From mountain to sea – the very best of Scotland

# ANNUAL ACCOUNTS 2015/16
# FOR THE YEAR TO 31 MARCH 2016

## ANNUAL ACCOUNTS 2015/16 – CONTENTS

## Management Commentary

**Purpose of the Management Commentary**

The purpose of the Management Commentary is to inform all users of the accounts and help them assess how the Council has performed in fulfilling its duties.

**Strategy and Business Model**

"Aberdeenshire – from mountain to sea, the very best of Scotland": this is the Council's vision, to be the best area and the best Council in Scotland. The Council Plan 2013 – 2017 (http://www.aberdeenshire.gov.uk/media/3821/councilplan2013-17.pdf) sets out how it will achieve this, through core outcomes and key priorities which are set out clearly for its communities, its employees, and to other public sector organisations, voluntary organisations and businesses. The vision is underpinned by the three pillars of Early Intervention, Demography and Economic Development. It is based on delivering four key outcomes for Aberdeenshire, more details of which can be found in the section on Progress against Key Performance Indicators.

In addition, the Council developed "Visioning 2050", its aspirational vision for the next four decades which will guide the Council's strategic direction and long term outcomes for Aberdeenshire.

- A society that is renowned for being welcoming, modern, safe and healthy;
- An economy that is prosperous, diverse and attractive to investors, employers and employees;
- Communities that are dynamic, culturally diverse and locally active; and
- An environment that is beautiful, bio diverse, accessible to all and sustainable.

The themes and outcomes identified in the Council Plan will work towards the delivering the vision for Aberdeenshire in 2050.

There are 68 Councillors representing Aberdeenshire across 19 multi-member wards, each with either three or four Councillors. The Councillors were democratically elected in May 2012 and are responsible for providing community leadership, setting the strategic direction, priorities and policies of the Council, scrutinising the performance of services, representing the interests of local communities and promoting effective partnerships.

Councillors fulfil these responsibilities through the decision-making processes of the Council and its Committees. The Council and the Policy and Resources Committee deal with strategic and corporate issues that impact across the whole Council. There are three Policy Committees which provide opportunity for debate and decision making in relation to the core services of Social Work & Housing, Education, Learning & Leisure and Infrastructure. Six Area Committees enable Councillors to take decisions on local issues.

The Scrutiny and Audit Committee has a remit to review the effectiveness of Council policy implementation and service delivery and to identify potential improvements. This is done by undertaking an annual programme of investigations and workshops and by considering the work of the internal and external audit reviews to make recommendations regarding improvements to the performance of services.

From April to June 2015, the Council's administration was led by the Aberdeenshire Alliance. Political changes then took place and the Council has since been led by a new administration, 'The Partnership', comprising the 28-member SNP group and the 'Progressive Alliance' containing the two Scottish Labour Councillors and the two Progressive Independent Councillors. As part of the implementation of these changes Cllr Martin Kitts-Hayes and Cllr Richard Thomson were appointed as co-leaders of Aberdeenshire Council. Subsequently, Councillor Martin Kitts-Hayes resigned as a Councillor on 31 August 2016, and Councillor Richard Thomson was appointed as Leader of the Council on 1 September 2016. The current Council Plan continues to set out the priorities and ambitions of the Council, and the current Council administration.

Council services are managed and delivered through the Chief Executive's Service and three directorates: Education and Children's Services, Infrastructure Services and Business Services. In addition, Adult Social Work is managed and delivered by the Chief Officer of the Aberdeenshire Health and Social Care Partnership. Each directorate prepares a service plan that supports the delivery of the priorities in the Council Plan, identifying key projects and actions as well as key performance measures. Progress against these measures is discussed in the next section of this report.

**Progress against Key Performance Indicators**

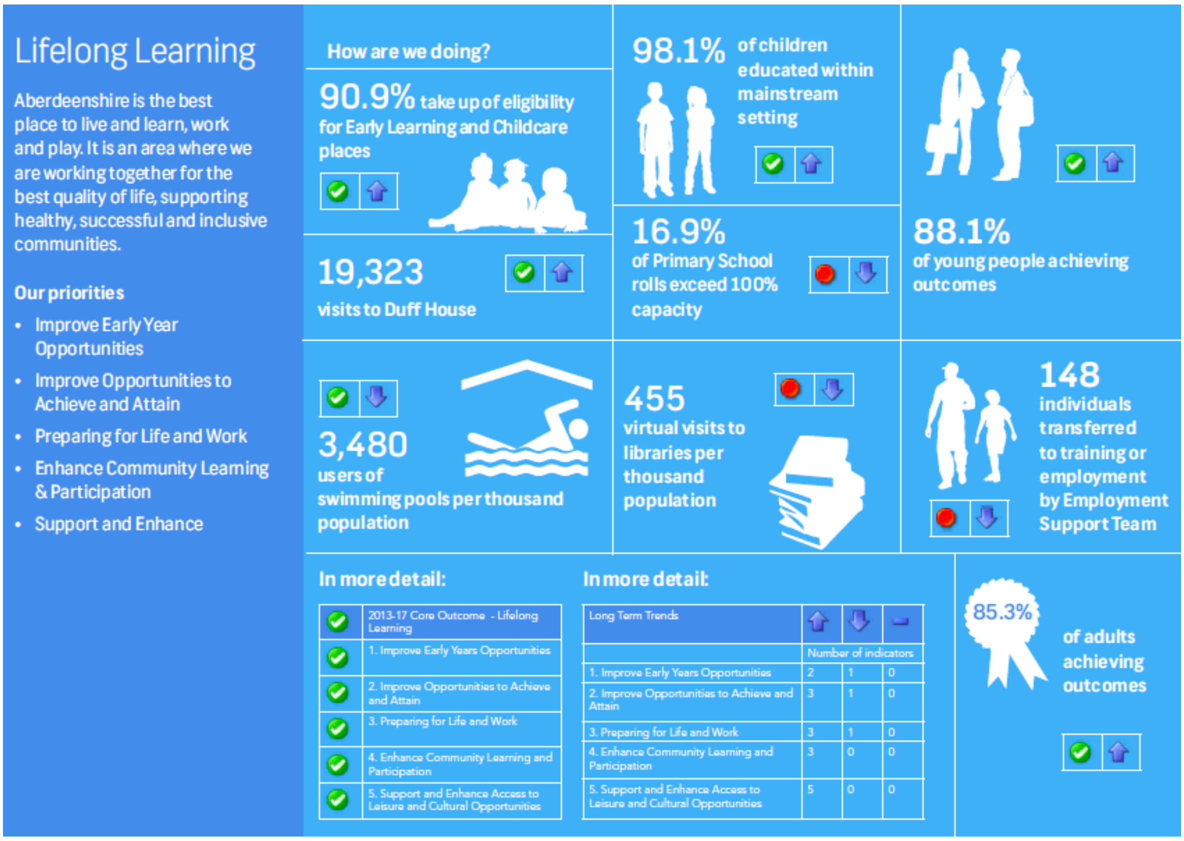
The Council has a strong commitment to being a high performing Council with a culture of performance improvement inherent in everything we do. The Council's performance and improvement framework, Aberdeenshire Performs, supports the delivery of the Council's vision and the priority outcomes identified in the Council Plan 2013-2017. The Council Plan is supported by a set of Service and Business Plans with key measures and targets against which progress can be measured, monitored and improved. Measures and targets include the statutory performance indicators as required by the Accounts Commission Direction 2014 and a selection of these are used to enable residents, communities and the Scottish Government to compare how Aberdeenshire Council performs against other Councils in Scotland. Performance against the statutory performance indicators is considered by the Local Area Network of scrutiny bodies and informs the annual shared risk assessment and resulting local scrutiny plan.

The Council publishes an Annual Performance Report in September each year which is available to the public on the Council's website at http://www.aberdeenshire.gov.uk/strategy-and-performance/about-performance/.

The 2015/16 Annual Report will be considered by Aberdeenshire Council on 29 September 2016.

All Scottish Councils report a range of performance data as part of the Local Government Benchmarking Framework. The framework covers most major areas of public service delivery in Scotland and includes information about the costs of services, the outcomes being achieved and how satisfied residents are with services. The most recent comparative data available is for the financial year 2014/15. To see how Aberdeenshire Council compares to other Councils visit http://www.aberdeenshire.gov.uk/strategy-and-performance/benchmarking/

A summary of the most recent performance against the Council's key performance measures is given below. Unless otherwise stated these performance measures cover the year to 31 March 2016.



## Strong & Sustainable Communities

Aberdeenshire is the best area where the Council works with partners and communities to create and sustain the best quality of life for all through an enterprising and adaptable economy, that is the location of choice for high value national organisations, for smaller expanding businesses and for social enterprises.

**Our priorities**

- Promote Aberdeenshire locally, nationally, globally as a location for life, work and leisure
- Attract and Support Businesses
- Promoting and Sustaining an Integrated Transport Network
- Promote and Support Sustainable Development
- Managing Waste
- Protect & Promote Aberdeenshire's Heritage & Natural Environment

### How are we doing?

**685** business startups per year receiving assistance through Business Gateway

**93.55%** of commercial and industrial properties occupied at end of the period

**39.2%** of household waste collected by the authority that was recycled and composted

**61.3%** of non-householder planning applications dealt with within 2 months

**96.2%** of street lighting faults completed within 7 days.

**46,331** virtual museum visits

**90.9%** of building warrant applications approved within 6 working days of receipt of technical information

### In more detail:

| | 2013 -17 Core Outcome - Strong & Sustainable Communities |
|---|---|
| | 1. Promote and Support Sustainable Developmfft |
| | 2. Managing Waste |
| nar-rative only | 3. Promote Aberdeenshire locally, nationally, globally as a location for life, work and leisure |
| | 4. Attract and Support Businesses |
| | 5. Promoting and Sustaining an Integrated Transport Network |
| | 6. Protect & Promote Aberdeenshire's Heritage & Natural Environment |

### In more detail:

| Long Term Trends | ↑ | ↓ | – |
|---|---|---|---|
| | Number of indicators | | |
| 1. Promote and Support Sustainable Development | 7 | 2 | 0 |
| 2. Managing Waste | 2 | 5 | 0 |
| 3. Promote Aberdeenshire locally, nationally, globally as a location for life, work and leisure | N/A | N/A | N/A |
| 4. Attract and Support Businesses | 2 | 3 | 0 |
| 5. Promoting and Sustaining an Integrated Transport Network | 2 | 1 | 0 |
| 6. Protect & Promote Aberdeenshire's Heritage & Natural Environment | 2 | 1 | 0 |

**92.7%** of household planning applications dealt with within 2 months

## Caring for Communities

Aberdeenshire is the best place to be, where the council is creating and sustaining the best quality of life for all through involving and enabling happy, healthy and confident people who live in safe, friendly and lively communities.

**Priorities**

- Promote and support safe communities
- Providing quality public spaces
- Provide quality, affordable housing
- Support and protect vulnerable children, young people and adults
- Support independence for adults and older people

### How are we doing?

**100%** attendance at dangerous buildings within 4 hours of notification

**21** reportable accidents/incidents reported to the Health and Safety Executive (HSE)

**1.7%** half day truancy/ unexplained absences for Looked after Children

**72.7%** of offenders offered unpaid work placement within 7 working days of court order being made

**100%** of offenders reporting that supervision has had a positive impact on reducing their offending behaviour

**28.4%** of over 65s with intensive care needs receiving care at home

**36%** of Aberdeenshire households in fuel poverty

**95.8%** of occupational therapy assessments carried out within target timescales

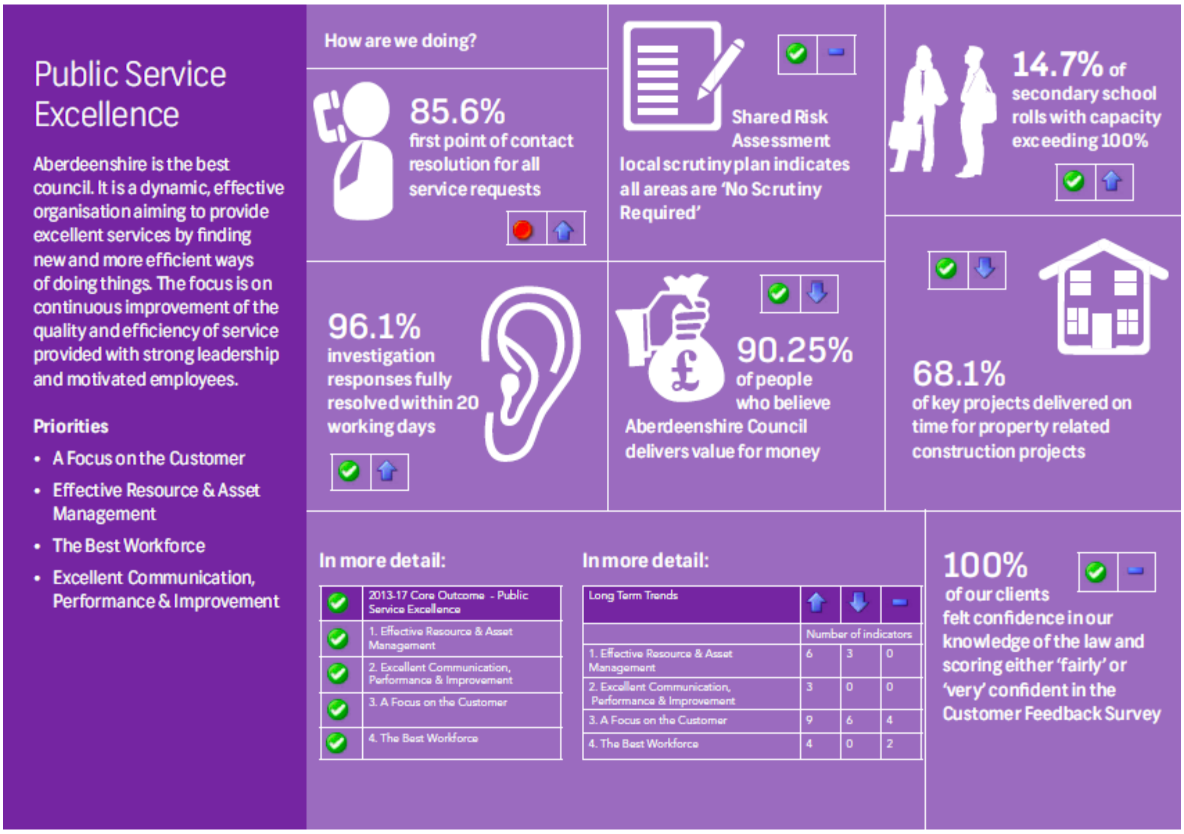
### In more detail:

| | 2013-17 Core Outcome - Caring for Communities |
|---|---|
| | 1. Promote and support safe communities |
| | 2. Providing quality public spaces |
| | 3. Support and protect vulnerable children, young people and adults |
| | 4. Support independence for adults and older people |
| | 5. Provide quality, affordable housing |

### In more detail:

| Long Term Trends | ↑ | ↓ | – |
|---|---|---|---|
| | Number of indicators | | |
| 1. Promote and support safe communities | 7 | 2 | 0 |
| 2. Providing quality public spaces | 2 | 1 | 0 |
| 3. Support and protect vulnerable children, young people and adults | 2 | 1 | 0 |
| 4. Support independence for adults and older people | 1 | 2 | 0 |
| 5. Provide quality, affordable housing | 2 | 1 | 0 |

**249** new affordable homes developed this year




## Financial Performance

During the year, the Council incurred a deficit of £69,134,000 (2014/15: £68,266,000) on the provision of services. When a net deficit of £10,082,000 (2014/15: £48,316,000 surplus) on the revaluation of non current assets and actuarial gains of £51,719,000 (2014/15: £28,819,000 losses) on the pension liabilities are taken into account, this gives total net expenditure of £27,497,000 (2014/15: £48,769,000). This translates to an equivalent decrease in Total Reserves, as shown in the Movement in Reserves Statement (MIRS) and the Balance Sheet.

When the net deficit is adjusted to take account of transactions that have been included on an accounting basis and income and expenditure that is required to be included on a funding basis under statute, there has been a reduction in the Council's usable reserves of £6,703,000 from £66,764,000 to £60,061,000. This was a deliberate strategy employed by the Council as many of these balances had been set aside for specific purposes such as the Aberdeen Western Peripheral Route, Improving Broadband Access, Business Transformation and the use of grants received in previous years where the associated expenditure was not incurred until 2015/16.

Of the total usable reserves, £27,655,000 (2014/15: £29,536,000) is earmarked for specific purposes such as further Business Transformation projects, Innovation projects, the carry forward of underspends by schools, improving the Education Learning estate and Regeneration, £4,423,000 (2014/15: £5,020,000) is held for Repairs and Renewals purposes, £1,690,000 (2014/15: £1,228,000) is held as a reserve for Insurance purposes and £7,015,000 (2014/15: £6,918,000) is held to fund future capital expenditure. This leaves £2,000,000 (2014/15: £2,000,000) as a working balance for the ring fenced Housing Revenue Account (HRA), and £17,278,000 (2014/15: £22,062,000) as a working balance for all other purposes. The working balance on the HRA is in line with the Reserves Policy. The Reserves Policy indicates that the Council will maintain a minimum working balance of £10,000,000 on the General Fund. The Council had forecast a surplus earlier in the year, and when setting the budget for 2016/17, agreed to transfer £6,085,000 of the forecast surplus to earmarked reserves. Proposals to use the remaining £1,193,000 in excess of the working balance for End Year Flexibility, further transfers to earmarked reserves and to support the work of Local Credit Unions were approved by the Council on 30 June 2016.

The movements in the working balances of the General Fund and HRA are set out in the following table:

| | General Fund £'000 | HRA £'000 |
|---|---|---|
| Working Balance at 31 March 2015 | (22,062) | (2,000) |
| Use of Working Balance | 12,023 | - |
| Surplus for the Year | (7,239) | - |
| Working Balance at 31 March 2016 | (17,278) | (2,000) |

A comparison of expenditure on General Fund services with budget is set out in the following table:

| | Budget £'000 | Actual £'000 | Variance £'000 |
|---|---|---|---|
| Education and Children's Services | 292,661 | 289,400 | (3,261) |
| Adult Social Work | 103,689 | 105,714 | 2,025 |
| Infrastructure Services | 88,159 | 83,109 | (5,050) |
| Business Services | 41,867 | 40,531 | (1,336) |
| Trading Accounts | (2,401) | (2,057) | 344 |
| Capital Financing Charges and Interest on Revenue Balances | 28,193 | 28,149 | (44) |
| Other Expenditure and Income | (1,946) | (2,078) | (132) |
| Gross Expenditure | 550,222 | 542,768 | (7,454) |
| Income from Revenue Support Grant, Business Rates and Council Tax | (538,199) | (537,984) | 215 |
| Replenishment/(Use) of Working Balance | (12,023) | (12,023) | - |
| (Surplus)/Deficit | 0 | (7,239) | (7,239) |

Although actual expenditure on the provision of General Fund services was within 1.3% of budget, there were a number of challenging areas, particularly within Adult Social Work. The increasing number of older people requiring adult services, combined with the continued implementation of Self Directed Support meant that there was an overspend on the Adult Social Work budget of £2,025,000. This trend was identified early in the financial year with action taken to reduce expenditure, and this was recognised when setting the budgets for future years.

In addition, extreme weather conditions resulted in flooding in a number of areas in Aberdeenshire along the rivers Don, Dee and Ythan. This added costs to many Council services, as staff were diverted from their normal work to assist with the aftermath of the floods. Additional funding has been received from the Scottish Government to help defray these costs and a claim has been triggered under the Bellwin scheme which will also provide financial assistance. However, not all damage has been repaired yet, and the Council will seek to prioritise future work required to restore damaged infrastructure.

The additional costs in Adult Social Work and the flooding were able to be contained within the overall expenditure, particularly through other services coming within budget. Within Infrastructure Services, there were savings in fuel costs across the Service, and a reduced requirement for hiring additional vehicles particularly for Refuse Collection and Waste Disposal. Sales to third parties from Quarries have been higher than budget and there have been reductions in subsidies for local bus services.

Education and Children's Services came within budget for a number of reasons including reduced expenditure on the implications of the Children and Young People Act, reduced expenditure on energy and increased income from increased demand for school meals. There were also timing issues with maintenance projects and ICT projects. Business Services was also within budget due mainly to increased income in respect of Benefit subsidies and a delayed start to an Energy Project.

The HRA was over budget as a result of the costs of flooding and an increase in the bad debt provision. This has been offset partly by a reduction in energy charges. Delays in the new build housing programme have reduced expenditure, and hence reduced the drawdown of income from second homes Council Tax used to fund this expenditure. The budget has been balanced through a reduction in capital expenditure funded from the HRA revenue budget.

In 2015/16, the Council set an ambitious capital programme by budgeting for capital expenditure of £161,564,000, after taking account of slippage of £18,871,000. Total capital expenditure was £143,042,000, of which £5,803,000 was spent on Caring for Communities compared with a budget of £7,573,000, £44,364,000 was spent on Strong and Sustainable Communities (budget £50,340,000), £62,007,000 was spent on Lifelong Learning (budget £53,243,000), £7,151,000 was spent on Business Services (budget £17,408,000), and £23,717,000 was spent on HRA Housing (budget £33,000,000). Expenditure was funded by grants of £42,937,000 (budget £35,875,000), sale receipts of £4,307,000 (budget £5,303,000), revenue contributions of £26,565,000 (budget £23,520,000) and borrowing of £69,233,000 (budget £96,866,000).

Major projects completed during the year include a replacement Ellon Academy, the Alford Community Campus comprising a Secondary School, a Primary School and a Community facility, a replacement Drumoak Primary School and Bennachie View Care Home. Work continued on the much anticipated Aberdeen Western Peripheral Route, and it will be another year before the first sections are due to open. A programme of affordable housing new builds is underway and will continue until 2018, although this is behind schedule, as mentioned above.

There have been timing issues with a number of projects including the new primary school new builds at Markethill and Uryside as a result of protracted negotiations on land acquisition. The Council is still committed to improvements in the school estate and these are being progressed. Aberdeen Western Peripheral Route payments were lower than forecast due mainly to landowners not submitting their claims for payment. This does not affect the timescale for the delivery of the project. Strategies were revised for the redevelopment of depots and Household Waste Recycling Centre sites and these are now anticipated to progress in 2016/17.

Capital expenditure of £142,730,000 is planned for 2016/17.

Capital expenditure in the year contributed to a slight increase in the value of the Property, Plant and Equipment (PPE) on the Balance Sheet. A proportion of the Council's portfolio, including Recreation, Libraries, and Environmental Services, was revalued in the year along with new build schools. A number of properties were revalued downwards as a result of the downturn in the local market following the drop in the oil price and several assets were impaired to reflect fire and flood damage in the year. In total, the value of PPE increased by £3,098,000. There was a decrease in long term borrowing of £4,771,000.

The other significant movement on the Balance Sheet was in relation to Pension Liabilities. The North East Scotland Pension Fund (NESPF) was revalued as at 31 March 2014, and this informed employer contribution rates for the three year period from 2015/16 to 2017/18. At that point, the Fund's assets were sufficient to cover 94% of its liabilities, and the maximum deficit recovery period was set at 19 years. The Council's contribution rate will be 19.3% for the financial years 2015/16 – 2017/18. Following the actuarial assessment of the liabilities at 31 March 2016, the net pension liability has reduced by £32,224,000 since 31 March 2015.

**Management Commentary (Continued)**

**Principal Risks and Uncertainties**

The Council has in place a relatively mature and robust Risk Management Process. However, Risk Registers are currently being reviewed in order to align them better with the current Council structure and to better differentiate between strategic and operational risk. Subsequent to being updated by Services and a review by the Risk Manager, the current Corporate and Service Risk Registers were signed off by Directors on 30 September 2015. In reviewing their Risk Registers, Services were required to consider the wider economic, political and demographic environment and to also evaluate the adequacy and effectiveness of the controls and mitigations they have in place.

The Risk Manager prepares a Quarterly Risk Management Review for the Strategic Leadership Team and Scrutiny and Audit Committee and the review is also provided to the Policy and Resources Committee every 6 months. The work already undertaken to facilitate the revised Risk Register structure has identified a number of strategic risks at a corporate level. These risks are broadly similar to those faced by many public sector organisations and are summarised in the table below.

| Risk | Management and Controls | Management Confirmation of Controls | Independent Assurance | Governance |
|---|---|---|---|---|
| Budget Pressures | • Budget setting process<br>• Budget management at various levels | • Service budget monitoring<br>• Directorate budget monitoring | • Internal Audit<br>• External Audit | • Committee reporting |
| Changes in government policy, legislation and regulation | • COSLA membership<br>• SOLACE membership<br>• Membership of professional bodies at corporate and individual level | • Corporate Risk Management Steering Group | • Internal Audit<br>• External Audit<br>• Care Inspectorate<br>• Education Scotland | • Committee reporting |
| Workforce (attracting and retaining the rights skills, performance, reward package) | • HR & OD policies | • Joint Consultative Committee<br>• Service Management Teams<br>• Directorate Management Teams<br>• Strategic Leadership Team | • Internal Audit | • Committee reporting |
| Business and organisational transformation | • Project management process | • Strategic Leadership Team<br>• Project Manager reporting | • Internal Audit | • Committee reporting |
| Working with other organisations (e.g. supply chains, outsourcing and partnership working) | • Partnership policy and partnership risk registers<br>• Procurement policy | • Strategic Leadership Team<br>• Partnership reporting to lead service | • Internal Audit<br>• Care Inspectorate | • Committee reporting<br>• Partnership boards |
| Reputation management (including social media) | • General policies and procedures<br>• Social media policy<br>• Information Security Management Group | • Directorate and Service Management Teams<br>• Corporate Risk Management Steering Group | • Care Inspectorate<br>• Education Scotland<br>• Internal Audit | • Committee reporting |
| Social Risk (e.g. population changes, demographic changes, crime, anti-social behaviour) | • Community Planning Partnership<br>• PREVENT Delivery Group<br>• Serious and organised crime implementation | • Strategic Leadership Team<br>• Directorate Management Team | • Internal Audit<br>• External Organisations | • Committee reporting |

**Management Commentary (Continued)**

| Risk | Management and Controls | Management Confirmation of Controls | Independent Assurance | Governance |
|---|---|---|---|---|
| Data Protection and Security | • Information and Security Management Group<br>• Operational controls | • Corporate Risk Management Steering Group | • Internal Audit<br>• External Organisations<br>• Information Commissioner | • Committee reporting |
| Operational risk management (including health and safety) | • Risk registers<br>• Operational controls<br>• Health and safety policies<br>• Accident reporting<br>• Directorate and Service Risk Committees<br>• Occupational Health and Safety Sub-Group | • Corporate Risk Management Steering Group<br>• Health and Safety Audits | • Internal Audit<br>• External Organisations<br>• Health and Safety Executive | • Committee reporting |
| Environmental Challenges (e.g. extreme weather events, climate change) | • Emergency planning arrangements<br>• Business Continuity plans<br>• Adaptation strategies | • Regional and Local Resilience Partnerships<br>• Corporate Risk Management Steering Group<br>• Emergency response and Business Continuity plan monitoring | • Internal Audit<br>• External Organisations | • Committee reporting<br>• Scottish Government |

**Main Trends and Factors Likely to Affect the Future Development, Performance and Position of the Council's Business**

There are a number of developments on the horizon that will affect the future of the Council, some of which are driven by legislative changes.

The Public Bodies (Joint Working) (Scotland) Act 2014 focuses on the integration of health and social care services aiming to improve outcomes for individuals including maintaining independence by creating services that allow people to stay safely at home for longer. The Aberdeenshire Integration Joint Board of Aberdeenshire Health and Social Care Partnership was established as a body corporate by Scottish Ministers on 6 February 2016, and it assumed responsibility for health and social care from April 2016. A Strategic Plan including key performance measures was agreed in March 2016. This Plan involves joint working with the Council, NHS Grampian, Third Sector organisations, private providers of health and social care, and the residents of Aberdeenshire. Coupled with this, the Social Care (Self Directed Support) (Scotland) Act 2013 which empowers people to direct their own care and increases choice and control over care needed will continue to be implemented. In addition the changing demographic in the area will have a major impact with a forecast substantial rise in the number of adults aged over 75 during the next decade.

Welfare Reform Acts have, and will, continue to make major changes to the benefits system. The Council is assisting residents with these changes and has significantly changed aspects of service delivery to provide advice and support to maintain tenancies and manage increased applications for discretionary payments.

The roll out of universal credit will pose particular risks and challenges in terms of rent collection and the income for temporary accommodation due to the direct payment of the housing costs element to universal credit claimants, the way in which the housing cost element for temporary accommodation will be calculated for universal credit and the way in which the whole-month assessment period for universal credit works. The Council continues to plan for and manage these risks.

The Children and Young People (Scotland) Act 2014 brought together and strengthened separate legislation on children's services and children's rights into a single comprehensive framework that includes early learning and childcare, Getting It Right For Every Child

(GIRFEC) including looked after children and providing additional support through kinship care orders. The Education and Children's Service will continue to implement the provisions of the Act including the increase in child care places for 2, 3 and 4 year olds and free school meals for P1-P3 pupils.

