/17 £000
(5,779)	Balance at 1 April 2016	(5,162)
(171)	Return on plan assets (excluding the amount included in the net interest expense)	2,182
945	Actuarial (losses)/gain arising on changes in financial assumptions	(4,767)
189	Experience adjustments	(31)
963		(2,616)
(604)	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	(563)
258	Employer's pension contributions and direct payments to pensioners payable in the year	262
<u>(5,162)</u>	<u>Balance at 31 March 2017</u>	<u>(8,079)</u>

(b) Employee Statutory Mitigation Account

The Employee Statutory Mitigation 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. Statutory arrangements require that the impact on the general fund balance is neutralised by transfers to or from the account.

2015/16 £000		2016/17 £000
(28)	Balance at 1 April 2016	(24)
28	Settlement or cancellation of accrual made at the end of the preceding year	24
(24)	Amounts accrued at the end of the current year	(22)
<u>(24)</u>	<u>Balance at 31 March 2017</u>	<u>(22)</u>

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**10. Cash flow statement – financing activities**

The cash flows for financing activities include the following items:

2015/16 £000		2016/17 £000
(2)	Interest received	(2)

**11. Cash flow statement – cash and cash equivalents**

The balances of cash and cash equivalents comprise:

2015/16 £000		2016/17 £000
270	Temporary Advances to Highland Council Loans Fund	514

**12. External audit costs**

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

2015/16 £		2016/17 £
7,800	Fees payable to Audit Scotland with regard to external audit services carried out by the appointed auditor for the year	6,970

### **13. Defined benefit pension schemes**

#### **Participation in pension schemes**

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 employees retire, the Board has a commitment to make the payments and this needs to be disclosed at the time that employees earn their future entitlement.

The Board participates in one post-employment scheme:

- The Local Government Pension Scheme, administered locally by the Highland Council Pension Fund – This is a funded defined benefit career average revalued earnings (CARE) scheme, meaning that the Board and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets.

#### **Transactions relating to post-employment benefits**

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 that is required to be made against constituent authorities is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year.

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2015/16 £000		2016/17 £000
<b>Comprehensive Income and Expenditure Statement</b>		
<b>Cost of services</b>		
422	Current service cost	386
-	Past service cost (including curtailments)	-
<u>422</u>		<u>386</u>
182	Financing and investment income and expenditure Net interest expense	177
<u>604</u>	<b>Total post-employment benefits charged to the deficit on the provision of services</b>	<u>563</u>
	Other post-employment benefits charged to the comprehensive income and expenditure statement	
	Remeasurement of the net defined benefit liability comprising:	
171	Return on plan assets (excluding the amount included in the net interest expense)	(2,182)
(945)	Actuarial losses/(gain) arising on changes in financial assumptions	4,767
(189)	Experience adjustments	31
<u>(963)</u>	<b>Total post-employment benefits charged to the Comprehensive Income and Expenditure Statement</b>	<u>2,616</u>
<b>Movement in reserves statement</b>		
(604)	Reversal of net charges made to the deficit on the provision of services for post-employment benefits in accordance with the code	(563)
	Actual amount charged against the General Fund balance for pensions in the year	
258	Employers contributions payable to the scheme	262
<u>(346)</u>	<b>Total movement in reserves in respect of post-employment benefits</b>	<u>(301)</u>

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**Pension assets and liabilities recognised in the Balance Sheet**

31/03/16 £000		31/03/17 £000
(18,559)	Present value of the defined benefit obligation – including unfunded obligations	(23,798)
13,397	Fair value of pension fund assets	15,719
<b>(5,162)</b>	<b>Net liability arising from defined benefit obligation</b>	<b>(8,079)</b>

**Information about the defined benefit obligation – Funded obligations**

	Liability split		Duration
	£000	Percentage (%)	Years
Active members	14,161	60.1%	20.2
Deferred members	2,035	8.6%	26.4
Pensioner members	7,362	31.3%	10.8
<b>Total</b>	<b>23,558</b>	<b>100.0%</b>	<b>16.1</b>

