

## **Audited Annual Accounts for the Year Ended 31st March 2017**

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**18<sup>th</sup> September 2017**

### **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, 2017 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 its meeting in August 2017.

2.2 The Board's appointed Auditor will present the 2016/17 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 and provides for an unqualified opinion on the Annual Accounts. The Auditor's report provides an opinion on whether the Annual Accounts;

- give a true and fair view in accordance with applicable law and the 2016/17 Code of the state of the affairs of the body as at 31 March 2017 and of the its surplus 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 2016/17 Code;
- 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;
- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014;
- the information given in the Management Commentary is consistent with the financial statements and has been prepared in accordance with statutory guidance issued under the Local Government Scotland Act 2003; and
- the information given in the Annual Governance Statement and Statement of Financial Control is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

### 3 Reserves Strategy

- 3.1 The Board has the ability to retain a general reserve; this balance currently stands at £1.011m, including the £0.262m under spend from financial year 2016/17. The general reserve balance represents 16.5% of the Board's budget for 2017/18 (£6.118m).
- 3.2 Reserves can be held for three main purposes:
- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing;
  - A contingency to cushion the impact of unexpected events and emergencies;
  - A means of building up funds to meet known or predicted liabilities, for example, costs of voluntary early release schemes.
- 3.3 CIPFA and the Local Authority Accounting Panel consider that local authorities (including Joint Boards) should establish reserves including the level of those reserves based on the advice of their chief finance officers (the Treasurer). Valuation Boards should make their own judgements on such matters considering all the relevant local circumstances. Such circumstances within Valuation Boards are unique and vary between Board's dependant on business needs and risk factors.
- 3.4 A review of reserve levels held by the fourteen Assessors across Scotland was carried out at the request of the Board following it's meeting in August 2017. This review was based on published Annual Accounts/Budget reports available. The outcome of this review was that reserves levels and policies were not consistent between Boards, they were very much unique to individual Boards' requirements. Of the fourteen Assessors in Scotland, four are appointed directly by a single Council and the remaining ten are appointed by Valuation Joint Boards comprising elected members appointed by two or more Councils. Information on reserve levels of the four appointed by a single council was not readily available as the accounts are prepared on behalf of the local authority and not the Assessor.
- 3.5 The reserves held by the ten Valuation Joint Boards ranged from between 3% – 23% when compared to budgeted expenditure. Five of the Boards do not appear to have a formal reserves policy and for the five that do, reserve levels are maintained within a minimum percentage of total budget. This ranges from a minimum of 2% to 6% depending on each Board's requirement. The level of reserves maintained by each Valuation Board is therefore unique to the level of risk, funding pressures and future financial commitments specific to each Board.
- 3.6 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.
- 3.7 In order to assess the adequacy of the unallocated reserves, it is necessary to take account of the strategic, operational and financial risks facing the Board. The assessment should take account of controls in place to manage identified risks together with the overall financial standing of the Board and general arrangements to support effective financial risk management. The financial and operational risks facing the Board reported February and August 2017 include;

- **Individual Electoral Registration (IER)**  
 The IER process remains under review and a funding commitment until 2019/20 was agreed by the previous UK Parliament. Following the recent general election an update is anticipated from the Cabinet Office (CO) on any change to the annual grant funding arrangements until 2019/20 as well as any improvements to the process that would enable the Board to reduce the current annual cost of IER. The current cost pressure of IER funded by CO Grant is around £0.4m.
- **Revaluation 2017**  
 The previous National Non-Domestic Rates (NNDR) revaluation saw large numbers of appeals lodged. The cost of managing these appeals was contained within the revenue budget of the Board. A risk remains as to what appeal levels shall be recorded during 2017.
- **The Future of Council Tax**  
 This represents an area of uncertainty. In the event that Assessors are requested to become involved in the valuation for a new or altered local property tax, it can be expected that any additional funding required for implementation and maintenance would be provided by the Scottish Government.
- **Transformation and Cultural Change Programme**  
 This programme is aimed at establishing a financially sustainable position for the medium and longer term while maintaining service performance standards. The programme will be subject to future Board reports; however, it is recognised that there will be a future year financial commitment as a result of deploying the Board's policies on voluntary early release (VERA). At this point the level of commitment against the reserve has not been established. The Interim Assessor and ERO will report back to the Board when commitment figures are available.
- **Other budget risks**  
 Strategic and operational planning, along with risk management, are already being undertaken by the Assessor and ERO. The combination of the major risks referred to in this section and the uncertainty of legislation and timetabling results in ongoing risk to the Board.

3.8 At this stage, it is recommended that the Board retain the under spend from financial year 2016/17 of £0.262m until the Interim Assessor and ERO can report to the Board on the financial commitment associated with staffing exit costs relating to the Transformation and Cultural Change Programme. A formal review of the Board's reserve policy will be under-taken at this point and a report brought back to the Board by the Treasurer.

## **4 Conclusions**

- 4.1 The Board's expenditure for 2016/17 was under requisition income by £0.262m.
- 4.2 The general reserve balance available to the Board at 31<sup>st</sup> March 2016 was £0.749m which will rise to £1.011m if the under spend from 2016/17 is retained.
- 4.3 The Interim Assessor and ERO shall report back to the Board on the financial commitment associated with staffing exit costs relating to the Transformation and Cultural Change Programme. A formal review of the Board's reserve policy will be under-taken at this point and a report brought back to the Board by the Treasurer.

## **5 Recommendations**

- 5.1 That the Board note the Audited Annual Accounts for the year ended 31st March, 2017.
- 5.2 That the Board authorise the Annual Accounts 2016/17 for signature.
- 5.3 Approve the retention of the £0.262m under spend from financial year 2016/17.

**Hugh Dunn,  
Treasurer.**