The Waste (Scotland) Regulations 2014 have been implemented in part, but further provisions will result on a ban on municipal biodegradable waste going to landfill by 1 January 2021. The Council is engaged in collaborative working with neighbouring authorities with regard to the future management of residual waste.

The Council has introduced an Environmental Policy that commits the Council to reducing its impact on the local and global environment, demonstrating leadership in providing high quality services whilst preventing pollution, reducing waste and saving energy and water. It must also achieve behavioural change through encouraging responsible environmental practice amongst suppliers, contractors, partners, communities, residents and our staff.

The Scottish Government will continue the pace of public sector reform which will impact locally. This reform is based on four key themes:

- **Place** - Integration of services through better partnership, collaboration and effective local delivery;
- **People** - Developing the capabilities of the public service workforce and its leadership;
- **Performance** - Embedding a performance culture to improve outcomes; and
- **Prevention** - Shifting towards preventative spending – preventing problems by intervening earlier.

As a result of the Agreement on Joint Working on Community Planning and Resourcing, arising from the Ministerial Review of Community Planning and Single Outcome Agreements, the Council will need to continue to demonstrate a long term plan for how it will support a shift towards preventative spending, supporting early intervention and show what will be different for communities ten years ahead and what will be done to improve outcomes on a rolling 3-year basis.

In February 2016, the Council agreed revenue budgets for 2017/18 – 2020/21 on a provisional basis. These provisional budgets indicated a cumulative funding shortfall of £45,512,000 as shown in the table below. This shortfall is the equivalent of 8.5% of the Revenue Budget. As part of the Medium Term Financial Strategy, Services have developed business cases for a range of savings proposals. These have not been applied to future years' budget, but the deliverability of these savings are being reviewed and continue to be part of the discussions officers and Councillors.

| Year | Cumulative Position £'000 |
|---|---:|
| 2017/18 | 15,950 |
| 2018/19 | 27,433 |
| 2019/20 | 37,592 |
| 2020/21 | 45,512 |

Teacher numbers continue to be a challenging area for the Council. Whilst the Council is committed to maintaining teacher numbers and pupil teacher ratios, the Council still experiences recruitment difficulties. The oil industry continues to be a major influence in the area, with house prices higher than the national average, despite the falls in oil price, which makes it difficult to recruit teaching and other staff to the area. The Council will continue to meet the challenges ahead and adapt as necessary.

**Highways Network Asset**

An amendment to the Code of Practice on Local Authority Accounting in the United Kingdom for 2016/17 will see the introduction of a new category of asset on the Balance Sheet next year; the Highways Network Asset. This will involve changes to the measurement and reclassification for certain types of infrastructure asset including carriageways, footways, structures (e.g. bridges, retaining walls), street lighting, traffic signals, street furniture and land. These assets are currently included in the accounts at Historical Cost. In 2016/17, the

Highways Network Asset will be valued using Depreciated Replacement Cost. At 31 March 2016, Infrastructure Assets were valued at £230,193,000, although not all of these will be included in the Highways Network Asset. An estimated figure for the Highways Network Asset has been included in the Whole of Government Accounts return for the past few years. The figure included in the Council's return for 2015/16 was £3,535,782,000.

This amendment will be treated as a change in accounting policy. Where there is a change in accounting policy, the usual practice would be to restate the opening balance at 1 April 2015 and the 2015/16 information. However, this requirement has been removed under an exceptional adaptation to IAS1 Presentation of Financial Statements. The amendment will apply prospectively from 1 April 2016.

**Annual Accounts**

The Council 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 requires to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code) and the Service Reporting Code of Practice 2015/16 (SeRCOP), supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

| | | |
|---|---|---|
| Richard Thomson | Jim Savege | Alan Wood |
| Leader of the Council | Chief Executive | Head of Finance |

On behalf of the Councillors and Strategic Leadership Team
22 September 2016


## Remuneration Report

### Introduction

The remuneration report has been prepared in accordance with the Local Authority Accounts (Scotland) Regulations 2014. These Regulations require various disclosures about the remuneration and pension benefits of Senior Councillors and Senior Employees.

The term Senior Councillor means the Leader of the Council, the Civic Head, the Chair and Vice-Chair of the Joint Boards, and any Councillor who holds a significant position of responsibility in the Council's political management structure, all as defined by regulation 2 of the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007.

The term Senior Employee means any local authority employee:

1. who has responsibility for the management of the local authority to the extent that the person has the power to direct or control the major activities of the authority (including activities involving the expenditure of money), during the year to which the report relates, whether solely or collectively with other persons;

2. who holds a post that is politically restricted by reason of section 2(1) (a), (b) or (c) of Local Government and Housing Act 1989; or

3. whose annual remuneration, including any remuneration from a local authority subsidiary body, is £150,000 or more.

This report will provide background on the arrangements for determining salary levels followed by detailed tables showing the remuneration and pension benefits for Senior Councillors and Officers covered by this report.

All information disclosed in the tables in this remuneration report have been audited by Deloitte LLP.

### Arrangements for Remuneration

The Full Council sets the remuneration levels for Senior Councillors and the rates of pay for Senior Employees. Its role is to ensure the application and implementation of fair and equitable systems for pay within the guidelines of and as determined by the Scottish Ministers and the Scottish Government. In reaching its decisions, the Council has to consider the need to recruit, retain and motivate suitably able and qualified people to deliver the policies and services of the Council.

Councillors, Senior Councillors, Council Leader and Provost

The remuneration of Senior Councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration and Severance Payments) Amendment Regulations 2015. The regulations provide for the grading of Councillors for the purposes of remuneration arrangements, as either the Leader of the Council, the Provost, Senior Councillors or Councillors. The Leader of the Council and the Provost cannot be the same person for the purposes of payment of remuneration. The total remuneration that may be paid to the Leader and the Provost is set out in the regulations.

When determining the level of remuneration for Councillors the Scottish Ministers consider the recommendations of the Scottish Local Authority Remuneration Committee (SLARC). In accordance with the regulations Aberdeenshire Council may have up to 19 Senior Councillor posts. The regulations set out the maximum that the Council may pay as remuneration to its Senior Councillors. For 2015/16 the salary for the Leader of Aberdeenshire Council is £39,028 (2014/15: £38,642). Since the appointment of Co-Leaders in June 2015, this salary has been paid on an alternate month basis to the incumbents in this post. The maximum yearly amount that may be paid to a Senior Councillor is 75 per cent of the total yearly amount payable to the Leader of the Council.

The Council is able to exercise local flexibility in the determination of the precise number of Senior Councillors and their salary grade within these maximum limits. The remuneration paid to Senior Councillors totalled £503,326 (2014/15: £498,467) and is detailed in Table B of this report.

The regulations also permit the Council to pay contributions or other payments as required to the Local Government Pension Scheme (LGPS) in respect of those Councillors who have elected to become members of the pension scheme.

The Aberdeenshire Council Members' Salaries and Expenses Scheme which includes the salaries, allowances and expenses of all elected members including the Leader, Provost and Senior Councillors was agreed at a meeting of the full Council on 17 May 2007.

Senior Employees – Aberdeenshire Council

The remuneration of senior employees is set by reference to national arrangements. The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services sets the salaries for the Chief Executives of Scottish local authorities.

The revised salary structure for Corporate Directors was approved by Full Council in January 2009 under which the salaries are based on SJNC Point 53. The Policy and Resources Committee agreed to a revised salary structure in June 2009 for Heads of Service where they would be paid at SJNC Point 34. Where the statutory roles of Section 95 officer, Monitoring Officer and Chief Social Work Officer are held at Head of Service level the jobholders are entitled to an additional two increments to their salary which places them on SJNC Point 36.

Aberdeenshire Council does not pay bonuses to senior officers or performance related pay. Chief Officers receive business mileage and subsistence allowances in accordance with amounts either agreed nationally by SJNC or as approved locally. Chief Officers are eligible to join the LGPS. The scheme is outlined on page 19 and the costs identified on page 17 of this report.

Remuneration

The term remuneration means gross salary, fees and bonuses, allowances and expenses, and compensation for loss of employment. It excludes pension contributions paid by the Council. Pension contributions made to a person's pension are disclosed as part of the pension benefits disclosure.

## Table A: Payments to Councillors

The Council paid the following salaries, allowances and expenses to all Councillors (including the Senior Councillors below) during the year:

| 2014/15 £'000 | Type of Remuneration | 2015/16 £'000 |
|---:|---|---:|
| 1,539 | Salaries | 1,592 |
| 126 | Expenses | 119 |
| **1,665** | **Totals** | **1,711** |

The annual return of Councillors' salaries and expenses for 2015/16 is available for any member of the public to view at all Council libraries and public offices during normal working hours and is also available on the Council's website at http://www.aberdeenshire.gov.uk/council-and-democracy/councillors/expense-payments/.

## Remuneration Report (Continued)

### Table B: Remuneration and Pension Benefits of Senior Councillors, Convenors and Vice-Convenors

| Total Remun'n 2014/15 £ | Pension Cont's 2014/15 £ | Name and Post Title | Salaries, Fees and Allowances 2015/16 £ | Total Remun'n 2015/16 £ | Total Cost of Councillors (non-taxable expenses, NI and Superannuation) 2015/16 £ | Pension Cont's 2015/16 £ | | As at 31 March 2016 £'000 | Difference from 31 March 2015 £'000 |
|---|---|---|---|---|---|---|---|---|---|
| 28,982 | 4,173 | Martin Kitts-Hayes : Co-Leader of the Council (Chair - Policy & Resources Committee) (From 8 June 2015) : Vice Chair - Policy & Resources Committee (Until 7 June 2015) | 32,713 | 32,713 | 41,827 | 6,314 | Pension<br>Lump Sum | 4<br>2 | -<br>- |
| 21,735 | 3,130 | Richard Thomson : Co-Leader of the Council (Vice Chair – Policy & Resources Committee) (From 8 June 2015) : Vice Chair – Scrutiny & Audit Committee (Until 7 June 2015) | 31,978 | 31,978 | 40,251 | 6,172 | Pension<br>Lump Sum | 2<br>- | 1<br>- |
| 38,642 | 5,565 | James Gifford : Leader of the Council (Chair - Policy & Resources Committee) (Until 7 June 2015) : Leader of Main Opposition (From 8 June 2015) | 25,181 | 25,181 | 31,738 | 4,860 | Pension<br>Lump Sum | 4<br>2 | 1<br>- |
| 21,735 | - | Hamish Vernal : Provost (From 8 June 2015) : Leader of Main Opposition (Until 7 June 2015) | 27,888 | 27,888 | 33,199 | - | Pension<br>Lump Sum | -<br>- | -<br>- |
| 28,982 | 4,173 | Jill Webster : Provost (Until 7 June 2015) | 5,159 | 5,159 | 7,406 | 996 | Pension<br>Lump Sum | 3<br>2 | -<br>- |
| - | - | Allison Grant : Deputy Provost (From 8 June 2015) | 21,144 | 21,144 | 27,695 | 4,081 | Pension<br>Lump Sum | 3<br>1 | 3<br>1 |
| 25,357 | - | Norman Smith : Deputy Provost (Until 7 June 2015) | 4,467 | 4,467 | 5,752 | - | Pension<br>Lump Sum | -<br>- | -<br>- |
| - | - | Alison Evison : Chair – Education, Learning & Leisure Committee (From 8 June 2015) | 24,113 | 24,113 | 32,006 | 4,654 | Pension<br>Lump Sum | 1<br>- | 1<br>- |
| 28,982 | 4,173 | Isobel Davidson : Chair - Education, Learning & Leisure Committee (Until 7 June 2015) | 5,159 | 5,159 | 6,525 | 996 | Pension<br>Lump Sum | 4<br>2 | 1<br>- |
| - | - | David Aitchison : Chair – Infrastructure Services Committee (From 8 June 2015) | 24,113 | 24,113 | 31,147 | 4,654 | Pension<br>Lump Sum | 1<br>- | 1<br>- |
| 28,982 | 4,173 | Peter Argyle: Chair - Infrastructure Services Committee (Until 7 June 2015) | 5,159 | 5,159 | 7,558 | 996 | Pension<br>Lump Sum | 2<br>- | 1<br>- |
| 28,982 | 4,173 | Gillian Owen : Chair - Scrutiny & Audit Committee | 29,272 | 29,272 | 42,318 | 5,649 | Pension<br>Lump Sum | 3<br>2 | -<br>- |
| **252,379** | **29,560** | **CARRIED FORWARD** | **236,346** | **236,346** | **307,422** | **39,372** | | **38** | **10** |

**Table B: Remuneration and Pension Benefits of Senior Councillors, Convenors and Vice-Convenors (Continued)**

| Total Remun'n 2014/15 £ | Pension Cont's 2014/15 £ | Name and Post Title | Salaries, Fees and Allowances 2015/16 £ | Total Remun'n 2015/16 £ | Total Cost of Councillors (non-taxable expenses, NI and Superannuation) 2015/16 £ | Pension Cont's 2015/16 £ | | As at 31 March 2016 £'000 | Difference from 31 March 2015 £'000 |
|---|---|---|---|---|---|---|---|---|---|
| **252,379** | **29,560** | **BROUGHT FORWARD** | **236,346** | **236,346** | **307,422** | **39,372** | | **38** | **10** |
| - | - | Anne Allan : Chair - Social Work & Housing Committee (From 8 June 2015) | 24,113 | 24,113 | 29,127 | - | Pension<br>Lump Sum | -<br>- | -<br>- |
| 28,982 | 4,173 | Karen Clark : Chair - Social Work & Housing Committee (Until 7 June 2015) | 5,159 | 5,159 | 7,014 | 996 | Pension<br>Lump Sum | 3<br>2 | -<br>- |
| - | - | Charles Buchan : Vice Chair - Education, Learning & Leisure Committee (From 8 June 2015) | 18,177 | 18,177 | 23,564 | - | Pension<br>Lump Sum | -<br>- | -<br>- |
| 21,735 | - | Ron McKail : Vice Chair - Education, Learning & Leisure Committee (Until 7 June 2015) | 3,776 | 3,776 | 4,502 | - | Pension<br>Lump Sum | -<br>- | -<br>- |
| - | - | Stephen Smith : Vice Chair - Infrastructure Services Committee (From 8 June 2015) | 18,177 | 18,177 | 24,468 | 3,508 | Pension<br>Lump Sum | 3<br>3 | 3<br>3 |
| 21,735 | 3,130 | Alan Buchan : Vice Chair - Infrastructure Services Committee (Until 7 June 2015) | 3,776 | 3,776 | 4,985 | 729 | Pension<br>Lump Sum | 3<br>1 | 1<br>- |
| - | - | Ross Cassie : Vice Chair - Scrutiny & Audit Committee (From 8 June 2015) | 18,177 | 18,177 | 26,787 | 3,508 | Pension<br>Lump Sum | 1<br>- | 1<br>- |
| - | - | Raymond Christie : Vice Chair - Social Work & Housing Committee (From 8 June 2015) | 18,177 | 18,177 | 24,603 | 3,508 | Pension<br>Lump Sum | 2<br>- | 2<br>- |
| 21,735 | 3,130 | Alisan Norrie : Vice Chair - Social Work & Housing Committee (Until 7 June 2015) | 3,776 | 3,776 | 6,141 | 729 | Pension<br>Lump Sum | 1<br>- | -<br>- |
| 25,357 | - | Carl Nelson : Area Committee Chair - Kincardine and Mearns | 25,612 | 25,612 | 29,954 | - | Pension<br>Lump Sum | -<br>- | -<br>- |
| 25,357 | 3,651 | Moira Ingleby : Area Committee Chair - Marr | 25,612 | 25,612 | 32,970 | 4,943 | Pension<br>Lump Sum | 4<br>2 | 1<br>- |
| 25,357 | 3,651 | Rob Merson : Area Committee Chair – Formartine | 25,612 | 25,612 | 32,298 | 4,943 | Pension<br>Lump Sum | 3<br>2 | -<br>1 |
| 25,357 | 3,651 | John Cox : Area Committee Chair - Banff and Buchan | 25,612 | 25,612 | 32,359 | 4,943 | Pension<br>Lump Sum | 1<br>- | -<br>- |
| **447,994** | **50,946** | **CARRIED FORWARD** | **452,102** | **452,102** | **586,194** | **67,179** | | **69** | **22** |

## Remuneration Report (Continued)

### Table B: Remuneration and Pension Benefits of Senior Councillors, Convenors and Vice-Convenors (Continued)

| Total Remun'n 2014/15 £ | Pension Cont's 2014/15 £ | Name and Post Title | Salaries, Fees and Allowances 2015/16 £ | Total Remun'n 2015/16 £ | Total Cost of Councillors (non-taxable expenses, NI and Superannuation) 2015/16 £ | Pension Cont's 2015/16 £ | | As at 31 March 2016 £'000 | Difference from 31 March 2015 £'000 |
|---|---|---|---|---|---|---|---|---|---|
| **447,994** | **50,946** | **BROUGHT FORWARD** | **452,102** | **452,102** | **586,194** | **67,179** | | **69** | **22** |
| 25,357 | 3,651 | Stuart Pratt : Area Committee Chair - Buchan | 25,612 | 25,612 | 34,088 | 4,943 | Pension<br>Lump Sum | 4<br>2 | 1<br>- |
| 22,965 | 3,307 | Fergus Hood : Area Committee Chair - Garioch (From 1 May 2014) | 25,612 | 25,612 | 32,984 | 4,943 | Pension<br>Lump Sum | 3<br>- | 1<br>- |
| 2,151 | 310 | Sheena Lonchay : Area Committee Chair - Garioch (Until 30 April 2014) | - | - | - | - | Pension<br>Lump Sum | -<br>- | -<br>- |
| **498,467** | **58,214** | **TOTALS** | **503,326** | **503,326** | **653,266** | **77,065** | | **78** | **24** |

**Notes to Table B:**

Note 1 – The scheme for Councillor's allowances is not the same as that for MPs, MEPs or MSPs.  Councillors receive a basic salary and are entitled to claim for a limited range of expenses.  These are limited to essential travel and subsistence directly related to their duties as Councillors.

Note 2 – The figures shown reflect the remuneration for the period of their appointment in the reporting years.

Note 3 – No Senior Councillor received any remuneration from a subsidiary body as a representative of the Council.

Note 4 – The column titled "Total Cost of Councillors (non-taxable expenses, NI and Superannuation)" contains the information reported each year on the cost of Councillors which is published on the Council's website.

Note 5 – For 2015/16 there was no payment for Bonuses, Taxable Expenses, Compensation for Loss of Employment, and Non-Cash Benefits.  These columns have been removed from the above table.

**Table C: Remuneration and Pension Benefits of Senior Employees**

| Total Remuneration 2014/15 £ | Pension Contributions 2014/15 £ | Name and Post Title | Salaries, Fees and Allowances 2015/16 £ | Total Remuneration 2015/16 £ | Pension Contributions 2015/16 £ | | As at 31 March 2016 £'000 | Difference from 31 March 2015 £'000 |
|---|---|---|---|---|---|---|---|---|
| 16,955 | 2,373 | Jim Savege : Chief Executive (From 16 February 2015) | 148,022 | 148,022 | 28,344 | Pension<br>Lump Sum | 3<br>- | 3<br>- |
| 134,540 | 17,353 | Colin MacKenzie : Chief Executive (Until 15 February 2015) | - | - | - | Pension<br>Lump Sum | -<br>- | -<br>- |
| 112,035 | 16,133 | Maria Walker : Director of Education and Children's Services | 113,716 | 113,716 | 21,947 | Pension<br>Lump Sum | 58<br>133 | 3<br>2 |
| 112,035 | 16,133 | Stephen Archer : Director of Infrastructure Services | 113,716 | 113,716 | 21,947 | Pension<br>Lump Sum | 73<br>- | 3<br>- |
| 112,035 | 16,133 | Ritchie Johnson : Director of Business Services (From 1 October 2015) : Director of Communities (Until 30 September 2015) | 113,716 | 113,716 | 21,947 | Pension<br>Lump Sum | 37<br>71 | 3<br>1 |
| 112,844 | 16,133 | Christine Gore : Director of Business Services (Until 8 May 2015) (Full Year Equivalent - £113,716) | 19,305 | 19,305 | 3,668 | Pension<br>Lump Sum | 49<br>112 | 1<br>- |
| 82,546 | 11,840 | Alan Wood : Director of Business Services (From 1 June 2015 until 30 September 2015) (Full Year Equivalent - £113,716)<br>: Head of Service (Finance) (Except For 1 June 2015 to 30 September 2015) (Full Year Equivalent - £83,457) | 93,731 | 93,731 | 18,059 | Pension<br>Lump Sum | 32<br>62 | 6<br>8 |
| - | - | Alex Stephen : Head of Service (Finance) (From 1 June 2015 until 30 September 2015) (Full Year Equivalent - £83,457) | 27,395 | 27,395 | 5,287 | Pension<br>Lump Sum | 17<br>30 | 17<br>30 |
| 82,224 | 11,840 | Robert Driscoll : Head of Service (Chief Social Work Officer) | 83,457 | 83,457 | 16,107 | Pension<br>Lump Sum | 36<br>79 | 2<br>1 |
| 82,224 | 11,840 | Karen Wiles : Head of Service (Legal and Governance) | 83,802 | 83,802 | 16,107 | Pension<br>Lump Sum | 10<br>- | 2<br>- |
| **847,438** | **119,778** | **TOTALS** | **796,860** | **796,860** | **153,413** | | **802** | **82** |

**Notes to Table C**:

The figure for gross salary, fees and allowances shown for the Chief Executive for the year ended 31 March 2016 includes £9,440 received as the Returning Officer for Aberdeenshire in respect of the 2015 Westminster Elections, and a Local Council By-Election.

The Director of Business Services, the Head of Service (Finance) and the Head of Service (Legal and Governance) also received payments relating to the 2015 Westminster Elections, and a Local Council By-Election of £300, £160 and £345 respectively during the year ended 31 March 2016.

For 2015/16 there was no payment for Bonuses, Taxable Expenses, Compensation for Loss of Employment, and Non-Cash Benefits. These columns have been removed from the above table.

## Table D: Remuneration of Employees receiving more than £50,000

The Council’s employees receiving more than £50,000 remuneration for the year were paid the following amounts. In accordance with the disclosure requirement of the Regulations, the information in the table shows the number of employees in bands of £5,000. This information includes the senior employees who are subject to the fuller disclosure requirements in the tables above.

| | No of Employees | |
|---|---|---|
| **Remuneration Bands** | **2015/16** | **2014/15** |
| £50,000 - £54,999 | 150 | 142 |
| £55,000 - £59,999 | 40 | 29 |
| £60,000 - £64,999 | 13 | 10 |
| £65,000 - £69,999 | 4 | 4 |
| £70,000 - £74,999 | 7 | 8 |
| £75,000 - £79,999 | 19 | 21 |
| £80,000 - £84,999 | 6 | 4 |
| £85,000 - £89,999 | - | - |
| £90,000 - £94,999 | 1 | - |
| £95,000 - £99,999 | - | - |
| £100,000 - £104,999 | - | - |
| £105,000 - £109,999 | - | - |
| £110,000 - £114,999 | 3 | 4 |
| £115,000 - £119,999 | - | - |
| £120,000 - £124,999 | - | - |
| £125,000 - £129,999 | - | - |
| £130,000 - £134,999 | - | 1 |
| £135,000 - £139,999 | - | - |
| £140,000 - £144,999 | - | - |
| £145,000 > | 1 | - |
| **TOTALS** | **244** | **223** |

**Pension Benefits**

The majority of Senior Councillors and Senior Employees shown in the tables above are members of the LGPS. For benefits accrued before 31 March 2015, the scheme's normal retirement age for both councillors and employees is 65. For benefits accrued after the 1 April 2015 the scheme's retirement age for both councillors and employees will be his or her "Normal Pension Age".

Elected members pension benefits are based on a "career average" pay which is the aggregate of each year's pay (adjusted for inflation) divided by the total number of years and part years they have been a member of the LPGS.

The LGPS provides pension benefits on retirement. For council officers their pension benefits are based on the member's pensionable service (how long he or she has been a member of the LGPS) and his or her salary.

For service up to 31 March 2009, the annual pension is calculated by dividing the final pensionable pay by 80 and multiplying this by their total membership as at 31 March 2009.

The lump sum, which is automatically paid when the person retires for service up to 31 March 2009, is normally three times his or her annual pension and is tax-free.

For service between the 1 April 2009 and 31 March 2015, the annual pension is calculated by dividing the final pensionable pay by 60 and multiplying this by their total membership between the 1 April 2009 and 31 March 2015.

For service after the 31 March 2015, the annual pension is calculated by dividing the pensionable pay by 49 and then adding this to his or her cumulative pension account, which will subsequently be adjusted in line with the cost of living.

There is no automatic lump sum for service after 31 March 2009 and LGPS members may opt to give up (commute) pension for lump sum up to the limit set by the Finance Act 2004.

A Scheme member's pension contribution depends on his or her full-time equivalent pay. From 1 April 2009, a five tier contribution system was introduced with contributions from members being based on how much pay falls into each tier.

| Tier Bandings for 2015/16 | Contribution Rates |
|---|---:|
| Earnings up to and including £20,500 | 5.50% |
| Earnings above £20,500 and up to £25,000 | 7.25% |
| Earnings above £25,000 and up to £34,400 | 8.50% |
| Earnings above £34,400 and up to £45,800 | 9.50% |
| Earnings above £45,800 | 12.00% |

| Tier Bandings for 2014/15 | Contribution Rates |
|---|---:|
| Earnings up to and including £20,335 | 5.50% |
| Earnings above £20,335 and up to £24,853 | 7.25% |
| Earnings above £24,853 and up to £34,096 | 8.50% |
| Earnings above £34,096 and up to £45,393 | 9.50% |
| Earnings above £45,393 | 12.00% |

The value of the accrued benefits shown in this report have 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 total local government service, and not just their current appointment.

## Termination Benefits

### Table E: Exit Packages

| | Compulsory | Compulsory | Voluntary | Voluntary |
|---|---|---|---|---|
| | Number | Value £'000 | Number | Value £'000 |
| **Bandings 2015/16** | | | | |
| Up to £19,999 | 8 | 58 | 3 | 50 |
| £20,000 up to £39,999 | - | - | 2 | 49 |
| £40,000 up to £59,999 | - | - | 1 | 59 |
| | **8** | **58** | **6** | **158** |
| **Total** | | | | **216** |
| | | | | |
| **Bandings 2014/15** | | | | |
| Up to £19,999 | 7 | 47 | 4 | 39 |
| £20,000 up to £39,999 | - | - | 2 | 52 |
| £40,000 up to £59,999 | - | - | - | - |
| £60,000 up to £79,999 | - | - | 1 | 68 |
| £80,000 up to £99,999 | 1 | 85 | - | - |
| £100,000 up to £149,999 | - | - | - | - |
| £150,000 up to £199,999 | - | - | 1 | 156 |
| | **8** | **132** | **8** | **315** |
| **Total** | | | | **447** |

**Notes to Table E:**

1. The total cost of £216,000 in the table above includes exit packages that have been agreed, accrued for and charged to the Council's CIES in the current year.
2. Two additional 2014/15 voluntary leavers, in the up to £19,999 band, were identified during 2015/16 and are reflected in the table above.

Signed

Councillor Richard Thomson, Jim Savege, Chief Executive
Leader of the Council
On behalf of the Councillors and Officers of Aberdeenshire Council
22 September 2016

## Statement of Responsibilities

### The Council's Responsibilities

**The Council is required to:**

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). In this Council, that officer is the Head of Finance;
- 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); and
- Approve the Annual Accounts for signature.

I confirm that these Annual Accounts were approved for signature by the Scrutiny and Audit Committee at its meeting on 22 September 2016.

Signed on behalf of Aberdeenshire Council

Councillor Richard Thomson
Leader of the Council

### The Head of Finance's Responsibilities

The Head of Finance is responsible for the preparation of the Council's Annual Accounts in accordance with the proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing the Annual Accounts, the Head of Finance has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with legislation; and
- complied with the Code (in so far as it is compatible with legislation).

The Head of Finance has also:

- kept adequate accounting records which were up to date; and
- 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 Aberdeenshire Council at the reporting date and the transactions of the Council for the year ended 31 March 2016.

Alan Wood, MA (Hons), CPFA
Head of Finance

## Annual Governance Statement

### Scope of Responsibility

Aberdeenshire Council has a responsibility for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used appropriately. The Council also has a duty under the Local Government in Scotland Act 2003 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 responsibility senior officers put in place appropriate arrangements for the governance of the Council's resources, approved by Councillors. Aberdeenshire Council has adopted a Code of Corporate Governance (the Governance Code) which ensures the accountability and probity of officers of the Council. The Governance Code is consistent with the principles and reflects the requirements of the CIPFA Statement on the Role of the Chief Financial Officer (CFO) in Local Government (2010) as set out in the Application Note to *Delivering Good Governance in Local Government: Framework,* and the Council's financial management arrangements conform to the governance requirements set out therein.

This statement explains how the Council complies with the Governance Code.

### The Purpose of the Governance Framework

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

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 Council'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 the Council for the year ended 31 March 2016 and up to the date of approval of the annual accounts.