**Reconciliation of the movements in the fair value of scheme assets**

31/03/16 £000		31/03/17 £000
13,622	Opening fair value of scheme assets	13,397
415	Interest income	450
(171)	Return on plan assets	2,182
258	Contributions by employer	262
84	Contributions by Scheme participants	85
(811)	Estimated benefits paid (net of transfers in)	(657)
<b>13,397</b>	<b>Closing fair value of scheme assets</b>	<b>15,719</b>

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**Assets and liabilities in relation to post-employment benefits**

**Reconciliation of present value of scheme liabilities (defined benefit obligation)**

<b>Funded Liabilities: Local Government Pension Scheme</b>	<b>Unfunded Liabilities: Discretionary Benefits</b>		<b>Funded Liabilities: Local Government Pension Scheme</b>	<b>Unfunded Liabilities: Discretionary Benefits</b>
<b>31/03/2016</b>	<b>31/03/2016</b>		<b>31/03/2017</b>	<b>31/03/2017</b>
<b>£000</b>	<b>£000</b>		<b>£000</b>	<b>£000</b>
19,181	220	Opening defined benefit obligation	18,358	201
422	-	Current service cost	386	-
590	7	Interest cost	621	6
84	-	Contributions by scheme participants	85	-
		Remeasurement (gains) and losses:		
(941)	(4)	Actuarial (gains)/losses from changes in financial assumptions	4,752	15
(180)	(9)	Experience adjustments	-	31
(798)	-	Estimated benefits paid (net of transfers in)	(644)	
-	(13)	Unfunded pension payments	-	(13)
<b>18,358</b>	<b>201</b>	Closing value	<b>23,558</b>	<b>240</b>

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**Analysis of Pension Fund's Assets**

The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

2015/16		2016/17
4%	<b>Cash and cash equivalents</b>	2%
	<b>Equity Securities:</b>	
	By industry type	
14%	Consumer	11%
5%	Manufacturing	12%
4%	Energy and utilities	4%
10%	Financial institutions	10%
2%	Health and care	3%
8%	Information technology	8%
2%	Other	-
	<b>Debt Securities:</b>	
	By sector	
13%	Corporate	12%
5%	Government	5%
4%	<b>Private Equity</b>	5%
	<b>Property:</b>	
10%	UK	11%
	<b>Other Investment Funds:</b>	
19%	Equity	17%
	Bonds	-
<b>100%</b>	<b>Total</b>	<b>100%</b>

Note: The risks relating to assets in the scheme are also analysed below:

31/03/16	Fair value of pension fund assets	31/03/17
£000		£000
	Equity Instruments	
12,860	Quoted in an active market	13,207
537	Not quoted in an active market	2,512
<b>13,397</b>	<b>Subtotal equity instruments</b>	<b>15,719</b>

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**Basis for estimating assets and liabilities**

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 Local Government Pension Scheme has been assessed by Hymans Robertson LLP, an independent firm of actuaries, estimates for The Highland Council Pension Fund being based on the latest full valuation of the scheme as at 31 March 2014.

The significant assumptions used by the actuary have been:

2015/16		2016/17
	Mortality Assumptions:	
	Longevity at 65 for current pensioners (years)	
22.5	Men	<b>22.5</b>
24.1	Women	<b>24.1</b>
	Longevity at 65 for future pensioners (years)	
24.7	Men	<b>24.7</b>
26.8	Women	<b>26.8</b>
2.1%	Rate of inflation	<b>2.4%</b>
4.1%	Rate of increase in salaries	<b>4.4%</b>
2.1%	Rate of increase in pensions	<b>2.4%</b>
3.4%	Rate for discounting fund liabilities	<b>2.5%</b>
50.0%	Take up option to convert annual pension into retirement lump sum (pre 2009)	<b>50.0%</b>
75.0%	Take up option to convert annual pension into retirement lump sum (post 2009)	<b>75.0%</b>

The estimation of the defined benefit obligation is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption changes while all the other assumptions remain constant. The methods and types of assumption used in preparing the sensitivity analysis below did not change from that used in the previous period.



