

Audited Annual Accounts for the Year Ended 31st March 2016

5th September 2016

1 Purpose of report

The purpose of this report is to present to the Board the audited Annual Accounts for the year ended 31st March, 2016 and to recommend they are approved for signature.

2 Main Report

2.1 The unaudited Annual Accounts were noted by the Lothian Valuation Joint Board at it's' meeting in June 2016.

2.2 The Board's appointed Auditor will present the 2015/16 Annual Audit Report to Members separately on this agenda. This report highlights to the Board that there were no significant issues identified during the course of the audit, although some minor adjustments were made following the audit. The Auditor's opinion also concludes that 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 Lothian Valuation Joint Board as at 31 March 2016 and of the income and expenditure of the board 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.

2.3 The Board agreed to fund future liabilities for early staff release measures through the retention of unspent constituent council's requisition. The balance available at 31st March 2015 was £0.596m.

2.4 As reported in the audited Annual Accounts for the year ended 31st March, 2016, the Board's expenditure for 2015/16 was under requisition income by £0.153m.

Reserves Strategy

- 2.5 The Board has the ability to retain a general reserve and it is the responsibility of the Treasurer to advise the Board about the level of reserves that it should hold and to ensure that there are clear protocols for their establishment and use.
- 2.6 Reserves can be held for three main purposes:
- a working balance to help cushion the impact of uneven cash flows;
 - a contingency to cushion the impact of unexpected events or;
 - a means of building up funds often referred to as earmarked reserves, to meet known or predicted liabilities. Earmarked reserves include sums set aside for Voluntary Early Release (VERA) and Redundancy Schemes which were approved by the Board at its meeting on 4th February 2011.
- 2.7 The reserve balance stands at £0.596m at 31st March 2015 (9% of £6.482m approved budget 2016/17). In addition to this, the Board was under budget by £0.153m for Financial Year 2015/16. The general reserve balance would therefore rise to £0.749m (12% of approved budget 2016/17) if the under spend from 2015/16 is retained.
- 2.8 The ongoing financial pressure of IER has been reported to the Board previously. This figures stands at between £0.350-£0.450m. Grant funding has been made available for 2016/17, however funding for future years has not been confirmed at this stage by the Cabinet Office. Pilot schemes seeking to reduce the cost burden introduced by IER are underway and there is an expectation that until these pilots conclude funding for further years shall be provided. Notwithstanding, a risk remains that the Board shall face long term increased costs associated with IER.
- 2.9 The Assessor has previously approached staff under the terms of the Board's Voluntary Early Release Arrangements (VERA) policy. Should however it become necessary to consider VERA being exercised during 2016/17 or beyond the Board may incur significant unbudgeted one-off exit costs. In this case the Reserve would be utilised to fund approved VERA cases. All VERA applications would be subject to business cases based on affordability and service requirements.

Financial Sustainability

- 2.10 The report from Audit Scotland presented separately on this agenda highlights the issue of financial sustainability on pages 12-13. Whilst the Board has taken measures to establish a general reserve to increase its flexibility around use of funding, it currently focuses on a short term annual basis. Longer term financial plans will be required to demonstrate the continuing financial sustainability of the organisation on an ongoing basis.
- 2.11 The provision of funding on an annual basis coupled with meeting the requirements of new legislation, that places additional pressure on already stretched resources, makes the creation of a longer term and meaningful financial planning framework difficult. In addition ongoing uncertainties surrounding the future of key service delivery elements makes the commitment to a forward looking service delivery plan in combination with a supporting financial framework a high risk activity.

The Board's constant aim is to provide a high quality service within the annual budget allocation provided and it shall endeavour to continue to achieve this in both the short and longer term.

- 2.12 Given the uncertainty around future funding for IER and the potential to incur one-off exit costs, in the event that VERA is exercised during 2016/17 or 2017/18, it is recommended that the Board approve the retention of the £0.153m under spend from financial year 2015/16.

3 Conclusions

- 3.1 The Board's expenditure for 2015/16 was under requisition income by £0.153m.
- 3.2 The general reserve balance available to the Board at 31st March 2015 was £0.596m which will rise to £0.749m if the under spend from 2015/16 is retained.
- 3.3 The Assessor and ERO shall in conjunction with the Treasurer consider options that provide an ongoing service delivery framework balanced with budget allocation for 2017/18 and beyond, and report accordingly to the Board at future meetings.

4 Recommendations

- 4.1 That the Board note the Audited Annual Accounts for the year ended 31st March, 2016.
- 4.2 That the Board authorise the Annual Accounts 2015/16 for signature.
- 4.3 Approve the retention of the £0.153m under spend from financial year 2015/16.

**Hugh Dunn,
Treasurer.**