### The Governance Framework

The Governance Code covers four key areas: Community Focus, Service Delivery, Structures and Processes, and Risk Management and Internal Control. The Director of Business Services has the responsibility for overseeing the implementation of the Governance Code and reviewing the Governance Code in practice. The Governance Code is currently being reviewed and will be reported to Policy and Resources Committee for comment and approval.

The system of corporate governance and internal financial control is based on a framework with appropriate delegation and accountability. The system includes:

- Council Standing Orders;
- Scheme of Delegation;
- Financial regulations;
- Management information;
- Performance and risk management;
- Comprehensive financial management systems;
- Periodic and annual financial reports;
- Clearly defined capital expenditure guidelines; and
- Periodic review of all financial procedures.

The corporate governance and internal control procedures are informed by:

- Feedback from Councillors and Committees carrying out their scrutiny role;
- Internal Audit & External Audit;
- Work undertaken by external review bodies including Her Majesty's Inspectors of Education, the Care Inspectorate and Audit Scotland;
- Input and comment from managers within the Council; and
- Customer and stakeholder feedback.

**Review of Effectiveness**

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

- The Council and its Committees, including the Scrutiny and Audit Committee, which meet on a six-weekly cycle;
- Strategic Leadership Team (SLT) which consists of the Chief Executive, the three Service Directors, the Chief Officer of the Aberdeenshire Integration Joint Board, the Head of Legal and Governance and the Head of Finance. SLT Meet weekly to discuss matters of strategic importance;
- The Head of Legal and Governance who is the statutory Monitoring Officer in terms of the Local Government and Housing Act 1989 and provides legal advice to Councillors and senior officers;
- The Head of Finance who has statutory responsibility for the Council's financial affairs in terms of Section 95 of the Local Government (Scotland) Act 1973. His responsibilities are set out in the Statement of Responsibilities;
- The Head of Children's Services who is the Chief Social Work Officer and provides professional advice and guidance Councillors and officers in the provision of Social Work Services. He also has a responsibility for overall performance improvement and the identification and management of corporate risk in so far as these relate to Social Work Services;
- Internal Audit which is an independent review function of the Council and is responsible for the internal audit of all financial and non-financial systems of the Council; and
- External organisations that carry out independent audits or inspections of the Council. These include external audit by auditors appointed by the Accounts Commission, school inspections by Her Majesty's Inspectors of Education and the regulation and inspection of care services by the Care Inspectorate.

The Council's Code of Corporate Governance and the related systems of internal financial control provide reasonable assurance that responsibilities will be met. Aberdeenshire Council adheres to the principles of openness, integrity and accountability. All reasonable steps are taken to ensure assets are safeguarded, transactions are authorised, procedures are practical and adhered to and that errors are either prevented or detected within a timely period, corrective action taken and lessons learned.

Each year the external auditor produces a report for the Council, which includes a number of recommendations for the Council to address. The Council recognises the importance of the recommendations and developed an Action Plan which was reported to Scrutiny and Audit Committee on 23 September 2015. The Council has reacted positively and constructively in implementing the Planned Management Actions in the Action Plan by assigning each action to an officer with a target completion date agreed. The responsibility for the completion of the Action Plan rests with the Head of Finance and is discharged through the Chief Accountant.

There were fourteen recommendation in the action plan, of which one was considered to be high priority, eleven were medium priority and two were low priority. A summary of the progress made against each of these recommendations is summarised in the table below.

| Key Areas | Fully Implemented | Partially Implemented | Not Implemented |
|---|---|---|---|
| Property, Plant and Equipment | 1 | 1 | 1 |
| Journals | 1 | | |
| Monthly Monitoring | 1 | | |
| Fixed Asset Register | | 2 | |
| Governance Reviews | | 1 | |
| Benefits Realisation Plans | | | 1 |
| Standardisation of Reporting | 1 | | |
| Targeted Intervention | 1 | | |
| NFI Data Matches | | | 1 |
| Management Commentary | 1 | | |
| Annual Governance Statement | | 1 | |
| Total | 6 (43%) | 5 (36%) | 3 (21%) |

In respect of the actions that have not been implemented, the current progress is as follows:

- Scheme of Valuation – This relates to a recommendation that the 'schemes of valuation' are simplified and that the valuer seeks further input from senior management and their external consultants prior to devising such schemes and that these are critically reviewed prior to adoption. Whilst some simplifications have been made to the scheme, external audit consider that there is further scope for simplification and a further recommendation on this has been included in the 2015/16 Action Plan;
- Benefits Realisation Plans – This relates to the development of robust benefits realisation plans to give assurance that a project is financially viable. These plans also need to be clearly linked to the Medium Term Financial Strategy. This has taken longer than anticipated due to extended consultation with Services on the collation of major projects and the current governance arrangements. It has now been agreed that all major projects will be reported through a Programme Management Office within the Procurement Service where all aspects of project management including benefits will be captured; and
- National Fraud Initiative – This relates to a recommendation that the Council must review its arrangements for following up NFI data matches as a priority to ensure that any potential frauds or errors are identified and followed up timeously and that the self-appraisal checklist from the Audit Scotland 2014 report should be used to assist with planning and monitoring progress. A further recommendation on this has been included in the 2015/16 Action Plan and an NFI Action Plan has been prepared to allow data matches from the 2016 NFI exercise to be carried out starting in January 2017.

It is noted that Internal Audit has again highlighted some significant concerns relating to compliance with Council policies and procedures, in particular with delays in the implementation of Internal Audit recommendations. In response to this, SLT and Service Management teams have re-focused attention on the importance of commenting on the Internal Audit Plan, agreeing appropriate recommendations and setting achievable deadlines for actions. The Chief Executive has also reiterated these points of assurance to the Scrutiny and Audit Committee.

The Chief Internal Auditor has the responsibility to review independently, and report to the Scrutiny and Audit Committee annually on the adequacy and effectiveness of the Council's internal control environment. The Chief Internal Auditor reports that, in his opinion, based on his evaluation of the control environment, reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control system in the year to 31 March 2016.

In addition to the focus on the Internal Audit Plan mentioned above, Service Management Teams will also continue to discuss and implement the Action Plan to the agreed timescale. This will add to the update report to Scrutiny and Audit Committee and influence future Service Plans.

Aberdeenshire's Integration Joint Board (IJB) for Health and Social Care is now established with full delegation of functions and resources. The revenue budget for the IJB has been reported to both Aberdeenshire Council and NHS Grampian for their information. Prior to this, the Transitional Leadership Group, which had been established to oversee the transition to the new arrangements for the integration of Health and Social Care, considered three audit reports on integration at its meeting on 3 February 2016. These were a Scotland-wide report by Audit Scotland, and specific reports on Aberdeenshire by the Council's internal auditors and NHS Grampian's internal auditors. Each of these contained recommendations, which have been agreed by the IJB, and appropriate officers of the Council and NHS Grampian. More details of these can be found in the Annual Governance Statement in the Annual Accounts of the Aberdeenshire Integration Joint Board.

Appropriate arrangements for monitoring expenditure and performance will continue by Aberdeenshire Council.

The Council has been undertaking a wider governance review which includes the decision-making structure, committee structure and review of constitutional documents. A report on the review was considered by Aberdeenshire Council on 30 June 2016, and the key recommendations arising from that report were that:

- the existing 5 committee structure for decision making continue to include four policy committees, a bespoke audit committee and six area committees;
- membership of the Council's policy committees continue on the current basis of 1 member 1 committee;
- high level functions for committees be approved;
- new vision statements and values for Area and Policy Committees be approved;
- the proposed new Audit Committee be allocated responsibility for receiving and providing feedback on reports from the IJB Audit Committee;
- substitute members be permitted for the new Audit Committee;
- the scrutiny role currently exercised by Scrutiny and Audit Committee be shared amongst all policy and area committees and based respective remits;
- Full Council take on the finance primacy role from Policy and Resources Committee;
- decision-making authority for financial matters be delegated to the relevant Policy Committees;
- the new front loading approach for committee involvement in procurement decisions be supported with further information on financial ceilings for different areas of procurement to be agreed as part of the procurement guidance being produced;
- procurement training for Members be compulsory;
- new proposals for Appeals and Appointments Committees be reported to members for approval as part of the Governance Framework documentation review; and
- a mechanism for councillors bringing forward issues be developed.

The Council also agreed that there will be further reports to Council in September and November to bring forward the necessary constitutional documents for detailed amendment. The recommendations are due to be implemented in January 2017.

The full report can be viewed at http://committees.aberdeenshire.gov.uk/committees.aspx?commid=1&meetid=18282.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Scrutiny and Audit Committee, and 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**

Moving forward, the Council will continue to place importance on the governance arrangements. This will involve:

- Continued monitoring of the governance arrangements by Councillors and senior officers;
- Implementing the recommendations of the governance review; and
- Implementing the recommendations from internal and external audit and other audits and inspections.

**Conclusions**

This annual governance statement summarises the Council's governance arrangements, and affirms our commitment that they are reviewed regularly and remain fit for purpose. Subject to the above assurances, and on the basis of the evidence contained in this statement, we are satisfied that the arrangements provide assurance, are adequate and are operating effectively.

| | |
|---|---|
| Jim Savege, Chief Executive | Councillor Richard Thomson,<br>Leaders of the Council |

On behalf of the Officers and Councillors of Aberdeenshire Council

22 September 2016

**Independent auditor's report to the members of Aberdeenshire Council and the Accounts Commission for Scotland**

We certify that we have audited the financial statements of Aberdeenshire Council for the year ended 31 March 2016 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet, Cash Flow Statement, Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Council Tax Income Account, the Business Rates Income Account, Trusts and Endowments and Common Good Funds and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the 2015/16 Code).

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

**Respective responsibilities of the Head of Finance and auditor**

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

**Scope of the audit of the financial statements**

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

**Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2015/16 Code of the state of the affairs of the council as at 31 March 2016 and of the income and expenditure of the council for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2015/16 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

**Opinion on other prescribed matters**

In our opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014; and
- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we are required to report by exception**

We are required to report to you if, in our opinion:

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

We have nothing to report in respect of these matters.

James Boyle, CA (for and on behalf of Deloitte LLP)
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2DB
United Kingdom

22 September 2016

## Movement in Reserves Statement (MIRS) for the Year Ended 31 March 2016

This statement shows the movement in the year on the different reserves held by the Council, analysed into “usable reserves” (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Deficit on the Provision of Services line shows the true economic cost of providing the Council’s services, more details of which are shown in the CIES. These are different from the statutory amounts required to be charged to the General Fund Balance and the HRA for Council tax setting and dwellings rent setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and HRA Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

| | General Fund Balance £’000 | Housing Revenue Account £’000 | Repairs and Renewals Fund £’000 | Insurance Fund £’000 | Capital Reserves* £’000 | Total Usable Reserves £’000 | Total Unusable Reserves £’000 | Total Council Reserves £’000 | Notes Ref |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 31 March 2015** | **(51,598)** | **(2,000)** | **(5,020)** | **(1,228)** | **(6,918)** | **(66,764)** | **(1,163,146)** | **(1,229,910)** | |
| | | | | | | | | | |
| **Movement in Reserves During 2015/16** | | | | | | | | | |
| Deficit on the Provision of Services | 51,911 | 17,223 | - | - | - | **69,134** | **-** | **69,134** | |
| Other Comprehensive Income and Expenditure | - | - | - | - | - | **-** | **(41,637)** | **(41,637)** | |
| **Total Comprehensive Income and Expenditure** | **51,911** | **17,223** | **-** | **-** | **-** | **69,134** | **(41,637)** | **27,497** | |
| | | | | | | | | | |
| Adjustments Between Accounting Basis and Funding Basis Under Regulations | (44,666) | (16,542) | - | - | (1,223) | **(62,431)** | **62,431** | **-** | 5 |
| **Net Decrease/(Increase) before Transfers to Statutory Reserves** | **7,245** | **681** | **-** | **-** | **(1,223)** | **6,703** | **20,794** | **27,497** | |
| | | | | | | | | | |
| Transfers to/(from) Statutory Reserves | (580) | (681) | 597 | (462) | 1,126 | **-** | **-** | **-** | |
| **Decrease/(Increase) in 2015/16** | **6,665** | **-** | **597** | **(462)** | **(97)** | **6,703** | **20,794** | **27,497** | |
| | | | | | | | | | |
| **Balance at 31 March 2016 Carried Forward** | **(44,933)** | **(2,000)** | **(4,423)** | **(1,690)** | **(7,015)** | **(60,061)** | **(1,142,352)** | **(1,202,413)** | |
| Notes Ref | 6 | | | | | | 30 | | |

*An analysis of the capital reserves can be found in the Annex.

## Movement in Reserves Statement (MIRS) for the Year Ended 31 March 2016 (Continued)

| | General Fund Balance £'000 | Housing Revenue Account £'000 | Repairs and Renewals Fund £'000 | Insurance Fund £'000 | Capital Reserves* £'000 | Total Usable Reserves £'000 | Total Unusable Reserves £'000 | Total Council Reserves £'000 | Notes Ref |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 31 March 2014** | **(57,491)** | **(2,000)** | **(4,959)** | **(1,181)** | **(17,456)** | **(83,087)** | **(1,195,592)** | **(1,278,679)** | |
| | | | | | | | | | |
| **Movement in Reserves During 2014/15** | | | | | | | | | |
| Deficit on the Provision of Services | 43,277 | 24,989 | - | - | - | **68,266** | **-** | **68,266** | |
| Other Comprehensive Income and Expenditure | - | - | - | - | - | **-** | **(19,497)** | **(19,497)** | |
| **Total Comprehensive Income and Expenditure** | **43,277** | **24,989** | **-** | **-** | **-** | **68,266** | **(19,497)** | **48,769** | |
| | | | | | | | | | |
| Adjustments Between Accounting Basis and Funding Basis Under Regulations | (31,238) | (22,253) | - | - | 1,548 | **(51,943)** | **51,943** | **-** | 5 |
| **Net Decrease before Transfers to Statutory Reserves** | **12,039** | **2,736** | **-** | **-** | **1,548** | **16,323** | **32,446** | **48,769** | |
| | | | | | | | | | |
| Transfers to/(from) Statutory Reserves | (6,146) | (2,736) | (61) | (47) | 8,990 | **-** | **-** | **-** | |
| **Decrease/(Increase) in 2014/15** | **5,893** | **-** | **(61)** | **(47)** | **10.538** | **16,323** | **32,446** | **48,769** | |
| | | | | | | | | | |
| **Balance at 31 March 2015 Carried Forward** | **(51,598)** | **(2,000)** | **(5,020)** | **(1,228)** | **(6,918)** | **(66,764)** | **(1,163,146)** | **(1,229,910)** | |
| Notes Ref | 6 | | | | | | 30 | | |

*An analysis of the capital reserves can be found in the Annex.

## Comprehensive Income and Expenditure Statement (CIES) for the Year Ended 31 March 2016

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

| Gross Expenditure 2014/15 £'000 | Income 2014/15 £'000 | Net Expenditure 2014/15 £'000 | Aberdeenshire Services | Gross Expenditure 2015/16 £'000 | Income 2015/16 £'000 | Net Expenditure 2015/16 £'000 | Notes Ref |
|---|---|---|---|---|---|---|---|
| 297,247 | (11,041) | 286,206 | Education Services | 311,817 | (10,590) | 301,227 | |
| 49,161 | (41,888) | 7,273 | Housing Services | 51,153 | (44,314) | 6,839 | |
| 77,249 | (51,592) | 25,657 | HRA | 69,209 | (54,543) | 14,666 | |
| 30,463 | (5,012) | 25,451 | Cultural and Related Services | 32,814 | (6,096) | 26,718 | |
| 39,964 | (6,530) | 33,434 | Environmental Services | 40,688 | (5,309) | 35,379 | |
| 70,983 | (30,628) | 40,355 | Roads and Transport Services | 66,338 | (24,073) | 42,265 | |
| 33,168 | (11,491) | 21,677 | Planning and Development Services | 25,201 | (11,543) | 13,658 | |
| 167,165 | (28,929) | 138,236 | Social Work | 180,167 | (28,211) | 151,956 | |
| 27,831 | (16,677) | 11,154 | Central Services | 34,865 | (23,601) | 11,264 | |
| 11,271 | (414) | 10,857 | Corporate and Democratic Core | 13,798 | (1,216) | 12,582 | |
| 533 | - | 533 | Non Distributed Costs | 351 | - | 351 | |
| **805,035** | **(204,202)** | **600,833** | **COST OF SERVICES** | **826,401** | **(209,496)** | **616,905** | 7 |
| - | (1,367) | (1,367) | (Gains) on the disposal of Non Current Assets and AHfS | - | (2,068) | (2.068) | |
| **-** | **(1,367)** | **(1,367)** | **Other Operating Expenditure** | **-** | **(2,068)** | **(2,068)** | |
| 28,251 | (103) | 28,148 | Interest Payable and Similar Charges | 28,056 | - | 28,056 | 22 |
| 10,365 | - | 10,365 | Net Interest on Net Defined Pension Liability | 9,241 | - | 9,241 | 35 |
| - | (2) | (2) | Changes in the Fair Value of Investment Properties | - | - | - | 16 |
| - | (832) | (832) | Interest Receivable and Similar Income | - | (856) | (856) | 22 |
| **38,616** | **(937)** | **37,679** | **Financing and Investment Income and Expenditure** | **37,297** | **(856)** | **36,441** | |
| - | (568,879) | (568,879) | Taxation and Non-Specific Grant Income | - | (582,144) | (582,144) | 8 |
| | | **68,266** | **Deficit on Provision of Services** | | | **69,134** | |
| | | (48,316) | Deficit/(Surplus) on revaluation of Non Current assets and AHfS | | | 10,082 | |
| | | 28,819 | Actuarial (gains)/losses on pension assets/liabilities | | | (51,719) | 35 |
| | | **(19,497)** | **Other Comprehensive Income and Expenditure** | | | **(41,637)** | |
| | | **48,769** | **Total Comprehensive Income and Expenditure** | | | **27,497** | |
| | | | Other Notes | | | | 10 - 12 |

## Balance Sheet as at 31 March 2016

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories: (i) Usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use; and (ii) Unusable reserves, which the Council may not use to provide services. These 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 shown in the MIRS line "Adjustments between accounting basis and funding basis under regulations".

| 2014/15 £'000 | | 2015/16 £'000 | Note Ref |
|---:|---|---:|---:|
| 2,101,312 | Property, Plant and Equipment | 2,104,410 | 14 |
| 1,320 | Heritage Assets | 1,604 | 15 |
| 1,743 | Investment Properties | 1,741 | 16 |
| 2,093 | Intangible Assets | 1,970 | 17 |
| 77 | Long Term Investments | 77 | 22 |
| 3,250 | Long Term Debtors | 5,911 | 25 |
| **2,109,795** | **Long Term Assets** | **2,115,713** | |
| 10,000 | Short Term Investments | - | 22 |
| 1,101 | Assets Held for Sale | 40 | 18 |
| 4,012 | Inventories | 3,871 | 24 |
| 27,793 | Short Term Debtors | 29,969 | 25 |
| 42,997 | Cash and Cash Equivalents | 21,925 | 26 |
| **85,903** | **Current Assets** | **55,805** | |
| (37,027) | Short Term Borrowing | (48,782) | 22 |
| (83,093) | Short Term Creditors | (86,791) | 27 |
| (207) | Provisions | (121) | 28 |
| - | Revenue Grants Receipts in Advance | (889) | 29 |
| **(120,327)** | **Current Liabilities** | **(136,583)** | |
| (4,951) | Provisions | (11,549) | 28 |
| (489,901) | Long Term Borrowing | (485,130) | 22 |
| (286,123) | Pension Liabilities | (253,899) | 35 |
| (116) | Finance Leases | (115) | 19, 22 |
| (49,405) | PFI and PPP Liabilities | (66,329) | 20 |
| (14,965) | Capital Grants Receipts in Advance | (15,500) | 29 |
| **(845,461)** | **Long Term Liabilities** | **(832,522)** | |
| | | | |
| **1,229,910** | **Net Assets** | **1,202,413** | |
| | | | |
| (66,764) | Usable Reserves | (60,061) | MIRS |
| (1,163,146) | Unusable Reserves | (1,142,352) | 30 |
| **(1,229,910)** | **Total Reserves** | **(1,202,413)** | |
| | Other Notes | | 13,21,23 31–34, 36 |

Alan Wood, MA (Hons), CPFA

Head of Finance

The unaudited accounts were issued on 17 June 2016 and the audited accounts were authorised for issue on 22 September 2016.

## Cash Flow Statement for the Year Ended 31 March 2016

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

| 2014/15 £'000 | | 2015/16 £'000 | Notes Ref |
|---|---|---|---|
| **(68,266)** | **Net deficit on the provision of services** | **(69,134)** | |
| 149,353 | Adjust net deficit on the provision of services for non cash movements | 157,744 | |
| (44,727) | Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities | (38,467) | |
| **36,360** | **Net Cash Flows from Operating Activities** | **50,143** | 37 |
| | **Investing Activities:** | | |
| (154,031) | Purchase of Property, Plant and Equipment, Investment Property and Intangible Assets | (122,300) | |
| (204) | Other Payments for Investing Activities | (2,678) | |
| 3,289 | Proceeds from the Sale of Property, Plant and Equipment, Investment Property and Intangible Assets | 4,232 | |
| 42,915 | Other Receipts from Investment Activities | 44,754 | |
| **(108,031)** | **Net Cash Flows from Investing Activities** | **(75,992)** | |
| | **Financing Activities:** | | |
| 82,133 | Cash Receipts of Short Term and Long Term Borrowing | 40,394 | |
| (2,089) | Cash Payments for the Reduction of the Outstanding Liabilities Relating to the Finance Leases and On Balance Sheet PFI Contracts | (2,242) | |
| (19,291) | Repayments of Short Term and Long Term Borrowing | (33,375) | |
| **60,753** | **Net Cash Flows from Financing Activities** | **4,777** | |
| | | | |
| **(10,918)** | **Net Decrease in cash and cash equivalents** | **(21,072)** | |
| | | | |
| 53,915 | Cash and cash equivalents at 1 April | 42,997 | |
| **42,997** | **Cash and cash equivalents at 31 March** | **21,925** | 26 |

## Note 1 – Significant Accounting Policies

### 1.1 General Principles

The Annual Accounts summarise the Council's transactions for the 2015/16 financial year and its position at the year end of 31 March 2016. The Council 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 requires these 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 2015/16 (the Code) and the Service Reporting Code of Practice 2015/16 (SeRCOP), supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act. The accounting convention adopted in the Annual Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets.

The Council has no transactions that will be reclassified subsequently to the Surplus or Deficit on the Provision of Services in terms of International Accounting Standard 1 (IAS 1) and has, therefore, not grouped the items in Other Comprehensive Income and Expenditure into amounts that are reclassifiable and amounts that are not, i.e. all the amounts in Other Comprehensive Income and Expenditure are not reclassifiable in the Surplus or Deficit on the Provision of Services.

### 1.2 Accruals of Income and Expenditure

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

- income from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;
- income from the provision of services is recognised when the Council 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 Council;
- supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet;
- expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;
- interest payable on borrowings and receivable on investments is accounted for respectively as expenditure and income on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract; and
- 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.

### 1.3 Cash and Cash Equivalents

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

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

## Note 1 – Significant Accounting Policies (Continued)

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

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

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

The Council is not required to raise Council tax to cover depreciation, revaluation and impairment losses, or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to loans fund principal repayments. Depreciation, revaluation and impairment losses, and amortisation are therefore substituted by a funding contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the MIRS for the difference between the two.

### 1.5 Employee Benefits

#### (i) Benefits Payable During Employment

Short-term employee benefits are those due to be settled within twelve months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees, and are recognised as an expense in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements and flexi time 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 wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the MIRS so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

#### (ii) Termination Benefits

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

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

#### (iii) Post Employment Benefits

Employees of the Council are members of one of two separate pension schemes:

- The Scottish Teachers' Pension Scheme, administered by the Scottish Government; and
- The Local Government Pension Scheme, the North East Scotland Pension Fund, administered by Aberdeen City Council.

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the Council.

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot be identified specifically to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Education Service line in the CIES is charged with the employer's contributions payable to Teachers' Pensions in the year.

**(iv) The Local Government Pension Scheme**

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

- the liabilities of the North East Scotland Pension Fund attributable to the Council 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 projections of projected earnings for current employees;
- liabilities are discounted to their value at current prices, using a discount rate of 3.5% (based on a weighted average of "spot yields" on AA rated corporate bonds);
- the assets of the North East Scotland Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
  - quoted securities – current bid price;
  - unquoted securities – professional estimate;
  - unitised securities – current bid price; and
  - 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 earned this year – allocated in the CIES 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 CIES as part of Non Distributed Costs;
  - net interest on the net defined benefit liability, i.e. net interest expense for the Council – the change during the period 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 CIES – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability 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 comprising:
  - the return on plan assets – excluding amounts included in net interest on the net defined benefit 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 – debited or credited to the Pensions Reserve as Other Comprehensive Income and Expenditure; and
- contributions paid to the North East Scotland 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 Council to the Pension Fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the MIRS, 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 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.

**(v) Discretionary Benefits**

The Council 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 (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

**1.6 Events after the Balance Sheet Date**

Events after the Balance Sheet date 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:

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

**1.7 Fair Value Measurement**

The Council measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

a) in the principal market for the asset or liability, or
b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's Annual Accounts are categorised within the fair value hierarchy, as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date.
Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 – unobservable inputs for the asset or liability.

### 1.8 Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

#### (i) Financial Liabilities

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

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

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

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

#### (ii) Financial Assets

The Council holds loans and receivables which are defined as assets that have fixed or determinable payments but are not quoted in an active market.

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are measured subsequently at amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the CIES for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest reflected in Debtors) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

However, the Council has made a number of loans to small businesses and other organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable from the small businesses and other organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the CIES to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the MIRS.

## Note 1 – Significant Accounting Policies (Continued)

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the CIES. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

The council derecognises a financial asset only when the contractual right to the cash flows from the asset expire. Any gains and losses that arise on the derecognition of an asset are credited/debited to the Financing and Investment Income and Expenditure line in the CIES.

### 1.9 Foreign Currency Translation

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into Sterling at the exchange rate applicable on the date on which the transaction was effective. Where amounts in foreign currency are outstanding at the year end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the CIES.

### 1.10 Government Grants and Contributions

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

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

Amounts recognised as due to the Council are not credited to the CIES until conditions attaching 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 CIES.

Where capital grants are credited to the CIES, they are reversed out of the General Fund Balance in the MIRS. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Account. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

### 1.11 Group Accounts

Group Accounts are required to be prepared under the Code where the Council has interests in subsidiaries, associates and/or joint ventures, unless their interest is considered immaterial. The Council has considered its interest in the Trusts and Endowments for which the Council is the sole Trustee, Common Good Funds, the Grampian Valuation Joint Board, the Aberdeenshire Integration Joint Board, Create Homes and Nestrans and concluded that they are not considered to be material, therefore no group accounts have been prepared from 2015/16.

### 1.12 Heritage Assets

Aberdeenshire Council's Museum Service collections relate to the natural and man-made history of Aberdeenshire. These are held in support of the Museum Service's primary objective which is "To collect, research, conserve, interpret and make accessible to all people living in Aberdeenshire the museum collection belonging to Aberdeenshire Council". The vast majority of the objects held were acquired in the 19th century and the first half of the 20th century.

Aberdeenshire Council's Archaeology Service collections and heritage assets either relate directly to the everyday activities of protecting and managing all known elements of the historic environment within Aberdeenshire Council (it also provides a similar service to Moray and Angus Councils) or are physical items that have been allocated to it under the Council's Asset Management Plan. Most items are donated.

In the opinion of the Council, reliable information on cost or valuation is not available for the majority of these collections. This is owing to the lack of information on purchase cost, the lack of comparable market values, the diverse nature of the objects and the volume of items held. The Council has applied a de minimis of £100,000 for reporting Heritage Assets on the Balance Sheet.

The Deskford Carnyx, which is regarded as of national importance and is on loan to National Museums Scotland was valued by them in 2011 at current sale room price.

Heritage assets are deemed to have indeterminate lives and a high residual value; hence the Council does not consider it appropriate to charge depreciation. The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment – see note 1.20 (iii).

### 1.13 Intangible Assets

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

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

Intangible assets are measured initially at cost. Amounts are not revalued, as the fair value of the assets held by the Council cannot be determined by reference to an active market. The amortisable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the CIES. No amortisation charge is made for an intangible asset in the year of acquisition. Thereafter, the straight-line method is applied, based on the opening balance. A full year's amortisation charge is made in the year of disposal.

An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the CIES. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the CIES.

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

## Note 1 – Significant Accounting Policies (Continued)

### 1.14 Inventories and Work in Progress

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

Work in progress is subject to an interim valuation at the year end and recorded in the Balance Sheet at cost plus any profit reasonably attributable to the works.

### 1.15 Investment Properties

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

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are valued at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the CIES. The same treatment is applied to gains and losses on disposal.

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

### 1.16 Joint Operations

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Council in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Council as a joint operator recognises:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

### 1.17 Leases

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

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

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

**(i) The Council as Lessee**

**Finance Leases**

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor.

Lease payments are apportioned between:

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

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

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

**Operating Leases**

Rentals paid under operating leases are charged to the CIES as an expense of the services benefitting 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. where there is a rent-free period at the commencement of the lease).