	<b>Impact on the Defined Benefit Obligation in the Fund</b>	
	<b>Approximate % increase to Employer Liability</b>	<b>Approximate monetary amount (£000)</b>
Member life expectancy (increase or decrease in 1 year)	<b>3%</b>	<b>636</b>
Rate of increase in salaries (increase or decrease by 0.5%)	<b>3%</b>	<b>636</b>
Rate of increase in pensions (increase or decrease by 0.5%)	<b>7%</b>	<b>1,681</b>
Rate for discounting fund liabilities (increase or decrease by 0.5%)	<b>10%</b>	<b>2,383</b>

### **Impact on the Board's Cash Flow**

The aims of the fund are to:

- Ensure that sufficient resources are available to meet all liabilities as they fall due
- Enable employer contributions to be kept as nearly constant as possible and at reasonable cost to the taxpayers and employers
- Manage employers liabilities effectively
- Maximise the returns from investments within reasonable risk parameters

The employer's contributions are set by the Fund actuary at each triennial actuarial valuation (the most recent being as at 31 March 2014), or at any other time as instructed to do so by the Council. The actuaries have estimated that contributions for the year to 31 March 2017 will be approximately £0.256m.

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#### 14. 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.

##### Highland Council

The Highland Council provided £2.403m representing 89.3% of the funding for the Board and holds 8 of the 10 seats on the Board. In addition Highland Council provides administrative, financial and computing services to the Board. In 2016/17 the Board paid £0.062m to the Highland Council for these services.

##### Comhairle Nan Eilean Siar

The Comhairle Nan Eilean Siar provided £0.287m representing 10.7% of the funding for the Board and holds 2 of the 10 seats on the Board.

##### Scottish Government/UK Government

Both the Scottish and the UK Governments provided additional funding to the Valuation Joint Board in relation to the implementation of Individual Electoral Registration (IER) as follows:

2015/16 £000	Government	Nature of Funding	2016/17 £000
230	UK Government	IER funding	182
12	Scottish Government	Funding for additional costs of registering young people	-
<u>242</u>		<b>Total</b>	<u>182</u>

## 15. Operating Leases

The Board leases a number of office premises.

Board as Lessee

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

2015/16 £000		2016/17 £000
121	Not later than one year	124
443	Later than one year and not later than five years	403
606	Later than five years	327
<u>1,170</u>		<u>854</u>

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was

2015/16 £000		2016/17 £000
<u>121</u>	Minimum lease payments	<u>121</u>

## 16. Debtors

### Short Term Debtors

2015/16 £000		2016/17 £000
150	Central government bodies	-
30	Other entities and individuals	39
<u>180</u>	Total	<u>39</u>

## 17. Short Term Creditors

2015/16 £000		2016/17 £000
(33)	Central government bodies	(32)
(200)	Other local authorities	(348)
(108)	Other entities and individuals	(48)
-	Public Corporations	(5)
<u>(341)</u>	Total	<u>(433)</u>

### 18. Financial Instrument Balances

The following categories of financial instruments are carried in the Balance Sheet:

2015/16		2016/17
Current £000		Current £000
270	Cash and cash equivalents	<b>514</b>
180	Debtors	<b>39</b>
(341)	Creditors	<b>(433)</b>

### 19. Contingent Liability

A contingent liability is a possible obligation which may require a payment or a transfer of economic benefits.

The Board is required to implement a single status and equal pay scheme in respect of the employment conditions of staff. Discussions have been held with Personnel at the Highland Council and the financial risk has been identified as being low.

As a consequence of the level of risk, and the uncertainty regarding the timing of eventual implementation, no provision for these outcomes has been made in the year and disclosure is by way of contingent liability.

### 20. Events after the Balance Sheet date

The unaudited annual accounts were issued by the Treasurer on 15 June 2017. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2017, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.