**(ii) The Council as Lessor**

**Finance Leases**

Where the Council grants a finance lease over a property the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the CIES as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the CIES also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a debtor in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a capital receipt for the disposal of the asset – applied to write down the debtor;  and
- finance income (credited to the Financing and Investment Income and Expenditure line in the CIES).

The gain credited to the CIES on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the MIRS. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to an earmarked part of the Capital Receipt Reserve. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the Debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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

**Operating Leases**

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the CIES. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

**1.18 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 SeRCOP. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation; and
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on Assets Held for Sale.

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

**1.19 Prior Year Adjustments, Changes in Accounting Policies and Estimates and Errors**

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

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

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

**1.20 Property, Plant and Equipment**

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

**(i) Recognition**

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

**Note 1 – Significant Accounting Policies (Continued)**

The de minimis applied when accounting for expenditure of a capital nature that is funded from revenue is £6,000 for Plant, Furniture and Equipment, £10,000 for Vehicles and £20,000 for all other categories of Property, Plant and Equipment which reflects the concept of materiality when preparing the financial statements.

**(ii) Measurement**

Assets are initially measured at cost, comprising:

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

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

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

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

- infrastructure, community assets and assets under construction – depreciated historical cost;
- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH). A discount factor of 51% is applied, representing the difference between the public and private rental sector for general Housing stock;
- non-specialised property – current value, determined as an amount that would be paid for the asset in its existing use (existing use value – EUV);
- specialised property – current value, but because of their specialist nature, are measured at depreciated replacement cost which is used as an estimate of current value;
- surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective; and
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

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

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. In exceptional cases, gains will be credited to the CIES where they arise from the reversal of a revaluation loss charged previously to a service.

Where decreases in value are identified, they are accounted as follows:

- 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 CIES.

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

**(iii) Impairment**

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

Where impairment losses are identified, they are accounted as follows:

- 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, the carrying amount of the asset is written down against the relevant service line(s) in the CIES.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the CIES, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

**(iv) Disposals**

When it becomes probable that an asset will be sold rather than continuing to be used for service delivery it is reclassified as an Asset Held for Sale. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable. For the sale to be highly probable, the Council must be committed to a plan to sell the asset, and an active programme to locate a buyer must have been initiated. The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the CIES. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

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

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

Amounts received for a disposal are categorised as capital receipts. Receipts are required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment. Receipts are appropriated to the Reserve from the General Fund Balance in the MIRS.

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

**(v) Depreciation**

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

Deprecation is calculated on the following bases:

- Council Dwellings - straight-line allocation over the useful life of the property (between 10 and 60 years) as estimated by the valuer;
- Other Buildings – straight-line allocation over the useful life of the property (between 10 and 60 years) as estimated by the valuer;
- Vehicles, Plant and Equipment – straight-line allocation over the useful life of the asset (between 4 and 30 years) as advised by a suitably qualified officer;
- Infrastructure – straight-line allocation over the useful life of the asset (between 10 and 60 years) as advised by a suitably qualified officer; and
- Community Assets – straight-line allocation over the useful life of the asset (between 5 and 60 years) as advised by a suitably qualified officer.

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

**(vi) Componentisation**

Components of an item of Property, Plant and Equipment are recognised separately for depreciation purposes where it is considered that the cost of the component is significant in relation to the total cost of the asset. Assets with a carrying value of £5,000,000 and below will be disregarded for componentisation as the impact upon the reported cost of service is not considered material.

Assets that are above the £5,000,000 de minimis threshold will be componentised where the cost of the component is significant in relation to the overall total cost of the asset and the difference in useful life is significant in relation to the main asset.

The components that will be considered in terms of this policy are:

- External Works;
- Walls and Structure;
- Roof; and
- Mechanical and Electrical.

This policy applies to enhancement and acquisition expenditure incurred, and revaluations carried out, from 1 April 2010. It excludes land assets which are already identified separately.

**1.21 Private Finance Initiative (PFI) and Similar Contracts**

PFI contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council under a finance lease. The amounts payable to the PFI operators each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the CIES;
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the CIES. The interest charge on the contract with Robertson Education (Aberdeenshire) Limited is 8.687%, the interest charge on the contract with Robertson Education (Aberdeenshire 2) Limited is 8.299%;
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the CIES;
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease); and
- lifecycle replacement costs – a proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

In future periods the Council will be commencing a contract arrangement for the AWPR. The accounting treatment adopted will be similar to that detailed above.

**1.22 Provisions, Contingent Liabilities and Contingent Assets**

**(i) Provisions**

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

Provisions are charged as an expense to the appropriate service line in the CIES in the year that the Council becomes aware of the obligation, and measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

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

**Note 1 – Significant Accounting Policies (Continued)**

The Council has created provisions for compensation for equal pay claims for staff who have not yet signed compromise agreements and who have progressed a tribunal claim.

**(ii) Contingent Liabilities**

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

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

**(iii) Contingent Assets**

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

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

**1.23 Reserves**

The Council sets aside specific amounts as reserves as allowed by statute. Reserves are created by appropriating amounts out of the General Fund Balance in the MIRS. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus/Deficit on the Provision of Services in the CIES. The reserve is then appropriated back into the General Fund Balance in the MIRS so that there is no net charge against Council Tax for the expenditure.

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

**1.24 VAT**

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

**Note 2 – Accounting Standards that have been Issued but have not yet been Adopted and New Standards, Amendments and Interpretations that Became Effective in 2015/16**

The adoption of the following Accounting Standards by the Code in 2016/17 will result in changes in accounting policy:

- Amendments to IAS 19 Employee Benefits (Defined Benefit Plans: Employee Contributions);
- Annual Improvements to IFRSs 2010–2012 Cycle;
- Amendment to IFRS 11 Joint Arrangements (Accounting for Acquisitions of Interests in Joint Operations);
- Amendment to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (Clarification of Acceptable Methods of Depreciation and Amortisation);
- Annual Improvements to IFRSs 2012–2014 Cycle;
- Amendment to IAS 1 Presentation of Financial Statements (Disclosure Initiative);
- The changes to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the introduction of the new Expenditure and Funding Analysis; and
- The changes to the format of the Fund Account and the Net Assets Statement.

It is not expected that these changes will have a material impact on the information provided in the financial statements.

The following new Standards, Amendments and Interpretations became effective in 2015/16 for the first time:

- IFRS 13 Fair Value Measurement;
- Annual Improvements to IRFS 2011-2013 Cycle;
- IFRIC 21 Levies; and
- IAS 36 Impairment of Assets (amendment).

There is no material impact on the information provided in the financial statements as a result of the above. However, IFRS 13 Fair Value Measurement has resulted in the inclusion of a new accounting policy (1.7 Fair Value Measurement) and additional disclosures in notes 16 and 22.

**Note 3 – Critical Judgements in Applying Accounting Policies**

In applying the accounting policies set out in note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgement made in the Annual Accounts is:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not sufficient to provide an indication that the assets of the Council might be impaired as a result or a need to close facilities and reduce levels of service provision. The level of future uncertainty and associated risk is considered as part of the Council’s Medium Term Financial Strategy.

## 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 Council 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 Council's Balance Sheet at 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

**Property, Plant and Equipment** - assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. If the useful life of assets is reduced, depreciation increases or the asset may be impaired, and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £9,567,000 for every year that useful lives had to be reduced. The value of assets is measured by an internal valuer in accordance with the policies set out in note 1.20 (ii) and the impact recorded in the accounts. The vast majority of Property, Plant and Equipment assets are valued at fair value. The valuations are significant estimates which are based on specialist and management assumptions and which can be subject to material changes in value. The significant assumptions used in the valuations are detailed in note 14.

**Provisions** - The Council has made a provision of £4,794,000 for the settlement of claims for back pay arising from the Equal Pay initiative, based on the number of claims received and an average settlement amount. It is not certain that all valid claims have yet been received by the Council or that precedents set by other authorities in the settlement of claims will be applicable. An increase over the forthcoming year of 10% in either the total number of claims or the estimated average settlement would each have the effect of adding £479,000 to the provision needed. The Council has made a provision of £6,679,000 for asset decommissioning costs relating to a number of assets owned by Aberdeenshire Council. Asset decommissioning costs were recognised at the end of the financial year for the first time. The provision is an estimate of costs to dismantle, remove items and to restore the related sites for 18 HWRC sites; 8 waste transfer sites; 5 landfill sites and 2 quarries. While the associated decommissioning costs were not settled in 2015/16 the obligation exists to settle these costs in future and the Council must capitalise these costs and fund from borrowing in accordance with LASAAC accounting guidance issued in September 2014.

**Arrears** - At 31 March 2016, the Council had a balance of sundry debtors of £8,914,000. A review of significant balances suggested that an allowance for doubtful debts of 51.82% (£4,619,000) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient. If collection rates were to deteriorate, an additional £891,000 would require to be set aside for each 10% increase in the allowance. This list does not include assets and liabilities that are carried at fair value based on a recently observed market price. At 31 March 2016, the Council had arrears of Council Tax of £22,817.000. A review of significant balances suggested that an allowance for doubtful debts of £15,544,000 was appropriate. Should collection rates deteriorate by 0.1%, this would add £473,000 to the provision.

**Pension Liability** – The estimation of the defined benefit obligations is sensitive to various actuarial assumptions. More details on this can be found in note 35.

## Note 5 - 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 Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

| 2015/16 | General Fund Balance £'000 | Housing Revenue Account £'000 | Capital Reserves* £'000 | Total Usable Reserves £'000 | Total Unusable Reserves £'000 |
|---|---|---|---|---|---|
| **Adjustments involving the Capital Adjustment Account:** | | | | | |
| **Reversal of items debited or credited to the CIES:** | | | | | |
| Charges for depreciation and impairment of non current assets | (62,923) | (35,168) | - | **(98,091)** | **98,091** |
| Revaluation losses on PPE and AHfS | (30,561) | 747 | - | **(29,814)** | **29,814** |
| Movements in the fair value of Investment Properties | - | - | - | **-** | **-** |
| Amortisation of intangible assets | (565) | (56) | - | **(621)** | **621** |
| Grants and contributions used to fund capital expenditure | 39,805 | 3,106 | - | **42,911** | **(42,911)** |
| Amounts of non current assets and AHfS written off on disposal or sale as part of the gain on disposal to the CIES | (1,067) | (1,172) | - | **(2,239)** | **2,239** |
| **Insertion of items not debited or credited to the CIES:** | | | | | |
| Statutory provision for the repayment of debts | 12,830 | 533 | - | **13,363** | **(13,363)** |
| Capital expenditure charged against the General Fund and HRA balances | 12,022 | 14,543 | - | **26,565** | **(26,565)** |
| **Adjustments involving the Capital Receipts Reserve:** | | | | | |
| Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES | 2,249 | 2,058 | - | **4,307** | **(4,307)** |
| **Adjustment involving the Capital Grants Unapplied Account:** | | | | | |
| Unapplied grants and contributions transferred to the Capital Grants Unapplied Account | 1,249 | - | (1,249) | **-** | **-** |
| Grants used to fund capital expenditure transferred to the Capital Adjustment Account | - | - | 26 | **26** | **(26)** |
| **Adjustments involving the Financial Instruments Adjustment Account:** | | | | | |
| Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements | 934 | 263 | - | **1,197** | **(1,197)** |
| **Adjustments involving the Pensions Reserve:** | | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES (see note 35) | (49,717) | (3,386) | - | **(53,103)** | **53,103** |
| Employer's pensions contributions and direct payments to pensioners payable in the year | 31,611 | 1,997 | - | **33,608** | **(33,608)** |
| **Adjustment involving the Employee Statutory Adjustment Account:** | | | | | |
| Movement in annual leave earned but not used by 31 March | (533) | (7) | - | **(540)** | **540** |
| **Total Adjustments** | **(44,666)** | **(16,542)** | **(1,223)** | **(62,431)** | **62,431** |

*An analysis of the capital reserves can be found in the Annex.

## Note 5 - Adjustments between Accounting Basis and Funding Basis under Regulations (Continued)

| 2014/15 Comparative Figures | General Fund Balance £'000 | Housing Revenue Account £'000 | Capital Reserves* £'000 | Total Usable Reserves £'000 | Total Unusable Reserves £'000 |
|---|---|---|---|---|---|
| **Adjustments involving the Capital Adjustment Account:** | | | | | |
| **Reversal of items debited or credited to the CIES:** | | | | | |
| Charges for depreciation and impairment of non current assets | (60,054) | (44,118) | - | **(104,172)** | **104,172** |
| Revaluation losses on PPE and AHfS | (14,662) | (129) | - | **(14,791)** | **14,791** |
| Movements in the market value of Investment Properties | 2 | - | - | **2** | **(2)** |
| Amortisation of intangible assets | (542) | (21) | - | **(563)** | **563** |
| Grants and contributions used to fund capital expenditure | 33,870 | 6,718 | - | **40,588** | **(40,588)** |
| Amounts of non current assets and AHfS written off on disposal or sale as part of the gain on disposal to the CIES | (791) | (1,709) | - | **(2,500)** | **2,500** |
| **Insertion of items not debited or credited to the CIES:** | | | | | |
| Statutory provision for the repayment of debts | 12,349 | 492 | - | **12,841** | **(12,841)** |
| Capital expenditure charged against the General Fund and HRA balances | 17,081 | 15,458 | - | **32,539** | **(32,539)** |
| **Adjustments involving the Capital Receipts Reserve:** | | | | | |
| Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES | 1,388 | 2,479 | - | **3,867** | **(3,867)** |
| **Adjustment involving the Capital Grants Unapplied Account:** | | | | | |
| Unapplied grants and contributions transferred to the Capital Grants Unapplied Account | 272 | - | (272) | **-** | **-** |
| Grants used to fund capital expenditure transferred to the Capital Adjustment Account | - | - | 1,820 | **1,820** | **(1,820)** |
| **Adjustments involving the Financial Instruments Adjustment Account:** | | | | | |
| Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements | 933 | 263 | - | **1,196** | **(1,196)** |
| **Adjustments involving the Pensions Reserve:** | | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES (see note 35) | (44,550) | (3,025) | - | **(47,575)** | **47,575** |
| Employer's pensions contributions and direct payments to pensioners payable in the year | 23,216 | 1,410 | - | **24,626** | **(24,626)** |
| **Adjustment involving the Employee Statutory Adjustment Account:** | | | | | |
| Movement in annual leave earned but not used by 31 March | 250 | (71) | - | **179** | **(179)** |
| **Total Adjustments** | **(31,238)** | **(22,253)** | **1,548** | **(51,943)** | **51,943** |

*An analysis of the capital reserves can be found in the Annex.

## Note 6 - Transfers to/from Earmarked Reserves

Of the General Fund Balance of £44,933,000 (2014/15: £51,598,000), £27,655,000 (2014/15: £29,536,000) is earmarked for specific purposes and £17,278,000 (2014/15: £22,062,000) represents the Working Balance. This note sets out details the amounts earmarked from the General Fund to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2015/16.

| General Fund | Balance at 31 March 2014 £'000 | Transfers Out 2014/15 £'000 | Transfers in 2014/15 £'000 | Balance at 31 March 2015 £'000 | Transfers Out 2015/16 £'000 | Transfers in 2015/16 £'000 | Balance at 31 March 2016 £'000 |
|---|---|---|---|---|---|---|---|
| Business Transformation | **(2,000)** | 3,075 | (8,652) | **(7,577)** | 4,077 | - | **(3,500)** |
| Devolved Education Management (DEM) | **(4,120)** | - | (262) | **(4,382)** | - | (776) | **(5,158)** |
| Property Service - Central Energy Efficiency Fund | **(522)** | - | (73) | **(595)** | 79 | (51) | **(567)** |
| Sinking Funds for the Replacement of All Weather Pitches | **(557)** | 400 | (63) | **(220)** | - | (61) | **(281)** |
| Infrastructure Projects | **(12,000)** | 12,000 | (2,654) | **(2,654)** | 2,654 | - | **-** |
| Six Key Areas for Development | **(7,476)** | 4,486 | - | **(2,990)** | 2,842 | - | **(148)** |
| Investment in Technologies | **(796)** | 212 | (18) | **(602)** | 10 | (190) | **(782)** |
| Community, Culture and Tourism | **(2,190)** | 790 | (569) | **(1,969)** | 559 | (81) | **(1,491)** |
| Welfare Reform | **(1,030)** | 48 | - | **(982)** | 83 | - | **(899)** |
| Business Rates Incentivisation Scheme Income | **(170)** | - | (600) | **(770)** | - | - | **(770)** |
| Innovation | **(4,512)** | 3,994 | (2,711) | **(3,229)** | 305 | (171) | **(3,095)** |
| Aberdeen Western Peripheral Route | **(946)** | 946 | - | **-** | - | - | **-** |
| Education Learning Estate Reserve | **-** | - | - | **-** | - | (2,000) | **(2,000)** |
| Affordable Housing | **-** | - | - | **-** | 733 | (1,033) | **(300)** |
| Transitional Reserve for Severance Costs | **-** | - | - | **-** | - | (1,033) | **(1,033)** |
| Regeneration and Priority Town Centre Reserve | **-** | - | - | **-** | 356 | (5,670) | **(5,314)** |
| Revenue Grants Unconditional And Expenditure Not Incurred | **(3,908)** | 2,311 | (688) | **(2,285)** | 1,734 | (289) | **(840)** |
| Other Earmarked Reserves (each less than £500,000) | **(1,495)** | 323 | (109) | **(1,281)** | 183 | (379) | **(1,477)** |
| **Total Earmarked General Fund Reserves** | **(41,722)** | **28,585** | **(16,399)** | **(29,536)** | **13,615** | **(11,734)** | **(27,655)** |

Details of the purpose and nature of each reserve can be obtained from the Head of Finance, Aberdeenshire Council, Woodhill House, Westburn Road, Aberdeen, AB16 5GB.

## Note 7 – Reconciliation of Revenue Monitoring to the CIES

The analysis of income and expenditure by Service on the face of the CIES is that specified by the SeRCOP. However, decisions about resource allocation are taken by the Council's Policy and Resources Committee on the basis of budget monitoring reports analysed across Council Services. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, impairment losses and amortisation are charged to services in the CIES);
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year; and
- expenditure on some support services is budgeted for centrally and not charged to Services.

The income and expenditure of the Council's Services recorded in the budget monitoring reports for the year is as follows:

| Service Income and Expenditure 2015/16 | Education & Children's Services £'000 | Adult Social Work £'000 | Infrastructure Services £'000 | Business Services £'000 | Total £'000 |
|---|---|---|---|---|---|
| Fees, Charges and Other Service Income | (14,920) | (27,210) | (46,189) | (30,736) | (119,055) |
| Government Grants | (282) | (2,667) | (6,940) | (38,903) | (48,792) |
| **Total Income** | **(15,202)** | **(29,877)** | **(53,129)** | **(69,639)** | **(167,847)** |
| | | | | | |
| Employee Expenses | 191,856 | 51,256 | 34,167 | 35,768 | 313,047 |
| Other Service Expenses | 112,746 | 84,160 | 93,567 | 72,208 | 362,681 |
| Support Service Recharges | - | 175 | 8,504 | 2,194 | 10,873 |
| **Total Expenditure** | **304,602** | **135,591** | **136,238** | **110,170** | **686,601** |
| | | | | | |
| **Net Expenditure** | **289,400** | **105,714** | **83,109** | **40,531** | **518,754** |

| Service Income and Expenditure 2014/15 Comparative Figures | Education & Children's Services £'000 | Restated Adult Social Work £'000 | Infrastructure Services £'000 | Restated Business Services £'000 | Total £'000 |
|---|---|---|---|---|---|
| Fees, Charges and Other Service Income | (13,079) | *(26,151) | *(43,684) | *(64,244) | (147,158) |
| Government Grants | (303) | *(3,024) | *(6,402) | *63 | (9,666) |
| **Total Income** | **(13,382)** | **(29,175)** | **(50,086)** | **(64,181)** | **(156,824)** |
| | | | | | |
| Employee Expenses | 182,660 | *50,282 | *32,324 | *35,879 | 301,145 |
| Other Service Expenses | 108,043 | *81,417 | *105,782 | *66,974 | 362,216 |
| Support Service Recharges | - | *116 | *8,118 | *1,042 | 9,276 |
| **Total Expenditure** | **290,703** | **131,815** | **146,224** | **103,895** | **672,637** |
| | | | | | |
| **Net Expenditure** | **277,321** | **102,640** | **96,138** | **39,714** | **515,813** |

*Figures have been reclassified. See note 9 for details.

## Note 7 – Reconciliation of Revenue Monitoring to the CIES (Continued)

**Reconciliation to Subjective Analysis**

This reconciliation shows how the figures in the analysis of Service income and expenditure relate to a subjective analysis of the Deficit on the Provision of Services included in the CIES.

| Service Income and Expenditure 2015/16 | Service Analysis £'000 | Services and Support Services not in Analysis £'000 | Amounts not Reported to Management £'000 | Amounts not Included in CIES £'000 | Allocation of Recharges £'000 | Cost of Services £'000 | Corporate Amounts £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|
| Fees, Charges and Other Service Income | (119,055) | (112,428) | (7,684) | - | 78,679 | **(160,488)** | - | **(160,488)** |
| Interest and Investment Income | - | - | 81 | - | - | **81** | (856) | **(775)** |
| Income from Council Tax | - | - | - | - | - | **-** | (117,755) | **(117,755)** |
| Government Grants and Contributions | (48,792) | - | (297) | - | - | **(49,089)** | (464,389) | **(513,478)** |
| **Total Income** | **(167,847)** | **(112,428)** | **(7,900)** | **-** | **78,679** | **(209,496)** | **(583,000)** | **(792,496)** |
| | | | | | | | | |
| Employee Expenses | 313,047 | 42,387 | 10,172 | - | - | **365,606** | - | **365,606** |
| Other Service Expenses | 362,681 | 44,546 | 42,080 | (22,955) | (78,679) | **347,673** | - | **347,673** |
| Support Service Recharges | 10,873 | 3,491 | - | - | - | **14,364** | - | **14,364** |
| Depreciation, Amortisation and Impairment | - | - | 98,712 | - | - | **98,712** | - | **98,712** |
| Interest Payments | - | - | 46 | - | - | **46** | 37,297 | **37,343** |
| Gain or Loss on Disposal of Non Current Assets and AHfS | - | - | - | - | - | **-** | (2,068) | **(2,068)** |
| **Total Expenditure** | **686,601** | **90,424** | **151,010** | **(22,955)** | **(78,679)** | **826,401** | **35,229** | **861,630** |
| | | | | | | | | |
| **(Surplus) or Deficit on the Provision of Services** | **518,754** | **(22,004)** | **143,110** | **(22,955)** | **-** | **616,905** | **(547,771)** | **69,134** |

## Note 7 – Reconciliation of Revenue Monitoring to the CIES (Continued)

| Service Income and Expenditure 2014/15 Comparative Figures | Service Analysis £'000 | Services and Support Services not in Analysis £'000 | Amounts not Reported to Management £'000 | Amounts not Included in CIES £'000 | Allocation of Recharges £'000 | Cost of Services £'000 | Corporate Amounts £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|
| Fees, Charges and Other Service Income | (147,158) | (110,424) | (3,886) | - | 67,533 | **(193,935)** | - | **(193,935)** |
| Interest and Investment Income | - | - | 44 | - | - | **44** | (937) | **(893)** |
| Income from Council Tax | - | - | - | - | - | **-** | (119,270) | **(119,270)** |
| Government Grants and Contributions | (9,666) | - | (645) | - | - | **(10,311)** | (449,609) | **(459,920)** |
| **Total Income** | **(156,824)** | **(110,424)** | **(4,487)** | **-** | **67,533** | **(204,202)** | **(569,816)** | **(774,018)** |
| | | | | | | | | |
| Employee Expenses | 301,145 | 39,913 | 12,405 | - | - | **353,463** | - | **353,463** |
| Other Service Expenses | 362,216 | 43,275 | 23,316 | (26,947) | (67,533) | **334,327** | - | **334,327** |
| Support Service Recharges | 9,276 | 3,505 | (335) | - | - | **12,446** | - | **12,446** |
| Depreciation, Amortisation and Impairment | - | - | 104,735 | - | - | **104,735** | - | **104,735** |
| Interest Payments | - | - | 64 | - | - | **64** | 38,616 | **38,680** |
| Gain or Loss on Disposal of Non Current Assets and AHfS | - | - | - | - | - | **-** | (1,367) | **(1,367)** |
| **Total Expenditure** | **672,637** | **86,693** | **140,185** | **(26,947)** | **(67,533)** | **805,035** | **37,249** | **842,284** |
| | | | | | | | | |
| **(Surplus) or Deficit on the Provision of Services** | **515,813** | **(23,731)** | **135,698** | **(26,947)** | **-** | **600,833** | **(532,567)** | **68,266** |

## Note 8 – Taxation and Non Specific Grant Income

An analysis of Taxation and Specific Grant Income is set out in the table below:

| 2014/15 £'000 | | 2015/16 £'000 |
|---|---|---|
| (119,270) | Council Tax Income | (117,755) |
| (86,359) | Business Rates (see below) | (91,954) |
| (322,390) | Non Ring Fenced Government Grants | (328,275) |
| (40,860) | Non Specific Grant Income | (44,160) |
| **(568,879)** | **Total** | **(582,144)** |

An analysis of Business Rate Income is set out in the table below:

| 2014/15 £'000 | | 2015/16 £'000 |
|---|---|---|
| (85,901) | Distribution from Non-Domestic Rates Pool | (91,967) |
| 161 | Discretionary Reliefs | 13 |
| (619) | BRIS Income Retained by Council | - |
| **(86,359)** | **Total** | **(91,954)** |

## Note 9 – Previous Year Reclassifications and Restatements

**Reclassifications**

There was a change in the responsibilities of the Service Directors from 1 October 2015. In Note 7, the 2014/15 comparative figures for income and expenditure of the Council's Services recorded in the budget monitoring reports have been reclassified to enable both years to be shown on a comparable basis. Amounts not reported to Management and Amounts not Included in the CIES have been amended due to the reclassification of the PFI/PPP unitary charge. The overall impact of the adjustments is nil.

| | 2014/15 Published £'000 | Adjustment Made £'000 | 2014/15 Restated £'000 |
|---|---|---|---|
| **Adult Social Work** | | | |
| Fees, Charges and Other Service Income | (29,570) | 3,419 | (26,151) |
| Government Grants | (6,767) | 3,743 | (3,024) |
| Employee Expenses | 54,173 | (3,891) | 50,282 |
| Other Service Expenses | 94,614 | (13,197) | 81,417 |
| Support Service Recharges | 82 | 34 | 116 |
| **Infrastructure Services** | | | |
| Fees, Charges and Other Service Income | (60,082) | 16,398 | (43,684) |
| Government Grants | (2,596) | (3,806) | (6,402) |
| Employee Expenses | 35,853 | (3,529) | 32,324 |
| Other Service Expenses | 110,145 | (4,363) | 105,782 |
| Support Service Recharges | 9,194 | (1,076) | 8,118 |
| **Business Services** | | | |
| Fees, Charges and Other Service Income | (44,427) | (19,817) | (64,244) |
| Government Grants | - | 63 | 63 |
| Employee Expenses | 28,459 | 7,420 | 35,879 |
| Other Service Expenses | 49,414 | 17,560 | 66,974 |
| Support Service Recharges | - | 1,042 | 1,042 |
| **Total** | **238,492** | **-** | **238,492** |

## Note 9 – Previous Year Reclassifications and Restatements (Continued)

**Restatements**

In note 11, the figures have been amended to include figures for Primary Care and Social Work omitted In 2014/15.

| | 2014/15 Published £'000 | Adjustment Made £'000 | 2014/15 Restated £'000 |
|---|---|---|---|
| Gross Budget | 202,638 | 36,833 | 239,471 |
| Gross Expenditure | 209,450 | 35,694 | 245,144 |
| Council's Contribution | 104,103 | 6,699 | 110,802 |

| | 2014/15 Published £'000 | Adjustment Made £'000 | 2014/15 Restated £'000 |
|---|---|---|---|
| NHS Resource Transfer | - | (11,502) | (11,502) |
| NHS Elderly Service Redesign | - | (660) | (660) |
| Other Grants (each less than £500,000) | (2,613) | (456) | (3,069) |

In note 19, the 2014/15 have been restated due to an error in recording a capital payment in relation to Mearns Academy.

| | 2014/15 Published £'000 | Adjustment Made £'000 | 2014/15 Restated £'000 |
|---|---|---|---|
| Not later than one year | 4,527 | (312) | 4,215 |
| Later than one year and not later than five years | 13,167 | (1,248) | 11,919 |
| Later than five years | 43,245 | (16,965) | 26,280 |

In note 23, in the section on Liquidity Risk, the figure for financial liabilities for 2014/15 has been increased by £3,622,000 from £523,306,000 to £526,928,000 and in the graph, the figure for Less than One Year for 2014/15 has been increased by £3,622,000 from £33,405,000 to £37,027,000 as the figure did not agree with the figure for Short Term Borrowing shown in the Balance Sheet.

## Note 10 – Agency Services

**Scottish Water**

The Council collects Water and Sewage Rates on behalf of Scottish Water from householders within the Council's boundaries, where the annual collections were £35,040,000 (2014/15: £34,180,000) There is a management fee payable to the Council associated with these collections which amounted to £662,000 (2014/15: £661,000).

## Note 11 – Partnership Arrangements under the Community Care and Health (Scotland) Act 2002

Under the terms of the Community Care and Health (Scotland) Act 2002, the Council and NHS Grampian entered into a Governance and Accountability Agreement from 2003/04. The purpose of this Agreement is to establish a single visible entity, which will deliver fully integrated health, housing and social care services that will serve the local community of Aberdeenshire by improving, maintaining and restoring health and independence and will assure access to quality health and social care services to people at all levels of need.

The agreement is required to fulfil the requirements of the Scottish Government guidance on Joint Resourcing and Joint Management (CCD7/2001). For these objectives to be met, continued co-operation between the partners and the alignment of budgets and managers must be maintained. The services covered in the initial agreement were Care for the Elderly and Occupational Therapy. From 2004/05 the scope of services included within the Agreement was extended to include all services for adults. This agreement will cease on 1 April 2016 when the Integration Joint Board commences service delivery.

## Note 11 – Partnership Arrangements under the Community Care and Health (Scotland) Act 2002 (Continued)

During 2014/15 the gross budget of the partnership was £250,415,000 (2014/15 restated: *£239,471,000) and its gross expenditure was £255,761,000 (2014/15 restated: *£245,144,000). The Council's contribution to the partnership was £117,006,000 (2014/15 restated: *£110,802,000).

*Figures have been restated. See Note 9 for details.

## Note 12 – External Audit Costs

The Council has incurred the following costs in relation to the external audit services undertaken in accordance with the Code of Practice.

| 2014/15 £'000 | | 2015/16 £'000 |
|---:|---|---:|
| 433 | Fees payable to Audit Scotland for Services undertaken in 'Code of Audit Practice'* | 406 |
| - | Fees payable in respect of non-audit services provided by the appointed external auditor Deloitte LLP during the year | 8 |
| **433** | | **414** |

*2015/16 figure includes £16,000 (2014/15: £33,000) in relation to audit requirements for the charities' accounts of Local Authorities.

## Note 13 – Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI/PPP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

| 2014/15 £'000 | | 2015/16 £'000 |
|---:|---|---:|
| 567,719 | **Opening Capital Financing Requirement** | 631,572 |
| | **Capital Investment** | |
| 154,873 | Property, Plant and Equipment | 135,864 |
| - | Asset Decommissioning Provision | 6,679 |
| 635 | Intangible Assets | 498 |
| | | |
| | **Sources of Finance** | |
| (3,867) | Capital Receipts | (4,307) |
| (42,408) | Government Grants and Other Contributions | (42,937) |
| | Sums Set Aside from Revenue: | |
| (32,539) | Capital Financed from Current Revenue | (26,565) |
| (12,841) | Loans Fund Principal Repayments | (13,363) |
| **631,572** | **Closing Capital Financing Requirement** | **687,441** |
| | | |
| | **Explanation of movements in year** | |
| 63,853 | Increase in Underlying Need to Borrow (Supported by Government Financial Assistance) | 55,869 |
| **63,853** | **Increase in Capital Financing Requirement** | **55,869** |

## Note 14 – Property, Plant and Equipment (PPE)

| Movements in 2015/16: | Council Dwellings £'000 | Other Land and Buildings £'000 | Vehicles, Plant, Furniture & Equipment £'000 | Infrastructure Assets £'000 | Community Assets £'000 | Assets Under Construction £'000 | Surplus Assets £'000 | Total PPE £'000 | PFI Assets included in PPE £'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Cost or Valuation** | | | | | | | | | |
| At 1 April 2015 | 603,150 | 1,267,834 | 94,570 | 319,034 | 592 | 102,078 | 17,328 | **2,404,586** | 157,730 |
| Additions | 15,237 | 58,859 | 11,558 | 20,814 | 12 | 36,023 | 40 | **142,543** | 30,264 |
| Revaluation Increases/(Decreases) Recognised in the Revaluation Reserve | 1,029 | 22,312 | - | - | 70 | - | (33,607) | **(10,196)** | 15,292 |
| Revaluation Decreases/(Increases) Recognised in the Deficit on the Provision of Services | 1,068 | (19,709) | - | - | - | - | (11,122) | **(29,763)** | - |
| Derecognition - Disposals | (1,552) | (198) | (8,884) | - | - | - | (35) | **(10,669)** | - |
| Assets Reclassified to/(from) AHfS | - | 546 | - | - | - | - | (16) | **530** | - |
| Transfers or Reclassifications of Assets | 3,639 | 26,481 | - | - | - | (67,159) | 36,827 | **(212)** | 12,158 |
| **At 31 March 2016** | **622,571** | **1,356,125** | **97,244** | **339,848** | **674** | **70,942** | **9,415** | **2,496,819** | **215,444** |
| | | | | | | | | | |
| **Accumulated Depreciation and Impairment** | | | | | | | | | |
| At 1 April 2015 | (98,307) | (49,223) | (48,747) | (99,051) | (16) | (7,540) | (390) | **(303,274)** | (9,487) |
| Depreciation Charge | (23,379) | (39,483) | (10,117) | (10,248) | - | - | (420) | **(83,647)** | (3,794) |
| Depreciation Written Out to the RR | - | (109) | - | - | - | - | - | **(109)** | - |
| Impairment Losses recognised in the Surplus/Deficit on the Provision of Services | (10,504) | (3,358) | (160) | (211) | - | (211) | - | **(14,444)** | - |
| Derecognition - Disposals | 420 | 15 | 8,629 | - | - | - | - | **9,064** | - |
| Other Movements in Depreciation and Impairment | 515 | (660) | - | - | - | 146 | - | **1** | - |
| **At 31 March 2016** | **(131,255)** | **(92,818)** | **(50,395)** | **(109,510)** | **(16)** | **(7,605)** | **(810)** | **(392,409)** | **(13,281)** |
| | | | | | | | | | |
| **Net Book Value at 31 March 2016** | **491,316** | **1,263,307** | **46,849** | **230,338** | **658** | **63,337** | **8,605** | **2,104,410** | **202,163** |

## Note 14 – Property, Plant and Equipment (PPE) (Continued)

| Comparative Movements in 2014/15 | Council Dwellings £'000 | Other Land and Buildings £'000 | Vehicles, Plant, Furniture & Equipment £'000 | Infrastructure Assets £'000 | Community Assets £'000 | Assets Under Construction £'000 | Surplus Assets £'000 | Total PPE £'000 | PFI Assets included in PPE £'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Cost or Valuation** | | | | | | | | | |
| At 1 April 2014 | *578,815 | *1,336,412 | *87,040 | *298,529 | *592 | *50,555 | *1,494 | **2,353,437** | 157,792 |
| Additions | 25,936 | 21,519 | 12,088 | 20,648 | - | 74,682 | - | **154,873** | 1,504 |
| Revaluation Increases/(Decreases) Recognised in the Revaluation Reserve | (32) | (86,614) | - | - | - | - | 197 | **(86,449)** | - |
| Revaluation Decreases Recognised in the Surplus/Deficit on the Provision of Services | (29) | (12,840) | - | - | - | (1,664) | (186) | **(14,719)** | (1,566) |
| Derecognition - Disposals | (1,540) | - | (4,558) | - | - | - | - | **(6,098)** | - |
| Assets Reclassified to/(from) AHfS | - | (431) | - | - | - | - | 3,984 | **3,553** | - |
| Transfers or Reclassifications of Assets | - | *9,788 | - | (143) | - | *(21,495) | 11,839 | **(11)** | - |
| **At 31 March 2015** | **603,150** | **1,267,834** | **94,570** | **319,034** | **592** | **102,078** | **17,328** | **2,404,586** | **157,730** |
| | | | | | | | | | |
| **Accumulated Depreciation and Impairment** | | | | | | | | | |
| At 1 April 2014 | *(62,414) | *(143,438) | *(42,903) | *(89,502) | *(16) | - | *(19) | **(338,292)** | (16,369) |
| Depreciation Charge | (22,637) | (38,036) | (9,990) | (9,557) | - | - | (389) | **(80,609)** | (3,775) |
| Depreciation Written Out to the RR | 57 | 134,670 | - | - | - | - | 21 | **134,748** | - |
| Impairment Losses recognised in the Surplus/Deficit on the Provision of Services | (13,601) | (2,422) | - | - | - | (7,540) | - | **(23,563)** | 10,657 |
| Derecognition - Disposals | 288 | - | 4,146 | - | - | - | (1) | **4,433** | - |
| Other Movements in Depreciation and Impairment | - | 3 | - | 8 | - | - | (2) | **9** | - |
| **At 31 March 2015** | **(98,307)** | **(48,223)** | **(48,747)** | **(99,051)** | **(16)** | **(7,540)** | **(390)** | **(303,274)** | **(9,487)** |
| | | | | | | | | | |
| **Net Book Value at 31 March 2015** | **504,843** | **1,218,611** | **45,823** | **219,983** | **576** | **94,538** | **16,938** | **2,101,312** | **148,243** |

*Figures have been reclassified to amend discrepancies with the asset register. There is no change to the Net Book Value at 31 March 2015 shown on the Balance Sheet.

## Note 14 – Property, Plant and Equipment (PPE) (Continued)

| | 2014/15 Published £'000 | Adjustment Made £'000 | 2014/15 Restated £'000 |
|---|---|---|---|
| **Cost or Valuation at 1 April 2015** | | | |
| Council Dwellings | 605,224 | (26,409) | 578,815 |
| Other Land and Buildings | 1,345,417 | (9,005) | 1,336,412 |
| Vehicles, Plant, Furniture & Equipment | 96,493 | (9,453) | 87,040 |
| Infrastructure Assets | 298,379 | 150 | 298,529 |
| Community Assets | 591 | 1 | 592 |
| Assets Under Construction | 51,958 | (1,403) | 50,555 |
| Surplus Assets | 1,508 | (14) | 1,494 |
| **Transfers or Reclassifications of Assets** | | | |
| Other Land and Buildings | (11,707) | 21,495 | 9,788 |
| Assets Under Construction | - | (21,495) | (21,495) |
| **Accumulated Depreciation and Impairment at 31 March 2015** | | | |
| Council Dwellings | (88,981) | 26,567 | (62,414) |
| Other Land and Buildings | (152,151) | 8,713 | (143,438) |
| Vehicles, Plant, Furniture & Equipment | (52,358) | 9,455 | (42,903) |
| Infrastructure Assets | (89,497) | (5) | (89,502) |
| Community Assets | (15) | (1) | (16) |
| Assets Under Construction | (1,401) | 1,401 | - |
| Surplus Assets | (22) | 3 | (19) |
| **Total** | **2,003,438** | **-** | **2,003,438** |

At 31 March 2016, the Council has entered into a number of contracts for the construction or enhancement of PPE in 2016/17 and future years budgeted to cost £114,342,000. Similar commitments at 31 March 2015 were £54,870,000. The major commitments are:

| Project Title | £'000 |
|---|---|
| HRA Bathroom Upgrades | 520 |
| Macduff – Tarlair Business Park | 523 |
| Portlethen Household Waste Recycling Centre | 852 |
| Gas Central Heating Upgrades | 950 |
| Home Energy Efficiency Programme | 1,200 |
| Barrasgate New Housing Development | 1,442 |
| Martin Brae New Housing Development | 1,612 |
| Swedish Houses Upgrades | 2,100 |
| HRA Window and Door Replacements | 2,542 |
| Portlethen New Primary School | 7,570 |
| Turriff New Primary School | 8,375 |
| Banff and Macduff Community Facilities | 9,254 |
| Uryside Primary School | 12,058 |
| Depot Projects | 15,626 |
| Aberdeen Western Peripheral Route | 37,124 |

## Note 14 – Property, Plant and Equipment (PPE) (Continued)

**Revaluations**

The Council carries out a rolling programme that ensures that all PPE required to be measured at fair value is revalued at least every five years. All valuations were carried out internally. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant and equipment are based on current prices where there is an active second hand market or latest list prices adjusted for the condition of the asset.

The significant assumptions applied in estimating the fair values are:

- No investigation has been carried out to determine the presence of contamination, deleterious or hazardous materials of any of the properties;
- Original documents of title and lease documentation have not been read;
- The assets and their values are unaffected by any matters which would be revealed by local search and replies to the usual enquiries or by any that statutory notice, and that neither the construction of the properties nor their condition, use or intended use was, is or will be unlawful or in breach of any covenant;
- Mechanical and electrical installations and other specialist installations and services have not been tested;
- No access audit has been undertaken to ascertain compliance with the Equality Act 2010; and
- Where a building is either listed or is in a conservation area, this will be identified in any individual report or on the valuation schedules.

| | Council Dwellings £'000 | Other Land & Buildings £'000 | Other PPE* £'000 | Total £'000 |
|---|---|---|---|---|
| Carried at Historical Cost | 64,668 | 20,612 | 488,955 | **574,235** |
| Valued at fair value as at: | | | | |
| 1 April 2015 | 3,600 | 246,869 | 8,608 | **259,077** |
| 1 April 2014 | - | 1,020,751 | 20,298 | **1,041,049** |
| 1 April 2013 | - | 6,665 | 262 | **6,927** |
| 1 April 2012 | 1,548 | 43,394 | - | **44,942** |
| 1 April 2011 | 552,755 | 17,834 | - | **570,589** |
| **Total Cost or Valuation** | **622,571** | **1,356,125** | **518,123** | **2,496,819** |

*Other Plant, Property and Equipment (PPE) consists of Vehicles, Plant, Furniture and Equipment, Infrastructure Assets, Community Assets, Assets under Construction and Surplus Assets.

## Note 15 – Heritage Assets

**Reconciliation of the Carrying Value of Heritage Assets Held by the Council**

| | Human History £'000 | Archaeology £'000 | Fine Art £'000 | Total Assets £'000 |
|---|---|---|---|---|
| **Cost or Valuation at 31 March 2015** | **1,000** | **320** | **-** | **1,320** |
| Revaluations | (50) | - | 120 | **70** |
| Transfers or Reclassifications | 214 | - | - | **214** |
| **Cost or Valuation at 31 March 2016** | **1,164** | **320** | **120** | **1,604** |

## Note 15 – Heritage Assets (Continued)

**Human History**

A small number of archaeological items on loan to National Museums Scotland were valued by them in 2011 on the basis of current sale room prices. One item, the Deskford Carnyx, has been valued at £750,000 in view of its national importance. Three items have been valued at a combined total of £80,000, and these are not reported on the Balance Sheet. In addition, Hareshowe Farm, Aden Country Park is valued on the Balance Sheet at £200,000. It was valued at 1 April 2015 at fair value, and is reduced by £50,000 from the previous valuation. Kindrochit Castle, Braemar, which was included previously as an Asset Under Construction has been transferred to Heritage Assets. It is included at £214,000, which is the cost of the improvements carried out over the past two years..

**Fine Art**

The Fine Art item is a painting by Sir David Wilkie which was valued by John Milne, Fine Art Auctioneers in 2014. The Council also holds certain items which the Curators regard as particularly important to the collections e.g. Fine Art, the Banff silver collection, much of the numismatics collection and the arms and armour. Most of these items were acquired by the Museum Service in the late 19th century and in the Curator's opinion, it is not possible to provide a reliable estimate of their value

**Vertical Area Photograph Collection**

The Vertical Area Photograph Collection has been valued at £320,000 and is shown in the Balance Sheet.

Further Information on Museums Collections is shown in the Annex.

## Note 16 – Investment Properties

No material items of income and expenditure in relation to investment properties have been accounted for in the Financing and Investment Income and Expenditure line in the CIES.

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year:

| 2014/15 £'000 | | 2015/16 £'000 |
|---|---|---|
| 1,741 | Balance at 1 April | 1,743 |
| 2 | Net Gains from Fair Value Adjustments | - |
| - | Reclassified as Property, Plant and Equipment | (2) |
| **1,743** | **Balance at 31 March** | **1,741** |

## Note 16 – Investment Properties (Continued)

**Fair Value Measurement**

Details of the Council's Investment Properties and information about the fair value hierarchy is shown in the following table:

| Other Significant Observable Inputs (Level 2) 2014/15 £'000 | Recurring fair value measurements using: | Other Significant Observable Inputs (Level 2) 2015/16 £'000 |
|---:|---|---:|
| 93 | Residential (Market Rental) Property | 93 |
| 770 | Residential Development Land | 770 |
| 869 | Commercial Development Land | 867 |
| 11 | Agricultural Land | 11 |
| **1,743** | **Balance at 31 March** | **1,741** |

**Transfers Between Levels of the Fair Value Heirarchy**

There were no transfers between Levels during the year.

**Valuation Techniques Used to Determine Level 2 for Investment Properties**

The fair value for the Investment Properties has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the Aberdeenshire area. Market conditions are such that similar properties are purchased and sold actively and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy. In estimating the fair value of the Council's Investment Properties, the highest and best use of the properties is their current use. There has been no change in the valuation technique used during the year for Investment Properties.

**Valuation Process for Investment Properties**

The fair value of the Council's Investment Properties is measured annually at each reporting date. All valuations are carried out internally, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The Council's valuation experts work closely with finance officers reporting directly to the Head of Finance on a regular basis regarding all valuation matters.

## Note 17 – Intangible Assets

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of PPE. The intangible assets include purchased licenses. The Council does not have any internally generated software.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. All software suites used by the Council have been assigned a useful life of five years. The movement on Intangible Asset balances during the year is as follows:

| 2014/15 £'000 | | 2015/16 £'000 |
|---|---|---|
| | **Balance at 1 April:** | |
| 7,232 | Gross carrying amounts | 7,867 |
| (5,211) | Accumulated amortisation | (5,774) |
| **2,021** | **Net Carrying amount at 1 April** | **2,093** |
| | | |
| 635 | Additions - Purchases | 498 |
| (563) | Amortisation for the year | (621) |
| **2,093** | **Net carrying amount at 31 March** | **1,970** |
| | | |
| | **Comprising:** | |
| 7,867 | Gross carrying amounts | 8,365 |
| (5,774) | Accumulated amortisation | (6,395) |
| **2,093** | **Net carrying amount at 31 March** | **1,970** |

## Note 18 – Assets Held for Sale (AHfS)

AHfS are assets that are available for immediate sale in their present condition, their sale is highly probable, management are committed to a plan to sell the assets, an active programme to locate a buyer and complete the plan has been initiated, the assets are being actively marketed for sale at prices that are reasonable in relation to their current value and the sales are expected to be completed within one year from the date of classification as Held for Sale. The movement in AHfS balances is as follows:

| 2014/15 £'000 | | 2015/16 £'000 |
|---|---|---|
| **5,542** | **Balance Outstanding at 1 April** | **1,101** |
| | Assets Newly Classified as Held for Sale: | |
| 630 | Property, Plant and Equipment | 652 |
| (72) | Revaluation decreases recognised in the Deficit on the Provision of Services | - |
| 17 | Revaluation Gains | - |
| | Assets Declassified as Held for Sale: | |
| (4,183) | Property, Plant and Equipment | (1,182) |
| (836) | Assets Sold | (634) |
| 3 | Other Movements | 103 |
| **1,101** | **Balance Outstanding at 31 March** | **40** |

## Note 19 – Leases

**Council as Lessee - Operating Leases**

The Council has acquired vehicles by entering into operating leases, with typical terms of five to seven years. Additionally the Council leases part of its property portfolio, as well as cars for the employee car leasing scheme. The future minimum lease payments due under non-cancellable leases in future years are:

| 2014/15 £'000 | | 2015/16 £'000 |
|---|---|---|
| 818 | Not later than one year | 1,303 |
| 3,004 | Later than one year and not later than five years | 2,770 |
| 8,172 | Later than five years | 7,294 |
| **11,994** | **Minimum Lease Payments** | **11,367** |

The expenditure charged to the Services occupying or using the assets and is shown across the various lines in the CIES. The total expenditure during the year in relation to these leases was £512,000 (2014/15: £656,000) which comprised Minimum Lease Payments of £500,000 (2014/15: £589,000) and Contingent Rentals of £12,000 (2014/15: £67,000).

**Council as Lessor - Finance Leases**

The Council has leased out a number of properties on a finance lease basis. The Council has a gross investment in the lease, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end. The minimum lease payments comprises the settlement of the long-term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the Council in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

## Note 19 – Leases (Continued)

| 2014/15 £'000 | | 2015/16 £'000 |
|---|---|---|
| | Finance lease debtor (net present value of minimum lease payments): | |
| 6 | Current | 6 |
| 673 | Non-current | 667 |
| 3,909 | Unearned finance income | 3,823 |
| **4,588** | **Gross investment in the lease** | **4,496** |

The gross investment in the finance leases and the minimum lease payments will be received over the following periods:

| Gross Investment in the Lease 2014/15 £'000 | Minimum Lease Payments 2014/15 £'000 | | Gross Investment in the Lease 2015/16 £'000 | Minimum Lease Payments 2015/16 £'000 |
|---|---|---|---|---|
| 92 | 92 | Not later than one year | 92 | 92 |
| 366 | 366 | Later than one year and not later than five years | 366 | 366 |
| 4,130 | 4,130 | Later than five years | 4,038 | 4,038 |
| **4,588** | **4,588** | **Total** | **4,496** | **4,496** |

Although there is a possibility that worsening financial circumstances might result in lease payments not being made, the Council has made no specific bad debt provision in relation to finance leases, albeit a general provision is made in relation to this area of the Council's activity.

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2015/16, £23,000 contingent rents were receivable by the Council (2014/15: £23,000).

**Council as Lessor - Operating Leases**

The Council leases out property under operating leases for the following purposes:

- for economic development purposes to provide suitable affordable accommodation for local businesses; and
- for community activity purposes to provide suitable facilities for local community groups.

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

| 2014/15 Restated £'000 | | 2015/16 £'000 |
|---|---|---|
| *4,215 | Not later than one year | 3,682 |
| *11,919 | Later than one year and not later than five years | 10,215 |
| *26,280 | Later than five years | 21,384 |
| **42,414** | **Minimum Lease Payments** | **35,281** |

In 2015/16 £572,000 contingent rents were receivable by the Council (2014/15: £519,000).

* Figures have been restated. See note 9 for details.

## Note 20 – Private Finance Initiatives (PFI) and Similar Contracts

### Education PFI Schemes

The Council is committed to three PFI contracts. Details of the contracts can be found in the Annex. The assets used to provide services at the schools are recognised on the Council's Balance Sheet. Movements in their value over the year are detailed in the analysis of the movement on the PPE balance in note 14.

### Payments

The Council makes an agreed payment each year which is increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed. Payments remaining to be made under the PFI contracts at 31 March 2016 (excluding any estimation of inflation and availability/performance deductions) are as follows:

| Obligations Payable | Operating Costs £'000 | Interest Charges £'000 | Contingent Rentals £'000 | Liability Repayment £'000 | Lifecycle Maintenance £'000 | Total Unitary Charge £'000 |
|---|---|---|---|---|---|---|
| 2016/17 | 4,067 | 4,591 | 1,183 | 2,245 | 2,297 | 14,383 |
| Between 2017/18 and 2020/21 | 17,286 | 16,564 | 6,620 | 12,349 | 7,879 | 60,698 |
| Between 2021/22 and 2025/26 | 24,078 | 14,771 | 12,288 | 23,896 | 8,562 | 83,595 |
| Between 2026/27 and 2030/31 | 18,716 | 6,548 | 13,589 | 19,962 | 3,934 | 62,749 |
| Between 2031/32 and 2035/36 | 2,437 | 3,160 | 39 | 4,860 | 2,311 | 12,807 |
| Between 2036/37 and 2040/41 | 2,472 | 1,139 | (557) | 5,262 | 3,763 | 12,079 |

Although the payments made to the contractors are described as unitary payments, they have been calculated to compensate the contractors for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The liability outstanding to pay the liability to the contractor for capital expenditure incurred is as follows:

| Creditors 2014/15 £'000 | Long Term Liabilities 2014/15 £'000 | Total Liability 2014/15 £'000 | | Creditors 2015/16 £'000 | Long Term Liabilities 2015/16 £'000 | Total Liability 2015/16 £'000 |
|---|---|---|---|---|---|---|
| (2,010) | (51,433) | (53,443) | Balance Outstanding at 1 April | (2,028) | (49,405) | (51,433) |
| 2,010 | - | 2,010 | Payments During the Year | 2,028 | - | 2,028 |
| - | - | - | Capital Expenditure incurred in the Year | - | (19,169) | (19,169) |
| (2,028) | 2,028 | - | Transfer to Current Creditors | (2,245) | 2,245 | - |
| **(2,028)** | **(49,405)** | **(51,433)** | **Balance Outstanding at 31 March** | **(2,245)** | **(66,329)** | **(68,574)** |

## Note 21 – Impairment Losses

During 2015/16, the Council has recognised an impairment loss of £112,795,000 (2014/15: £112,588,000) in relation to its PPE. This is due to downward revaluations (Economic Loss) of £98,247,000 (2014/15: £88,953,000) being accounted for and adjusting for capital expenditure amounting to £14,549,000 (2014/15: £23,635,000) during the financial year which, although meeting the enhancement definition, added no value (Consumption Loss) to the Council's Balance Sheet and also reflects the discount that is applied to Dwellings assets on the Council's Balance Sheet. Of the Consumption Loss, all relates to PPE.

The properties were revalued as at 1 April 2015 on the basis of fair value (existing use value). The downward revaluations between 2010 and 2015 was generally due to variations in the valuation schemes, decreasing land rates and increasing building obsolescence.

## Note 22 – Financial Instruments

### Categories of Financial Instruments

The following categories of Financial Instruments are carried on the Balance Sheet:

| Long Term 2014/15 £'000 | Short Term 2014/15 £'000 | | | Long Term 2015/16 £'000 | Short Term 2015/16 £'000 |
|---|---|---|---|---|---|
| | | **Balance Sheet Category** | **Financial Assets** | | |
| 77 | 10,000 | Investments | Loans and receivables | 77 | - |
| 3,250 | 27,793 | Debtors | Loans and receivables | 5,911 | 29,969 |
| - | 42,997 | Cash and Cash Equivalents | Cash and Cash Equivalents | - | 21,925 |
| **3,327** | **80,790** | | **Total Financial Assets** | **5,988** | **51,894** |
| | | | | | |
| | | **Balance Sheet Category** | **Financial Liabilities** | | |
| (489,901) | (37,027) | Borrowing | Financial liabilities at amortised cost | (485,130) | (48,782) |
| (116) | - | Finance Leases | PFI and finance lease liabilities | (115) | - |
| (49,405) | - | Other Long Term Liabilities | PFI and finance lease liabilities | (66,329) | - |
| - | (2,032) | Creditors | PFI and finance lease liabilities | - | (2,245) |
| - | (81,061) | Creditors | Financial liabilities at amortised cost | - | (84,546) |
| **(539,422)** | **(120,120)** | | **Total Financial Liabilities** | **(551,574)** | **(135,573)** |

### Material Soft Loan Made by the Authority

The Council has made one soft loan which is deemed to be material (i.e. over £500,000). This is an interest free loan of £3,743,000 (2014/15: £3,743,000) to Aberdeen Housing Partnership to construct, manage, maintain and the general development of new housing for rental or low cost home ownership.

Valuation assumptions – The interest rate at which the fair value of this soft loan has been made is arrived at by taking the Council's prevailing cost of borrowing at the point of recognition (5.25%) and adding an allowance for the risk that the loan might not be repaid by Aberdeenshire Housing Partnership, in this case a zero rate. The fair value of the loan is £1,959,000 (2014/15: £1,861,000) hence the increase in the discounted amount during the year was £98,000 (2014/15: £93,000).

### Income, Expense, Gains and Losses

| 31 March 2016 | Financial Liabilities Measured at Amortised Cost £'000 | Financial Assets: Loans and Receivables £'000 | Total £'000 |
|---|---|---|---|
| Interest Expense | (27,909) | - | **(27,909)** |
| Gains | - | 112 | **112** |
| Fee Expense | (147) | - | **(147)** |
| **Total Expense in Surplus or Deficit on the Provision of Services** | **(28,056)** | **112** | **(27,944)** |
| | | | |
| Interest Income | - | 856 | **856** |
| **Total Income in Surplus or Deficit on the Provision of Services** | **-** | **856** | **856** |
| | | | |
| **Net Loss for the Year** | **(28,056)** | **968** | **(27,088)** |

**Note 22 – Financial Instruments (Continued)**

| Comparative Figures 31 March 2015 | Financial Liabilities Measured at Amortised Cost £'000 | Financial Assets: Loans and Receivables £'000 | Total £'000 |
|---|---|---|---|
| Interest Expense | (27,973) | - | **(27,973)** |
| Impairment Losses | - | (157) | **(157)** |
| Fee Expense | (175) | - | **(175)** |
| **Total Expense in Surplus or Deficit on the Provision of Services** | **(28,148)** | **(157)** | **(28,305)** |
| | | | |
| Interest Income | - | 832 | **832** |
| **Total Income in Surplus or Deficit on the Provision of Services** | **-** | **832** | **832** |
| | | | |
| **Net (Loss)/Income for the Year** | **(28,148)** | **675** | **(27,473)** |

**Fair Value of Assets and Liabilities**

Financial liabilities and financial assets represented by current and non current debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- estimated ranges of interest rates at 31 March 2016 of 1.11% to 3.01% for loans from the PWLB and 1.75% to 3.05% for other loans receivable and payable, based on new lending rates for equivalent loans at that date;
- no early repayment or impairment is recognised;
- where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value; and
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

To provide a fair value which provides a comparison to the carrying amount, the Council has used a financial model valuation provided by Capita Asset Services. This valuation applies the Net Present Value approach, which provides an estimate of the value of payments in the future in today's terms as at the balance sheet date. In order to highlight the changes in the Code relating to the measurement of fair value, the data disclosed below details both the early repayment and new borrowing rates to discount the future cash flows.

The fair value of liabilities is as follows:

- early repayment methodology fair value is £888,924,000 (2014/15: £810,195,000) and the carrying amount is £692,281,000 (2014/15: £659,542,000); and
- new borrowing rates fair value of the liabilities is £787,244,000 (2014/15: not required) and the carrying amount is £692,281,000 (2014/15: £659,542,000).

The fair value of the liabilities is higher than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31 March 2016) arising from a commitment to pay interest to lenders below current market rates.

Assets are carried at cost as this is a fair approximation of their value.

## Note 23 – Nature and Extent of Risks Arising from Financial Instruments

The Council's activities expose it to a variety of financial risks:

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

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by the Council in the annual Treasury Management Strategy statement. The most recent Treasury Management Strategy document was approved by the Council's Policy and Resources Committee on 21 April 2016 (http://committees.aberdeenshire.gov.uk/committees.aspx?commid=11&meetid=18188), although the version that applied in 2015/16 was approved on 5 March 2015 (http://committees.aberdeenshire.gov.uk/Committees.aspx?commid=11&meetid=10925). The Council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

**Credit Risk**

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they are rated independently with a "very small risk" classification, specifically based in the EU, a rating of P-1 (or better) from Moodys or a rating of F-1 (or better) from Fitch, and has a Moodys Financial Strength Rating of 'C' or greater or where the organisation is deemed to be UK Government backed. The Council has a policy of not lending more than £20,000,000 of its surplus balances to any one institution.

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the Council.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £8,700,000 cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2016 that this was likely to crystallise.

Credit limits were exceeded on one occasion during the reporting period when the Council had to invest more than £20,000,000 with the Council's bankers overnight. The Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

The following analysis summarises the Council's potential maximum exposure to credit risk on other financial assets, based on experience of default and uncollectability over the last five financial years, adjusted to reflect current market conditions.

| | Debtors as at 31 March 2016 £'000 | Historical experience of default % | Historical experience adjusted for market conditions at 31 March 2016 % | Estimated maximum exposure to default and uncollectability at 31 March 2016 £'000 | Estimated maximum exposure at 31 March 2015 £'000 |
|---|---|---|---|---|---|
| | **A** | **B** | **C** | **(A X C)** | |
| Customers | 8,551 | 54.02 | 54.02 | 4,619 | 5,179 |
| Housing Rents | 3,241 | 79.20 | 79.20 | 2,567 | 2,085 |
| | **11,792** | | | **7,186** | **7,264** |

The customers' historical experience of default rate can be attributed to the majority of debtors being older than 180 days when the rate of recovery is expected to decline. The housing rents' historical experience of default rate can be attributed to rent arrears of former tenants as well as current tenants with high levels of arrears where recovery is unlikely.

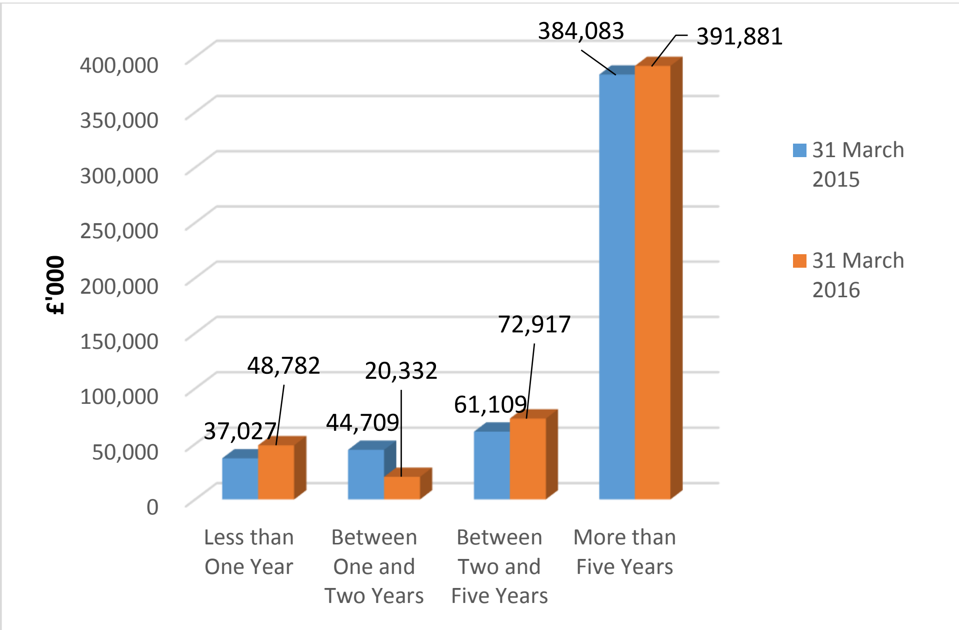
## Note 23 – Nature and Extent of Risks Arising from Financial Instruments (Continued)

The past due but not impaired amount can be analysed by age as follows:

| 31 March 2015 £'000 | | 31 March 2016 £'000 |
|---|---|---|
| 3,156 | Less than Three Months | 3,068 |
| 480 | Three to Six Months | 519 |
| 432 | Six Months to One Year | 228 |
| 718 | More than One Year | 791 |
| **4,786** | **Total** | **4,606** |

**Liquidity Risk**

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Council has ready access to borrowings from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The Council sets limits on the proportion of its fixed rate borrowing during specified periods. The strategy is to ensure that not more than 60% of loans are due to mature within any rolling two-year period through a combination of careful planning of new loans taken out and (where it is economic to do so) making early repayments. Financial liabilities are £533,912,000 (2014/15: *£526,928,000 restated). The maturity analysis of these is as follows:




All trade and other payables are due to be paid in less than one year.

*Figure has been restated. See note 9 for details.

## Note 23 – Nature and Extent of Risks Arising from Financial Instruments (Continued)

**Market Risk - Interest Rate Risk**

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of Services will rise;
- borrowings at fixed rates – the fair value of the liabilities will fall;
- investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services will rise; and
- investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowing and investments would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The Council has a number of strategies for managing interest rate risk. Policy is to aim to keep a maximum of 30% of its borrowings in variable rate loans. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is ameliorated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the Council's cost of borrowing and provide compensation for a proportion of any higher costs. The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

According to this assessment strategy, at 31 March 2016, if interest rates had been 1% higher with all other variables held constant, the financial effect would be an increase in interest of variable rate investments and an impact on the Surplus or Deficit on the Provision of Services of £453,000. The share of the overall impact charged to the HRA would be £112,000. The decrease in the fair value of fixed rate borrowings liabilities would be £71,289,000. This would have no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure.

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

**Price Risk**

The Council does not generally invest in equity shares but does have shareholdings to the value of £77,000 in the Lecht Ski Company. The Council is consequently exposed to losses arising from movements in the prices of the shares. As the shareholdings have arisen in the acquisition of specific interests, the Council is not in a position to limit its exposure to price movements by diversifying its portfolio.

The £77,000 shares are all classified as 'available for sale', meaning that all movements in price will impact on gains and losses recognised in Other Comprehensive Income and Expenditure. A general shift of 5% in the general price of shares (positive or negative) would thus have resulted in a £4,000 gain or loss being recognised in the Other Comprehensive Income and Expenditure for 2015/16.

**Foreign Exchange Risk**

The Council holds a bank account in Euros that has a maximum balance of approximately £700,000 and therefore has limited exposure to foreign exchange.

## Note 24 – Inventories

| 31 March 2016 | Consumable Stores/ Finished Goods 2015/16 £'000 | Maintenance Materials/ Raw Materials 2015/16 £'000 | Client Services/ Work in Progress 2015/16 £'000 | Total 2015/16 £'000 |
|---|---|---|---|---|
| **Balance Outstanding at 1 April 2015** | 2,113 | 1,706 | 193 | 4,012 |
| Purchases | 11,850 | 7,759 | 1,109 | 20,718 |
| Recognised as an Expense in the Year - Issues | (11,965) | (7,642) | (1,138) | (20,745) |
| Written off Balances | (3) | - | - | (3) |
| Inventory Adjustments | (61) | (25) | (25) | (111) |
| **Balance Outstanding at 31 March 2016** | **1,934** | **1,798** | **139** | **3,871** |

| Comparative Figures for 31 March 2015 | Consumable Stores/ Finished Goods 2014/15 £'000 | Maintenance Materials/ Raw Materials 2014/15 £'000 | Client Services/ Work in Progress 2014/15 £'000 | Total 2014/15 £'000 |
|---|---|---|---|---|
| **Balance Outstanding at 1 April 2014** | 1,888 | 2,236 | 240 | 4,364 |
| Purchases | 11,420 | 6,690 | 1,069 | 19,179 |
| Recognised as an Expense in the Year - Issues | (11,290) | (7,230) | (1,113) | (19,633) |
| Written off Balances | - | (1) | - | (1) |
| Inventory Adjustments | 95 | 11 | (3) | 103 |
| **Balance Outstanding at 31 March 2015** | **2,113** | **1,706** | **193** | **4,012** |

## Note 25 – Debtors

| Long Term Debtors at 31 March 2016 | Balance Outstanding at 31 March 2016 £'000 | Cumulative Soft Loan Adjustment at 31 March 2016 £'000 | Fair Value Amortised Costs at 31 March 2016 £'000 |
|---|---|---|---|
| Aberdeenshire Housing Partnership | 3,743 | (1,788) | 1,955 |
| Create Homes | 2,619 | - | 2,619 |
| Leasing | 673 | - | 673 |
| Other Long Term Debtors (each less than £500,000) | 864 | (100) | 764 |
| | **7,899** | **(1,888)** | **6,011** |
| Repayments due 2015/16 shown as Current Debtors | | | (100) |
| **Balance at 31 March 2016** | | | **5,911** |

| Comparative Figures at 31 March 2015 | Balance Outstanding at 31 March 2015 £'000 | Cumulative Soft Loan Adjustment at 31 March 2015 £'000 | Fair Value Amortised Costs at 31 March 2015 £'000 |
|---|---|---|---|
| Aberdeenshire Housing Partnership | 3,743 | (1,886) | 1,857 |
| Leasing | 678 | - | 678 |
| Other Long Term Debtors (each less than £500,000) | 955 | (115) | 840 |
| | **5,376** | **(2,001)** | **3,375** |
| Repayments due 2014/15 shown as Current Debtors | | | (125) |
| **Balance at 31 March 2015** | | | **3,250** |

## Note 25 – Debtors (Continued)

Local authorities sometimes make loans for policy reasons that are interest free or below the prevailing market rates. Fair value on loans normally equates to the consideration given however financial instruments accounting requires the fair value to reflect interest lower than the market rate.

**Short Term Debtors**

| 2014/15 £'000 | | 2015/16 £'000 |
|---:|---|---:|
| 8,286 | Central Government Bodies | 9,403 |
| 2,062 | Other Local Authorities | 2,396 |
| 338 | NHS Bodies | 350 |
| 752 | Public Corporations and Trading Funds | 322 |
| 16,355 | Other Entities and Individuals | 17,498 |
| **27,793** | **Total Short Term Debtors** | **29,969** |

## Note 26 – Cash and Cash Equivalents

The balance of Cash and Cash equivalents of £21,925,000 (2014/15: £42,997,000) is made up of Cash Held by the Council of £33,000 (2014/15: £32,000) and Bank Current Accounts of £21,892,000 (2014/15: £42,965,000).

## Note 27 – Short Term Creditors

| 2014/15 £'000 | | 2015/16 £'000 |
|---:|---|---:|
| (16,199) | Central Government Bodies | (14,167) |
| (4,828) | Other Local Authorities | (5,881) |
| (699) | NHS Bodies | (1,009) |
| (379) | Public Corporations and Trading Funds | (264) |
| (60,988) | Other Entities and Individuals | (65,470) |
| **(83,093)** | **Total Short Term Creditors** | **(86,791)** |

## Note 28 – Provisions

### (i) Specific Provisions

Estimates have been made for a number of potential liabilities, the most significant of which is:

**Equal Pay**

In common with most other Scottish local authorities, the Council sought to settle potential equal pay claims through the offer of compensation payments to entitled employee groups. In the main, these were predominantly female groups of manual workers whose jobs do not attract bonus payments and who were able to identify a manual worker job undertaken predominantly by males, which does attract bonus payments and is graded at a comparable level. Between 2006/07 and 2014/15, actual payments of £22,176,000 were made in respect of compensation for equal pay, including Solicitor's costs. At 31 March 2015, the Council held a provision of £4,818,000 in respect of claims for staff who have not yet signed compromise agreements and who have progressed to a tribunal claim.

## Note 28 – Provisions (Continued)

During 2015/16 Solicitor's costs of £24,000 were incurred in association with equal pay claims which were also charged against the provision, giving a provision of £4,794,000 at 31 March 2016.

**Asset Decommissioning**

A provision has been created for the future capital costs associated with the decommissioning of Household Waste Recycling Centres, waste transfer sites, landfill and quarries owned by the Council.

| | Balance at 31 March 2015 £'000 | Provision Made in Year £'000 | Provision Not Realised in Year £'000 | Provision Utilised in Year £'000 | Balance at 31 March 2016 £'000 |
|---|---|---|---|---|---|
| Equal Pay | (4,818) | - | - | 24 | (4,794) |
| Asset Decommissioning | - | (6,679) | - | - | (6,679) |
| Other Provisions (each less than £500,000) | (340) | (115) | 206 | 52 | (197) |
| **Total** | **(5,158)** | **(6,794)** | **206** | **76** | **(11,670)** |
| **Provisions anticipated to be utilised within 12 months, shown as Current Provisions** | 207 | | | | 121 |
| **Non-Current Provisions at 31 March** | **(4,951)** | | | | **(11,549)** |

**(ii) Debtors Provision**

Estimates have been made of possible losses on the non-collection of debts. These estimates have decreased the debtors figures in accordance with accounting practice. The categories of provision are:

- General Debtors - Provides for possible losses on debts and loans which the Council considers may not be settled in full;
- Revenues - Provides for possible losses on the collection of Council Tax; and
- Housing Rents - Provides for possible losses on housing rents. The tenants' rent arrears amount to £2,567,000 as at 31 March 2016.

| Debtors Provision | Balance at 31 March 2015 £'000 | Adjustment to Provision Made in Year £'000 | Balance at 31 March 2016 £'000 |
|---|---|---|---|
| General Debtors | (5,257) | 594 | (4,663) |
| Revenues | (14,887) | (657) | (15,544) |
| Housing Rents | (2,085) | (482) | (2,567) |
| **Total** | **(22,229)** | **(545)** | **(22,774)** |

## Note 29 – Grant Income

The Council credited the following grants, contributions and donations to the CIES in 2015/16:

| Restated 31 March 2015 £'000 | | 31 March 2016 £'000 |
|---|---|---|
| | **Credited to Taxation and Non Specific Grant Income** | |
| (322,390) | Revenue Support Grant | (328,275) |
| (86,359) | NDR Receipts from Pool | (91,954) |
| (30,899) | Scottish Government General Capital Grant | (33,268) |
| - | Leisure Enhancements | (4,029) |
| - | Education – Academy Enhancements | (1,343) |
| (879) | Environmental Initiatives | - |
| (6,718) | Housing Revenue Account | (3,106) |
| (506) | Roads and Transport Services - Network and Traffic Management | (866) |
| (1,858) | Other Capital Grants (each less than £500,000) | (1,548) |
| **(449,609)** | **Total** | **(464,389)** |
| | | |
| | **Credited to Services** | |
| (558) | Youth Music Initiative | (518) |
| (617) | Active Schools | (604) |
| (2,428) | Criminal Justice Service Grant | (2,379) |
| (631) | Alcohol & Drugs Partnership | (360) |
| (4,123) | Universal Homes Insulation Scheme | (4,894) |
| (700) | Scottish Rural Development Programme - LEADER | (60) |
| (972) | Older People's Change Fund | - |
| (911) | Nestrans | (838) |
| (32,703) | Housing Benefits | (37,035) |
| (837) | Benefits Administration | (806) |
| - | NHS Integrated Care Fund | (684) |
| *(11,502) | NHS Resource Transfer | (11,709) |
| - | NHS Delayed Discharge | (687) |
| *(660) | NHS Elderly Service Redesign | (660) |
| *(3,069) | Other grants (each less than £500,000) | (4,049) |
| **(59,711)** | **Total** | **(65,283)** |

*Figures have been restated. See note 9 for details.

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the funding organisation if the conditions are not met. The balances at the year-end are as follows:

| 31 March 2015 £'000 | Short Term Liabilities - Revenue Grants Receipts in Advance | 31 March 2016 £'000 |
|---|---|---|
| - | Home Energy Efficiency Programme | (509) |
| - | Other grants (each less than £500,000) | (380) |
| **-** | **Total** | **(889)** |

| 31 March 2015 £'000 | Long Term Liabilities - Capital Grants Receipts in Advance | 31 March 2016 £'000 |
|---|---|---|
| (14,965) | Developer Obligations | (15,500) |
| **(14,965)** | **Total** | **(15,500)** |

## Note 30 – Unusable Reserves

The Unusable Reserves can be analysed as follows:

| 2014/15 £'000 | | 2015/16 £'000 |
|---|---|---|
| (858,695) | Revaluation Reserve | (818,765) |
| (617,306) | Capital Adjustment Account | (603,561) |
| 15,477 | Financial Instruments Adjustment Account | 14,280 |
| 286,123 | Pensions Reserve | 253,899 |
| 11,255 | Employee Statutory Adjustment Account | 11,795 |
| **(1,163,146)** | **Total** | **(1,142,352)** |

### Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its PPE. The balance is reduced when assets with accumulated gains are:

- re-valued downwards or impaired and the gains are lost; or
- used in the provision of services and the gains are consumed through depreciation; or
- disposed of and the gains are 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.

| 2014/15 £'000 | Revaluation Reserve | 2015/16 £'000 |
|---|---|---|
| **(841,607)** | **Balance at 1 April** | **(858,695)** |
| (137,269) | Upward Revaluation of Assets | (55,641) |
| 88,953 | Downward Revaluation of Assets and Impairment Losses Not Charged to the Deficit on the Provision of Services | 65,723 |
| **(48,316)** | **Surplus or Deficit on Revaluation of Non-Current Assets and Assets Held for Sale not posted to the Deficit on the Provision of Services** | **10,082** |
| | | |
| 31,228 | Difference Between Fair Value Depreciation and Historical Cost Depreciation | 29,848 |
| **(858,695)** | **Balance at 31 March** | **(818,765)** |

### Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve would contain the gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- re-valued downwards or impaired and the gains are lost; or
- disposed of and the gains are realised.

The Council acquired non-voting A ordinary shares in The Lecht Ski Company in 2013 with a value of £77,000. There has been no movement in the value of investment since the initial transaction and therefore no gain or loss has been made to the Reserve in 2015/16.

**Note 30 – 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 CIES (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement. The Account contains accumulated gains and losses on Investment Properties. The Account also contains revaluation gains accumulated on PPE before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 5 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

| 2014/15 £'000 | Capital Adjustment Account | 2015/16 £'000 |
|---:|---|---:|
| **(616,447)** | **Balance at 1 April** | **(617,306)** |
| | **Reversal of items relating to Capital Expenditure debited or credited to the CIES:** | |
| 104,172 | Charges for Depreciation and Impairment of Non-Current Assets | 98,091 |
| 14,791 | Revaluation losses on PPE and AHfS | 29,814 |
| 563 | Amortisation of Intangible Assets | 621 |
| 2,500 | Amounts of Non-Current Assets written off on Disposal or Sale as part of the Gain/Loss on Disposal to the CIES | 2,239 |
| (31,228) | Adjusting amounts written out of the Revaluation Reserve | (29,848) |
| **90,798** | | **100,917** |
| | **Capital Financing Applied in the Year:** | |
| (3,867) | Use of Capital Receipts to finance new Capital Expenditure | (4,307) |
| (40,588) | Capital Grants and Contributions credited to the CIES that have been applied to Capital Financing | (42,911) |
| (1,820) | Application of Grants to Capital Financing from the Capital Grants Unapplied Account | (26) |
| (12,841) | Statutory Provision for the Financing of Capital Investment charged against the General Fund and HRA Balances | (13,363) |
| (32,539) | Capital Expenditure charged against the General Fund and HRA Balances | (26,565) |
| **(91,655)** | | **(87,172)** |
| | | |
| **(2)** | **Movements in the Market Value of Investment Properties debited or credited to the CIES** | **-** |
| | | |
| **(617,306)** | **Balance at 31 March** | **(603,561)** |

**Financial Instruments Adjustment Account**

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the CIES when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on Council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 2016 will be charged to the General Fund over the next 40 years.

## Note 30 – Unusable Reserves (Continued)

| 2014/15 £'000 | Financial Instruments Adjustment Account | 2015/16 £'000 |
|---|---|---|
| **16,673** | **Balance at 1 April** | **15,477** |
| (1,060) | Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements | (1,060) |
| (136) | Amount by which Finance Costs charged to the CIES are different from Finance Costs Chargeable in the Year in accordance with statutory requirements | (137) |
| **15,477** | **Balance at 31 March** | **14,280** |

**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 Council accounts for post employment benefits in the CIES 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 Council makes employer's contributions to pensions 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 Council 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.

| 2014/15 £'000 | Pensions Reserve | 2015/16 £'000 |
|---|---|---|
| **234,355** | **Balance at 1 April** | **286,123** |
| 28,819 | Actuarial (gains) or losses on pensions assets and liabilities | (51,719) |
| 47,575 | Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES | 53,103 |
| (24,626) | Employer's pensions contributions and direct payments to pensioners payable in the year | (33,608) |
| **286,123** | **Balance at 31 March** | **253,899** |

**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. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

| 2014/15 £'000 | Employee Statutory Adjustment Account | 2015/16 £'000 |
|---|---|---|
| **11,434** | **Balance at 1 April** | **11,255** |
| (11,434) | Settlement or cancellation of accrual made at the end of the preceding year | (11,255) |
| 11,255 | Amounts accrued at the end of the current year | 11,795 |
| **(179)** | **Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements** | **540** |
| | | |
| **11,255** | **Balance at 31 March** | **11,795** |

## Note 31 – Events after the Balance Sheet Date

The unaudited accounts were issued on 17 June 2016 and the audited accounts were authorised for issue on 22 September 2016 by Alan Wood MA (Hons), CPFA, Head of Finance, who is the proper officer of the Council in accordance with Section 95 of the Local Government (Scotland) Act 1973. Where events taking place before the balance sheet date provided information about conditions existing at 31 March 2016, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

There have been no material events since the date of the balance sheet which necessitate the revision of the figures in the financial statements or notes thereto including contingent assets and liabilities.

## Note 32 – Contingent Liabilities

The Council has included a provision in the Balance Sheet for settling equal pay claims (see note 28). As a result of a recent court decision on the application of employer's superannuation contributions to equal pay claims, and an indication that new tribunal claims may be submitted, the current provision may not be sufficient to meet new claims. As the timing and amount of any further liability is unknown, this has been recognised as a contingent liability.

## Note 33 – Contingent Assets

The Council is pursuing the potential recovery of VAT and Landfill Tax overpayments in relation to previous years, resulting from challenges to existing legislation.

A number of community projects have received forward funding based on expectations of future developer contributions. These include Newmachar Hall and Mintlaw and Central Buchan Initiative (MACBI). As the developer contributions are secured these will be matched to the forward funding.

## Note 34 – Defined Contribution Pension Schemes

The Council participates in the Scottish Teachers' Superannuation Scheme. The scheme is an unfunded statutory public service pension scheme with benefits underwritten by the UK Government. The scheme is financed by payments from employers and from those current employees who are members of the scheme and paying contributions at progressively higher marginal rates based on pensionable pay, as specified in the regulations. The rate of employer contributions is set with reference to a funding valuation undertaken by the scheme actuary. The last four-yearly valuation was undertaken as at 31 March 2012. The next valuation will be as at 31 March 2016 and this will set contribution rates from 1 April 2019. The Council has no liability for other employers' obligations to the multi-employer scheme. As the scheme is unfunded there can be no deficit or surplus to distribute on the wind-up of the scheme or withdrawal from the scheme.

The scheme is an unfunded multi-employer defined benefit scheme. It is accepted that the scheme can be treated for accounting purposes as a defined contribution scheme in circumstances where the Council is unable to identify its share of the underlying assets and liabilities of the scheme. The employer contribution rate from 1 April 2015 was 14.9% of pensionable pay. This increased to 17.2% from 1 September 2015. Whilst the employee rate applied is a variable, it will provide an actuarial yield of 9.6% of pensionable pay. At the last valuation a shortfall of £1,300,000,000 was identified in the notional fund which will be repaid by a supplementary rate of 4.5% of employers' pension contributions for fifteen years from 1 April 2015. This contribution is included in the 17.2% employers' contribution rate. The Council's level of participation in the scheme is 4.69% based on the proportion of employer contributions paid in 2014/15.

In 2015/16, the Council paid £16,435,000 to the Scottish Government in respect of teachers' retirement benefits representing 16.25% of pensionable pay. The figures for 2014/15 were £15,088,000 and 14.9%. In addition, the Council is responsible for all pension payments related to "added years" it has awarded, together with related increases. These amounted to £42,000 or 0.04% of pensionable pay. The figures for 2014/15 were £36,000 and 0.04%. Contributions of £2,345,000 (2014/15: £2,132,000) remained payable at the year end.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside the terms of the Teachers' Scheme. These costs are accounted for on a defined benefit basis and detailed in note 35.

## Note 35 – Defined Benefit Pension Schemes

**Participation in Pensions Schemes**

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

The Council participates in two post employment schemes:

- the North East Scotland Pension Fund (NESPF), administered by Aberdeen City Council. All employees, with the main exception of teachers, are eligible to join this scheme, subject to certain qualifying criteria. This is a funded defined benefit final salary scheme, which means that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets; and
- the Scottish Teachers' Pension Scheme, which is administered by the Scottish Government. This scheme meets the definition of a defined benefit scheme, but it is accounted for on the same basis as a defined contribution scheme as described in note 34.

The NESPF 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 Pensions Committee is comprised of elected members of Aberdeen City Council. Policy is determined in accordance with the Pensions Fund Regulations. There is a Joint Investment Advisory Committee (JIAC) with responsibility for monitoring the investment management of the Pension Fund and making recommendations to the Pensions Committee on appointments, retention and termination of investment management contracts. The JIAC consists of nineteen members: nine elected members from Aberdeen City Council (members of the Pensions Committee), four elected members from Aberdeenshire Council, and two elected members from Moray Council, one member representing the Colleges and Admitted Bodies, one member representing Scottish Water and two Trade Union representatives.

Under sections 5(1) and (2) of the Public Service Pensions Act 2013 each Local Government Pension Scheme Manager in Scotland is now required to establish a Pensions Board. The Pensions Board is responsible for assisting the Scheme Manager (Aberdeen City Council) in relation to compliance with Scheme regulations and the requirements of the Pensions Regulator. The Pensions Board consists of eight members: one elected member from Aberdeen City Council, one elected member from Aberdeenshire Council, one elected member from Moray Council, one member representing the Colleges and Admitted Bodies and four Trade Union representatives.

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 and the Housing Revenue Account the amounts required by statute as described in the Significant Accounting Policy on Employee Benefits (note 1.5).

At the most recent valuation of the Fund as at 31 March 2014, the Fund's assets were sufficient to cover 94% of its liabilities. This is known as the funding level. The funding objective is to achieve and maintain a funding level of 100% of liabilities. In line with the Funding Strategy Statement (which can be found at www.nespf.org.uk), where a shortfall exists at the effective date of valuation, a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall. The maximum deficit recovery period for the Fund has been set at 19 years.

The valuation looks at the normal cost of benefits that will be built up over the year after the valuation date, using a set of assumptions. This is used to calculate a Common Contribution Rate, which is 14.9% for the Fund. The actuaries have maintained the average employer contribution rate payable at the previous valuation of 19.3% of pensionable pay, which implies a deficit recovery contribution of 4.4% of projected pensionable pay at the valuation date.

## Note 35 – Defined Benefit Pension Schemes (Continued)

Since 31 March 2014 there have been significant changes in the financial market position. In particular there has been a fall in gilt yields, which underpin the assessment of the past service liability values and therefore the long term funding target, which has led to a worsening of the funding position and an increase in the shortfall. As the new contribution rates are effective from 1 April 2015, it has been agreed that average contributions will be kept, as far as possible, at current levels.

In practice, each employer's position is assessed separately and individual rates set for each employer over the three year period to 31 March 2018. The Council's contribution rate will, therefore, be 19.3% over the three year period.

Under the terms and conditions of the scheme, the Council has no obligation to meet the obligations of other entities in the scheme. In the event that the Council withdraws from the scheme, the Council's share of the deficit will be calculated at that point in time. At 31 March 2016, the Council makes up 32.7% (2014/15: 31.8%) of the total membership of the scheme.

**Discretionary Post-Retirement Benefits**

The Council has discretion to award additional post employment benefits upon early retirement. This is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension payments as they fall due.

**Transactions Relating to Post-employment Benefits**

The Council 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 the Council is required to make against Council tax is based on the cash payable in the year, so the real cost of post employment benefits is reversed out in the General Fund via the Movement in Reserves Statement. Contributions of £3,417,000 (2014/15: £2,653,000) remained payable at the year end. The following transactions have been made in the CIES and the General Fund Balance via the MIRS during the year:

## Note 35 – Defined Benefit Pension Schemes (Continued)

| NESPF 2014/15 £'000 | Teachers Additional Unfunded Pensions 2014/15 £'000 | Total 2014/15 £'000 | CIES | NESPF 2015/16 £'000 | Teachers Additional Unfunded Pensions 2015/16 £'000 | Total 2015/16 £'000 |
|---|---|---|---|---|---|---|
| | | | **Cost of Services:** | | | |
| 36,677 | - | 36,677 | Current Service Cost | 43,511 | - | 43,511 |
| 201 | - | 201 | Past Service Costs | 38 | - | 38 |
| 332 | - | 332 | Loss from Settlements | 313 | - | 313 |
| | | | **Financing and Investment Income and Expenditure:** | | | |
| 8,996 | 756 | 9,752 | Net Interest Expense | 8,017 | 583 | 8,600 |
| 613 | - | 613 | Administration Expenses | 641 | - | 641 |
| **46,819** | **756** | **47,575** | **Total Post Employment Benefit charged to the Surplus or Deficit on the Provision of Services** | **52,520** | **583** | **53,103** |
| | | | **Other Post Employment Benefit charged to the CIES** | | | |
| 27,245 | 1,574 | 28,819 | Remeasurement of the net defined benefit liability comprising: Actuarial gains and losses arising on changes in financial assumptions | (51,080) | (639) | (51,719) |
| **74,064** | **2,330** | **76,394** | **Total Post Employment Benefit charged to the CIES** | **1,440** | **(56)** | **1,348** |
| | | | **Movement in Reserves Statement** | | | |
| (46,819) | (756) | (47,575) | Reversal of Net Charges Made to the Surplus or Deficit on the Provision of Services for Post Employment Benefits in Accordance with the Code | (52,520) | (583) | (53,103) |
| | | | Actual amount charged against the General Fund Balance for pensions in the year: | | | |
| 23,526 | | | Employers' Contributions Payable to the Scheme | 32,509 | | |
| | 1,100 | | Retirement Benefits Payable to Pensioners | | 1,099 | |

| NESPF Funded Benefits £'000 | NESPF Unfunded Benefits £'000 | Teachers Additional Unfunded Pensions £'000 | Total 2014/15 £'000 | Assets and Liabilities Recognised in the Balance Sheet | NESPF Funded Benefits £'000 | NESPF Unfunded Benefits £'000 | Teachers Additional Unfunded Pensions £'000 | Total 2015/16 £'000 |
|---|---|---|---|---|---|---|---|---|
| 1,151,733 | 25,173 | 19,356 | 1,196,262 | Present value of the defined benefit obligation | 1,148,190 | 23,871 | 18,201 | 1,190,262 |
| (910,139) | - | - | (910,139) | Fair value of plan assets | (936,363) | - | - | (936,363) |
| **241,594** | **25,173** | **19,356** | **286,123** | **Net liability arising from defined benefit obligations** | **211,827** | **23,871** | **18,201** | **253,899** |

## Note 35 – Defined Benefit Pension Schemes (Continued)

| NESPF Funded Benefits £'000 | NESPF Unfunded Benefits £'000 | Teachers Additional Unfunded Pensions £'000 | Total 2014/15 £'000 | Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation) | NESPF Funded Benefits £'000 | NESPF Unfunded Benefits £'000 | Teachers Additional Unfunded Pensions £'000 | Total 2015/16 £'000 |
|---|---|---|---|---|---|---|---|---|
| 1,056,394 | 28,005 | 18,126 | 1,102,525 | Opening Balance at 1 April | 1,151,733 | 25,173 | 19,356 | 1,196,262 |
| 36,677 | - | - | 36,677 | Current Service Cost | 43,511 | - | - | 43,511 |
| 46,029 | 1,202 | 756 | 47,987 | Interest Cost | 36,497 | 782 | 583 | 37,862 |
| 9,210 | - | - | 9,210 | Contributions from Scheme Participants | 9,444 | - | - | 9,444 |
| 32,700 | (2,730) | 1,574 | 31,544 | Remeasurement (gains) and losses: Actuarial losses/(gains) arising from changes in financial assumptions | (61,228) | (819) | (639) | (62,686) |
| (29,696) | (1,418) | (1,100) | (32,214) | Benefits Paid | (31,939) | (1,444) | (1,099) | (34,482) |
| 201 | - | - | 201 | Past Service Cost | 38 | - | - | 38 |
| 218 | 114 | - | 332 | Losses on Curtailments | 134 | 179 | - | 313 |
| **1,151,733** | **25,173** | **19,356** | **1,196,262** | **Closing Balance at 31 March** | **1,148,190** | **23,871** | **18,201** | **1,190,262** |

| NESPF Funded Benefits £'000 | NESPF Unfunded Benefits £'000 | Teachers Additional Unfunded Pensions £'000 | Total 2014/15 £'000 | Reconciliation of the Movements in the Fair Value of the Scheme (Plan) Assets | NESPF Funded Benefits £'000 | NESPF Unfunded Benefits £'000 | Teachers Additional Unfunded Pensions £'000 | Total 2015/16 £'000 |
|---|---|---|---|---|---|---|---|---|
| 868,170 | - | - | 868,170 | Opening fair value scheme assets at 1 April | 910,139 | - | - | 910,139 |
| 38,235 | - | - | 38,235 | Interest Income | 29,262 | - | - | 29,262 |
| 2,725 | - | - | 2,725 | Remeasurement gains/(loss): The return on plan assets, excluding the amount included in the net interest expense | (10,967) | - | - | (10,967) |
| (613) | - | - | (613) | Administration expenses | (641) | - | - | (641) |
| 22,108 | 1,418 | 1,100 | 24,626 | Contributions from employer | 31,065 | 1,444 | 1,099 | 33,608 |
| 9,210 | - | - | 9,210 | Contributions from employees into the scheme | 9,444 | - | - | 9,444 |
| (29,696) | (1,418) | (1,100) | (32,214) | Benefits paid | (31,939) | (1,444) | (1,099) | (34,482) |
| **910,139** | **-** | **-** | **910,139** | **Closing fair value of scheme assets at 31 March** | **936,363** | **-** | **-** | **936,363** |

## Note 35 – Defined Benefit Pension Schemes (Continued)

**NESPF Assets Comprised:**

| Asset category | Sub-category | Quoted (Y/N) | 31 March 2015 £'000 | 31 March 2016 £'000 |
|---|---|---|---|---|
| Equities: | UK quoted | Y | 185,670 | 184,462 |
| | UK unquoted | N | - | - |
| | Global quoted | Y | 212,062 | 219,109 |
| | Global unquoted | N | - | - |
| | Global Frontier Fund | Y | 10,922 | 10,300 |
| | Pooled UK | Y | 141,982 | 136,709 |
| | Pooled Global | Y | 159,274 | 135,773 |
| Bonds: | UK Government fixed | Y | 22,753 | 22,473 |
| | UK Government indexed | Y | - | 37,455 |
| | Overseas Government fixed | Y | 33,675 | 43,073 |
| | Overseas Government indexed | Y | - | - |
| | UK Other | Y | 1,820 | 1,873 |
| | Overseas other | Y | 910 | 936 |
| | UK Corporate | Y | 1,820 | 1,873 |
| | Overseas Corporate | Y | 12,742 | 14,982 |
| | Overseas Pooled Funds | Y | 1,820 | 1,873 |
| Property: | UK Direct | N | 60,979 | 71,164 |
| | Property Funds - Global | N | 3,641 | 8,427 |
| Alternatives: | European Private Equity | N | 10,922 | 11,236 |
| | Global Private Equity | N | 20,023 | 25,282 |
| | Global Infrastructure | N | 1,820 | 1,873 |
| | Other Loan Fund | N | 910 | 936 |
| Cash: | Cash instruments | N | 26,394 | 5,618 |
| | Net current assets | N | - | 936 |
| **Total** | | | **910,139** | **936,363** |

**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 Scheme has been assessed by Mercer Limited, an independent firm of actuaries, estimates for the Fund being based on the latest full valuation of the scheme as at 1 April 2014 rolled forward to 31 March 2015. The next triennial valuation will be based on the Fund as at 31 March 2017.

## Note 35 – Defined Benefit Pension Schemes (Continued)

The significant assumptions used by the actuary have been:

| NESPF Funded Benefits 2014/15 | NESPF Unfunded Benefits 2014/15 | Teachers Additional Unfunded Pensions 2014/15 | | NESPF Funded Benefits 2015/16 | NESPF Unfunded Benefits 2015/16 | Teachers Additional Unfunded Pensions 2015/16 |
|---|---|---|---|---|---|---|
| | | | Mortality Assumptions: | | | |
| | | | Longevity at 65 for Current Pensioners: | | | |
| 22.1 | 22.1 | 22.1 | Men | 22.2 | 22.2 | 22.2 |
| 24.7 | 24.7 | 24.7 | Women | 24.8 | 24.8 | 24.8 |
| | | | Longevity at 65 for Future Pensioners: | | | |
| 24.3 | - | - | Men | 24.4 | - | - |
| 27.5 | - | - | Women | 27.6 | - | - |
| 2.00% | 2.00% | 2.00% | Rate of Inflation | 2.00% | 2.00% | 2.00% |
| 3.40% | - | - | Rate of Increase in Salaries | 3.50% | - | - |
| 2.00% | 2.00% | 2.00% | Rate of Increase in Pensions | 2.00% | 2.00% | 2.00% |
| 3.20% | 3.20% | 3.10% | Rate for Discounting Scheme Liabilities | 3.50% | 3.50% | 3.40% |
| 50% | - | - | Take-up of Option to Convert Annual Lump Sum Pension into Retirement Lump Sum | 50% | - | - |

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table below. 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 analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some 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.

| Impact on the Defined Benefit Obligation in the scheme | Increase in Assumption £'000 | Decrease in Assumption £'000 |
|---|---|---|
| Longevity (increase or decrease in 1 year) | 23,141 | (23,141) |
| Rate of inflation (increase or decrease by 0.1%) | 20,334 | (20,334) |
| Rate of increase in salaries (increase or decrease by 0.1%) | 5,067 | (5,067) |
| Rate for discounting scheme liabilities (increase or decrease by 0.1%) | (19,987) | 19,987 |

## Note 35 – Defined Benefit Pension Schemes (Continued)

**Asset and Liability Matching (ALM) Strategy**

The Pension Panel'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 period. The benefit of higher investment returns 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 returns from greater exposure to growth assets and the greater predictability from having greater exposure to liability matching assets. The Pensions Panel and the JIAC have considered this trade-off and defined a strategic benchmark to achieve the long term investment returns required to achieve the Fund objective: equities 70%, property 10%, bonds 8%, and alternative assets (including private equity) 12%. There is no strategic allocation to cash. The asset proportions of the Fund at 31 March 2016 were: equities, including alternatives 77.5% (2014/15: 81.7%), bonds 13.3% (2014/15: 8.3%), property 8.5% (2014/15: 7.1%) and cash 0.7%. (2014/15: 2.9%).

**Impact on the Council's Cash Flows**

The next triennial valuation is due to be completed on 31 March 2017.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2017 is £32,393,000.

The weighted average duration of the defined benefit obligation for scheme members at the 31 March 2014 valuation is 17 years.

**Joint Boards**

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

| Total 2014/15 £'000 | Aberdeenshire Share 2014/15 £'000 | | Total 2015/16 £'000 | Aberdeenshire Share 2015/16 £'000 |
|---|---|---|---|---|
| 4,707 | 2,071 | Grampian Valuation Joint Board | 3,911 | 1,721 |

Further information regarding this deficit can be found in the annual report and accounts of the Grampian Valuation Joint Board.

## Note 36 – Related Parties

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

**Scottish Government**

The Scottish Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. Council tax bills, housing benefits).

## Note 36 – Related Parties (Continued)

Grants received from the Scottish Government are set out in the subjective analysis in note 7 on reporting for resources allocation decisions. Grant receipts in advance at 31 March 2016 are shown in note 29.

**Councillors**

Councillors have direct control over the Council's financial and operating policies. The total of Councillors' allowances paid in 2015/16 is shown in the Remuneration Report. Councillors have involvement with 74 outside bodies, 28 of which are in a decision making role and 46 in an observational role, as reported to Full Council on 24 April 2014. During 2015/16, works and services to the value of £2,761,000 were commissioned from companies in which 28 Councillors' had an interest (2014/15: £4,142,000 and 25 Councillors). Contracts were entered into in full compliance with the Council's standing orders. In addition grants totalling £390,000 were awarded to voluntary organisations in which 11 Councillors had positions on the governing body (2014/15: £294,000 and 6 Councillors). In all instances, the grants were made with proper consideration of declarations of interest. The relevant Councillors did not take part in any discussion or decision relating to the grants. Details of all these transactions are recorded in the Register of Councillors' Interest, open to public inspection at Woodhill House Reception, Westburn Road, Aberdeen, AB16 5GB during office hours or is available on the Council's website:
(http://www.aberdeenshire.gov.uk/council-and-democracy/councillors/register-of-members-interests-amended-270715register-of-interests/)

**Officers – Key Management Personnel**

The salaries of the Key Management Personnel of the Council are disclosed in the Council's Remuneration report on pages 12 – 20. These officers have responsibility for planning, directing and controlling the activities of the Council. Their scope of influence is determined by the Scheme of Delegation and Financial Regulations. On this basis the Council is satisfied that appropriate controls are in place to manage and monitor the influence of the Council's Key Management Personnel.

**Other Public Bodies [Subject to Common Control by Central Government]**

Under the terms of the Community Care & Health Act 2002, the Council has an arrangement with NHS Grampian to deliver fully integrated health, housing and social care services. Transactions and balances outstanding are detailed in note 11.

**Grampian Valuation Joint Board**

Grampian Valuation Joint Board was created by Aberdeen City, Aberdeenshire and Moray Councils to administer the register of electors and the valuation of land and properties for Council Tax and Business Rate purposes across their local government areas. Six of the fifteen members of the Board are appointed by Aberdeenshire Council, and are Councillors. For the year ended 31 March 2016, the CIES shows a surplus of £732,000 (2014/15: £718,000 surplus) and the net liabilities were £3,066,000 (2014/15: £3,798,000). The Board is funded by requisitions from the three Councils. The Council paid a requisition of £1,591,000 (2014/15: £1,627,000) in 2015/16. A copy of the accounts can be obtained from The Treasurer, Grampian Valuation Joint Board, c/o Moray Council, Council Offices, High Street, Elgin, IV20 1BX.

**North East of Scotland Transport Partnership (Nestrans)**

Nestrans was created under the Transport (Scotland) Act 2005 by the Scottish Executive. The Partnership aims to develop and deliver a long-term regional transport strategy and take forward strategic transport improvements that support and improve the economy, environment and quality of life across Aberdeen City and Shire. Four of the twelve Board members are appointed by Aberdeenshire Council, and are Councillors. For the year ended 31 March 2016, the CIES showed a £2,000 surplus (2014/15: £2,000 deficit) and the net liabilities were £6,000 (2014/15: £8,000). The two Councils fund the Partnership. The Council paid a requisition of £42,000 (2014/15: £122,000) and provided capital funding of £939,000 (2014/15: £911,000). A copy of the accounts can be obtained from the Head of Finance, Aberdeenshire Council, Woodhill House, Westburn Road, Aberdeen, AB16 5GB.

## Note 36 – Related Parties (Continued)

**Trusts and Endowments and Common Good Funds**

The Council acts as Trustee for 361 Trusts & Endowments and 17 Common Good Funds. Disbursements from the Trusts range from Educational grants for books and equipment to donations to the elderly. In administering the Common Good Funds the Council has regard to the interests of the inhabitants of the area to which the Common Good Fund formerly related and overall, the funds are used for purposes which are of benefit to the relevant communities. For the year ended 31 March 2016, the net assets were £5,624,000 (2014/15: £5,826,000) for Trusts and £2,627,000 (2014/15: £2,072,000) for Common Good Funds. The accounts of the Trusts and Common Good Funds are shown on pages 99 – 103. The Trusts and Common Good Funds had £4,043,000 (2014/15: £3,705,000) invested in the Council's loans fund at 31 March 2016. A full analysis of the individual Trusts and Common Good Funds can be obtained from the Head of Finance, Aberdeenshire Council, Woodhill House, Westburn Road, Aberdeen, AB16 5GB.

**Scotland Excel**

Scotland Excel is a not-for-profit organisation and was launched in April 2008. It aims to raise procurement standards by working with Scottish local authorities and suppliers to secure best value through collaborative contracts. Aberdeenshire Council and twenty-seven other local authorities fund the organisation. For the year ended 31 March 2016, the CIES shows a surplus of £1,017,000 (2014/15 £2,205,000 deficit), the net liabilities were £2,255,000 (2014/15: £3,523,000). Aberdeenshire Council's contribution to the organisation in 2015/16 was £143,000 (2014/15: £136,000). A copy of the accounts can be obtained from the Head of Finance, Aberdeenshire Council, Woodhill House, Westburn Road, Aberdeen, AB16 5GB.

**Aberdeenshire Integration Joint Board**

Aberdeenshire Integration Joint Board (the Board) of Aberdeenshire Health and Social Care Partnership was established as a Body Corporate by Scottish Ministers on 6 February 2016. Its purpose is to improve the wellbeing of people who use health and social care services, particularly those whose needs are complex and involve support from health and social care at the same time. Six of the twelve Voting Board members are appointed by Aberdeenshire Council, and are Councillors. Two Non-Voting Board members and one Stakeholder Representative Non-Voting Board member are employees of the Council. For the period from 6 February 2016 to 31 March 2016, the CIES showed a breakeven position and the net assets were nil. The Board is funded by the Council and NHS Grampian. The Council made a payment of £12,000 for integrated functions. A copy of the accounts can be obtained from the Head of Finance, Aberdeenshire Council, Woodhill House, Westburn Road, Aberdeen, AB16 5GB.

## Note 37 – Cash Flow Statement – Operating Activities

| 2014/15 £'000 | | 2015/16 £'000 |
|---:|---|---:|
| **(68,266)** | **Net Deficit on the Provision of Services** | **(69,134)** |
| | **Adjust net surplus or deficit on the provision of services for non cash movements** | |
| 104,172 | Depreciation and Impairment | 98,091 |
| 14,791 | Downward Revaluations | 29,814 |
| 563 | Amortisation | 621 |
| (114) | Soft Loans (non Subsidiary)-Interest adjustment credited to CIES during year | (109) |
| - | Adjustments for Effective Interest Rates | (35) |
| 721 | Increase/(Decrease) in Interest Creditors | (107) |
| 1,162 | Increase in Creditors | 3,116 |
| (185) | (Increase)/Decrease in Interest and Dividend Debtors | 170 |
| 3,056 | (Increase)/Decrease in Debtors | (2,204) |
| 352 | (Increase)/Decrease in Inventories | 141 |
| 22,949 | Movement in Pension Liability | 19,495 |
| (612) | Contributions to/ (from) Provisions | 6,512 |
| 2,500 | Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised | 2,239 |
| (2) | Movement in Investment Property Values | - |
| **149,353** | | **157,744** |
| | **Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities** | |
| (40,860) | Capital Grants credited to surplus or deficit on the provision of services | (44,160) |
| - | Net Adjustment from the Sale of Short and Long Term Investments | 10,000 |
| (3,867) | Proceeds from the sale of property plant and equipment and intangible assets | (4,307) |
| **(44,727)** | | **(38,467)** |
| | | |
| **36,360** | **Net Cash Flows from Operating Activities** | **50,143** |

The cash flows for operating activities include the following items:

| 2014/15 £'000 | | 2015/16 £'000 |
|---:|---|---:|
| 533 | Interest Received | 917 |
| (27,427) | Interest Paid | (28,198) |

## Housing Revenue Account

The Housing Revenue Account (HRA) is a ring-fenced account for the provision and maintenance of Council owned houses. It is managed and monitored separately from the Council's General Fund. The figures are also included in the Council's Core Financial Statements, but there is a requirement to present it separately as a supplementary statement in the Annual Accounts.

| 2014/15 £'000 | HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE STATEMENT | 2015/16 £'000 | Notes Ref |
|---|---|---|---|
| | **Expenditure** | | |
| 17,150 | Repairs and Maintenance | 17,728 | |
| 7,328 | Supervision and Management | 8,815 | |
| 44,268 | Depreciation, Amortisation and Impairment of Non-Current Assets | 34,477 | |
| 661 | Movement in the Allowance for Bad Debts | 557 | |
| 7,842 | Other Expenditure | 7,632 | |
| **77,249** | **Total Expenditure** | **69,209** | |
| | | | |
| | **Income** | | |
| (42,218) | Dwelling Rents | (44,150) | |
| (1,329) | Non-dwelling Rents | (1,411) | |
| (8,045) | Other Income | (8,982) | |
| **(51,592)** | **Total Income** | **(54,543)** | |
| | | | |
| **25,657** | **Net Cost of HRA Services as Included in the CIES** | **14,666** | |
| | | | |
| 368 | HRA Services' Share of Corporate and Democratic Core | 337 | |
| 10 | HRA Share of Other Amounts Included in the Whole Council's Net Cost of Services but Not Allocated to Specific Services | 10 | |
| **26,035** | **Net Expenditure for HRA Services** | **15,013** | |
| | | | |
| | **HRA Share of the Operating Income and Expenditure Included in the CIES** | | |
| (770) | Gain on Sale of HRA Non Current Assets | (886) | |
| 5,875 | Interest Payable and Similar Charges | 5,701 | |
| (35) | Interest and Investment Income | (45) | |
| 602 | Net Interest on Net Defined Benefit Liability (Asset) | 546 | |
| (6,718) | Non-specific Grant Income | (3,106) | |
| **24,989** | **Deficit for the Year on HRA Services** | **17,223** | |
| | Other Notes | | 2 - 4 |

| 2014/15 £'000 | MOVEMENT ON THE HOUSING REVENUE ACCOUNT STATEMENT | 2015/16 £'000 | Notes Ref |
|---|---|---|---|
| **(2,000)** | **Balance on the HRA at 1 April** | **(2,000)** | |
| 24,989 | Deficit for the Year on the HRA Income and Expenditure Statement | 17,223 | |
| (22,253) | Adjustments Between Accounting Basis and Funding Basis Under Statute | (16,542) | 5 |
| 2,736 | Net Decrease Before Transfers to or from Reserves | 681 | |
| (2,736) | Transfers from Reserves | (681) | 1 |
| - | Movement in Year on the HRA | - | |
| | | | |
| **(2,000)** | **Balance on the HRA at 31 March** | **(2,000)** | |

~Refers to note 5 to the Council's Financial Statements on pages 51 – 52.

## Housing Revenue Account Disclosures

### HRA Note 1 – Transfers to/from Reserves

| 2014/15 £'000 | | 2015/16 £'000 |
|---:|---|---:|
| (2,740) | Transfer from General Fund | (733) |
| 4 | Transfer to Insurance Fund | 59 |
| - | Transfer from Repairs and Maintenance Fund | (7) |
| **(2,736)** | **Total** | **(681)** |

### HRA Note 2 – Housing Stock

The Council's housing stock at 31 March 2016 was 12,936 (12,903 after restatement at 31 March 2015) in the following categories:

| Restated 2014/15 | Types of dwellings: | 2015/16 |
|---:|---|---:|
| 1,535 | - Sheltered Housing | 1,534 |
| *39 | - 1 apartment | 35 |
| 3,643 | - 2 apartment | 3,685 |
| 5,094 | - 3 apartment | 5,088 |
| 2,453 | - 4 apartment | 2,447 |
| 139 | - 5 + apartment | 147 |
| **12,903** | **Total Housing Stock as at 31 March** | **12,936** |

The Council's housing stock includes 36 properties (2014/15: 35 properties) that are not in the ownership of the Council.

*Figure has been restated to include 26 hostel units that had been omitted.

### HRA Note 3 – Rent Arrears

Rent arrears at 31 March 2016 were £2,307,000 (£2,045,000 at 31 March 2015).

### HRA Note 4 – Impairment of Debtors

In 2015/16 an impairment of £1,709,000 has been provided in the Balance Sheet for irrecoverable rents, an increase of £228,000 from the provision in 2014/15.

## Council Tax

The Council Tax Income Account shows the gross income raised from Council taxes levies and deductions made under Statute. The resultant net income is transferred to the CIES of the Council.

**COUNCIL TAX INCOME ACCOUNT**

Local authorities raise taxes from their residents through the Council Tax – which is a property taxed linked to property values. Each dwelling in a local authority area is placed into one of eight valuation bands (A to H). The property values are determined by the Assessor. The local authority determines the annual tax for a band D property and all other properties are charged a proportion of this, with lower valued properties (Bands A to C) paying less, and higher valued properties (E to H) paying more.

All domestic dwellings which appear on the valuation list are liable for the tax, but some dwellings, for instance student residences and certain unoccupied dwellings, are exempt. The full Council Tax bill is based on the assumption that there are two adults living in the dwelling. If only one adult lives in a dwelling the Council Tax bill is reduced by 25%.

In 2015/16, for Band D properties, the Council Tax was £1,141.00. The Scottish average Band D Council Tax for 2015/16 was £1,149.00. This statement also includes any residual Community Charges collected.

| 2014/15 £'000 | | 2015/16 £'000 | Notes Ref |
|---|---|---|---|
| **(137,807)** | **Gross Council Tax Levied and Contributions in Lieu** | **(139,616)** | |
| | Less: | | |
| 7,207 | Council Tax Reduction Scheme | 7,072 | |
| 10,808 | Other Discounts and Reductions | 13,603 | |
| 1,165 | Write Off of Uncollectable Debts and Allowance for Impairment | 1,184 | |
| **19,180** | | **21,859** | |
| (643) | Adjustments to Previous Years' Community Charge and Council Tax | 2 | |
| **(119,270)** | **Transfer to CIES** | **(117,755)** | |
| | Council Tax Income Account notes | | 1 - 2 |

## Council Tax Disclosures

### CT Note 1 – Council Tax Charges

The Council Tax Charges are set out below:

| Band | Property Value | Proportion of Band D | 2014/15 Council Tax | 2015/16 Council Tax |
|---|---|---|---|---|
| **A** | Up to £27,000 | 6/9 | £760.67 | £760.67 |
| **B** | £27,001 – £35,000 | 7/9 | £887.44 | £887.44 |
| **C** | £35,001 – £45,000 | 8/9 | £1,014.22 | £1,014.22 |
| **D** | £45,001 - £58,000 | 9/9 | £1,141.00 | £1,141.00 |
| **E** | £58,001 - £80,000 | 11/9 | £1,394.56 | £1,394.56 |
| **F** | £80,001 - £106,000 | 13/9 | £1,648.11 | £1,648.11 |
| **G** | £106,001 - £212,000 | 15/9 | £1,901.67 | £1,901.67 |
| **H** | Above £212,000 | 18/9 | £2,282.00 | £2,282.00 |

## CT Note 2 – Calculation of Council Tax Base 2015/16

The Council Tax Base is calculated by analysing properties across the valuation bandings and detailing the numbers of properties which are subject to discounts and those which are exempt. The total number of properties in each banding is then converted into Band D equivalent figures. This calculation is based on the valuation list at 31 March 2016.

| BAND | Band A* | Band B | Band C | Band D | Band E | Band F | Band G | Band H | TOTAL |
|---|---|---|---|---|---|---|---|---|---|
| Properties | 20,605 | 16,025 | 14,227 | 17,392 | 21,252 | 15,892 | 10,003 | 574 | **115,970** |
| Less: | | | | | | | | | |
| Exemptions | 1,290 | 642 | 551 | 552 | 385 | 230 | 132 | 12 | **3,794** |
| Discount - 25% | 2,574 | 1,590 | 1,188 | 1,166 | 1,072 | 563 | 263 | 12 | **8,428** |
| Discount - 50% | 294 | 230 | 194 | 216 | 196 | 125 | 94 | 12 | **1,361** |
| Number of chargeable dwellings subject to disabled reduction | (63) | (39) | (8) | (54) | 36 | 49 | 75 | 4 | **-** |
| Number of adjusted chargeable dwellings | 16,510 | 13,602 | 12,302 | 15,512 | 19,563 | 14,925 | 9,439 | 534 | **102,387** |
| Ratio to Band D | 6/9 | 7/9 | 8/9 | 9/9 | 11/9 | 13/9 | 15/9 | 18/9 | |
| Number of Band D equivalents for RSG purposes | 11,000 | 10,579 | 10,935 | 15,512 | 23,911 | 21,559 | 15,732 | 1,068 | **110,296** |
| Contributions in lieu in respect of class 17 and 24 dwellings: Band D equivalents in the financial year 2015/16 | | | | | | | | | **13** |
| Adjustment to base for Council Tax Reduction Scheme | | | | | | | | | **(6,137)** |
| **COUNCIL TAX BASE 2015/16** | | | | | | | | | **104,172** |
| 2014/15 | | | | | | | | | **102,921** |

* Of the 16,510 Band A properties, 56 receive a discount in the ratio 5/9 relating to disabled relief.

## Business Rates

The Business Rate Account is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Business Rate Account. The statement shows the gross income from rates and deductions made under Statute. The net income is paid to the Scottish Government as a contribution to the national non-domestic rate pool.

**BUSINESS RATES INCOME ACCOUNT**

Business Rates income is collected by local authorities, but all income is then remitted to the Scottish Government, where it is pooled nationally, and re-distributed back to local authorities along with the Revenue Support Grant.

Business rates are levied in respect of all commercial properties within the area. The Assessor determines a rateable value for each property, this figure broadly representing the rent, which the property could expect to fetch on the open market.

Properties which are empty may be exempt from the charge for up to three months, and thereafter may enjoy, in certain circumstances, some further relief against the charge. Similarly certain properties, such as Post Offices in rural areas, can also qualify for relief from the full charge. Charities can also receive reductions against the rates bill for any property.

The table below details the actual levels of Business Rates collected by the Council, and the overall increase/decrease between the rates collected and the amount that the Council contributes to the National Pooling arrangement.

| 2014/15 £'000 | | 2015/16 £'000 | Notes Ref |
|---|---|---|---|
| (108,152) | Gross Rates Levied and Contributions in Lieu | (113,733) | |
| | Less: | | |
| 20,011 | Reliefs and Other Deductions | 20,858 | |
| 31 | Payment of Interest | 4 | |
| 20 | Write Off of Uncollectable Debts and Allowance for Impairment | 6 | |
| (88,090) | Net Business Rate Income | (92,865) | |
| | | | |
| 2,209 | Adjustments to Previous Year's Business Rates | 389 | |
| (85,881) | Total Business Rate Income (before Council Retentions) | (92,476) | |
| | | | |
| 619 | Business Rate Income Retained by the Council (BRIS) | - | |
| **(85,262)** | **Contribution to National Non-Domestic Rate Pool** | **(92,476)** | |
| | Business Rate Income Account Notes | | 1 - 2 |

## Business Rates Disclosures

### BR Note 1 – Rateable Values and Number of Premises at 1 April 2015

| As at 1/4/14 Number of Premises | As at 1/4/14 Rateable Value £'000 | | As at 1/4/15 Number of Premises | As at 1/4/15 Rateable Value £'000 |
|---|---|---|---|---|
| 1,924 | 34,548 | Shops | 1,924 | 34,895 |
| 109 | 2,188 | Public Houses | 107 | 2,152 |
| 1,400 | 30,656 | Offices (Including Banks) | 1,412 | 31,260 |
| 233 | 5,792 | Hotel, Boarding Houses etc. | 235 | 5,843 |
| 2,990 | 68,502 | Industrial and Freight Transport Subjects | 3,072 | 74,133 |
| 1,003 | 7,515 | Leisure, Entertainment, Caravans and Holiday Sites | 1,032 | 7,703 |
| 414 | 2,773 | Garage and Petrol Stations | 404 | 2,815 |
| 54 | 590 | Cultural | 56 | 597 |
| 182 | 285 | Sporting Subjects | 182 | 286 |
| 255 | 17,376 | Education and Training | 259 | 18,175 |
| 768 | 11,665 | Public Services Subjects | 767 | 11,757 |
| 37 | 5,325 | Communications (Non Formula) | 42 | 4,629 |
| 214 | 1,326 | Quarries, Mines etc. | 215 | 1,300 |
| 15 | 18,790 | Petrochemical | 15 | 18,650 |
| 451 | 1,672 | Religious | 447 | 1,756 |
| 128 | 3,453 | Health Medical | 125 | 3,449 |
| 1,091 | 1,592 | Other | 1,034 | 1,564 |
| 136 | 4,223 | Care Facilities | 135 | 4,212 |
| 18 | 40 | Advertising | 20 | 49 |
| 28 | 1,462 | Undertaking | 30 | 1,466 |
| **11,450** | **219,773** | **Total** | **11,513** | **226,691** |

Note: The 2010 Revaluation Roll came into force on 1 April 2010 and contains revised rateable values. National revaluations take place every five years throughout Scotland.

### BR Note 2 – Explanation of the Nature and Amount of Each Fixed Rate

The Assessor maintains the listing of all rateable values in the Valuation Roll. All properties listed in the Roll are liable for rating purposes. The actual rates charge is calculated by multiplying the rateable value by the poundage i.e. pence in the pound, set each year by the Scottish Government. The poundage set for the year 2015/16 for properties with a rateable value up to £35,000 was 48.0 pence (2014/15: 47.1 pence), and for properties with rateable value over £35,000 was 49.3 pence (2014/15: 48.2 pence).

Properties with a combined rateable value of £18,000 or less are entitled to claim under the Small Business Bonus Scheme for rates relief. In addition, where the cumulative rateable value of a business with multiple properties falls between £18,000 and £35,000, the scheme will offer 25% relief to individual properties with a rateable value of £18,000 or under.

## Trusts and Endowments

Trusts and Endowments for which the Council is the sole Trustee are subsidiaries of the Council. A summary of their accounts is presented below.

The Council administers 361 Trusts and Endowments, mainly of an Educational and Social Work nature. An Income and Expenditure Statement, Balance Sheet, a summary of the balances of the Trusts at 31 March 2016 and details of how these balances were invested at that date are shown below.

### INCOME AND EXPENDITURE STATEMENT

| All Trusts 2014/15 £'000 | Charitable Trusts 2014/15 £'000 | Expenditure | All Trusts 2015/16 £'000 | Charitable Trusts 2015/16 £'000 | Notes Ref |
|---|---|---|---|---|---|
| 74 | 68 | Administrative Costs | 50 | 53 | 2 |
| 49 | 38 | Donations, Grants etc. | 47 | 43 | |
| - | - | Other Costs | 1 | - | |
| **123** | **106** | **Total Expenditure** | **98** | **96** | |
| | | | | | |
| | | **Income** | | | |
| (1) | - | Property | - | - | |
| (104) | (82) | Investment Income | (247) | (220) | |
| (96) | (75) | Other Income | (71) | (67) | 2 |
| **(201)** | **(157)** | **Total Income** | **(318)** | **(287)** | |
| | | | | | |
| **(78)** | **(51)** | **(Surplus) for the year** | **(220)** | **(191)** | |

### BALANCE SHEET

| All Trusts 2014/15 £'000 | Charitable Trusts 2014/15 £'000 | Current Assets | All Trusts 2015/16 £'000 | Charitable Trusts 2015/16 £'000 | Notes Ref |
|---|---|---|---|---|---|
| 2 | - | Other | 3 | - | |
| 3,470 | 2,812 | Investments | 3,050 | 2,482 | |
| 2,378 | 1,132 | Loans Fund Balance | 2,594 | 1,441 | |
| **5,850** | **3,944** | **Total Current Assets** | **5,647** | **3,923** | |
| | | **Current Liabilities** | | | |
| (24) | (23) | Creditors | (23) | (21) | |
| **5,826** | **3,921** | **Net Current Assets** | **5,624** | **3,902** | |
| | | | | | |
| **5,826** | **3,921** | **Total Net Assets** | **5,624** | **3,902** | |
| | | | | | |
| | | **Financed by:** | | | |
| (4,765) | (3,686) | Capital | (4,414) | (3,489) | |
| (1,061) | (235) | Revenue Balance | (1,210) | (413) | |
| **(5,826)** | **(3,921)** | **Reserves** | **(5,624)** | **(3,902)** | |
| | | Other Trusts and Endowments notes | | | 1,4,5 |

## Trusts and Endowments (Continued)

**SUMMARY OF FUNDS**

| Total Funds 2014/15 £'000 | Charitable Trusts 2014/15 £'000 | | Total Funds 2015/16 £'000 | Charitable Trusts 2015/16 £'000 | Notes Ref |
|---|---|---|---|---|---|
| | | **Education Trusts** | | | |
| 3,414 | 3,414 | Aberdeenshire Educational Trust | 3,304 | 3,304 | |
| 174 | 174 | Kincardineshire Educational Trust | - | - | 3 |
| | | **Other Trusts** | | | |
| 1,291 | 240 | General | 1,409 | 503 | |
| 148 | 90 | Libraries | 149 | 91 | |
| | | **Endowment Funds** | | | |
| 460 | 3 | Educational Endowments | 432 | 4 | |
| 339 | - | Social Work Endowments | 330 | - | |
| **5,826** | **3,921** | **Total** | **5,624** | **3,902** | |

Alan Wood, MA (Hons), CPFA

Head of Finance

The unaudited accounts were issued on 17 June 2016 and the audited accounts were authorised for issue on 22 September 2016.

## Trusts and Endowments - Disclosures

### TF Note 1 – Purpose and Administration of Trusts

The money earned from the investments of the Trusts is used for the prevention or relief of poverty; the advancement of education; the advancement of health; the advancement of citizenship or community development; the advancement of the arts, heritage, culture or science; the advancement of public participation in sport, or the organisation of recreational activities, with the object of improving the conditions of life for the persons for whom the facilities or activities are primarily intended; the advancement of environmental protection or improvement; and the relief of those in need by reason of age, ill-health, disability, financial hardship or other disadvantage. This may be done through the provision of grants, prizes and dux medals for school children and requisitions for clients in Social Work homes.

In addition to administering the Trusts, the Council is also the appointed Trustee for all the Trusts.

With the exception of the Other Trusts, the investments of the Trusts, apart from property superiorities, were transferred on 1 April 1977 to a Central Investment Fund. The quoted investments of this Fund were revalued to market value at 31 March 2016 and the resultant gain on revaluation has been credited to the various Trusts in proportion to their holding in the Central Fund.

### TF Note 2 – Administrative Costs

With effect from 1 April 2013, Administrative Costs are no longer charged to the Trusts and Endowments in accordance with the decision of Policy and Resources Committee on 20 September 2012. These are shown as a donated service in the accounts, with matching income and expenditure.

### TF Note 3 – Kincardinshire Educational Trust

The Kincardineshire Educational Trust is no longer included in the accounts of the Trusts and Investments as the Council is not the sole Trustee of the Trust, and the Office of the Scottish Charity Regulator (OSCR) has advised that it should be administered separately from the Council. The Council continues to have a considerable influence on the Trust and provides six of the ten Trustees.

### TF Note 4 – Reorganisation of Trust

During the year, a reorganisation of trusts resulted in 100 trusts being reorganised into a new trust, Aberdeenshire Charities Trust 2 (ACT 2). This has reduced the number of charities accounts that the Council has had to prepare under the Local Government accounting arrangements. Further reorganisations are planned and the Council is also developing a Management Plan that can be implemented for all of its trusts.

### TF Note 5 – Further Details

A full analysis of all individual Trusts and also the Common Good Funds and Charities' Statement of Recommended Practice compliant accounts for the Charitable Trusts can be obtained from the Head of Finance, Aberdeenshire Council, Woodhill House, Westburn Road, Aberdeen, AB16 5GB

## Common Good Funds

Common Good Funds are subsidiaries of the Council. A summary of their accounts is presented in the Annual Accounts. The Common Good Funds were inherited from the former Town Councils and can be disbursed on projects within the boundaries of these former Burghs.

**Income and Expenditure Account for the Year Ended 31 March 2016**

| Net Expenditure 2014/15 £'000 | Services | Net Expenditure 2015/16 £'000 | Notes Ref |
|---|---|---|---|
| 4 | Donations, Grants etc. | 24 | |
| 30 | Depreciation | 24 | |
| **34** | **Expenditure** | **48** | |
| | | | |
| (8) | Rental Income | (42) | |
| (9) | Interest Receivable and Similar Income | (8) | |
| **(17)** | **Income** | **(50)** | |
| | | | |
| 17 | Deficit on the Provision of Services | (2) | |
| (28) | Transfer from Revaluation Reserve | (22) | |
| **(11)** | **Decrease/(Increase) in the Year** | **(24)** | |
| | Other Notes | | CG1 |

**Balance Sheet as at 31 March 2016**

| 2014/15 £'000 | | 2015/16 £'000 | Note Ref |
|---|---|---|---|
| 730 | Property, Plant and Equipment | 1,164 | |
| **730** | **Long Term Assets** | **1,164** | |
| 14 | Short Term Investments | 14 | |
| 1,326 | Cash and Cash Equivalents | 1,449 | |
| **1,340** | **Current Assets** | **1,463** | |
| | | | |
| **2,070** | **Net Assets** | **2,627** | |
| | | | |
| | Usable Reserves: | | |
| (1,066) | Revenue | (1,090) | CG 2 |
| (271) | Capital | (370) | CG 2 |
| | Unusable Reserves: | | |
| (733) | Revaluation Reserve | (1,167) | |
| **(2,070)** | **Total Reserves** | **(2,627)** | |
| | Other Notes | | |

Alan Wood, MA (Hons), CPFA
Head of Finance

The unaudited accounts were issued on 17 June 2016 and the audited accounts were authorised for issue on 22 September 2016.

## Common Good Funds Disclosures

### CG Note 1 – Significant Accounting Policies

The accounts of the Common Good Funds have been prepared using the same accounting policies as the Council's accounts. The only exception to this is in relation to accounting adjustments as there is no statutory mitigation for the Common Good Funds. However, depreciation relating to the revalued portion of non-current assets is offset against the Revaluation Reserve.

### CG Note 2 – Summary of Balances

The balances in the Common Good Funds are as follows:

| Total Funds 2014/15 £'000 | | Total Funds 2015/16 £'000 |
|---:|---|---:|
| 226 | Macduff | 203 |
| 706 | Banff | 1,287 |
| 4 | Rosehearty | 4 |
| 8 | Portsoy | 8 |
| 4 | Aberchirder | 4 |
| 63 | Fraserburgh | 64 |
| 451 | Peterhead | 453 |
| 91 | Turriff | 90 |
| 11 | Oldmeldrum | 4 |
| 110 | Inverurie | 111 |
| 44 | Kintore | 45 |
| 101 | Stonehaven | 102 |
| 55 | Inverbervie | 55 |
| 36 | Laurencekirk | 36 |
| 125 | Huntly | 126 |
| 35 | Banchory | 35 |
| - | Ballater | - |
| **2,070** | **Total** | **2,627** |

## Glossary

**1. Accruals:** The concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

**2. Administration Costs:** Includes telephone, printing, stationery, advertising and postage.

**3. Allocations and Charges to Other Accounts:** For services provided by one service to another.

**4. Amortisation:** The writing off of the expenditure on an asset or the income from a grant over a fixed period.

**5. Assets Held for Sale:** Usually restricted to property or disposal groups that are expected to be sold within 12 months.

**6. Business Rates:** A charge levied on commercial properties and collected by the Council. The rate is set by the Scottish Government. It is also known as Non-Domestic Rates.

**7. Capital Expenditure:** This is expenditure incurred in creating or acquiring a non current asset, or expenditure which adds to, and not merely maintains, the value of an existing non current asset. Capital expenditure is normally financed by borrowing over a period of years or by utilising the income from the sale of existing assets.

**8. Cash and Cash Equivalents:** Cash is represented by notes and coins held by the Council and deposits available on demand. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**9. Community Assets:** Assets that the Local Authority intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal, for example, parks and historic buildings.

**10. Compensated Absences:** Periods during which an employee does not provide services to the employer, but employee benefits continue to be paid. Typical employee benefits include: annual leave, sick leave, maternity leave, jury service, military service.

**11. Consistency:** The concept that the accounting treatment of like items within an accounting period, and from one period to the next, is the same.

**12. Corporate & Democratic Core & Non Distributed Costs:** Corporate & Democratic Core relates to those activities in which the Council engages, over and above the provision of any single service. This includes, for example, meetings of the Council, members' expenses and External Audit fees. Non Distributed Costs are overheads for which no user benefits and are not apportioned to services. For example, excess pension costs and long term unused but unrealisable assets.

**13. Defined Contribution Scheme:** A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

**14. Defined Benefit Scheme:** A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

**15. Depreciation:** The measure of wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, the passage of time or obsolescence through technological or other changes.

## Glossary (Continued)

**16. Expected Rate of Return on Pensions Assets:** For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

**17. Fair Value:** The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

**18. Fees and Charges:** Income received for services provided.

**19. Government Grants:** Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to the Council in return for past or future compliance with certain conditions relating to the activities of the Council.

**20. Heritage Assets:** A tangible heritage asset has historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. An intangible heritage asset has cultural, environmental or historical significance which are intangible.

**21. Intangible Assets:** Intangible assets are non-financial assets that do not have physical substance but are identifiable and are controlled by the Council through custody or legal rights e.g. software licences.

**22. Interest Cost (Pensions):** For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

**23. International Financial Reporting Standards (IFRS):** The accounting standards adopted by the Council in the preparation of its accounts.

**24. Investments (Pensions Fund):** The investments of the Pensions Fund will be accounted for in the statements of that Fund. However the Council is also required to disclose, as part of the disclosures relating to retirement benefits, the attributable share of pension scheme assets associated with their underlying obligations.

**25. Investment Properties:** Interest in land and/or buildings: a) in respect of which construction work and development have been completed; and b) which is held for its investment potential, any rental income being negotiated at arm's length.

**26. Net Book Value:** The amount at which non current assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

**27. Net Realisable Value:** The open market value of the asset in its existing use (or open market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

**28. Non Current Assets:** Tangible assets that yield benefits to the Council and the services it provides for a period of more than one year.

**29. Non-Specific Grant Income:** All the grants and contributions receivable that cannot be identified to particular service expenditure.

**30. Past Service Cost:** For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

**31. Premises Costs:** Includes rent, rates, repairs and maintenance, heating and lighting costs as well as feu duties, metered water charges, etc.

**32. Prior Period Adjustments:** Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. A fundamental error is one that is of such significance as to undermine the validity of the financial statements. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

**33. Payments to Agencies and Others:** Includes rent, rates, repairs and maintenance, heating and lighting costs as well as fuel duties, metered water charges, etc.

**34. Post Employment Benefits:** All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either (i) an employer's decision to terminate an employee's employment before the normal retirement date or (ii) an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

**35. Public Works Loans Board (PWLB):** A Government Agency which provides long term loans to the Council.

**36. Remuneration:** All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by the employer are excluded.

**37. Revenue Expenditure:** This is expenditure incurred in providing services in the current year and which benefits that year only.

**38. Revenue Support Grant:** A block grant received from Government to help finance the cost of the Council's services.

**39. Staff Costs:** Includes wages, salaries, bonuses, overtime, employer's National Insurance and Superannuation contributions as well as staff training, travelling and subsistence expenses.

**40. Supplies and Services:** Includes the cost of purchasing materials, spare parts, food and protective clothing as well as payments to contractors and others for the provision of services.

**41. Transport and Plant Costs:** Includes the cost of providing and maintaining all vehicles and plant including fuel, tyres, repairs, road tax, insurance, etc.

**42. Unusable Reserves:** Those reserves that an authority is not able to utilise to provide service.

**43. Usable Reserves:** Those reserves that contain resources that an authority can apply to the provision of services, either by incurring expenses or undertaking capital investment, whether or not there are particular restrictions on the exact application of those resources.

## Annex – MIRS – Analysis of Capital Reserves

The table below provides an analysis of the capital reserves:

| | Capital Receipts Reserve £'000 | Capital Fund £'000 | Capital Grants Unapplied Account £'000 | Total Capital Reserves £'000 |
|---|---|---|---|---|
| **Balance at 31 March 2015** | **(673)** | **(5,049)** | **(1,196)** | **(6,918)** |
| Adjustments Between Accounting Basis and Funding Basis Under Regulations: | | | | |
| **Adjustment involving the Capital Grants Unapplied Account:** | | | | |
| Unapplied grants and contributions transferred to the Capital Grants Unapplied Account | - | - | (1,249) | **(1,249)** |
| Grants used to fund capital expenditure transferred to the Capital Adjustment Account | - | - | 26 | **26** |
| **Total Adjustments Between Accounting Basis and Funding Basis Under Regulations** | **-** | **-** | **(1,223)** | **(1,223)** |
| Transfers to/from Statutory Reserves | - | 1,126 | - | 1,126 |
| **Decrease in 2015/16** | **-** | **1,126** | **(1,223)** | **(97)** |
| **Balance at 31 March 2016 Carried Forward** | **(673)** | **(3,923)** | **(2,419)** | **(7,015)** |

| | Capital Receipts Reserve £'000 | Capital Fund £'000 | Capital Grants Unapplied Account £'000 | Total Capital Reserves £'000 |
|---|---|---|---|---|
| **Balance at 31 March 2014** | **(684)** | **(14,028)** | **(2,744)** | **(17,456)** |
| Adjustments Between Accounting Basis and Funding Basis Under Regulations: | | | | |
| **Adjustment involving the Capital Grants Unapplied Account:** | | | | |
| Unapplied grants and contributions transferred to the Capital Grants Unapplied Account | - | - | (272) | **(272)** |
| Grants used to fund capital expenditure transferred to the Capital Adjustment Account | - | - | 1,820 | **1,820** |
| **Net (Increase) before Transfers to Statutory Reserves** | **-** | **-** | **1,548** | **1,548** |
| Transfers to/from Statutory Reserves | 11 | 8,979 | - | 8,990 |
| **(Increase) Decrease in 2014/15** | **11** | **8,979** | **1,548** | **10,538** |
| **Balance at 31 March 2015 Carried Forward** | **(673)** | **(5,049)** | **(1,196)** | **(6,918)** |

## Annex - Note 15 – Heritage Assets

**Further Information on Museums Collections**

The Aberdeenshire Council Museum Service collections are managed by the Museums Curator - Learning who reports to the Arts and Heritage Manager. The Curators manage the collections in accordance with policies that are approved by Aberdeenshire Council. Further information is provided in the Museum Service's Acquisition & Disposal Policies 2012-2017, which is available on the Council's website: (https://www.aberdeenshire.gov.uk/leisure-sport-and-culture/museums/explore-online/research-and-student-resources/)

As is explained in that document, items in the collection are only disposed of where, in the opinion of the Curators, an item does not contribute to the interest and diversity of the Museum Service's collection. The Museum Service maintains several databases of items in the collections. The ADLiB collections management system records all items relocated to the HQ building and formally catalogued and will ultimately be the Museum Service's final register for the collections. As of 31 March 2016, Aberdeenshire Museums Service has been 20,500 objects recorded in the ADLiB database. It is estimated presently that to record all objects on the database from present MDA card records will take three years. This includes the backlog of non-catalogued objects.

In addition to collections held in museums, the following are also regarded as Heritage Assets:

**(i) Aikey Brae Stone Circle, Mintlaw**

This is the remains of a recumbent stone circle dating to the Neolithic period (circa 2500BC), and is an example of a type of monument unique to the North East of Scotland. There are five erect stones, including the recumbent, still standing which are set on a bank of small stones. The monument is set within a larger fenced area on the edge of a tree plantation. The land is owned by Aberdeenshire Council, and is nationally protected as a Scheduled Ancient Monument.

**(ii) Rhynie Man, Woodhill House, Aberdeen**

This is a Class I symbol stone dating to the Early Medieval (Pictish) period (circa $6^{th}$-$8^{th}$ century AD). It is a large grey granite boulder incised with a rare example of a standing figure of a warrior. The stone, which is of international importance, was awarded to the former Grampian Regional Council by Historic Scotland in 1978 following its discovery, and is now on public display in the Woodhill House reception area.

**(iii) Vertical Aerial Photograph Collection**

This collection consists of three sets of vertical aerial imagery:

- 1977 BKS B&W Image Collection (circa 6000 images);
- 1988 JASair B&W Image Collection (circa 2500 images); and
- 1946 RAF B&W Image Collection (estimate 3000 images).

These image sets are used to assess landscape change, identify new cropmark archaeological sites, and other research activities undertaken by external bodies. The public and other organisations can arrange access to the collections under supervision. The 1977 and 1988 collections were inherited from the former Grampian Regional Council, while the 1946 RAF collection was gifted to the Archaeology Service by the Royal Commission Ancient Historical Monuments Scotland (RCAHMS).

The BKS Images can be replaced at an average cost of £30 per image from Fugro-BKS Ltd, making the collection value an estimated £180,000. The JASair images can be replaced at an average cost of £20 per image from RCAHMS, making the collection value an estimated £50,000. The RAF collection can be replaced at an average cost of £30 per image from RCAHMS, making the collection value and estimated £90,000. The total value of the collection is £320,000.

## Annex - Note 15 – Heritage Assets (Continued)

**(iv) Photograph and Slide Collection**

The slide collection consists of an estimated 23,000 images of archaeological sites taken either on the ground or via the former aerial photography programme undertaken by the Archaeology Service over the years since 1975. The collection is currently undergoing a digitisation programme to allow greater public access to it, and to provide backup as part of the disaster management plan.

To produce physical reproductions of the images would average £0.63 per image, making the collection value an estimated £14,000. However the collection in terms of content would be impossible to replicate from scratch given the nature of how it was formed.

## Annex - Note 20 – Private Finance Initiatives (PFI) and Similar Contracts

**Education PFI Schemes**

The Council is committed to three PFI contracts. The first contract, which was entered into in 2001, is with Robertson Education (Aberdeenshire) Limited (REAL), a consortium formed by the Robertson Group (Scotland) Limited, to design and construct three schools and an extension to another school in Aberdeenshire and the provision of Educational services to the Council on three of those sites until 17 February 2027 under a Private Finance Initiative (PFI) contract.

The contract involves:

(1) Design, construction and service provision of a new academy at Oldmeldrum.
(2) Design, refurbishment and service provision of the Banff Primary School.
(3) Design, extension and service provision of Meldrum Primary.
(4) Design and construction of a Support for Learners Unit at Banff Academy.

The effective date of service commencement for Banff Primary School and Meldrum Primary was 18 February 2002, and the contract will run for 25 years. The effective date of service commencement for the academy at Oldmeldrum was 1 August 2002, and the contract will also terminate on 17 February 2027.

In respect of the PFI contract, the Council has leased Banff Primary School, Meldrum Primary School and the Meldrum Academy Site to REAL at a nominal rent.

The second contract, which was entered into in 2004, is with Robertson Education (Aberdeenshire 2) Limited (REAL2) to provide Education services on six sites in Aberdeenshire until 2 October 2030. The contract involves the construction or substantial refurbishment and service provision by the Contractor of educational assets, including primary and secondary schools across six different sites. The contract covers the replacement of Kintore, Rosehearty, Longside and Rothienorman Primary Schools and the building of two new schools; Portlethen Academy and a new Primary School at Banchory.

The effective date of service commencement for Longside Primary and Rosehearty Primary was 6 October 2005, for Rothienorman Primary it was 12 December 2005, for Kintore Primary 23 January 2006, Hill of Banchory Primary 26 January 2006, and Portlethen Academy 24 July 2006. The contract will terminate on 2 October 2030.

The third contract, which was entered into in June 2014, is for the design, build and maintenance of a Primary School, Secondary School and Community Facility within the Alford Community Campus. The contract is with Galliford Try and the service commencement date was 9 October 2016. The contract will end on 1 October 2040.

## Annex - Note 20 – Private Finance Initiatives (PFI) and Similar Contracts (Continued)

The Council has certain exclusive use rights for the use of the schools during school terms. The contracts specify minimum standards for the services to be provided by the contractor, with deductions from the fee payable being made if facilities are unavailable or performance is below the minimum standards. The contractor took on the obligation to construct or refurbish the schools and maintain them in a minimum acceptable condition. The buildings and any plant and equipment installed in them at the end of the contracts will be transferred to the Council for nil consideration. The Council only has rights to terminate the contracts if it compensates the contractor in full for costs incurred and future profits that would have been generated over the remaining term of the contracts or as a result of breach of contracts.

## Commonly Used Abbreviations

| Abbreviation | Expansion |
|---|---|
| AHfS | Assets Held for Sale |
| BR | Business Rates |
| BRIS | Business Rates Incentivisation Scheme |
| CG | Common Good Funds |
| CIES | Comprehensive Income and Expenditure Statement |
| CIPFA | Chartered Institute of Public Finance and Accountancy |
| COSLA | Convention of Scottish Local Authorities |
| CT | Council Tax |
| HRA | Housing Revenue Account |
| IAS | International Accounting Standard |
| IFRS | International Financial Reporting Standards |
| IJB | Integrated Joint Board |
| JIAC | Joint Investment Advisory Board |
| LGPS | Local Government Pension Scheme |
| LLP | Limited Liability Partnership |
| MIRS | Movement in Reserves Statement |
| NESPF | North East Scotland Pension Fund |
| NHS | National Health Service |
| NI | National Insurance |
| PFI | Private Finance Initiative |
| PPE | Property, Plant and Equipment |
| PPP | Public-Private Partnership |
| PWLB | Public Works Loan Board |
| REAL | Robertson Education (Aberdeenshire) Ltd |
| RR | Revaluation Reserve |
| SeRCOP | Service Reporting Code of Practice 2015/16 |
| SLT | Strategic Leadership Team |
| TF | Trust Funds |
| The Code | Code of Practice on Local Authority Accounting in the UK 2015/16 |
| VAT | Value Added Tax |